ANNUAL REPORT 2015

ABANKA

Your friendliest bank

Together

Life is better when we dream
And plan our futures together,
When together we overcome
Obstacles and celebrate
Our success,
When we share unforgettable
Experiences in good company.

Two banks, joined into one.
Together we are better and
Stronger.

CONTENTS

The Abanka Group Annual Report 2015 is a translation of the original Abanka Group Annual Report 2015 issued in Slovene. This translation is provided for reference purpose only.

BUSINESS
REPORT

Friendly

Every small but sincere smile,
Every kind word
And the extra miles we are willing to go.
Every time we brighten someone's day
With a ray of sunshine.

Friendliness is anchored deep in the
Essence of our relationship with the world.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

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

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

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

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

Note:

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

Notes:

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

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

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

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA

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

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

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

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

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

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

Note:

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

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

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

Notes:

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

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

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

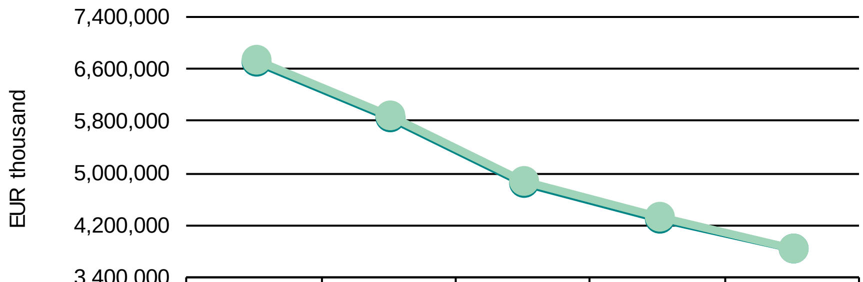
(3) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

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

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

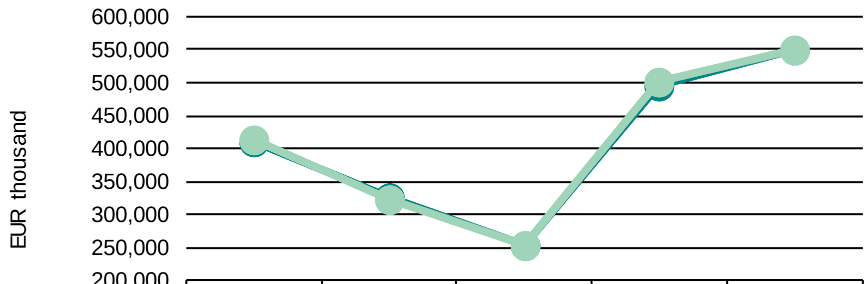
(6) The data for 2014 are presented for Abanka d.d., while the data for 2015 are presented for the merged Abanka d.d.

TOTAL ASSETS



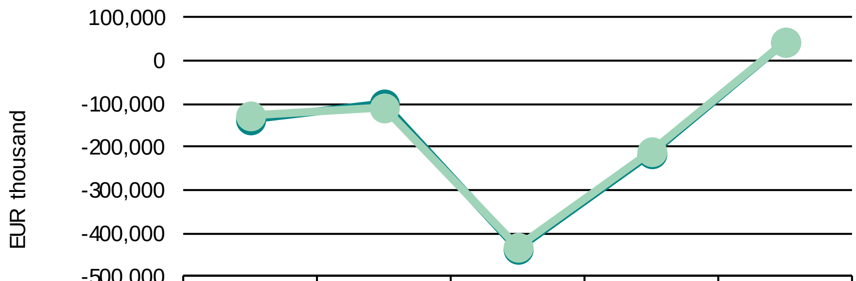
	2011	2012	2013	2014	2015
Abanka	6,706,176	5,868,062	4,851,701	4,313,632	3,828,463
Abanka Group	6,749,105	5,884,088	4,863,631	4,314,408	3,830,227

TOTAL EQUITY



	2011	2012	2013	2014	2015
Abanka	410,022	326,501	253,452	496,464	548,465
Abanka Group	412,689	323,587	252,897	501,963	550,379

PROFIT/LOSS AFTER TAX

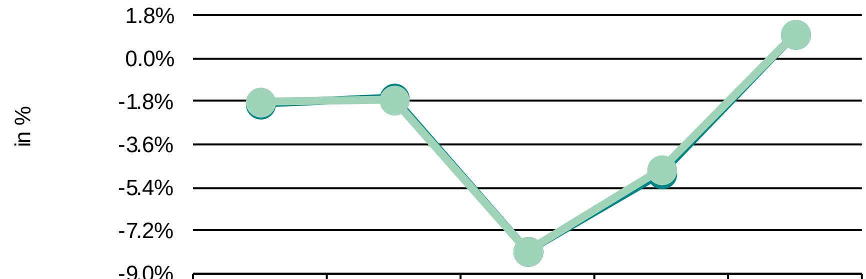


	2011	2012	2013	2014	2015
Abanka	-134,024	-100,678	-435,134	-215,678	42,775
Abanka Group	-124,531	-106,049	-432,770	-209,176	41,722

Note:

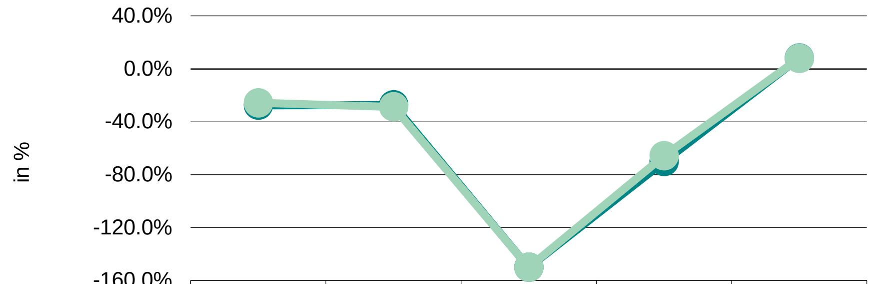
The financial statements of Abanka d.d. and the Abanka Group include business events and assets and liabilities of the acquired company Banka Celje d.d. as of 1 January 2015. The comparative financial statements of Abanka Vipa d.d., the acquiring company, for the year 2014 were adjusted as if the two companies were operating together already in the comparable period. The data of Abanka and the Abanka Group for the 2011–2013 period are calculated as the sum of individual categories on the basis of financial statements of Abanka Vipa d.d. and Banka Celje d.d., while the indicators are calculated based on these categories.

RETURN ON AVERAGE ASSETS (net ROAA)



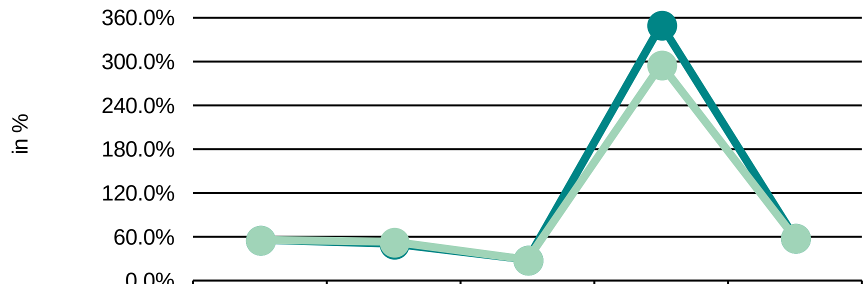
	2011	2012	2013	2014	2015
Abanka	-1.9%	-1.6%	-8.1%	-4.8%	1.1%
Abanka Group	-1.8%	-1.7%	-8.1%	-4.7%	1.0%

RETURN ON AVERAGE EQUITY (net ROAE)



	2011	2012	2013	2014	2015
Abanka	-27.5%	-27.3%	-150.1%	-70.1%	8.1%
Abanka Group	-25.7%	-28.8%	-150.1%	-65.8%	8.0%

COST TO INCOME RATIO (CIR)



	2011	2012	2013	2014	2015
Abanka	54.8%	52.0%	27.8%	351.2%	57.6%
Abanka Group	55.9%	53.9%	28.7%	296.3%	59.4%

Note:

The financial statements of Abanka d.d. and the Abanka Group include business events and assets and liabilities of the acquired company Banka Celje d.d. as of 1 January 2015. The comparative financial statements of Abanka Vipa d.d., the acquiring company, for the year 2014 were adjusted as if the two companies were operating together already in the comparable period. The data of Abanka and the Abanka Group for the 2011–2013 period are calculated as the sum of individual categories on the basis of financial statements of Abanka Vipa d.d. and Banka Celje d.d., while the indicators are calculated based on these categories.

MANAGEMENT

MANAGEMENT BOARD OF THE BANK

Management Board

Aleksander VOZEL
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Jože LENIČ
President of the Management Board

Report of the Management Board

Honourable business partners and colleagues of the Abanka Group,

The year 2015 marked a new beginning for Abanka, building on the solid foundations laid down in the restructuring plan that was the basis for the merger of Abanka and Banka Celje. This new chapter started on 5 October, when an even better, stronger and more successful new Abanka emerged from merger of the two banks. Its market shares have increased considerably, customer confidence has been strengthened and operations have been profitable.

In spite of the competitive environment and all the challenges faced by the Group, Abanka generated a profit of EUR 42.8 million. Total assets amounted to EUR 3.8 billion at year-end 2015. The Bank maintains a high liquidity and capital strength, as indicated by the Bank's total capital ratio of 22.86 percent and the Group's total capital ratio of 23.03 percent at year-end 2015.

The organisational changes in January and March 2015 and the new organisational structure that entered into force on 5 October 2015 have established an organisational set-up that fosters improvements in terms of cost-efficiency, sales efficiency, customer relations management, risk and bad debt management as well as the implementation and management of business processes and the management of human resources.

With a view to ensuring successful and profitable operations and sustainable growth, there is a strong focus on streamlining and accelerating key processes. The Bank is constantly in search of improvements contributing to a better quality of services in all business segments. Abanka is the leading bank in custody and administrative services for investment funds and has major market shares in payment transactions and SEPA direct debits. The number of points of sales operated by the existing Abatočka agents that provide for the payment of invoices through supermarket chains has been increased and a new agent has been added. The Bank is also engaged in bullion trading and is successfully introducing technologically advanced services. In order to achieve the key strategic goal of improving customer satisfaction, two new products for corporate clients were developed and launched: Abanet.com, a state-of-the-art online bank allowing customers to stay in close contact with the bank at any time, and Abamobi.com, a mobile application providing quick, easy and safe banking services. In the field of cashless operations, the Bank offers its customers a range of card services. In 2015, the accompanying offering of insurance for the Visa business card was revised. Abanka maintains an excellent business partnership with Zavarovalnica Triglav in providing high quality and competitive insurance services and with Triglav Skladi in the sale of mutual funds.

Abanka has an excellent rapport with clients in all segments. Pre-school children are addressed through the hedgehog mascot "Abanka Ježek", while communication with high school and university students takes place via mobile applications and through an active presence in the social media. The Abanka electronic bulletin (e-news) is primarily aimed at families and employed individuals and had three issues in 2015. Senior citizens were the target group of several publications in selected editions of printed media.

Treasury products were actively marketed in 2015. A significant increase in business volume was recorded with regard to the spot purchase and sale of foreign currency along with higher demand for derivatives for hedging foreign exchange risk and interest rate risk. Furthermore, the Bank has expanded the range of clients involved in the purchase and sale of debt securities.

In order to improve the Bank's efficiency from the viewpoint of both clients as well as employees, the Bank continues to streamline its business processes. Income remained at an acceptable level in spite of the reduction of the loan portfolio and the share of non-performing loans to non-bank customers at year-end 2015 stood at 14.94 percent at the level of Abanka and at 15.88 percent at the level of the Group. The Bank remains strongly committed to achieving a level of bad debt corresponding to the levels exhibited by comparable banks.

The drafting of a new strategy for the merged bank was completed in the beginning of 2016. The ***key strategic guidelines*** include:

- increasing the Bank's attractiveness for investors and acquiring an adequate credit rating;
- successful operational merging of the two banks and unification of operational arrangements;
- enhancing retail and SME banking;
- enhancing business with key large clients with a focus on providing a comprehensive range of banking services;
- quick and efficient introduction of advanced technological and process solutions;
- becoming the most desirable employer in the sector.

The aim of the merger of both banks is to establish a cost-effective and profitable Bank; therefore, in 2016 the following activities will continue: unification and optimisation of information systems of both banks, optimisation of the organisational and staff structure of the Bank based on the starting points set in the strategy, centralisation and reallocation of support functions, more effective implementation of recovery and improvement of customer servicing. The development of electronic and mobile channels and innovations in digital operations remain high on the agenda. The Bank is efficiently managing its operational costs and adapting its loan operations to market developments, it is continuously improving risk management and enhancing the efficiency of its processes as well as developing new products and services. The existing and potential new customers are offered a wide range of services and insurance products through cross-sale in the extensive branch network, which was further expanded with the merger despite optimising the branch offices and reducing the number of ATMs. The Bank is actively pursuing the digitisation of banking services and constantly expanding the range of new solutions offered to its customers by developing new functionalities of online and mobile banking, upgrading its website www.abanka.si as well as implementing the automation of internal business processes. Abanka remains the market leader in custody and administrative services for investments funds in Slovenia.

The solid capital base, the continued restructuring of both the Bank and the Group and the implementation of the set strategic goals will serve as the cornerstone for profitable operations. We can ensure all our honourable business partners that Abanka will strive to benefit from the best practices of both banks to ensure even better services while remaining committed to excellence in meeting customers' financial needs and maintaining a focus on a personalised approach, top-quality services and adaptability of its offer. We will ensure that our business decisions are responsible and prudent, so as to ensure safe and stable operations. The successful completion of the set projects will allow us to fulfil your wishes and enhance the Bank's efficiency. Abanka is committed to providing excellent advice and services fulfilling its clients' every need, while also optimising operations and profiting from synergies, so as to make Abanka as cost-efficient and as profitable as any comparable universal bank in Europe.

The mission statement of the Abanka Group »UNITING WITH EXCELLENCE IN FINANCIAL SERVICES« is a reflection of our commitment to fulfilling your expectations and finding the best solutions for adapting our offer to your needs. Abanka is a modern universal commercial bank with a clear vision for its future and a strong focus on the development of advanced banking services. Abanka is the bank of the Slovene corporate sector and a reliable partner for its retail clients. It is a bank of friendly people devoted to excellence in business, services and personal relations. Safe and reliable operations, a comprehensive range of banking services and the introduction of digital services are the key building blocks for ensuring customer confidence, which is the Bank's biggest asset. Abanka is pursuing its business goals in cooperation with you, our business partners who place your trust in us, our highly qualified and motivated employees and with the support of its shareholder.

The Management Board hereby thanks all colleagues who have contributed to the successful merger of the two banks and to other achievements in 2015. As in previous years, our vision for the future was unveiled at the Abanka Day 2015. Our wish is to become the best bank in the eyes of clients, investors and employees. This is a goal we intend to pursue in all our activities in the coming years.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

SUPERVISORY BOARD

As at 31 December 2015

Janko GEDRIH[1]	• Retired • JAGE, poslovne storitve, d.o.o., Authorised Officer • ISTRABENZ, holdinška družba d.d., Member of the Supervisory Board
Marko GARBAJS[2]	• SIJ d.d., Business Analyst • MAG PROJEKTI, svetovanje in financiranje projektov d.o.o., Director
Andrej SLAPAR	• Zavarovalnica Triglav d.d., President of the Management Board • Pozavarovalnica Triglav Re d.d., Chairman of the Supervisory Board • Krka d.d., Member of the Supervisory Board • Pool za zavarovanje in pozavarovanje jedrskih nevarnosti GIZ (Nuclear Insurance and Reinsurance Pool), Chairman of the Supervisory Board • Council of the Slovenian Insurance Association, Member
Blaž ŠTERK	• The Group Interenergo (Interenergo, energetski inženiring, d.o.o., Ljubljana, Authorised Officer; Interenergo, d.o.o., Zagreb, Director; PLC Interenergo, d.o.o., Beograd, Director; Interenergo d.o.o. - Kosova sh.p.k., Director) • Stelis, poslovno svetovanje, d.o.o., Director (term of office ended in 2015) • RSG Kapital, upravljanje tveganega kapitala d.o.o., Member of the Supervisory Board
Melita MALGAJ[3]	• Slovenski državni holding, d.d., Senior Capital Assets Manager at the Capital Assets Management Department
Matjaž TREBŠE	• UHY, revizija in svetovanje d.o.o., Authorised Officer (term of office ended in 2016) • UHY, storitve d.o.o., Director (term of office ended in 2016) • FORMAL CEE d.o.o., Belgrade, Director
Alenka VRHOVNIK TEŽAK	• VTT d.o.o., Authorised Officer and Financial Adviser • Court Expert in Economics – Finance

[1] On 9 February 2016, Janko Gedrih, the Chairman of Abanka's Supervisory Board, resigned as a Supervisory Board Member.
[2] On 25 February 2016, Marko Garbajs, Vice Chairman of the Supervisory Board, was appointed Chairman of the Supervisory Board.
[3] On 25 February 2016, Melita Malgaj, Member of the Supervisory Board, was appointed Vice Chairman of the Supervisory Board.

Report of the Supervisory Board

As at 31 December 2015, the Supervisory Board of Abanka was composed of seven members. The composition of the board changed twice over the course of the year. At the beginning of 2015, the Supervisory Board had five members. Janko Gedrih was the Chairman of the Supervisory Board, Marko Garbajs was its Vice-Chairman, and Andrej Slapar, Barbara Kürner Čad and Blaž Šterk were its members. Following the resignation of Barbara Kürner Čad on 12 June 2015, the Supervisory Board was composed of four members. On 2 October 2015, the General Meeting of Shareholders appointed new Supervisory Board Members for a four-year term of office. Melita Malgaj started her term of office on 2 October 2015, whereas Matjaž Trebše and Alenka Vrhovnik Težak commenced their term of office on 8 October 2015.

As at 31 December 2015, the Supervisory Board's Chairman was Janko Gedrih, Marko Garbajs was its Vice-Chairman, and Andrej Slapar, Blaž Šterk, Melita Malgaj, Matjaž Trebše and Alenka Vrhovnik Težak its members. The Banking Act specifically and in detail stipulates the conditions and requirements for supervisory board members of banks and does not prohibit members who have an economic, personal or other close relationship with bank's major shareholders or their Management Board from serving as Supervisory Board members. In cases when the Supervisory Board discusses issues related to persons linked to members of the Supervisory Board, the latter are regularly excluded from the discussion and voting on those issues, with the Chairman of the Supervisory Board paying special attention to the exclusion of these members. In case the Chairman is excluded, the session is chaired by the Vice-Chairman. Any such exclusion is entered into the minutes.

Until 9 June 2015, the Supervisory Board had three committees, since 10 June 2015 it has had four:

- As at the reporting date, **the Audit Committee** had the following composition: Blaž Šterk as its Chairman, and Marko Garbajs, Matjaž Trebše and Melita Malgaj as its members. As at 31 December 2014, the Committee was composed of: Blaž Šterk as its Chairman and Marko Garbajs, Renata Eržen Potisek and Peter Ribarič as its members. In line with the amended Banking Act, the term of office of Renata Eržen Potisek and Peter Ribarič ended on 10 June 2015, whilst Janko Gedrih was appointed a new member of the Committee. The Audit Committee had the following composition: Blaž Šterk served as its Chairman and Janko Gedrih and Marko Garbajs as its members. On 10 November 2015, the term of office of Janko Gedrih ended, while Matjaž Trebše and Melita Malgaj were appointed members of the Committee. In 2015, the Committee held seven meetings. The main purpose of the Audit Committee is to assist the Supervisory Board in discharging its supervision duties regarding the reliability of financial statements, financial reports and other financial information that the Bank provides to its shareholders and other members of the public concerning the qualifications, effectiveness and independence of the external auditor, the operation of the internal audit function and compliance of the Bank with the applicable legal and regulatory requirements.
- **The Compensation and Human Resource Committee** operated until 9 June 2015. Afterwards it was transformed into two separate committees: the Human Resource Committee and the Compensation Committee. As at the 2014 year-end, the Compensation and Human Resource Committee was composed of Janko Gedrih as its Chairman, and Andrej Slapar, Tomaž Kuntarič and Barbara Kürner Čad as its members. After Tomaž Kuntarič was resigned, the Committee had the following composition from 13 February 2015: Janko Gedrih as its Chairman and Andrej Slapar and Barbara Kürner Čad as its members. The Committee held four meetings in 2015.
- **The Human Resource Committee** was established on 10 June 2015. At its establishment it was composed of: Janko Gedrih as its Chairman and Andrej Slapar, Blaž Šterk and Barbara Kürner Čad as its members. On 12 June 2015, Barbara Kürner Čad submitted her letter of resignation. On 10 November 2015, the term of office of Blaž Šterk ended, whilst Melita Malgaj was appointed member of the Committee. In 2015, the Committee held seven meetings. The main purpose of the Human Resource Committee is to support the Supervisory Board in the execution of their supervisory responsibilities with respect to personnel issues involving the Management Board and the Supervisory Board membership.
- **The Compensation Committee** was founded on 10 June 2015 and was composed of: Andrej Slapar as its Chairman and Janko Gedrih, Marko Garbajs and Barbara Kürner Čad as its members. On 12 June 2015, Barbara Kürner Čad submitted her letter of resignation. On 10 November 2015, the terms of office of Janko Gedrih and Marko Garbajs expired, after which Alenka Vrhovnik Težak and Matjaž Trebše were appointed as members. In 2015, the Committee held three meetings. The main purpose of the Compensation Committee is to support the Supervisory Board in the execution of their supervisory responsibilities with respect to taking decisions on remuneration, including those having an impact on the risks and risk management of the Bank.
- As at the 2015 year-end, **the Risk Management and Asset Liability Management Committee** was composed of Marko Garbajs as its Chairman, and Janko Gedrih, Alenka Vrhovnik Težak and Blaž Šterk as its members. As at the 2014 year-end, the Committee was composed of Andrej Slapar as its Chairman and Marko Garbajs and Janko Gedrih as its members. On 11 June 2015, the composition of the Committee changed as follows: Marko Garbajs was its Chairman and Janko Gedrih, Andrej Slapar and Blaž Šterk were its members. On 10 November 2015, the term of office of Andrej Slapar ended, while Alenka Vrhovnik Težak was appointed to the Committee. The Committee held four meetings in 2015. The main purpose of the Committee is to support the Supervisory Board in the execution of its supervisory responsibilities with respect to taking decisions related to the risk management function, the risk profile and the control of asset liability management in the Bank.

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

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

The self-assessment results of the Supervisory Board in 2015 were positive, adequate and in accordance with expectations. The assessment of the Supervisory Board's work included the proposed activities for the elimination of any identified deficiencies. The professional qualifications of the Supervisory Board members cover a broad spectrum of expertise in finance, marketing, law, organisation and other fields. The organisation and functioning of Board members as a team is effective as they facilitate the ongoing monitoring and supervision of the Bank's operations as well as initiatives and guidelines for its development. The Supervisory Board's self-assessment results positively affected and encouraged its work and confirmed that the Board had properly performed its activities.

Review of the Supervisory Board's activities in 2015

The Supervisory Board oversees the management of the Bank's business operations. In accordance with the competencies and obligations defined in the Banking Act, the Companies Act, the Decision on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, the Decision on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks, which replaced the latter, and the Articles of Association of the Bank, the Supervisory Board operated pursuant to the principles of modern corporate governance and thus, through its supervisory function, contributed to the efficiency and transparency of the Bank's operations. At its sessions, the Supervisory Board regularly took note of the merger process of Banka Celje with Abanka, the financial operations and the risk management activities, while paying special attention to capital, credit and liquidity risk management. The Supervisory Board approved the Annul Plan of the Abanka Group for 2016, including the financial plans up to 2019.

In 2015, the Supervisory Board held seven regular sessions and one correspondent one in the following composition: its Chairman was Janko Gedrih, Marko Garbajs was its Vice Chairman, while Andrej Slapar, Blaž Šterk and Barbara Kürner Čad were its members. Andrej Slapar was not present at the 7th regular session held on 23 April 2015 for legitimate reasons. All members of the Management Board were present at all regular sessions of the Supervisory Board.

After Barbara Kürner Čad resigned, the Supervisory Board held five regular sessions and two correspondence sessions. All members of the Management and Supervisory Boards were present at all regular sessions of the Supervisory Board.

Following the General Meeting of Shareholders on 2 October 2015, the Supervisory Board held three regular sessions in the following composition: Janko Gedrih as its Chairman, Marko Garbajs as its Vice Chairman, and Andrej Slapar, Blaž Šterk, Melita Malgaj, Matjaž Trebše and Alenka Vrhovnik Težak as its members. Andrej Slapar was not present at the 16th regular session held on 10 November 2015 and the 18th regular session held on 10 December 2015 for legitimate reasons. All members of the Management Board were present at all regular sessions of the Supervisory Board.

In line with Abanka's commitments made to the European Commission, a representative of KPMG poslovno svetovanje d.o.o. regularly attended the sessions of the Supervisory Board.

The Supervisory Board's sessions lasted 33 hours and 10 minutes in total, which is 38.4% more than in 2014 (23:58).

At its sessions in 2015, the Supervisory Board:

- approved and adopted the audited Annual Report of Abanka for 2014, including the auditor's report by Deloitte Revizija d.o.o., and the Statement of Compliance with the Corporate Governance Codes for 2014;
- took note of the resignation letter of Igor Stebernak, Member of the Management Board, and of the procedures to appoint a new Management Board member; furthermore, it appointed Aleksander Vozel a new member of the Management Board, whose term of office began on 18 May 2015;
- appointed at the time current President of the Management Board Jože Lenič for the next five-year term of office;
- was regularly briefed on the merger with Banka Celje, adopted the Report on the Planned Merger of Banka Celje with Abanka and approved the Merger by Acquisition Agreement; moreover, it was informed of the execution of the merger of Banka Celje with Abanka, which was entered in the Companies Register on 5 October 2015;
- took note of the reports on the fulfilment of commitments made to the European Commission for Abanka, dated 31 December 2014, 31 March 2015 and 30 June 2015, as well as those for Abanka and Banka Celje dated 30 September 2015;
- discussed reports on financial operations of Abanka and the Abanka Group in 2014 and 2015; took note of the report on financial operations of Banka Celje for the first nine months of 2015;
- took note of the reports on the implementation of the compliance, security and internal control functions as well as money laundering and terrorist financing prevention measures in 2014;
- examined the proposed revisions of high exposure limits to certain customers and gave relevant approvals pursuant to the Banking Act, took note of high exposures on an individual and consolidated basis as well as of Abanka's exposures to groups of related parties and/or persons in a special relationship with the bank in line with Article 261 of the Companies Act;

- took note of the Bank's gross direct and indirect exposures to individuals and groups of related parties and set up conditions and/or limits for concluding investment transactions with individuals or groups of related parties;
- considered comprehensive reports on risks arising from the operations of Abanka and/or the Abanka Group and reports on the internal capital adequacy assessment process; moreover, it approved draft amendments to the Risk Management Strategy and the related risk management policies by risk type as well as public disclosure of information;
- approved the draft agenda and draft resolutions of the 30th General Meeting of Shareholders of Abanka held on 8 May 2015, the 31st General Meeting of Shareholders of Abanka held on 27 May 2015 and the 32nd General Meeting of Shareholders of Abanka held on 2 October 2015;
- proposed to the General Meeting of Shareholders to appoint three new members of the Supervisory Board (before the appointment of new Supervisory Board members at the General Meeting of Shareholders held on 2 October 2015, the Bank performed the fit and proper assessment of the candidates for the members of the Supervisory Board in accordance with the Banking Act (ZBan-2));
- took note of the report on persons in a special relationship with the bank in line with the new Banking Act (ZBan-2) and set out conditions to be fulfilled for the approval of investment transactions with such persons;
- in line with the new Banking Act (ZBan-2), it established two separate committees: the Compensation Committee and the Human Resource Committee, whereas the previous Compensation and Human Resource Committee ceased to exist;
- reviewed the planned merger of the subsidiary AB58 d.o.o. with Abanka Vipa d.d. and submitted a written report thereon;
- adopted the Governance Policy of Abanka Vipa d.d., which sets out the key guidelines for the governance and management of the company;
- approved the Annual Internal Audit Report for 2014 and gave its opinion thereto, discussed and approved internal audit reports for 2015, approved the amendments to the Rules of the Internal Audit Department and the Internal Audit Department Work Plan for Q4 2015 and for 2016;
- appointed Matej Golob Matzele a new member of the Management Board, whose term of office began on 28 December 2015 after he had obtained a licence of the Bank of Slovenia;
- approved the Annual Plan of the Abanka Group for 2016, including the financial plans up to 2019;
- discussed other issues related to the operations of the Bank and the Group.

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

Annual Report for 2015

At its session on 31 March 2016, the Supervisory Board discussed the Annual Report of Abanka for 2015, including the audit report by Deloitte Revizija d.o.o. Cooperation with the audit firm was of high quality; the auditors responsible took part in the sessions of the Supervisory Board and the Audit Committee and participated in resolving any outstanding issues. The Supervisory Board confirmed that the Annual Report is a true and fair presentation of the Bank’s and the Group’s position, gives a comprehensive view of operations in 2015 and thus complements the information they received during the financial year. Comparing the Annual Report with the audited financial statements for the 2015 financial year, the Supervisory Board established that the financial results presented in the Annual Report match the audit report. In its opinion, the Supervisory Board, together with the Management Board, fulfilled all their legal requirements for the 2015 financial year.

The Supervisory Board hereby establishes that the certified external auditor, in their report, issued a positive opinion of the financial statements, which present a true and fair view of the Bank's and the Group’s financial position in all material aspects. The Supervisory Board has no comments on the audit report by Deloitte Revizija d.o.o. and believes the Bank's and the Group’s operations in 2015 were carried out in accordance with the applicable legal requirements. Based on its insights into the Bank's operations during the year and following a careful examination of the audited Annual Report and the positive opinion issued by the certified auditor in their audit report, the Supervisory Board hereby without objections approves and adopts the Annual Report of Abanka for the 2015 financial year.

Marko GARBAJS
Chairman of the Supervisory Board

PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

ABOUT THE BANK

Abanka Vipa d.d. is a bank with a long tradition in the Slovene banking sector. The origins of Abanka date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was reorganised as a public limited company. On 31 December 2002, Banka Vipa merged with Abanka. Since then, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. The shares of Abanka were listed on the Ljubljana Stock Exchange from October 2008 to December 2013, when on the basis of the Decision of the Bank of Slovenia on Extraordinary Measures, all qualified liabilities of the Bank on 18 December 2013 ceased in full. On 18 December 2013, the Republic of Slovenia subscribed and fully paid in all 15,000,000 shares newly issued by Abanka, and thereby became the 100% owner of the Bank. On 8 October 2014, the Republic of Slovenia paid in another 100,000 new shares. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. Since that date, the merged bank has operated under the name Abanka d.d. As at 31 December 2015, Abanka’s market share in terms of total assets was 10.2%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 61 branches[4] across Slovenia, e-banking, advisory services and a personal approach, the Bank provides integrated financial services, ranging from traditional banking and bancassurance to investment banking.

Moreover, Abanka has gained international reputation. In interbank operations, it uses a network of correspondent banks across the globe to meet its customers' needs for international payment transactions.

Abanka's range of services also includes factoring, leasing and trading in own real property through the following subsidiaries: Afaktor d.o.o., Aleasing d.o.o., Anepremičnine d.o.o. and Posest d.o.o.

10.2%

Abanka's market share as at the 2015 year-end

[4] On 31 December 2015, Abanka had 62 branches.

THE MERGER OF BANKA CELJE WITH ABANKA

Capital Strengthening Activities of the Bank

In the time of economic and financial crisis, numerous activities were aimed at capital strengthening of the Bank. After several failed attempts to increase the capital of the Bank, the Republic of Slovenia filled an application with the European Commission requesting approval for a capital increase at the Bank. On the basis of the provisional decision of the European Commission approving the first tranche of capital increase, a restructuring plan of the Bank was drafted. On 13 August 2014, the European Commission adopted a final decision and thereby confirmed the compliance of measures for strengthening Abanka's stability with the EU state aids rules. Based on this decision of the European Commission, the Government of the Republic of Slovenia was able to implement measures to strengthen the stability of Abanka, i.e. the second round of capital increase and the transfer of bad loans to the Bank Asset Management Company (hereinafter: BAMC).

With its decision, the European Commission approved Abanka's restructuring plan. Within the state aid assessment procedure, the Republic of Slovenia made a commitment to continue the merger process of Abanka and Banka Celje after acquiring the majority stake in Banka Celje and to submit to the European Commission a restructuring plan for the merged bank by 31 December 2014 at the latest, which served as the basis for the EC to issue a relevant decision. On the basis of the joint restructuring plan submitted to the European Commission in October 2014, a commitment was made to the European Commission regarding the merger of both banks by 1 January 2016.

Merger by Acquisition Agreement between Banka Celje and Abanka

On 20 May 2015, the Supervisory Boards of Abanka and Banka Celje adopted the Report on the Planned Merger of Banka Celje with Abanka and approved the Merger by Acquisition Agreement between Banka Celje and Abanka.

On 20 May 2015, following the approval of their Supervisory Boards, the Management Boards of Abanka and Banka Celje signed the Merger by Acquisition Agreement between Banka Celje and Abanka. The General Meeting of Shareholders of both banks approved the Agreement on 27 May 2015. The merger will become legally effective as of the day of entry into the Companies Register, which will be carried out after the relevant decisions are issued by the Bank of Slovenia and the Slovenian Competition Protection Agency.

Authorisation of the Slovenian Competition Protection Agency

On 18 June 2015, the Slovenian Competition Protection Agency issued the decision No. 3061-8/2015-6, based on which the concentration of Abanka Vipa d.d., Slovenska cesta 58, 1000 Ljubljana and Banka Celje d.d., Vodnikova ulica 2, 3000 Celje is compliant with the competition rules.

Authorisation of the Bank of Slovenia

On 8 September 2015, the Bank of Slovenia granted an authorisation for the merger by acquisition of Banka Celje by Abanka.

The Merger of Banka Celje with Abanka

On 5 October 2015, the Ljubljana District Court issued a decision on entering the merger of Banka Celje d.d. with Abanka d.d. into the Companies Register. The merged bank operates under the name of Abanka d.d. with its headquarters in Ljubljana, Slovenska cesta 58. Thus, Banka Celje d.d. ceased to exist as an independent legal entity and all its rights and obligations were transferred to Abanka d.d. as its legal successor.

SERVICES OF THE BANK

As at 31 December 2015 Abanka was authorised to provide the following mutually recognised financial services under Article 5 of the Banking Act (ZBan-2):

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

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

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

BANK PROFILE

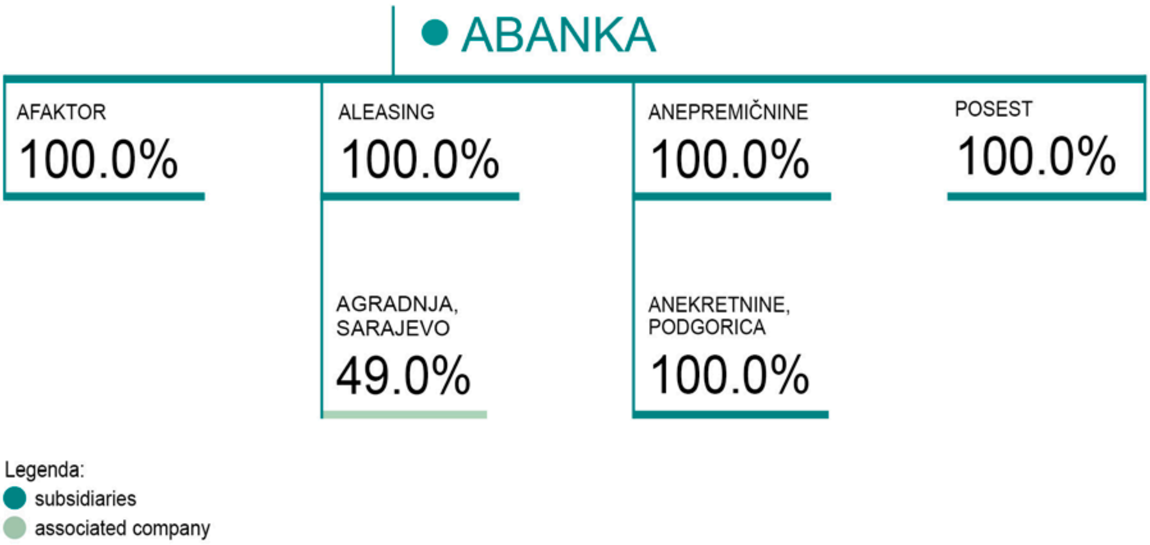
Abanka is entered in the Companies Register kept by the District Court in Ljubljana under registration no. 1/02828/00.

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

ABOUT THE GROUP

As at 31 December 2015, in addition to Abanka, as the parent company, the Abanka Group included the following:

- **subsidiaries:** Afaktor d.o.o., Aleasing d.o.o. with the **associate** Agradnja d.o.o. in Bosnia and Herzegovina, Anepremičnine d.o.o. with the **subsidiary** Anekretnine d.o.o. in Montenegro and Posest d.o.o.



Structure as at 31 December 2015

In September 2015, AB58 d.o.o. was merged with Abanka. Following the merger of Banka Celje with Abanka, Posest d.o.o. – the subsidiary of Banka Celje – became a subsidiary of the merged bank. (Posest d.o.o. is not included in the consolidated financial statements of the Abanka Group, as it does not have a significant impact on a true and fair view of the Group's financial situation.) In August 2015, the subsidiary Afaktor d.o.o. sold its subsidiary in Belgrade and in September 2015 its subsidiary in Zagreb. In addition, the subsidary Aleasing d.o.o. sold its equity stake in its associated company ASA Aleasing d.o.o. in August 2015. In line with its strategy, in 2015 the Bank began the sales procedures of Afaktor d.o.o. and Aleasing d.o.o. Considering the interest expressed by potential investors, the Bank will decide on further measures in 2016.

The following table shows the activities of the subsidiaries of the Abanka Group, equity stakes and the nominal value of the Bank's equity stake as at 31 December 2015.

Company	Activity	Equity stake	Nominal value of equity stakes as at 31 December 2015 (in EUR thousand)
Afaktor d.o.o.	factoring	100.0%	106
Aleasing d.o.o.	leasing	100.0%	1,114
Anepremičnine Group	real property management	100.0%	3,152
Posest d.o.o.*	real property management and leasing	100.0%	1,652

Note:
* In 2015, following the merger of Banka Celje with Abanka, Posest d.o.o. became a subsidiary of the merged bank.

In 2015, the nominal value of Abanka's equity stake in Afaktor decreased from EUR 462 thousand as at the 2014 year-end to EUR 106 thousand as at 31 December 2015 as the result of impairment of EUR 356 thousand in 2015, while it increased its equity stake in Anepremičnine from EUR 1,243 thousand as at the 2014 year-end to EUR 3,152 thousand as at 31 December 2015 resulting from the capital increase of EUR 3,737 thousand and the impairment of EUR 1,828 thousand in 2015. Due to the impairment of EUR 605 thousand in 2015, the nominal value Abanka's equity stake in Posest went down from EUR 2,257 thousand as at the 2014 year-end to EUR 1,652 thousand as at 31 December 2015.

Activities of Subsidiaries

AB58 d.o.o.

On 17 September 2015, AB58 d.o.o. was merged with Abanka. It was 100% owned by the Bank, had no employees and no supervisory board. It was led by Director Gregor Hudobivnik.

AB58, finančno svetovanje d.o.o. (abbreviated name: AB58 d.o.o.) was the legal successor of Abanka Skladi d.o.o. established on 9 May 1994. The company was headquartered in Ljubljana. In September 2013, the change of the company name from Abanka Skladi, družba za upravljanje d.o.o. to AB58, finančno svetovanje d.o.o. was entered in the Companies Register. In addition, the change of the business address from Pražakova ulica 8 in Ljubljana to Slovenska cesta 58 in Ljubljana was also entered in the Companies Register.

Until 9 September 2013, Abanka Skladi, which provided investment fund management services, managed twelve subfunds of the ABANKA SKLADI umbrella fund. In June 2013, Abanka Skladi, družba za upravljanje d.o.o. and Triglav Skladi, družba za upravljanje d.o.o. concluded the Agreement on the Transfer of Fund Management of the ABANKA SKLADI umbrella fund to Triglav Skladi d.o.o. In September 2013, Triglav Skladi d.o.o. took full control of the management of the ABANKA SKLADI umbrella fund.

After discontinuing the fund management business, AB58 was left to resolve a commercial dispute with MIP, which was in bankruptcy. The dispute justified and conditioned the existence of the company, and only once it was resolved the winding-up process of AB58 could begin. After the dispute was finally resolved in September 2014, Abanka acquired the stake from the minority shareholder in December 2014. When the Bank became the sole owner of AB58, its merger process with Abanka began, which was in line with the commitments made to the European Commission to streamline the operations of the Group.

Afaktor Group

Afaktor, finančna družba za faktoring d.o.o. (hereinafter: Afaktor), established in March 1993, is 100% owned by Abanka. The company's registered office is in Ljubljana. RI-NA d.o.o. was established by SKB banka d.d. in 1993. In 1998, it was renamed to SKB faktor, finančna družba za faktoring d.o.o. Ljubljana. Since the beginning of 1999, the company specialised in factoring and was 100% owned by SKB banka d.d. In 2002, Abanka acquired the company and changed its name to Afaktor, finančna družba za faktoring d.o.o., Ljubljana.

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

Matjaž Kaštrun manages Afaktor in Slovenia, Bojan Šuštar in Croatia until it was sold and Radovan Jereb in Serbia until it was sold. As at the 2015 year-end, the Supervisory Board of Afaktor comprised Davorin Leskovar as its Chairman (until 3 November 2015, Barbara Jagodič was its Chairman), Gregor Hudobivnik as its Vice Chairman and Kristjan Hvala as its member.

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

In 2015, in addition to its core business, Afaktor played the key role in the sale of its Croatian and Serbian subsidiaries and the withdrawal from these markets. Rapid reduction in interest rates on loans and improved liquidity in both the economy and the banks significantly changed the operating conditions. These changes dictated rapid adaptation of factoring prices and demanded that the company increases its factoring business and attracts new customers in order to achieve adequate income. Due to the possibility of achieving higher prices and lower chances of acquiring new customers and business (higher competition among providers of bank loans for exporters and the possibility to acquire financial sources abroad), Afaktor focused not only on domestic and international factoring but also started to provide reverse factoring.

In 2015 domestic factoring represented 53.5% of total annual factoring, reverse factoring accounted for 38.7% and international factoring for the rest. In 2015 factoring with recourse represented 46.5% of total factoring transactions and was mainly achieved through transactions between domestic companies, mostly involving factoring on the basis of annual arrangements and partly also one-time purchases of batches of invoices. Only after the sale of both subsidiaries, Afaktor was able to focus on its primary activity of factoring with all its available potentials, which is one of the key reasons that it did not achieve the intended planned annual volume of business and therefore operated at a loss in 2015.

The conditions to expand factoring in Slovenia are favourable. Factoring, which is one of the fastest growing financial services in Europe and worldwide, is underdeveloped in Slovenia. After the financial and economic crisis and during the consolidation of banks in Slovenia, it is expected that in Slovenia, as across the world, the existing traditional forms of financing of day-to-day operations of companies through bank loans will be replaced by the greater use of alternative forms, which do not increase the indebtedness of companies but improve their liquidity. These circumstances provide the opportunity to further establish financial products such as factoring. Export-oriented companies (even outside the European Union) open up further growth opportunities for factoring companies, which provide such services.

Aleasing d.o.o.

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

Currently, it is 100% owned by Abanka with its headquarters in Ljubljana and two business units in Celje and Šempeter pri Gorici. (In 2012, the company relocated its headquarters from Celje to Ljubljana.) The company has one associated company in Sarajevo in Bosnia and Herzegovina, i.e. a 49% equity stake in Agradnja d.o.o., whereas it sold its 49% equity stake in ASA Aleasing d.o.o. in Sarajevo in August 2015.

The leasing products provided by Aleasing complement the range of products and services provided by the Abanka Group. This company operates in a relatively narrow and highly specialised market niche. Its main products are financial leasing of real property and movables and operating leasing of vehicles. Within the framework of its core business, the company is proactive in selling insurance services. Aleasing sets guidelines, follows business development trends and tailors its offering to the needs of its business partners.

The company is led by Director Nikolaj Fišer. The three members of the Supervisory Board supervise and manage the company: Davorin Leskovar as its Chairman (who was appointed to the Supervisory Board on 26 October 2015 and elected its Chairman on 3 November 2015), Gregor Hudobivnik as its Vice Chairman and Jure Poljšak as its member. On 20 October 2015, Matej Golob Matzele, the previous Chairman of the Supervisory Board, submitted his letter of resignation because he was appointed to the Management Board of Abanka in September 2015.

Operations of Aleasing were made compliant with the Abanka Group's policies and strategic guidelines and its commitments to the European Commission, predominantly with an aim to decrease the volume of new financing operations. The current volume of the business allows the company to maintain all business functions and strategic business partners.

Improved economic conditions had a positive impact on the company’s operations. Demand for financing services increased, whilst the inventory value of returned leased items decreased. Despite business limitations, Aleasing maintains its position and goodwill built in the financial market. Particular attention is paid to deepening cooperation with strategic business partners, who appreciate that Aleasing is a good and fair financial service provider.

In order to achieve the set objectives, Aleasing pays particular attention to streamlining its business processes, risk management, finding synergies within the Abanka Group and to identifying its comparative advantages. The objectives of the company are aimed at achieving high interest rates on leased funds, safety of investments and cost effectiveness of its operations. Strategic guidelines of Aleasing include: active promotion of leasing activities, provision of high-quality and competitive services to customers, an adequate return on equity for shareholders, secure debt management, maintaining the market share and moderate growth of total assets, enabling employees’ professional development and personal growth. Marketing activities are and will continue to be aimed at good relationship management with the existing partners and widening the range of products by designing new ones.

ASA Aleasing d.o.o.

Until Afaktor was sold on 12 August 2015, its equity stake in ASA Aleasing d.o.o. stood at 49%. The latter was an associated company of the subsidiary Aleasing since 2013. In 2012, ASA Aleasing was the joint venture company of the subsidiary Aleasing d.o.o. Ljubljana, ASA Finance d.d. Sarajevo and ASA Auto d.o.o. Sarajevo. The underlying Joint Venture Agreement was concluded in 2007 between Abanka and ASA Holding Sarajevo.

In accordance with the Leasing Act of FBiH governing leasing in Bosnia and Herzegovina, the company provided financial and operating leasing. In March 2010, the Banking Agency of FBiH (Agencija za bankarstvo Federacije Bosne in Hercegovine), which supervised the operations of ASA Aleasing, issued the company a licence to carry out leasing operations.

Until the sale in August 2015, the ownership structure was as follows: Aleasing d.o.o. (49.0%), ASA Auto d.o.o. (33.8%) and ASA Finance d.d. (17.2%). From July 2014, the company was led by Director Samir Mustafić. Until the sale of the company, Supervisory Board was composed of Sead Miljković as its Chairman and Gregor Hudobivnik, Jure Lednik, Mensur Šačirović and Sanjin Dervišević as its members.

In Bosnia and Herzegovina, the real year-on-year growth of GDP was 3.1% higher in Q3 2015 compared to Q3 2014, with the unemployment rate (27.7%) and high budget deficit persisting as the main macroeconomic problems.

Agradnja d.o.o.

Agradnja d.o.o. is an engineering, construction and real property company based in Sarajevo. It was established in 2008 with an aim to build a commercial and residential complex in Sarajevo. In the first half of 2013, Agradnja became an associated company of the subsidiary Aleasing. A joint venture agreement was concluded at the same time. The ownership structure of the company as at 31 December 2015 was as follows: Aleasing d.o.o. (49%) and ASA Finance d.d. (51%). As at the 2015 year-end, the company was led by Director Sanin Granov. The company had no supervisory board.

Anepremičnine Group

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

As at the 2015 year-end, Gregor Žvipelj was Director of Anepremičnine d.o.o. The Supervisory Board was composed of Davorin Leskovar as its Chairman, appointed on 10 November 2015, when the term of office of its previous Chairman Boštjan Herič ended. Gregor Hudobivnik was its Vice Chairman and Dejan Grum its member.

Anepremičnine performs the full range of real property portfolio management activities, which include conducting the sales procedures, leasing and selling real properties, analysing real property development projects, construction and completion of projects, acquiring new real property portfolio in the market or via spin-offs, selling to third parties, optimising real property management, real property appraisal and governance of subsidiaries abroad. It has an efficient system of real property sale and lease and actively participates in the brokerage of real property pledged as collateral to the bank. The company sells its non-residential property at public auctions or through invitations to submit binding or non-binding offers (tendering). The company was established with an aim to centralise real property management at the Abanka Group level, to optimise the real property portfolio and to manage it more efficiently. The company's main task is to manage the real property portfolio in a more uniform, transparent and predictable manner that will enable value maximisation and adequate profitability. If necessary, it participates in the completion of unfinished projects as an investor. Anepremičnine is closely involved in the entire process of real property business of the Abanka Group in the part, which relates to commercial transactions. This entails acquisition of real property within the Group, property selling, development, investment, attracting tenants, real property management, divestment and operational marketing of real property. In the reporting year, Anepremičnine either sold or leased many residential and commercial real properties for its own account and provided estate agency services, thereby achieving the key objectives set for 2015.

The available data suggest that the downward trend in residential real property prices in Slovenia came to a halt. At the national level, the average price of houses in the first half of 2015 slightly increased, while the average price of apartments still shows a minimal drop. The average price of the business premises, which accounted for a low share of sales, was highly volatile, making it difficult to assess whether the trend of falling prices came to a halt. The downward trend in the prices of land plots continued through 2015 probably due to the fact that there were practically no sale transactions involving expensive land plots for major projects; only cheaper land plots sell because they are suitable for the construction of individual houses and small residential complexes.

In June 2014, the subsidiary Anepremičnine d.o.o. founded its own subsidiary Anekretnine d.o.o. in Podgorica. As at the reporting date, the subsidiary was managed by Director Slobodan Radović and had no Supervisory Board. Preliminary data from the Montenegrin central bank show that in 2015 economic growth in Montenegro stood at around 4%, while in 2016 it is expected at 3.5–4%.

Posest d.o.o.

Posest, podjetje za trgovino, inženiring in posredovanje d.o.o. (hereinafter: Posest d.o.o.) was established by Banka Celje on 6 September 1991 and is headquartered in Celje. As a result of the merger of Banka Celje with Abanka as at the 2015 year-end, it is 100% owned by Abanka d.d. It operates in Slovenia, although in 2015 some appraisals were made abroad, i.e. in Croatia, Serbia and Bosnia and Herzegovina.

The core activities of the company are:

- marketing of company- and bank-owned real properties,
- appraisal of real property and equipment,
- control of banking loans extended for special purposes,
- assistance in collecting the debts of the Bank that are more difficult to recover,
- real property leasing,
- engineering of own and other real properties,
- advisory services related to financing of real property development projects.

The company was managed by the Management Board of the Bank until 30 November 2015. Following the revision of the Articles of Association on 30 November 2015, the company is managed by three members of the Supervisory Board of Posest d.o.o. The company is led by Director Davorin Zavasnik. As at the 2015 year-end, the Supervisory Board was composed of Davorin Leskovar as its Chairman, Gregor Žvipelj as its Vice Chairman and Bojan Zadravec as its member. The constitutive session of the Supervisory Board of Posest d.o.o. was held on 18 December 2015.

In 2015, the company actively participated in obtaining and conducting appraisals, further disinvestment and lease of real property as well as performed services for the Bank (several real property appraisals, assistance in collecting the debts that are more difficult to recover, assessment of individual projects of the Bank's customers, control of banking loans extended for special purposes, participation in meetings with the Bank's customers, etc.). In the reporting year, no new leasing agreements were concluded. In 2016, the company will cease to exist in line with Abanka's strategy. The bulk of the leasing portfolio will be replaced by loans granted to the largest leaseholder by Abanka, low value leases will be transferred to Aleasing d.o.o., while the remaining part of the company will be merged with Anepremičnine d.o.o.

ABANKA'S STRATEGY

In 2015, the strategy guidelines were followed as set out in the medium-term strategy, which was revised in 2014 for the 2014–2018 period in line with the restructuring plan, drafted for the 2014–2018 period on the basis of the data on the economic environment and future year forecasts available at the time. In November 2014, the Supervisory Board approved the implementation of the 2014–2018 Strategy of the Abanka Vipa Group, which includes the Group's vision, mission, key strategic guidelines and a financial scenario for the achievement of strategic objectives, honouring the commitments of the European Commission.

Abanka's ***key strategic objectives*** in 2015 included:
- increasing capital strength for development and stable banking operations,
- strengthening the retail and SME banking segments,
- cost and process efficiency,
- effective bad debt management,
- optimised assets and liabilities management,
- improving the efficiency of existing sales channels and creating new ones,
- strengthening the partnership with Zavarovalnica Triglav and
- optimising the management of subsidiaries and improving their competitiveness.

Abanka's restructuring measures and commitments considered in the drawing up of the strategy can be summarised as the following key objectives:
- revision of key strategic guidelines,
- discontinuation of unprofitable or non-strategic business segments,
- improved efficiency of operations based on reorganisation and process changes in Abanka,
- cost optimisation,
- measures to improve customer management processes,
- risk management and credit policy,
- other commitments.

On the basis of the joint restructuring plan of Abanka and Banka Celje, a commitment was made to the European Commission to merge both banks by 1 January 2016. The commitment was realised on 5 October 2015, when Banka Celje was merged with Abanka. As at the 2015 year-end, the revision of the strategy for the 2016–2019 period commenced. The Strategy of Abanka d.d. for the 2016–2019 Period was approved by the Supervisory Board on 25 February 2016.

Abanka's Mission and Vision

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

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

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

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

The Bank has ***comparative advantages*** in the following key areas:

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

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

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

The following main strategic programmes were developed:

- operational merger,
- acceleration of digital transformation,
- loan process optimisation and
- reorganisation of the staffing structure.

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

FINANCIAL PLAN FOR 2016

The financial plan for 2016 was prepared in autumn 2015 based on the macroeconomic outlook and forecast available at the time in line with restrictions arising from the commitments made to the European Commission regarding the merged bank at the group level. The Annual Plan of the Abanka Group for 2016, Including the Financial Plans up to 2019, were adopted by the Supervisory Board in December 2015.

In 2016, Abanka will maintain its focus on retail and SME banking and key customers generating significant non-interest income. Efforts to improve risk management and the efficiency of business processes will continue, while providing a stimulating environment for employees. Stable and profitable operations will enhance the Bank's reputation among investors. The Bank will continue to pursue the following key objectives: focus on the Slovene market, efficient lending activity in line with the commitments, discontinuation of unprofitable activities, cost optimisation and improved customer relationship management.

In 2016, Abanka will maintain its focus on retail and SME banking and key customers generating significant non-interest income. Efforts to improve risk management and the efficiency of business processes will continue, while providing a stimulating environment for employees. Stable and profitable operations will enhance the Bank's reputation among investors.

Total assets will decrease in 2016 due to the commitments made to the European Commission, while **operating expenses** will also experience a significant drop. In 2016, both the **Group** and the **Bank** are expected to generate a **profit**.

MAJOR BUSINESS EVENTS IN 2015 AND 2016

Major Business Events in 2015

Major business events in 2015 included:

- **Activities with regard to the merger of Banka Celje:**
  - In the beginning of 2015, the Bank in cooperation with Banka Celje started to implement the activities required for the merger with Banka Celje (by 1 January 2016 at the latest) in line with the commitment made to the European Commission.
  - On 20 May 2015, following the approval of their Supervisory Boards, the Management Boards of Abanka and Banka Celje signed the Merger by Acquisition Agreement of Banka Celje by Abanka.
  - On 27 May 2015, following the General Meeting of Shareholders of both banks, the owners of the banks approved the Merger by Acquisition Agreement.
  - On 18 June 2015, the Slovenian Competition Protection Agency issued a decision, based on which the concentration of Abanka and Banka Celje is compliant with the competition rules.
  - On 8 September 2015, the Bank of Slovenia granted an authorisation for the merger by acquisition of Banka Celje by Abanka.
  - On 5 October 2015, the Ljubljana District Court issued a decision regarding the entry of the merger of Banka Celje d.d. with Abanka d.d. in the Companies Register. Banka Celje d.d. ceased to exist as an independent legal entity, whilst all its rights and obligations were transferred to Abanka d.d. as its legal successor. Since the merger was carried out under a simplified procedure, no audit of the merger was conducted.

- **Changes to the Management Board:**
  - In February 2015, Igor Stebernak resigned as a member of the Management Board. On 3 February 2015, Stebernak was appointed a Management Board member of Petrol d.d.
  - In March 2015, the Bank's Supervisory Board appointed Aleksander Vozel a new member of the Management Board. His five-year term of office commenced on 18 May 2015.
  - In March 2015, the Supervisory Board reappointed Jože Lenič President of the Management Board for another five-year term of office, starting on 17 January 2016.
  - in September 2015, the Bank's Supervisory Board appointed Matej Golob Matzele a new member of the Management Board, whose term of office began on 28 December 2015 after he obtained a licence of the Bank of Slovenia issued on 22 December 2015.

- **Changes to the Supervisory Board:**
  - In early 2015, the Supervisory Board was composed of five members: Janko Gedrih as its Chairman, Marko Garbajs as its Vice Chairman, and Andrej Slapar, Barbara Kürner Čad and Blaž Šterk as its members. Following the resignation of Barbara Kürner Čad on 12 June 2015, the Supervisory Board was composed of four members.
  - On 2 October 2015, the General Meeting of Shareholders appointed new Supervisory Board Members for a four-year term of office. Melita Malgaj started its term of office on 2 October 2015, whereas Matjaž Trebše and Alenka Vrhovnik Težak commenced their office on the day the amendments to the Articles of Association were entered into Companies Register.

- **Activities related to the subsidiaries of the Abanka Group:**
  - The subsidiary Afaktor d.o.o. sold its subsidiaries Afaktor – faktoring finansiranje d.o.o. in Serbia and Afaktor – faktoring, Zagreb in Croatia in August and September 2015 respectively.
  - In September 2015, AB58 d.o.o. was merged with Abanka.
  - In August 2015, Aleasing d.o.o. sold its equity stake in the associated company ASA Aleasing d.o.o.

- **Credit ratings by Fitch Ratings:**
  - On 19 May 2015, the international rating agency Fitch Ratings upgraded Abanka's Long-Term Issuer Default Rating from B+ to BB– and assigned it a stable outlook. Abanka's Viability Rating was also upgraded from b+ to bb–. Other bank ratings remain unchanged – Short-Term Issuer Default Rating at B and Support Rating at 5. In line with the expectations of Fitch Ratings related to government support to banks being less likely (the BRRD Directive), the Support Rating Floor was changed from B– to No Floor. The Agency's higher Long-Term Issuer Default Rating and Viability Rating of the Bank are based on the improved credit portfolio of the Bank, appropriate creation of impairments to cover bad loans, an adequate capital position, high liquidity reserves and an appropriate structure of sources of funding. According to the Agency's assessment, the planned merger of Banka Celje with Abanka will have no significant negative impact on Abanka's credit profile.

- **Credit ratings by Moody's Investors Service:**
  - On 17 March 2015, in accordance with its new methodology, the international rating agency Moody's assigned the status Possible Upgrade to Abanka's Caa1 Long-term local and foreign-currency deposit ratings and caa2 BCA (baseline credit assessment) and withdrew the Bank Financial Strength Rating.
  - On 9 June 2015, Moody's upgraded Abanka's Long-term local and foreign-currency deposit ratings from Caa1 to B3 and assigned it a stable outlook, while upgrading the BCA from caa2 to caa1.

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

The following business events occurred after the reporting period:

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

- **Changes to the Supervisory Board:**
  - On 9 February 2016, Janko Gedrih, the Chairman of Abanka's Supervisory Board, resigned as a Supervisory Board Member.
  - On 25 February 2016, Marko Garbajs, Vice Chairman of the Supervisory Board, was appointed Chairman of the Supervisory Board.
  - On 25 February 2016, Melita Malgaj, Member of the Supervisory Board, was appointed Vice Chairman of the Supervisory Board.

- **Credit ratings by Moody's Investors Service:**
  - On 10 February 2016, the credit rating agency Moody's Investors Service confirmed Abanka's Long- term local and foreign-currency deposit ratings of B3 with a stable outlook, as well as Abanka's BCA (baseline credit assessment) of caa1.

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

- **Activities related to the subsidiaries of the Abanka Group:**
  - In 2016, the merger process of Posest d.o.o. with Anepremičnine d.o.o. began.
  - In line with the Bank's strategy, the sales procedures of Afaktor d.o.o. and Aleasing d.o.o. will continue in 2016.

THE ECONOMIC AND BANKING ENVIRONMENT IN 2015 AND OUTLOOK FOR 2016

The Economic Environment in 2015

In 2015, **global economic growth** continued and the economy is gradually recovering, albeit at an uneven pace. The growth of developed economies is on the rise, while the growth of developing countries is slowing. The growth of developed economies is primarily the result of low oil prices, relatively favourable financing conditions, improved labour market conditions, enhanced confidence and the loosening of the inhibitory effects of private sector deleveraging and public finance consolidation. In contrast, emerging market economies continue to suffer from structural barriers and macroeconomic imbalances. The economic recovery of **the euro area** is gradually strengthening, although not as quickly as expected. Labour market conditions are improving, unemployment is falling and employment is on the rise, with the economic sentiment indicator also showing improvement.[5]

The gradual recovery of the global economic growth in 2015 had a positive impact on economic activity in **Slovenia**. The economic sentiment remained at a high level at the end of 2015. Preliminary estimates of the Statistical Office of the Republic of Slovenia indicate that the GDP grew by 2.9% in 2015. The value of GDP at current prices was EUR 38,543 million, which in nominal terms represents an increase of 3.3% over 2014. External demand was the key driver of economic growth, with exports increasing by 5.2%. Domestic demand also plays an increasingly significant role, rising by 2.1%.[6] The Institute for Macroeconomic Analysis and Development of the Republic of Slovenia (hereinafter: IMAD) estimates that the labour market also experienced some recovery in 2015, recording an increase in the number of employed persons and a drop in the unemployment rate. However, the growth of the average gross salary in the private sector stopped due to the growing share of low wage earners, efforts to remain competitive and the absence of price pressure. For the first time in its history, Slovenia recorded a 0.5% deflation in 2015, both at the year-on-year level (December 2015/December 2014) as well as in the annual average for 2015. Deflation is primarily the result of the falling liquid fuel prices in combination with the low prices of durable goods.[7]

MAJOR MACROECONOMIC INDICATORS

	2011	2012	2013	2014	2015
GDP, EUR million (current prices)	36,896	35,988	35,907	37,303	38,543*
GDP growth (%)	0.6	-2.7	-1.1	3.0	2.9*
GDP per capita, EUR (current prices)	17,973	17,498	17,435	18,093	18,680*
Labour productivity (GDP per employee, %)	2.4	-1.8	0.3	2.5	1.2**
Unemployment (registered, %)	11.8	12.0	13.1	13.1	12.3**
Unemployment (ILO methodology, %)	8.2	8.9	10.1	9.7	9.4**
Inflation, year-end (%)	2.0	2.7	0.7	0.2	-0.5
Inflation, average (%)	1.8	2.6	1.8	0.2	-0.5

Note: *Estimate of the Statistical Office of the Republic of Slovenia; **IMAD forecast.
Source: Slovenian Economic Mirror, December 2015. Ljubljana: Institute of Macroeconomic Analysis and Development, January 2016, and Statistical Office of the Republic of Slovenia.

Banking Environment in 2015

The process of economic adjustment of **the euro area** after the financial crises continues, fostering economic growth. Financing costs for euro area banks stabilised at a record low level in mid-2015. Favourable lending terms continue to support further credit growth; borrowing conditions for banks are improving. Bank interest rates on loans dropped even further in mid-2015 and are expected to remain low for some time.[8]

[5] Sources: ECB Economic Bulletin, Issue 8/2015, December 2015. Frankfurt: European Central Bank.
Slovenian Economic Mirror No. 12, Vol. XXI, December 2015. Ljubljana Institute of Macroeconomic Analysis and Development.
[6] Source: Gross Domestic Product, Slovenia, Q4 2015 (In the fourth quarter, Slovenia's GDP rose by 3.3% compared to 2.9% year-on-year).
Statistical Office of the Republic of Slovenia, February 2016.
[7] Sources: Autumn Forecast of Economic Trends 2015, September 2015. Ljubljana: IMAD.
Slovenian Economic Mirror No. 12, Vol. XXI, December 2015. Ljubljana: IMAD.
Consumer Price Indices, Slovenia, December 2015. Ljubljana: Statistical Office of the Republic of Slovenia (http://www.stat.si).
[8] Sources: ECB staff macroeconomic projections for the euro area, September 2015. Frankfurt: European Central Bank.
ECB Economic Bulletin, Issue 6/2015 – Statistics, September 2015. Frankfurt: European Central Bank.

The returning confidence in **banks in Slovenia** led to an improved structure of sources of funding. This resulted in lower systemic risk and the gradual stabilisation of the banking sector is expected to continue. The capital adequacy of the Slovene banking system is strengthening.[9] Banks continue to reduce their external liabilities, which only represented around 13% of the balance sheet total of the Slovene banking system in mid-2015, ranking the Slovene banks among those with the lowest foreign debt compared to other banks in the euro area. In an environment marked by persisting low interest rates, banks are faced with growing pressures that will result in lower future margins. In terms of investment, these pressures are related to the contraction of the lending activity, the falling lending interest rates and the maturity of the debt securities portfolio, which banks will have to replace with less profitable investments in the coming years.[10]

IMAD and the Bank of Slovenia (hereinafter: BS) found[11] that **companies** do not yet have sufficient confidence in the sustainability of the current economic growth. Data show that savings in companies reached pre-crisis levels at the beginning of 2015, while investment only reached around 50%, pointing to an autonomous investment potential of companies. All domestic sectors with the exception of the government generated a financial surplus in the past two years. Most companies invested this surplus in debt reduction and improving their financing structure. Corporate debt in Slovenia is on the decrease and the growing profits give hope for a renewed credit growth. The leverage[12] of companies is decreasing, showing that companies in Slovenia have a better capacity for debt repayment.

Households remain prudent in their spending and invest their surpluses primarily in cash and deposits despite the significant drop in deposit rates. The increased volume of household deposits is an indication of better confidence in domestic banks. In spite of the favourable financing conditions, households did not take on additional borrowing in the past two years. The indebtedness of Slovene households remains low, reaching only half of the average indebtedness in the euro area, which puts Slovene households among those with the lowest debt in the euro area. Nevertheless, a slight increase in loans to households was recorded in the second half of 2015.

Outlook for 2016

In general, the recovery of **the global economy** is expected to continue at a slow and uneven pace. Macroeconomic projections[13] predict the annual real GDP growth of the global economy, excluding the euro area, to gradually increase from 3.1% in 2015 to 3.6% in 2016. The past decline in oil prices and the prices of other commodities in the near future will continue to tame inflationary pressures. Later on, the negative impact of the energy component is expected to diminish as the negative impact of past oil price drops phases out. The economy of **the euro area** is gradually recovering, with further recovery expected in the coming years, albeit at a slower pace than initially predicted. Growing domestic consumption is expected to be a significant driver of economic growth in the euro area. For 2016, international institutions predict, economic growth in the euro area will reach between 1.6% and 1.8% in 2016 and the average annual inflation rate of the euro area between 0.9% and 1.1%.

According to IMAD and BS estimates[14], a slightly lower economic growth of 1.9–2.3% can be expected **in Slovenia** in 2016. In addition to export, which will follow the forecast growth in foreign demand, and the growing domestic consumption, investment consumption is also expected to make a more significant contribution towards growth, particularly thanks to the continued growth in private investment. The contribution of domestic consumption towards GDP growth will thus be markedly higher, while the related relatively higher import of consumer and investment goods will result in a lower share of foreign exchange in economic growth. Due to the recovery of domestic consumption, the inflation rate is expected to slightly increase in 2016, but it will still remain at a relatively low level. The projected annual inflation rate in Slovenia at the 2016 year-end is between 1.2% and 1.9%. The labour market is expected to recover in 2016, leading to a lower unemployment rate. According to IMAD forecasts, an 11.8% registered unemployment rate can be expected at the 2016 year-end. Salaries will experience a modest growth, marked by the efforts for cost efficiency in the private sector and public finance consolidation in the public sector.

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[9] Higher capital adequacy was only achieved by the banking systems of Estonia, Lithuania and Ireland. (Source: IMAD Autumn Forecast of Economic Trends 2015.)

[10] Sources: Autumn Forecast of Economic Trends 2015, September 2015. Ljubljana: IMAD.
Macroeconomic Developments and Projections, October 2015. Ljubljana: Bank of Slovenia.

[11] Sources: Autumn Forecast of Economic Trends 2015, September 2015. Ljubljana: IMAD.
Economic and Financial Developments with Projections, October 2015. Ljubljana: Bank of Slovenia.

[12] Leverage is the ratio between financial debt (long-term and short-term financial liabilities) and EBITDA (earnings before interest, taxes, depreciation and amortisation). The ratio shows the ability of companies for regular debt servicing (interest and principal) and tells how many years it would take for a company to pay back its debt with the generated cash flow. The lower the value, the lower the risk of repayment of obligations.

[13] Sources: ECB staff macroeconomic projections for the euro area, September 2015. Frankfurt: European Central Bank.
Economic and Financial Developments with Projections, October 2015. Ljubljana: Bank of Slovenia.
European Economic Forecast Autumn 2015, November 2015. Luxembourg: Publications Office of the EU 2015.
ECB Economic Bulletin, Issue 6/2015 – Statistics, September 2015. Frankfurt: European Central Bank.

[14] Sources: Autumn Forecast of Economic Trends 2015, September 2015, Ljubljana: Institute of Macroeconomic Analysis and Development.
Economic and Financial Developments with Projections, October 2015. Ljubljana: Bank of Slovenia.

In the **banking sector** of the **euro area**, interest rates on loans recorded a further drop in mid-2015 and are expected to remain at a record low level in 2016. Conditions in the euro area remain favourable for gradual recovery. Corporate investment will gradually regain momentum. Trends in demand and the need to upgrade fixed assets after years of low investment as well as the incentive-oriented monetary policy and the strengthening of profit margins are expected to foster capital investments. Investments in residential property in the euro area remain low but are expected to increase. Over the coming quarters, the saving rate is expected to fluctuate, as euro area households will adjust their spending and saving depending on the evolution of oil prices.[15]

In Slovenia, the revival of bank lending to the corporate sector is expected in 2016, thanks to the enhanced confidence of banks towards companies brought on by the continued economic recovery and the additional deleveraging of companies. The improved general economic climate will make companies less reluctant when it comes to demand for sources of financing for investments. After an extended period of falling interest rates, household demand for consumer and housing loans recorded a renewed increase in 2015. IMAD expects increased employment, the growing household purchasing power, the moderate lowering of prices and the revival of the real property market to result in further growth of household borrowing in the future.[16]

[15] Sources: ECB staff macroeconomic projections for the euro area, September 2015. Frankfurt: European Central Bank.
ECB Economic Bulletin, Issue 6/2015 – Statistics, September 2015. Frankfurt: European Central Bank.

[16] Sources: Autumn Forecast of Economic Trends 2015, September 2015, Ljubljana: Institute of Macroeconomic Analysis and Development.
Economic and Financial Developments with Projections, October 2015. Ljubljana: Bank of Slovenia.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

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

The consolidated financial statements of the Abanka Group for 2014, alongside Abanka as the parent company, include the subsidiaries AB58 (merged to Abanka in September 2015), the Afaktor Group (both subsidiaries Afaktor Belgrade and Afaktor Zagreb were sold in August and September 2015 respectively), Aleasing with the associates ASA Aleasing (equity stake in the ASA Aleasing was sold in August 2015) and Agradnja and the Anepremičnine Group. Investments in the associated companies ASA Aleasing Sarajevo and Agradnja of the Aleasing subsidiary were consolidated under the equity method in 2014.

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

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

In 2015, **the Abanka Group** recorded **interest income** of EUR 111,867 thousand, down by as much as 34.7% over the previous year. **The Group's interest expenses** amounted to EUR 34,753 thousand or 54.5% less than in 2014. **The Abanka Group's net interest income** was EUR 77,114 thousand or 18.8% below the amount reported for 2014.

Abanka's interest income in 2015 was EUR 111,215 thousand, having decreased by 34.9% compared to the preceding year, whilst its **interest expenses** equalled EUR 34,760 thousand or 54.4% less compared to 2014. **Abanka's net interest income** amounted to EUR 76,455 thousand, which was 19.1% less than the 2014 level of EUR 94,463 thousand. As much as 78% of net interest income was generated by loan and deposit transactions with the non-banking sector. Interest income and expenses fell as a result of not only a lower volume of operations but also lower average interest rates.

In 2015, **the Abanka Group** posted EUR 41,875 thousand in **net fee and commission income**, remaining at the 2014 level. **Abanka** contributed EUR 41,977 thousand to **net fee and commission income**, which was 0.6% less than in 2014, the bulk of which resulted from the provision of payment services and card transactions, followed by collateral, brokerage services and custody services.

12.5%

market share of Abanka in net fee and commission income in 2015

Other net non-interest income (excluding net fee and commission income) of the **Abanka Group** in 2015 amounted to EUR 23,763 thousand, whereas in 2014 the Group's other net non-interest expenses generated EUR 49,895 thousand. **Other net non-interest income** (excluding net fee and commission income) of **Abanka** in 2015 totalled EUR 22,695 thousand, whereas in 2014 Abanka's other net non-interest expenses generated EUR 53,629 thousand. In 2014, realised net loss mainly arose from the transfer of loans to BAMC and represented the difference between their carrying amount immediately prior to the transfer and the payment received by the Bank. In 2015, other net non-interest income was a consequence of several one-off extraordinary business events.

The Abanka Group's operating expenses totalled EUR 84,786 thousand in 2015 and were 1.4% higher than in 2014. Labour costs of EUR 41,834 thousand were 2.7% below the 2014 level, whilst general and administrative expenses rose by 4.0% to EUR 32,931 thousand in the reporting year. Depreciation expenses in 2015 amounted to EUR 10,021 thousand and were 12.1% higher than the year before**. Abanka's operating expenses** in 2015 amounted to EUR 81,225 thousand, having increased by 1.8% compared to 2014. Excluding the restructuring costs arising from the restructuring process of the Bank and the Group and the merger of Banka Celje, operating expenses were 0.4% lower than in 2014 and totalled EUR 78,185 thousand. Compared to 2014, higher restructuring costs in 2015 were primarily the result of higher audit and advisory costs, advertising costs, depreciation costs and costs of computer services related to the merger. Compared to 2014, labour costs, including restructuring costs, in 2015 went down by 2.4% or EUR 1,004 thousand amounting to EUR 40,477 thousand in nominal terms. This decrease was primarily caused by the restrictive remuneration and human resource policies and a lower number of employees. General and administrative expenses amounted to EUR 31,527 thousand, having increased by 4.7% or EUR 1,401 thousand compared to 2014. Costs of materials and services, excluding restructuring costs, amounted to EUR 29,011 thousand. Depreciation expenses equalled EUR 9,221 thousand and surpassed the 2014 level by 12.4%, intangible fixed assets accounting for the bulk. The increase mainly resulted from the unification of depreciation rates due to the merger of Banka Celje.

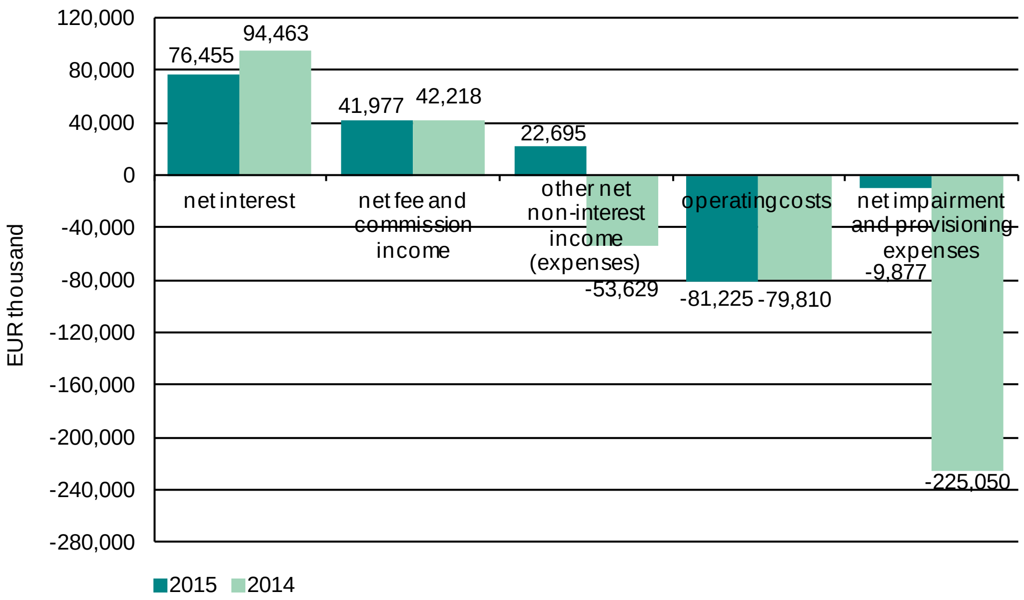
In 2015, **the Abanka Group** incurred EUR 8,980 thousand of **net impairment and provisioning expenses**, of which **net impairment expenses** totalled EUR 41,528 thousand, which was EUR 117,211 thousand less than in 2014. In 2015, **net provisioning income** of **the Abanka Group** amounted to EUR 32,548 thousand, whereas in 2014 net provisioning expenses reached EUR 59,520 thousand.

In 2015, **Abanka** incurred EUR 9,877 thousand of **net impairment and provisioning expenses**, which is significantly less compared to EUR 225,050 thousand in 2014. Net impairment expenses equalled EUR 42,449 thousand, having decreased by EUR 122,333 thousand compared to the preceding year. Loan impairments of EUR 38,900 thousand accounted for the bulk of additional impairments, which is substantially less than in 2014 when they stood at EUR 151,062 thousand. Compared to EUR 13,720 thousand in 2014, securities impairments in 2015 were significantly lower amounting to EUR 2,828 thousand. The provisions in total amount of EUR 32,572 thousand were cancelled in 2015, whereas in 2014 provisioning expenses stood at EUR 60,268 thousand, as discussed in detail in the Financial Report.

The Abanka Group ended 2015 with a profit. **The Abanka Group** generated a **profit before tax** of EUR 48,986 thousand, whilst net profit equalled EUR 41,722 thousand. The Group ended 2014 with a loss after tax of EUR 209,176 thousand.

After years operating at a loss, **Abanka** generated **a profit before tax** of EUR 50,025 thousand in the reporting period, whereas in 2014 it posted a loss before tax of EUR 221,808 thousand. In 2015, **net profit** amounted to EUR 42,775 thousand, whilst in 2014 net loss reached EUR 215,678 thousand.

NET INTEREST, NET FEE AND COMMISSION INCOME, OTHER NET NON-INTEREST INCOME (EXPENSES), OPERATING COSTS, NET PROVISIONING AND IMPAIRMENT EXPENSES OF ABANKA IN 2015 COMPARED TO 2014



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 31 December 2015 amounted to EUR 3,830,227 thousand, having dropped by EUR 484,181 thousand or 11.2% below the level posted at the end of 2014. The combined balance sheet assets of consolidated subsidiaries, amounting to EUR 74,383 thousand, accounted for 1.9% of consolidated total assets. After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group were higher by EUR 1,764 thousand nominally compared to Abanka's total assets. **Total assets of Abanka** as at the end of 2015 amounted to EUR 3,828,463 thousand, which was EUR 485,169 thousand or 11.2% below the level posted at the end of 2014. As at 31 December 2015, Abanka's market share stood at 10.2%.

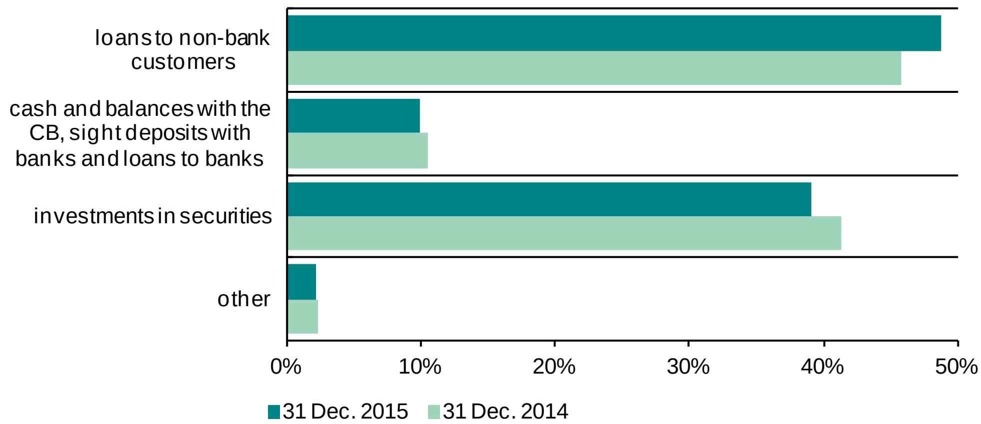
In **consolidated balance sheet assets, loans and receivables to non-bank customers** amounted to EUR 1,850,384 thousand as at the 2015 year-end, representing 48.3% of the total consolidated amount. Compared to 2014, they decreased by 5.5%. As at the 2015 year-end, **loans and receivables to non-bank customers of Abanka** stood at EUR 1,869,335 thousand and were 5.4% or EUR 106,836 thousand lower than as at the 2014 year-end. In total balance sheet assets, they increased from 45.8 to 48.8%. In the structure of loans to the non-banking sector, retail loans (42.9%) accounted for the bulk, followed by loans to large companies (25.9%) and loans to SMEs (17.8%).

As at the reporting date, **the Abanka Group's cash and balances with the central bank, deposits with banks and loans and receivables to banks** amounted to EUR 378,507 thousand, having decreased by 16.8% compared to the 2014 year-end. In the consolidated balance sheet, they represented a 9.9% share. Cash and balances with the central bank, deposits with banks and loans and receivables to banks of **Abanka** equalled EUR 377,780 thousand as at the 2015 year-end. They decreased by 16.9% or EUR 76,685 thousand compared to 2014 and accounted for 9.9% of total balance sheet assets. The decrease was mainly the result of lower sight deposits with commercial banks. In the same period, loans and receivables to banks declined from EUR 111,824 thousand as at the 2014 year-end to EUR 96,513 thousand as at the 2015 year-end.

As at the end of 2015, **the Abanka Group's investments in securities** amounted to EUR 1,495,738 thousand and equalled **those of Abanka**, as the subsidiaries did not disclose securities operations in their balance sheets. As at 31 December 2015, investments by the Abanka Group in securities dropped by 16.2% or EUR 289,175 thousand. Their share in consolidated balance sheet assets fell from 41.4% as at the end of 2014 to 39.1% one year later. Equity securities of EUR 54,671 thousand represented 3.7% of total securities held by the Bank. They experienced a year-on-year increase of 75.8% or EUR 23,567 thousand in nominal terms. Debt securities amounted to EUR 1,441,067 thousand and were 17.8% or EUR 312,742 thousand lower in comparison to the preceding year.

Abanka's equity investments in subsidiaries as at 31 December 2015 totalled EUR 6,024 thousand and accounted for 0.2% of total assets.

ASSET STRUCTURE AS AT 31 DEC. 2015 AND 31 DEC. 2014



As at 31 December 2015, **consolidated balance sheet liabilities** were composed of EUR 3,279,848 thousand of total liabilities and EUR 550,379 thousand of total equity, accounting for a 14.4% share in the consolidated balance sheet liabilities. As at the reporting date, the **Bank's balance sheet liabilities** were lower by EUR 1,764 thousand compared to the consolidated balance sheet liabilities. They consisted of EUR 3,279,998 thousand of liabilities and EUR 548,465 thousand of equity, accounting for a 14.3% share of the total.

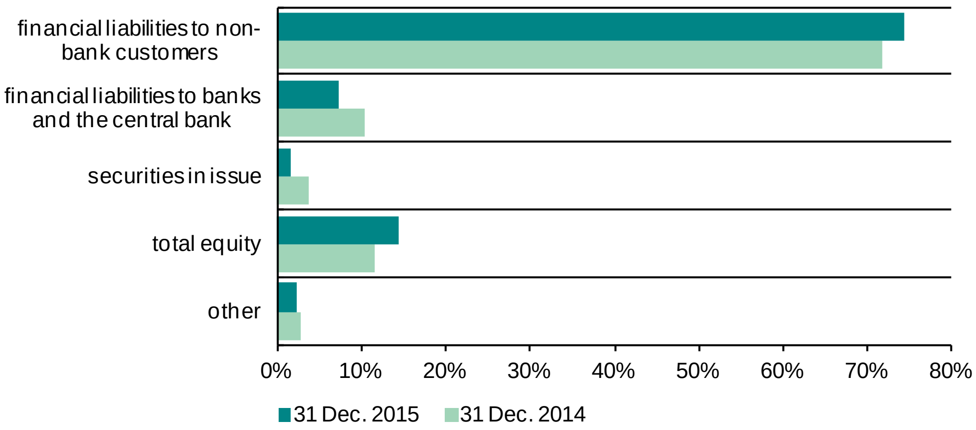
The Abanka Group's deposits from non-bank customers accounted for the bulk of **the Group's total liabilities** and reached EUR 2,844,884 thousand as at the reporting date. Together with **loans from customers** of EUR 558 thousand they amounted to EUR 2,845,442 thousand as at the 2015 year-end. In 2015, deposits from non-bank customers dropped by 7.8% or EUR 241,149 thousand nominally. As at the reporting date, **deposits from non-bank customers in Abanka** amounted to EUR 2,846,889 thousand. Together with **loans from customers** of EUR 627 thousand they reached EUR 2,847,516 thousand. In 2015, deposits from non-bank customers went down by 7.9% or EUR 245,573 thousand nominally. They accounted for 74.4% of total liabilities. Deposits from corporate customers fell by 20.2% or EUR 255.939 thousand nominally, whilst deposits from retail customers grew by 0.6% or EUR 10,366 thousand. In deposits from corporate customers, the highest increase was recorded in deposits from the non-financial sector, which grew by 16.5% to EUR 604,976 thousand. The highest decrease was seen in deposits from the government, which dropped from EUR 475,156 thousand to EUR 122,897 thousand, mainly as the result of lower deposits from the Ministry of Finance. Loans from customers went down by EUR 977 thousand.

The Abanka Group's financial liabilities to banks, including financial liabilities to the central bank, totalled EUR 278,734 thousand as at 31 December 2015 and equalled **those of Abanka.** Compared to the end of 2014, financial liabilities to banks were 37.3% lower than at the end of the previous year. Their share in total liabilities dropped from 10.3% as at the 2014 year-end to 7.3% as at the 2015 year-end. Financial liabilities to the central bank totalled EUR 100,158 thousand and remained at the 2014 level. The targeted longer-term refinancing operation (TLTRO) of EUR 100 million falling due on 26 September 2018 was granted to the Bank in 2014. In 2015, loans from commercial banks were down from EUR 344,847 thousand to EUR 178,576 thousand, predominantly due to regular maturity and early repayments to SID banka.

Securities in issue of the Abanka Group equalled **those of Abanka.** They experienced a year-on-year decrease of 60.5% or EUR 94,708 thousand in nominal terms, amounting to EUR 61,860 thousand. As at the reporting date, securities in issue of Abanka dropped from 3.6% as at the 2014 year-end to 1.6% of total liabilities as at the 2015 year-end. In the reporting year, bonds in issue fell from EUR 113,633 thousand to EUR 35,885 thousand. As at 31 December 2015, they included the 15th issue of Banka Celje bonds with the maturity in February 2016. Certificates of deposit totalled EUR 25,975 thousand as at the reporting date, having decreased by 39.5% due to regular maturity.

The total **equity capital of the Abanka Group** as at the reporting date equalled EUR 550,379 thousand. It increased by 9.6% compared to the previous year and was EUR 1,914 thousand higher than that of Abanka. The total **equity capital of Abanka** amounted to EUR 548,465 thousand and rose by 10.5% or EUR 52,001 thousand in nominal terms over 2014. This increase mainly resulted from the net profit of EUR 42,775 thousand generated in 2015. See Section Total equity capital and ownership structure for more details.

STRUCTURE OF LIABILITIES AS AT 31 DEC. 2015 AND 31 DEC. 2014



PERFORMANCE OF THE GROUP IN 2015

Corporate Banking

The year 2015 witnessed the continued decline in lending and deposit interest rates, which was partly thanks to the restructuring of the domestic banking sector and partly the measures of the European Central Bank's expansionary monetary policy. Increase in liquidity of the banking system further accelerated the lowering of interest rates, which was even more significantly reflected in the second half of 2015. Corporate demand was highest for the provision of additional protection in the form of revolving credit lines, refinancing of existing loans into long-term credit lines at more favourable terms and conditions and financing of the working capital.

Corporate investment activity is gradually rising, also compared to the preceding year. Nevertheless, corporate demand for investment loans remains low. Higher demand was recorded in export-oriented companies, but in general investment decisions are very conservative or companies postpone investments into the future. In contrast to 2014, no significant decrease was recorded in the demand of municipalities and local government authorities. However there are changes, which are reflected in significantly longer maturities of funding, also demanded by budget users.

It was observed that negative trends in deposit interest rates did not affect the volume of savings, as savings in the segment of sight and short-term deposits even went up at the end of the year.

In trade finance, which constitutes an important source of non-interest income of the Bank, higher customer demand was once again seen in 2015. One of the reasons was the fact that in day-to-day operations with foreign business partners companies face different challenges and are exposed to various risks accompanying international business, which is why they opt for additional protection of their operations. Additional reasons for the increased demand are active marketing, a professional approach and many years of experience in this area. Part of the increase in the volume of trade finance and greater demand in the last quarter of 2015 resulted partly from the marketing activities and partly from the merger of Banka Celje with Abanka. By carefully examining the trade finance processes and procedures in both banks, trade finance transactions in the merged bank started to be performed in a centralised manner based on standardised procedures, using Abanka’s application support.

In addition to advisory services and daily operations with its customers, the Bank shares its experience at specially organised presentations of trade finance operations, either at the Bank's headquarters for several customers or individually for particular customers. The emphasis is always put on the trade finance instrument, which is most appropriate for the customer based on their activity and needs. An important new feature for customers who conduct business with import letters of credit is a new communication channel via the Abacom electronic bank, which allows not only an easy and quick exchange of data but also monitoring of the execution of transaction during the entire phase, i.e. from the application to the final execution.

The year 2015 was crucial for card operations (acceptance of cards by merchants). On 9 December 2015, the EU directive entered into force that caps interchange fees for card-based payment transactions by setting the maximum levels, which are significantly lower than the current ones, and by levelling the playing field for payment service providers (banks and other card service providers, e.g. Paylife, Hobex). This change proved to be an additional marketing challenge, involving both the existing and new customers. Abanka was well prepared for this and has successfully resisted the pressure of its competitors, which will persist throughout 2016.

Due to the merger of Banka Celje with Abanka, it is necessary to sign new agreements regarding card acceptance (replacement of the processing centre). This involves a large number of companies and POS terminals, which have to be physically replaced. Migration began on the day of the merger of Banka Celje with Abanka and will continue in 2016.

Customer satisfaction is one of the key strategic goals of the Bank, which also applies to the corporate segment. In order to improve customer satisfaction, in 2015 two new products were developed and introduced – Abanet com and Abamobi com. Both are intended for corporate customers, particularly for the SME segment. Abanet com is an online solution and is more than an online bank. In addition to the existing, well-established functions (execution of comprehensive functions related to domestic and cross-border payments and payment transactions with third countries, ordering of a letter of credit, file transfer, issuing and receiving of e-invoices, etc.), it also allows a permanent and very personal contact with the Bank, whilst the Abamobi com application enables a fast, easy and secure way of performing banking services (overview of transactions, remote signing). In 2016, the application will be upgraded with additional functions, further facilitating customers’ dealings with the Bank.

A great deal of energy is being channelled towards simplifying and accelerating the main processes, as well as into a number of minor improvements, which also have an impact on service quality. That is why in the reporting period, Abanka continued to upgrade the existing and design a new loan application and central collateral records for corporate customers.

For the purpose of cashless operations, the Bank offers its customers a range of card services. In 2015, the accompanying offering of insurance for the Visa business card was revised. The changes include: accident insurance in Slovenia during free time, accident insurance abroad and travel insurance. The card users will receive a health insurance card for travelling abroad with assistance.

In early 2015, the number of points of sales in the existing Abatočka agents was increased and a new agent was added.

A diverse range of banking services is provided by creating special offerings for corporate customers. For all new customers, a welcome package (a business package for legal entities and a business package for sole proprietors) was prepared, while the range of available loan products was adapted in cooperation with regional public institutions (a special offering of short-term and long-term loans). Moreover, through special offerings a higher return was given for specific-purpose deposits.

As a result of the merger of Abanka and Banka Celje in the last quarter of 2015, both the number of customers and the presence of the Bank throughout Slovenia increased, which is a good basis to bolster the cross-selling of products and services.

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As at the reporting date, loans to corporate customers and sole proprietors of the Abanka Group reached EUR 1,031,227 thousand after decreasing by 9.2% in 2014. **Abanka's loans to corporate customers and sole proprietors** amounted to EUR 1,068,039 thousand as at the end of 2015, after having dropped by EUR 102,013 thousand or 8.7% since the end of the previous year. The market share of loans to corporate customers grew from 8.5% as at the 2014 year-end to 8.6% as at the 2015 year-end. The share of loans to corporate customers in total assets increased from 27.1% as at the end of 2014 to 27.9% as at 31 December 2015.

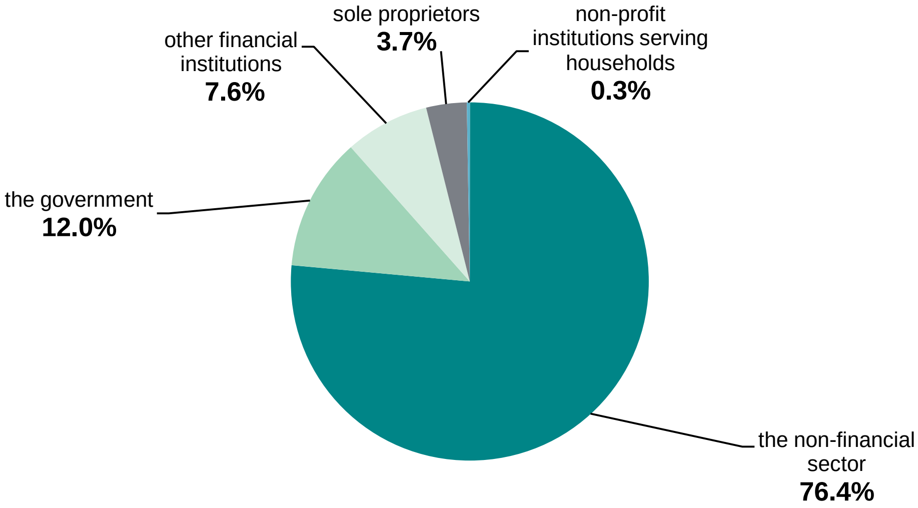
8.6%

market share of Abanka in loans to corporate customers as at the end of 2015

The largest share of loans to corporate customers was represented by loans to the non-financial sector amounting to EUR 816,605 thousand, i.e. 76.4%. In the same period, loans to large companies amounted to EUR 484,448 thousand, whilst loans to SMEs totalled EUR 332,157 thousand. In terms of volume, loans to the non-financial sector were followed by loans to the government in the amount of EUR 128,104 thousand and loans to other financial institutions of EUR 81,307 thousand as at the 2015 year-end. Less than a 4% share was accounted for by loans to sole proprietors, whilst loans to non-profit institutions serving households represented only 0.3% of total loans to corporate customers. In 2015, loans to other financial institutions grew by EUR 10,039 thousand and loans to non-profit institutions serving households increased, whereas other segments experienced a decrease in loans; the highest drop was recorded in loans to the non-financial sector.

The structure of loans to corporate customers as at 31 December 2015 is presented in greater detail in the graph on the following page.

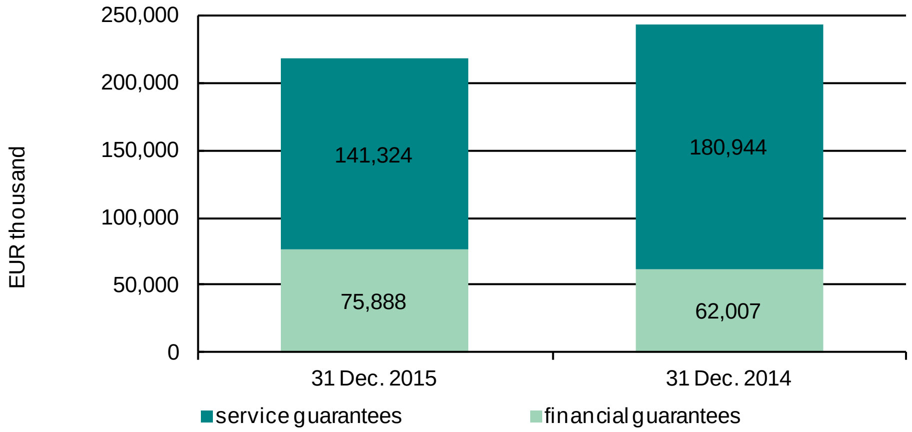
LOANS OF ABANKA TO CORPORATE CUSTOMERS AND SOLE PROPRIETORS



Despite an active approach to the marketing of all trade finance products and the consequent higher customer awareness regarding their protection against various challenges and risks, to which they are exposed in their day-to-day operations with domestic and foreign business partners, by selecting an appropriate trade finance instrument, the volume of guarantee transactions decreased in 2015. The reasons for the reduction in guarantee operations are the result of lower demand for service guarantees due to changes in legislation regulating public procurement, the transfer of a part of bad debt to BAMC and stronger competition.

Guarantees issued by Abanka stood at EUR 217,212 thousand as at the 2015 year-end and were 10.6% below the amount reported as at 31 December 2014. Financial guarantees increased by 22.4% to EUR 75,888 thousand, whereas service guarantees of EUR 141,324 thousand decreased by 21.9% compared to the year before. Thus, as at the 2015 year-end, the share of service guarantees in total guarantees was 65.1% compared to 74.5% as at 31 December 2014.

ABANKA'S GUARANTEES



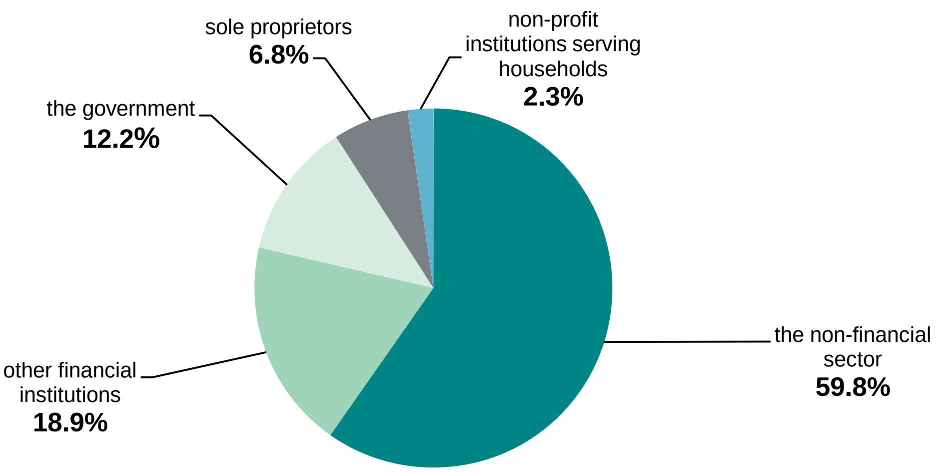
In 2015, **deposits from corporate customers and sole proprietors in the Abanka Group** decreased by 20.0%, reaching EUR 1,010,181 thousand. **Deposits from corporate customers and sole proprietors in Abanka** amounted to EUR 1,012,255 thousand as at the end of 2015, after having dropped by EUR 256,916 thousand or 20.2% in 2015. This decrease was predominantly the result of lower deposits from the Ministry of Finance, which fell by EUR 322,668 thousand to EUR 27,998 thousand in total. The highest increase was recorded in deposits from the non-financial sector, which rose by 16.5% or EUR 85,665 thousand. Among them, deposits from large companies grew by EUR 55,361 thousand to EUR 246,186 thousand and deposits from SMEs by EUR 30,304 thousand to EUR 358,790 thousand. Deposits from other financial institutions in the amount of EUR 191,211 thousand remained at the level reported for 2014. The market share of deposits to corporate customers dropped from 13.4% as at the 2014 year-end to 10.3% as at the reporting date.

10.3%

market share of Abanka in deposits from
corporate customers as at the end of 2015

The share of deposits from corporate customers in total assets decreased from 29.4% as at the end of 2014 to 26.4% as at the reporting date. In 2015, developments in deposits by individual segment of corporate deposit operations were also reflected in the shares of total deposits from the non-banking sector. The largest share was accounted for by the non-financial sector (59.8%), followed by deposits from other financial institutions (18.9%) and deposits from the government (12.2%), whilst the smallest share was represented by deposits from sole proprietors (6.8%) and deposits from non-profit institutions serving households (2.3%). The data are also presented in the figure below.

ABANKA'S DEPOSITS BY CORPORATE CLIENTS AND SOLE PROPRIETORS



Retail Banking

In 2015, the Bank focused on attracting new customers and enhancing the satisfaction of existing ones. Its objective was to maintain and/or increase its market share in loans and deposits. With diverse marketing activities and sales oriented staff 12,100 new customer accounts were opened, thus increasing the retail lending activity.

In the reporting period, the emphasis was on optimising the sales procedures and processes in the branch network with the aim of streamlining the operations. This allowed bankers in the branches to pay greater attention to the implementation of sales activities and to increase the quality of customer relationship management.

In the reporting period, the emphasis was on optimising the sales procedures and processes in the branch network with the aim of streamlining the operations.

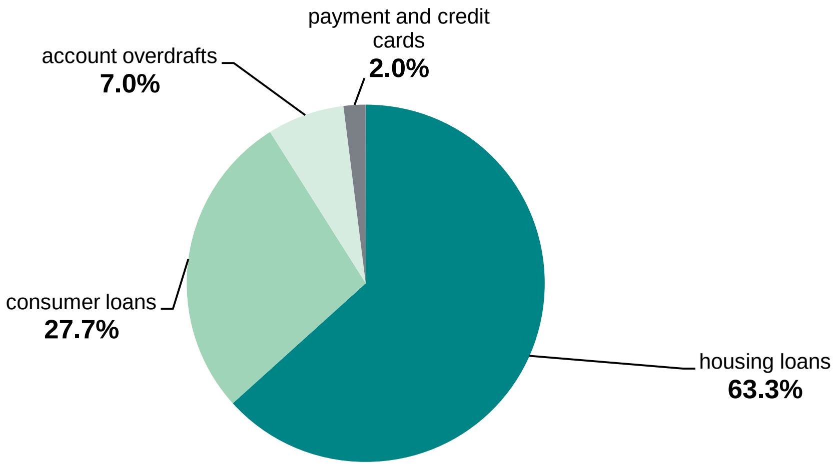
Loans to retail customers in the Abanka Group as at 31 December 2015 dropped by 0.5% and reached EUR 819,157 thousand. **Loans to retail customers by Abanka** amounted to EUR 801,296 thousand as at the 2015 year-end. In 2015, retail loans decreased by 0.6% or EUR 4,823 thousand nominally, whilst their share in total balance sheet assets increased from 18.7% as at 31 December 2014 to 20.9% as at the 2015 year-end. The market share of retail loans stood at 10.1%, whilst at the 2014 year-end it was higher at 10.3%.

10.1%

market share of Abanka's loans
to retail customers as at the end of 2015

In total retail loans, housing loans accounted for the bulk (63.3%), followed by consumer loans (27.7%), whilst account overdrafts (7.0%) and payment and credit cards (2.0%) accounted for small shares.

ABANKA'S LOANS TO RETAIL CLIENTS



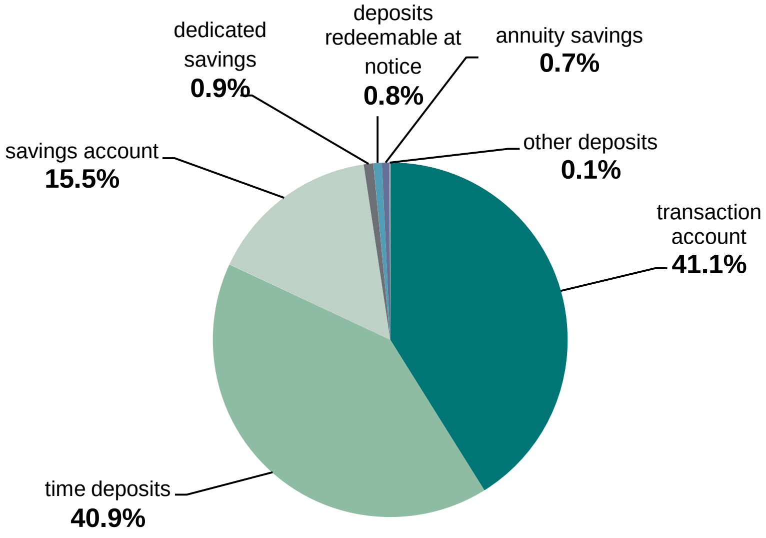
As at the reporting date, **deposits from retail customers in the Abanka Group** equalled **those of Abanka**, amounting to EUR 1,835,261 thousand. In 2015, they experienced an increase of 0.6% or EUR 10,366 thousand in nominal terms. The market share of deposits from retail customers fell from 12.2% as at the 2014 year-end to 12.0% as at the end of 2015. Deposits from retail customers represented 47.9% of total balance sheet liabilities, after having increased from 42.3% as at the 2014 year-end.

12.0%

market share of Abanka in deposits from retail customers at the 2015 year-end

In total deposits from retail customers, the largest shares were accounted for by funds on transaction accounts (41.1%) and time deposits (40.9%), followed by funds on savings accounts (15.5%), while the shares of other retail deposit types were below 1.0%.

ABANKA'S DEPOSITS BY RETAIL CLIENTS



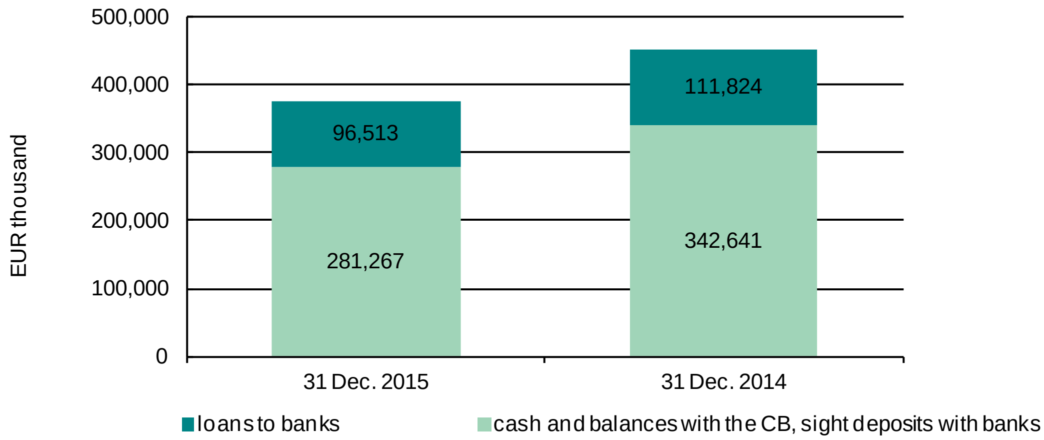
Operations with Other Banks

Despite the numerous challenges in 2015, the macroeconomic environment in the euro area recovered mainly as a result of German growth, which fuels most European economies. In March 2015, the European Central Bank launched a quantitative easing programme. The buying of government securities, covered bonds and ABS instruments should contribute to curbing the deflationary pressure in the euro area and establishing a target inflation rate at around 2%. Soon after the launch of the quantitative easing programme, the first signs of a gradual increase in inflationary expectations were visible, which however significantly fell by the end of 2015 mainly due to a further fall in oil prices. European countries continue to seek an appropriate balance between austerity and reduction in public spending on the one hand and stimulating economic growth on the other, which is of great significance for sustainable public finance.

In 2015, the interest rates of EU peripheral countries continued to fall. Slovenia took advantage of the favourable situation on financial markets last year and issued bonds with the maturity of 10, 20 and 30 years at a total value of almost EUR 3 billion.

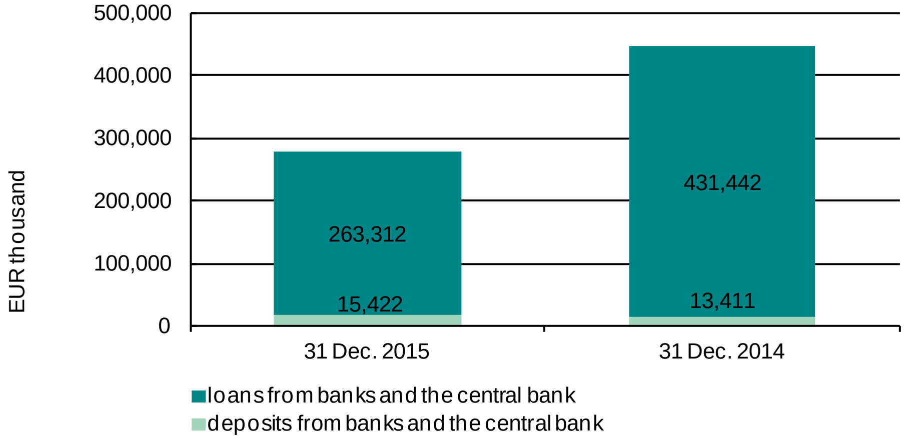
Cash and balances with the central bank, sight deposits with banks and loans and receivables to banks of the Abanka Group totalled EUR 378,507 thousand as at 31 December 2015. **Cash and balances with the central bank, sight deposits with banks and loans and receivables to banks of Abanka** as at the reporting date amounted to EUR 377,780 thousand, which represented a 16.9% decrease compared to the preceding year. Cash and balances with the central bank and sight deposits with banks fell by 17.9% or EUR 61,374 thousand nominally, totalling EUR 281,267 thousand as at the 2015 year-end. In 2015, loans and receivables to banks decreased by 13.7% or EUR 15,311 thousand and reached EUR 96,513 thousand. The main reason for the decrease were deposit payments to the Ministry of Finance.

ABANKA'S CASH AND BALANCES WITH THE CENTRAL BANK AND SIGHT DEPOSITS WITH BANKS AND LOANS AND RECEIVABLES TO BANKS



The Abanka Group's financial liabilities to banks amounted to EUR 278,734 thousand as at 31 December 2015, which equalled **those of Abanka.** They decreased by 37.3% or EUR 166,119 thousand compared to the end of 2014. In total balance sheet liabilities, the share of financial liabilities to banks dropped from 10.3 % to 7.3% as at the reporting date. Deposits from banks grew by 15.0% or EUR 2,011 thousand, amounting to EUR 15,422 thousand as at 31 December 2015, while loans and receivables from banks and the central bank went down by 39.0% or EUR 168,130 thousand, totalling EUR 263,312 thousand as at the reporting date. The main reasons for the decrease in loans were maturity and early loan repayments to SID banka.

ABANKA'S FINANCIAL LIABILITIES TO BANKS



Securities

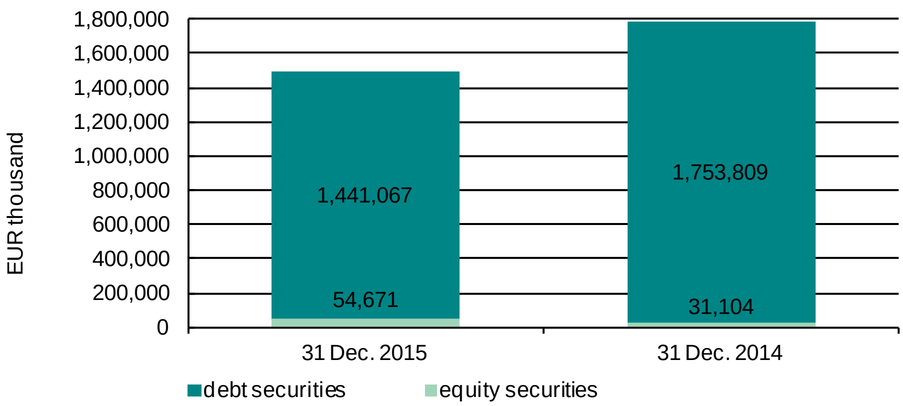
Due to gradual easing of financial market volatility, the management of the debt securities portfolio included in the banking book demanded the Bank to continue to apply a conservative and prudent investment policy, i.e. investing in investment-grade, highly liquid bonds.

Abanka remains an important primary dealer in Slovene government bond issues and is still actively participating as a “market maker” in MTS Slovenija and as an official liquidity provider. Abanka participated as a co-organiser in the issue of 10- and 20-year bonds of the Republic of Slovenia in international markets and was one of the most active banks in offering bonds to local investors.

As at the 2015 year-end, the value of **the Abanka Group's investments in securities** was at the same level as those of Abanka. Compared to the 2014 year-end, investments in securities of Abanka stood at EUR 1,495,738 thousand and were lower by 16.2% or EUR 289,175 thousand. The securities portfolio included both equity and debt securities.

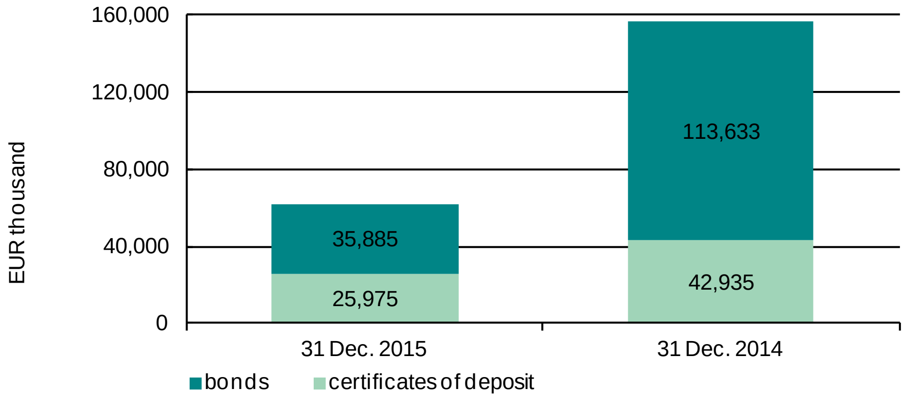
The equity portfolio of Abanka was worth EUR 54,671 thousand, which represented a 75.8% increase or EUR 23,567 thousand nominally over the 2014 year-end. In 2015, the Bank paid start-up funds of EUR 24,736 thousand into the Bank Resolution Fund and recognised them as a capital investment in an investment fund. As at the reporting date, **the debt securities portfolio of Abanka** totalled EUR 1,441,067 thousand and accounted for 96.3% of the total securities held by the Bank. The portfolio was reduced mainly because the debt securities fell due.

ABANKA'S INVESTMENTS IN SECURITIES



As at the reporting date, **securities in issue of the Abanka Group** equalled **those of Abanka**. They included debt securities in issue, i.e. bonds and certificates of deposit. Total securities in issue as at the reporting date amounted to EUR 61,860 thousand, which was 60.5% or nominally EUR 94,708 thousand less compared to the 2014 year-end. In total balance sheet liabilities, their share went down from 3.6% as at 31 December 2014 to 1.6% as at the 2015 year-end. Certificates of deposit as at 31 December 2015 amounted to EUR 25,975 thousand (as at the 2014 year-end: EUR 42,935 thousand), whereas bonds in issue totalled EUR 35,885 thousand (as at the 2014 year-end: EUR 113,633 thousand). Both certificates of deposit and bonds in issue were lower because they fell due.

ABANKA'S SECURITIES IN ISSUE



Equity Investments

Long-term equity investments in subsidiaries as at 31 December 2015 amounted to EUR 6,024 thousand and were EUR 69 thousand higher compared to the 2014 year-end. In 2015, impairments were made for equity investments in the subsidiaries Afaktor (EUR 356 thousand), Anepremičnine (EUR 1,828 thousand) and Posest (EUR 605 thousand). In September 2015, AB58 was merged with Abanka, thereby reducing equity investments by EUR 879 thousand. In 2015, the capital increase of Anepremičnine was made, raising the nominal value of the equity stake by EUR 3,737 thousand.

Equity Investments (in EUR thousand)	31 Dec. 2015	31 Dec. 2014	Index 15/14
Subsidiaries	6,024	5,955	101.2
Total Equiy Investments	**6,024**	**5,955**	**101.2**

Payment Transactions

Once again in 2015, Abanka received the STP Excellence Award from Deutsche Bank in Frankfurt, recognising its high-quality performance of international payment transactions. This involves the highly automated processing of payment orders, lower costs and better quality services for Abanka's customers.

As regards domestic and cross-border payment transactions in 2015, Abanka processed 24.4 million orders through the Target payment systems and the small-value payment system (SIMP) in the total value of EUR 79,658,798 thousand. In terms of the number of orders, domestic and cross-border payments increased by 0.4% compared to 2014, while in terms of value they fell by 2.9%.

Abanka is an important operator in the direct debit scheme (SEPA DD). In 2015, Abanka processed 8.1 million transactions worth EUR 341,130 thousand through this payment system, accounting for a 29.1% market share.

Card and ATM Operations

By 31 December 2015, as many as 439,753 cards were issued, i.e. 0.4% more than as at the 2014 year-end. The bulk was accounted for by BA Maestro (35.1%) and Activa Maestro (28.9%) cards, which function as a personal account card. In 2015, as many as 23.4 million transactions were processed with cards issued by Abanka worth EUR 1,045,246 thousand.

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 2015, on the basis of vendor agreements, 27.0 million transactions worth EUR 1,051,846 thousand were processed with all types of cards.

Abanka has an extensive network of points of sale for all types of card products.

One of Abanka's current sales channels is its extensive ATM network. As at the reporting date, Abanka operated 332 ATMs, accounting for a 19.8% market share. Its ATM network was again ranked the second largest, despite the fact that the number of bank-owned ATMs fell by 10. Abanka's ATMs processed 9.8 million transactions of cash withdrawal worth EUR 1,006.9 million. The number of ATM withdrawal transactions increased by 0.4%, while the value of withdrawals went up by 1.7%.

332

ATMs owned by Abanka as at the end of 2015

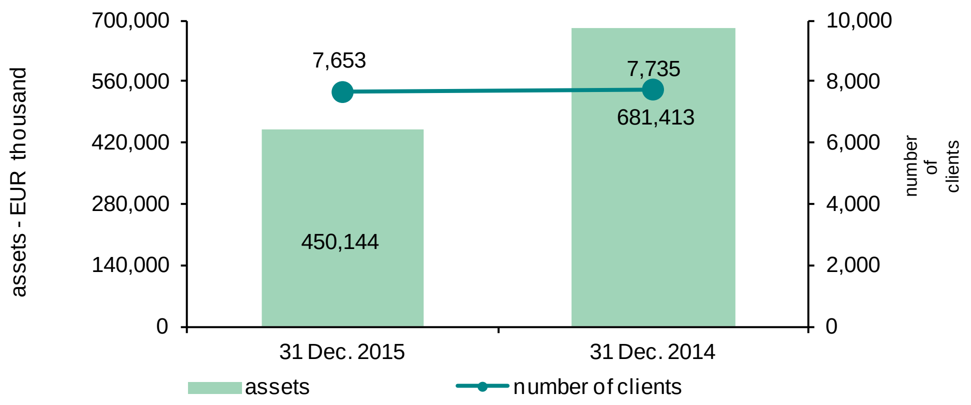
Investment Brokerage and Precious Metals

The total volume of trading generated by members of the Ljubljana Stock Exchange in 2015 was EUR 786,125 thousand. Abanka contributed EUR 26,631 thousand to total trading, thereby achieving a 3.39% market share among stock exchange members and ranking 9th. Total trading of Abanka in foreign markets amounted to EUR 26,451 thousand.

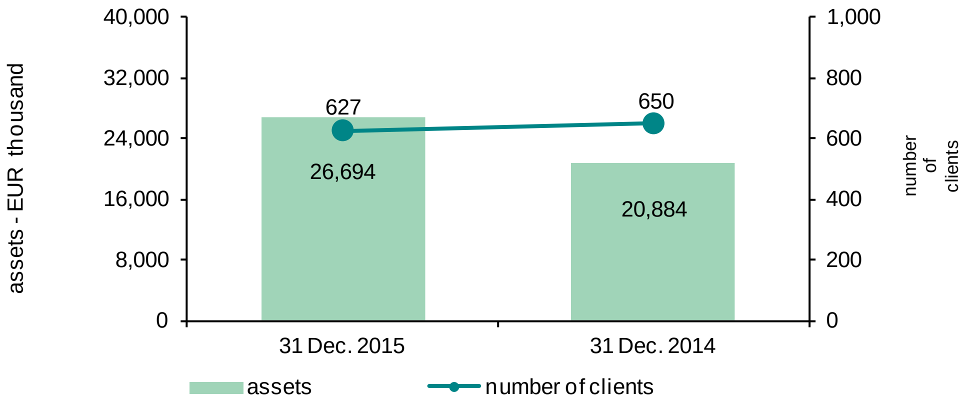
As at the end of 2015, the Bank had 7,653 customers using brokerage services in the domestic market, while in foreign markets brokerage services were provided to 627 domestic corporate and retail customers. Customers' assets in domestic and foreign capital markets as at the end of 2015 amounted to EUR 450,144 thousand and EUR 26,694 thousand respectively.

In the reporting year, 101.9 kg in gold bars and coins were sold at the headquarters and 19 branches of Abanka for EUR 3,522 thousand.

INVESTMENT BROKERAGE ON THE DOMESTIC MARKET



INVESTMENT BROKERAGE ON FOREIGN MARKETS



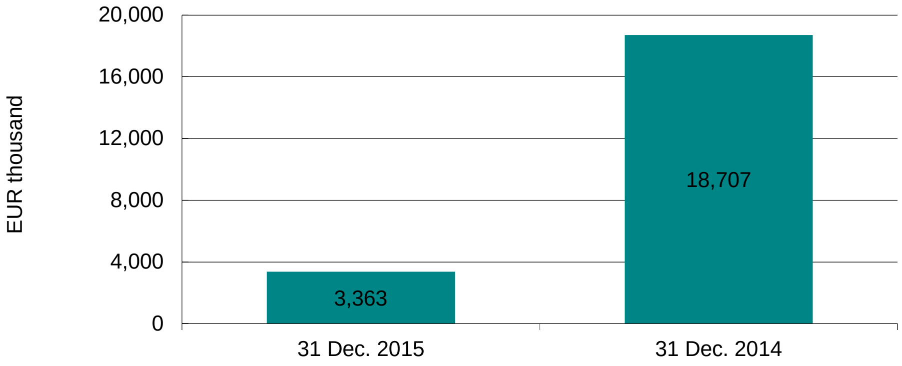
AIII Mutual Pension Fund

The net asset value of the Fund as at the 2015 year-end was EUR 3,363 thousand compared to EUR 18,707 thousand one year earlier, which was the result of suspending the provision of supplemental pension insurance.

The fund investment policy in 2015 was adapted to the expected substantial outflows of assets due to the transfer of members to other supplemental pension insurance providers. The annual return in 2015 was –0.67%.

The fund investment policy in 2015 was adapted to the expected substantial outflows of assets due to the transfer of members to other supplemental pension insurance providers.

NET ASSET VALUE OF AIII MUTUAL PENSION FUND



Custody and Administrative Services

Abanka was able to keep the leading market share in 2015 in the segment of custody and administrative services for investment and pension funds. In 2015, Abanka's leading position as the only provider of custody and administrative services was strengthened in line with the Investment Funds and Management Companies Act (ZISDU-3), the Pension and Disability Insurance Act (ZPIZ-2) and the Financial Instruments Market Act (ZTFI). Moreover, the preparations began for the implementation of custody services in line with the Alternative Investment Fund Managers Act (ZUAIS).

Cooperation with institutions will continue in drafting new implementing regulations on the operation of investment and pension funds. Moreover, the Bank plans to adapt its operations to current market conditions. Apart from that, preparations are underway to ensure compliance with the amended ZISDU-3 based on the UCITS V Directive amending the directive on undertakings for collective investment in transferable securities, which focuses on the role and the implementation of custody services.

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

Bancassurance

In the past decade, bancassurance has been an important strategic orientation for many financial institutions, enabling both banks and insurance companies to concentrate and integrate their financial services following the one-stop shop concept. Abanka and Zavarovalnica Triglav jointly follow all the above-mentioned modern trends.

Bancassurance allows integrating financial services following the one-stop shop concept.

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

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

Total Equity and Ownership Structure

As at 31 December 2015, the **total equity capital of the Abanka Group** amounted to EUR 550,379 thousand, whilst **that of Abanka** equalled EUR 548,465 thousand. In 2015, the total equity capital of Abanka experienced a year-on-year increase of 10.5% or EUR 52,001 thousand in nominal terms. The main reason for this increase was the net profit generated by the Bank in 2015 amounting to EUR 42,775 thousand. As at the reporting date, the Bank's total equity capital accounted for 14.3% of total balance sheet liabilities, while in 2014 it was lower at 11.5%.

At the 30th regular General Meeting of Shareholders held on 8 May 2015, the shareholder was informed that the Bank ended 2014 with a loss of EUR 194,576,675.03 and covered the net loss for 2014 from share premium of EUR 194,320,965.07, profit brought forward in the amount of EUR 254,190.04 and other reserves from profit in the amount of EUR 1,519.92.

At the 33rd regular General Meeting of Shareholders of Banka Celje, the shareholders took note of the Supervisory Board's Report on the Examination of Annual Report for 2014. In 2014, the Bank generated a loss after tax amounting to EUR 21,101 thousand. The loss of EUR 21,058 thousand was covered from share premium, whilst the loss of EUR 43 thousand from other reserves from profit.

On 25 September 2014, based on a relevant decision of the European Commission, the Government of the Republic of Slovenia was able to finally adopt its decision on measures for strengthening the stability of Abanka, which also included the second round of the capital increase of EUR 243,000 thousand. Before 3 October 2014, Abanka's share capital amounted to EUR 150,000,000 and was divided into 15,000,000 ordinary no-par value shares owned by the Republic of Slovenia. On 3 October 2014, the General Meeting of Shareholders of Abanka passed a resolution to increase the share capital through the in-kind contribution of the Republic of Slovenia in bonds totalling EUR 242,999,943.49 and through the cash contribution of EUR 56.51. In accordance with the resolution passed by the 29th General Meeting of Shareholders of Abanka on 8 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand. The share capital increase of EUR 1,000,000.00 was entered in the Companies Register on 10 October 2014. After the increase, **the share capital of Abanka** amounted to EUR 151,000,000.00 and was divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia. The corresponding amount per no-par value share in the share capital was EUR 10.00 as at the end of 2014.

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

After the merger of Banka Celje, the **share capita**l of Abanka as at the 2015 year-end remained unchanged in the amount of EUR 151,000 thousand, while the share capital of Banka Celje was transferred to the **share premium** of Abanka amounting to EUR 282,459 thousand as at the 2015 year-end. As at the reporting date, the **accumulated other comprehensive incom**e of Abanka stood at EUR 53,124 thousand, whilst **reserves from profit** amounted to EUR 20,533 thousand and **retained profit** totalled EUR 41,349 thousand.

As at 31 December 2015, the share book value was EUR 36.32, calculated on the basis of 15,100,000 shares.

THE SHAREHOLDER OF THE BANK

	31 Dec. 2015			31 Dec. 2014	
	Number of shares	Holding in %		Number of shares	Holding in %
The Republic of Slovenia	15,100,000	100.0	The Republic of Slovenia	15,100,000	100.0

With regard to **transparency of financial relations between public authorities and bodies of self-governing local communities and public undertakings**, Abanka is not required to settle the operating loss and ensure the capital because in 2015 the bank generated a profit of EUR 42,775 thousand.

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

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

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

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

Simultaneously with the reduction of the share capital of Abanka Vipa d.d. to zero, on 18 December 2013, in accordance with the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, and the Decision of the Bank of Slovenia Approving the Share Capital Increase of Abanka Vipa d.d., dated 18 December 2013, the Bank's capital share was increased to EUR 150,000,000 through the issue of 15,000,000 new ordinary registered no-par value voting shares. On the same day, respective entries were made in the Companies Register and, as a result, the above-mentioned shares were entered in the Central Securities Depository of securities issued in dematerialised form. After 18 December 2013, the share capital of Abanka Vipa d.d. was divided into 15,000,000 new shares with voting rights attached. After the subscription of new ABKS shares, the Republic of Slovenia held 15,000,000 ABKS shares, which was 100% of all issued shares of Abanka Vipa d.d.

Following the capital increase on 3 October 2014, the share capital of Abanka has amounted to EUR 151,000,000.00 and has been divided into 15,100,000 ABKS shares, wholly owned by the Republic of Slovenia.

Issue of shares and capital increase – Banka Celje

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

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

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

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

THE BANK'S DEVELOPMENT AND ITS GOALS

DEVELOPMENT AND MARKETING COMMUNICATIONS IN 2015

Corporate banking

In 2015, the Bank's range of services for corporate customers was expanded with new corporate online banking and a mobile bank application. In addition to the existing functions (execution of comprehensive functions related to domestic and cross-border payments and payment transactions with third countries, ordering of a letter of credit, file transfer, issuing and receiving of e-invoices, etc.), the Abanet com online bank allows customers to have an overview of their loans and deposits and to stay in close contact with the Bank. The Abamobi com application allows customers to review their transactions and supports remote signing. The launch of Abamobi com and Abanet com in the autumn of 2015 was accompanied by an extensive promotional campaign.

For the purpose of cashless operations, the Bank offers its customers a range of card services. In the first half of 2015, the accompanying offering of insurance for the Visa business card was revised. The changes include: accident insurance in Slovenia during free time, accident insurance abroad and travel insurance. Card users also receive a health insurance card for travelling abroad with assistance.

In early 2015, the number of points of sales in the existing Abatočka agents was increased and a new agent was added.

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For all new customers, a welcome package (a business package for legal entities and a business package for sole proprietors) was prepared, while the range of available loan products was adapted in cooperation with regional public institutions (a special offering of short-term and long-term loans). The Bank also continued to offer customised short-term and long-term loans for small businesses.

A great deal of energy was channelled towards simplifying the main processes, as well as into a number of minor improvements, which also have an impact on service quality. These included the launch of a new loan application and central collateral records.

In addition to events for micro enterprises held across Slovenia in 2015, a major event for legal entities was prepared and organised in Ljubljana, focusing on the key novelty launched in 2015 – i.e. the mobile bank Abamobi com and the online bank Abanet com for corporate customers. The range of services provided to corporate customers was also successfully presented at various corporate events throughout Slovenia held by others, e.g. in cooperation with the network of Regional Chambers of Craft and Small Business.

Throughout 2015, the Bank performed regular sale promotion marketing activities aimed at corporate customers. These included the distribution of promotional materials due to accelerate corporate banking services, regular updates of corporate customer content on the Bank’s website as well as the editing and publication of the electronic bulletin for corporate customers (e-Bulletin), with three editions published in 2015.

Retail Banking

In 2015, Abanka was the first bank in Slovenia to offer its customers an e-invoice functionality in the mobile bank application for retail customers as well as other functions, which will further strengthen ties with customers.

The Bank implemented the applicable statutory requirement by introducing payment authentication for small amounts in the Abanet online bank.

In the first half of 2015, the signing of deposit and savings agreements using a signature pad (e-Pen application) was made available to retail customers. This innovation was part of the automation of the conclusion of deposit agreements and the agreement archiving process.

Insurance for Gold VISA card was redesigned, which now includes accident insurance in Slovenia during free time, accident insurance abroad and travel insurance. Card users also receive a health insurance card for travelling abroad with assistance.

Insurance for Gold VISA card was redesigned, which now includes accident insurance in Slovenia during free time, accident insurance abroad and travel insurance.

In 2015 Abanka continued to maintain an excellent business partnership with Zavarovalnica Triglav in providing high quality and competitive insurance services and with Triglav Skladi in the sale of mutual funds. In cooperation with the latter, a special bundled product consisting of an undedicated deposit and an investment in a selected mutual fund continued to be sold in 2015.

The competitive special offering of housing loans from 2014 was continued and a special offering of consumer loans was added. As in previous years, new customers received a welcome package comprising of a number of benefits and services to facilitate their daily business.

Operations of the Bank are constantly optimised. That is why a great deal of attention is devoted to streamlining the main processes and implementing a number of minor improvements contributing to better service quality. In April 2015, the retail deposit process was simplified, the development of the retail loan application was continued and the transfer of existing loans from the old loan application to the new platform was completed.

In the marketing communication segment, marketing activities that contributed to excellent business results in 2015, particularly in sales promotion of selected products, were continued in the reporting period.

The Bank carries out a range of marketing activities targeted at children and young people, using the hedgehog mascot "Abanka ježek" for pre-school children, the brand Akeš junior for elementary school pupils and the brand Akeš for high school and university students. The youngest savers and their parents were addressed through the redesigned website www.jezek.si as well as through 54 puppet shows featuring the Abanka hedgehog, which were enjoyed by 1,213 children in kindergartens across Slovenia. The sponsorship of Cici vesela šola, a regular feature in a children's magazine addressed at children and parents across Slovenia, was successfully completed at the end of the school year. In the autumn, the hedgehog mascot was featured in three events aimed at families with young children: the Pippi Longstocking festival in Velenje, the Magic Day in Arboretum Volčji Potok and the Children's Bazaar in Ljubljana.

The Akeš junior account is a personal account aimed at elementary school pupils. In 2015, the brand was promoted through two extensive collaborations: the sponsorship of the competition in logic and of the Vesela šola (Funky School) project. Since autumn 2014, communication with elementary school pupils has been carried out through the new designated website www.akes-junior.si, which is regularly updated with topical and age-appropriate, particularly educational content.

The marketing activities targeted at high school and university students implemented in 2015 focused on promoting the opening of Akeš personal accounts and the use of the Visa Electron debit card, which is still one of the most popular cards used by young people. Abanka's Facebook profile remained the leading communication tool in the youth segment. In addition, communication with young people is carried out through e-mail, text messages and many other internal communication channels. In 2015, university students were addressed within the framework of the sponsorship of the Fanfara student marketing conference. In the youth segment, Abanka maintained the highest net promoter score.

Numerous marketing activities implemented in 2015 were aimed at families and employed individuals and focused on promoting the sale and use of payment cards as well consumer and housing loans. This customer segment was also the main target group of the marketing campaign promoting the sale of Abamobi mobile banking and the pre-summer holiday marketing campaign, which focused on Abanka's services that are wise to choose before going on summer holidays (payment cards, Abamobi, card insurance, travel insurance). Three editions of Abanka's electronic bulletin (e-news), which is also aimed at these customers, were published in 2015. The promotion of card services, which was carried out throughout 2015, was also targeted at this segment, focusing primarily on the acquisition of new MasterCard and Visa users, with a particular emphasis on the Visa Electron credit card that features the option of payment by instalment.

In 2015, senior citizens were the target group of several publications in selected editions of printed media, in which the benefits of Aračun senior personal account were presented.

A part of the marketing activities in the reporting period was targeted at the more demanding customers of personal and private banking.

Financial Markets

In 2015, in terms of liquidity management, the Treasury Division:

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

In operations with customers, all treasury products were proactively marketed in 2015. A significant increase in business volume was recorded with regard to the spot purchase and sale of foreign currencies. The increased volatility of exchange rates also resulted in higher demand for derivatives for hedging against foreign exchange risks. A growing number of customers is opting for flexible forward transactions, since they allow for simple management of foreign currency cash flows while also providing efficient protection from foreign exchange risk.

As a result of extremely low euro interest rates in 2015, the demand for derivatives for hedging against interest rate risk was also revived. The Bank expanded the range of customers involved in the purchase and sale of debt securities; it was also actively engaged in a corporate bond issue, which was successfully completed. In 2015, Abanka acquired a number of new customers, maintained excellent relations with existing customers and consolidated the visibility of its treasury products. This was confirmed by the record attendance of corporate customers at the 8th traditional treasury event held in October in Ljubljana.

Abanka remains an important primary dealer in Slovene government bonds and treasury bills. In both the domestic and foreign markets, it operates as the official market maker for MTS Slovenia together with 15 large foreign banks, dealing in 13 government bonds of the Republic of Slovenia. This is also supported by the most recent international government bond issues and the domestic issues of treasury bills, where Abanka played an active role as a co-organiser and achieved a high market share in the local market.

Abanka remains an important dealer in Slovene government bonds and treasury bills.

In 2015, Abanka sold 101.9 kg of investment gold, increasing sales by 16%. A rise in volume was also recorded in brokering sales and purchases of major equity holdings in companies. In response to the increased market demand for the purchase and issuance of corporate bonds, the Bank expanded its range of services by using a custodial account.

DEVELOPMENT, MARKETING COMMUNICATIONS, AND GOALS IN 2016

In 2016, the Bank will remain focused on the development of electronic and mobile banking channels. Functions allowing closer customer relations will be added to the well-established Abamobi mobile bank. The Abanet online bank will be upgraded to support the placement of certain orders, thereby facilitating the daily business for customers. SMS notification will also be available to corporate customers.

The development of the Abanet com online bank and the Abamobi com mobile bank for legal entities will also continue, providing the users with greater flexibility. In 2016, the mobile bank for corporate customers will allow customers to make payments and review their transactions and balances by individual types of services available to corporate customers (overview of savings, investments, etc.).

The development of the Abanet com online bank and the Abamobi com mobile bank for legal entities will also continue, providing the users with greater flexibility.

Furthermore, the Bank will continue to promote loans for households and SMEs. A competitive offer of housing, consumer and corporate loans will be provided. The Bank will also establish cooperation with developers of new residential property, retailers, regional development agencies, etc.

The good business practice from previous years will be continued by proposing special offers for new customers and offering benefits to retain existing customers. Regional presence will be ensured through participation in municipal public tenders and cooperation with development agencies as well as by pursuing synergies with various business partners.

To acquire new customers and expand business with the existing ones, special offers will regularly be proposed to new and existing transaction account holders and individual customer segments.

Sales processes will be developed and automated, while business processes will be streamlined in order to relieve the sales staff of tasks that do not involve direct dealing with customers.

In marketing, the practices that contributed to the attainment of the Bank’s business and marketing goals in 2015 will be continued in 2016. They will be used to consolidate the visibility of product brands and to promote the sale of services. The Bank’s aim will be to maintain and increase the satisfaction of both retail and corporate customers in all segments. A large part of marketing activities will focus on fostering relations with existing customers, while some will also be geared towards acquiring new ones.

Customers will be informed about new products and services through various channels, including upgrades of mobile and electronic channels for both retail and corporate customers. In order to foster customer satisfaction and loyalty, certain marketing activities will be aimed at retaining customers and increasing the profitability of individual customers in the long run.

A number of marketing, advertising and promotional campaigns will be prepared and implemented, in addition to using the Bank’s internal communication channels, tools and events. The Bank will also be present at carefully selected events held by others.

In 2016, the high quality of dialogue and promotions in key social media will be maintained, striving for the highest possible net promoter score (in all segments). Both electronic bulletins (for retail and corporate customers) will continue to be published.

CORPORATE GOVERNANCE STATEMENT

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

The securities of Abanka, whose sole owner is the Republic of Slovenia, were not admitted to trading on the official market. With the acquisition of Banka Celje on 5 October 2015, Abanka once again became a public company under the Financial Instruments Market Act, as bonds with the BCE15 ticker symbol issued by Banka Celje were listed on the Ljubljana Stock Exchange. Notwithstanding the aforementioned, the Bank decided to use the Corporate Governance Code as its reference code.

In addition to the legal requirements regarding the governance of banks, in 2015 Abanka as both a state-owned company and a public company used reference codes and recommendations set out in the Statement of Compliance with the Corporate Governance Codes in implementing its governance system.

Statement of Compliance with the Corporate Governance Codes

The Management and Supervisory Boards declare that in its work and operations in 2015 Abanka d.d observed the corporate governance recommendations as set out in:

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

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

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

Code provision 4.2: The company encourages all significant shareholders, institutional investors and the state in particular, to publicly disclose their investment policy with respect to the stake they hold in the company concerned, i.e. their voting policy, the type and frequency of their engagement in the company's governance, and the dynamics of their communication with the respective company's managerial or supervisory bodies. The company is considered to have called its shareholders to make such a disclosure pursuant to this principle if the convocation of the meeting includes the respective invitation.
Note of the Bank: Abanka is of the view that providing information to the public via its shareholder about their investment policy is primarily at the shareholder's discretion, in line with the regulations governing capital assets of the State. No encouragement by Abanka can specifically influence its shareholder's decision to inform the public.

Code provision 20.4: Prior to the beginning of the year, the company draws up its financial calendar, in which it provides the expected dates of its significant announcements in the coming financial year (general meetings, announcement of the cut-off date for dividend payments, the dividend payment date, annual and interim reports, etc.). The financial calendar is published on the Bank's website.
Note of the Bank: In view of the fact that the Bank became a public company in the last quarter of 2015, which lasted only until February 2016, and is wholly owned by one shareholder, it ensured transparency of its operations to the investor in such a way that it timely and appropriately informed the investor about accounting, financial and non-financial information, enabling it to assess the situation and the impact of a particular business event on the price of the security.

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

Code provision 7.4: Employment agreement with a member of the Management Board
If a company concludes an employment agreement with a member of the Management Board, it shall be concluded for a limited duration, specifically, not more than for the duration of the management function. An exception shall refer to the legal regulation of the relationship with a person in a managerial position who has been engaged in permanent employment in a company prior to the appointment to the Management Board.
Note of the Bank: The employment agreements of the Management Board members originate from their previous permanent employment agreements concluded with the Bank. Their term of office in the Management Board of the Bank is precisely defined in their individual employment agreements.

Code provision 10.2: Corporate integrity system

The companies with State's capital assets should establish a corporate integrity system with as much as possible elements as defined by the Slovene Corporate Integrity Guidelines. The supervision over corporate integrity as an independent and autonomous function should be entrusted to a Corporate Integrity Officer.

Note of the Bank: The corporate integrity risk is managed by the Compliance Office. An independent Corporate Integrity Officer was not appointed. The Bank adopted several internal rules for individual risk areas, which together constitute the corporate integrity system.

The Bank's guiding principle is lawful, professional, ethical, safe and diligent business, which it implements by complying with the applicable regulations, standards, codes, best practices and other rules of the financial and banking sector as well as by acting in accordance with the highest ethical standards of governance.

Strategic and operational documents prepared by the Bank's management and supervisory bodies define the Bank's commitment to respecting corporate integrity under any circumstances and conditions well as the respective obligations of all other stakeholders related to the Bank.

The Bank implements corporate integrity measures on the basis of established rules and mechanisms for corporate integrity risk identification and assessment. The Bank's corporate integrity system consists of several documents, with the Code of Business Ethics as the basic document. The Code defines the Bank's values and the attitude of all Bank employees in personal and business relations with customers, co-workers, shareholders, business partners and the natural and social environment (stakeholders). The Supervisory Board took note of the Code and approved it. The Code is published on the Bank's website.

The Code serves as the basis for the elaboration of policies and procedures on compliance, prevention of conflicts of interest of employees and Management and Supervisory Board members, remuneration of employees and Management and Supervisory Board members, the assessment of qualifications of Management and Supervisory Board members and senior management staff, fraud risk management, prevention of harassment and mobbing, prevention of money laundering and terrorist financing, protection of all types of confidential information and retention of audit trails, management of outsourced services, reporting and handling of loss events and other incidents incurred due to infringement or irregularities, complaint resolution procedures, financial market abuse through illegal trading in financial instruments, etc.

The Bank’s employees are made aware of the values and principles of the Code by Management Board members and senior management serving as a model as well as by way of rules published on the intranet and in-house training. Employees can report any detected violations to their superiors or using the internal electronic reporting system (to report infringement, loss events or incidents). The Bank ensures any employee submitting such a report that no retaliatory measures will be taken against them as a result.

c) Recommendations and Expectations of the Slovenian Sovereign Holding

Recommendation No. 5: Attainment of quality and excellence in the operations of companies/groups

The Bank performs a range of activities to determine, assess, manage and monitor the quality of its operations in various segments. The Code of Ethics constitutes the basis for improving the organisational culture of the Bank, thereby achieving business excellence and quality. The activities aimed at improving the quality of operations include verification of customer satisfaction (analyses on the basis of received complaints, loss events and other incidents, checking the service level among organisational units) and care for employee satisfaction (a Family-Friendly Enterprise certificate, concern for employee safety and health, monitoring of staff turnover, monitoring of reported infringements and irregularities). By ensuring adequate staffing in IT area, the quality and security of information systems is properly managed. Moreover, qualified internal control functions contribute to higher quality of the Bank’s operations through their activities.

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

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

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

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

Monitoring the effectiveness of risk hedging methods arising from accounting reporting and risk reduction is a process based on the internal control system that consists of internal controls, activities of the Internal Audit Department and compliance activities.

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

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

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

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

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

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

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

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

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

The General Meeting of Shareholders is convened at least once a year by the Management Board. It can also be convened by the Supervisory Board. In addition, shareholders holding a total of one-twentieth of the share capital may require that a General Meeting of Shareholders be convened.
The Management Board convenes the General Meeting of Shareholders at least thirty days prior to the General Meeting of Shareholders by publishing the notice convening the General Meeting, its agenda and draft resolutions in the manner provided by the law and the Articles of Association. The material necessary for making decisions at the General Meeting, including draft resolutions, must be available to the shareholders at the Bank's premises from the publication of the notice convening the General Meeting.

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

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

At the 30th regular General Meeting of Shareholders held on 8 May 2015, the shareholder (the General Meeting of the Bank) took note that the accumulated profit for 2014 was EUR 0.00. Abanka Vipa d.d. ended 2014 with a loss of EUR 194,576,675.03 and covered the net loss for 2014 from profit brought forward in the amount of EUR 254,190.04, other reserves from profit in the amount of EUR 1,519.92 and share premium of EUR 194,320,965.07. The Bank's General Meeting of Shareholders granted a discharge to two Management Board members and the Supervisory Board members for 2014, adopted the Annual Internal Audit Report for 2014, including the opinion of the Supervisory Board. Furthermore, they appointed Deloitte revizija d.o.o. as auditors of Abanka's and the Abanka Group's Annual Report for a three-year period (2015–2017) and adopted amendments to the Rules of Procedure of Abanka Vipa d.d. General Meeting of Shareholders.
The General Meeting of Shareholders adopted a resolution regarding remuneration (attendance fee, payment for performing the function) of the members of the Supervisory Board and the Supervisory Board committees and reimbursement of transport and accommodation costs to the Supervisory Board members as well as a resolution that Abanka Vipa d.d. may conclude a directors and officers liability insurance contract. The insurance premium costs shall be borne by Abanka Vipa d.d. in the amount of EUR 4,000.00 per Supervisory Board member.

At the 31st regular General Meeting of Shareholders held on 27 May 2015, the shareholder (the General Meeting of the Bank) adopted a resolution, by which it approved the Merger by Acquisition Agreement of Banka Celje d.d. by Abanka Vipa d.d., concluded on 20 May 2015 in the form of a notarial record of Notary Public Bojan Podgoršek from Ljubljana, ref. no. SV 433/2015. Moreover, the General Meeting of Shareholders adopted a resolution amending the Articles of Association of the Bank and a resolution, by which it took note of the Rules on Remuneration and Rights of the Management Board Members of Abanka Vipa d.d. and of the Remuneration Policy of Abanka Vipa d.d.

At the 32nd regular General Meeting of Shareholders held on 2 October 2015, the shareholder (the General Meeting of the Bank) adopted a resolution amending the Articles of Association of the Bank and a resolution, by which it took note of the termination of the term of office of a Supervisory Board member and the appointment of three new members of the Supervisory Board. Furthermore, the General Meeting of Shareholders adopted a resolution regarding remuneration (attendance fee, payment for performing the function) of the members of the Supervisory Board and the Supervisory Board committees and reimbursement of costs related to transport, accommodation, training, membership fees and other administrative costs incurred in connection with the performance of the function of a Supervisory Board a member.

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

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

Management Board

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

Until May 2015, the Management Board was composed of Jože Lenič as its President and Igor Stebernak as its member. Since May 2015, the Management Board was composed of Jože Lenič as its President and Aleksander Vozel as its member. As at the end of 2015, Matej Golob Matzele started serving on the Management Board as a third member after receiving a licence for his membership in the Management Board.

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

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

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

The Rules of Procedure of the Management Board stipulate the methods of its work, and distribute the areas of work and tasks among its members. The Management Board puts its individual members in charge of particular organisational units and makes them responsible for their management and coordination.

The Management Board may transfer certain decision-making rights to **collective decision-making bodies**. The following bodies assist the Management Board in its work:

- **Assets and Liabilities Management Committee**
  The Committee manages the Bank's liquidity, currency and interest risks, capital and capital adequacy, sets internal transfer rates, approves special terms and conditions for certain customers, as well as sets interest rates and a tariff charge system applicable to customers. As a rule, the Committee meets once a month. As at the end of 2015, the Assets and Liabilities Management Committee had seven members. The Management Board appoints the Chairman, Vice Chairman and members of the Committee. The Committee members are appointed from among the Bank's employees with special authorisations.

- **Assets and Liabilities Management Commission**
  This Commission decides on special terms and conditions for certain customers and sets interest rates and a tariff charge system for customers. As a rule, the Commission has regular meetings once a week. The Management Board appoints the Chairman, Vice Chairman and members of the Commission. The Commission members are appointed from among the Bank's employees with special authorisations. As at the 2015 year-end, the Commission had six members.

- **The Bank's Credit Committee**
  With regard to investment management, the Credit Committee decides on borrowings to customers, credit limits for transactions with derivatives and repo transactions, decides on accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans or loan restructuring proposals and risk management reports, monitors how individual decision-making authorisations are exercised by the employees with special authorisations and other employees as set out in the Management Board decisions regarding individual authorisations, monitors the implementation and realisation of internal resolutions of the Committee and decides on other matters.
  The Credit Committee is authorised to decide on the abovementioned investments if they have not been decided on in the framework of individual or Credit Commission authorisations or the Loan Watch Committee, within exposure limits to individuals or groups of related parties and other exposure limits set by the Bank, taking into account legislative and other limits. Regular meetings of the Committee are convened once a week, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2015, the Committee had five members.

- **Liquidity Commission**

  The Commission designs the current liquidity, exchange and interest policies of the Bank. As a rule, the Commission has regular daily meetings, while a correspondence meeting is convened when necessary. The Bank's Management Board adopts a decision on the Commission's composition, appointing its members and substitutes. As at the end of 2015, the Commission had nine members.

- **Risk Management Committee and Operational Risk Commission**

  The Risk Management Committee monitors, steers and controls risk management of the Bank. Furthermore, the Committee assesses the appropriateness of the Risk Management Strategy, its related policies and methodologies and the recovery plan, monitors exposure to credit, market and operational risks, manages other risks, discusses and approves the limit systems, monitors capital requirements, discusses the results of internal calculations of assessed capital requirements, the capital level and the related ratios, monitors measures and coordinates the ICAAP process. The Committee holds regular meetings once a month. The composition of the Committee is determined by the Management Board. As at the end of 2015, the Committee had nine members.

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

- **Loan Watch Committee**

  The Committee decides on the Bank's investments classified as non-performing, investments whose trustee is the Investments Under Scrutiny Department and investments determined by the Credit Committee. Furthermore, the Committee decides on borrowings to customers (including bilateral and syndicated loans) and accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans, recovery plans, loan restructuring proposals, proposals to initiate insolvency proceedings and the reports of the Investments Under Scrutiny Department, monitors the implementation and realisation of internal decisions and decides on other matters. Regular meetings of the Committee are convened once a week, whereas extraordinary meetings are held when necessary. The meetings can be held by correspondence. The composition of the Committee is determined by the Management Board. As at the end of 2015, the Committee had five members.

- **Development Committee**

  The Committee is a collective decision-making body in charge of directing and supervising the management of development activities aimed at achieving the strategic objectives of the Bank. The Development Committee holds regular monthly meetings. The composition of the Committee is determined by the Management Board. As at the end of 2015, the Committee had eight members.

- **Commission for the Treatment of High-Risk Customers in Terms of Money Laundering and Terrorist Financing Prevention**

  The Commission for the Treatment of High-Risk Customers in Terms of Money Laundering and Terrorist Financing Prevention discusses cases of high-risk customers in order to take appropriate measures to ensure their conduct is in compliance with the applicable laws and to adopt measures for a comprehensive management of all types of risks to which the Bank is exposed or would be exposed when dealing with such customers. The composition of the Commission is determined by the Management Board. The Committee's meetings are held when necessary. As at the 2015 year-end, the Commission had six members.

- **Purchasing Commission**

  The Purchasing Commission is responsible for transparent conclusion of transactions related to the procurement of goods and services based on previously set and appropriately balanced selection criteria as well as on the basis of obtained comparable offers, which is the responsibility of the relevant departments of the Bank. The composition of the Commission is determined by the Management Board. As at the end of 2015, the Commission had three members.

Supervisory Board

The Supervisory Board oversees the management of the Bank's business operations. Until the adoption of amendments to the Articles of Association at the 32nd General Meeting of Shareholders held on 2 October 2015, the Supervisory Board had five members, whereas since then it has had seven members, who are appointed and dismissed by the General Meeting of Shareholders. Two thirds of the Supervisory Board members must be independent experts. Independent persons are those who are not or have not been employed by the Slovene Government or performed a senior or managerial function in any Slovene political party within the last 24 months since their appointment to the Supervisory Board. The members of the Supervisory Board are appointed for a four-year term with the possibility of reappointment.

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

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

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

As at 31 December 2015, the Supervisory Board of Abanka d.d. was made up of the following members:
- Janko Gedrih, Chairman, term starting on 19 November 2012;
- Marko Garbajs, Vice Chairman, term starting on 4 October 2014;
- Andrej Slapar, Member, term starting on 30 May 2012;
- Blaž Šterk, Member, term starting on 4 October 2014;
- Melita Malgaj, Member, term starting on 2 October 2015;
- Matjaž Trebše, Member, term starting on 8 October 2015;
- Alenka Vrhovnik Težak, Member, term starting on 8 October 2015.

In 2015, the term of office of Barbara Kürner Čad as a Supervisory Board member ended.
In the reporting year, the Supervisory Board held eighteen sessions.

Supervisory Board Committees

The Supervisory Board forms committees as its consultative bodies. Until the entry into force of the new Banking Act (ZBan-2), the Bank had three committees composed of Supervisory Board members and external members. The Bank ensured compliance with the new Banking Act by setting up four committees consisting of only the members of the Supervisory Board, whilst their manner of organisation and operation is governed by the applicable rules of procedure.

- **The Audit Committee** had the following composition:
  - from 1 January to 10 June 2015: Blaž Šterk as its Chairman and Marko Garbajs, Peter Ribarič and Renata Eržen Potisek as its members;
  - from 11 June to 10 November 2015: Blaž Šterk as its Chairman and Janko Gedrih and Marko Garbajs as its members;
  - from 11 November 2015: Blaž Šterk as its Chairman and Matjaž Trebše, Marko Garbajs and Melita Malgaj as its members.

The main purpose of the Audit Committee is to support the Supervisory Board in the execution of their supervisory duties related to the supervision of the organisation and efficiency of operations, putting emphasis on the quality and appropriateness of the risk management system and the internal control system with respect to financial reporting, compliance with the regulations and internal documents of the Bank, compliance of internal auditing, and adherence to the Code of Business Ethics and to the procedures for assessing the external auditor's independence. The Audit Committee promotes transparent reporting and an efficient governance system of the banking group and creates added value by giving independent and impartial assurances to the Supervisory Board. In 2015, the Committee met seven times.

- **The Compensation and Human Resource Committee** operated until 9 June 2015 and was composed of:
  - from 1 January to 12 February 2015: Janko Gedrih as its Chairman and Andrej Slapar, Tomaž Kuntarič and Barbara Kürner Čad as its members;
  - from 13 February to 9 June 2015: Janko Gedrih as its Chairman and Andrej Slapar and Barbara Kürner Čad as its members.

The main purpose of the Committee was to help the Supervisory Board exercise its supervisory responsibilities with regard to preparing decisions related to remuneration, including those having an impact on risks and risk management in the Bank, as well as decisions on staffing issues related to the Management Board and Supervisory Board membership. The Committee held four meetings in 2015.

- **The Compensation Committee,** which was founded on 10 June 2015, was composed of:
  - from 10 June to 12 June 2015: Andrej Slapar as its Chairman and Janko Gedrih, Marko Garbajs and Barbara Kürner Čad as its members;
  - from 13 June to 10 November 2015: Andrej Slapar as its Chairman and Janko Gedrih and Marko Garbajs as its members;
  - from 11 November 2015: Andrej Slapar as its Chairman and Alenka Vrhovnik Težak and Matjaž Trebše as its members.

The main purpose of the Compensation Committee is to support the Supervisory Board in the execution of their supervisory responsibilities in relation to preparing decisions on remuneration, including those having an impact on the risks and risk management of the Bank. In 2015, the Committee held three meetings.

- **The Human Resource Committee** was established on 10 June 2015 and was composed of:
  - from 10 June to 12 June 2015: Janko Gedrih as its Chairman and Andrej Slapar, Blaž Šterk and Barbara Kürner Čad as its members;
  - from 13 June to 10 November 2015: Janko Gedrih as its Chairman and Andrej Slapar and Blaž Šterk as its members;
  - from 11 November 2015: Janko Gedrih as its Chairman and Andrej Slapar and Melita Malgaj as its members.

The main purpose of the Human Resource Committee is to support the Supervisory Board in the execution of their supervisory responsibilities with respect to staffing issues involving the Management Board and the Supervisory Board membership. In 2015, the Committee held seven meetings.

- **The Risk Management and Asset Liability Management Committee** had the following composition:
  - from 1 January to 10 June 2015: Andrej Slapar as its Chairman and Marko Garbajs Janko Gedrih as its members;
  - from 11 June to 10 November 2015: Marko Garbajs as its Chairman and Janko Gedrih, Andrej Slapar and Blaž Šterk as its members;
  - from 11 November 2015: Marko Garbajs as its Chairman and Janko Gedrih, Alenka Vrhovnik Težak and Blaž Šterk as its members.

The main purpose of the Committee is to support the Supervisory Board in the execution of its supervisory responsibilities in preparing decisions related to the risk management function, risk profile and ALM control in the Bank. In 2015, the Committee met four times.

Ljubljana, 25 February 2016

Management Board

Jože LENIČ
President of the Management Board

Aleksander VOZEL
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

Marko GARBAJS
Chairman of the Supervisory Board

RISK MANAGEMENT

The operations of Abanka in 2015 were mainly characterised by the merger of Banka Celje with Abanka. In view of the above, in 2015 the Risk Management Strategy was revised to take into account the guidelines included in the restructuring plan of the Bank and the Business Plan of the Merged Bank (Abanka and Banka Celje) for the 2015–2019 Period. The Strategy also takes into account the commitments made to the European Commission regarding risk management. The document mainly focuses on the target situation in risk management and includes clear steps to achieve it.

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

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

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

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

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

The Bank is aware that business decisions have to be aimed at ensuring long-term sustainable and profitable operations and maintaining an adequate capital level with regard to the level of assumed risk.

The strategic objective of the Bank remains unchanged. With its active risk management and an adequate capital level, Abanka's strategic objective is to obtain and retain the credit rating in an investment grade.

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

The activities of the Risk Management Division in 2015 and the achieved results are presented in detail below. In 2016, the activities of the Division will primarily focus on upgrading the internal rating system related to credit risk (stand-alone risk) and the operational risk management system. Special attention will be paid to model risk and conduct risk, while taking into account the precautionary principle and diversification of the portfolio of financial instruments. Moreover, the internal capital adequacy assessment process (ICAAP) will be upgraded.

CREDIT RISK

Credit risk is the most important risk in the Abanka Group and represents a risk that a debtor or counterparty will cause a loss to the Group by failing to discharge an obligation. Apart from default risk, it includes country risk, concentration risk, dilution risk and the risk of less effective credit protection.

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

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

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

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

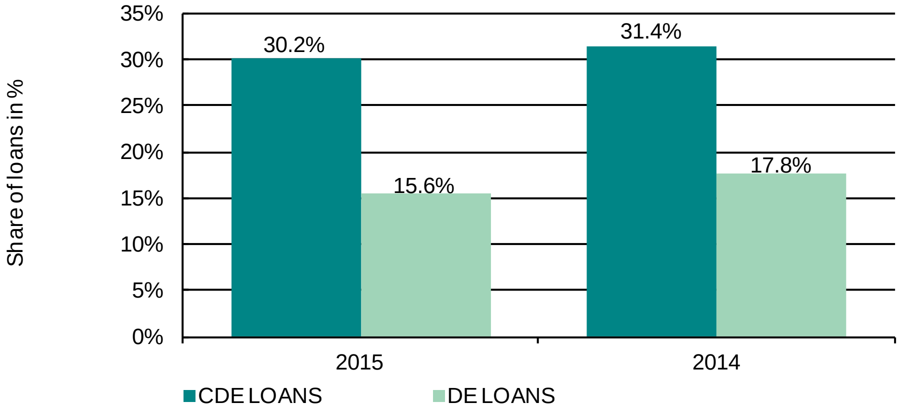
In order to measure credit risk, a computerised expert credit-scoring model for corporate customers was set up in 2015. The model is based on quantitative and qualitative criteria and takes into account the key characteristics of any individual debtor and/or exposure. In addition, the probability of default (PD) assessment model for corporate customers was upgraded and implemented in the information system. In this way, information on estimated PD was incorporated into both the credit rating calculation process and the loan approval process.

In order to measure credit risk, a computerised expert credit-scoring model for corporate customers was set up in 2015.

In 2015, the shares of CDE and DE loans in the Abanka Group's credit portfolio, excluding exposures to banks, decreased compared to the previous year. The reasons for the decrease are continued activities related to the collection of non-performing loans, the restructuring of corporate loans which have a business model and a sufficient cash flow for future loan repayment, the implementation of activities connected to the early warning system (EWS) for increased credit risk and a selective approach in the approval of new loans to companies for financing their ordinary course of business or investments. The Abanka Group introduced new (stricter) rules on the management of non-performing and forborne exposures, as required by the European Banking Authority for reporting purposes and performed regular reviews of the credit portfolio, which were followed by the necessary customer reclassification.

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

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



The amount and share of non-performing loans is discussed in greater detail in Section 2.1.4 e) Risk Management of the financial report.

In 2015, the Group continued upgrading its risk management processes and developing the necessary software applications. Among others, the Abanka Group:

- upgraded the central collateral records in terms of technology and content;
- implemented the probability of default assessment model for corporate customers;
- updated the methodology for the calculation of short-term debt limits;
- upgraded the early warning system to identify increased credit risk;
- setup a model for own assessment of loss given default (LGD).

In the second half of 2015, the Group intensively carried out activities related to the merger with Banka Celje, such as: the unification of the loan policy, rules, methodologies, work processes and databases and the related necessary upgrading of software support.

In 2016, focus will be on credit portfolio optimisation, including the acceptance of adequate forms of collateral, which should not only optimise the capital requirements but also improve the collectability of due receivables. Great attention will be devoted to the implementation of the probability of default assessment model, the establishment of IT support and internal processes that will allow the collection of data required to calculate credit parameters (PD and LGD), the updating of the methodology for assessing group percentage losses arising from the credit risk, the upgrading of individual limit systems (short-term debt limits) and portfolio limits for concentration risk management (sectoral, industrial, country), as well as to the improvement of the credit portfolio monitoring IT system and the credit risk reporting system.

OPERATIONAL RISK

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

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

In 2015, the Abanka Group upgraded the management system of loss events and other incidents. An analysis of loss events occurred in 2015 indicated that the human factor was the main source of losses arising from operational risks, however this loss was lower compared to past years. Action plans were prepared for all significant types of loss events, aimed at their prevention or reducing the likelihood of their occurrence, including the persons in charge and the deadlines. Implementation of measures is regularly monitored.

In 2015, the Abanka Group upgraded the management system of loss events and other incidents.

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

Moreover, in 2015 key business continuity plans were upgraded and additional plans and risk analyses for several services were devised.

In 2015 key business continuity plans were upgraded and additional plans and risk analyses for several services were devised.

In 2016, the Group will actively continue to upgrade the operational risk management system, placing emphasis on quick risk identification, prevention of the most recent outstanding risks, fraud risk management and extraordinary events that might jeopardise the business continuity of the Bank. Special attention will be paid to model risk and conduct risk. In the future, risk analyses will be prepared using a new application support, which will improve the efficiency of operational risk management.

MARKET RISK

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

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

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

In 2015, the Group continued its policy of limited trading in financial instruments. Trading in equity financial instruments was banned, whilst trading in debt financial instruments for own account was mainly limited to primary dealing in the government bonds of the Republic of Slovenia and active maintenance of this bond market. Trading in derivatives was limited to foreign exchange and interest rate financial instruments requested by customers (mostly corporates) for the purpose of hedging against interest rate and currency risks.

The banking book portfolio includes both equity and debt securities, which are not held for trading. The banking book equity portfolio includes only the strategic positions of the Bank and positions obtained from collateral foreclosure or debt-to-equity swaps. The size of the debt securities portfolio of the banking book, serving as an assets and liabilities management tool, stood at EUR 1.441 million at the 2015 year-end.

To measure market risks, the Group applies Value at Risk (VaR): a quantitative measure used for assessing potential loss in the value of a position caused by adverse risk factor changes over a given future period at a given level of confidence in normal market conditions. The Group calculates VaR for debt financial instruments based on a historical simulation at a 95% to 99% confidence level and with a 10-day holding period. At a 99% confidence level, with a 10-day holding period and under the assumption of normal market conditions, the Group could not have incurred more than EUR 3 thousand of loss from trading in debt financial instruments as at the 2015 year-end.

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

Group follows the principles of prudence and increased portfolio diversification.

In 2015, the limit systems restricting the Bank's exposure to market risk were updated, primarily due to the merger of Banka Celje with Abanka. The increased volume of business of the merged bank and higher capital allowed an increase in the limits to reflect the volume of the banking book securities portfolio, whereas in the trading book mainly the limits for active maintenance of the Republic of Slovenia bond market were increased. Trading in derivatives was based on the back-to-back trading policy. Trading in derivatives with other companies was mostly performed only to hedge positions against interest and currency risks. Trading in more complex derivatives was not allowed.

According to forecasts for 2016, the slow growth of the global economy will continue. Slovenia ended the reporting year with positive economic growth. According to forecasts, gross domestic product will continue to grow in 2016 and 2017, above 2% on average.

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

INTEREST RATE RISK

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

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

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

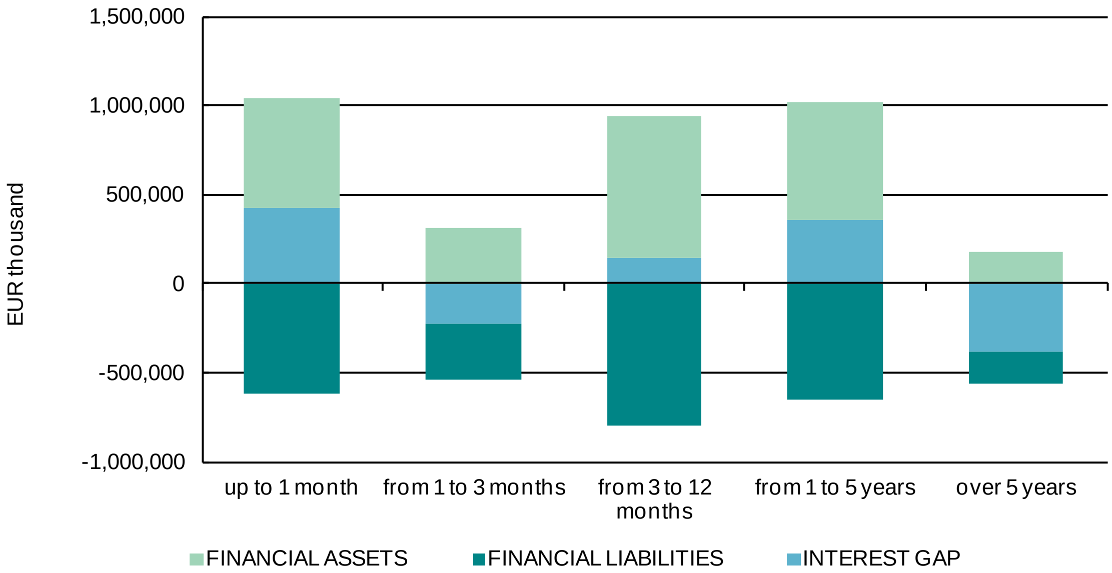
In 2015, the economic recovery of the euro area continued, the macroeconomic indicators showed signs of further recovery, unemployment rates were falling and the economic growth was gradually picking up. Public finance consolidation together with the adoption of certain structural reforms and measures taken by the European Central Bank (ECB) significantly lowered the returns on government bonds issued by euro area countries, which mostly dropped to record low levels. The ECB continued with the implementation of non-standard measures, which were further expanded within the quantitative easing programme. The introduction of the purchase programme of public sector securities on the secondary market announced in January was finally defined in March; in accordance with the programme, monthly purchases in the amount of EUR 60 billion were made, thereby pursuing the main objective of curbing the deflationary pressure or increasing the inflation rate towards 2%. In December, the ECB not only adopted additional measures to extend the programme at least until March 2017 but also extended the purchases to marketable debt instruments (in euros) issued by regional and local governments from the euro area countries. In 2015, the ECB continued with the targeted longer-term refinancing operations (TLTRO) and set the interest rate in accordance with the interest rate on the main refinancing operations (MRO). Regarding the monetary policy, the ECB maintained the interest rate of 0.05% on the main refinancing operations and further lowered the deposit facility interest rate to –0.30%. Consequently, interbank interest rates were pushed down, which in the short-term segment even entered negative territory. Towards the end of the year, the 6-month Euribor, which is more widely used as the reference interest rate, entered negative territory.

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

> The Abanka Group continuously adjusted its interest rate policy to the conditions in domestic and international markets as well as balanced the interest rate position of the bank.

The graph on the following page shows interest gaps by time bucket at the end of 2015.

INTEREST RATE GAPS



In the framework of the banking book interest rate management, in 2016 the Bank will continue to strive for a balance of interest gaps by time bucket, paying more attention to longer maturity time buckets. The interest rate risk identification and measurement methodology will be upgraded, among others, in accordance with the Guidelines on the Management of Interest Rate Risk Arising from Non-Trading activities.

LIQUIDITY RISK

Liquidity risk is the risk that the Group might not be able to meet its payment obligations when due, associated with its financial liabilities and contractual obligations arising from lending. Consequently, this may mean late disbursement of funds to depositors and non-fulfilment of lending commitments. Liquidity risk includes market liquidity risk, i.e. the risk of loss arising from an inability to sell or replace certain financial instruments in a short period of time without a significant impact on the market price. Furthermore, it includes asset encumbrance risk, which arises from the Bank's asset encumbrance and means an increase in the risk of providing liquidity sources and market liquidity risk due to fewer possibilities of providing liquidity sources and disposing of assets.

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

The liquidity risk management process consists of:

- planning and monitoring future cash flows, which include day-to-day funding to ensure that requirements are met, as well as structural assets and liabilities management;
- maintaining a portfolio of highly liquid assets that can be easily liquidated as protection against any unforeseen cash flow trends;
- monitoring balance sheet liquidity ratios against the Group's internal and regulatory requirements;
- managing the concentration and profile of debt maturities and
- measuring liquidity on the basis of in-house scenarios and stress tests.

In order to reduce the liquidity risk, the Group established a limit system, which includes compliance with regulatory requirements and internally defined limits as well as monitoring of target structural liquidity ratios. The limit setting and liquidity risk monitoring are, in terms of organisation, separated from daily operational liquidity management.

In order to reduce the liquidity risk, the Group established a limit system, which includes compliance with regulatory requirements and internally defined limits as well as monitoring of target structural liquidity ratios.

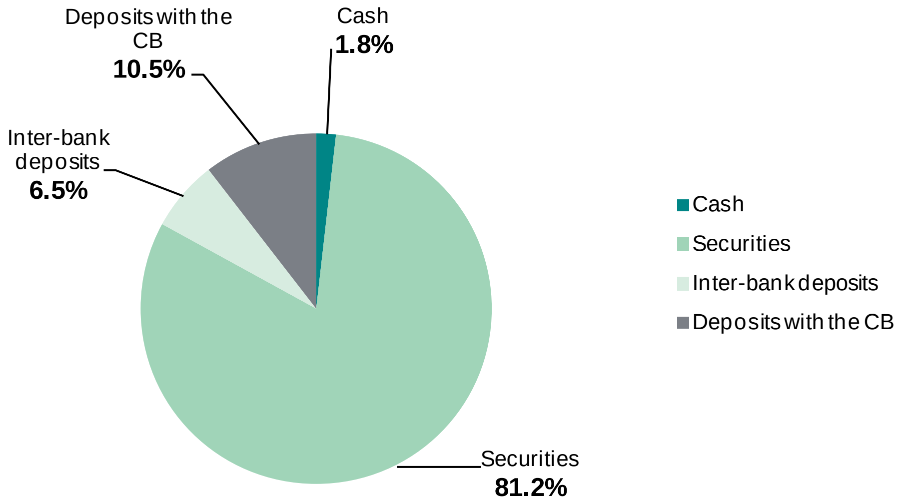
Different stress scenarios are prepared by the Group for the purpose of liquidity management in extreme situations. A scenario of particular relevance is one of taking into account a liquidity crisis of the Bank and a general liquidity crisis in financial and capital markets. Moreover, in order to hedge liquidity risk, the Group defined procedures for minimising the occurrence of crises that would prevent it from duly and promptly discharging its obligations. Early detection of adverse liquidity conditions is conducted during daily monitoring of the Group's liquidity position.

In 2015, liquidity conditions remained favourable. Due to the above-mentioned measures of the ECB, excess liquidity in international financial markets mainly reflected in additional drop of interest rates. Deposit interest rates in the banking sector continued to fall; however, retail and corporate deposits in Abanka remained stable, while the share of sight deposits increased primarily due to lower interest rates.

As at the 2015 year-end, cash and cash equivalents, securities, short-term interbank deposits and deposits with the central bank accounted for 44.5% of the Group's total assets.

The structure of these assets is shown below.

LIQUIDITY RESERVE STRUCTURE



In 2016, increased uncertainty in financial markets is expected, as the unconventional measures of the ECB may cause overheating of individual market segments and consequently result in adverse effects in the form of higher credit and investment risks. Through prudent asset liability management in line with the latest market conditions, the Group will maintain an appropriate liquidity position as well as ensure an adequate volume of liquidity buffers and compliance with all regulatory requirements on liquidity management. Prudent secondary liquidity reserve management will continue.

THE ICAAP PROCESS

The Bank has been carrying out the internal capital adequacy assessment process (hereinafter: ICAAP) for several years by defining the risk profile assessment, which is shown in the risk profile matrix. In 2015, this analysis was applied to identify the material risks that arise from the Group's core business and to set up controls with the purpose of risk mitigation. Risk profile monitoring over time allows timely identification of key movements in the risk profile and provides the basis for taking necessary measures. The Bank compares its risk profile with its risk-bearing capacity assessment and, based on the results of analysis, takes appropriate measures, which enable the Group to assume risks within its risk-bearing capacity.

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

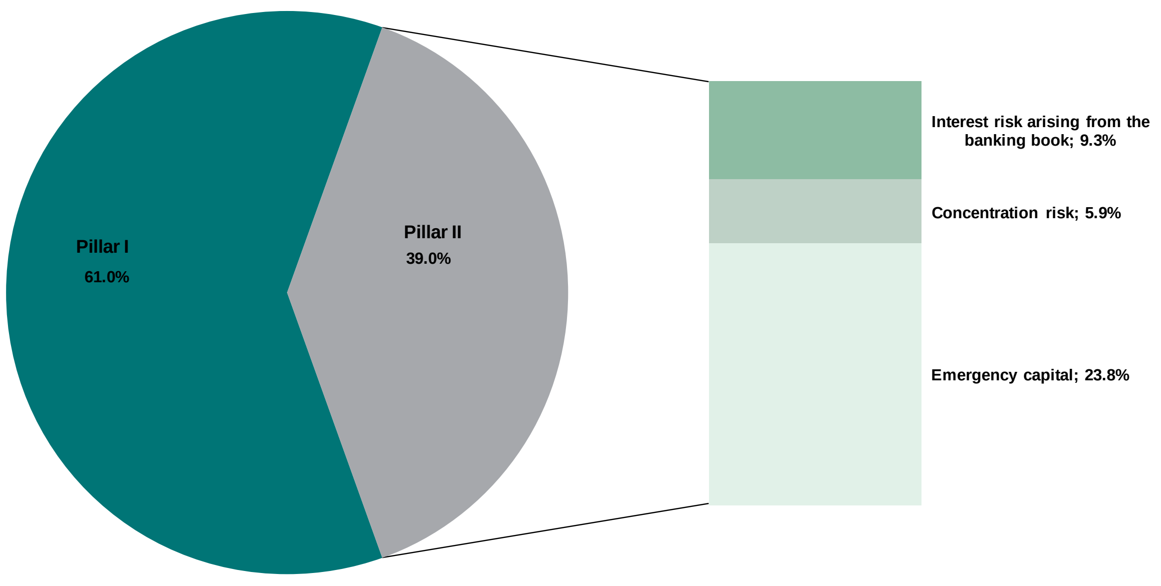
In light of the uncertainty in financial markets, in the ICAAP process, the Bank places more emphasis on regular stress testing, which is performed to identify the vulnerability of the Bank in the event of less likely, but still possible, changes regarding various risk factors. The results of the stress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

The internal capital adequacy assessment process is defined by two variables. The first variable is the risks to which the Group is exposed, going beyond the first pillar of capital requirements; the second variable is the capital held by the Group for covering risks and potential losses arising from such risks. A comparison of the assessed internal capital requirements and the assessed internal capital indicates the Group's ability to cover all the risks to which it is exposed. As at the 2015 year-end, the Bank’s capital adequacy ratios were above the limit value required by the Bank of Slovenia, which were calculated under a simulated adverse scenario and take into account economic crisis environment impacts.

In 2015, the Bank assessed maximum additional capital needs required to offset interest and concentration risks and as well as external environment risks (emergency capital).

As at the 2015 year-end, the internal assessment of capital requirements was structured as follows:

INTERNAL ASSESSMENT OF CAPITAL REQUIREMENTS



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

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

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

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

Ljubljana, 25 February 2016

Management Board

Jože LENIČ
President of the Management Board

Aleksander VOZEL
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

Marko GARBAJS
Chairman of the Supervisory Board

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

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

The risk appetite is limited so as to ensure that Abanka and the Abanka Group are operating at a satisfactory profit also in extraordinary circumstances. Setting the risk appetite limits represents an important part of the decision-making process. The ongoing risk monitoring and reporting process in Abanka and the Abanka Group enables to take timely action at pre-set limits before reaching the upper tolerance limit.

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

In line with the above, the following guidelines will be observed:
- focusing on the domestic market;
- strengthening the retail and SME business;
- investing in less risky debtors (defined by the internal credit rating scale) and limiting the exposures associated with a very high risk;
- ensuring credit portfolio diversification at the exposure level of individual borrowers, groups of related parties and industries;
- avoiding investments in subordinated financial instruments, structured financial instruments, debt securities issued by foreign issuers without a credit rating and financial instruments resulting from the securitisation process;
- limited trading in equity and debt securities;
- strong emphasis on an appropriate form, size and quality of collateral;
- maintaining an adequate level of liquidity reserves and liquidity ratios as defined in the applicable risk appetite strategy.

The key ratios used for monitoring the risk profile of the Bank include the Common Equity Tier 1 capital ratio (CET1), the NPL ratio (NPL), the net interest margin, the liquidity coverage ratio (LCR) and the loan-to-deposit ratio (LTD). Their level is evident in the business part of the Annual Report of Abanka, Section Financial Highlights and Performance Indicators, and in the accounting part of the Annual Report, Section 2. Risk Management (2.1. Credit risk and 2.4. Capital management).

Abanka and the Abanka Group have clearly defined risk appetite limits through the limit systems (regional and sectoral limits, individual credit limits, limits for trading and transactions with financial instruments of the banking book, limits for liquidity, currency and interest rate risk management).

Ljubljana, 25 February 2016

Management Board

Jože LENIČ
President of the Management Board

Aleksander VOZEL
Member of the Management Board

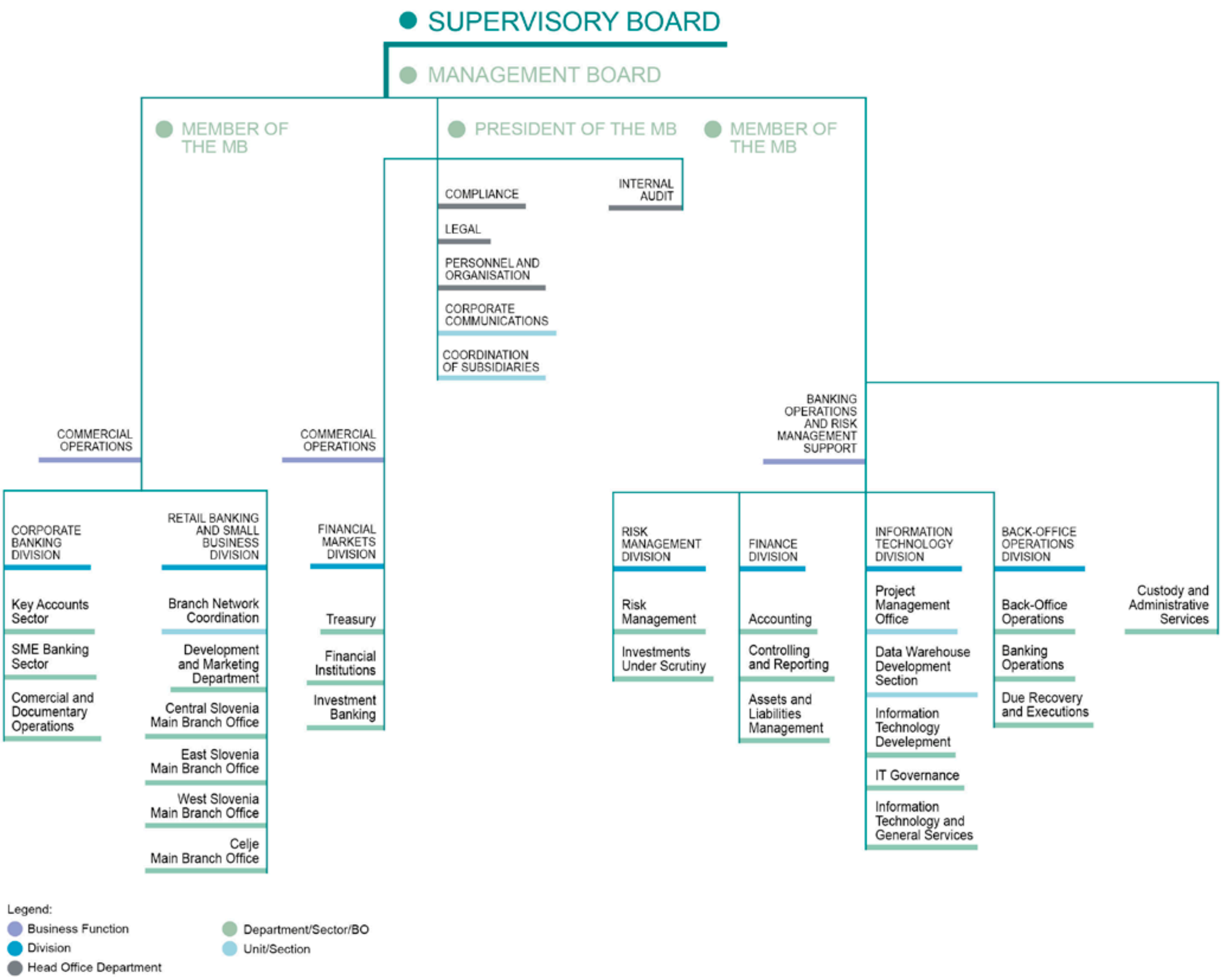
Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

Marko GARBAJS
Chairman of the Supervisory Board

ORGANISATION AND PROCESSES

ORGANISATIONAL CHART AS AT 31 DECEMBER 2015



Changes of the organisation on 1 January 2015 and 1 March 2015 and a new organisational structure introduced on 5 October 2015 (merger date of Banka Celje d.d. to Abanka Vipa d.d.) will enable the Bank to most effectively realise its vision as well as fulfil its strategic and business objectives by improving cost and sales efficiency, client relationship management, management of risks and non-performing assets, business process management and implementation and human resource management.

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

PROJECTS PLANNED FOR 2016

Due to the merger of Abanka and Banka Celje, the most significant projects in 2016 will be related to the operational merging of the two banks. The first phase of this process took place in 2015 and involved the establishment of a joint analytical general ledger and the aggregation of data required for reporting purposes. The information systems of both banks continue to be used for operational work. The operational merging of the two banks and the unification of the information systems will be implemented through five interdependent projects that will run until the end of 2017:

- the migration of transaction accounts of retail and corporate clients;
- the redevelopment of the IT system »IRC naložbe« and data migration;
- the upgrade of retail loans and data migration;
- the upgrade of retail deposits and data migration;
- the development of a data warehouse and solutions for implementing new reporting regulations.

In 2016, Abanka will focus even more of its effort on digitising operations, where it pursues the omni-channel paradigm and strives for an excellent user experience. Over the past few years, the multiannual SOA project has resulted in the establishment of a technological platform, IT development processes and key know-how in the field of service-oriented architecture (SOA). In 2016, the implementation and improvement of key building blocks of the IT-system using new technologies will continue, involving elements such as the business rules management system (BRMS) and the business process management (BPM) as well as the introduction of an API (Application Programming Interface) management system.

In 2016, Abanka will continue to implement projects aimed at increasing its process efficiency, strengthening its income-earning capacity, increasing its cost-efficiency and improving its risk management systems.

With regard to improving process efficiency, the Bank will continue with the development of IT support for retail loans and the redesign of IT support for the business processes of corporate banking operations.

In order to improve the efficiency of marketing activities, increase client satisfaction and acquire new clients, the Bank will upgrade the customer relations management system (CRM) in conjunction with state-of-the art marketing systems (digital marketing).

The development of new functionalities of the mobile banks Abamobi for retail clients and Abamobi com for corporate clients will continue. New functionalities of online banks Abanet and Abanet com for retail and corporate clients will also be implemented.

EMPLOYEES

PERSONNEL POLICY AND THE EDUCATIONAL STRUCTURE OF EMPLOYEES

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

The year 2015 was mainly characterised by the activities surrounding the merger of Banka Celje with Abanka. These included, among others, adaptation of internal regulations, establishment of an appropriate organisational structure, post classification, creation of a uniform personnel and wage policy and a uniform personnel application support, revision of collective and individual employment agreements, definition of the profile structure and the number of necessary providers by individual process, job and organisational unit within the Bank, fulfilment of managerial posts and appointment of key personnel of the merged bank. The employees and the union were promptly informed about the progress of activities and the key milestones. In parallel, employee education and training were performed, which continue in the merged bank. In 2015, the Bank intensified its internal labour market, selectively replaced employees on longer leaves and recruited new employees only when no appropriate personnel was available in-house. The Bank will continue with its restrictive Recruitment and Remuneration Policy and human resource optimisation programme also in 2016.

On 5 October 2015, Abanka took over 450 employees of Banka Celje. As at the 2015 year-end, the Bank had 1,248 employees, including the employees of Banka Celje as at the end of 2014, which is 64 less employees than at as the 2014 year-end in both banks.

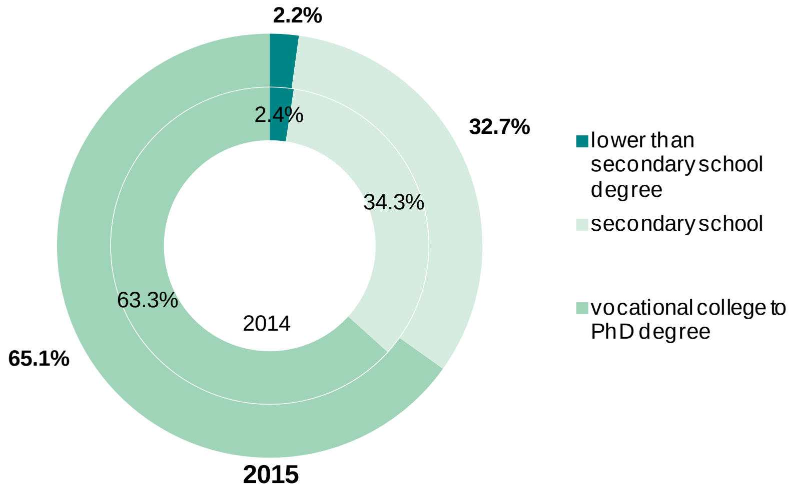
Other disclosures about human capital of the Abanka Group and Abanka in 2015 are shown in the table below:

	The Abanka Group	Abanka
Total employees as at 31 December 2015	1,292	1,248
Average number of employees during the year	1,339	1,291
New recruits in 2015	27	25
Employees leaving in 2015	97	89
Employees – permanent work contract	1,265	1,224
Employees – fixed-term work contract	27	24
Employees with disabilities	25	25

1,248

employees of Abanka as at the 2015 year-end

EMPLOYEE EDUCATIONAL STRUCTURE IN ABANKA IN 2015 AND 2014



POLICY ON ASSESSMENT OF PROFESSIONAL COMPETENCE AND ADEQUACY

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

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

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

In line with the legislation and the implementation of this policy, the Supervisory Board of the Bank discussed and approved the assessments of suitability also in 2015.

The »fit & proper« principle
by following this principle, the Bank aims to appoint independent persons who make fair and informed decisions, manage and monitor the work and operations of the Bank and its subsidiaries.

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

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

At least once a year, a periodic report is produced and presented to both the Human Resource Committee and the Supervisory Board of the Bank on the implementation of this policy. In line with the legislation and the implementation of this policy, the Supervisory Board of the Bank discussed the report on the execution of this policy also in 2015.

STAFF TRAINING AND DEVELOPMENT

Employee education and training are of even greater importance not only at a time when the Bank faces changes and uncertain external market conditions but also during the operational merger into the merged bank.

The key activity of the merger of Banka Celje with Abanka was the execution of employee development training courses. The aim was to provide adequate knowledge and skills to employees for smooth performance of the work process in the merged bank. In-house product or service training was carried out with the corresponding application support. Specifically, it was implemented through traditional training courses and additional mentoring schemes by appointing mentors who trained employees on-the-spot.

In 2015, the staff involved in **management duties** were faced with additional challenges resulting from the merger of Banka Celje. The staff performing management duties were trained to acquire or enhance their managerial skills, motivation to target achievement, responsibility at work, to foster mutual trust and motivate other employees, as well as to improve communication with employees at all managerial levels.

Upgrading the competences of employees is an important comparative advantage in the job market – both internal and external.

Abanka is dedicated to promoting the internal transfer of knowledge. As in previous years, most training programmes in 2015 were in-house, carried out by either bank employees or external providers.

Abanka is dedicated to promoting
the internal transfer of knowledge.

Abanka organised **training programmes for new banking services**, various programmes and courses tailored to the Bank's needs and **English language courses**.

In 2015, Abanka proceeded with its **e-courses** on money laundering and terrorist financing prevention, which were available to all employees in corporate banking in need of such training. The concept of e-learning in the bank was upgraded with an e-classroom, through which employees have access to individual educational content. In the reporting period, an orientation seminar for employees following the merger of Banka Celje with Abanka and training in archiving were prepared and executed through the e-classroom.

Management of sales and marketing knowledge and skills of the front office staff is one of the key factors in achieving business goals of the Bank. Moreover, the Bank intensified the marketing and sales training courses, in which the front office staff participated.

In the reporting period, the Bank continued the **in-house college for Abanka's branch managers**, which is also set to continue in 2016.

In 2015, the number of employees included in education and training amounted to 1,109, i.e. 88.8% of total staff. The average number of education/training hours per employee was 16.76, and 18.27 hours for managerial staff.

As in previous years**, work study** of the employees selected in an internal call was co-financed in 2015.

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

Employee development is one of the most important HR functions and therefore a systematic and regular training is held to foster the professional and personal development of employees. In filling the vacancies, priority is given to existing employees, thereby enabling their advancement and at the same time **carrying out in-house staff restructuring**.

The Bank is aware that the **key staff** are of paramount importance, therefore special attention is devoted to identification and management of key staff. Key staff management provides an opportunity for the employees to have a successful career, while their visibility and development brings greater added value and competitive advantages for the Bank. The key personnel of the Bank includes 9.9% of employees.

STAFF REMUNERATION

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

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

Every year, **jubilarians** (the employees who have continuously worked in the Bank for 10, 20, 30 or 40 years) **and selected best front office staff and employees** from middle and back office are rewarded.

In the reporting year, **promotions** based on criteria stipulated in the Promotion and Remuneration Rules were limited in line with the personnel policy, but nevertheless partly carried out in mid-2015.

The Bank established **a scholarship system for the children of deceased employees**. One scholarship agreement was concluded in 2015, which will continue in 2016.

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

DEVELOPMENT OF THE ORGANISATIONAL CULTURE

Organisational culture in the Bank is based on promoting the Bank as a **successful and desirable employer**.

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

By rewarding the jubilees and giving recognition to those employees who deserve it, **loyalty and commitment to the Bank** are built.

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

Taking into account the abilities of the work process, Abanka implements measures designed to help its staff reconcile their professional and family life within the framework of the **"Family Friendly Company"** certificate.

In 2015 the measures related to the "Family-Friendly Company" certificate continued to be carried out.

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

REMUNERATION POLICY

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

The bodies in charge of the formulation, implementation and control of the remuneration policy are the Management Board, the Remuneration Committee as a professional body of the Supervisory Board and the Supervisory Board. Furthermore, independent control functions within the Bank participate in the creation, control and assessment of adequacy of the remuneration policy. Once a year, the Bank reports on the implementation of the remuneration policy to the Remuneration Committee and the Supervisory Board as part of a periodic report; such a report was given in July 2015.

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

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

Abanka defined that "employees whose work is of a specific nature"[17] include the Management Board, the authorised representative of the Management Board, Director of the Risk Management Department, Director of the Internal Audit Department, Head of Compliance Office, Head of Legal Office, Director of the Personnel and Organisation Department and Director of the Investments Under Scrutiny Department. The employees whose work is of a specific nature are defined based on qualitative and quantitative criteria of the remuneration policy.

The remuneration policy of Abanka is in compliance with the Bank’s mission, the business strategy of the Bank, its risk management strategy, the Bank's corporate culture, the values of the Bank and its set goals. The remuneration policy and practice are strictly focused on the fulfilment of the Bank's business strategy objectives and adjusted to the risk profile of the Bank and its risk-taking ability.

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

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

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

INFORMATION TECHNOLOGY

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

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

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In **own software solution development**, a great deal of effort was put in the first phase of the merger between Abanka and Banka Celje. The data transfer of natural and legal entities of Banka Celje to Abanka's central register of persons took place. A large number of updates were made to the information systems, which were necessary because of the merger (execution of payment transactions, ATM settlements, upgrades of the overnight deposit system, etc.). Various code lists of Abanka were updated with the operations of Banka Celje and joint data for analytical bookkeeping and the data warehouse were provided so as to ensure reporting for the merged bank immediately after the legal merger. In October 2015, the second phase of the merger process began, which will ensure the operational merger of both banks (see also Section Project Plan).

Special attention was paid to replacing the obsolete IT systems and consolidating the development tools. The last software solutions written in the Clipper and Cobol programming languages were excluded from production use. A new application for counter operations was created and introduced. A new software solution for annuity payments based on the savings was prepared, which went into production in January 2016.

The development of IT systems for business segment products and the systems supporting the Bank's operations continued. A software solution was created for the queries of the Financial Administration of the Republic of Slovenia (FURS) via the ZBS B2B system, the application for retail deposits was redesigned and upgraded with the business process management (BPM) system and the business rule management system (BRMS), e-signing of documents for overdrafts and deposits was implemented, several applications were upgraded due to the MIF++ regulation, software support for the process of mass balancing of personal accounts was introduced and a number of other applications were upgraded due to new business and regulatory requirements.

The Information Technology Division continued to develop a new IT support for marketing corporate loans, deposits and guarantees, introduced the e-training application, designed a new application for collateral management, launched a completely new early warning system (EWS) or application to detect an increased credit risk, and introduced a new generation of corporate e-banking Abanet com and corporate mobile banking Abamobi com.

As part of the IT consolidation and modernisation, the third phase of the transition to a service-oriented architecture (SOA) was completed. The service-oriented architecture makes the development and maintenance of IT solutions more efficient by increasing responsiveness, re-use, reducing coupling and enabling faster adjustments to changing requirements. Several applications fully compliant with the SOA guidelines were developed and put into use, while some applications are still in the development phase.

In outsourced software development in 2015, the focus was on the development and maintenance of the following systems: the Abanka's web pages, electronic banking (Abanet, Abamobi, Abacom, Abamobi com, Abanet com), AIII Mutual Pension Fund IT support, reporting systems (risks, asset liability management and liquidity management), treasury banking operations (AG Quantum and Risk systems) and back office systems (finance, salaries, invoice settlement). Apart from that, the focus was on coordinating the development of Abanka's subsidiaries' systems.

In **information system protection and security**, in 2015 Abanka continued with e-training courses for employees, regularly carried out IT risk analyses and risk analyses in subsidiaries as well as participated in IT audits and inspections. Controls over the functioning of security mechanisms were extended and the Division participated in the planning and implementation of IT system security modifications and incident management. Other tasks of promotion and IT security improvement included cooperation with external institutions (the Bank Association of Slovenia), associations (ISACA, the Slovenian Institute of Auditors) and other banks. Special attention was devoted to the testing of security settings by using vulnerability and penetration tests. Abanka continued developing an integrated system of audit trail management, user identity management and security management system.

The development project of a **bank data warehouse** (BDW) continued in 2015. The transactions of merchant card operations (acquiring) began to be imported and automatic posting in the AKNJ analytical bookkeeping application was created. The data warehouse provides the data for a uniform customer overview, support for corporate loans, deposits and guarantees, support for retail loans, an early warning system to detect an increased credit risk and a new generation of corporate e-banking. Regarding the reporting systems, new data marts for the blacklist, the guarantee scheme and write-offs in the BDW were upgraded and developed. This resulted in lower maintenance costs as the old reporting modules used for this purpose were abolished. In 2015, particular focus was on the preparation and upgrade of the procedures connected to the Abanka and Banka Celje merger. The data warehouse was upgraded to provide all the necessary data of the merged bank for all regulatory reports, as well as for certain regular daily reports (exposure to individual loans and exposure to related parties, utilisation of limits, indirect exposure, controlling reports, past due and outstanding loans, etc.).

In **IT management**, the greatest amount of resources and attention in 2015 were devoted to the merger project of both banks. A link between both information systems was established and servers were installed in Banka Celje branches. Moreover, it was ensured that Abanka's applications are operating in the branches of the former Banka Celje and vice versa where necessary. Although the legal merger went through without any difficulties, it is necessary to point out that the first phase of the merger was very demanding in terms of logistics, as it involved a lot of technical and content coordination at the data level so as to ensure smooth functioning of numerous applications for a number of users, who had to be assigned a user identity in Abanka's systems as well as rights in the applications.

The Division also participated in other business projects undertaken by the Bank and its subsidiaries, for which the Bank provides IT management services. Apart from these activities, in IT infrastructure several activities were performed, the most important included upgrading the Oracle system, transferring the operation of Abacom from the Bank to an outsourcer, replacing application servers, upgrading MS Office to version 2013, replacing the user authentication system at the network level, commencing the purchase of new database servers, which will be necessary due to the increase in the volume of data following the operational merger, and upgrading the firewalls and the web traffic filtering system. In addition, the Department regularly updated both the system and application software of servers, workstations and communication equipment.

In technical support and general services, in 2015 the Department focused on internal user assistance requests, data processing and system operation control, installations of new hardware and software – including new ATMs, installations and maintenance of other equipment, assistance in the relocation of employees due to reorganisation, office building maintenance, refurbishment projects for business premises and post room management.

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

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

ECONOMIC DEVELOPMENT

Abanka is aware that as a bank it plays a key role in the recovery of the Slovene economy, therefore it remains committed to excellence in meeting the financial needs of its customers by providing the services of the highest quality. Abanka strives to provide a personalised approach and to rapidly adapt its range of products and services, while honouring its commitments to sustainable development. In business development, Abanka endeavours to combine business requirements with the principles of sustainable development as well as utilise the power of its human and financial capital in order to connect its customers and partners so as to enable them to take full advantage of new sustainable environmental economics. Transition to an environmentally sustainable economy will affect us all, directly or indirectly. The future business success will increasingly depend on the ability of economic entities to adapt their business to global climate changes and challenges brought by these changes. The Bank is aware of its important role on the path towards a new era of sustainability and progress.

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Through various activities, Abanka strives to support sustainable development and create potential for business performance and economic growth:

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

Currently, the Bank faces important challenges, such as climate change, and is aware that the path to sustainable development is not without obstacles. The necessary transition from the existing technologies based on fossil fuels to clean technologies based on renewable resources that do not pollute the environment will be multifaceted and involve everybody in one way or another. In addition to this transition, the Bank is focused on finding synergies that help take advantage of the existing financial opportunities and create new ones for an environmentally and economically healthy future.

Internal Communication

With responsible and ethical internal communication Abanka supports the attainment of its business objectives and operations in compliance with the guidelines and values laid down in the Bank's strategy. In 2015, Abanka devoted even greater attention to internal communication, particularly due to the merger with Banka Celje. Obtaining the confidence and commitment of employees was an important task for all parties involved, as during the merger process the employees were exposed to major changes. In order to achieve greater employee commitment and to make it easier for the employees to cope with the changes, clear, precise and timely messages regarding the merger process were communicated through systematic communication.

Abanka continued with activities that increased employee information on important events concerning the merger, enabled the flow of information and built employee loyalty. Due to the geographical dispersion, important internal information and/or responses to topical issues were rapidly disseminated, mainly via e-mail as messages of the Management Board or corporate communication messages, as well as via the Intrabanka intranet portal. Hierarchical transfer of information among employees during major events took place in the form of personal meetings within their organisational units.

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Upon important and high-profile events, employee responses to media reporting on Abanka were prepared, thus supporting transparent communication of employees with the customers. A meeting of the Management Board and top managers with all employees was organised.

In 2015, four issues of the in-house magazine **"View from the Inside"** were produced to inform the staff of innovations in the operations of Abanka and of its new products and to give in-depth information on expert topics.

Communication with the Media

Information provided by the media affects the information of the public at large as well as the formation of opinions and views. The public image of Abanka is also presented through cooperation with the journalists. In 2015, most questions were raised about the merger of Banka Celje. Other questions, which were received on a daily basis, referred to various banking services and activities in all business segments. The most important source of corporate information is the legally required disclosure of information on the websites of Ljubljana Stock Exchange and of Abanka, which is simultaneously published in the Slovene and English languages.

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Publications in various media are followed on a daily basis via clipping, while an in-depth assessment of publications is made on a semi-annual and annual basis through a media presence analysis. On the basis of the analysis, corporate communication is planned and certain reputational risk parameters are assessed. Few negative articles were published about the received state aid in 2015, but most publications were neutral.

Sponsorships and Donations

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

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PROTECTION OF THE ENVIRONMENT

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

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

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

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INTERNAL AUDIT

ORGANISATIONAL POSITION OF THE INTERNAL AUDIT DEPARTMENT

The Internal Audit Department (IAD) performs **constant and comprehensive** oversite of the operations of the Bank and the subsidiaries within the Abanka Group in relation to:
- monitoring and assessment of effectiveness of the internal governance system;
- evaluation of the internal capital adequacy assessment process (ICAAP) with respect to the Group's internal risk assessment;
- assessment of the reliability of the IT system, including the electronic information system and electronic banking services;
- assessment of the credibility and reliability of accounting records and financial reports;
- verification of reporting and compliance of the Group's operations with internal rules and regulations as well as conduct of special investigations.

The IAD is organised **as an independent department** directly accountable to the Management Board. Its authorisations, responsibilities, tasks and methods of operation are defined in detail in the Rules of the Internal Audit Department, which were adopted by the Management Board with the agreement of the Supervisory Board/the Audit Committee.

In the Medium-Term Strategy of the Bank for the 2014–2018 Period are also included guidelines for the IAD's work and its quality development. The audit plan, which is based on a risk profile assessment of the auditing environment in the Abanka Group, is approved annually by the Management Board in agreement with the Supervisory Board/the Audit Committee.

Until the merger (acquisition) of Banka Celje with Abanka, internal auditing in Banka Celje was performed by the Internal Audit Department based on the adopted Rules of the Internal Audit Department and the outline annual work programme.

In the reporting period, the IAD employed eight internal auditors including the IAD Director. The internal auditors have an in-depth knowledge of the field and the banking processes and hold the following titles and/or licences: certified internal auditor, auditor and certified auditor, obtained from the Slovenian Institute of Auditors or ACCA[18], and the professional titles granted by CISA[19]. With the merger of Banka Celje, the IAD was strengthened by 4 employees, including a certified information systems auditor. Information technology and information system audits performed by the IAD in 2015 also included external certified information systems auditors.

OPERATIONS AND ASSESSMENT OF INTERNAL GOVERNENCE

In 2015, the Internal Audit Department operated in accordance with the adopted work plan for 2015. On the basis of changes in the risk profile assessment and because of the merger process with Banka Celje, the work plans for the second half of 2015 was amended. In the context of activities related to the merger of Banka Celje and Abanka, the IAD drew up an operational work plan for the merged bank for the fourth quarter of 2015.

The IAD performed audits, consulting and other services, monitored the implementation of recommendations and requirements made by external auditors and supervisory institutions to assess the internal governance system (organisational structure, risk management, the internal control system and the remuneration system), and gave recommendations to achieve business and strategic objectives and for transparent and compliant operations.

The audits focused on: the retail and corporate electronic banking IT system, the retail loan process, investment and cost management, fee and commission charging and calculation of interest by services of the Bank, the asset-liability management process, the system for monitoring of commitments made to the European Commission under the restructuring plan and the operations of the subsidiary Anepremičnine. The execution of business processes in the branch network was audited after the legal merger of Abanka and Banka Celje. In line with the requirement of Article 144 of the Banking Act (ZBan-2), the IAD assessed the compliance of remuneration practices with the Remuneration Policy for employees whose actions have a material impact on the risk profile of the bank.

The Internal Audit Department verified the authenticity of Disclosures of the Abanka Group for 2014 in line with the CRR Regulation, the Decision Regulating Disclosures by Banks and Savings Banks and the data and information in the Annual Report of the Abanka Group for 2014. Furthermore, compliance with security requirements of the international organisation Visa

[18] ACCA stands for Association of Chartered Certified Accountants.
[19] CISA stands for Certified Information Systems Auditor.

Inc. in the processing of VISA credit cards was reviewed and an assessment of the control environment quality in the ICAAP process for 2015 was made.

At the request of the SID Bank, additional checks were conducted with regard to the due diligence investigation of collateral quality under the Republic of Slovenia Guarantee Scheme Act (ZJShemRS). Upon a special request of the management body, the audit of business operations of the subsidiary Afaktor Belgrade was conducted.

In the period up to the legal merger, the Internal Audit Department of Banka Celje conducted audits mainly focused on credit and operational risk management. The audits focused on: achievement of strategic, liquidity and profitability risk management goals, implementation of activities connected to the customers with an increased credit risk and to problematic debtors, collection related to customers in personal bankruptcy and small and medium-sized enterprises, procedures of freezing and de-freezing corporate transaction accounts, prevention of money laundering and terrorist financing, use of authorisations for card accounts, the electronic archiving process, safe-deposit box rental services and management of transitory and temporary accounts. The IAD checked the internal controls in the data merger/transfer process from Banka Celje to Abanka, the security measures, the operation of online banking and the use of data from the data warehouse.

Through formal advisory services, the IAD helped develop internal governance arrangements. The IAD participated in the preparation of statements of the governing body regarding risks in line with the requirement of Article 435 of CRR Regulation, helped set up the risk management processes, participated in the preparation of the report on the fulfilment of ECB recommendations relating to online payment security, advised on the establishment of the internal control system for accounting and financial reporting and assisted in the formulation of guidelines for concluding agreements for the services provided by external auditors. Moreover, the IAD provided assistance to the Audit Committee in performing its tasks, specifically in the selection of tenderers and the conclusion of agreements with external auditors. The Rules of Procedure of the Audit Committee were also revised.

In 2015, the Internal Audit Department held a training course on internal controls, fraud and internal auditing as part of the programme of the in-house college for Abanka's branch managers and presented itself on an orientation e-training course for Banka Celje employees.

Due to the changed risk profile of the auditing environment and because of the merger process with Banka Celje, certain audits, although included in the Internal Audit Department's work plan for 2015 of Abanka and Banka Celje, were not performed. These segments in the audit environment (i.e. the ICAAP process, internal governance and certain supported business processes) were re-examined and included into the work plan for the next two years. The Internal Audit Department's work plan for 2016 was approved by the Management Board in consent with the Supervisory Board and/or the Audit Committee.

As a part of the application for authorisation of the Bank of Slovenia for the merger of Abanka and Banka Celje, the IAD prepared a work plan for the first two years of operations of the merged bank and an outline audit plan for 2016 and 2017.

REPORTING ON PERFORMED WORK

All management levels, including the Management Board, were informed in writing of the findings of the audits performed by the IAD. A summary of significant audit findings, proposals of measures and recommendations as well as the realisation of the Annual Audit Plan for 2015 were reported to the Management and Supervisory Boards/the Audit Committee on a periodic basis. Based on a review of the response reports of individuals in charge and re-verifications, the IAD monitored the implementation of remedial measures and reported on this to the Management and Supervisory Boards and/or the Audit Committee.

THE INTERNAL AUDIT QUALITY

Based on an external quality assessment of the IAD in early 2014, it was found that the IAD generally complied with the standards. In 2015, the IAD performed activities to implement the short- and medium-term activities aimed at improving the quality of internal auditing.

In the merger process with Banka Celje, the Internal Audit Department unified the Rules on the Operation of the Internal Audit Department. The Rules on the Work of the Internal Audit Department were revised, while the methodologies of work were updated. The workshops for the adoption of uniform work rules for all IAD employees were held. In the fourth quarter of 2015, the IAD operated as a single function of the merged bank.

SENIOR MANAGEMENT

MANAGEMENT BOARD	Jože Lenič	President of the Management Board
	Aleksander Vozel	Member of the Management Board
	Matej Golob Matzele[20]	Member of the Management Board
	Davorin Leskovar	the authorised Representative of the Management Board
Compliance	Bojan Salobir	Director of the Compliance
Internal Audit	Klavdija Markič	Director of the Internal Audit
Custody and Administrative Services	Jasmin Furlan	Director of the Custody and Administrative Services
Legal	Tomaž Marinček	Director of the Legal
Personnel and Organisation	Mateja Sedej	Director of the Personnel and Organisation
CORPORATE BANKING DIVISION	Matej Golob Matzele[21]	Division Executive Director
	Blaž Stiplovšek[22]	Division Executive Director
	Barbara Jagodič	Director of the Key Accounts Sector
	Robert Vrenko	Director of the SME Banking Sector
	Nataša Velunšek Golčer	Director of the Commercial and Documentary Operations
RETAIL BANKING AND SMALL BUSINESS DIVISION	Nataša Damjanovič	Division Executive Director
	Jasna Kajtazović	Director of the Development and Marketing Department
	Bojan Stanković	Director of the Central Slovenia Main Branch Office
	Alenka Kikec	Director of the East Slovenia Main Branch Office
	Julija Šušmelj Stevanovič	Director of the West Slovenia Main Branch Office
	Urška Travner	Director of the Celje Main Branch Office
FINANCIAL MARKETS DIVISION	Boštjan Herič	Division Executive Director
	Jure Gedrih	Director of the Treasury
	Blaž Angel	Director of the Investment Banking
	Maja Domitrovič	Director of the Financial Institutions
RISK MANAGEMENT DIVISION	Stojan Hostnik	Director of the Risk Management
	Simon Svet	Director of the Investments Under Scrutiny
FINANCE DIVISION	Alenka Plut	Division Executive Director
	Irena Rojc	Director of the Accounting
	Silva Matko Gosak	Director of the Controlling and Reporting
	Boštjan Rupar	Director of the Assets and Liabilities Management
INFORMATION TECHNOLOGY DIVISION	Matej Jereb	Division Executive Director
	Janez Krašovec	Director of the Information Technology Development
	Davor Hvala	Director of the IT Governance
	Ivan Turk	Director of the Information Technology and General Services
BACK-OFFICE OPERATIONS DIVISION	Nada Mertik	Division Executive Director
	Mojca Žlak	Director of the Back-Office Operations
	Marija Kordiš	Director of the Banking Operations
	Monika Radovič	Director of the Due Recovery and Executions

Senior management organisational chart as at 31 December 2015.

[20] He began his term of office on the Management Board on 28 December 2015.
[21] At the beginning of his term of office of a Management Board member, he performed this function until a new Executive Director was appointed.
[22] He took over the Corporate Banking Division on 1 January 2016.

BRANCH NETWORK

Regional and branch offices of Abanka

CENTRAL SLOVENIA MAIN BRANCH OFFICE

Slovenska Branch Office	Slovenska 50	Ljubljana
Šiška Branch Office	Celovška 106	Ljubljana
Pražakova Branch Office	Kolodvorska 9	Ljubljana
Bežigrad Branch Office	Dunajska 48	Ljubljana
Njegoševa Branch Office	Njegoševa 8	Ljubljana
Loterija Branch Office	Gerbičeva 99	Ljubljana
Smelt Branch Office	Dunajska 160	Ljubljana
Vič Branch Office	Tržaška 87	Ljubljana
Šmartinska Branch Office	Šmartinska 102–104	Ljubljana
Logatec Branch Office	Tržaška 50	Logatec
Domžale Branch Office	Ulica Nikole Tesle 19	Domžale
Novo mesto Branch Office	Rozmanova 40	Novo mesto
Novo mesto Mercator center Branch Office	Ljubljanska c. 47	Novo mesto
Trnovo Branch Office	Ziherlova 4	Ljubljana
Kranj Branch Office	Nazorjeva 1	Kranj
Jesenice Branch Office	Maršala Tita 39a	Jesenice
Tržič Branch Office	Cankarjeva 1a	Tržič

EAST SLOVENIA MAIN BRANCH OFFICE

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

WEST SLOVENIA MAIN BRANCH OFFICE

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

CELJE MAIN BRANCH OFFICE

Miklošičeva Celje Branch Office	Miklošičeva 6	Celje
Vodnikova Celje Branch Office[23]	Vodnikova 2	Celje
Ljubljanska Celje Branch Office	Ljubljanska 1A	Celje
Vojnik Branch Office	Celjska cesta 29	Vojnik
CMH Branch Office	Krekov trg 6	Celje
Interspar Celje Branch Office	Mariborska cesta 100	Celje
TUŠ Celje Branch Office	Mariborska cesta 128	Celje
Mercator Celje Branch Office	Opekarniška 9	Celje
Nova vas Branch Office	Ulica Bratov Vošnjakov 1	Celje
Slovenske Konjice Branch Office	Oplotniška 1A	Slovenske Konjice
Zreče Branch Office	Cesta na Roglo 13B	Zreče
BC Žalec Branch Office	Savinjska cesta 20	Žalec
Mozirje Branch Office	Na trgu 53	Mozirje
Šempeter (CE) Branch Office	Rimska cesta 89	Šempeter v Savinjski dolini
Polzela Branch Office	Malteška cesta 38	Polzela
Šentjur Branch Office	Mestni trg 8	Šentjur
Laško Branch Office	Valvasorjev trg 5	Laško
Radeče Branch Office	Ulica OF 4A	Radeče
Rogaška Slatina Branch Office	Kidričeva 5	Rogaška Slatina
Šmarje Branch Office	Aškerčev trg 13	Šmarje pri Jelšah
Podčetrtek Branch Office	Zdraviliška cesta 27C	Podčetrtek
Rogatec Branch Office	Ulica ceste 10	Rogatec

Branch network overview as at 31 December 2015.

[23] The branch office on Vodnikova in Celje was closed on 31 December 2015.

FINANCIAL REPORT

Determined

With **excellence** that permeates our efforts.
With **partnerships** that take us to a higher
Business level. With **innovation** in everything we do,
And perfection in our **execution**.

With a clear vision to become Slovenia's
Number one bank of choice for our customers,
Employees and investors.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of ABANKA d.d. and the consolidated financial statements of the ABANKA GROUP for the year ended 31 December 2015 (pages 97 to 112 of the Annual Report), the applied accounting policies, and the notes to the financial statements (pages 113 to 239 of the Annual Report).

The Management Board is responsible for preparing the Annual Report, which gives a true and fair representation of the financial position of the Bank and the Group as at 31 December 2015, and the results of their operations for the year then ended.

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

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

In the year ended 31 December 2015, Abanka d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 14 March 2016

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

FINANCIAL STATEMENTS

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(All amounts in EUR thousand unless otherwise stated)

INCOME STATEMENT OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
1	Interest income	5	111,215	170,763
2	Interest expenses	5	(34,760)	(76,300)
3	**Net interest income (1+2)**		**76,455**	**94,463**
4	Dividend income	6	1,089	1,392
5	Fee and commission income	7	58,620	58,253
6	Fee and commission expenses	7	(16,643)	(16,035)
7	**Net fee and commission income (5+6)**		**41,977**	**42,218**
8	Net realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	8	32,093	(43,894)
9	Net gains on financial assets and liabilities held for trading	9	2,371	813
10	Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	10	98	(144)
11	Fair value adjustments in hedge accounting	11	(116)	12
12	Exchange differences		40	577
13	Net losses on derecognition of assets		(208)	(921)
14	Net other operating expenses	12	(12,669)	(11,337)
15	Administration costs	13	(72,004)	(71,607)
16	Depreciation and amortisation	14	(9,221)	(8,203)
17	Provisions	15	32,572	(60,268)
18	Impairment	16	(42,449)	(164,782)
19	Total loss from non-current assets held for sale		(3)	(127)
20	TOTAL PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)		50,025	(221,808)
21	Tax (expense)/income related to profit/(loss) from continuing operations	17	(7,250)	6,130
22	TOTAL PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS (20+21)		42,775	(215,678)
23	**NET PROFIT/(LOSS) for the financial year (22)**		**42,775**	**(215,678)**

These financial statements were approved for issue by the Management Board on 14 March 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 113 to 239 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
1	**NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX**		**42,775**	**(215,678)**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX (3+4)**		**6,257**	**25,086**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1)**		**(417)**	**82**
3.1	Actuarial (losses)/gains on defined benefit pensions plans	34	(417)	82
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1+4.2)**		**6,674**	**25,004**
4.1	Available-for-sale financial assets (4.1.1+4.1.2)	21	8,486	32,109
4.1.1	Net valuation gains taken to equity		23,646	48,067
4.1.2	Net gains transferred to profit or loss		(15,160)	(15,958)
4.2	Income tax relating to items that may be reclassified to profit or loss	35	(1,812)	(7,105)
5	**TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**49,032**	**(190,592)**

These financial statements were approved for issue by the Management Board on 14 March 2016.

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(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2015	2014
1	2		3	4
1	Cash, cash balances with the central bank and other demand deposits with banks	18	281,267	342,641
2	Financial assets held for trading	19	8,556	13,320
3	Financial assets designated at fair value through profit or loss	20	2,452	2,354
4	Available-for-sale financial assets	21	1,457,768	1,750,075
5	Derivatives - hedge accounting	19	237	1,424
6	Loans and receivables		1,978,296	2,096,994
	– loans to banks	22	96,513	111,824
	– loans to non-bank customers	23	1,869,335	1,976,171
	– other financial assets	24	12,448	8,999
7	Held-to-maturity investments	25	32,126	32,226
8	Non-current assets held for sale	26	806	4
9	Property and equipment	26	40,744	44,360
10	Investment property	26	180	2,380
11	Intangible assets	26	8,870	9,445
12	Investments in subsidiaries	27	6,024	5,955
13	Tax assets		8,797	9,833
	– current tax assets		–	1
	– deferred tax assets	35	8,797	9,832
14	Other assets	28	2,340	2,621
15	**TOTAL ASSETS (from 1 to 14)**		**3,828,463**	**4,313,632**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2015	2014
1	2		3	4
16	Financial liabilities held for trading	19	4,742	8,886
17	Financial liabilities measured at amortised cost		3,205,417	3,711,421
	– deposits from banks and the central bank	30	15,422	13,411
	– deposits from non-bank customers	31	2,846,889	3,092,462
	– loans from banks and the central bank	30	263,312	431,442
	– loans from non-bank customers		627	1,604
	– debt securities issued	32	61,860	156,568
	– other financial liabilities	33	17,307	15,934
18	Provisions	34	57,431	92,442
19	Tax liabilities		11,196	3,292
	– current tax liabilities		2,343	–
	– deferred tax liabilities	35	8,853	3,292
20	Other liabilities		1,212	1,127
21	TOTAL LIABILITIES (from 16 to 20)		3,279,998	3,817,168
22	Share capital	36	151,000	151,000
23	Share premium	36	282,459	303,517
24	Accumulated other comprehensive income	36	53,124	46,867
25	Reserves from profit	36	20,533	16,181
26	Retained earnings (including income from the current year)		41,349	(21,101)
27	TOTAL EQUITY (from 22 to 26)		548,465	496,464
28	**TOTAL LIABILITIES AND EQUITY (21+27)**		**3,828,463**	**4,313,632**

These financial statements were approved for issue by the Management Board on 14 March 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 113 to 239 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including profit from the current year)	Total equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**87,296**	**43,354**	**13,233**	**–**	**294,883**
2	Acquisition of Banka Celje - opening balance (Note 36)	50,000	166,221	3,513	2,948	(21,101)	201,581
3	Acquisition of Banka Celje - transfer of share capital to share premium (Note 36)	(50,000)	50,000	–	–	–	–
4	Acquisition of subsidiary AB58 (Note 27)	–	–	–	117	2,848	2,965
5	**OPENING BALANCE FOR THE REPORTING PERIOD - after acquisition (1+2+3+4)**	**151,000**	**303,517**	**46,867**	**16,298**	**(18,253)**	**499,429**
6	**Comprehensive income for the financial year after tax**	**–**	**–**	**6,257**	**–**	**42,775**	**49,032**
7	Transfer of net profit to reserves from profit	–	–	–	4,278	(4,278)	–
8	Covering of the loss brought forward (Note 37)	–	(21,058)	–	(43)	21,101	–
9	Other	–	–	–	–	4	4
10	**CLOSING BALANCE FOR THE REPORTING PERIOD (5+6+7+8+9)**	**151,000**	**282,459**	**53,124**	**20,533**	**41,349**	**548,465**
11	**DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR**	**–**	**–**	**–**	**–**	**22,100**	**22,100**

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY OF ABANKA VIPA D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2014

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including loss 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 adjustment)**	**150,000**	**39,617**	**9,854**	**13,223**	**–**	**212,694**
2	Acquisition of subsidiary Analožbe	–	–	–	10	254	264
3	**OPENING BALANCE FOR THE REPORTING PERIOD (1+2)**	**150,000**	**39,617**	**9,854**	**13,233**	**254**	**212,958**
4	**Comprehensive loss for the financial year after tax**	**–**	**–**	**33,500**	**–**	**(194,577)**	**(161,077)**
5	New share capital subscribed (paid)	1,000	242,000	–	–	–	243,000
6	Covering of the loss from the current year	–	(194,321)	–	(2)	194,323	–
7	Other	–	–	–	2	–	2
8	**CLOSING BALANCE FOR THE REPORTING PERIOD (3+4+5+6+7)**	**151,000**	**87,296**	**43,354**	**13,233**	**–**	**294,883**

STATEMENT OF CHANGES IN EQUITY OF BANKA CELJE D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2014

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including loss from the current year)	Treasury shares (equity deduction item)	**Total equity (from 3 to 8)**
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**16,980**	**51,380**	**11,927**	**86,759**	**(126,257)**	**(31)**	**40,758**
2	**Comprehensive loss for the financial year after tax**	**–**	**–**	**(8,414)**	**–**	**(21,101)**	**–**	**(29,515)**
3	Expropriation of shareholders	(16,980)	16,980	–	(31)	–	31	–
4	New share capital subscribed (paid)	50,000	140,000	–	–	–	–	**190,000**
5	Covering of the loss brought forward	–	(42,433)	–	(83,824)	126,257	–	**–**
6	Other	–	294	–	44	–	–	**338**
7	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5+6)**	**50,000**	**166,221**	**3,513**	**2,948**	**(21,101)**	**–**	**201,581**

These financial statements were approved for issue by the Management Board on 14 March 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 113 to 239 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT OF ABANKA D.D.

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit/(loss) before tax		50,025	(221,808)
	Depreciation and amortisation	14	9,221	8,203
	Impairments of financial assets available for sale	16	39	6,493
	Impairments of loans and receivables	16	38,900	151,062
	Impairments of intangible assets and other assets	16	721	–
	Impairments of capital investments in subsidiaries	16	2,789	7,227
	Net (gains) from exchange differences		(40)	(577)
	Net (gains)/losses from sale of tangible assets		(29)	482
	Net losses from sale of intangible assets		237	–
	Other (gains) from investing activities	38	(1,191)	(4,252)
	Other losses from financing activities		–	1,030
	Net unrealised losses from non-current assets held for sale		3	127
	Other adjustments to total profit or loss before tax	38	(32,197)	132,381
	Cash flows from operating activities before changes in operating assets and liabilities		**68,478**	**80,368**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**		**358,927**	**323,721**
	Net decrease in financial assets held for trading		4,762	10,686
	Net (increase)/decrease in financial assets designated at fair value through profit or loss		(98)	82
	Net decrease/(increase) in financial assets available for sale		300,655	(7,129)
	Net decrease in loans and receivables		52,847	318,483
	Net decrease in derivatives - hedge accounting		1,187	2,013
	Net (increase) in non-current assets held for sale		(3)	(127)
	Net (increase) in other assets		(423)	(287)
c)	**(Decreases) in operating liabilities**		**(516,899)**	**(849,643)**
	Net (decrease) in financial liabilities held for trading		(4,144)	(3,414)
	Net (decrease) in financial liabilities designated at fair value through profit or loss		–	(8,842)
	Net (decrease) in deposits, loans and receivables measured at amortised cost		(418,149)	(808,352)
	Net (decrease) in debt instruments issued measured at amortised cost		(94,708)	(27,833)
	Net increase/(decrease) in other liabilities		102	(1,202)
d)	**Cash flows from operating activities (a+b+c)**		**(89,494)**	**(445,554)**
e)	**Income taxes (paid)**		**(75)**	**(1)**
f)	**Net cash flows from operating activities (d+e)**		**(89,569)**	**(445,555)**

(All amounts in EUR thousand unless otherwise stated)

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

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**1,407**	**122,770**
	Receipts from the sale of tangible assets		116	329
	Receipts from non-current assets held for sale		–	55
	Receipts from the sale of financial assets held to maturity	25	1,291	122,386
b)	**Cash payments on investing activities**		**(6,691)**	**(12,836)**
	(Cash payments to acquire tangible assets)		(1,987)	(1,950)
	(Cash payments to acquire intangible assets)		(4,704)	(3,947)
	(Cash payments for the investment in a subsidiary)		–	(37)
	(Cash payments to acquire held to maturity investments)		–	(6,902)
c)	**Net cash flows from investing activities (a+b)**		**(5,284)**	**109,934**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**95,000**
	Cash proceeds from issuing shares and other equity instruments		–	95,000
b)	**Cash payments on financing activities**		**–**	**(2,798)**
	(Cash repayments of subordinated liabilities)		–	(2,798)
c)	**Net cash flows from financing activities (a+b)**		**–**	**92,202**
D	Effects of change in exchange rates on cash and cash equivalents		4,352	4,887
E	**Net (decrease) in cash and cash equivalents (Af+Bc+Cc)**		**(94,853)**	**(243,419)**
F	**Opening balance of cash and cash equivalents**		**434,863**	**673,395**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**38**	**344,362**	**434,863**

These financial statements were approved for issue by the Management Board on 14 March 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 113 to 239 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED INCOME STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
1	Interest income	5	111,867	171,293
2	Interest expenses	5	(34,753)	(76,353)
3	**Net interest income (1+2)**		**77,114**	**94,940**
4	Dividend income	6	1,089	1,392
5	Fee and commission income	7	58,659	58,240
6	Fee and commission expenses	7	(16,784)	(16,345)
7	**Net fee and commission income (5+6)**		**41,875**	**41,895**
8	Net realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	8	32,140	(43,894)
9	Net gains on financial assets and liabilities held for trading	9	2,371	813
10	Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	10	98	(144)
11	Fair value adjustments in hedge accounting	11	(116)	12
12	Exchange differences		84	677
13	Net losses on derecognition of assets		(130)	(420)
14	Net other operating expenses	12	(11,216)	(8,204)
15	Administration costs	13	(74,765)	(74,644)
16	Depreciation and amortisation	14	(10,021)	(8,941)
17	Provisions	15	32,548	(59,520)
18	Impairment	16	(41,528)	(158,739)
19	Total loss from investments in subsidiaries and an associate		(540)	–
20	Total loss from non-current assets held for sale		(17)	(127)
21	TOTAL PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19+20)		48,986	(214,904)
22	Tax (expense)/income related to profit/(loss) from continuing operations	17	(7,264)	5,728
23	TOTAL PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS (21+22)		41,722	(209,176)
24	**NET PROFIT/(LOSS) for the financial year (23)**		**41,722**	**(209,176)**
	a) Profit/(loss) attributable to owners of the parent		41,722	(209,184)
	b) Profit attributable to non-controlling interests		–	8

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(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
1	**NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX**		**41,722**	**(209,176)**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX (3+4)**		**6,691**	**24,939**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1)**		**(417)**	**65**
3.1	Actuarial (losses)/gains on defined benefit pension plans	34	(417)	65
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1+4.2+4.3)**		**7,108**	**24,874**
4.1	Foreign currency translation (4.1.1+4.1.2)		433	(130)
4.1.1	Translation gains/(losses) taken to equity		7	(130)
4.1.2	Net losses transferred to profit or loss		426	–
4.2	Available-for-sale financial assets (4.2.1+4.2.2)	21	8,487	32,109
4.2.1	Net valuation gains taken to equity		23,647	48,067
4.2.2	Net gains transferred to profit or loss		(15,160)	(15,958)
4.3	Income tax relating to items that may be reclassified to profit or loss	35	(1,812)	(7,105)
5	**TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**48,413**	**(184,237)**
	a) Profit/(loss) attributable to owners of the parent		48,413	(184,245)
	b) Profit attributable to non-controlling interests		–	8

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(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2015	2014
1	**2**		**3**	**4**
1	Cash, cash balances w ith the central bank and other demand deposits w ith banks	18	281,289	342,681
2	Financial assets held for trading	19	8,556	13,320
3	Financial assets designated at fair value through profit or loss	20	2,452	2,354
4	Available-for-sale financial assets	21	1,457,768	1,750,075
5	Derivatives - hedge accounting	19	237	1,424
6	Loans and receivables		1,960,263	2,080,045
	– loans to banks	22	97,218	112,055
	– loans to non-bank customers	23	1,850,384	1,958,819
	– other financial assets	24	12,661	9,171
7	Held-to-maturity investments	25	32,126	32,226
8	Non-current assets held for sale	26	806	215
9	Property and equipment	26	43,485	48,882
10	Investment property	26	5,253	4,549
11	Intangible assets	26	9,108	9,564
12	Investment in a subsidiary	27	1,652	2,257
13	Tax assets		9,143	10,192
	– deferred tax assets	35	9,143	10,192
14	Other assets	28	18,089	16,624
15	**TOTAL ASSETS (from 1 to 14)**		**3,830,227**	**4,314,408**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2015	2014
1	2		3	4
16	Financial liabilities held for trading	19	4,742	8,886
17	Financial liabilities measured at amortised cost		3,204,933	3,706,111
	– deposits from banks and the central bank	30	15,422	13,411
	– deposits from non-bank customers	31	2,844,884	3,086,033
	– loans from banks and the central bank	30	263,312	431,442
	– loans from non-bank customers		558	1,498
	– debt securities issued	32	61,860	156,568
	– other financial liabilities	33	18,897	17,159
18	Provisions	34	57,527	92,502
19	Tax liabilities		10,891	3,317
	– current tax liabilities		2,038	25
	– deferred tax liabilities	35	8,853	3,292
20	Other liabilities		1,755	1,629
21	TOTAL LIABILITIES (from 16 to 20)		3,279,848	3,812,445
22	Share capital	36	151,000	151,000
23	Share premium	36	282,459	303,517
24	Accumulated other comprehensive income	36	53,108	46,417
25	Reserves from profit	36	20,533	16,359
26	Retained earnings (including income from the current year)		43,279	(15,330)
27	TOTAL EQUITY (from 22 to 26)		550,379	501,963
28	**TOTAL LIABILITIES AND EQUITY (21+27)**		**3,830,227**	**4,314,408**

These financial statements were approved for issue by the Management Board on 14 March 2016.

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(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total equity** (from 3 to 7)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**87,296**	**42,904**	**13,411**	**5,771**	**300,382**
2	Acquisition of Banka Celje - opening balance (Note 36)	50,000	166,221	3,513	2,948	(21,101)	**201,581**
3	Acquisition of Banka Celje - transfer of share capital to share premium (Note 36)	(50,000)	50,000	–	–	–	**–**
4	**OPENING BALANCE FOR THE REPORTING PERIOD - after acquisition (1+2+3)**	**151,000**	**303,517**	**46,417**	**16,359**	**(15,330)**	**501,963**
5	**Consolidated comprehensive income for the financial year after tax**	**–**	**–**	**6,691**	**–**	**41,722**	**48,413**
6	Transfer of net profit to reserves from profit	–	–	–	4,278	(4,278)	**–**
7	Covering of the loss brought forward	–	(21,058)	–	(104)	21,162	**–**
8	Other	–	–	–	–	3	**3**
9	**CLOSING BALANCE FOR THE REPORTING PERIOD (4+5+6+7+8)**	**151,000**	**282,459**	**53,108**	**20,533**	**43,279**	**550,379**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA VIPA GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2014

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including loss from the current year)	**Equity attributable to owners of the parent (from 3 to 7)**	Equity attributable to non-controlling interests	**Total equity (8 + 9)**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**150,000**	**39,617**	**9,551**	**13,398**	**(456)**	**212,110**	**29**	**212,139**
2	**Consolidated comprehensive loss for the financial year after tax**	**–**	**–**	**33,353**	**–**	**(188,083)**	**(154,730)**	**8**	**(154,722)**
3	New share capital subscribed (paid)	1,000	242,000	–	–	–	**243,000**	–	**243,000**
4	Transfer of net profit to reserves from profit	–	–	–	13	(13)	**–**	–	**–**
5	Covering of the loss from the current year	–	(194,321)	–	(2)	194,323	**–**	–	**–**
6	Other	–	–	–	2	–	**2**	(37)	**(35)**
7	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5+6)**	**151,000**	**87,296**	**42,904**	**13,411**	**5,771**	**300,382**	**–**	**300,382**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE BANKA CELJE GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2014

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including loss from the current year)	Treasury shares (equity deduction item)	**Total equity (from 3 to 8)**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**16,980**	**51,542**	**11,927**	**86,958**	**(125,856)**	**(31)**	**41,520**
2	**Consolidated comprehensive loss for the financial year after tax**	**–**	**–**	**(8,414)**	**–**	**(21,060)**	**–**	**(29,474)**
3	Expropriation of shareholders	(16,980)	16,980	–	(31)	–	31	**–**
4	New share capital subscribed (paid)	50,000	140,000	–	–	–	–	**190,000**
5	Covering of the loss brought forward	–	(42,433)	–	(83,824)	126,257	–	**–**
6	Other	–	294	–	44	(1)	–	**337**
7	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5+6)**	**50,000**	**166,383**	**3,513**	**3,147**	**(20,660)**	**–**	**202,383**

Consolidated statement of changes in equity of the Banka Celje Group also includes the company Posest d.o.o., which is not included in the comparative financial statements of the Abanka Group.

These financial statements were approved for issue by the Management Board on 14 March 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
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Jože LENIČ
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit/(loss) before tax		48,986	(214,904)
	Depreciation and amortisation	14	10,021	8,941
	Impairments of financial assets available for sale	16	39	6,493
	Impairments of loans and receivables	16	39,787	148,887
	Impairments of investment property, intangible assets and other assets	16	1,097	3,359
	Impairment of capital investment in a subsidiary	16	605	–
	Net loss from investments in subsidiaries and an associate		540	–
	Net (gains) from exchange differences		(84)	(677)
	Net (gains)/losses from sale of tangible assets and investment properties		(107)	376
	Net losses from sale of intangible assets		237	–
	Other (gains) from investing activities	38	(1,191)	(4,252)
	Other losses from financing activities		–	1,030
	Net unrealised losses from non-current assets held for sale		17	127
	Other adjustments to total profit or loss before tax	38	(32,170)	131,246
	Cash flows from operating activities before changes in operating assets and liabilities		**67,777**	**80,626**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**		**363,069**	**340,186**
	Net decrease in financial assets held for trading		4,762	10,686
	Net (increase)/decrease in financial assets designated at fair value through profit or loss		(98)	82
	Net decrease/(increase) in financial assets available for sale		300,656	(7,129)
	Net decrease in loans and receivables		53,963	338,339
	Net decrease in derivatives - hedge accounting		1,187	2,013
	Net (increase) in non-current assets held for sale		(17)	(127)
	Net decrease/(increase) in other assets		2,616	(3,678)
c)	**(Decreases) in operating liabilities**		**(515,819)**	**(866,154)**
	Net (decrease) in financial liabilities held for trading		(4,144)	(3,414)
	Net (decrease) in financial liabilities designated at fair value through profit or loss		–	(8,842)
	Net (decrease) in deposits, loans and receivables measured at amortised cost		(417,109)	(824,964)
	Net (decrease) in debt instruments issued measured at amortised cost		(94,708)	(27,833)
	Net increase/(decrease) in other liabilities		142	(1,101)
d)	**Cash flows from operating activities (a+b+c)**		**(84,973)**	**(445,342)**
e)	**Income taxes (paid)**		**(541)**	**(792)**
f)	**Net cash flows from operating activities (d+e)**		**(85,514)**	**(446,134)**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP (continued)

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2015	2014
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**2,589**	**123,316**
	Receipts from the sale of tangible assets		867	875
	Receipts from the disposal of subsidiaries and an associate		220	–
	Receipts from non-current assets held for sale		211	55
	Receipts from the sale of financial assets held to maturity	25	1,291	122,386
b)	**Cash payments on investing activities**		**(11,946)**	**(13,662)**
	(Cash payments to acquire tangible assets)		(7,242)	(2,763)
	(Cash payments to acquire intangible assets)		(4,704)	(3,960)
	(Cash payments for the investment in a subsidiary)		–	(37)
	(Cash payments to acquire held to maturity investments)		–	(6,902)
c)	**Net cash flows from investing activities (a+b)**		**(9,357)**	**109,654**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**95,000**
	Cash proceeds from issuing shares and other equity instruments		–	95,000
b)	**Cash payments on financing activities**		**–**	**(2,798)**
	(Cash repayments of subordinated liabilities)		–	(2,798)
c)	**Net cash flows from financing activities (a+b)**		**–**	**92,202**
D	Effects of change in exchange rates on cash and cash equivalents		4,352	4,887
E	**Net (decrease) in cash and cash equivalents (Af+Bc+Cc)**		**(94,871)**	**(244,278)**
F	**Opening balance of cash and cash equivalents**		**434,903**	**674,294**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**38**	**344,384**	**434,903**

These financial statements were approved for issue by the Management Board on 14 March 2016.

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NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity

Abanka d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in an associated company. The Group is primarily involved in corporate, retail and investment banking.

1.1 Basis of preparation

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

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

The financial statements of Abanka d.d. include business events, assets and liabilities of the acquired company Banka Celje d.d. as from 1 January 2015. The comparative financial statements of Abanka Vipa d.d., the acquiring company, were adjusted as if the two companies had already been operating together in the comparable period. The effects of the acquisition are additionally disclosed in Note 44. In the first three quarters of the year 2015, the acquired company Banka Celje d.d. generated EUR 47,831 thousand of revenue, EUR 11,968 thousand of expenses and EUR 3,595 thousand of net profit.

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

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

(c) Basis of measurement
The financial statements of the Bank and the consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:
- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(e) Use of estimates and judgements

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

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

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

(f) Standards and interpretations effective in the current period

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

- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015);
- IFRIC 21 “Levies” adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

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

The Group has chosen not to early adopt the following standards and interpretations that have been issued and endorsed by the EU, but which have not yet taken effect for accounting periods beginning on 1 January 2015:

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

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

(h) New Standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

Among the standards issued by the International Accounting Standards Board but not yet adopted by the European Union, IFRS 9 – Financial Instruments (effective for annual periods beginning on or after 1 January 2018) is the most significant for the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

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

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

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

The Management of the Bank anticipates that the application of IFRS 9 in the future will have certain impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed. Due to the project of acquisition of Banka Celje d.d. by Abanka Vipa d.d., this review was not undertaken in 2015. In 2016, the Bank already acceded to the project of implementation IFRS 9 and this review will be one of the results of the project.

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

1.2 Consolidation

(a) Subsidiaries

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Through the acquisition of Banka Celje d.d., its subsidiary Posest d.o.o. also became a subsidiary of Abanka d.d. The subsidiary is not included in the consolidated statements of the Abanka Group, as it has no significant impact on the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Associates

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

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

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

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

1.3 Segment reporting

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

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

1.4 Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Bank and its subsidiaries in Slovenia and Montenegro is the euro. The functional currency of an associate is the Bosnia and Herzegovina convertible mark (BAM).

(a) Transactions and balances

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

(b) Foreign operations

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

investment in an associate that includes a foreign operation, whilst retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

1.5 Financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

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

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

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

Amortised cost measurement

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

Fair value measurement

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

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

Impairment of financial assets is described in Note 1.11.

1.6 Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.7 Derivative financial instruments and hedge accounting

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

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

Derivatives of the Group are classified as held-for-trading and held for hedging purposes (Note 19).

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

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

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

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

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

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

1.8 Interest income and expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

1.9 Fee and commission income and expenses

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

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

1.10 Dividend income

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

1.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

When assessing collective impairments, financial assets are grouped on the basis of similar credit risk characteristics that indicate the debtor's ability to pay all amounts due according to the contractual terms. Such homogenous groups are formed according to

NOTES TO THE FINANCIAL STATEMENTS (continued)

the following criteria: the type of debtor; the debtor's credit rating; stability of the debtor's operations; the credit rating of the financial asset; the type of collateral.

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

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

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

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

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

If the Bank, in its debt collection process, assesses that a financial asset measured at amortised cost will not be recovered and the criteria stipulated in Article 20 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks are fulfilled:
- for an uncollateralised financial asset arising from a loan agreement or an exercised off-balance contingent liability defaulted on by the borrower for over 1 year;
- for a financial asset arising from a loan agreement or an exercised off-balance contingent liability secured via real estate collateral, if the debtor is more than 4 years in arrears with repayment or the Bank has not received any payments from foreclosed property sales during this period;
- for an uncollateralised financial asset arising from a loan agreement or an exercised off-balance contingent liability where the borrower is in bankruptcy proceedings;
- for a financial asset where by approval of compulsory settlement the Bank's right to claim payment from the borrower in judicial or other proceedings expired and up to the amount to which that right expired;

or the conditions for derecognition of that asset in the statement of financial position have been fulfilled, the Bank, in accordance with that Article, writes it off through the use of the previously established allowance account and keeps it on off-balance-sheet records until the legal basis for concluding the collection process has been obtained. In cases when the criteria stipulated in the second paragraph of Article 20 of the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks are not fulfilled, the Bank may (from 2014 onwards) nevertheless write off a financial asset and keep it on off-balance-sheet records, subject to the Bank's reasonable expectation based on available information and past experience that not more than 10% of the outstanding contract value will be recovered.

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

Renegotiated loans

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Assets carried at fair value

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

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

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

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

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

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

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2015	2014
Buildings	2–6%	1.9–6%
Equipment	14–20%	7–20%
Computers	10–50%	10–50%
Intangible assets	9–50%	9–33.3%

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

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

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

1.13 Impairment of investments in subsidiaries and associates

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.14 Leases

A group company is the lessor

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

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

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

A group company is the lessee

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

1.15 Cash and cash equivalents

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

1.16 Provisions

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

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

1.17 Financial guarantee contracts

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.18 Employee benefits

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

Employees retire once they meet the requirements of the old-age pension scheme in accordance with the relevant Slovene legislation. In accordance with the legislation, employees may retire after 39 to 40 years of service, at which time (if they meet certain conditions) they become eligible for full retirement benefits. Furthermore, pursuant to the collective agreement, employees are also entitled to jubilee payments.

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

1.19 Taxation

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

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

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

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

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

1.20 Share capital

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.21 Managed funds

Asset management is one of the services the Group offers to its customers. Assets under management are not included in the statement of financial position of the Group. Clients are charged fees for asset management services, which are itemised in Note 41. In compliance with the Slovene legislation, Note 41 additionally includes fees charged to customers for the acceptance, transmission and execution of orders, management and custody of financial instruments, itemised assets and liabilities per customer account which the Group uses to account for customers' financial assets arising from brokered transactions.

1.22 Sale and repurchase agreements

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

1.23 Precious metals

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

1.24 Comparatives

The comparative financial statements of the acquiring company Abanka Vipa d.d. were adjusted as if the two companies were already operating together in the comparable period. Due to different accounting recognition of business events in certain accounting items, the acquiring bank adjusted the comparative accounting data as further disclosed in Note 7 Net Fee and Commission Income and Note 13 Administration Costs. The comparative figures of other statement of financial position and income statement items have been prepared on the basis of the pooling of interests method explained in Note 44. Where the pooling of interests method was note applied, a note below the table specifies and additionally explains that comparative figures have not been combined according to the pooling of interests method.

1.25 Information in the notes to the financial statements

Disclosures in the notes to the financial statements are presented for the Bank and for the Group separately. In the cases of completely identical information for the Bank and the Group, only information for the Group is presented.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 RISK MANAGEMENT

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

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

Abanka's operations in the past year were primarily marked by the acquisition of Banka Celje d.d. by Abanka Vipa d.d. This context led to an overhaul of the Risk Management Strategy containing key guidelines and goals in the area of risk management, setting out internal definitions and limits (appetite) for individual risk types and defining the roles and responsibilities of individual bodies and functions of the Group while taking account of the guidelines laid down in the Bank's restructuring plan and the Financial Plan for the merged bank (Abanka Vipa and Banka Celje) for the period from 2015 to 2019. Furthermore, the new strategy also reflects the commitments made to the European Commission with regard to risk management. The document is focused on setting clear goals in in the area of risk management and defining the steps for implementing these goals.

Credit risk represents the Group's major risk exposure, which remained the most significant system risk in the banking industry in 2015, despite the fact that with bad debt recovery it gradually stabilised. The quality of the loan portfolio improved as non-performing loans decreased, representing a share of 15.2% at the 2015 year-end.

In 2015, significant attention was again paid to improving credit risk management procedures, in the processes of credit rating assignment, credit exposure approval and bad debt monitoring and recovery. Great emphasis was placed on improving the management of collateral, primarily in relation to the upgraded central database of collateral, the allocation of adjustments down to market value by collateral type and the maximum loan/security ratios required upon loan approval. The computerised expert credit-scoring model for corporate customers has been upgraded and a default probability model (PD) was incorporated into the loan approval process. In order to make the processes of approving short-term exposure of SMEs and large companies with solid/high credit rating more efficient, the methodology for calculating short-term exposure limits was upgraded. In 2015, the Group completed the development of the automated system for the early detection of increased credit risk in the framework of the project "Automatic early warning signals" and continued with the project "Model for calculating loss given default (LGD)" aimed at developing Abanka's own model for calculating loss given default of corporate customers.

In 2015, the Group's attitude to additional market risks remained conservative. The global economy did recover in 2015, as reflected in the growth of indices of certain stock exchanges. Moderate economic growth and quick growth of certain stock exchange indices was also recorded in Europe. The launch of quantitative easing in mid-March 2015 resulted in the lowering of the required yield on sovereign bonds. The main causes of uncertainty were the escalation of the Greek crisis and the ECB programme adopted in response as well as the drop in China's economic growth at the global level. Slovenia's economy recorded a positive growth rate and the return to maturity on 10-year government bonds issued by the Republic of Slovenia stood at 1.54% at the 2015 year-end. Stock indices at the Ljubljana Stock Exchange were extremely volatile and, the SBITOP index fell by 11.2% at the annual level.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group managed its appetite for market risk by implementing a limit system in its trading in financial instruments. The Group primarily trades in government bonds of the Republic of Slovenia, acting as market maker for the sovereign bond market, and in derivatives aimed at hedging client risks, while trading in equity securities was discontinued in 2014. The value-at-risk (Var) of the debt security portfolio calculated using the historical simulation method at 99% confidence level and a 10-day holding period stood at EUR 8.6 million at the 2015 year-end.

Liquidity conditions remained favourable throughout 2015. Due to ECB measures, surplus liquidity on international financial markets was mostly reflected in further interest rate falls. Deposit interest rates in the banking industry recorded a further decrease. The Group's balance of deposits by retail and corporate clients remained stable, while the share of sight deposits representing a less stable source of financing increased, mostly as a result of low interest rates.

In the reporting year, the Group complied with the regulatory requirements for the category one liquidity ratio and amount of required reserves, recording an average category one liquidity ratio of 1.98 in 2015. The Group duly reported on both the liquidity coverage ratio (LCR) that stood at 4.97 at the 2015 year-end and the net stable funding ratio (NSFR). Information on encumbered and unencumbered assets was also reported. This type of reporting has been introduced in order to standardise liquidity maintenance requirements within the European Monetary Union.

As mentioned above, economic growth in the euro area continued in 2015, while the ECB continued with its expansive monetary policy. In March 2015, the ECB launched an extensive programme of purchasing sovereign bonds and private sector securities, aimed at enhancing liquidity in the banking sector and stimulating lending. The ECB announced purchases of bonds and private sector assets in the amount of up to EUR 60 billion a month that are foreseen to continue until March 2017 or until the inflation rate approaches the target of 2%. The launch of the bond-buying programme was followed by an additional drop in the value of the euro and a lowering of the yield of the euro area sovereign bond, with yields of some euro area government bonds even turning negative. In its monetary policy, the ECB kept the interest rate on the main refinancing operations at 0.05%, while the rate on the marginal lending facility was further reduced to -0.30%. As a result, interbank interest rates also reduced in 2015, with short-term rates remaining in negative figures. Towards the end of 2015, the value of the 6-month Euribor reference rate also turned negative.

The Abanka Group continuously adapted its interest rate policy to developments in the domestic and foreign markets and adjusted its interest rate position accordingly. The exposure of the Abanka Group to interest risk measured in terms of the effect of interest rate changes on the economic value of equity and on interest income reduced in 2015, however, the current market situation calls for continued monitoring and control of interest risk.

In the area of operational risk management, the Group implemented regular preventive activities aimed at reducing the possibility of loss events and incidents as well as corrective measures aimed at minimising the recurrence of such events and incidents. A database of loss events and operational risk related incidents that occurred in 2015 was compiled, revealing that the majority of operational losses were due to the human factor. In 2015, the Group focused its attention on the sources of operational risk that proved to be most significant in the recent period. Abanka also updated its key business continuity plans in 2015 and drafted additional plans and risk analyses for certain services.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group applied the existing methods for the assessment of internal capital requirements; continued to regularly monitor its risk profile and evaluate its risk-bearing capacity designed and performed stress tests and calculated the amount of its internal capital assessment and internal capital requirement assessment on a quarterly basis. As at 31 December 2015, the Group recorded a surplus of capital over the total capital requirement (including the total SREP capital requirement) of EUR 187 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1 Credit risk

Credit risk is the risk that a debtor or counterparty will cause a financial loss for the Group by failing to discharge an obligation. This risk represents the potential unwillingness or inability of the debtor to fully meet its contractual obligations within the agreed period and/or amount. It includes country risk, concentration risk, dilution risk and residual risk.

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

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

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

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

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

2.1.1 The credit risk management process

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

2.1.1.1 Credit risk measurement

a) Loans

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

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

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

Corporates are classified into nine credit rating grades (credit rating categories from A to D are subdivided into two credit rating grades). The assignment of credit ratings to customers and exposures is based on quantitative and qualitative criteria, such as an assessment of the borrowers' financial position, the ability to provide sufficient cash flow for future debt servicing, the borrower's loan servicing track record, and the quality and amount of credit protection.

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

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

b) Debt securities

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Credit-related commitments and contingent liabilities

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

d) Derivatives

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

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

2.1.1.2 Credit risk mitigation

a) Credit limits

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

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

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

b) Credit protection (collateral and guarantees)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

c) Master netting agreements

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

d) Financial covenants and other contractual provisions in credit agreements

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

2.1.1.3 Credit risk management in extreme situations

The Group performs activities to reduce credit risk and mitigate the impact of extreme situations on its operations. The Supervisory Board is regularly informed of the course of developments.

In a difficult economic and financial situation, the Group adapts its credit policy and takes measures based on stricter credit standards.

2.1.2 Impairment and provisioning policies

In accordance with the International Financial Reporting Standards, the Group regularly assesses whether there is objective evidence of financial asset impairment or possible losses from off-the-balance-sheet commitments and contingencies, defined in Chapter 1.11 Impairment of financial assets. Where there is objective evidence of impairment or possible losses, the Group creates impairments of financial assets or provisions for off-the-balance-sheet commitments and contingencies on the basis of an individual or collective assessment. For the purpose of assessing the credit risk losses, the Group individually assesses its significant exposures to corporate customers where there is objective evidence of the impairment or possibility of a loss.

Individual impairments of financial assets are calculated as the difference between the carrying amount and recoverable amount. The latter is calculated by discounting estimated future cash flows, which include cash flows from the foreclosure of collateral, if certain required conditions are met.

For the purpose of calculating collective impairments, homogenous groups of debtors are formed according to similar credit risk characteristics that reflect the debtor’s ability to meet its contractual obligations. The Group estimates the impairments and provisions for any homogenous groups of exposures on the basis of available historical default data and credit losses.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

2.1.3 Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk from the balance sheet items and off-balance sheet items, without taking collateral or other credit protection into account.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT PROTECTION

As at 31 December		Maximum exposure 2015	Maximum exposure 2014 adjusted
	Credit risk exposures relating to on-balance sheet assets:	**3,648,632**	**4,149,420**
1.	Cash, cash balances with the central bank and other demand deposits with banks	250,411	315,565
2.	Financial assets held for trading	10	1
	– loans and other financial assets	10	1
3.	Available-for-sale financial assets	1,405,822	1,721,583
	– debt securities	1,405,822	1,721,583
4.	Loans and receivables	1,960,263	2,080,045
	– loans to banks	97,218	112,055
	– loans to non-bank customers	1,850,384	1,958,819
	– loans and receivables to retail customers	819,157	821,458
	– loans and receivables to corporate entities	1,031,227	1,137,361
	– other financial assets	12,661	9,171
5.	Held-to-maturity investments	32,126	32,226
	– debt securities	32,126	32,226
	Credit risk exposures relating to commitments and contingencies (note 2.3.7):	**468,657**	**442,362**
	– financial guarantees	70,770	52,118
	– other commitments and contingencies	397,887	390,244
	Total credit risk exposure	**4,117,289**	**4,591,782**

The exposure arising from balance sheet assets and commitments and contingencies shown above is based on carrying values as shown in the statement of financial position and in commitments and contingencies (Note 2.3.7). Balance sheet assets are disclosed based on carrying amounts (after impairment) and off-the-balance-sheet commitments and contingencies at nominal value.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.4 Loans to non-bank customers and loans to banks

The following tables show loans by their overdue status, loan impairments and fair value of collateral.

LOANS TO NON-BANK CUSTOMERS AND LOANS TO BANKS

As at 31 December 2015	Loans to non-bank customers	Loans to banks	Total loans
Neither past due nor impaired loans	1,770,461	97,218	**1,867,679**
Past due but not impaired loans	48,531	–	**48,531**
Impaired loans	336,473	–	**336,473**
– individually imapired loans	271,778	–	**271,778**
– collectivelly imapired loans	64,695	–	**64,695**
Gross loans	**2,155,465**	**97,218**	**2,252,683**
Less: total impairments	(305,081)	–	**(305,081)**
– individual impairments	(186,977)	–	**(186,977)**
– collective impairments	(118,104)	–	**(118,104)**
Net loans	**1,850,384**	**97,218**	**1,947,602**

Fair value of collateral	**2,666,390**	–	**2,666,390**
– of which fair value of collateral for individually impaired D and E loans	260,440	–	**260,440**

As at 31 December 2014 adjusted	Loans to non-bank customers	Loans to banks	Total loans
Neither past due nor impaired loans	1,770,835	112,055	**1,882,890**
Past due but not impaired loans	80,149	–	**80,149**
Individually impaired loans	407,359	–	**407,359**
– individually imapired loans	333,730	–	**333,730**
– collectivelly imapired loans	73,629	–	**73,629**
Gross loans	**2,258,343**	**112,055**	**2,370,398**
Less: total impairments	(299,524)	–	**(299,524)**
– individual impairments	(185,221)	–	**(185,221)**
– collective impairments	(114,303)	–	**(114,303)**
Net loans	**1,958,819**	**112,055**	**2,070,874**

Fair value of collateral	**2,716,129**	–	**2,716,129**
– of which fair value of collateral for individually impaired D and E loans	278,885	–	**278,885**

Note: This excludes other financial assets.

Among **impaired loans**, the Group classifies individually and collectively impaired loans with objective evidence for impairment. These include defaulted exposures, i.e. exposures to debtors or derived from transactions, respectively, with internal credit ratings D and E as well as those that are more than 90 days[1] past due, excluding those outstanding exposures that are not subject to impairment. Among **non-impaired loans,** the Group classifies loans that are not subject to impairment (secured by best quality collateral, risk-free items and other loans not impaired according to internal methodology), and collectively impaired loans without objective evidence for impairment (with credit ratings A, B and C, which are not more than 90 days past due). Non-impaired loans are divided into past due and non-past due loans. The largest item at the end of 2015 represents neither past due nor impaired loans in the amount of EUR 1,868 million, i.e. 82.9% of the total loan portfolio (2014: 79.4%).

[1] For corporate customers and sole proprietors defaults on exposures are established per debtor, whereas for retail customers per exposure.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The fair value of collateral shows the value of deposits, residential and commercial real estate and securities and does not take into account any haircuts. Residential and commercial real estate is evaluated by independent external appraisers. For valuation purposes, properties' sales agreement values or the adjusted generalised market values published by the Surveying and Mapping Authority of the Republic of Slovenia are also used (the latter only for small value residential properties). Marketable securities are designated at their market value or by using valuation models. Exceptionally, book value of securities is applied when their fair value cannot be reliably estimated. Deposits pledged as collateral are carried at their book value.

a) Loans neither past due nor impaired

LOANS NEITHER PAST DUE NOR IMPAIRED

As at 31 December 2015

Internal credit rating	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers	Loans to banks	Total loans
	Over-drafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other				
A	47,630	15,879	492,806	230,590	786,905	231,764	115,809	30,096	377,669	**1,164,574**	**62,311**	**1,226,885**
B	5,975	139	–	23	6,137	152,378	145,844	14,286	312,508	**318,645**	**34,907**	**353,552**
C	902	68	5,366	4,890	11,226	210,655	57,431	7,884	275,970	**287,196**	–	**287,196**
D	–	–	–	–	–	–	46	–	46	**46**	–	**46**
E	–	–	–	–	–	–	–	–	–	–	–	–
Total	**54,507**	**16,086**	**498,172**	**235,503**	**804,268**	**594,797**	**319,130**	**52,266**	**966,193**	**1,770,461**	**97,218**	**1,867,679**
Fair value of collateral	–	–	877,233	85,614	962,847	600,090	543,178	97,343	1,240,611	**2,203,458**	–	**2,203,458**

As at 31 December 2014 adjusted

Internal credit rating	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers	Loans to banks	Total loans
	Over-drafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other				
A	52,169	15,013	482,490	233,566	783,238	208,341	103,030	57,086	368,457	**1,151,695**	**100,494**	**1,252,189**
B	6,348	134	253	336	7,071	168,556	173,355	8,957	350,868	**357,939**	**11,561**	**369,500**
C	579	57	4,130	5,132	9,898	179,861	65,804	3,699	249,364	**259,262**	–	**259,262**
D	–	–	–	–	–	1,890	49	–	1,939	**1,939**	–	**1,939**
E	–	–	–	–	–	–	–	–	–	–	–	–
Total	**59,096**	**15,204**	**486,873**	**239,034**	**800,207**	**558,648**	**342,238**	**69,742**	**970,628**	**1,770,835**	**112,055**	**1,882,890**
Fair value of collateral	27,052	–	855,810	161,806	1,044,668	502,545	601,527	54,147	1,158,219	**2,202,887**	–	**2,202,887**

Note: This excludes other financial assets.

The drop in loans neither past due nor impaired is the result of the shrinking credit portfolio due to the reduction of loans to legal entities and banks. On the other hand, loans to retail clients increased.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Loans past due but not impaired

LOAN PAST DUE BUT NOT IMPAIRED

As at 31 December 2015

	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	2,086	1	489	3,480	**6,056**	1,820	7,738	2,176	**11,734**	**17,790**
Past due 31 to 60 days	305	–	7,767	3,816	**11,888**	91	7,412	1,305	**8,808**	**20,696**
Past due 61 to 90 days	178	1	3,084	2,127	**5,390**	2	2,536	498	**3,036**	**8,426**
Past due over 90 days	–	–		4	**4**	–	1,415	200	**1,615**	**1,619**
Total	**2,569**	**2**	**11,340**	**9,427**	**23,338**	**1,913**	**19,101**	**4,179**	**25,193**	**48,531**
Fair value of collateral	–	–	21,900	10,567	**32,467**	2,446	32,182	12,289	**46,917**	**79,384**

As at 31 December 2014 adjusted

	Loans and receivables to retail customers					Loans and receivables to corporate customers				Total loans to non-bank customers
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	228	–	3,657	2,773	**6,658**	12,415	8,582	1,479	**22,476**	**29,134**
Past due 31 to 60 days	57	–	6,339	2,503	**8,899**	1,518	10,122	163	**11,803**	**20,702**
Past due 61 to 90 days	40	1	2,460	4,433	**6,934**	737	10,888	1,406	**13,031**	**19,965**
Past due over 90 days	–	–	2,842	1,326	**4,168**	–	5,999	181	**6,180**	**10,348**
Total	**325**	**1**	**15,298**	**11,035**	**26,659**	**14,670**	**35,591**	**3,229**	**53,490**	**80,149**
Fair value of collateral	149	–	33,139	7,098	**40,386**	32,789	31,627	4,171	**68,587**	**108,973**

Note: This excludes other financial assets.

Past due loans are loans for which the debtor has failed to make a payment when contractually due in part or in the total amount. “Past due” means one or more days overdue. Past due loans include the total amount of exposure under a single loan agreement and not merely the instalment not paid when contractually due. Exposures from other loan agreements to the same debtor not in arrears are not included among past due loans.

The amount of loans past due but not impaired which include collectively assessed loans showing no objective evidence of impairment reduced by 39.5% and totalled EUR 48.5 million at the 2015 year-end (2014: EUR 80.1 million). Loans past due up to 30 days and loans past due over 61 day and over 90 days also went down.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Individually impaired loans

INDIVIDUALLY IMPAIRED LOANS

As at 31 December 2015	Loans and receivables to retail customers			Loans and receivables to corporate entities				Loans to banks	Total loans
	Consumer loans	Housing loans		Large corporates	SMEs	Other			
Individually impaired loans	4,323	292	**4,615**	115,228	145,899	6,036	**267,163**	**–**	**271,778**
Fair value of collateral	2,261	186	**2,447**	97,527	156,806	6,107	**260,440**	**–**	**262,887**

As at 31 December 2014 adjusted	Loans and receivables to retail customers			Loans and receivables to corporate entities				Loans to banks	Total loans
	Consumer loans	Housing loans		Large corporates	SMEs	Other			
Individually impaired loans	7,497	433	**7,930**	135,525	174,411	15,864	**325,800**	**–**	**333,730**
Fair value of collateral	4,527	219	**4,746**	117,329	144,615	12,195	**274,139**	**–**	**278,885**

Note: This excludes other financial assets.

Individually impaired loans fell by 18.6% and amounted to EUR 271,8 million at the 2015 year-end (2014: EUR 333.7 million).

d) Restructured loans

Restructured loans are loans resulting from a debtor's incapacity to repay debt in accordance with the originally agreed contractual terms due to financial difficulties of the debtor (i.e. troubled loans), whereby the Bank has taken actions or measures which it would not have taken had the economic and financial position of the debtor been normal. Restructuring measures may entail a loss for the Bank, as they consist of concessions towards a debtor.

Loans can be restructured in two ways:
- by modifying the terms and conditions of the original loan contract with an annex;
- by total or partial refinancing of a troubled debt contract.

Restructuring actions may include:
- extending the term of the loan or declaring a moratorium on the repayment of debt;
- decreasing the claimed amount following a contractually agreed write-off or equity restructuring;
- debt to equity swap;
- repossession of other assets (exp. property, plant and equipment, securities) including realising collateral for partial or full debt recovery;
- other similar actions.

In the Group, all loan restructuring decisions exceeding EUR 100 thousand are supported by a documented analysis of alternative solutions with their economic effects (that may arise from the realisation of collaterals, sales of loans, loan agreement terminations or any other foreseeable action). For non-performing corporate loans, such an analysis is made when amounts exceed EUR 10 thousand. After restructuring, loans discontinue to be accounted for as restructured when all the terms and conditions (exit criteria) are met, as required by the standards set by the European Banking Authority on the treatment of restructured and non-performing exposures.

The Group assesses whether the restructuring of an exposure to a defaulter is reasonable, which also applies to exposures included in compulsory settlements. When restructuring of the exposure to the debtor in question is reasonable, the Group forms an appropriate restructuring plan and monitors its execution and effects. When restructuring an exposure to a company is not reasonable without the restructuring of that entire company, the latter is obliged to give to the Group its business plan with operational, equity and financial restructuring measures. When the Group decides that it is no longer reasonable to continue restructuring an exposure, an approximate loan recovery plan is made.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

RESTRUCTURED LOANS

As at 31 December 2015	Loans to retail customers			Loans to corporates			Total restructured loans
	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Neither past due nor impaired loans	4,050	6,022	**10,072**	4,398	180,999	**185,397**	**195,469**
Past due but not impaired loans	258	2,079	**2,337**	382	1,673	**2,055**	**4,392**
Impaired loans	635	1,061	**1,696**	36,624	183,612	**220,236**	**221,932**
– individually imapired loans	–	–	**–**	32,675	174,416	**207,091**	**207,091**
– collectivelly imapired loans	635	1,061	**1,696**	3,949	9,196	**13,145**	**14,841**
Gross loans	4,943	9,162	**14,105**	41,404	366,284	**407,688**	**421,793**
Less: total impairments	(2,162)	(3,756)	**(5,918)**	(23,638)	(152,472)	**(176,110)**	**(182,028)**
– individual impairments	–	–	**–**	(20,310)	(117,655)	**(137,965)**	**(137,965)**
– collective impairments	(2,162)	(3,756)	**(5,918)**	(3,328)	(34,817)	**(38,145)**	**(44,063)**
Net loans	**2,781**	**5,406**	**8,187**	**17,766**	**213,812**	**231,578**	**239,765**

Share of restructured gross loans and receivables in total gross loans and receivables to non-bank customers	**19.57%**
Share of restructured net loans and receivables in total net loans and receivables to non-bank customers	**12.96%**

As at 31 December 2014 adjusted	Loans to retail customers			Loans to corporates			Total restructured loans
	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Neither past due nor impaired loans	3,281	5,031	**8,312**	36,455	160,905	**197,360**	**205,672**
Past due but not impaired loans	314	793	**1,107**	9,022	15,453	**24,475**	**25,582**
Impaired loans	3,190	1,453	**4,643**	30,480	213,074	**243,554**	**248,197**
– individually imapired loans	2,352	441	**2,793**	24,356	206,546	**230,902**	**233,695**
– collectivelly imapired loans	838	1,012	**1,850**	6,124	6,528	**12,652**	**14,502**
Gross loans	6,785	7,277	**14,062**	75,957	389,432	**465,389**	**479,451**
Less: total impairments	(4,008)	(2,761)	**(6,769)**	(21,652)	(138,597)	**(160,249)**	**(167,018)**
– individual impairments	(2,351)	(132)	**(2,483)**	(12,988)	(107,950)	**(120,938)**	**(123,421)**
– collective impairments	(1,657)	(2,629)	**(4,286)**	(8,664)	(30,647)	**(39,311)**	**(43,597)**
Net loans	**2,777**	**4,516**	**7,293**	**54,305**	**250,835**	**305,140**	**312,433**

Share of restructured gross loans and receivables in total gross loans and receivables to non-bank customers	**21.23%**
Share of restructured net loans and receivables in total net loans and receivables to non-bank customers	**15.95%**

Note: This excludes other financial assets.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

e) Non-performing loans

NPLs are defaulted loans, i.e.loans that satisfy either or both of the following criteria:

- the debtor is past due more than 90 days on any material credit obligation to the Group;
- the Group considers that the debtor is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (loans to D- and E-rated debtors according to internal credit rating methodology).

In the case of corporate customers and sole proprietors the definition of default is applied at the debtor level, while for retail customers at the level of an individual loan. Loans are classified as non-performing for their entire amount and without taking into account the existence of any collateral.

NON-PERFORMING LOANS

As at 31 December 2015	Loans to non-bank customers	Loans to banks	Total loans
Non-performing loans (NPLs)	342,320	–	**342,320**
Share of NPLs in total loans	15.88%	–	**15.20%**

As at 31 December 2014 adjusted	Loans to non-bank customers	Loans to banks	Total loans
Non-performing loans (NPLs)	410,758	–	**410,758**
Share of NPLs in total loans	18.19%	–	**17.33%**

Note: This excludes other financial assets.

In 2015, the share of non-performing loans fell to 15.2% (2014: 17.3%) and the amount of non-performing loans dropped to EUR 342.3 million (2014: 410.8 million). The decrease in non-performing loans is the result of successful recovery, the conservative policy with regard to write-offs (as explained in Note 1.11), the implementation of early detection of increased credit risk and the selective approach in the approval of new loans (the basic criterion for the approval of a new investment is sufficient cash flow to ensure loan repayment or sufficient credit rating for the approval of investments for retail clients).

2.1.5 Debt securities

The following table presents the Group's exposure to debt securities, classified according to the purpose of their acquisition and credit quality, taking into account credit ratings by the agencies Fitch Ratings and Moody's Investors Service.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DEBT SECURITIES BY CREDIT RATING

As at 31 December 2015	Debt securities held for trading (note 19)	Available-for-sale debt securities (note 21)	Held-to-maturity debt securities (note 25)	Total
Non-past due debt securites at fair valute / at amortised cost				
AAA	–	87,857	–	**87,857**
AA- to AA+	–	66,568	–	**66,568**
A- to A+	2,004	104,205	–	**106,209**
BBB- to BBB+	1,115	1,147,192	32,126	**1,180,433**
Lower than BBB-	–	–	–	–
Unrated	–	–	–	–
Total non-past due debt securities	**3,119**	**1,405,822**	**32,126**	**1,441,067**
Total debt securities	**3,119**	**1,405,822**	**32,126**	**1,441,067**

As at 31 December 2014 adjusted				
Non-past due debt securites at fair valute / at amortised cost				
AAA	–	135,714	–	**135,714**
AA- to AA+	–	91,364	–	**91,364**
A- to A+	–	111,529	–	**111,529**
BBB- to BBB+	–	945,000	32,226	**977,226**
Lower than BBB-	–	300,306	–	**300,306**
Unrated	–	137,670	–	**137,670**
Total non-past due debt securities	–	**1,721,583**	**32,226**	**1,753,809**
Total debt securities	–	**1,721,583**	**32,226**	**1,753,809**

As at the 2015 year end, bonds issued by the Republic of Slovenia and by BAMC accounted for 76 percent of the total debt securities portfolio (at the end of 2014: 70%). Similar to in 2014, the Group did not have any overdue debt securities in the portfolio as at the 2015 year-end. The Group does not invest in subordinated and structured debt securities.

As at the 2015 year-end, Slovene government bonds accounted for the largest share of the bond portfolio, amounting to EUR 595 million (at the end of 2014: 532 million), followed by the government bonds issued by Poland amounting to EUR 17 million (at the end of 2014: 7 million), Austria 15 million (at the end of 2014:25 million) and Germany EUR 13 million (at the end of 2014: 26 million).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.6 Assets seized for debt repayment

At the 2015 year-end, the value of assets recovered in collateral foreclosure fell by 17% compared to the 2014 year-end due to lower securities. The bulk of assets obtained in recovery procedures was posted to inventories of seized movables in the collection of leasing obligations.

ASSETS SEIZED FOR DEBT REPAYMENT (note 25)

	Carrying amount	
As at 31 December	2015	2014 adjusted
Non-current assets held-for-sale	–	215
Property, plant and equipment	–	–
Investment property	5,126	4,479
Equity and debt instruments	891	7,712
Other	14,114	11,972
Total	**20,131**	**24,378**

The assets obtained in recovery procedures are sold off by the Group at the earliest possible date and certain investment properties are leased out under long-term lease agreements.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.7 Credit risk exposure by industry sector

The following table shows the credit risk exposure of financial assets by industry sector.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS ACCORDING TO INDUSTRY SECTOR

	Financial assets	Manufac-turing	Construc-tion	Trade	Financial and insurance activities	Profes-sional, scientific and technical activities	Public admini-stration and defence activities	Other	Retail customers	Total
1.	Cash, cash balances with the central bank and other demand deposits with banks	–	–	–	250,411	–	–	–	–	**250,411**
2.	Financial assets held for trading	–	–	–	10	–	–	–	–	**10**
	– loans and other financial assets	–	–	–	10	–	–	–	–	**10**
3.	Financial assets designated at fair value through profit or loss	1,069	–	–	150,601	–	685,116	569,036	–	**1,405,822**
	– debt securities	1,069	–	–	150,601	–	685,116	569,036	–	**1,405,822**
	– debt securities		–	–		–			–	**–**
4.	Loans and receivables	299,309	34,298	191,604	240,184	44,532	36,235	294,944	819,157	**1,960,263**
	– loans to banks	–	–	–	97,218	–	–	–	–	**97,218**
	– loans to non-bank customers	299,213	34,195	190,813	131,900	44,472	36,074	294,560	819,157	**1,850,384**
	– loans and receivables to retail customers	–	–	–	–	–	–	–	819,157	**819,157**
	– loans and receivables to corporate entities	299,213	34,195	190,813	131,900	44,472	36,074	294,560	–	**1,031,227**
	– other financial assets	96	103	791	11,066	60	161	384	–	**12,661**
5.	Held-to-maturity investments	–	–	–	–	–	32,126	–	–	**32,126**
	– debt securities	–	–	–	–	–	32,126	–	–	**32,126**
	Total financial assets as at 31 December 2015	**300,378**	**34,298**	**191,604**	**641,206**	**44,532**	**753,477**	**863,980**	**819,157**	**3,648,632**
	Total financial assets as at 31 December 2014 adjusted	**346,086**	**55,903**	**222,925**	**759,728**	**68,455**	**1,006,835**	**865,423**	**824,065**	**4,149,420**

In 2015, the total portfolio exposed to credit risk reduced by 12.1% and amounted to EUR 3,649 million at the 2015 year-end (2014: EUR 4,149 million). The most significant reduction occurred in the public administration and defence services sector and in financial and insurance activities.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.8 Credit risk exposure by geographical area

The following table shows the credit risk exposure of financial assets by geographical area.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS BY GEOGRAPHICAL AREA

	As at 31 December 2015	Slovenia	Other EU member states	Europe (without EU member states)	Other countries	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	170,068	61,733	4,575	14,035	**250,411**
2.	Financial assets held for trading	–	10	–	–	**10**
3.	Financial assets designated at fair value through profit or loss	–	–	–	–	**–**
4.	Available-for-sale financial assets	1,137,076	260,233	3,088	5,425	**1,405,822**
5.	Loans and receivables	1,833,625	103,493	20,112	3,033	**1,960,263**
	– loans to banks	18,608	76,015	–	2,595	**97,218**
	– loans to non-bank customers	1,803,393	26,444	20,111	436	**1,850,384**
	– other financial assets	11,624	1,034	1	2	**12,661**
6.	Held-to-maturity investments	32,126	–	–	–	**32,126**
	Total financial assets	**3,172,895**	**425,469**	**27,775**	**22,493**	**3,648,632**

	As at 31 December 2014 adjusted	Slovenia	Other EU member states	Europe (without EU member states)	Other countries	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	195,193	92,706	1,532	26,134	**315,565**
2.	Financial assets held for trading	–	1	–	–	**1**
3.	Financial assets designated at fair value through profit or loss	–	–	–	–	**–**
4.	Available-for-sale financial assets	1,358,927	347,379	3,101	12,176	**1,721,583**
5.	Loans and receivables	1,906,874	144,014	26,311	2,846	**2,080,045**
	– loans to banks	9,837	99,891	–	2,327	**112,055**
	– loans to non-bank customers	1,888,696	43,343	26,263	517	**1,958,819**
	– other financial assets	8,341	780	48	2	**9,171**
6.	Held-to-maturity investments	32,226	–	–	–	**32,226**
	Total financial assets	**3,493,220**	**584,100**	**30,944**	**41,156**	**4,149,420**

The Group's geographical exposure is based on the domicile or head office of the counterparties.

The Group conducts its business primarily in Slovenia. The largest foreign exposures from a regional perspective were in EU member states, primarily Germany, Luxemburg, France, Austria, the Netherlands and Belgium, with all of the above arising mostly from debt securities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 Market risk

Market risk is the uncertainty that an adverse change in risk factors, including interest rates, exchange rates, credit spreads, prices of financial instruments, commodity prices and other relevant parameters, may unfavourably affect the value of a financial instrument and/or consequently lead to a loss.

The Group monitors its market risk exposure in its trading and banking books. Market risks primarily arise from activities performed in the investment banking and treasury departments. The trading book positions include mainly positions in equity and debt instruments that the Group intends to sell at a profit in the short term. Part of the trading book also consists of financial derivatives that the Group sells to its customers to hedge against interest rate and foreign exchange risk. These positions are closed according to the Group's back-to-back policy. In the reporting period, the trading book on average stood at EUR 1.5 million which is a slight increase on the 2014 average trading volume of EUR 1.1 million. The average trading volume in debt securities increased. The banking book positions include positions in debt instruments, foreign exchange instruments and financial derivatives held for asset and liability management purposes of the Bank, equity instruments (acquired through collateral foreclosures and/or debt to equity swaps) and strategic positions. On average, in 2015 the banking book amounted to EUR 1,220 million, mainly from debt financial instruments.

2.2.1 Market risk management process

The market risk management strategy is based on the Group's market risk-bearing capacity, the existing and expected market conditions, realised and projected financial data, regulations in force and the existing risk management systems. Owing to a reduced market risk appetite, the Group ceased trading in equities and, to a certain extent, in debt financial instruments, in 2015. The Group's trading in derivative financial instruments is based on a policy of back-to-back trading and the involvement of counterparties with higher credit ratings. Such trades are concluded mostly to hedge against financial risks.

The purpose of **the market risk management process** is to minimise losses from positions in trading and banking books. Simultaneously, it takes into account business policies, balance sheet structure, capital adequacy and opportunities in capital markets. The Group aspires to achieve the most favourable ratio between generated return and assumed risk and it manages market risk pursuant to the Market Risk Policy of the Group.

The market risk management process comprises:
- procedures of market risk identification, measurement/assessment, monitoring, control, and
- internal reporting on market risk.

Identification procedures are used to define existing and potential risks that arise from trading and banking book positions. Risks and a risk management process must be defined before launching new services or entering new markets. The Trading Strategy, which presents potential risks and the way in which they will be managed, is formulated on an annual basis and approved by the Supervisory Board.

The system of limits for trading in financial instruments allows market risk appetite to be kept at low levels. This system also requires investing in highly liquid positions whilst maintaining an adequate risk diversification. The Risk Management Department sets a limit system primarily based on the Group's market risk appetite and capital adequacy. The limit system includes credit and position limits, stop loss limits, market rates compliance limits, VaR limits and limits per single authorised person.

The Group has also established a system of limits for debt financial instruments in the banking book through which it implements its policy of investing in bonds of high credit quality pledgeable as collateral to the European Central Bank, while following the goal of credit diversification and maximum loss limitation.

The structure and organisation of appropriate functions for market risk management is the responsibility of the Management Board and senior management. The Management Board has authorised the Risk Management Committee to approve market risk exposure limits.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The competencies and responsibilities are clearly delimited between trading units (treasury, investment banking), the back office, the middle office and the Risk Management Department, which is organisationally independent of the units that assume market risk.

The extent and features of internal reporting: the middle office is responsible for the daily calculating of exposures from financial instruments in trading and in the banking book and reporting to the Management Board, senior management, trading units and the Risk Management Department. Quarterly reports on market risk exposure, the utilisation of limits, the size of Value-at-Risk and stress-testing results for trading and the banking book are presented to the Risk Management Committee. The Supervisory Board discusses and reviews a report on the Group's exposure to various types of risks, including market risk, on at least a quarterly basis.

2.2.1.1 Market risk measurement techniques

Market risk measurement techniques comprise risk analyses and validation. This includes assessing the possible frequency of a potential event and the size of its consequences. Market risk is regularly measured by:
- the Value-at-Risk method (i.e. VaR);
- stress testing;
- sensitivity analysis; and
- calculating market risk capital requirements, using the standardised approach.

The Group is aware of the limitations of the VaR method in cases of extreme market conditions, which is why the Group performs stress testing as a supplement to VaR. Stress testing assesses potential impacts of extraordinary, yet plausible, events in financial markets on the value of financial instruments.

Market risk is also measured with sensitivity analyses to determine the impact of changes in different risk factors and their influence on the Group's profit and equity levels.

2.2.1.2 Market risk mitigation

An adequate limit system, in line with the conservative market risk policy, is the basic tool of effective risk management. For the purpose of **hedging and reducing market risk**, a system of trading limits is in place alongside a system of limits on the banking book operations with debt financial instruments. The market risk regime is implemented on a daily basis through systems of limits and clear guidelines on responsibilities and competencies in assuming risk.

For the main part of trading in derivative financial instruments, exposures to position risk, interest rate risk and currency risk are reduced by pursuing a back-to-back policy. Market risks are hedged by counter transactions.

2.2.1.3 VaR of debt securities

Value-at-risk assessment (VaR assessment) is a quantitative measure used for assessing potential loss in the value of positions caused by adverse risk factor changes over a given future period at a given confidence level. The Group calculates value-at-risk (VaR) by applying the historical simulation approach and in compliance with the standards set by the Bank of Slovenia. The model assumes the following:
- a 10-day holding period, meaning that within 10 days all the positions included in the calculation can be liquidated, i.e. sold off. This assumption does not necessarily always hold true for all positions, i.e. not in a period of general illiquidity of financial markets. Expanding the daily VaR to a longer period is based on the assumption of a static portfolio;
- a 1-year observation period, meaning that the most recent year should sufficiently reflect the market situation changes that influence the business of the Group. In fact, historical data do not necessarily represent a good indicator of potential future risk factors. This is especially true in periods of extreme market conditions;
- a 99% level of confidence, meaning that on any one day of one hundred trading days the Group would suffer a loss from trading activity exceeding the calculated value. The amount of such excessive losses cannot be measured with VaR.

Measuring VaR shows that the Group's potential loss on one day out of one hundred trading days will at least be equal to the calculated VaR on an individual trading day, under the assumption that positions can be sold over the following 10-day period.

The year 2015 was marked by improved macroeconomic conditions in the Republic of Slovenia and the growth of some leading global stock indices. The Group's market risk appetite remained low. VaR went up due to the increased size of the portfolio and more volatile bond markets. The Group's market risk exposure was carefully managed through a system of exposure limits.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The following table presents the VaR value of debt securities.

VaR OF DEBT SECURITIES

2015	As at 31 December	Average	Maximum	Minimum
VaR of debt securities	**8,624**	5,066	8,624	3,410

2014 adjusted	As at 31 December	Average	Maximum	Minimum
VaR of debt securities	4,290	4,548	6,411	2,701

Note: The calculation of VaR does not include data of Banka Celje d.d. until the date of acquisiton.

In 2015, most of the potential loss, using a value-at-risk model, resulted from a debt portfolio of the banking book**.** At the end of the reported year, the Group estimated with 99 percent probability that it would lose no more than EUR 8,6 million over the following ten days.

2.2.1.4 Sensitivity analyses

The Group uses sensitivity analyses to measure the impact of changes in various factors on market risk.

The sensitivity analysis of equity securities portfolio reflects the impact of changes in risk factors on the value of the position, while showing the impact of changes in profit or loss and equity. The methodology for determining potential changes in risk factors is based on expectations concerning their movement in the next calendar year. When defining the expected changes in the equity indices, the Group uses internal assessments made by analysts, based on the trend in stock market indices.

The table below shows the sensitivity analysis of equity securities.

SENSITIVITY ANALYSES OF EQUITY SECURITES

As at 31 December 2015

Equity securities	Carrying amount	Effect on result of income statement	Effect on equity
Equity securites held for trading	273	68	–
Avaliable-for-sale equity securites	11,805	–	2,951
Total	**12,078**	**68**	**2,951**

As at 31 December 2014 adjusted

Equity securities	Carrying amount	Effect on result of income statement	Effect on equity
Equity securites held for trading	258	65	–
Avaliable-for-sale equity securites	26,372	–	6,593
Total	**26,630**	**65**	**6,593**

Taking into account a 20% lower value of equity securities portfolio, as at the reporting date, 2,951 thousand lower equity would be disclosed but the impact on total loss would be minimal. Because of the sale of equity securities in 2015, the decrease would have been lower by 60% compared to at 31 December 2014.

The impact of interest rate changes on net interest income and economic value of capital based on the sensitivity analysis is shown in Section 2.2.3.2.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2.2 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

2.2.2.1 Foreign exchange risk management process

The foreign exchange risk strategy focuses on risk exposure in accordance with set limits and the Group's risk capacity in view of its income and capital adequacy. Foreign exchange risk is identified, measured, controlled and monitored in line with the Group's established foreign exchange risk management policy. **The foreign exchange risk management process** is based on the procedures for identifying, measuring, monitoring and managing foreign exchange risk and includes internal reporting.

The structure and organisation of appropriate functions for foreign exchange risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system of foreign exchange risk management is monitored by the Risk Management Committee. The implementation of the relevant policy is monitored and controlled by the Assets and Liabilities Management Committee; foreign exchange risk management is the responsibility of the Assets and Liabilities Management Department, whereas the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

The extent and features of internal reporting: it is an established practice to produce daily reports on foreign exchange exposures, including daily calculations of maximum potential losses arising from net foreign exchange positions. Regular monthly reports on foreign exchange exposures are also produced for the Assets and Liability Committee. The Supervisory Board quarterly discusses and reviews a report on a Group's exposure to various types of risks, including foreign exchange risk.

The foreign exchange measurement system covers the daily monitoring of net foreign exchange positions per currency and currency groups, as well as the daily calculation of maximum loss limits associated with foreign exchange risk by using the Value-at-Risk method. Foreign exchange risk is measured and assessed in accordance with internal methodology. This defines the stress testing used by the Group to evaluate potential losses resulting from foreign exchange rate fluctuations.

The Group **hedges and reduces foreign exchange rate risk,** since fluctuations in the prevailing foreign currency exchange rates have an impact on its financial position and cash flows. In 2015, the gaps between foreign currency inflows and outflows, which mostly arose from payment transactions, were managed by arbitrage. These exposures associated with financial instruments in foreign currencies were low and well within the set limits.

The following table presents the Group's foreign exchange risk exposure and includes the Group's financial instruments at their carrying amounts by currency.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2015

		EUR	USD	CHF	Other	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	238,984	22,281	6,431	13,593	**281,289**
2.	Financial assets held for trading	7,893	195	–	468	**8,556**
3.	Financial assets designated at fair value through profit or loss	2,452	–	–	–	**2,452**
4.	Available-for-sale financial assets	1,441,230	16,536	–	2	**1,457,768**
5.	Loans and receivables	1,886,498	55,197	15,630	2,938	**1,960,263**
	– loans to banks	41,893	52,390	–	2,935	**97,218**
	– loans to non-bank customers	1,831,949	2,805	15,630	–	**1,850,384**
	– other financial assets	12,656	2	–	3	**12,661**
6.	Held-to-maturity investments	32,126	–	–	–	**32,126**
	Total financial assets	**3,609,183**	**94,209**	**22,061**	**17,001**	**3,742,454**
	Financial liabilities					
1.	Financial liabilities held for trading	4,465	171	–	106	**4,742**
2.	Financial liabilities designated at fair value through profit or loss	–	–	–	–	**–**
3.	Financial liabilities measured at amortised cost	3,071,508	95,238	22,095	16,091	**3,204,932**
	– deposits from banks and the central bank	2,996	9,514	2,117	795	**15,422**
	– deposits from non-bank customers	2,724,377	85,520	19,967	15,020	**2,844,884**
	– loans from banks and the central bank	263,311	–	–	–	**263,311**
	– loans from non-banks customers	558	–	–	–	
	– debt securities issued	61,860	–	–	–	**61,860**
	– other financial liabilities	18,406	204	11	276	**18,897**
	Total financial liabilities	**3,075,973**	**95,409**	**22,095**	**16,197**	**3,209,674**
	Net on-balance sheet position	**533,210**	**(1,200)**	**(34)**	**804**	**532,780**
	Loan commitments	**254,667**	**1,819**	**–**	**2,935**	**259,421**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2014 adjusted

		EUR	USD	CHF	Other	Total
	Financial assets					
1.	Cash, cash balances with the central bank and other demand deposits with banks	302,871	23,526	2,693	13,591	**342,681**
2.	Financial assets held for trading	12,901	91	–	328	**13,320**
3.	Financial assets designated at fair value through profit or loss	2,354	–	–	–	**2,354**
4.	Available-for-sale financial assets	1,736,227	13,806	–	42	**1,750,075**
5.	Loans and receivables	2,046,353	13,244	18,906	1,542	**2,080,045**
	– loans to banks	99,338	11,373	–	1,344	**112,055**
	– loans to non-bank customers	1,937,850	1,868	18,905	196	**1,958,819**
	– other financial assets	9,165	3	1	2	**9,171**
6.	Held-to-maturity investments	33,650	–	–	–	**33,650**
	Total financial assets	**4,134,356**	**50,667**	**21,599**	**15,503**	**4,222,125**
	Financial liabilities					
1.	Financial liabilities held for trading	8,771	87	–	28	**8,886**
2.	Financial liabilities designated at fair value through profit or loss	–	–	–	–	**–**
3.	Financial liabilities measured at amortised cost	3,622,324	51,898	17,346	14,543	**3,706,111**
	– deposits from banks and the central bank	8,603	2,676	1,617	515	**13,411**
	– deposits from non-bank customers	3,007,875	48,723	15,726	13,709	**3,086,033**
	– loans from banks and the central bank	431,442	–	–	–	**431,442**
	– loans from non-banks customers	1,498	–	–	–	**1,498**
	– debt securities issued	156,568	–	–	–	**156,568**
	– other financial liabilities	16,338	499	3	319	**17,159**
	Total financial liabilities	**3,631,095**	**51,985**	**17,346**	**14,571**	**3,714,997**
	Net on-balance sheet position	**503,261**	**(1,318)**	**4,253**	**932**	**507,128**
	Loan commitments	**212,666**	**2,205**	**–**	**1,277**	**216,148**

2.2.2.2 Value-at-risk (VaR) of net foreign exchange position

The table below shows Value-at-Risk (VaR) of net foreign exchange positions. Calculations are based on a historical simulation in a 1-year period, at a 99% confidence level and with a 10-day holding period.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

VAR OF NET FOREIGN EXCHANGE POSITION

2015	As at 31 December	Average	Maximum	Minimum
foreign currencies risk	**16**	32	122	9

2014 adjusted	As at 31 December	Average	Maximum	Minimum
foreign currencies risk	19	13	47	5

Note: The calculation of VaR does not include data of Banka Celje d.d. until the date of acquisition.

The Group's exposure to foreign exchange risk was minimal. As at 31 December 2015 the Group estimated with 99 percent probability that it would lose no more than EUR 16 thousand over the following ten days.

2.2.3 Interest rate risk

Interest rate risk is the risk arising from the exposure of the Group's financial position to unfavourable changes in interest rate levels in the market. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on fair value risk and cash flow risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As a consequence of these changes, interest margins and the Group's income also change.

2.2.3.1 Interest rate risk management process

In accordance with **the interest rate risk management strategy,** the Group has limited the extent of interest rate risk by setting up a limit system and by defining the amount of required internal capital. The Group monitors interest risk through assets and liabilities management in terms of their maturity, amount and interest rate setting method and through the application of derivative financial instruments. The Group also regularly calculates the impact of interest rate changes on net interest income and the economic value of capital throug the application of various interest rate variation scenarios.

The Group utilises an efficient **interest rate risk management process,** which enables the risk to remain at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the established interest rate risk management policy. The interest rate risk management process is based on the procedures involving the identification, measurement, assessment and management of interest rate risk. The process is supported by efficient internal reporting.

The structure and organisation of appropriate interest rate risk management functions are set out in the relevant policy, which put the Risk Management Committee in charge of monitoring the adequacy of the strategy, policies and limit system of interest rate risk management. The implementation of the policy is monitored and controlled by the Assets and Liabilities Management Committee, interest rate risk management is the responsibility of the Assets and Liabilities Management Department, whereas the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

As required by its **internal reporting,** the Group monitors interest rate risk arising from trading in the framework of global market risk control and uses the Value-at-Risk method, stress testing, and sensitivity analysis to measure it. The level of exposure to the interest rate risk in the banking book is controlled by the Assets and Liabilities Committee on a monthly basis, whilst quarterly reports on interest rate risk exposure are submitted to the Supervisory Board.

Interest rate risk, arising from mismatches in the banking book, **is measured** by means of gap analysis. Gap analysis comprises aggregating cash flows into different maturity buckets, categorised by the earlier of contractual re-pricing or maturity dates. To classify non-maturing items, the Group uses an internal methodology. Open positions are monitored and reported on a monthly basis.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group takes on exposure to the effects of interest rate fluctuations. It is therefore important for the Group to measure its interest rate sensitivity and manage its assets and liabilities in accordance therewith. The Group regularly calculates the effect of interest rate fluctuations on its profit and equity.

For the purpose of monitoring the effectiveness of **interest rate risk hedging and reduction,** the Group regularly assesses its risk capacity in line with the set methodology. The Group also uses derivatives to hedge against interest rate risk.

In 2015, the interest rate risk exposure decreased in relation to the regulatory capital of the Group. The Group became sensitive to the drop in interest rates, which was a result of the changes in the average repricing period for asset and liability interest rates in comparison with the preceding year.

The Group's exposure to interest rate risk was reduced by closing out interest rate positions by individual time buckets. The following table summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates.

The Group upgraded and improved the monitoring process of the exposure to interest rate risk.

CONCENTRATION OF INTEREST RATE RISK

As at 31 December 2015

		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Interest-sensitive assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	250,411	–	–	–	–	**250,411**
2.	Available-for-sale financial assets	7,000	81,788	136,555	938,791	161,234	**1,325,368**
3.	Loans and receivables	785,362	227,559	808,307	53,036	11,529	**1,885,793**
	– loans to banks	77,371	8,479	8,769	2,577	–	**97,196**
	– loans to non-bank customers	707,991	219,080	799,538	50,459	11,529	**1,788,597**
	– other financial assets	–	–	–	–	–	–
4.	Held-to-maturity investments	–	–	–	26,132	5,000	**31,132**
	Total interest-sensitive assets	**1,042,773**	**309,347**	**944,862**	**1,017,959**	**177,763**	**3,492,704**
	Interest-sensitive liabilities						
1.	Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	**–**
2.	Financial liabilities measured at amortised cost	622,822	535,442	798,006	656,883	560,999	**3,174,152**
	– deposits from banks and the central bank	8,357	6,204	850	–	–	**15,411**
	– deposits from non-bank customers	598,558	443,280	695,614	537,286	560,941	**2,835,679**
	– loans from banks and the central bank	13,735	48,154	101,361	100,000	–	**263,250**
	– loans from non-banks customers	–	–	–	–	–	–
	– debt securities issued	2,056	37,802	172	19,550	–	**59,580**
	– other financial liabilities	116	2	9	47	58	**232**
	Total interest-sensitive liabilities	**622,822**	**535,442**	**798,006**	**656,883**	**560,999**	**3,174,152**
	Interest rate sensitivity gap	**419,951**	**(226,095)**	**146,856**	**361,076**	**(383,236)**	

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF INTEREST RATE RISK

As at 31 December 2014 adjusted

		Up to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	Total
	Interest-sensitive assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	301,833	–	–	–	–	**301,833**
2.	Available-for-sale financial assets	44,176	146,205	150,530	1,117,378	202,813	**1,661,102**
3.	Loans and receivables	484,955	805,523	685,690	91,330	23,936	**2,091,434**
	– loans to banks	99,658	40	230	–	2,316	**102,244**
	– loans to non-bank customers	384,866	805,483	685,460	91,330	21,620	**1,988,759**
	– other financial assets	431	–	–	–	–	**431**
4.	Held-to-maturity investments	–	–	–	26,132	5,000	**31,132**
	Total interest-sensitive assets	**830,964**	**951,728**	**836,220**	**1,234,840**	**231,749**	**4,085,501**
	Interest-sensitive liabilities						
1.	Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	**–**
2.	Financial liabilities measured at amortised cost	630,339	762,312	1,196,275	861,562	222,566	**3,673,054**
	– deposits from banks and the central bank	11,285	255	1,850	–	–	**13,390**
	– deposits from non-bank customers	594,970	633,632	919,621	712,261	211,541	**3,072,025**
	– loans from banks and the central bank	15,055	70,429	240,379	105,647	–	**431,510**
	– loans from non-banks customers	5	900	–	–	–	**905**
	– debt securities issued	8,919	57,096	34,425	43,654	11,025	**155,119**
	– other financial liabilities	105	–	–	–	–	**105**
	Total interest-sensitive liabilities	**630,339**	**762,312**	**1,196,275**	**861,562**	**222,566**	**3,673,054**
	Interest rate sensitivity gap	**200,625**	**189,416**	**(360,055)**	**373,278**	**9,183**	

The tables include the following:
- debt securities at face value (not at market value or amortised cost);
- loans after taking into account impairments in relation to the first re-defining of interest rates or contractual maturity, no prepayments are assumed;
- loans for 2014 before impairments excluding past due loans to customers with D and E credit ratings; the data for 2014 have not been recalculated in accordance with the new methodology, as the changed methodology does not significantly affect the interest gaps;
- principal amounts of loans and deposit (excluding interest, outstanding commissions, initial recognition costs).

Demand deposits and saving accounts are classified into different time buckets according to an internal methodology. They are divided into stable and unstable sources, using a statistical method based on a multi-annual time series. Stable sources are subsequently dispersed into different long-term time buckets

2.2.3.2 Interest rate sensitivity analyses

The impact of interest rate changes on net interest income and economic value of capital arising from presented existing interest sensitivity gaps is shown in the table below.

Economic value of equity is calculated as a sum of discounted cash flow of individual interest-sensitive assets and interest-sensitive liabilities of the banking book. The defined scenarios of yield curve movements are used to calculate a new economic value and, consequently, the effect of interest rate fluctuations on the economic value of equity.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The impact of interest rate changes on interest income is calculated for a 1-year period. Interest rate changes have an impact on the interest income and expense dependant on a flexible interest rate over a period when the latter is not yet defined (i.e. from the date the interest rate is redefined). These calculations do not account for refinancing and/or reinvestment. The probability of prepayments was not considered.

INTEREST RATE SENSITIVITY ANALYSES

	As at 31 December 2015		As at 31 December 2014 adjusted	
	Effect on interest rate income	Effect on the economic value of equity	Effect on interest rate income	Effect on the economic value of equity
+200 basis points	20,817	40,591	16,858	(20,483)
+100 basis points	10,441	21,418	8,441	(10,496)
+50 basis points	5,227	11,004	4,224	(5,315)
–50 basis points	(495)	(14,611)	(3,275)	2,209
–100 basis points	(510)	(22,505)	(5,052)	3,465
–200 basis points	(513)	(23,379)	(8,607)	4,642

If a market interest rate increase of 200 basis points was taken into account, the economic value of equity would increase by EUR 40,591 thousand based on the data, while net interest income would rise by EUR 20,817 thousand. If a market interest rate decrease of 200 basis points was taken into account, the economic value of equity would drop by EUR 23,379 thousand based on the data, while net interest income would fall by EUR 513 thousand. The Bank adjusts its interest rates downward to 0%.

2.2.3.3 Interest rates by currency

The Group monitors interest rates by currency for financial instruments. Average interest rates are shown in the following table.

AVERAGE INTEREST RATES BY CURRENCY FOR FINANCIAL INSTRUMENTS

		2015			2014 adjusted		
		EUR	USD	CHF	EUR	USD	CHF
	Financial assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	-0.16%	0.11%	0.00%	0.03%	0.00%	0.00%
2.	Available-for-sale financial assets	1.57%	3.77%	–	1.79%	3.80%	–
3.	Loans and receivables	3.44%	0.40%	1.11%	3.82%	0.51%	2.11%
	– loans to banks	-0.03%	0.36%	–	0.01%	0.25%	–
	– loans to non-bank customers	3.55%	2.90%	1.66%	4.00%	2.12%	2.11%
4.	Held-to-maturity investments	3.88%	–	–	3.88%	–	–
	Financial liabilities						
1.	Financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–
2.	Financial liabilities measured at amortised cost	0.63%	0.06%	0.02%	1.36%	0.07%	0.02%
	– deposits from banks and the central bank	0.24%	0.21%	0.00%	0.57%	0.00%	0.00%
	– deposits from non-bank customers	0.53%	0.04%	0.02%	1.15%	0.07%	0.02%
	– loans from banks and the central bank	0.76%	–	–	1.66%	–	–
	– debt securities issued	4.65%	–	–	4.57%	–	–
	– druge finančne obveznosti	0.00%	0.00%	0.00%	–	–	–

The calculation of the average interest rates as at the 2014 year-end is made by using the basis data of both banks, from which individual interest rates are then calculated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 Liquidity risk

Liquidity risk is the risk that includes the risk of failing to provide liquidity sources, market liquidity risk and asset encumbrance risk.

The risk of failing to provide liquidity sources is the risk that the Group might not be able to meet its payment obligations when due, and/or that as a consequence of its inability to provide sufficient funding to meet payment obligations by the due date, the Group might be forced to provide the required funding at costs significantly above usual.

Market liquidity risk is the risk of loss arising from the impossibility of selling or replacing positions (in financial instruments) in a short period of time without this bearing a significant impact on the market price, due to insufficient market depth, market imbalances or other reasons.

The asset encumbrance risk is the risk arising from the encumbrance of the bank's assets and means an increase in the risk of providing liquidity sources and market liquidity risk due to fewer possibilities of providing liquidity sources and disposing of assets. Any decrease in the value of encumbered assets as a result of market factors and the related demand for additional coverage further increases this risk.

2.3.1 Liquidity risk management process

The liquidity risk management strategy is based on prudent and stable operations, and includes the careful management of assets and liabilities (both on and off-balance sheet) as well as a balanced borrowing strategy, which enables the Group to meet its financial obligations as they fall due.

The Group provides for an adequate amount and structure of high quality liquid assets. It takes into account market liquidity risk, i.e. the risk of loss arising from the impossibility of selling or replacing a position (in financial instruments) in a short period of time without a significant impact on the market price.

The liquidity risk management process follows the established liquidity risk management policy. This process includes implementation procedures and rules on measures for identifying, assessing, monitoring, reporting on and minimising risk exposure.

The liquidity risk management process consists of:
- integrated planning and monitoring future cash flows, which include day-to-day funding, with a view to ensuring that requirements are met and sources are replenished as they mature;
- maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen cash flow trends;
- assessing market liquidity risk;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- managing the concentration and profile of debt maturities;
- liquidity management in different scenarios, and liquidity stress tests in extreme situations;
- monitoring the liquidity position of the banking system and the national economy;
- adopting adequate liquidity policies in view of the given circumstances; and
- establishing an adequate relationship between the costs, benefits and risks involved in providing liquidity.

The structure and organisation of appropriate functions for liquidity risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system of liquidity risk management is monitored by the Risk Management Committee. The implementation of the relevant policy is jointly controlled by the Assets and Liabilities Management Committee and the Liquidity Commission, liquidity risk management lies within the competence of the Treasury Department and the Assets and Liabilities Management Department, whilst the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Internal reporting takes the form of cash flow measurement and projections for the next day, week and month, as these are key periods for operational liquidity management. Furthermore, liquidity measurements for longer periods are carried out to monitor liquidity exposure in those periods, and to manage potential liquidity crises. The starting point for those projections is the contractual maturity of financial liabilities, the expected recovery date of financial assets and the assessment of the expected movement of unstable sources. Liquidity risk exposure is followed and controlled by the Liquidity Committee on a daily basis and by the Assets and Liabilities Committee on a monthly basis. The Supervisory Board discusses a quarterly report on the Group's exposure to various types of risks, including liquidity risk.

2.3.1.1 Liquidity risk measurement

The procedures for **measuring liquidity risk** include quality and quantity assessments for risk measurement. The Group has developed its own methods for establishing, measuring, managing and monitoring liquidity, which enable matching of the actual and potential liquid funds to the actual and potential use of such funds over certain time periods. The Group evaluates the adequacy of liquid assets and their availability. When an assessment of liquidity is made, the Group primarily takes into account the possibility of obtaining liquidity in the short run on the basis of these funds. The Group also monitors the distribution of costs, benefits and risks involved in providing liquidity. A methodology has been developed for this purpose, which covers important assets and liability items, off-balance items and all liquidity maintenance costs. This methodology is regularly upgraded by the Group.

The Group regularly upgrades its methodology for calculating cash flows based on expected maturity. Discrepancies between expected and contractual cash flows are assessed using assumptions that are based on historical data. Calculated assumptions are tested regularly.

2.3.1.2 Liquidity risk mitigation

With the aim of **hedging and reducing liquidity risk,** the Group implements prudent assets and liabilities management, which is the foundation of stable operations; therefore, the following objectives are pursued:

- to be able to meet all short-term financial obligations arising from on- and off-balance-sheet cash flows;
- to minimise the costs of liquidity maintenance; and
- to anticipate potential extraordinary circumstances or crisis situations and to implement contingency plans in the event of the latter.

In order to reduce liquidity risk, the Group uses a limit system, which includes compliance with regulatory requirements, internally defined limits and the monitoring of target structural liquidity ratios. In 2015, the Group slightly tightened its limit system requirements by changing the allowable levels of certain liquidity indicators.

For the purpose of liquidity risk hedging, a method for identifying and measuring liquidity risk is applied, and a contingency plan is in place in the event of a liquidity crisis. The Group is hedged against liquidity risk through careful management of the liquidity reserve portfolio and through ensuring appropriate sources of funding, which must be as diversified as possible. The Group adequately addresses the liquidity risk also in the Recovery Plan.

In order to monitor the effectiveness of hedging and minimise liquidity risk, the Group regularly assesses its risk capacity in accordance with the established methodology.

2.3.1.3 Liquidity management scenarios in extreme situations

The Group prepares various liquidity scenarios in extreme situations with the aim of identifying potential weaknesses and vulnerabilities in its liquidity position. These scenarios assume worsened liquidity conditions due to a weaker financial position of the Bank and a diminished reputation domestically and internationally. Moreover, the Group prepares scenarios assuming extreme liquidity situations in domestic and foreign financial markets, reduced confidence in the banking system, and a decline in economic activity.

The Group performs combined scenarios in extreme situations, including both Group-specific and market-wide stress scenarios, and regularly revises the system of assumptions used for all types of potential liquidity crises.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

In these scenarios, the Group determines the impact on maintaining an adequate amount of available liquid assets for covering past due liabilities. On the basis of liquidity stress tests conducted for different degrees of extreme liquidity situations, the Group forms and adjusts own high quality liquid assets and manages their volume and structure.

2.3.1.4 Contingency plan

In order to hedge liquidity risk, procedures are defined for minimising the occurrence of crisis situations that would prevent the Group from duly and promptly discharging its obligations. Early crisis detection is carried out during the daily monitoring of the Group's liquidity position.

The contingency plan of the Group defines the indicators that point to tight liquidity position, measures for improving the liquidity position and the competences and responsibilities for actions to be taken in the event of a liquidity crisis.

2.3.2 Liquidity ratios and structural liquidity indicators

Liquidity ratios and structural liquidity indicators are based on compliance with the Bank of Slovenia's regulations regarding the minimum requirements for ensuring an adequate liquidity position. This regulation prescribes the ratio of financial assets to financial liabilities according to residual maturity. For this purpose, the following prescribed ratios are calculated and monitored:

- the liquidity ratio with a residual maturity of assets and liabilities of up to 30 days. The value of this ratio may not be less than 1; and
- the liquidity ratio with a residual maturity of assets and liabilities of up to 180 days. This ratio is calculated for information purposes.

As at the 2015 year-end, both prescribed liquidity ratios remained high and above the limit.

In 2015, the Group regularly reported on the liquidity coverage ratio (LCR), as shown in the table.

PRESCRIBED LIQUIDITY RATIOS (ASSETS/LIABILITIES)

	Average 2015	As at 31 December 2015	Average 2014 adjusted	As at 31 December 2014 adjusted
Maturity of up to 30 days	1.98	1.78	1.74	2.39
Maturity of up to 180 days	1.28	1.29	0.93	1.26
Liquidity coverage ratio	5.94	4.97	–	–

The Group also monitored the liquidity situation by the continuously calculating structural liquidity indicators. Cash and cash equivalents, securities, short term interbank deposits and deposits with the central bank constitute the Group's core liquidity. In 2015, the two indicators (core liquidity to total assets and core liquidity to short-term deposits of the non-banking sector) improved on average in comparison to the preceding year. The calculation of the average values and balances as at the 2014 year-end is made by using the basis data of both banks, from which individual joint liquidity ratios are then calculated.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

STRUCTURAL LIQUIDITY INDICATORS (%)

	Average 2015	As at 31 December 2015	Average 2014 adjusted	As at 31 December 2014 adjusted
Core liquidity/total assets	45.8	42.0	34.6	48.8
Core liquidity/short-term deposits of the non-banking sector	243.2	245.8	98.5	146.1
Loans to non-banking sector/deposits of the non-banking sector	60.4	65.0	84.1	63.5

The calculation of the average values and balances as at the 2014 year-end is made by using the basis data of both banks, from which individual joint structural liquidity ratios are then calculated.

2.3.3 Funding approach

The Group keeps its funding sources at an adequate level and appropriately diversifies them by currency, lender/creditor, banking product, and maturity. In the reporting year, the Group's borrowings from the European Central Bank remained at the 2014 level, while the volume of total wholesale liabilities continued to decline. In total liabilities, the share of primary sources of funds increased.

2.3.4 Non-derivative cash flows from liabilites based on contractual maturity

The following table shows non-derivative cash flows according to their remaining contractual maturity as at the date of the statement of financial position. On-balance sheet items disclosed in the maturity table represent undiscounted cash flows including future payments. Off-balance sheet items are included in the time bucket containing the earliest date on which loan commitments could be drawn down (according to IFRS7 amendments: B11C(b)), or on which financial guarantees could be called (according to IFRS7 amendments: B11C(c)).

Foreign currency cash flows are converted into euros using the spot exchange rate as at the date of the statement of financial position.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON CONTRACTUAL MATURITY

As at 31 December 2015		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1.	Financial liabilities held for trading	–	–	–	–	–	–
2.	Financial liabilities measured at amortised cost	1,940,663	296,795	666,069	337,785	43,524	**3,284,836**
	– deposits from banks and the central bank	8,365	6,214	856	–	–	**15,435**
	– deposits from non-bank customers	1,904,420	222,023	619,785	111,732	5,493	**2,863,453**
	– loans from banks and the central bank	8,014	28,836	44,746	202,299	38,031	**321,926**
	– debt securities issued	2,328	39,561	322	23,754	–	**65,965**
	– other financial liabilities	17,536	161	360	–	–	**18,057**
	Total financial liabilities	**1,940,663**	**296,795**	**666,069**	**337,785**	**43,524**	**3,284,836**
	Loan commitments and financial guarantees	**330,215**	**–**	**–**	**–**	**–**	**330,215**

As at 31 December 2014 adjusted		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1.	Financial liabilities held for trading	71	251	761	743	–	**1,826**
2.	Financial liabilities measured at amortised cost	1,610,112	495,350	1,011,163	556,539	108,510	**3,781,674**
	– deposits from banks and the central bank	11,300	259	1,860	–	–	**13,419**
	– deposits from non-bank customers	1,574,355	419,474	883,695	237,385	6,503	**3,121,412**
	– loans from banks and the central bank	1,166	11,388	89,217	272,053	86,342	**460,166**
	– loans from non-banks customers	6	327	362	575	272	**1,542**
	– debt securities issued	6,499	63,571	35,918	46,526	15,380	**167,894**
	– other financial liabilities	16,786	331	111	–	13	**17,241**
	Total financial liabilities	**1,610,183**	**495,601**	**1,011,924**	**557,282**	**108,510**	**3,783,500**
	Loan commitments and financial guarantees	**268,266**	–	–	–	–	**268,266**

The largest part of liquidity reserves held by the Group in 2015 to meet balance sheet and off-balance sheet obligations was composed of debt securities, whilst the second largest liquidity reserve item as at the reporting date was cash and cash equivalents. The Group does not have any commitments and contingencies that would exceed the contractually determined amount of obligations.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

2.3.5 Cash flows of financial instruments based on expected maturity

The following table shows on- and off-balance cash flows according to their expected maturity as at the date of the statement of financial position.

Expected cash flows from on-balance sheet items for individually assessed large loans include expected cash flows instead of contractually agreed ones. Demand deposits and saving accounts are classified into different time buckets according to an internal methodology. They are divided into stable and unstable sources, using a statistical method based on a multi-annual time series. Stable sources are subsequently classified into different long-term time buckets.. Expected cash flows from off-balance sheet items are classified into different time buckets according to an internal methodology based on historical data.

The Group carries out measures for maintaining the level of liquidity gaps within internally defined limits. These measures include activities for raising long-term funds, maturity matching of assets and liabilities and ongoing adjustments of the interest rate policy.

CASH FLOWS OF FINANCIAL INSTRUMENTS BASED ON EXPECTED MATURITY

As at 31 December 2015		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	264,337	1	7	18,037	–	**282,382**
2.	Financial assets held for trading	273	40	10	3,120	–	**3,443**
3.	Available-for-sale financial assets	8,206	90,292	155,955	1,013,290	203,730	**1,471,473**
4.	Loans and receivables	67,443	120,833	367,594	1,005,121	624,403	**2,185,394**
	– loans to banks	49,499	8,502	8,799	26,276	4,506	**97,582**
	– loans to non-bank customers	5,424	112,331	358,795	978,845	619,897	**2,075,292**
	– other financial assets	12,520	–	–	–	–	**12,520**
5.	Held-to-maturity investments	219	838	233	28,716	5,219	**35,225**
	Total financial assets	**340,478**	**212,004**	**523,799**	**2,068,284**	**833,352**	**3,977,917**
	Financial liabilities						
1.	Financial liabilities held for trading	–	–	–	–	–	**–**
3.	Financial liabilities measured at amortised cost	634,915	337,994	764,081	856,065	691,781	**3,284,836**
	– deposits from banks and the central bank	8,365	6,214	856	–	–	**15,435**
	– deposits from non-bank customers	598,788	263,220	717,788	629,965	653,692	**2,863,453**
	– loans from banks and the central bank	8,014	28,836	44,746	202,299	38,031	**321,926**
	– debt securities issued	2,328	39,561	322	23,754	–	**65,965**
	– other financial liabilities	17,420	163	369	47	58	**18,057**
4.	Capital	–	–	–	–	550,379	**550,379**
	Total financial liabilities	**634,915**	**337,994**	**764,081**	**856,065**	**1,242,160**	**3,835,215**
	Net liquidity gap	**(294,437)**	**(125,990)**	**(240,282)**	**1,212,219**	**(408,808)**	**142,702**
	Loan commitments and financial guarantees	**6,027**	**12,222**	**55,000**	**–**	**–**	**73,249**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CASH FLOWS OF FINANCIAL INSTRUMENTS BASED ON EXPECTED MATURITY

	As at 31 December 2014 adjusted	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1.	Cash, cash balances with the central bank and other demand deposits with banks	322,641	1	4	20,020	–	**342,666**
2.	Financial assets held for trading	8,508	250	2,487	7,155	–	**18,400**
3.	Available-for-sale financial assets	44,109	161,766	172,948	1,205,357	244,865	**1,829,045**
4.	Loans and receivables	240,979	137,667	558,425	928,156	453,960	**2,319,187**
	– loans to banks	92,227	42	272	258	19,773	**112,572**
	– loans to non-bank customers	139,974	137,356	558,153	927,897	434,187	**2,197,567**
	– other financial assets	8,778	269	–	1	–	**9,048**
5.	Finančna sredstva v posesti do zapadlosti	219	838	233	29,788	5,438	**36,516**
6.	Izvedeni finančni instrumenti, namenjeni varovanju	89	232	1,278	1,331	–	**2,930**
	Total financial assets	**616,545**	**300,754**	**735,375**	**2,191,807**	**704,263**	**4,548,744**
	Financial liabilities						
1.	Financial liabilities held for trading	8,162	251	761	743	–	**9,917**
2.	Financial liabilities measured at amortised cost	620,512	566,870	1,120,678	1,108,853	363,567	**3,780,480**
	– deposits from banks and the central bank	11,300	259	1,860	–	–	**13,419**
	– deposits from non-bank customers	584,755	490,994	993,210	789,699	261,560	**3,120,218**
	– loans from banks and the central bank	1,166	11,388	89,217	272,053	86,342	**460,166**
	– loans from non-banks customers	6	327	362	575	272	**1,542**
	– debt securities issued	6,499	63,571	35,918	46,526	15,380	**167,894**
	– other financial liabilities	16,786	331	111	–	13	**17,241**
3.	Capital	–	–	–	–	501,963	**501,963**
	Total financial liabilities	**628,674**	**567,121**	**1,121,439**	**1,109,596**	**865,530**	**4,292,360**
	Net liquidity gap	**(12,129)**	**(266,367)**	**(386,064)**	**1,082,211**	**(161,267)**	**256,384**
	Loan commitments and financial guarantees	**9,275**	**19,095**	**85,375**	**–**	**–**	**113,745**

2.3.6 Derivative cash flows

2.3.6.1 Derivatives settled on a net basis

The Group's derivatives that are settled on a net basis include:
- foreign exchange derivatives: over-the-counter (OTC) currency options; and
- interest rate derivatives: interest rate swaps and interest rate options.

The following table shows an analysis of the Group's derivative financial instruments with negative fair value, which are settled on a net basis, arranged in groups according to maturity on the basis of the outstanding contractual maturity on the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE SETTLED ON A NET BASIS

As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	–	–	–	–	**–**
– interest rate derivatives	(8)	(1,304)	(232)	(649)	(17)	**(2,210)**
Total	**(8)**	**(1,304)**	**(232)**	**(649)**	**(17)**	**(2,210)**

As at 31 December 2014 adjusted	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	–	–	–	–	**–**
– interest rate derivatives	(14)	(1,811)	(1,731)	(1,838)	(58)	**(5,452)**
Total	**(14)**	**(1,811)**	**(1,731)**	**(1,838)**	**(58)**	**(5,452)**

2.3.6.2 Derivatives settled on a gross basis

The Group's derivatives that are settled on a gross basis include:

- foreign exchange derivatives: currency forwards and currency swaps.

The following table shows an analysis of the Group's derivative financial instruments with a negative fair value settled on a gross basis and arranged in logical groups according to maturity on the basis of the outstanding contractually determined maturity on the date of the statement of financial position. Items shown in the table represent the contractually determined undiscounted cash flows.

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE SETTLED ON A GROSS BASIS

As at 31 December 2015	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	3,805	11,195	7,621	–	–	**22,621**
– outflows	3,877	11,316	7,670	–	–	**22,863**
Total inflows	**3,805**	**11,195**	**7,621**	**–**	**–**	**22,621**
Total outflows	**3,877**	**11,316**	**7,670**	**–**	**–**	**22,863**

As at 31 December 2014 adjusted	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	7,894	3,609	3,985	–	–	**15,488**
– outflows	8,003	3,680	4,001	–	–	**15,684**
Total inflows	**7,894**	**3,609**	**3,985**	–	–	**15,488**
Total outflows	**8,003**	**3,680**	**4,001**	–	–	**15,684**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3.7 Commitments and contingencies

Items referring to potential obligations are presented off-balance sheet. The triggering events for these obligations have not occurred and these facilities are not yet due. Those obligations for which trigger events have already occurred are presented in the statement of financial position.

a) Loan commitments

The following table shows a summary of the contractually determined values of loan commitments (overdrafts and credit lines, granted undrawn loans, revolving loans) that oblige the Group to provide loans to customers.

b) Guarantees and other financial facilities

The following table also includes guarantees and other financial facilities, arranged according to contractually determined maturity dates.

COMMITMENTS AND CONTINGENCIES

(Notes 2.1.3, 2.2.2.1, 2.2.3.1, 39)

As at 31 December 2015	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	198,196	35,354	25,895	**259,445**
Guarantees and other financial facilities	122,479	67,834	18,899	**209,212**
– financial guarantees	52,319	13,033	5,418	**70,770**
– performance guarantees	53,344	52,213	10,734	**116,291**
– avals	–	–	–	**–**
– derivatives	1,723	920	2,747	**5,390**
– other	15,093	1,668	–	**16,761**
Total	**320,675**	**103,188**	**44,794**	**468,657**

As at 31 December 2014 adjusted	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	163,865	19,763	32,520	**216,148**
Guarantees and other financial facilities	106,659	87,881	31,674	**226,214**
– financial guarantees	33,595	12,430	6,093	**52,118**
– performance guarantees	52,151	71,180	16,028	**139,359**
– avals	–	–	–	**–**
– derivatives	1,352	3,112	4,534	**8,998**
– other	19,561	1,159	5,019	**25,739**
Total	**270,524**	**107,644**	**64,194**	**442,362**

Commitments and contingencies are reduced by the provisions for guarantees and commitments, and by the other provisions (Note 39).

Commitments and contingencies are carried at nominal value; the only exception is derivative financial instruments carried at market value. The counterparty credit risk exposure amounting to EUR 6,382 thousand at the end of 2015 (at the end of 2014: EUR 16,873 thousand) is the sum of the market value (current exposure) and the potential exposure of derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4 Capital management

Capital management is an on-going process of decision-making and of maintaining the required level and quality of the Group's capital.

Capital risk arises from an inadequate level of capital, an inadequate capital structure in view of the scope and manner of business or in relation to difficulties in raising new capital. The Group has established procedures and mechanisms for ensuring an adequate capital structure and amount of capital.

Capital risk management comprises monitoring the level of capital, capital adequacy ratios, drafting guidelines for achieving the planned capital adequacy ratios and following the implementation of measures aimed at keeping at least minimum capital adequacy ratios in compliance with the respective business policy of the Group.

The management and supervisory bodies regularly monitor and assess the effectiveness of the capital management system. The Group calculates its regulatory capital and capital adequacy at least quarterly.

The Group's capital must be at least equal the total sum of minimum capital requirements at all times.

2.4.1 Regulatory capital and capital adequacy

The regulatory capital of the Group is calculated on the basis of the Group's consolidated financial statements in accordance with the Part Two of Regulation (EU) No 575/2013. The Group's regulatory capital calculation takes into account capital components, prudential filters and deductible items. In calculating the capital adequacy and capital requirements of the Group, the Part Three of Regulation (EU) No 575/2013 is applied.

Regulatory capital includes Tier 1 capital and Tier 2 capital. The Tier 1 capital of the Group consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the Group. Disclosures related to own funds are laid down in Article 437 of Regulation (EU) No 575/2013 and, with regard to disclosure of own funds requirements set out in the implementing technical standards contained in Commission Implementing Regulation (EU) No 1423/2013. The disclosure requirements for own funds also include transitional provisions of Article 492 of Regulation (EU) No 575/2013, prescribing additional information that has to be disclosed for the period from 1 January 2014 to 31 December 2021. Disclosures relating to capital requirements are laid down in Article 438 of Regulation (EU) No 575/2013.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The following table shows regulatory capital components and capital adequacy ratios.

REGULATORY CAPITAL AND CAPITAL ADEQUACY

As at 31 December	2015	2014 adjusted
Paid up capital instruments	151,000	151,000
Share premium	282,459	303,517
Previous years retained earnings	5,851	–
Profit or loss eligible	–	(21,101)
Accumulated other comprehensive income	53,386	46,278
Other reserves	16,255	15,650
Adjustments to CET1 capital	–	(5)
(-) Other intangible assets	(9,108)	(9,564)
(-) Deferred tax assets thar rely on future profitability and do not arise from temporary differences	(6,667)	(8,197)
(-) Excess of deduction from AT1 items over AT1 capital	(5,464)	(24,532)
(-) Other transitional adjustments to CET1 capital	(31,723)	(15,969)
(-) CET1 capital elements or deductions - other	(4,218)	–
Common Equity Tier 1 capital (CET1)	**451,771**	**437,077**
Additional Tier 1 capital (AT1)	**–**	**–**
Tier 1 capital (T1)	**451,771**	**437,077**
Tier 2 capital (T2)	**–**	**–**
Total regulatory capital (for solvency purposes)	**451,771**	**437,077**
Risk weighted exposure amounts for credit risk	1,681,789	1,994,849
Risk weighted exposure amounts for position and foreign-exchange risk	1,784	1,170
Risk weighted exposure amounts for operational risk	277,698	298,350
Risk weighted exposure amounts for credit valuation adjustments risk	462	1,737
Total risk exposure amount	**1,961,733**	**2,296,106**
Common Equity Tier 1 capital ratio	**23.03%**	**19.04%**
Tier 1 capital ratio	**23.03%**	**19.04%**
Total capital ratio	**23.03%**	**19.04%**

Note: the calculation of total operational risk exposure takes into account the harmonised methodologies of both banks

The regulatory capital of the Group amounted to EUR 451,771 thousand as at 31 December 2015, which represents a year-on-year increase of EUR 14,694 thousand. As at the reporting date, the total risk exposure amount stood at EUR 1,961,733 thousand, or EUR 334,373 thousand less compared to 31 December 2014. The total capital ratio, i.e. capital adequacy, reached 23.03%, which was around 4 percentage points higher than at the 2014 year-end.

If the net profit for 2015 was distributed to Common Equity Tier 1 capital, the regulatory capital of the Group would amount to EUR 497,695 thousand as at the end of 2015. If total risk exposure had amounted to EUR 1,961,733 thousand as at the 2015 year-end, the total capital ratio, i.e. capital adequacy, would have reached 25.37%.

As at 31 December 2015, the consolidated total capital ratio, Common Equity Tier 1 capital ratio and Tier 1 capital ratio were 23.03% (non-consolidated 22.86%). In accordance with Article 492(1) of Regulation (EU) No 575/2013 the following own funds requirements shall apply during the period from 1 January 2015 to 31 December 2015: a Common Equity Tier 1 capital ratio of a level reaching or exceeding 4.5%; a Tier 1 capital ratio of a level reaching or exceeding 6%; and a total capital ratio of a level reaching or exceeding 8%. As at 31 December 2015, Common Equity Tier 1 capital surplus amounted to EUR 363,493 thousand, Tier 1 capital surplus to EUR 334,067 thousand and total regulatory capital surplus to EUR 294,832 thousand.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.1.1. Full harmonisation of own funds items disclosures with audited financial statements

Regulatory capital is calculated based on consolidated financial statements in line with Part Two of Regulation (EU) No 575/2013. Full reconciliation of own funds items to audited financial statements is set in Article 437(1)(a) of Regulation (EU) No 575/2013.

In the first column, the amounts of individual items from the statement of financial position are shown. In the second column, the amounts of regulatory capital items not subject to the transitional provisions are shown. In the third column, the amounts of regulatory capital items subject to the transitional provisions are shown. In the fourth column, references to individual items from the transitional disclosure template are shown (the table in Section 2.4.1.3).

Due to the gradual introduction of individual transitional provisions, the regulatory capital as currently taken into account in the calculation of capital adequacy was EUR 37,187 thousand lower than it would be if all requirements were already fully implemented. The difference mainly arises from the accumulated other comprehensive income, as more unrealised gains than losses were temporarily excluded, and partly also from the deductible item for deferred tax.

RECONCILIATION OF OWN FUNDS ITEMS TO AUDITED FINANCIAL STATEMENTS

As at 31 December 2015	Consolidated audited financial statements items	Own funds items	Own funds items during the transitional period	Transitional own funds disclosure template reference
Assets				
Intangible assets	9,108	(9,108)	(9,108)	8
Tax assets	9,143	(6,667)	(2,667)	–
– tax assets	–	–	–	–
– deferred tax assets	9,143	(6,667)	(2,667)	–
– deferred tax assets that rely on future profitability and do not arise from temporary differences	6,667	(6,667)	(2,667)	10
– deferred tax assets that rely on future profitability and arise from temporary differences	2,476	–	–	–
CET1 capital elements or deductions - other	–	(4,218)	(4,218)	7
Liabilities				
Equity				
Share capital	151,000	151,000	151,000	1
– capital instruments eligible as CET 1 capital	151,000	151,000	151,000	1
Share premium	282,459	282,459	282,459	1
Accumulated other comprehensive income	53,108	53,386	12,199	–
– revaluation excesses in connection with RZP financial assets	53,386	53,386	12,199	26(a)
– revaluation excesses as a consolidation capital adjustment	–	–	–	3
– other revaluation excesses	-278	–	–	–
Reserves from profit	20,533	16,255	16,255	3
Retained earnings (including loss from the current year)	43,279	5,851	5,851	–
– retained profit or loss	5,851	5,851	5,851	3
– net profit or loss in the financial year	37,428	–	–	–
Total equity	**550,379**	**488,958**	**451,771**	

2.4.1.2. Main features of Common Equity Tier 1 instruments

Article 437(1)(b) of Regulation (EU) No 575/2013 stipulates the information regarding the main features of the Common Equity Tier 1 instruments.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CAPITAL INSTRUMENTS' MAIN FEATURES TEMPLATE

1	Issuer	Abanka
2	Unique identifier	ISIN SI0021116510
3	Governing law (s) of the instrument	Companies act (ZGD-1)
	Regulatory treatment	regulation (EU) NO 575/2013
4	Transitional CRR rules	Common Equity Tier 1 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	solo and (sub-)consolidated
7	Instrument type	Common Equity Tier 1 capital
8	Amount recognised in regulatory capital	EUR 591 million
9	Nominal amount of instrument	"N/A"
9a	Issue price	EUR 348 million in December 2013, EUR 243 million in October 2014
9b	Redemption price	"N/A"
10	Accounting classification	shareholders' equity
11	Original date of issuance	on 19 December 2013 (15 million shares), on 21 October 2014 (100 thousand shares)
12	Perpetual or dated	perpetual
13	Original maturity date	no maturity
14	Issuer call subject to prior supervisory approval	no
15	Optional call date, contingent call dates and redemption amount	"N/A"
16	Subsequent call dates, if applicable	"N/A"
	Coupons / dividends	"N/A"
17	Fixed or floating dividend/coupon	"N/A"
18	Coupon rate and any related index	"N/A"
19	Existence of a dividend stopper	no
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	Existence of step up or other incentive to redeem	"N/A"
22	Noncumulative or cumulative	"N/A"
23	Convertible or non-convertible	"N/A"
24	If convertible, conversion trigger(s)	"N/A"
25	If convertible, fully or partially	"N/A"
26	If convertible, conversion rate	"N/A"
27	If convertible, mandatory or optional conversion	"N/A"
28	If convertible, specify instrument type convertible into	"N/A"
29	If convertible, specify issuer of instrument it converts into	"N/A"
30	Write-down features	"N/A"
31	If write-down, write-down trigger(s)	"N/A"
32	If write-down, full or partial	"N/A"
33	If write-down, permanent or temporary	"N/A"
34	If temporary write-down, description of write-up mechanism	"N/A"
35	Position in subordination hierarchy in liquidation	all other obligations
36	Non-compliant transitioned features	no
37	If yes, specify non-compliant features	"N/A"

Note: »N/A« data is not applicable.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.1.3. Disclosure of own funds – the nature and amounts of specific capital items

Information regarding the disclosure of data about the capital is defined in Article 492(3) of Regulation (EU) No 575/2013 and Commission Implementing Regulation (EU) No 1423/2013 (Annex VI – Transitional own funds disclosure template).

In the first column, the amounts subject to the transitional provisions are shown. In the third column, the amounts not subject to the transitional provisions are shown.

Due to the gradual introduction of individual transitional provisions, the regulatory capital as currently taken into account in the calculation of capital adequacy was EUR 37,187 thousand lower than it would be if all requirements were already fully implemented. The difference mainly arises from the accumulated other comprehensive income, as more unrealised gains than losses were temporarily excluded, and partly also from the deductible item for deferred tax.

TRANSITIONAL OWN FUNDS DISCLOSURE TEMPLATE

	Common Equity Tier 1 capital: instruments and reserves	**Amount at disclosure date as at 31 December 2015**	**Regulation (EU) NO 575/2013 article reference**	**Amounts subject to pre-regulation (EU) no 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013**
1	Capital instruments and the related share premium accounts	433,459	26(1), 27, 28, 29, EBA list 26(3)	433,459
	of which: Instrument type 1		EBA list 26(3)	
	of which: Instrument type 2		EBA list 26(3)	
	of which: Instrument type 3		EBA list 26(3)	
2	Retained earnings	5,851	26(1)(c)	5,851
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	69,641	26(1)	69,641
3a	Funds for general banking risk		26(1)(f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486(2)	
	Public sector capital injections grandfathered until 1 January 2018		483(2)	
5	Minority Interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26(2)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**508,951**		**508,951**
	Common Equity Tier 1(CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(9,108)	36(1)(b), 37, 472(4)	(9,108)
9	Empty Set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(6,667)	36(1)(c), 38, 472(5)	(6,667)
11	Fair value reserves related to gains or losses on cash flow hedges		33(a)	
12	Negative amounts resulting from the calculation of expected loss amounts		36(1)(d), 40, 159, 472(6)	

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date as at 31 December 2015	Regulation (EU) NO 575/2013 article reference	Amounts subject to pre-regulation (EU) no 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
13	Any increase in equity that results from securitised assets (negative amount)		32(1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33(b)	
15	Defined-benefit pension fund assets (negative amount)		36(1)(e), 41, 472(7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36(1)(f), 42, 472(8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36(1)(g), 44, 472(9)	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)		36(1)(h), 43, 45, 46, 49(2) in (3), 79, 472(10)	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36(1)(i), 43, 45, 47, 48(1)(b), 49(1) do (3), 79, 470, 472(11)	
20	Empty Set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36(1)(k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)		36(1)(k)(i), 89 do 91	
20c	of which: securitisation positions (negative amount)		36(1)(k)(ii), 243(1)(b), 244(1)(b), 258	
20d	of which: free deliveries (negative amount)		36(1)(k)(iii), 379(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)		36(1)(c), 38, 48(1)(a), 470, 472(5)	
22	Amount exceeding the 15% threshold (negative amount)		48(1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36(1)(i), 48(1)(b), 470, 472(11)	
24	CET1 capital elements or deductions - other	(4,218)		(4,218)
25	of which: deferred tax assets arising from temporary differences		36(1)(c), 38, 48(1)(a), 470, 472(5)	
25a	Losses for the current financial year (negative amount)		36(1)(a), 472(3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1)(l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	Common Equity Tier 1 capital: instruments and reserves	Amount at disclosure date as at 31 December 2015	Regulation (EU) NO 575/2013 article reference	Amounts subject to pre-regulation (EU) no 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			
	Of which: ...filter for unrealised loss 1	18	467	
	Of which: ...filter for unrealised loss 2	6	467	
	Of which: ...filter for unrealised gain 1	(18,315)	468	
	Of which: ...filter for unrealised gain 2	(22,896)	468	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481	
	Of which: ...	4,000	481	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36(1)(j)	
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(57,180)**		**(19,993)**
29	**Common Equity Tier 1 (CET1) capital**	**451,771**		**488,958**
44	**Additional Tier 1 (AT1) capital**	0.00		–
45	**Tier 1 capital (T1 = CET1 + AT1)**	**451,771**		**488,958**
58	**Tier 2 (T2) capital**	–		–
59	**Total capital (TC = T1 + T2)**	**451,771**		**488,958**
60	Total risk weighted assets	1,961,733		1,961,733
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	23.03%	92(2)(a), 465	24.92%
62	Tier 1 (as a percentage of risk exposure amount)	23.03%	92(2)(b), 465	24.92%
63	Total capital (as a percentage of risk exposure amount)	23.03%	92(2)(c)	24.92%
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	18,406	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)	18,406
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1,652	36(1)(i), 45, 48, 470, 472(11)	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	2,476	36(1)(c), 38, 48, 470, 472(5)	

Note: Other items are not included in the template because the Group doesn't have them. The Group doesn't have Additional Tier 1 instruments and regulatory adjustments, Tier 2 instruments and regulatory adjustments, capital buffers, applicable caps on the inclusion of provisions in Tier 2 and capital instruments subject to phase-out arrangements.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.2 Minimum capital requirements

Disclosures relating to capital requirements are laid down in Article 438 of Regulation (EU) No 575/2013.
The following table shows capital requirements by risk type and their structure.

CAPITAL REQUIREMENTS BY RISK TYPE AND THEIR STRUCTURE

As at 31 December	2015		2014 adjusted	
Capital requirements	**Amount**	**Structure**	**Amount**	**Structure**
Capital requirement for credit risk	134,543	85.73%	159,588	86.88%
Capital requirement for position and foreign-exchange risk	143	0.09%	94	0.05%
Capital requirement for operational risk	22,216	14.16%	23,868	12.99%
Capital requirement for credit valuation adjustments risk	37	0.02%	139	0.08%
Total capital requirements	**156,939**	**100.00%**	**183,689**	**100.00%**
Total risk exposure amount	**1,961,733**	**100.00%**	**2,296,106**	**100.00%**

2.4.2.1 Credit risk capital requirement

The credit risk capital requirement of the Group is calculated by applying the Standardised Approach. The following table shows capital requirement amounts per exposure category.

CREDIT RISK CAPITAL REQUIREMENT

As at 31 December	2015	2014 adjusted
Standardised approach	**134,543**	**159,588**
Exposure classes excluding securitization positions	**134,543**	**159,588**
Exposures to central governments or central banks	1,235	1,362
Exposures to regional governments or local authorities	555	616
Exposures to public sector intities	1,203	529
Exposures to institutions	4,100	10,763
Exposures to corporates	43,122	52,986
Retail exposures	51,403	54,294
Exposures secured by mortgages on immovable property	9,466	4,129
Exposures in default	7,646	12,973
Exposures associated with particularly high risk	5,113	10,273
Exposures in the form of covered bonds	355	362
Exposures to institutions and corporates with a short-term credit assessment	3,475	1,855
Exposures in the form of units or shares in collective investment undertakings (CIUs)	616	1,598
Equity exposures	1,069	2,675
Other items	5,184	5,172

In 2015, credit risk capital requirement decreased by 16%, i.e. by EUR 25,045 thousand and, within that, the largest decrease in absolute amount was registered in the exposure class for corporates.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.2.2 Market risk capital requirement

The Group's market risk capital requirement is calculated by applying the Standardised Approach. Market risk capital requirement involves the calculation of capital requirements for position risk (specific and general risk due to price changes of financial instruments) and foreign exchange risk.

MARKET RISK CAPITAL REQUIREMENT

As at 31 December	2015	2014 adjusted
Standardised approach	**143**	**94**
Position and foreign-exchange risk	**143**	**94**
Debt based financial instruments	99	38
Equity based financial instruments	44	55
Foreign-exchange risk	–	–

2.4.2.3 Operational risk capital requirement

The Group's operational risk capital requirement is calculated by applying the Basic Indicator Approach. Therefore, the capital requirement for operational risk is equal to 15% of the average annual gross income over the previous three years.

OPERATIONAL RISK CAPITAL REQUIREMENT

As at 31 December	2015	2014 adjusted
Basic indicator approach	22,216	23,868

Note: The calculation of total operational risk exposure takes into account the harmonised methodologies of both banks.

2.4.2.4 Own funds requirements for credit valuation adjustments

Credit Valuation Adjustment or CVA means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty for all OTC derivative instruments.

A standardised method is applied when calculating the own funds requirements for credit valuation adjustments

CAPITAL REQUIREMENTS FOR CREDIT VALUTATION ADJUSTMENTS

As at 31 December	2015	2014 adjusted
Standardised method	37	139

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.3 Leverage ratio

Disclosures related to the leverage ratio are laid down in Article 451 of the Regulation (EU) No 575/2013.

KEY INFORMATION REGARDING LEVERAGE RATIO

As at 31 December	2015
Tier 1 capital - transitional definition	451,771
Total leverage ratio exposures	4,247,559
Leverage Ratio - using a transitional definition of Tier 1	10.64%

2.4.4 Internal capital adequacy assessment process

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

Within the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group upgraded existing methods for calculating the internal assessments of capital requirements; continued to regularly monitor its risk profile and evaluated risk-bearing capacity; set up and performed stress tests; and calculated the amount of its internal assessment of capital and internal assessment of capital requirements for all important types of risks on a quarterly basis. This information is included in regular quarterly reports on the outcome of the Internal Capital Adequacy Assessment Process, which is communicated to the members of the Management and the Supervisory Boards as well to the members of the Risk Management Committee, which consists of the senior management of the Bank.

As at 31 December 2015, the consolidated total capital ratio, Common Equity Tier 1 ratio and Additional Tier 1 capital ratio were at 23.03% (non-consolidated 22.86%). In accordance with Regulation (EU) No 575/2013 the following own funds requirements shall apply in the period from 1 January 2015 to 31 December 2015: a Common Equity Tier 1 capital ratio at 4.5% or higher; a Tier 1 capital ratio at 6% or higher; and a total capital ratio at 8% or higher. As at 31 December 2015, the Group's capital adequacy ratios were above the legally required levels. According to stress scenarios by the Bank of Slovenia the expected consolidated capital adequacy ratio was 13.5% and the expected Common Equity Tier 1 capital ratio equalled 10.8%. As at the reporting date, the Group's capital adequacy ratios were above the levels required by the Bank of Slovenia.

2.5 Operational risk management

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

2.5.1 Operational risk management process

The operational risk strategy and management processes are set out in the Operational Risk Management Policy. In 2015, the Group continued with the activities formulated in the Policy, which was updated in 2015 with current amendments. The accompanying internal instructions were brought in line with the amended Policy, in order to involve all operational risk management steps and define the Group’s appetite and tolerance for operational risk.

The objective of the operational risk management process is to establish procedures for reducing risk and limiting the occurrence of losses from operational risk as well as to actively plan and implement measures aimed at reducing the frequency and severity of loss events.

The operational risk management process includes:
- procedures of operational risk identification, measurement/assessment, monitoring (controlling) and mitigation;
- operational risk internal reporting.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group regularly identifies and qualitatively assesses operational risk exposure, whilst also taking stock of preventive and corrective measures in the case that potential loss events occur. The system of operational risk internal reporting in the Group involves the entire staff and enables a quick reaction in the event of problems, since the Management Board and senior management are involved in such reporting. If necessary, after each loss event additional measures are to be taken and the holders and implementation deadlines are to be set in order to prevent or reduce the possibility of reoccurrence and with the aim of improving operational risk management. Risk Management Department monitors the implementation of measures and reports to the Risk Management Committee.

The structure and organisation of appropriate operational risk management in the Group involves employees at all levels with different responsibilities and duties. Operational risk management and risk mitigation measures are decentralised and take place in all organisational units. The Risk Management Department is in charge of coordinating the operational risk management function.

Working within the Group are the Operational Risk Commission, responsible for the development of the operational risk management system, and the Risk Management Committee, which is a collective decision-making body responsible for directing and controlling operational risk management. The latter includes all senior managers and is chaired by a member of the Management Board.

For the purpose of **operational risk internal reporting**, the Group uses an application developed in-house for recording loss events. The recording application enables the recording of loss events (also anonymously). In the framework of loss event reporting, the Group also collects information on legal risk. The risk management policy and processes are applied to legal risk in the same manner as other operational risk categories. The Group manages the legal risk arising from legal actions against the Group in the same manner as other legal risks, i.e. by prudent and careful consideration of each case (if not outsourced) and/or cautious selection of lawyers (if outsourced) to allow for quality representation of the Group. The Risk Management Department is responsible for the preparation of summary quarterly reports on loss events, which are discussed by the Operational Risk Commission and the Risk Management Committee. The Committee discusses major loss events in greater detail, takes appropriate measures as they occur and monitors implementation of the measures. It also investigates all operational risk profiles (assessed, realised, targeted) by organisational units and at the Group level. Moreover, the Management Board and senior management are promptly informed of all major loss events. The Supervisory Board discusses quarterly reports on exposure to various risks, including operational risk.

2.5.1.1 Operational risk mitigation

The operational risk measurement system includes operational risk identification and assessment and/or measurement through the recording of potential loss events. For each identified potential loss event, the probability of its occurrence and the seriousness of the consequences resulting from its occurrence are assessed.For assessment purposes a qualitative approach is taken. Existing controls for reducing loss event occurrence have to be defined for each recorded potential loss event. For significant loss events preventive measures, holders and implementation deadlines are also defined.

2.5.1.2. Operational risk mitigation

The Group carries out activities within the framework of **operational risk hedging and reduction**, which are based on the identification, measurement, assessment, monitoring and internal reporting on operational risk. In addition, the Group performs activities to mitigate the consequences of occurred loss events. The implementation of these activities is the responsibility of individual organisational units. An analysis of the loss events which occurred in 2015 was performed, indicating the human factor was the main source of losses arising from operational risks. Therefore, the Group is continuously introducing measures for constant risk mitigation.

The Group has developed business continuity plans and disaster recovery plans, which are regularly updated, upgraded and tested.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable given the circumstances.

(a) Impairment losses on loans and advances
The Group constantly monitors the quality of its credit portfolio and assesses credit risk losses. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating a decline in the solvency of debtors or a deterioration in economic conditions that correlate with defaults on assets in the group of loans. Future cash flows are estimated on the basis of historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group. Individual assessments of losses arising from credit risk are made on the basis of projected future cash flows, taking into account all relevant information about the financial position and payment status of the debtor. Cash flow projections are verified by the Risk Management Department. Minor exposures, including loans to individuals, are collectively assessed. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Group regularly measures the impact of the deterioration of the credit portfolio on the basis of amount of credit risk losses, on profit or loss, as well as on regulatory capital and the capital adequacy ratio of the Group. It employs sensitivity analyses to provide additional information on potential credit risk losses and necessary impairments of financial assets. Two of the analyses used to determine the impact of credit portfolio deterioration on the amount of credit risk loss are presented below.

The first sensitivity analysis assumes that 2% of A, B, C and D loans are downgraded by one credit rating category. Based on data at the end of 2015, credit risk losses would increase by 2.3% (2014 adjusted: 2.2%) or EUR 7.5 million (2014 adjusted: EUR 7.8 million). The second sensitivity analysis was conducted in accordance with the assumption that 1% of A, B and C loans are downgraded by one credit rating category, 1% of these loans are downgraded by two credit rating categories and 2% of D-rated loans are downgraded by one credit rating category. The result of this sensitivity analysis has shown that, based on data at the end of 2015, credit risk losses would rise by 3.9% (2014 adjusted: 3.6%) or EUR 12.9 million (2014 adjusted: EUR 13.0 million).

(b) Impairment of available-for-sale equity investments
The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost.

In addition, the Group estimates the usual fluctuation in share prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss of EUR 10 thousand (2014 adjusted: EUR 1,018 thousand), this being the transfer of the total debit balance in accumulated other comprehensive income to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(c) Held-to-maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances (e.g. selling an insignificant amount close to maturity) the Bank is required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

If all held-to-maturity investments were to be so reclassified, the carrying value would increase by EUR 2,754 thousand (2014 adjusted: a EUR 2,994 thousand increase), with a corresponding entry in accumulated other comprehensive income in shareholders' equity.

(d) Fair value of financial assets and liabilities

Financial instruments carried at fair value

Fair value is defined as the price achieved on the sale of an asset or paid to transfer a liability in an orderly transaction in the principal (or, if not existent, in the most advantageous) market under current market conditions between participants at the measurement date. Such a definition of price requires the market participants to be independent and unrelated, informed and capable, willing and not forced to enter into a transaction.

When measuring fair value it is assumed that an asset or liability is exchanged in an orderly transaction between market participants under current market conditions at the measurement date, whether or not the price can be directly observed or estimated by applying other valuation techniques.

Fair value hierarchy

In line with IFRS 13, the Group categorises financial instruments into three fair value levels based on the nature of inputs used to determine fair value. Higher levels contain financial instruments whose fair value was measured by using directly observable inputs (directly observable prices). Financial instruments, for which the fair value was measured by using also unobservable inputs, are categorised into lower fair value levels. The level of inputs having the strongest impact on determining the fair value of a financial instrument is taken into consideration. In cases where several types of inputs impact the determination of fair value, the lowest level in the hierarchy of inputs is used.

- Level 1: The Group categorises financial instruments, for which the fair value was measured through direct price observation at markets for identical financial instruments, to which the Group had access at the measurement date, into fair value Level 1. In addition, the Group categorises into fair value Level 1 all the financial instruments whose fair value was measured by direct observation of quoted prices for financial instruments from market participants or third parties, provided orderly transaction pricing and a binding quote of a third party. Level 1 also includes securities whose fair value is determined on the basis of consensus prices using Bloomberg Generic (BGN) prices. Through comparative analyses, the Group established that although these prices do not represent a binding offer by a third party, the difference between the fair value measured on their basis and the fair value measured on the basis of a binding offer by a third party is not material.

- Level 2: The Group categorises financial instruments, for which the fair value was measured through direct price observation at markets for similar financial instruments, into fair value Level 2. In addition, the Group categorises into fair value level 2 those financial instruments whose fair value was measured using inputs which make it impossible to categorise a financial instrument into fair value Level 1, whilst the inputs are accessible at the market and indirectly indicate the market conditions, or are derived from observable market prices or from observable quoted prices for equal financial instruments from market participants or third parties, provided orderly transaction pricing and a binding quote of a third party.

NOTES TO THE FINANCIAL STATEMENTS (continued)

- Level 3: The Group categorises financial instruments, for which the fair value was measured using unobservable inputs, into fair value Level 3. Unobservable inputs comprise assumptions and anticipations. In using this valuation technique, the Group forms assumptions and anticipations in compliance with other market participants. In addition, the Group categorises into fair value Level 3 the financial instruments whose fair value was measured by using insufficient or unknown inputs in applying the selected valuation technique and those financial instruments whose fair value was measured on the basis of third party quoted prices that do not indicate an orderly transaction or a binding quote of a third party.

Valuation techniques for financial instruments measured at fair value

Valuation techniques used in the measurement of fair value encourage maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The markets where inputs for the valuation of financial instruments can be observed include organised exchange markets, dealer markets, brokered markets and principal-to-principal markets.

The Group measures the fair value of financial instruments by using directly observable market prices for identical assets or liabilities, accessible to the Group at the measurement date. As a rule, in such cases the Group makes use of closing market prices on the valuation cut-off date. The Group may further use quoted prices provided by market participants or third parties to measure the fair value of financial instruments, provided that inputs stem from orderly transaction pricing and constitute a binding quote of a third party. In case of several quotations, the Group may use the most favourable quotation.

If directly observable market prices for identical assets or liabilities are not available and, at the same, there are no quoted prices available from market participants or third parties (provided orderly transaction pricing, and a binding quote of a third party, or when the Group estimates that there is no active market for a financial instrument), a market approach or an income approach valuation technique is used to determine fair value.

Market approach and income approach valuation techniques for groups of financial instruments measured at fair value

From among the market approach valuation techniques used in the fair value measurement of equity securities, the Group applies two main methods: the method of comparable brokerage firms and the comparable sales method. When the Group, applying the market approach valuation techniques, uses quoted prices provided by market participants or third parties for the fair value measurement of equity securities, and such quoted prices neither stem from orderly transactions nor constitute a binding quote of the relevant party, the Group shall, in case of several such quotes, select the average value, after having first eliminated the two extreme quotes in case of three or more quotes. From among the income approach valuation techniques, the Group applies the discounted cash flow method.

From among the market approach valuation techniques used in the fair value measurement of debt securities, the Group applies the comparable companies method. When the Group, applying the market approach valuation techniques, uses quoted prices provided by market participants or third parties for the fair value measurement of debt securities, and such quoted prices neither stem from orderly transactions nor constitute a binding quote of the relevant party, the Group shall, in case of several such quotes, select the average value, after having first eliminated the two extreme quotes in case of three or more quotes.

Valuation of derivatives is based on discounting the expected future cash flows estimated on the basis of market information, such as interest rates and exchange rates. The Group applies the Garman-Kohlhagen model for the valuation of European-style currency options, and the Barone-Adesi and Whaley model for American currency options valuation. The Blacks model is used for the valuation of interest options.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Internal environment for valuations

The Group has created an internal environment for the proper implementation of the valuation activity. The valuation of financial instruments that are measured at fair value is carried out by an organisational unit that is completely independent of the assets and liabilities management unit. The valuation of financial instruments received as collateral for the Group's investments is carried out by the organisational unit that is not the owner of claims collateralised with financial instruments subject to valuation.

Valuation models, modes of application and types of inputs are defined in internal rules of the Group which also hereby restricts any subjective judgement in fair value measurement. On a daily basis, the Group performs independent verification of recorded exchange rates and prices used in the valuation of financial instruments.

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 31 December 2015	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	3,477	5,074	5	**8,556**
– debt securities	3,119	–	–	**3,119**
– equity securities	–	268	5	**273**
– derivatives	358	4,796	–	**5,154**
– other	–	10	–	**10**
Financial assets designated at fair value through profit or loss	2,452	–	–	**2,452**
– unit linked investments	2,452	–	–	**2,452**
Available-for-sale financial assets	786,846	660,768	10,154	**1,457,768**
– debt securities	775,932	629,890	–	**1,405,822**
– equity securities	10,914	714	10,058	**21,686**
– equity holdings	–	5,428	96	**5,524**
– Bank Resolution Fund	–	24,736	–	**24,736**
Derivatives - hedge accounting	–	237	–	**237**
Total financial assets	**792,775**	**666,079**	**10,159**	**1,469,013**
Financial liabilities measured at fair value				
Financial liabilities held for trading	–	4,742	–	**4,742**
– derivatives	–	4,735	–	**4,735**
– spot transactions	–	7	–	**7**
Total financial liabilities	**–**	**4,742**	**–**	**4,742**

The debt securities whose fair value is based on the market prices from Bloomberg (BGN) are classified in Level 1 amounted to EUR 750,678 thousand, as with comparative analyses the Group established that the difference in fair value when measured on the basis of offer prices is not material.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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As at 31 December 2014 adjusted	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	299	13,016	5	**13,320**
– equity securities	–	253	5	**258**
– derivatives	299	12,762	–	**13,061**
– other	–	1	–	**1**
Financial assets designated at fair value through profit or loss	2,354	–	–	**2,354**
– unit linked investments	2,354	–	–	**2,354**
Available-for-sale financial assets	1,120,507	629,083	485	**1,750,075**
– debt securities*	1,095,316	626,267	–	**1,721,583**
– equity securities	25,191	1,003	392	**26,586**
– equity holdings*	–	1,813	93	**1,906**
Derivatives - hedge accounting	–	1,424	–	**1,424**
Total financial assets	**1,123,160**	**643,523**	**490**	**1,767,173**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	8,886	–	**8,886**
– derivatives	–	8,886	–	**8,886**
– spot transactions	–	–	–	**–**
Total financial liabilities	**–**	**8,886**	**–**	**8,886**

* As a result of the adjustment of the valuation methodology undertaken due to the acquisition of Banka Celje d.d., the Bank adopted the same fair value hierarchy for debt securities and equity holdings available-for-sale as applied by the acquiring bank as at 31 December 2014.

FAIR VALUE TRANSFERS

In 2015, there were no transfers between the levels of fair value.

2014 adjusted	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Carrying amount as at the transfer date						
Available-for-sale financial assets (equity securities)	–	–	–	1,662	(529)	–
As at 31 december 2014	**–**	**–**	**–**	**1,662**	**/**	**–**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Financial assets held for trading	Available-for-sale financial assets	Total
	Equity securities	Equity holdings	
As at 1 January 2015	5	485	490
Total gains/(losses)	–	9,880	9,880
– in profit or loss	–	–	–
– in other comprehensive income	–	9,880	9,880
Purchases	–	–	–
Sales, redemptions, settlements	–	(211)	(211)
Transfers to level 3	–	–	–
Transfers from level 3	–	–	–
As at 31 December 2015	5	10,154	10,159
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2015	–	–	–

	Financial assets held for trading	Available-for-sale financial assets	Total
	Equity securities	Equity holdings	
As at 1 January 2014 adjusted	5	4,122	4,127
Total gains/(losses)	–	(13)	(13)
– in profit or loss	–	(13)	(13)
– in other comprehensive income	–	–	–
Purchases	–	4,829	4,829
Sales, redemptions, settlements	–	(2,012)	(2,012)
Impairment	–	(5,761)	(5,761)
Transfers to level 3	–	–	–
Transfers from level 3	–	(529)	(529)
As at 31 December 2014	5	636	641
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2014	–	–	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Unobservable inputs used in measuring fair value

The table below contains information on significant unobservable inputs used in the fair value measurement of financial instruments categorised in fair value Level 3 as at 31 December 2015.

Type of financial instruments	Fair values at 31 December 2015	Valuation technique	Significant unobservable input	Range of estimates for unobservable input	Fair value measurement sensitivity to unobservable inputs
Equity securities	5	At cost	–	–	A change in the measurement technique might to a certain extent change the fair value.
Equity holdings	96	At cost	–	–	A change in the measurement technique might to a certain extent change the fair value.

The unobservable inputs for fair value measurement of financial instruments which were categorised in fair value Level 3 as at 31 December 2015 arise from the application of cost model valuation in cases in which obstacles existed in fair value measurement and the values of the relevant assets are low.

Effect of unobservable inputs on fair value measurement

Although the Group believes the fair values to be adequate, the application of various valuation techniques or assumptions may lead to different fair value measurements. In the case of fair value measurement of financial instruments categorised in Level 3, any changes in the selection of unobservable inputs or assumptions and application of reasonably different inputs or assumptions could, to a certain extent, change the measured fair value.

2015	Effect on profit or loss		Effect on other comprehensive income	
Financial asset	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Equity securities	–	(5)	–	–
Equity holdings	–	–	–	(96)

The adverse impact on profit or loss due to fair value measurement of Level 3 equity financial instruments and equity holdings was measured to show the possibility that the transit from the cost valuation model to some other fair value measurement technique would result in zero value.

2014 adjusted	Effect on profit or loss		Effect on other comprehensive income	
Financial asset	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Equity securities	–	(5)	–	–
Equity holdings	–	–	–	(70)

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

As at 31 December 2015	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	281,289	281,289	–	–	281,289
Loans and receivables	1,960,263	–	109,526	1,960,115	2,069,641
– loans to banks	97,218	–	96,865	–	96,865
– loans to non-bank customers	1,850,384	–	–	1,960,115	1,960,115
– retail customers	819,157	–	–	924,873	924,873
– corporate entities	1,031,227	–	–	1,035,242	1,035,242
– other financial assets	12,661	–	12,661	–	12,661
Held-to-maturity investments	32,126	34,880	–	–	34,880
Financial liabilities					
Financial liabilities measured at amortised cost	3,204,933	36,108	3,146,038	–	3,182,146
– deposits from banks and the central bank	15,422	–	15,413	–	15,413
– deposits from non-bank customers	2,844,884	–	2,814,671	–	2,814,671
– retail customers	1,835,260	–	1,864,703	–	1,864,703
– corporate entities	1,009,624	–	949,968	–	949,968
– loans from banks and the central bank	263,312	–	270,524	–	270,524
– loans from non-bank customers	558	–	558	–	558
– debt securities issued	61,860	36,108	25,975	–	62,083
– other financial liabilities	18,897	–	18,897	–	18,897

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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As at 31 December 2014 adjusted	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	342,681	342,681	–	–	342,681
Loans and receivables	2,080,045	–	122,018	2,016,403	2,138,421
– loans to banks	112,055	–	112,744*	–	112,744
– loans to non-bank customers	1,958,819	–	–	2,016,403	2,016,403
– retail customers	821,458	–	–	816,904	816,904
– corporate entities	1,137,361	–	–	1,199,499	1,199,499
– other financial assets	9,171	–	9,274*	–	9,274
Held-to-maturity investments	32,226	35,220	–	–	35,220
Financial liabilities					
Financial liabilities measured at amortised cost	3,706,111	14,091	3,700,485	–	3,714,576
– deposits from banks and the central bank	13,411	–	13,196	–	13,196
– deposits from non-bank customers	3,086,033	–	3,088,684	–	3,088,684
– retail customers	1,824,895	–	1,819,608	–	1,819,608
– corporate entities	1,261,138	–	1,269,076	–	1,269,076
– loans from banks and the central bank	431,442	–	435,404	–	435,404
– loans from non-bank customers	1,498	–	1,416	–	1,416
– debt securities issued	156,568	14,091	144,645	–	158,736
– other financial liabilities	17,159	–	17,140	–	17,140

* In comparative figures for 2014, the Bank standardised the categorisation of financial assets of Banka Celje d.d. in terms of loans to banks and other financial assets, and discloses these items under fair value level 2 and not 3.

The following summarises major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements.

- Loans to banks and to non-bank customers
  Estimating the fair value of loans is based on the income approach valuation technique by applying the discounted cash flow method. It takes into account the sum of the individual contractual future cash flows (principal and interest), which are discounted with the rates of return on risk-free interest rates for each currency, increased by the level of credit spreads applicable to the industry with a rating of BBB. The calculation takes into account the residual maturity of each cash flow. The discount factor is linearly interpolated as a function of residual maturity in days.

- Held-to-maturity investments
  Held-to-maturity investments comprise securities. Their fair value is determined on the basis of consensus prices using Bloomberg Generic (BGN) prices. Using comparative analyses, the Group established that although these prices do not represent a binding offer by a third party, the difference between the fair value measured on their basis and the fair value measured on the basis of a binding offer by a third party is not material. These securities are therefore included in Level 1.

- Deposits and loans from banks, the central bank and non-bank customers
  Estimating the fair value of loans is based on the income approach valuation technique by applying the discounted cash flow method. It takes into account the sum of the individual contractual future cash flows (principal and interest), which are discounted with the rates of return on risk-free interest rates for each currency. The calculation takes into account the residual maturity of each cash flow. The discount factor is linearly interpolated as a function of residual maturity in days.

- Debt securities issued and subordinated debt securities
  Total fair value is calculated on the basis of the prices quoted in an active securities market.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 SEGMENT ANALYSES

(a) By business segment

The Group provides services in three business segments:

- Retail banking – incorporating personal accounts (of residents and non-residents), savings accounts, domestic and foreign currency fixed-term deposits, annuity and dedicated savings, online banking, mobile banking, AbaSMS mobile service, loans, account overdrafts, insurance services, funds, payment cards, Abacent, gold bullion, safe deposit boxes, MoneyGram, "design your own card" (Oblikuj si kartico!), payment transactions and payment instruments, e-account;
- Corporate banking – incorporating transaction accounts, account overdrafts, loans and deposits with different terms, payment cards, certificates of deposit, documentary operations, guarantees, letters of credit, payment transactions and payment instruments, Abatočka, cash management, Abakredit, e-account, online banking, mobile banking, on-line payment service, AbaSMS mobile service; and
- Financial markets – incorporating trading with financial instruments, liquidity management, investment banking and inter-bank operations.

The "Other" segment includes the activities of the Group that relate to custody and administrative services, activities of subsidiaries (leasing, factoring and other activities), the impact of inter-company transactions and the valuation of associates in the consolidated statements.

For the purpose of intra-company accounting, transactions between segments were treated on the basis of an agreed and harmonised set of transfer instruments to account for the transfers of various effects (internal transfers/allocation of indirect costs by business segment, debiting overheads to commercial segments, internal transfers of earnings between business segments).

Liabilities, interest expenses and other non-interest expenses from financing were allocated to those business segments that generated them.

Assets and liabilities by business segment represent a majority of the statement of financial position assets and liabilities, but they exclude tax receivables that are disclosed at the group level and not allocated to business segments.

Business segment results depend on the system of opportunity interest rates, which is based on alternative/opportunity interest rates applied to interest-bearing assets and liabilities items, aimed at establishing opportunity income and expenses. This serves as a basis for calculating opportunity interest margins for individual segments of assets (as the difference between earned income and opportunity income) as well as opportunity interest margins for individual segments of liabilities (as the difference between opportunity expenses and incurred expenses). This is also the basis for establishing positive and negative opportunity interest margins and consequently positive or negative contributions to the performance of individual business segments.

Business segments are reported to the Management Board of the Bank.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 31 December 2015	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	44,685	57,871	14,572	2,950	120,078
Revenues from other segments	–	–	–	–	–
Segment result	209	33,057	10,736	4,984	48,986
Operating profit					48,986
Share of results of associates	–	–	–	–	–
Profit before tax					48,986
Income tax					(7,264)
Net profit for the year					**41,722**
Segment assets	869,483	1,060,907	1,851,295	46,890	3,828,575
Investments in subsidiaries and associates	–	–	6,024	(4,372)	1,652
Unallocated assets					–
Total assets					**3,830,227**
Segment liabilities	1,897,946	841,754	509,599	30,549	3,279,848
Unallocated liabilities					–
Total liabilities					**3,279,848**
Other segment items					
Capital expenditure	124	511	15	11,296	11,946
Depreciation and amortisation	2,745	1,855	349	5,072	10,021
Net impairment and provision	(4,564)	4,791	(8,336)	(871)	(8,980)
Other material non-cash items	–	–	–	–	–
[1]**Including**					
– interest income	34,143	47,410	29,662	652	111,867
– interest expenses	(12,806)	(4,165)	(17,783)	1	(34,753)
– dividend income	–	–	1,089	–	1,089
– fee and commission income	29,381	24,326	2,751	2,201	58,659
– fee and commission expenses	(6,033)	(9,700)	(1,147)	96	(16,784)

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION OF ABANKA VIPA GROUP AS REPORTED FOR THE YEAR 2014

As at 31 December 2014	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	17,062	65,521	(2,094)	5,534	86,023
Revenues from other segments	–	–	–	–	–
Segment result	2,018	(189,197)	17,369	(19,443)	(189,253)
Operating loss					(189,253)
Share of results of associates	–	–	–	–	–
Loss before tax					(189,253)
Income tax					1,178
Net loss for the year					**(188,075)**
Segment assets	541,210	567,445	1,427,178	32,771	2,568,604
Investments in associates	–	–	3,698	(3,698)	–
Unallocated assets					33,822
Total assets					**2,602,426**
Segment liabilities	1,183,073	432,535	646,809	17,272	2,279,689
Unallocated liabilities					22,355
Total liabilities					**2,302,044**
Other segment items					
Capital expenditure	238	2,096	1	3,601	5,936
Depreciation and amortisation	1,314	371	50	4,613	6,348
Net impairment and provision charge	(1,537)	(137,459)	(7,768)	(7,143)	(153,907)
Other material non-cash items	–	–	–	–	–
[1]**Including**					
– interest income	21,317	58,942	23,345	530	104,134
– interest expenses	(17,039)	(3,785)	(27,324)	(58)	(48,206)
– dividend income	–	–	1,046	–	1,046
– fee and commission income	17,574	16,356	1,258	6,614	41,802
– fee and commission expenses	(4,790)	(5,992)	(419)	(1,552)	(12,753)

Capital expenditure relates to the purchases of tangible and intangible assets in the current business year.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION OF BANKA CELJE D.D. AS REPORTED FOR THE YEAR 2014

As at 31 December 2014	Retail banking	Corporate banking	Financial markets and other	Unallocated	Total
Total income	**23,683**	**47,490**	**29,502**	**–**	**100,675**
External income	23,683	47,258	29,502	–	100,443
Income from other segments	–	232	–	–	232
Net interest income	13,005	25,080	927	–	39,012
Net fee and commission income	7,397	6,661	886	–	14,944
Income from financial transactions	–	1,565	17,327	–	18,892
Net other operating losses	(449)	(543)	(822)	–	(1,814)
Administrative expenses with depreciation and amortisation	(12,542)	(7,446)	(12,345)	–	(32,333)
Provisions	(2)	(3,095)	(458)	–	(3,555)
Impairment	(5,647)	(49,389)	(5,761)	–	(60,797)
Loss before income tax	1,762	(27,167)	(246)	–	(25,651)
Deferred tax	–	–	–	4,550	4,550
Net loss					**(21,101)**
Segment assets	485,592	569,575	646,210	–	1,701,377
Unallocated assets	–	–	–	10,605	10,605
Total assets					**1,711,982**
Segment liabilities	749,166	513,023	239,303	–	1,501,492
Unallocated liabilities	–	–	–	8,909	8,909
Equity	–	–	–	201,581	201,581
Total liabilities and equity					**1,711,982**
Other segment items					
Investments in property and equipment	117	234	146	–	497
Investments in intangible assets	99	199	123	–	421
Depreciation	146	461	222	–	829
Amortisation	94	298	144	–	536

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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(b) Geographical concentration

Country risk is also part of the credit risk assumed by the Group. In order to facilitate country risk management, the Bank produced a set of rules stipulating procedures for establishing and monitoring risk exposures to foreign countries as well as procedures for setting and monitoring the respective risk exposure limits. According to these rules, the Bank establishes risk exposures to individual foreign countries quarterly, in line with credit ratings assigned by external credit assessment institutions. This serves as a basis for the classification of foreign countries into seven internal rating categories, which in turn determine exposure limits per country. In this way, the adequate spreading of risk to achieve the highest possible return is ensured.

GEOGRAPHICAL CONCENTRATIONS OF NON-CURRENT ASSETS AND REVENUES

	Group	
As at 31 December 2015	**Total non-current non-financial assets**	**Revenues**
Slovenia	60,304	149,805
Other European Union countries	–	19,566
Europe (without the EU member states)	–	1,240
Other countries	–	1,004
	60,304	**171,615**

	Group	
As at 31 December 2014 adjusted	**Total non-current non-financial assets**	**Revenues**
Slovenia	65,602	200,118
Other European Union countries	2	26,424
Europe (without the EU member states)	13	1,905
Other countries	–	2,478
	65,617	**230,925**

Revenues consist of interest income, fee and commission income and dividend income.

The Group operates principally in Slovenia, where it is based. Inter-bank exposures account for more than 50% of all international transactions, whilst the rest are transactions with foreign companies and at the level of central government.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

ADDITIONAL DISCLOSURE IN ACCORDANCE WITH THE COUNTRY-BY-COUNTRY REPORTING REQUIREMENT PURSUANT TO ARTICLE 89 OF DIRECTIVE 2013/36/EU (CRD IV)

INFORMATION FOR THE FINANCIAL YEAR 2015 ON A CONSOLIDATED BASIS BY EU MEMBER STATE AND BY THIRD COUNTRY

States	Name(s) and nature of activities	Turnover*	Profit or loss before tax	Tax on profit or loss	Number of employees on a full time equivalent basis
EU Member States:					
Slovenia	ABANKA d.d. (bank), AFAKTOR d.o.o. (factoring), ALEASING d.o.o. (leasing), ANEPREMIČNINE d.o.o. (real property management)	171,615	49,604	(7,264)	1,256.66
Croatia	Afaktor - faktoring d.o.o. (factoring)	–	(5)	–	–
Third countries:					
Serbia	Afaktor - faktoring finansiranje d.o.o. (factoring)	–	(583)	–	–
Montenegro	Anekretnine d.o.o. (real property management)	–	(30)	–	0.50
TOTAL ABANKA GROUP		**171,615**	**48,986**	**(7,264)**	**1,257.16**

In 2015, the Group did not receive any public subsidies.

INFORMATION FOR THE FINANCIAL YEAR 2014 ON A CONSOLIDATED BASIS BY EU MEMBER STATE AND BY THIRD COUNTRY

States	Name(s) and nature of activities	Turnover*	Number of employees on a full time equivalent basis
EU Member States:			
Slovenia	ABANKA VIPA d.d. (bank), AB58 d.o.o. (financial counselling), AFAKTOR d.o.o. (factoring), ALEASING d.o.o. (leasing), ANEPREMIČNINE d.o.o. (real property management), ARGOLINA d.o.o. (project financing) and BANKA CELJE d.d. (bank)	230,613	1,305.33
Croatia	Afaktor - faktoring d.o.o. (factoring)	28	–
Third countries:			
Serbia	Afaktor - faktoring finansiranje d.o.o. (factoring)	284	4.95
Montenegro	Anekretnine d.o.o. (real property management)	–	0.56
TOTAL ABANKA VIPA GROUP		**230,925**	**1,310.84**

***** including interest income, fee and commission income and dividend income by country in which an individual member company of the Abanka Group is registered

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 NET INTEREST INCOME

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Interest income				
Loans and advances	81,666	136,193	82,318	136,723
– to banks	113	202	113	214
– to customers	81,553	135,991	82,205	136,509
Available-for-sale securities	23,094	20,512	23,094	20,512
Financial assets held to maturity	1,191	4,252	1,191	4,252
Financial assets held for trading	4,016	8,142	4,016	8,142
Derivatives - hedge accounting	1,190	1,463	1,190	1,463
Other assets	58	201	58	201
	111,215	**170,763**	**111,867**	**171,293**
Interest expenses				
Deposits	21,648	52,523	21,648	52,365
– from banks	30	4,478	30	4,478
– from customers	21,618	48,045	21,618	47,887
Debt securities issued	4,326	8,446	4,326	8,446
Financial liabilities held for trading	3,936	6,161	3,936	6,161
Derivatives - hedge accounting	7	111	7	111
Loans from banks and the central bank	4,378	8,933	4,378	9,152
Other liabilities	465	126	458	118
	34,760	**76,300**	**34,753**	**76,353**
Net interest income	**76,455**	**94,463**	**77,114**	**94,940**

In 2015, interest income accrued on impaired financial assets of the Group amounted to EUR 2,158 thousand (2014 adjusted: EUR 2,711 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 DIVIDEND INCOME

	Group	
	2015	2014 adjusted
Held-for-trading securities	10	8
Available-for-sale securities	1,079	1,384
	1,089	**1,392**

7 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Fee and commission income				
Payment transactions	20,270	20,247	20,268	20,243
Transaction account management	7,593	7,856	7,580	7,845
Card and ATM operations	20,946	20,753	20,946	20,753
Lending operations and guarantees granted	5,283	5,157	5,279	5,098
Other services	4,528	4,240	4,586	4,301
	58,620	**58,253**	**58,659**	**58,240**
Fee and commission expenses				
Payment transactions	2,429	2,103	2,431	2,109
Card and ATM operations	13,486	12,564	13,486	12,564
Other services	728	1,368	867	1,672
	16,643	**16,035**	**16,784**	**16,345**
Net fee and commission income	**41,977**	**42,218**	**41,875**	**41,895**

Due to different accounting recognition of certain business events in the acquiring and the acquired bank, certain transfers were made between the items of the income statement for 2014. Pursuant to this fact, net fee and commission income is below that recorded in the 2014 annual reports of the two banks by EUR 2,098 thousand, while the administration costs (Note 13) are lower by the same amount.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Net realised gains from available-for-sale financial assets	17,356	22,773	17,356	22,773
Realised losses from loans and other financial assets and liabilities	(132)	(69,982)	(132)	(69,982)
Realised gains from loans and other financial assets and liabilities	14,869	3,315	14,916	3,315
	32,093	**(43,894)**	**32,140**	**(43,894)**

Realised gains from loans in 2015 in the amount of EUR 9,714 thousand refer to the repayment of loans of ASA Aleasing. Realised losses from loans totalling EUR 68,052 thousand in 2014 arise from the transfer of loans to BAMC and represent the difference between their carrying amount immediately prior to the transfer and the payment received by the Bank.

9 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	Group	
	2015	2014 adjusted
Foreign exchange transaction gains	2,150	966
Net losses from derivatives	(323)	(1,360)
Realised gains from:		
– debt securities	535	641
– equity holdings	–	571
Unrealised gains/(losses) from trading securities	9	(5)
	2,371	**813**

10 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2015	2014 adjusted
Net gains/(losses) arising on:		
– unit-linked investment	98	(79)
– structured deposit	–	(65)
	98	**(144)**

Losses on financial assets and liabilities designated at fair value through profit or loss in 2014 referred to Abanka Vipa d.d.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING

	Group	
	2015	2014 adjusted
Net profit from hedged instruments	999	1,408
Net loss from hedging derivatives	(1,115)	(1,396)
	(116)	**12**

Net gains due to the changes in fair value resulting from hedge accounting in 2014 referred to Banka Celje d.d.

12 NET OTHER OPERATING EXPENSES

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Other operating income				
– income from non-banking services	6	8	6	8
– income from sale of vehicles, real estate and other	–	–	1,783	2,966
– other operating income	1,189	2,344	1,478	2,724
	1,195	**2,352**	**3,267**	**5,698**
Other operating expenses				
– financial services tax	(4,947)	(3,807)	(4,983)	(3,832)
– tax on total assets of banks	–	(2,198)	–	(2,198)
– other taxes, contributions and other duties	(60)	(335)	(85)	(351)
– membership fees and similar	(160)	(179)	(173)	(193)
– Single Resolution Fund (SRF)	(2,998)	–	(2,998)	–
– other operating expenses	(5,699)	(7,170)	(6,244)	(7,328)
	(13,864)	**(13,689)**	**(14,483)**	**(13,902)**
Net other operating expenses	**(12,669)**	**(11,337)**	**(11,216)**	**(8,204)**

In accordance with statutory provisions, the tax on total assets of banks is no longer applicable as of 31 December 2014.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 ADMINISTRATION COSTS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Staff costs	40,477	41,481	41,834	42,978
– gross salaries	35,324	35,282	36,489	36,563
– social security costs	2,246	2,302	2,323	2,381
– pension costs	2,665	2,828	2,776	2,957
– provisions for employee benefits (Note 34)	242	1,069	246	1,077
Professional services	17,198	17,150	18,101	18,124
Advertising and marketing	2,498	1,992	2,549	2,035
Other administration costs	2,525	2,222	2,585	2,293
IT and software costs	7,247	7,009	7,295	7,053
Rent payable	1,419	1,039	1,567	1,197
Other costs	640	714	834	964
	72,004	**71,607**	**74,765**	**74,644**

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Amount spent* for the auditor of the annual report:				
– auditing of the annual report	77	128	98	159
– other assurance services	–	–	–	–
– other non-auditing services	2	6	2	6
– tax advisory services	–	–	–	–
	79	**134**	**100**	**165**

* Include amounts paid in each reporting year.

The redistribution between the items of the income statement is explained in Note 7.

Within the administration costs in 2015, EUR 2,568 thousand referred to costs of restructuring (2014: EUR 910 thousand).

14 DEPRECIATION AND AMORTISATION

		Abanka		Group	
	Note	2015	2014 adjusted	2015	2014 adjusted
Property and equipment	26	4,624	4,893	5,240	5,444
Investment property	26	126	7	224	60
Intangible assets	26	4,471	3,303	4,557	3,437
		9,221	**8,203**	**10,021**	**8,941**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

In 2015, the depreciation rates for property, equipment and intangible assets of the acquired Banka Celje d.d. were harmonised with the rates applied by Abanka Vipa d.d. As a result, depreciation and amortisation costs in 2015 increased by EUR 1,123 thousand.

Within the depreciation and amortisation costs in 2015, EUR 471 thousand referred to costs of restructuring (2014: EUR 430 thousand).

15 PROVISIONS

		Abanka		Group	
	Note	2015	2014 adjusted	2015	2014 adjusted
Restructuring provisions	34	849	5,780	849	5,780
Provisions for legal proceedings	34, 39	1,592	8,681	1,613	7,976
Provisions for employee benefits	34	(591)	(69)	(588)	(76)
Other provisions	34	(12,950)	14,209	(12,950)	14,209
Provisions for guarantees and commitments	34	(21,472)	31,667	(21,472)	31,631
Net (release)/charge of provisions		**(32,572)**	**60,268**	**(32,548)**	**59,520**

In 2015, the Group cancelled other provisions in the amount of EUR 14,493 thousand due to an unexpected withdrawal of claims from collateral foreclosures.

A significant part of the income from the cancelled provisions for guarantees and commitments in 2015 refers to guarantees that had been either called or paid as well as guarantees that expired in 2015.

16 IMPAIRMENT

		Abanka		Group	
	Note	2015	2014 adjusted	2015	2014 adjusted
Impairment of financial assets:					
– available-for-sale financial assets	21	39	6,493	39	6,493
– loans to non-bank customers	23	38,811	146,854	39,687	144,682
– other financial assets		89	4,208	100	4,205
Impairment of investments in subsidiaries	27	2,789	7,227	605	–
Impairment of non-financial assets:					
– property and equipment	26	–	–	–	657
– investment property	26	–	–	244	426
– intangible assets	26	302	–	302	–
– other non-financial assets		419	–	551	2,276
		42,449	**164,782**	**41,528**	**158,739**

In the reporting year, most additional impairments were related to exposures to borrowers from the construction industry and from trade, maintenance and the repair of motor vehicles. Compared with the previous year, some additional impairments in 2015 are the result of unification of the methodology for assessing credit risk losses and the methodology used to determine credit ratings on the acquisition of Banka Celje d.d.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 INCOME TAX

	Note	Abanka		Group	
		2015	2014 adjusted	2015	2014 adjusted
Current tax		(2,466)	–	(2,466)	(409)
Deferred tax (charge)/credit	35	(4,784)	6,130	(4,798)	6,137
		(7,250)	**6,130**	**(7,264)**	**5,728**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Profit/(loss) before tax	50,025	(221,808)	48,986	(214,904)
Tax calculated at the prescribed tax rate of 17% (2014: 17%)	(8,504)	37,708	(8,327)	36,533
17% of tax-exempted income	4,209	1,765	5,253	3,605
17% of non-deductible expenses	(742)	1,176	(1,000)	536
Tax reliefs and tax loss covering	2,571	–	2,571	179
	(2,466)	**40,649**	**(1,503)**	**40,853**
Effect of not recognised deferred taxes on the tax loss of the current year	–	(34,653)	(940)	(35,250)
Net deferred taxes	(4,784)	134	(4,798)	141
Effect of tax rate differences between states	–	–	(23)	(16)
Total	**(7,250)**	**6,130**	**(7,264)**	**5,728**

Before the acquisition of Banka Celje d.d. by Abanka Vipa d.d., the transferring company notified the Financial Administration of the Republic of Slovenia (FARS) of a tax neutral transaction. On this basis, the acquiring bank was entitled to certain powers, including the takeover of tax losses of Banka Celje d.d.

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the period of five years subsequent to the reported tax year and may impose additional tax assessments and penalties. In 2015, a tax inspection commenced in both Abanka d.d. and Banka Celje d.d. The subject of the inspection was the corporate income tax for the period 1 January 2009 to 31 December 2014.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 CASH, CASH BALANCES WITH THE CENTRAL BANK AND OTHER DEMAND DEPOSITS WITH BANKS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Cash in hand	30,878	40,808	30,878	40,808
Settlement account and obligatory reserve	162,236	167,567	162,236	167,567
Demand deposits with banks	88,153	134,266	88,175	134,306
Total cash, cash balances with the central bank and other demand deposits with banks	**281,267**	**342,641**	**281,289**	**342,681**
Included in cash and cash equivalents (Note 38)	281,267	342,641	281,289	342,681

Demand deposits with banks are lower than at 31 December 2014, primarily due to the closure of certain bank accounts/nostro accounts abroad as a result of the acquisition of Banka Celje d.d. and duplication of certain accounts and the reduced balances in the remaining bank accounts (within the Bank's limit systems and thresholds set by other banks).

An interest rate analysis of cash and cash balances with the central bank is disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

19 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING AND HEDGING DERIVATIVES

	Group	
	2015	2014 adjusted
Debt securities (listed)	3,119	–
Equity securities (unlisted)	273	258
Derivatives	5,154	13,061
Other	10	1
Total financial assets held for trading	**8,556**	**13,320**
Current	1,801	1,792
Non-current	6,755	11,528

An interest rate analysis of financial assets and liabilities held for trading is disclosed in Note 2.2.3.3. Additional information about fair value is disclosed in Note 3(d).

Derivative financial instruments
The Group uses the following derivative instruments for economic hedging purposes:

Currency forwards represent an obligation to buy or sell a certain amount of a currency in accordance with the provisions of the forward contract.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Foreign currency and interest rate futures are contractual rights and obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted interest rate and the current market rate, based on a notional principal amount.

An **interest rate cap** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate cap is to provide a hedge against rising interest rates, for which the buyer pays a premium in advance.

An **interest rate floor** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate floor is to provide a hedge against falling interest rates, for which the buyer pays a premium in advance.

An **interest rate collar** is an interest rate option: a combination of purchasing an interest rate cap and selling an interest rate floor.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. No exchange of principal takes place, except for certain currency swaps. The Group's credit risk is the potential cost of replacing the swap contracts if the counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency options are contractual agreements under which the seller (issuer) grants the buyer (owner) the right, but not the obligation, to buy (call option) or to sell (put option) foreign currency on or by a specified date or within a specified period in accordance with the provisions of the contract (amount, price in a specified amount at a pre-determined rate). The buyer of the option pays and the seller receives a premium to compensate for the currency risk assumed. The Group negotiates foreign currency options with its clients (OTC market). The Group is exposed to credit risk only if it purchases such options and up to their carrying amount that is equal to their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time. The fair values of derivative instruments held by the Group are set out as follows.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DERIVATIVES HELD FOR TRADING

As at 31 December 2015	Group		
	Notional contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	46,902	296	271
– gold options	1,101	358	–
Interest rate derivatives (OTC):			
– interest rate swaps	187,602	1,868	1,832
– OTC interest rate options	74,667	2,632	2,632
Total derivative assets/liabilities held for trading		**5,154**	**4,735**

As at 31 December 2015, financial liabilities held for trading also included (besides derivatives) spot transactions in the amount of EUR 7 thousand (2014: –).

As at 31 December 2014 adjusted	Group		
	Notional contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	11,541	182	176
– currency swaps	16,221	–	36
– gold options	1,237	299	–
Interest rate derivatives (OTC):			
– interest rate swaps	404,872	9,021	5,115
– OTC interest rate options	88,900	3,559	3,559
Total derivative assets/liabilities held for trading		**13,061**	**8,886**

HEDGING DERIVATIVES

As at 31 December 2015	Group		
	Notional contract amount	Fair values	
		Assets	Liabilities
Hedging derivatives			
Fair value hedge – hedge accounting	34,150	237	–
Total hedging derivatives		**237**	**–**

As at 31 December 2014 adjusted	Group		
	Notional contract amount	Fair values	
		Assets	Liabilities
Hedging derivatives			
Fair value hedge – hedge accounting	54,150	1,424	–
Total hedging derivatives		**1,424**	**–**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2015	2014 adjusted
Unit-linked investment	2,452	2,354
Total financial assets designated at fair value through profit or loss (non-current)	**2,452**	**2,354**

Financial assets designated at fair value through profit or loss comprise structured products referring to the unit-linked investment. Structured products are derived from an underlying instrument, which defines their return. The interest payments are equity-indexed, which results in dissimilar risks inherent in the host and embedded derivative. The Group therefore designates compound financial instruments as financial assets at fair value through profit or loss. Underlying instruments may be shares, indices, funds, commodities, etc.

There were no significant gains or losses attributable to changes in the credit risk for those financial assets designated at fair value through profit or loss in 2015 and 2014.

An interest rate analysis of financial assets designated at fair value through profit or loss is disclosed in Note 2.2.3.3. Additional information on fair value is disclosed in Note 3(d).

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2015	2014 adjusted
Debt securities	**1,405,822**	**1,721,583**
Treasury bills – listed	58,378	135,984
Treasury bills – unlisted	14,999	–
Other debt securities – listed	1,332,445	1,585,599
Shares and equity holdings	**27,210**	**28,492**
Equity holdings* – unlisted	5,524	1,906
Shares:	21,686	26,586
– listed	10,914	25,191
– unlisted	10,772	1,395
Bank Resolution Fund	24,736	–
Total available-for-sale financial assets	**1,457,768**	**1,750,075**
Current	241,259	349,314
Non-current	1,216,509	1,400,761

* investments in limited liability companies

A decrease in debt securities of EUR 190,623 thousand resulted from EUR 171,251 thousand of bonds that either matured or were sold off and EUR 19,372 thousand of treasury bills that fell due. In April 2015, the Bank paid start-up funds into the Bank Resolution Fund and recognised them as a capital investment in an investment fund. In addition, in compliance with the Decision on Liquid Investments for the Bank Resolution Fund, the Bank also provides liquid assets in the form of safe and liquid investments totalling EUR 12,445 thousand.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

An interest rate analysis of available-for-sale financial assets is disclosed in Note 2.2.3.3. Additional information about fair value is disclosed in Note 3(d). Pledged assets are disclosed in Note 29.

MOVEMENTS IN AVAILABLE-FOR-SALE TREASURY BILLS ARE AS FOLLOWS:

	Group	
	2015	2014 adjusted
As at 1 January	**135,984**	**68,082**
Additions (purchases)	37,669	167,798
Disposals (maturity and sale)	(100,505)	(101,151)
Gains/(losses) from changes in fair value	34	(380)
Amortisation of discount	195	1,635
As at 31 December	**73,377**	**135,984**

MOVEMENTS IN OTHER AVAILABLE-FOR-SALE SECURITIES ARE AS FOLLOWS:

	Group	
	2015	2014 adjusted
As at 1 January	**1,614,091**	**766,497**
Exchange differences on monetary assets	1,584	963
Additions (purchases)	222,179	1,230,064
Disposals (sale)	(181,058)	(121,113)
Disposals (maturity and redemption)	(301,842)	(318,395)
Amortisation of discount and premium, interest accrued	16,467	11,957
Gains from changes in fair value	13,009	50,611
Impairment losses (Note 16)	(39)	(6,493)
As at 31 December	**1,384,391**	**1,614,091**

22 LOANS TO BANKS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Placements with other banks	16,316	9,831	16,316	9,831
Loans and deposits to other banks	80,197	101,993	80,902	102,224
Gross loans	**96,513**	**111,824**	**97,218**	**112,055**
Provision for impairment	–	–	–	–
Net loans	**96,513**	**111,824**	**97,218**	**112,055**
Current	82,353	92,238	83,058	92,469
Non-current	14,160	19,586	14,160	19,586
Included in cash and cash equivalents (Note 38)	63,095	92,222	63,095	92,222

A decrease in loans and deposits to other banks is primarily the result of a reduction in deposits due to negative interest rates on short-term assets in the interbank market.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 LOANS TO NON-BANK CUSTOMERS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Corporate entities	1,328,241	1,422,559	1,300,877	1,399,253
Retail customers	831,807	836,798	854,588	859,090
Gross loans	**2,160,048**	**2,259,357**	**2,155,465**	**2,258,343**
Provision for impairment	(290,713)	(283,186)	(305,081)	(299,524)
Net loans	**1,869,335**	**1,976,171**	**1,850,384**	**1,958,819**
Current	393,442	701,494	351,395	671,018
Non-current	1,475,893	1,274,677	1,498,989	1,287,801

A decrease in the volume of loans at the 2015 year-end compared to the 2014 year-end is primarily the result of repayments related to disinvestment after the conclusion of the master restructuring agreements, including repayments of acquirees made by foreign acquireres (new ownership), regular loan repayments and accelerated deleveraging of companies.

Receivables for interest are recognised together with the underlying financial instrument.

The Group accepted listed securities at a fair value of EUR 13,716 thousand (2014 adjusted: EUR 9,535 thousand) as collateral for loans, which it is permitted to sell or re-pledge.

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT ARE AS FOLLOWS:

		Abanka			Group		
	Note	Corporate entities	Retail customers	Total	Corporate entities	Retail customers	Total
As at 1 January 2014 adjusted		**1,032,792**	**27,891**	**1,060,683**	**1,042,557**	**33,596**	**1,076,153**
Provision for impairment	16	142,662	4,192	146,854	140,655	4,027	144,682
Transfer to off-balance sheet records, write-offs, sales, debt to equity		(184,795)	(1,409)	(186,204)	(181,528)	(1,647)	(183,175)
Exchange differences		–	5	5	12	4	16
Transfer to BAMC		(738,152)	–	(738,152)	(738,152)	–	(738,152)
As at 31 December 2014		**252,507**	**30,679**	**283,186**	**263,544**	**35,980**	**299,524**
Provision for impairment	16	39,613	(802)	38,811	40,620	(933)	39,687
Transfer to off-balance sheet records, write-offs, sales, debt to equity		(31,964)	555	(31,409)	(34,560)	305	(34,255)
Exchange differences		46	79	125	46	79	125
As at 31 December 2015		**260,202**	**30,511**	**290,713**	**269,650**	**35,431**	**305,081**

All loans were written down to their recoverable amounts.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN LOANS TEMPORARILY WRITTEN OFF AND HELD IN OFF-BALANCE-SHEET RECORDS ARE AS FOLLOWS:

	Group		
	Corporate entities	Retail customers	Total
As at 1 January 2014 adjusted	**111,644**	**2,607**	**114,251**
Increase	171,501	1,240	172,741
Decrease due to final write-offs – completion of the collection process	(1,661)	(109)	(1,770)
Decrease due to repayments, transfer to BAMC	(76,255)	(76)	(76,331)
As at 31 December 2014	**205,229**	**3,662**	**208,891**
Increase	91,877	722	92,599
Decrease due to final write-offs – completion of the collection process	(40)	(489)	(529)
Decrease due to repayments, sale, debt to equity, transfer to loans	(40,322)	(256)	(40,578)
As at 31 December 2015	**256,744**	**3,639**	**260,383**

An increase in the amount of EUR 35,618 thousand in 2015 refers to the retransfer of bad debt from BAMC. A decrease in the amount of EUR 16,123 thousand in 2015 refers to the transfer to loans to non-bank customers.

Loans assessed (as described in Note 1.11) as unrecoverable by the Group were removed from the statement of financial position, but are kept in the off-balance-sheet records until the legal basis for the completion of the collection process has been obtained.

Loans to banks and non-bank customers are further analysed in the following notes: Credit risk (Note 2.1), Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 43).

Loans to non-bank customers also include finance lease receivables as disclosed in Note 40 Leases.

24 OTHER FINANCIAL ASSETS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Receivables from customers	57	353	265	533
Receivables from card and ATM operations	5,685	3,522	5,685	3,522
Receivables from settlements	3,510	990	3,510	990
Other receivables	3,196	4,134	3,201	4,126
Total other financial assets	**12,448**	**8,999**	**12,661**	**9,171**
Current	12,415	8,948	12,628	9,119
Non-current	33	51	33	52

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 HELD-TO-MATURITY INVESTMENTS

	Group	
	2015	2014 adjusted
Debt securities – at amortised cost – listed	**32,126**	**32,226**
Current	1,051	1,053
Non-current	31,075	31,173

In the years 2015 and 2014, the Group did not reclassify any financial assets out of held-to-maturity investments.

Debt securities have fixed interest rates.

An interest rate analysis of held-to-maturity investments is additionally disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

MOVEMENTS IN HELD-TO-MATURITY INVESTMENTS ARE AS FOLLOWS:

	Group	
	2015	2014 adjusted
As at 1 January	**32,226**	**143,458**
Additions (purchase)	–	6,902
Disposals (maturity)	(1,291)	(122,386)
Amortisation of discount	1,191	4,252
As at 31 December	**32,126**	**32,226**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE – ABANKA

	Land and buildings	Computers	Other equipment	Assets under construction	**Total property and equipment**	**Intangible assets**	**Investment property**	**Non-current assets held for sale**
Cost								
As at 1 January 2014 adjusted	**78,148**	**34,485**	**21,734**	**201**	**134,568**	**37,310**	**154**	**59**
Additions	424	1,248	366	26	2,064	3,945	–	–
Transfer from loans	–	–	–	–	–	225	2,250	–
Transfer between groups	(153)	–	–	–	(153)	–	153	–
Disposals	(274)	(4,247)	(648)	(35)	(5,204)	–	–	(55)
As at 31 December 2014	**78,145**	**31,486**	**21,452**	**192**	**131,275**	**41,480**	**2,557**	**4**
Depreciation								
As at 1 January 2014 adjusted	**41,933**	**27,721**	**16,871**	**–**	**86,525**	**28,732**	**80**	**–**
Transfer between groups	(90)	–	–	–	(90)	–	90	–
Depreciation and amortisation	1,657	2,350	886	–	4,893	3,303	7	–
Disposals	(111)	(3,656)	(646)	–	(4,413)	–	–	–
As at 31 December 2014	**43,389**	**26,415**	**17,111**	**–**	**86,915**	**32,035**	**177**	**–**
Net book amount as at 31 December 2014	**34,756**	**5,071**	**4,341**	**192**	**44,360**	**9,445**	**2,380**	**4**
Cost								
As at 1 January 2015	**78,145**	**31,486**	**21,452**	**192**	**131,275**	**41,480**	**2,557**	**4**
Additions	436	943	513	95	1,987	4,704	–	–
Transfer between groups	(2,181)	–	–	–	(2,181)	(61)	206	1,975
Impairment charge (Note 16)	–	–	–	–	–	(455)	–	–
Disposals	(111)	(1,105)	(1,596)	–	(2,812)	(4,418)	(2,250)	–
Transfer to inventories	–	–	–	–	–	–	–	(4)
As at 31 December 2015	**76,289**	**31,324**	**20,369**	**287**	**128,269**	**41,250**	**513**	**1,975**
Depreciation								
As at 1 January 2015	**43,389**	**26,415**	**17,111**	**–**	**86,915**	**32,035**	**177**	**–**
Depreciation and amortisation	1,828	2,006	808	–	4,642	4,471	126	–
Transfer between groups	(1,316)	–	–	–	(1,316)	–	147	1,169
Impairment charge (Note 16)	–	–	–	–	–	(153)	–	–
Disposals	(84)	(1,093)	(1,539)	–	(2,716)	(3,973)	(117)	–
As at 31 December 2015	**43,817**	**27,328**	**16,380**	**–**	**87,525**	**32,380**	**333**	**1,169**
Net book amount as at 31 December 2015	**32,472**	**3,996**	**3,989**	**287**	**40,744**	**8,870**	**180**	**806**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE – GROUP

	Land and buildings	Computers	Other equipment	Assets under construction	**Total property and equipment**	**Intangible assets**	**Investment property**	**Non-current assets held for sale**
Cost								
As at 1 January 2014 adjusted	**90,254**	**34,485**	**24,956**	**3,157**	**152,852**	**37,996**	**1,150**	**59**
Additions	424	1,248	1,105	99	2,876	3,958	–	–
Disposals	(311)	(4,247)	(1,662)	(35)	(6,255)	(1)	–	(55)
Impairment charge (Note 16)	–	–	–	(657)	(657)	–	(426)	–
Transfer of subsidiary Argolina to BAMC	(11,851)	–	–	–	(11,851)	–	–	–
Transfer from loans	–	–	–	–	–	225	2,250	–
Transfer from inventories	–	–	–	517	517	–	2,796	211
Transfer to inventories	–	–	–	–	–	–	(1,067)	–
As at 31 December 2014	**78,516**	**31,486**	**24,399**	**3,081**	**137,482**	**42,178**	**4,703**	**215**
Depreciation								
As at 1 January 2014 adjusted	**42,096**	**27,721**	**18,358**	**–**	**88,175**	**29,178**	**100**	**–**
Depreciation and amortisation	1,665	2,350	1,429	–	5,444	3,437	60	–
Disposals	(148)	(3,656)	(1,215)	–	(5,019)	(1)	–	–
Transfer to inventories	–	–	–	–	–	–	(6)	–
As at 31 December 2014	**43,613**	**26,415**	**18,572**	**–**	**88,600**	**32,614**	**154**	**–**
Net book amount as at 31 December 2014	**34,903**	**5,071**	**5,827**	**3,081**	**48,882**	**9,564**	**4,549**	**215**
Cost								
As at 1 January 2015	**78,516**	**31,486**	**24,399**	**3,081**	**137,482**	**42,178**	**4,703**	**215**
Additions	436	943	2,925	2,938	7,242	4,704	–	–
Disposals	(111)	(1,105)	(2,846)	–	(4,062)	(4,202)	–	(211)
Impairment charge (Note 16)	–	–	–	–	–	(455)	(244)	–
Transfer between groups	(2,177)	–	–	–	(2,177)	(61)	202	1,975
Transfer from loans	–	–	–	–	–	–	–	39
Transfer to loans	–	–	–	–	–	–	–	(39)
Transfer from inventories	–	–	–	–	–	–	1,109	–
Transfer to inventories	–	–	–	(5,732)	(5,732)	–	–	(4)
As at 31 December 2015	**76,664**	**31,324**	**24,478**	**287**	**132,753**	**42,164**	**5,770**	**1,975**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Land and buildings	Computers	Other equipment	Assets under construction	Total property and equipment	Intangible assets	Investment property	Non-current assets held for sale
Depreciation								
As at 1 January 2015	**43,613**	**26,415**	**18,572**	**–**	**88,600**	**32,614**	**154**	**–**
Depreciation and amortisation	1,836	2,006	1,416	–	5,258	4,557	224	–
Disposals	(84)	(1,093)	(2,105)	–	(3,282)	(3,962)	–	–
Impairment charge (Note 16)	–	–	–	–	–	(153)	–	–
Transfer between groups	(1,308)	–	–	–	(1,308)	–	139	1,169
As at 31 December 2015	**44,057**	**27,328**	**17,883**	**–**	**89,268**	**33,056**	**517**	**1,169**
Net book amount as at 31 December 2015	**32,607**	**3,996**	**6,595**	**287**	**43,485**	**9,108**	**5,253**	**806**

All investment property generates income and expenses. There was EUR 297 thousand of rental income from investment property (2014 adjusted: EUR 42 thousand) and EUR 126 thousand of direct expenses recognised in the income statement of the Bank in 2015 (2014 adjusted: EUR 8 thousand). In 2015, the Bank's income from other operating leases totalled EUR 118 thousand (2014 adjusted: EUR 94 thousand).

In 2014, the Group acquired an investment property in the process of debt recovery. Upon acquisition, its carrying amount totalled EUR 2,250 thousand and its fair value EUR 2,421 thousand. As at 31 December 2015, the fair value of this investment property approximates the carrying amount. The Group recognised EUR 552 thousand of rental income from investment property (2014 adjusted: EUR 275 thousand) and EUR 224 thousand of direct expenses in the consolidated income statement in 2015 (2014 adjusted: EUR 61 thousand). In 2015, the Group's income from other operating leases totalled EUR 888 thousand (2014 adjusted: EUR 753 thousand).

27 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Subsidiaries				
As at 1 January	**5,955**	**14,927**	**2,257**	**2,257**
Additions	3,737	37	–	–
Impairment (Note 16)	(2,789)	(7,227)	605	–
Acquisition to the parent bank	(879)	(100)	–	–
Transfer to BAMC	–	(1,682)	–	–
As at 31 December	**6,024**	**5,955**	**1,652**	**2,257**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

THE SUBSIDIARIES, WHICH ARE UNLISTED, ARE:

2015 Name	Carrying amount	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Afaktor d.o.o. (Slovenia)	106	12,770	12,225	545	1,056	(731)	100
Aleasing d.o.o. (Slovenia)	1,114	40,966	39,378	1,588	4,672	16	100
Anepremičnine Group (Slovenia)	3,152	21,212	17,750	3,462	3,989	(1,610)	100
Posest d.o.o. (Slovenia)	1,652	13,635	11,767	1,868	671	(1,215)	100

Through the acquisition of Banka Celje d.d. on 5 October 2015, its subsidiary, Posest d.o.o., also became a subsidiary of Abanka d.d. The subsidiary Posest is not included in the consolidated financial statements of the Abanka Group, as it has no significant impact on the true and fair view of the financial position of the Group. Total assets of the company Posest in the amount of EUR 13.6 million as of the end of December 2015 represented 0.36% of total assets of the Bank, while its business volume has been decreasing from 2012 onwards. In 2016, the company will change its legal form and cease operating as an independent legal entity.

In 2015, the nominal value of Abanka's equity stake in Anepremičnine d.o.o. increased by EUR 3,737 thousand due to recapitalisation. In the same year, the subsidiary Anepremičnine d.o.o. increased the share capital of its subsidiary Anekretnine d.o.o. in an amount of EUR 500 thousand.

In 2015, Abanka impaired its equity stakes in the following subsidiaries: in Afaktor d.o.o. by EUR 356 thousand, in Anepremičnine d.o.o. by EUR 1,828 thousand and in Posest d.o.o. by EUR 605 thousand. In 2015, the subsidiary Anepremičnine d.o.o. made an impairment of its equity stake in its subsidiary Anekretnine d.o.o. in the amount of EUR 441 thousand. In the reporting period, the subsidiary Afaktor sold both its subsidiaries, Afaktor – faktoring d.o.o., Zagreb, Croatia, and Afaktor – faktoring finansiranje d.o.o., Belgrade, Serbia (Note 45), while the subsidiary Aleasing d.o.o. sold its equity stake in the associate ASA Aleasing d.o.o. in Bosnia and Herzegovina.

In 2015, the aquisition of the subsidiary AB58 d.o.o. to Abanka was carried out. The acquisition of the subsidiary AB58 d.o.o. to the parent bank in September 2015 increased the Bank's net profit by EUR 34 thousand and decreased its total assets by EUR 828 thousand. In the income statement, following the acquisition, interest expenses on deposits decreased by EUR 89 thousand, fee and commission income by EUR 36 thousand, other operating expenses by EUR 6 thousand, income from provisions by EUR 2 thousand, while professional service costs increased by EUR 11 thousand. On the assets side in the statement of financial position, investments in subsidiaries decreased by EUR 879 thousand and income tax assets increased by EUR 51 thousand. On the liabilities side, decreases were recorded in deposits from non-bank customers by EUR 3,795 thousand and in provisions for guarantees and commitments by EUR 32 thousand, whereas the Bank's capital increased by EUR 2,999 thousand (reserves from profit increased by EUR 117 thousand, retained earnings increased by EUR 2,848 thousand and net profit for the financial year increased by EUR 34 thousand).

In 2015, in line with the Bank's strategy, the procedures to sell Afaktor d.o.o. and Aleasing d.o.o. were launched. Considering the interest expressed by potential investors, further measures will be taken in 2016.

2015 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Anepremičnine Group							
Anepremičnine d.o.o.	Slovenia	21,223	17,742	3,481	4,248	(1,762)	100
Anekretnine d.o.o.	Montenegro	3,833	3,792	41	–	(289)	100

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2014 Name	Carrying amount	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
AB58 d.o.o. (Slovenia)	879	3,860	35	3,825	1,034	823	100
Afaktor Group (Slovenia)	462	16,187	13,921	2,266	6,170	889	100
Aleasing d.o.o. (Slovenia)	1,114	41,079	39,508	1,571	4,937	(65)	100
Anepremičnine Group (Slovenia)	1,243	18,376	17,303	1,073	2,680	(2,408)	100
Posest d.o.o. (Slovenia)	2,257	16,253	13,171	3,082	1,083	11	100

2014 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Afaktor Group							
Afaktor d.o.o.	Slovenia	15,191	13,915	1,276	5,162	251	100
Afaktor – faktoring finansiranje d.o.o.	Serbia	1,802	857	945	1,189	(1,174)	100
Afaktor – faktoring d.o.o.	Croatia	45	27	18	31	(33)	100
Anepremičnine Group							
Anepremičnine d.o.o.	Slovenia	18,546	17,303	1,243	2,837	(2,238)	100
Anekretnine d.o.o.	Montenegro	3,813	3,983	(170)	–	(170)	100

THE ASSOCIATES, WHICH ARE UNLISTED, ARE:

Agradnja d.o.o. is an associated company of the subsidiary Aleasing d.o.o. ASA Aleasing d.o.o., an associate owned by subsidiary Aleasing d.o.o., was sold in 2015. The sale had no impact on the income statement. The Group implements activities to sell Agradnja d.o.o. and to recover receivables.

Since the share of losses exceeded the cost of investment, the value of the company Agradnja d.o.o. in the consolidated financial statements is reduced to zero. The associate recognised neither profit from discontinued operations nor any other comprehensive income. An associate is consolidated under the equity method.

For 2015 the Group has no data for the disclosure of assets, liabilities, equity and profit or loss of the associate Agradnja d.o.o.

2014 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
ASA Aleasing d.o.o.	Bosnia and Herzegovina	13,328	14,431	(1,103)	1,915	(1,281)	49
Agradnja d.o.o.	Bosnia and Herzegovina	17,226	17,483	(257)	–	(34)	49

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 OTHER ASSETS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Inventories of material and small tools	15	18	15	18
Other inventories (real properties)	–	–	14,632	12,849
Precious metals	1,082	1,282	1,082	1,282
Deferred costs	978	698	1,010	743
Prepaid taxes	19	375	730	946
Prepayments	246	248	620	786
Total other assets (current)	**2,340**	**2,621**	**18,089**	**16,624**

29 PLEDGED ASSETS

	Group	
	2015	2014 adjusted
Available-for-sale financial assets	140,212	119,601
Loans to banks	10,556	14,217
Loans to non-bank customers	56,918	20,869
Held-to-maturity investments	10,420	6,580
Total pledged assets	**218,106**	**161,267**

Assets are pledged as collateral for the Eurosystem (ECB) claims, for the purposes of the Deposit Guarantee Scheme, for claims from VISA and Mastercard card transactions and claims by counterparties arising from derivative financial instruments.

The balance of pledged assets as at 31 December 2015 was much higher than at the 2014 year-end, primarily due to the introduction of a new financial instrument KLN (credit line) for ensuring current liquidity in the amount of EUR 50 million.

30 DEPOSITS AND LOANS FROM BANKS AND THE CENTRAL BANK

DEPOSITS FROM BANKS AND THE CENTRAL BANK

	Group	
	2015	2014 adjusted
Deposits from banks	15,422	13,411
Deposits from the central bank	–	–
Total deposits from banks and the central bank (current)	**15,422**	**13,411**

All deposits from banks had fixed interest rates in 2015 and 2014.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

LOANS FROM BANKS AND THE CENTRAL BANK

	Group	
	2015	2014 adjusted
Loans from banks	163,154	331,436
Loans from the central bank	100,158	100,006
Total loans from banks and the central bank	**263,312**	**431,442**
Current	1,068	59,840
Non-current	262,244	371,602

The Bank decreased loans from banks in 2015 based on the repayment of due instalments and early repayments.

Fixed and variable interest rate loans from banks and the central bank account for 38.0% (2014 adjusted: 24.8%) and 62.0% (2014 adjusted: 75.2%) of the total, respectively.

An interest rate analysis of deposits and loans from banks and the central bank is additionally disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

Deposits and loans from banks and the central bank are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 43).

31 DEPOSITS FROM NON-BANK CUSTOMERS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Corporate entities	1,011,628	1,267,567	1,009,623	1,261,138
Retail customers	1,835,261	1,824,895	1,835,261	1,824,895
Total deposits from non-bank customers	**2,846,889**	**3,092,462**	**2,844,884**	**3,086,033**
Current	1,795,462	2,390,111	1,793,457	2,386,971
Non-current	1,051,427	702,351	1,051,427	699,062

Fixed and variable interest rate deposits from non-bank customers account for 92.4% (2014 adjusted: 93.0%) and 7.6% (2014 adjusted: 7.0%) of the total, respectively.

Certificates of deposit provided as collateral for loans granted in 2015 totalled EUR 22,986 thousand (2014 adjusted: EUR 28,667 thousand). The fair value of those deposits approximates the carrying amount.

An interest rate analysis of deposits from non-bank customers is additionally disclosed in Note 2.2.3.3. Fair value is disclosed in Note 3(d).

Deposits from non-bank customers are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 43).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

32 DEBT SECURITIES ISSUED

	Interest rate on 31 December	Group	
		2015	2014 adjusted
Certificates of deposit (falling due: 2016 to 2020)	0.55–5.95%	25,975	42,935
Bonds – AB 14th issue, due 24 March 2015	6M Euribor + 2.5%	–	15,110
Bonds – BCE 13th issue, due 30 March 2015	4.75%	–	41,409
Bonds – BCE 14th issue, due 1 October 2015	4.55%	–	20,472
Bonds – BCE 15th issue, due 15 February 2016	5.00%	35,885	36,642
Total debt securities issued		**61,860**	**156,568**
Current		42,310	100,376
Non-current		19,550	56,192

The fourth coupon of the 15th issue BCE15 bonds of EUR 50.00 matured on 15 February 2015. The coupon consisted of interest. The total settled amount of the matured BCE15 coupons was EUR 1,708 thousand.

The final, eighth coupon of the 14th issue AB14 bonds of EUR 1,013.50 matured on 24 March 2015. The coupon consisted of principal and interest. The total settled amount of the matured AB14 coupons was EUR 15,203 thousand.

The final, fifth coupon of the 13th issue BCE13 bonds of EUR 1,047.50 matured on 30 March 2015. The coupon consisted of principal and interest. The total settled amount of the matured BCE13 coupons was EUR 41,900 thousand.

The final, fifth coupon of the 14th issue BCE14 bonds of EUR 1,045.50 matured on 1 October 2015. The coupon consisted of principal and interest. The total settled amount of the matured BCE14 coupons was EUR 20,910 thousand.

Fair value is disclosed in Note 3(d).

33 OTHER FINANCIAL LIABILITIES

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Liabilities from card operations	2,671	2,366	2,671	2,366
Liabilities to suppliers	1,545	2,981	2,268	3,430
Liabilities for unexecuted payments	1,474	933	1,474	933
Liabilities for salaries	2,941	3,210	3,042	3,319
Accrued costs	4,221	2,533	4,296	2,619
Other financial liabilities	4,455	3,911	5,146	4,492
Total other financial liabilities	**17,307**	**15,934**	**18,897**	**17,159**
Current	16,845	15,900	18,435	17,125
Non-current	462	34	462	34

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

34 PROVISIONS

ABANKA

	Restructuring provisions	Provisions for legal proceedings	Provisions for employee benefits	Provisions for guarantees and commitments	Other provisions	Total
As at 1 January 2014 adjusted	**–**	**4,823**	**6,664**	**25,176**	**1,326**	**37,989**
Additional provisions through profit or loss	5,780	8,681	502	31,667	14,209	60,839
Released provisions through equity – actuarial gains	/	/	(82)	/	/	(82)
Utilised during the year	–	(5,605)	(437)	(112)	(150)	(6,304)
As at 31 December 2014	**5,780**	**7,899**	**6,647**	**56,731**	**15,385**	**92,442**
Additional/(released) provisions through profit or loss (Note 13 and 15)	849	1,592	(349)	(21,472)	(12,950)	(32,330)
Additional provisions through equity – actuarial losses	/	/	414	/	/	414
Utilised during the year	(20)	(259)	(735)	(34)	(2,047)	(3,095)
As at 31 December 2015	**6,609**	**9,232**	**5,977**	**35,225**	**388**	**57,431**

GROUP

	Restructuring provisions	Provisions for legal proceedings	Provisions for employee benefits	Provisions for guarantees and commitments	Other provisions	Total
As at 1 January 2014 adjusted	**–**	**7,151**	**6,764**	**25,136**	**1,326**	**40,377**
Additional provisions through profit or loss	5,780	7,976	503	31,631	14,209	60,099
Released provisions through equity – actuarial gains	/	/	(65)	/	/	(65)
Utilised during the year	–	(7,209)	(438)	(112)	(150)	(7,909)
As at 31 December 2014	**5,780**	**7,918**	**6,764**	**56,655**	**15,385**	**92,502**
Additional/(released) provisions through profit or loss (Note 13 and 15)	849	1,613	(342)	(21,472)	(12,950)	(32,302)
Additional provisions through equity – actuarial losses	/	/	413	/	/	413
Utilised during the year	(20)	(259)	(760)	–	(2,047)	(3,086)
As at 31 December 2015	**6,609**	**9,272**	**6,075**	**35,183**	**388**	**57,527**

In 2015, the Group cancelled other provisions and provisions for guarantees and commitments (Note 15).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Provisions for retirement benefits and jubilee payments were set aside by the Group as at 31 December 2015. The calculation is based on the following key assumptions:
- a discount rate of 1.56% (2014 adjusted: 1.74–2.6%);
- a staff fluctuation rate of 3%; and
- average salary growth: 2.03% per annum.

Employees are also entitled to jubilee payments for every decade of service in the Group.

35 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using effective tax rates according to the tax rate valid in the year the elimination of temporary differences is projected, i.e. 17% (2014: 17% or up to the amount recoverable against future profits).

The tax base reduction due to unused tax losses is permitted to a maximum of 50 percent of the tax base for the current period. In 2015, the tax loss from previous years amounting to EUR 7,350 thousand was used in the corporate tax returns.

As at 31 December 2015, the unused tax losses for which deferred tax assets were not recognised in the statement of financial position amounted to EUR 831,962 thousand for the Bank and EUR 840,504 thousand for the Group. In accordance with the Slovene Corporate Income Tax Act, the tax losses can be carried forward indefinitely.

MOVEMENTS IN THE DEFERRED INCOME TAX ACCOUNT ARE AS FOLLOWS:

	Abanka			Group		
	2014 adjusted	Movement	2015	2014 adjusted	Movement	2015
Deferred income tax assets						
Impairment of equity investments	962	(81)	881	962	(81)	881
Impairment of property and equipment, intangible assets and investment property	84	–	84	84	–	84
Provisions for employee benefits	377	226	603	377	226	603
Restructuring provisions	491	71	562	491	71	562
Impairment on loans and receivables	–	–	–	360	(14)	346
Tax losses carried forward	8,197	(1,530)	6,667	8,197	(1,530)	6,667
The netting effect	(279)	279	–	(279)	279	–
	9,832	**(1,035)**	**8,797**	**10,192**	**(1,049)**	**9,143**
Deferred income tax liabilities						
Different depreciation rates for accounting and tax purposes	81	(2)	79	81	(2)	79
Available-for-sale investments	3,490	5,284	8,774	3,490	5,284	8,774
The netting effect	(279)	279	–	(279)	279	–
	3,292	**5,561**	**8,853**	**3,292**	**5,561**	**8,853**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

INCLUDED IN THE INCOME STATEMENT:

		Abanka		Group	
	Note	2015	2014 adjusted	2015	2014 adjusted
Available-for-sale investments		(3,662)	(1,320)	(3,662)	(1,320)
Impairment of equity investments		(81)	962	(81)	962
Different depreciation rates for accounting and tax purposes		2	9	2	9
Provisions for employee benefits		(6)	(1)	(6)	(1)
Restructuring provisions		71	491	71	491
Other provisions		–	(6)	–	(6)
Impairment on loans and receivables		–	–	(14)	7
Tax losses carried forward		(1,108)	5,995	(1,108)	5,995
	17	**(4,784)**	**6,130**	**(4,798)**	**6,137**

INCLUDED IN EQUITY:

	Group	
	2015	2014 adjusted
Available-for-sale investments – unrealised gains	5,443	5,750
Available-for-sale investments – unrealised losses	(7,255)	(12,855)
	(1,812)	**(7,105)**

36 SHARE CAPITAL, SHARE PREMIUM, ACCUMULATED OTHER COMPREHENSIVE INCOME AND RESERVES FROM PROFIT

On 5 October 2015, the acquisition of Banka Celje d.d. by Abanka d.d. was entered into the Companies register (Decision on the entry of changes to entity no. SRG 2015/40319). As of this date, Banka Celje d.d. ceased to exist as a legal entity and Abanka d.d. became its universal legal successor. All ordinary shares of Banka Celje d.d. bearing the designation BCES, ISIN: SI0021116858 were therefore deleted from the central register and the issuer of the bond BCE15, ISIN: SI0022103186 was changed to Abanka d.d.

2015	Share
The Republic of Slovenia	100%

2014	Share
The Republic of Slovenia*	100%

* In December 2014, Banka Celje d.d. was recapitalised by the state; hence, both banks were in full state ownership at the end of 2014.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN SHARE CAPITAL:

	Number of shares	Total
As at 1 January 2014	**15,000,000**	**150,000**
Issue of shares – capital increase	100,000	1,000
As at 31 December 2014	**15,100,000**	**151,000**
Acquisition of Banka Celje d.d.	/	50,000
Acquisition of Banka Celje d.d. – transfer of share capital to share premium	/	(50,000)
As at 1 January 2015 – adjusted after acquisition	**15,100,000**	**151,000**
As at 31 December 2015	**15,100,000**	**151,000**

MOVEMENTS IN SHARE PREMIUM:

	2015	2014
As at 1 January	**87,296**	**39,617**
Acquisition of Banka Celje d.d. – opening balance	166,221	–
Acquisition of Banka Celje d.d. – transfer of share capital to share premium	50,000	–
As at 1 January 2015 – adjusted after acquisition	**303,517**	**–**
New paid-in capital	–	242,000
Covering of the loss from the current year	–	(194,321)
Covering of the loss brought forward	(21,058)	–
As at 31 December	**282,459**	**87,296**

The amount of the share capital and share premium is the same for the Bank and for the Group.

Accumulated other comprehensive income of the Bank amounted to EUR 53,124 thousand (2014 adjusted: EUR 46,867 thousand) arising from the valuation of financial assets available for sale of EUR 53,386 thousand (2014 adjusted: EUR 46,712 thousand) and actuarial losses on provisions for retirement benefits of EUR 262 thousand (2014 adjusted: actuarial gains of EUR 155 thousand).

Accumulated other comprehensive income of the Group to the amount of EUR 53,108 thousand (2014 adjusted: EUR 46,417 thousand) refers to the valuation of available-for-sale financial assets, which totalled EUR 53,386 thousand (2014 adjusted: EUR 46,712 thousand), consolidation equity adjustment, which amounted to EUR 0 thousand (2014 adjusted: EUR -433 thousand) and actuarial losses on provisions for retirement benefits to the amount of EUR 278 thousand (2014 adjusted: actuarial gains of EUR 138 thousand).

Reserves from profit include legal reserves, statutory reserves and other reserves from profit. In the past, the Group created legal reserves in accordance with the Companies Act.

Share premium, legal and statutory reserves may be used for covering loss after tax for the year, if it cannot be covered from retained earnings or other reserves from profit.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 PROPOSED TREATMENT OF ACCUMULATED PROFIT/LOSS

PROPOSED DISTRIBUTION OF PROFITS OF ABANKA D.D. FOR 2015

	Abanka
Net profit from the current year	42,775
Distribution of net profit from the current year:	
– for statutory reserves	(4,278)
– for other reserves from profit	(19,249)
Retained earnings	2,852
Distributable profit – unappropriated	**22,100**

PROPOSED TREATMENT OF ACCUMULATED LOSS OF ABANKA VIPA D.D. FOR 2014

	Abanka Vipa
Net loss from the current year	(194,577)
Covering of the net loss from the current year	194,577
– from retained earnings	254
– from other reserves from profit	2
– from share premium	194,321

PROPOSED TREATMENT OF ACCUMULATED LOSS OF BANKA CELJE D.D. FOR 2014

	Banka Celje
Net loss from the current year	(21,101)
Covering of the net loss from the current year	21,101
– from other reserves from profit	43
– from share premium	21,058

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

38 CASH FLOW STATEMENT

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

Due to the acquisition of Banka Celje d.d., the Bank adjusted the comparative figures. Prior to the acquisition, Banka Celje d.d. used the direct method in preparing its statement of cash flows. For this reason, it was necessary to redraft the 2014 cash flow statement of Banka Celje d.d. by using the indirect method.

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Cash, cash balances with the central bank and other demand deposits with banks (Note 1.15 and 18)	281,267	342,641	281,289	342,681
Loans to banks (Note 1.15 and 22)	63,095	92,222	63,095	92,222
	344,362	**434,863**	**344,384**	**434,903**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Interest paid	42,701	94,517	42,701	94,789
Interest received	125,222	185,873	128,270	190,038
Dividends received	1,089	1,392	1,089	1,392

OTHER ITEMS IN THE CASH FLOW STATEMENT

Other gains from investing activities totalling EUR 1,191 thousand relate to held-to-maturity investments. Other adjustments to total profit or loss before tax relate to net provisions whose decrease in 2015 is explained in Note 34 and realised losses on derecognition of financial assets not measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

39 COMMITMENTS AND CONTINGENCIES

a) *Legal proceedings*

As at 31 December 2015 and 31 December 2014, there were some legal proceedings against the Group. Provisions were set aside (Note 34) for those cases where losing a dispute was more probable than not. According to the assessment of the Group, in all other cases the probability of cash outlays upon their outcome was very low and therefore no provisions were formed.

The Group is not involved in any dispute concerning the protection of competition.

The Bank is involved in a dispute regarding intellectual property in a case in which a Spanish bank sued in France for annulment of the brand Abanka on the ground that the French parts of international brands ABANKA should not be used. The proceeding is pending. In Portugal, an opposition procedure by Abanka against the application of the Abanca trade mark is pending because an objection was filed by the same Spanish bank. For the same reasons, two separate proceedings are pending in the UK, namely the opposition procedure against the trademark application filed by the Spanish bank, for which an objection was announced, and a procedure against the use of the brand, launched by the Spanish bank against Abanka.

Major legal disputes in which the Group acts as the defendant are the following:

- Arnuš Branko s.p., Destrnik
  Ref. No. 7Pg 4157/2014, District Court of Ljubljana
  On 7 November 2014, a claim was served upon the Bank amounting to EUR 6,738,000.00 EUR, plus default interest at the statutory rate from 29 October 2014 until payment, for the alleged damage caused to the customer due to the fact that he was prevented from disbursing the loan and therefore unable to complete the construction of a bio fuel plant. A statement of defence has been filed.

- Raiffeisen banka d.d., Maribor
  Ref. No. VII Pg 2410/2011, District Court of Ljubljana
  On 21 June 2011, Abanka was served a claim for the payment of EUR 3,821,170.81 plus legal default interest as of 26 January 2011, due to its failure to honour a bill of exchange of Merkur. A defence was lodged on 20 July 2011. The first instance court decided in the Bank's favour in full. The plaintiff appealed against the judgement. The higher court has rejected the appeal. The plaintiff submitted a proposal for revision.

  In addition to the above lawsuits (in which, if the Group lost, it would be obliged to pay the claimed amounts), the Group also acts as a defendant in the following lawsuits (where losing would not incur an obligation to pay):

- MIP - POMURKA Reja d.o.o. (in bankruptcy proceedings)
  Ref. No. Pg 9/2010, District Court of Murska Sobota
  On 8 April 2010, Abanka as the defendant was served an action requesting the annulment of Abanka’s right to be fully repaid from the real property, i.e. plot numbers 3879/2, 3879/35, 3879/29, 3879/32, 3879/18 and 3879/37, all entered in the Land Registry of Murska Sobota (the value in dispute is EUR 4,604,764.69 plus default interest) and to delete Abanka’s mortgages on the above-stated real property registered under Ref. No. 1271/2006. Abanka filed a statement of defence. On 28 March 2011, the Court issued a decision to suspend the trial until a final decision is given in the preliminary issue, i.e. a claim for the annulment of purchase agreements in the case Ref. No. Pg 442/2009. Only dispute under Ref. No. Pg 442/2009 was settled; it is presented below as one of the major legal disputes brought to an end in 2015.

- 30 plaintiffs – individuals
  Ref. No. P 379/2008, District Court of Ljubljana
  On 28 January 2008, an action was brought against Banka Celje d.d. and two other defendants (and additionally two side interveners) for payment (EUR 1,200,000.00 pct. including fees and charges) and an application for interim measures. This is an action for the enforcement of property rights to real estate, which the bank took in pledge as collateral for its claims, and the cancellation of the contracts for the sale of real estate and, consequently, the pledge of real estate. The Bank filed its statement of defence. The procedure is pending. The court granted the application for interim measures, but revoked it upon opposition filed by the Bank, which was contested by the applicant, however the Higher Court has not upheld it. The applicant filed a request for protection of legality; the Supreme Court annulled the decision of the Higher Court and remanded the case

NOTES TO THE FINANCIAL STATEMENTS (continued)

for reconsideration. The Higher Court then rejected the appeal by the defendant and confirmed the decision of the Court of First Instance (upheld a temporary injunction).

- HIPOL AD ODŽACI
  Ref. No. P 303/2015, Privredni sud Sombor (Commercial Court of Sombor)
  The claim reads as follows: "It is noted that the Contract on the long-term loan concluded between HIPOL ad and Abanka dated 11 June 2007 is null and void. Declared void is the Pledge Statement Ref. No. 2295/07 certified in the Municipal Court in Odžaci, and the amendment to the Pledge Statement Ref. No.1660/09 dated 27 May 2009, pursuant to which the mortgage - enforceable out of court - in favour of Abanka d.d. on the property of the defendant is entered in the Journal of real estate cadastre LN 2460 Odžaci, and according to Dn Decision 402/07 with the date of entry 18 June 2007 and Dn 15/2010 with the date of entry 27 May 2009 the defendant is obliged to allow that the plaintiff on the basis of this judgment executes the deletion of the above entries in the Real Estate Register Office (RGZ SKN) Odžaci, of the enforceable out of court mortgage registered in favour of the defendant in the above stated properties within 8 days after the final judgment under execution." The proceeding is pending.

- HLT Fond A.D. Podgorica – Montenegro
  Ref. No. P 120/2015, Privredni sud Podgorica (Commercial Court of Podgorica)
  The action brought by HLT Fund for the annulment of the purchase contract by which the company Anekretnine d.o.o. purchased the property sold by Abanka as a mortgagee at a public auction. The action has been brought against the buyer Anekretnine d.o.o. as the first defendant and Abanka d.d. as the second defendant. The Court rejected the application. An appeal against the judgement has been filed.

Major legal disputes brought to an end in 2015:

- Siteep Tegrad & PAP d.d. (in bankruptcy proceedings)
  Ref. No. XI Pg 4345/2010, District Court of Ljubljana
  On 2 December 2010, Abanka was served a claim for the payment of EUR 1,727,167.48, plus legal default interest as of 23 September 2009, on the grounds of an allegedly unlawful set-off in bankruptcy proceedings of a deposit received as collateral. The court of first instance upheld most of the claim, amounting to EUR 1,727,167.48 plus default interest as of 30 September 2009, and ordered the defendant to pay legal expenses in the amount of EUR 26,874.10. An appeal was filed, which the Court dismissed. A judicial review of the Higher Court decision was claimed on 21 December 2012. The Supreme Court rejected the Bank's revision with its judgement of 10 September 2013; consequently, the Bank filed a complaint with the Constitutional Court of the Republic of Slovenia, which was rejected.

- POMURKA mesna industrija d.d., Murska Sobota (in bankruptcy proceedings)
  Ref. No. Pg 442/2009, District Court of Murska Sobota
  The District Court of Murska Sobota adjudicated the case of Pomurka mesna industrija d.d. (in bankruptcy proceedings) as plaintiff vs. MIP Pomurka Reja d.o.o. (in bankruptcy proceedings) as the defendant (Ref. No. Pg 442/2009), claiming the annulment of the agreement that gave MIP Pomurka Reja d.d. the real property title, i.e. plot numbers 3879/2, 3879/35, 3879/29, 3879/32, 3879/18 and 3879/37, all entered under land certificate number 4430 in the Land Registry of Murska Sobota, which have been pledged as collateral to Abanka. As the judgement in the latter case may also affect the mortgage under no. 1471/2008 with Abanka as a mortgagee, entered under land certificate number 4430 in the Land Registry of Murska Sobota, Abanka filed a motion to intervene. The Court ruled in favour of Abanka. The plaintiff filed an appeal. The appeal was rejected by the judgement of the Maribor Higher Court of 9 May 2013. On 30 October 2013, the plaintiff lodged a revision. In its ruling of 11 November 2014, the Supreme Court of the Republic of Slovenia granted the revision, annulled the contested judgement and remanded the case to the court of second instance for a retrial. The receivable has been transferred to the Bank Assets Management Company (BAMC). A court settlement was agreed.

- POMURKA mesna industrija d.d., Murska Sobota (in bankruptcy proceedings)
  Ref. No. XI Pg 675/2010, District Court of Ljubljana
  On 26 March 2010, Abanka was served an action for the annulment of the right to be fully repaid from the bankruptcy estate, which the plaintiff filed against seven defendants. The plaintiff challenges the conclusion of an agreement pledging brand names as a collateral, made on 25 July 2008 between MIP d.d., Nova Gorica, MIP DML d.o.o., Ljubljana and Abanka, and requests the annulment of Abanka's right to be fully repaid from the bankruptcy estate an amount of EUR 1,849,555.73 from

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

the debtor MIP DML d.o.o. (in bankruptcy proceedings). The receivable has been transferred to BAMC, which took over the litigation.

- CM Celje d.d. (in bankruptcy proceedings)
  Ref. No. I Pg 891/2013, Celje District Court
  This was an action to challenge acts of the bankruptcy debtor to provide three mortgages and one assignment of claims lodged on 17 August 2013. The claim was largely upheld. The receivable has been transferred to BAMC.

b) *Credit-related commitments*
The primary purpose of these instruments is to ensure that funds are available to customers upon request. Guarantees and standby letters of credit (which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet their obligations to third parties) carry the same credit risk as loans, documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate, or cash deposits, and therefore carry less risk than direct borrowing. Cash requirements under guarantees and standby letters of credit are considerably lower than the amount of the commitment, because the Group does not generally expect the third party to draw the funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Whilst there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, secondly, from these drawings subsequently not being repaid when due. The Group monitors the term to maturity of credit commitments, because long-term commitments generally involve greater credit risk than short-term ones. The total outstanding contractual amount of credit commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank's and the Group's guarantees and commitments to extend credit to customers.

GUARANTEES AND COMMITMENTS

		Abanka		Group	
	Note	2015	2014 adjusted	2015	2014 adjusted
Performance bonds		141,324	180,994	141,316	180,992
Financial guarantees		75,888	62,007	75,888	57,022
Loan commitments		261,954	223,779	263,958	220,981
Derivatives		5,391	8,998	5,391	8,998
Other		17,450	26,324	17,450	26,324
		502,007	**502,102**	**504,003**	**494,317**
Provisions:	34				
– provisions for guarantees and commitments		(35,225)	(56,731)	(35,183)	(56,655)
– provisions for legal proceedings		(9,232)	(7,899)	(9,272)	(7,918)
– restructuring provisions		(6,609)	(5,780)	(6,609)	(5,780)
– other provisions					
– claims from collateral foreclosures		–	(14,493)	–	(14,493)
– national housing savings scheme (NHSS)		(163)	(666)	(163)	(666)
– other		(225)	(226)	(225)	(226)
		450,553	**416,307**	**452,551**	**408,579**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 LEASES

	Group	
	2015	2014 adjusted
Gross investment in finance leases, receivable:	**53,440**	**52,679**
– no later than 1 year	25,206	26,313
– later than 1 year and no later than 5 years	27,400	25,024
– later than 5 years	834	1,342
Unearned future finance income on finance leases	6,133	5,981
Net investment in finance leases:	**47,307**	**46,698**
– no later than 1 year	22,816	23,929
– later than 1 year and no later than 5 years	23,776	21,610
– later than 5 years	715	1,159

Regardless of the Note 1.25, the amount of finance lease receivables relates only to the receivables of subsidiaries.

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Investment in operating leases, receivable:	**101**	**3,786**	**8,102**	**6,704**
– no later than 1 year	14	362	2,185	1,583
– later than 1 year and no later than 5 years	58	1,389	4,225	3,086
– later than 5 years	29	2,035	1,692	2,035

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Operating lease liabilities:	**1,602**	**2,997**	**1,602**	**2,984**
– no later than 1 year	532	602	532	589
– later than 1 year and no later than 5 years	951	1,517	951	1,517
– later than 5 years	119	878	119	878

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Finance lease liabilities:	**813**	**885**	**689**	**761**
– no later than 1 year	99	99	57	57
– later than 1 year and no later than 5 years	312	312	230	230
– later than 5 years	402	474	402	474

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 TRANSACTIONS IN THE NAME AND FOR THE ACCOUNT OF THIRD PARTIES

Pursuant to the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks issued by the Bank of Slovenia, the Bank discloses transactions in the name and for the account of third parties.

	Abanka	
	2015	2014 adjusted
Assets	**3,721,450**	**4,007,852**
Claims of settlement and transaction accounts for customer assets	**3,653,013**	**3,476,426**
- from financial instruments	3,652,167	3,474,797
– investment services and transactions (Financial Instruments Market Act - ZTFI)	479,665	720,058
– reception, transmission and execution of orders	476,180	701,497
– management of financial instruments	3,485	18,561
– for the account of the Bank	–	–
– custody operations (Investment Trusts and Management Companies Act - ZISDU)	3,172,502	2,754,739
- against the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for sold financial instruments	148	337
- against other settlement systems and institutions for sold financial instruments (buyers)	648	1,286
- against the brokerage for purchased financial instruments and net receivables from the CSCC (ZISDU)	50	6
Customers' cash	**2,566**	**4,686**
- in the settlement account for customer assets	309	482
- in banks' transaction accounts (ZTFI)	635	882
- in banks' transaction accounts (ZISDU)	1,622	3,322
Other transactions authorised by the customer	**65,871**	**526,740**

Liabilities	**3,721,450**	**4,007,852**
Liabilities of settlement and transaction accounts for customer assets	**3,655,432**	**3,480,738**
- to customers from cash and financial instruments	3,654,143	3,470,923
– investment services and transactions (ZTFI)	480,639	721,668
– reception, transmission and execution of orders	477,023	702,663
– management of financial instruments	3,616	19,005
– custody operations (ZISDU)	3,173,504	2,749,255
- to the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for purchased financial instruments	50	6
- to other settlement systems and institutions for purchased financial instruments (sellers)	1,158	9,652
- to the bank or the bank's settlement account for commission, fees, etc.	81	157
- to the brokerage for sold financial instruments and income from transactions in the name and for the account of third parties (ZISDU)	–	–
Other transactions authorised by the customer	**66,018**	**527,114**

Other transactions authorised by the customer decreased compared to 31 December 2014 because the Bank no longer accounts for the receivables transferred to the Bank Asset Management Company (BAMC) in 2014.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	Abanka	
	2015	2014 adjusted
Income from fees and commissions related to (ancillary) investment services and transactions for customers	**3,068**	**2,669**
Reception, transmission and execution of orders	396	542
Management of financial instruments	7	163
Custody and related services (Note 7)	1,971	1,709
Maintenance of customers' dematerialised securities accounts	199	208
Safekeeping of financial instruments for customers' account	2	2
Advice to undertakings on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of undertakings	493	45

Expenses from fees and commissions related to (ancillary) investment services and transactions for customers	**221**	**395**
Fees and commissions in connection with the CSCC (Central Securities Clearing Corporation) and similar organisations	159	170
- from investment banking operations (ZTFI)	159	170
- from custody operations (ZISDU)	–	–
Fees and commissions in connection with the stock exchange and similar organisations	18	23
Other transactions	44	202

42 MANAGED FUNDS

In accordance with its restructuring plan in 2014, the Group transferred the asset management on behalf of third parties to Triglav Skladi, which excluded the management of the AIII VPS mutual pension fund. The Group manages assets of the AIII VPS mutual pension fund to the amount of EUR 3,616 thousand (2014: EUR 18,926 thousand). Managed fund assets are accounted for separately to those of the Group. Income and expenses of these funds are for the account of the respective fund, and the Group has no liability in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

43 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 and associates, key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, all of these persons' close family members) and other related companies (individual companies in which key management personnel have significant influence).

Related parties of the Group include: associates, key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, directors of subsidiaries, all of these persons' close family members) and other related companies (individual companies in which key management personnel have significant influence).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

A number of banking transactions have been entered into with related parties in the normal course of business. The volume of transactions involving related parties for the year-end and related expenses and income for the year are as follows:

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

Type of related party	Subsidiaries		Associates		Key management personnel		Indirectly related companies		Shareholders with more than 20% of shares	
	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted
Financial assets										
Loans	77,699	80,188	–	–	323	663	17	6	–	8,648
Equity securities										
– financial assets designated at fair value through profit or loss	–	–	–	–	–	–	2,452	2,505	–	–
– investments in subsidiaries and associates	6,024	5,955	–	–	–	–	–	–	–	–
Financial liabilities										
Deposits	2,008	6,430	–	–	972	2,455	18,047	6,657	–	–
Loans from non-bank customers	69	106	–	–	–	–	–	–	–	–
Debt securities issued	–	–	–	–	–	194	16,287	14,001	–	957
Other financial liabilities	28	57	–	1	–	–	28	315	–	365
Off-balance sheet records										
Nominal amount of loan commitments and financial guarantees issued	1,769	11,239	–	–	55	165	5,213	5,150	–	–
Comfort letters	–	–	–	–	–	–	–	–	–	–
Allowances for impairment losses on financial assets	634	608	–	–	1	2	–	–	–	–
Provisions for guarantees and commitments	42	78	–	–	–	–	2	4	–	–
Fiduciary activities	–	–	–	–	–	–	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Type of related party	Subsidiaries		Associates		Key management personnel		Indirectly related companies		Shareholders with more than 20% of shares	
	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted
Interest income	3,000	2,533	–	392	11	27	6	711	–	16
Interest expenses	1	94	–	–	11	60	878	370	–	199
Dividend income	–	–	–	–	–	–	–	–	–	–
Fee and commission income	6	30	–	–	4	3	18	12	–	–
Fee and commission expenses	–	–	–	–	–	–	–	104	–	364
Net realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	–	–	–	–	–	–	–	605	–	(10)
Net gains/(losses) on financial assets held for trading	–	–	–	–	–	–	19	16	–	(58)
Net gains/(losses) on hedge accounting	–	–	–	–	–	–	36	12	–	–
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	–	–	98	39	–	–
Net other operating income/(expenses)	38	53	–	(41)	–	2	19	–	–	–
Administration costs	109	80	–	–	–	–	–	501	–	–
Impairment of financial assets	(34)	(167)	–	(976)	–	–	–	(427)	–	68
Impairment of investments in subsidiaries and associates	(2,789)	(7,227)	–	–	–	–	–	–	–	–
Income/(expenses) on provisions for guarantees and commitments	2	9	–	–	–	–	2	–	–	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Associates		Key management personnel		Indirectly related companies		Shareholders with more than 20% of shares	
	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted
Financial assets								
Loans	–	–	328	668	17	6	–	8,648
Equity securities								
– financial assets designated at fair value through profit or loss	–	–	–	–	2,452	2,505	–	–
– investments in associates	–	–	–	–	–	58	–	–
Financial liabilities								
Deposits	–	–	1,325	2,700	18,049	6,657	–	–
Loans from non-bank customers	–	–	–	–	–	–	–	–
Debt securities issued	–	–	–	194	16,287	14,001	–	957
Other financial liabilities	–	1	–	–	28	315	–	365
Off-balance sheet records								
Nominal amount of loan commitments and financial guarantees issued	–	–	64	175	5,213	5,150	–	–
Comfort letters	–	–	–	–	–	–	–	–
Allowances for impairment losses on financial assets	–	–	1	2	–	–	–	–
Provisions for guarantees and commitments	–	–	–	–	2	4	–	–
Fiduciary activities	–	–	–	–	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Type of related party	Associates		Key management personnel		Indirectly related companies		Shareholders with more than 20% of shares	
	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted
Interest income	–	392	11	27	6	711	–	16
Interest expenses	–	–	15	64	878	370	–	199
Dividend income	–	–	–	–	–	45	–	–
Fee and commission income	–	–	4	3	18	12	–	–
Fee and commission expenses	–	–	–	–	–	104	–	364
Net realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	–	–	–	–	–	605	–	(10)
Net gains/(losses) on financial assets held for trading	–	–	–	–	19	16	–	(58)
Net gains/(losses) on hedge accounting	–	–	–	–	36	12	–	–
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	98	39	–	–
Net other operating income/(expenses)	–	(41)	–	2	19	–	–	–
Administration costs	–	–	–	–	–	501	–	–
Impairment of financial assets	–	(976)	–	–	–	(427)	–	68
Income/(expenses) on provisions for guarantees and commitments	–	–	–	–	2	–	–	–

As at 31 December 2015, the Bank's available-for-sale financial assets included available-for-sale debt securities of the Republic of Slovenia in the amount of EUR 561,557 thousand (2014 adjusted: EUR 772,643 thousand), while the Bank's held-to-maturity financial assets included debt securities of the Republic of Slovenia in the amount of EUR 32,126 thousand (2014 adjusted: EUR 32,226 thousand). Debt securities of the Republic of Slovenia in the amount of EUR 1,115 thousand (2014 adjusted: EUR 0 thousand) were held for trading. As at 31 December 2015, loans granted to the government amounted to EUR 1,432 thousand (2014 adjusted: EUR 11,980 thousand), with interest income from these transactions totalling EUR 11,392 thousand in 2015 (2014 adjusted: EUR 16,648 thousand). In 2015, net gains from available-for-sale financial assets totalled EUR 1,222 thousand (2014 adjusted: EUR 12,457 thousand), while net gains from trading with debt securities reached EUR 531 thousand (2014 adjusted: EUR 510 thousand). As at 31 December 2015, deposits of the Ministry of Finance amounted to EUR 27,998 thousand (2014 adjusted: EUR 350,667 thousand), with interest expenses from these deposits totalling EUR 3,353 thousand in 2015 (2014 adjusted: EUR 11,237 thousand).

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

Individually significant transactions with state-related companies include debt securities available for sale, given loans and received long-term loans and deposits. As at 31 December 2015, individually significant debt securities available for sale totalled EUR 556,137 thousand (2014 adjusted: EUR 125,800 thousand), given long-term loans EUR 130,000 thousand (3 contracts) (2014 adjusted: 1 contract amounting to EUR 70,000 thousand), received long-term loans EUR 87,053 thousand (6 contracts) (2014 adjusted: 7 contracts amounting to EUR 128,456 thousand) and received deposits EUR 134,398 thousand (5 contracts) (2014 adjusted: 4 contracts amounting to EUR 48,033 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2015, the remaining (individually insignificant) debt securities available for sale totalled EUR 19,382 thousand (2014 adjusted: EUR 18,270 thousand), given loans EUR 51,450 thousand (2014 adjusted: EUR 7,124 thousand), received long-term loans EUR 73,004 thousand (2014 adjusted: EUR 63,539 thousand) and received deposits EUR 42,922 thousand (2014 adjusted: EUR 46,164 thousand).

In the reporting year, interest income from transactions with state-related companies amounted to EUR 11,738 thousand (2014 adjusted: EUR 2,999 thousand) and interest expenses totalled EUR 4,511 thousand (2014 adjusted: EUR 9,716 thousand).

LOANS AND REPAYMENTS OF THE MANAGEMENT BOARD AND DIRECTORS OF SUBSIDIARIES, MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT PERSONNEL

	Members of the Management Board and directors of subsidiaries		Members of the Supervisory Board		Management personnel of the Group	
	2015	2014 adjusted	2015	2014 adjusted	2015	2014 adjusted
Loan balance as at 31 December	5	39	83	25	999	1,130
Average interest rate						
– reference IR	/	/	*6M Euribor spread 2.15%*	*6M Euribor spread 1.90%*	*6M Euribor spread 2.06%*	*6M Euribor spread 2.30%*
– nominal IR	4%	3.40%	/	7.90%	5.91%	6.59%
Repayments in the year	33	2	10	16	222	180

The balance of loans includes all loans that were previously granted by the Group to those Management Board members, the Supervisory Board members, directors of subsidiaries and management personnel, who performed these functions as at 31 December 2015 or 31 December 2014, regardless of whether the persons concerned had already been performing these functions at the time of loan approval.

The average interest rate is calculated on the basis of the balance of loans and the applicable interest rates as at 31 December 2015 or 31 December 2014.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

BREAKDOWN OF EARNINGS AND BENEFITS OF THE MANAGEMENT AND SUPERVISORY BOARD MEMBERS, MANAGEMENT PERSONNEL AND DIRECTORS OF SUBSIDIARIES

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE MANAGEMENT BOARD FROM 1 JANUARY TO 31 DECEMBER 2015

	Jože Lenič	Davorin Leskovar[1]	Aleksander Vozel[2]	Stojan Hostnik[3]	Igor Stebernak[4]	Total in EUR
Fixed part of the salary (gross)	132,125.17	108,131.82	124,321.46	46,082.08	54,736.26	465,396.79
Variable part of the salary (gross)	–	–	–	–	–	–
Profit sharing	–	–	–	–	–	–
Options and other remuneration	–	–	–	–	–	–
Reimbursements	959.64	690.29	2,273.21	752.79	377.27	5,053.20
Insurance premiums	–	–	–	–	–	–
Benefits[5]	19,533.53	5,270.55	3,999.52	470.58	6,179.35	35,453.53
Fees and commissions	–	–	–	–	–	–
Other additional earnings	–	–	–	–	26,245.60	26,245.60
Total earnings	**152,618.34**	**114,092.66**	**130,594.19**	**47,305.45**	**87,538.48**	**532,149.12**
Total net earnings	**52,225.48**	**53,628.49**	**68,860.55**	**23,360.10**	**33,026.15**	**231,100.77**
Other rights under the contract[6]	**11,201.99**	**1,212.27**	**1,559.74**	**426.67**	**29.13**	**14,429.80**

[1] President of the Management Board of Banka Celje d.d. until 4 October 2015
[2] Member of the Management Board of Banka Celje d.d. until 17 May 2015 and Member of the Management Board of Abanka from 18 May 2015
[3] Member of the Management Board of Banka Celje d.d. from 12 May 2015 to 4 October 2015
[4] Member of the Management Board of Abanka until 30 April 2015
[5] company car, liability insurance, voluntary pension insurance and other insurance
[6] medical examinations, education, other insurance and membership fees

On 28 December 2015, the term of office of Matej Golob Matzele as the Member of the Management Board began. He did not receive any earnings and benefits as the Member of the Management Board in 2015. As at 31 December 2015, he was simultaneously the Supervisory Board Member of the unrelated company Telekom Slovenije d.d., whilst no other Bank's Management Board Member was Supervisory Board Member in any related companies.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE MANAGEMENT BOARD OF ABANKA VIPA D.D. FROM 1 JANUARY TO 31 DECEMBER 2014

	Jože Lenič	Igor Stebernak	Total in EUR
Fixed part of the salary (gross)	132,236.81	131,496.70	263,733.51
Variable part of the salary (gross)	–	–	–
Profit sharing	–	–	–
Options and other remuneration	–	–	–
Reimbursements	902.11	973.32	1,875.43
Insurance premiums[1]	317.13	317.13	634.26
Benefits[2]	18,862.99	18,336.59	37,199.58
Fees and commissions	–	–	–
Attendance fees for supervisory work in subsidiaries	–	–	–
Total earnings	**152,319.04**	**151,123.74**	**303,442.78**
Total net earnings	**52,603.60**	**52,708.05**	**105,311.65**
Other rights under the contract[3]	**1,806.24**	**1,164.78**	**2,971.02**

[1] voluntary supplementary pension insurance premium
[2] company car, liability insurance and voluntary pension insurance
[3] education and other insurance

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE MANAGEMENT BOARD OF BANKA CELJE D.D. FROM 1 JANUARY TO 31 DECEMBER 2014

	Davorin Leskovar	Aleksander Vozel	Total in EUR
Fixed part of the salary (gross)	124,501.70	118,130.32	242,632.02
Variable part of the salary (gross)	–	–	–
Profit sharing	–	–	–
Options and other remuneration	–	–	–
Reimbursements	1,113.84	3,854.52	4,968.36
Insurance premiums	–	–	–
Benefits[1]	7,784.44	1,575.73	9,360.17
Fees and commissions	–	–	–
Attendance fees for supervisory work in subsidiaries	–	–	–
Total earnings	**133,399.98**	**123,560.57**	**256,960.55**
Total net earnings	**69,493.82**	**74,333.62**	**143,827.44**
Other rights under the contract[2]	**200.00**	**1,099.38**	**1,299.38**

[1] company car, liability insurance and other insurance
[2] education and membership fees

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF DIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2015

	Matjaž Kaštrun (Afaktor d.o.o.)	Nikolaj Fišer (Aleasing d.o.o.)	Gregor Žvipelj (Anepremičnine d.o.o.)	Davorin Zavasnik (Posest d.o.o.)	Total in EUR
Fixed part of the salary (gross)	73,165.89	73,330.72	68,251.56	77,382.08	292,130.25
Variable part of the salary (gross)	–	–	–	–	–
Reimbursements	2,948.26	961.43	922.98	1,668.99	6,501.66
Insurance premiums[1]	2,537.16	–	–	–	2,537.16
Benefits[2]	1,757.41	4,029.60	4,004.16	107.00	9,898.17
Total earnings	**80,408.72**	**78,321.75**	**73,178.70**	**79,158.07**	**311,067.24**
Total net earnings	**40,687.68**	**39,619.67**	**36,175.58**	**44,416.70**	**160,899.63**
Other rights under the contract[3]	**–**	**881.68**	**229.42**	**–**	**1,111.10**

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF DIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2014

	Matjaž Kaštrun (Afaktor d.o.o.)	Nikolaj Fišer (Aleasing d.o.o.)	Gregor Žvipelj (Anepremičnine d.o.o.)	Davorin Zavasnik (Posest d.o.o.)	Total in EUR
Fixed part of the salary (gross)	74,412.51	74,932.44	67,303.91	77,246.31	293,895.17
Variable part of the salary (gross)	–	–	–	–	–
Reimbursements	2,373.30	1,017.28	995.02	2,099.52	6,485.12
Insurance premiums[1]	2,537.16	1,139.58	563.82	–	4,240.56
Benefits[2]	2,410.83	4,422.59	4,162.10	–	10,995.52
Total earnings	**81,733.80**	**81,511.89**	**73,024.85**	**79,345.83**	**315,616.37**
Total net earnings	**40,314.63**	**40,437.82**	**36,289.48**	**44,735.47**	**161,777.40**
Other rights under the contract[3]	**–**	**–**	**299.19**	**–**	**299.19**

[1] voluntary supplementary pension insurance premium
[2] company car, life insurance, liability insurance, supplementary health insurance and accident insurance
[3] education

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF INDIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2015

	Slobodan Radović (Anekretnine d.o.o., Montenegro)
Fixed part of the salary (gross)	4,029.72
Variable part of the salary (gross)	–
Total earnings	**4,029.72**
Total net earnings	**2,700.00**
Other rights under the contract	**–**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY DIRECTORS OF INDIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2014

	Igor Vukotić (Afaktor – faktoring finansiranje d.o.o., Serbia)	Slobodan Radović (Anekretnine d.o.o., Montenegro)	Dijana Filipović (Anekretnine d.o.o., Montenegro)	Total in EUR
Fixed part of the salary (gross)	40,233.34	2,254.73	63.96	42,552.03
Variable part of the salary (gross)	–	–	–	–
Total earnings	**40,233.34**	**2,254.73**	**63.96**	**42,552.03**
Total net earnings	**31,851.09**	**1,510.71**	**42.85**	**33,404.65**
Other rights under the contract[1]	**579.74**	**–**	**–**	**579.74**

[1] other insurance

PROVISIONS AND ACCRUED COSTS FOR THE BANK'S MANAGEMENT BOARD AND DIRECTORS OF SUBSIDIARIES

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Provisions for retirement benefits and jubilee payments	39	140	72	194
Accrued costs for unused leave	29	28	41	37
	68	**168**	**113**	**231**

TOTAL EARNINGS AND BENEFITS RECEIVED BY MANAGEMENT PERSONNEL

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Salaries	2,867	3,299	3,077	3,514
Retirement, severance and jubilee payments	4	502	27	502
	2,871	**3,801**	**3,104**	**4,016**

PROVISIONS AND ACCRUED COSTS FOR MANAGEMENT PERSONNEL

	Abanka		Group	
	2015	2014 adjusted	2015	2014 adjusted
Provisions for retirement benefits and jubilee payments	987	525	994	542
Accrued costs for unused leave	130	142	130	142
	1,117	**667**	**1,124**	**684**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2015

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits[7]
Marko Garbajs	23,727.16	7,205.00	–	30,932.16	21,865.13	2,316.94
Janko Gedrih	31,131.81	8,525.00	1,214.10	40,870.91	29,093.56	2,791.03
Barbara Kürner Čad[1]	8,666.62	3,300.00	–	11,966.62	8,703.40	–
Melita Malgaj[2]	13,974.74	3,849.95	381.55	18,206.24	13,135.72	1,551.59
Andrej Slapar	21,802.03	7,480.00	–	29,282.03	21,191.24	387.50
Blaž Šterk	21,350.66	7,645.00	–	28,995.66	20,456.73	2,316.94
Matjaž Trebše[3]	2,655.11	990.00	–	3,645.11	2,545.42	387.50
Alenka Vrhovnik Težak[3]	2,655.11	770.00	–	3,425.11	2,385.41	387.50
Jure Peljhan[4]	5,774.76	343.74	152.62	6,271.12	4,561.00	–
Marko Simoneti[5]	8,666.67	1,485.00	228.93	10,380.60	7,549.81	575.31
Barbara Smolnikar[4]	4,537.32	1,099.96	152.62	5,789.90	4,211.00	–
Tomaž Subotič[6]	11,191.43	3,033.38	5,246.85	19,471.66	15,090.50	1,092.44
Bojan Šrot[4]	4,537.32	–	–	4,537.32	3,300.00	–
Zdenko Zanoški[4]	4,537.32	–	–	4,537.32	3,300.00	–
	165,208.06	**45,727.03**	**7,376.67**	**218,311.76**	**157,388.92**	**11,806.75**

[1] Member of the Supervisory Board of Abanka d.d. until 12 June 2015
[2] Member of the Supervisory Board of Banka Celje d.d. until 4 October 2015, Member of the Supervisory Board of Abanka since 2 October 2015
[3] Member of the Supervisory Board of Abanka d.d. since 8 October 2015
[4] Member of the Supervisory Board of Banka Celje d.d. until 27 May 2015
[5] Member of the Supervisory Board of Banka Celje d.d. from 28 May 2015 to 4 October 2015
[6] Member of the Supervisory Board of Banka Celje d.d. until 4 October 2015
[7] liability insurance and education

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD OF ABANKA VIPA D.D. FROM 1 JANUARY TO 31 DECEMBER 2014

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits*
Aleš Aberšek	11,874.95	5,698.69	–	17,573.64	12,834.03	–
Vladimir Mišo Čeplak	11,197.90	5,939.81	–	17,137.71	12,516.95	–
Kristina Ana Dolenc	10,520.80	4,666.43	–	15,187.23	11,098.40	1,070.00
Marko Garbajs	3,575.02	1,760.00	–	5,335.02	3,880.17	–
Janko Gedrih	22,260.41	7,141.39	764.36	30,166.16	22,038.83	1,668.22
Barbara Kürner Čad	2,708.32	1,540.00	–	4,248.32	3,089.84	–
Andrej Slapar	16,614.57	6,987.50	–	23,602.07	17,218.49	–
Franci Strajnar	12,010.40	6,500.00	–	18,510.40	13,515.31	–
Blaž Šterk	2,979.16	1,540.00	–	4,519.16	3,286.80	–
Snežana Šušteršič	10,520.80	5,402.56	–	15,923.36	11,633.79	1,070.00
Aljoša Uršič	10,656.25	4,150.30	–	14,806.55	10,821.48	1,070.00
	114,918.58	**51,326.68**	**764.36**	**167,009.62**	**121,934.09**	**4,878.22**

* liability insurance, education

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD OF BANKA CELJE D.D. FROM 1 JANUARY TO 31 DECEMBER 2014

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits*
Melita Malgaj	9,028.10	4,915.97	682.09	14,626.16	10,836.43	188.27
Jure Peljhan	11,490.29	687.48	682.09	12,859.86	9,536.43	188.27
Barbara Smolnikar	9,028.10	4,044.94	300.54	13,373.58	9,925.43	188.27
Tomaž Subotič	8,516.16	5,677.40	7,020.38	21,213.94	16,577.70	176.68
Bojan Šrot	9,028.10	–	–	9,028.10	6,736.93	188.27
Zdenko Zanoški	9,028.10	–	–	9,028.10	6,736.93	188.27
	56,118.85	**15,325.79**	**8,685.10**	**80,129.74**	**60,349.85**	**1,118.03**

* liability insurance

TOTAL EARNINGS AND BENEFITS RECEIVED BY EXTERNAL MEMBERS TO THE SUPERVISORY BOARD COMMITTEES FROM 1 JANUARY TO 31 DECEMBER 2015

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits
Renata Eržen Potisek[1]	1,935.28	825.00	–	2,760.28	2,007.60	–
Tomaž Kuntarič[2]	648.06	–	–	648.06	471.34	–
Peter Ribarič[1]	1,715.28	550.00	–	2,265.28	1,647.58	–
Blanka Vezjak[3]	–	4,199.92	577.48	4,777.40	3,474.60	–
	4,298.62	**5,574.92**	**577.48**	**10,451.02**	**7,601.12**	**–**

[1] external member of Abanka's Supervisory Board Committee until 10 June 2015
[2] external member of Abanka's Supervisory Board Committee until 12 February 2015
[3] external member of Banka Celje's Supervisory Board Committee until 4 October 2015

TOTAL EARNINGS AND BENEFITS RECEIVED BY EXTERNAL MEMBERS TO THE SUPERVISORY BOARD COMMITTEES OF ABANKA VIPA D.D. FROM 1 JANUARY TO 31 DECEMBER 2014

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits
Tina Cvar	1,679.15	2,889.52	–	4,568.67	3,322.82	–
Renata Eržen Potisek	216.66	275.00	–	491.66	357.59	–
Jasmina Kovačič	1,679.15	2,889.52	–	4,568.67	3,322.82	–
Tomaž Kuntarič	1,895.81	1,582.26	–	3,478.07	2,529.64	–
Peter Ribarič	216.66	275.00	–	491.66	357.59	–
	5,687.43	**7,911.30**	**–**	**13,598.73**	**9,890.46**	**–**

In the period from 1 January 2014 to 31 December 2014, no remuneration was paid to the external members of SB committees of Banka Celje d.d.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

44 EFFECT OF ACQUISITION

The effect from the acquisition of Banka Celje d.d. to Abanka Vipa d.d. is summarized in the following tables.The pooling of interests method was applied in the acquisition, except in the income statement items “Fee and commission expenses” and “Administration costs” (Notes 7 and 13) and in the statement of financial position in equity (Note 36), where adjustments were made.

INCOME STATEMENT

	Banka Celje 2014		Abanka Vipa 2014		Abanka 2014 (adjusted for Banka Celje)	
	Bank	Group	Bank	Group	Bank	Group
Interest income	67,159	67,131	103,604	104,134	170,763	171,293
Interest expenses	(28,147)	(28,147)	(48,153)	(48,206)	(76,300)	(76,353)
Net interest income	**39,012**	**38,984**	**55,451**	**55,928**	**94,463**	**94,940**
Dividend income	346	346	1,046	1,046	1,392	1,392
Fee and commission income	16,438	16,437	41,815	41,802	58,253	58,240
Fee and commission expenses (Note 7)	(1,494)	(1,494)	(12,443)	(12,753)	(16,035)	(16,345)
Net fee and commission income	**14,944**	**14,943**	**29,372**	**29,049**	**42,218**	**41,895**
Net realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	18,466	18,466	(62,360)	(62,360)	(43,894)	(43,894)
Net (losses)/gains on financial assets and liabilities held for trading	(482)	(482)	1,295	1,295	813	813
Net losses on financial assets and liabilities designated at fair value through profit or loss	–	–	(144)	(144)	(144)	(144)
Fair value adjustments in hedge accounting	12	12	–	–	12	12
Exchange differences	562	562	15	115	577	677
Net (losses)/gains on derecognition of assets	(12)	174	(909)	(408)	(921)	(420)
Net other operating expenses	(1,814)	(1,579)	(9,523)	(6,390)	(11,337)	(8,204)
Administration costs (Note 13)	(29,740)	(30,045)	(43,965)	(47,002)	(71,607)	(74,644)
Depreciation and amortisation	(2,593)	(2,602)	(5,610)	(6,348)	(8,203)	(8,941)
Provisions	(3,555)	(3,555)	(56,713)	(55,965)	(60,268)	(59,520)
Impairment	(60,797)	(60,828)	(103,985)	(97,942)	(164,782)	(158,739)
Total loss from non-current assets held for sale	–	–	(127)	(127)	(127)	(127)
Total loss before tax from continuing operations	(25,651)	(25,604)	(196,157)	(189,253)	(221,808)	(214,904)
Tax income related to loss from continuing operations	4,550	4,544	1,580	1,178	6,130	5,728
Net loss from continuing operations	**(21,101)**	**(21,060)**	**(194,577)**	**(188,075)**	**(215,678)**	**(209,176)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

STATEMENT OF FINANCIAL POSITION

	Banka Celje as at 31 December 2014		Abanka Vipa as at 31 December 2014		Abanka (adjusted for Banka Celje) as at 31 December 2014	
	Bank	Group	Bank	Group	Bank	Group
Cash, cash balances with the central bank and other demand deposits with banks	254,049	254,049	88,592	88,632	342,641	342,681
Financial assets held for trading	4,636	4,636	8,684	8,684	13,320	13,320
Financial assets designated at fair value through profit or loss	–	–	2,354	2,354	2,354	2,354
Available-for-sale financial assets	482,784	482,784	1,267,291	1,267,291	1,750,075	1,750,075
Loans and receivables	945,562	940,683	1,151,432	1,134,483	2,096,994	2,080,045
– loans to banks	52,000	52,000	59,824	60,055	111,824	112,055
– loans to non-bank customers	891,629	886,605	1,084,542	1,067,190	1,976,171	1,958,819
– other financial assets	1,933	2,078	7,066	7,238	8,999	9,171
Derivatives - hedge accounting	1,424	1,424	–	–	1,424	1,424
Held-to-maturity investments	–	–	32,226	32,226	32,226	32,226
Non-current assets held for sale	–	–	4	215	4	215
Property and equipment	13,006	13,132	31,354	35,876	44,360	48,882
Investment property	–	3,946	2,380	4,549	2,380	4,549
Intangible assets	3,487	3,492	5,958	6,077	9,445	9,564
Investments in subsidiaries and associates	2,257	–	3,698	–	5,955	2,257
Tax assets	4,271	4,274	5,562	5,921	9,833	10,192
– current tax assets	–	–	1	–	1	–
– deferred tax assets	4,271	4,274	5,561	5,921	9,832	10,192
Other assets	506	4,646	2,115	16,118	2,621	16,624
TOTAL ASSETS	**1,711,982**	**1,713,066**	**2,601,650**	**2,602,426**	**4,313,632**	**4,314,408**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	Banka Celje as at 31 December 2014		Abanka Vipa as at 31 December 2014		Abanka (adjusted for Banka Celje) as at 31 December 2014	
	Bank	Group	Bank	Group	Bank	Group
Financial liabilities held for trading	796	796	8,090	8,090	8,886	8,886
Financial liabilities measured at amortised cost	1,501,340	1,501,416	2,210,081	2,204,771	3,711,421	3,706,111
– deposits from banks and the central bank	753	753	12,658	12,658	13,411	13,411
– deposits from non-bank customers	1,249,823	1,249,822	1,842,639	1,836,210	3,092,462	3,086,033
– loans from banks and the central bank	136,291	136,291	295,151	295,151	431,442	431,442
– loans from non-bank customers	1,498	1,498	106	–	1,604	1,498
– debt securities issued	106,776	106,776	49,792	49,792	156,568	156,568
– other financial liabilities	6,199	6,276	9,735	10,960	15,934	17,159
Provisions	8,092	8,130	84,350	84,410	92,442	92,502
Tax liabilities	–	–	3,292	3,317	3,292	3,317
– current tax liabilities	–	–	–	25	–	25
– deferred tax liabilities	–	–	3,292	3,292	3,292	3,292
Other liabilities	173	341	954	1,456	1,127	1,629
TOTAL LIABILITIES	1,510,401	1,510,683	2,306,767	2,302,044	3,817,168	3,812,445
Share capital (Note 36)	50,000	50,000	151,000	151,000	151,000	151,000
Share premium (Note 36)	166,221	166,383	87,296	87,296	303,517	303,517
Accumulated other comprehensive income	3,513	3,513	43,354	42,904	46,867	46,417
Reserves from profit	2,948	3,147	13,233	13,411	16,181	16,359
Retained earnings (including loss from the current year)	(21,101)	(20,660)	–	5,771	(21,101)	(15,330)
TOTAL EQUITY	201,581	202,383	294,883	300,382	496,464	501,963
TOTAL LIABILITIES AND EQUITY	**1,711,982**	**1,713,066**	**2,601,650**	**2,602,426**	**4,313,632**	**4,314,408**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

45 DISPOSAL OF SUBSIDIARIES

On 27 August 2015 and 21 September 2015, the Group disposed of two subsidiaries: Afaktor – faktoring finansiranje d.o.o. in Belgrade, Serbia and Afaktor – faktoring d.o.o. in Zagreb, Croatia (Note 27).

ANALYSIS OF ASSETS AND LIABILITIES OVER WHICH CONTROL WAS LOST

Year ended 31 December 2015	Afaktor – faktoring finansiranje d.o.o., Serbia	Afaktor – faktoring d.o.o., Croatia	Total
Cash and other demand deposits with banks	76	1	77
Loans and receivables	1,157	1	1,158
Property and equipment	2	–	2
Current tax assets	43	–	43
Other assets	14	42	56
Total assets	**1,292**	**44**	**1,336**
Borrowings	(910)	(30)	(940)
Other financial liabilities	(59)	–	(59)
Other liabilities	(1)	(2)	(3)
Total liabilities	**(970)**	**(32)**	**(1,002)**
Net assets disposed of	**322**	**12**	**334**

LOSS ON DISPOSAL OF A SUBSIDIARY

Year ended 31 December 2015	Afaktor – faktoring finansiranje d.o.o., Serbia	Afaktor – faktoring d.o.o., Croatia	Total
Consideration received	200	20	220
Net assets disposed of	(322)	(12)	(334)
Cumulative foreign currency translation (losses)/gains transferred from equity to profit or loss on loss of control of subsidiaries	(436)	10	(426)
(Loss)/gain on disposal	**(558)**	**18**	**(540)**

The loss on disposal of subsidiaries is included in the income statement item “Total loss from investments in subsidiaries and associates”. Due to their insignificance, investments in the two subsidiaries were not reclassified as non-current assets held for sale under the IFRS 5, and no effects were disclosed in accordance with this standard.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NET CASH INFLOW ON DISPOSAL OF SUBSIDIARIES

Year ended 31 December 2015	Afaktor – faktoring finansiranje d.o.o., Serbia	Afaktor – faktoring d.o.o., Croatia	Total
Consideration received in cash and cash equivalents	200	20	220
Less: cash and cash equivalent balances disposed of	(76)	(1)	(77)
	124	**19**	**143**

46 EVENTS AFTER THE REPORTING DATE

There were no events after the reporting period that might have an impact on business decisions of the Report's users made on presented financial statements.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT
to the owners of Abanka d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the bank Abanka d.d. (hereinafter: "the Bank"), which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

For signature please refer to the original Slovenian version.

Deloitte.

Ljubljana, 14 March 2016

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INDEPENDENT AUDITOR'S REPORT
to the owners of Abanka d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Abanka d.d. and its subsidiaries (hereinafter: "the Group"), which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Group's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

For signature please refer to the original Slovenian version.

Ljubljana, 14 March 2016

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