THE UNAUDITED INTERIM REPORT
of the Abanka Group for the First Half of
2017

ABANKA
Your friendliest bank

CONTENTS

The Unaudited Interim Report of the Abanka Group for the First Half of 2017 is a translation of the original Unaudited Interim Report of the Abanka Group for the First Half of 2017 issued in Slovene. This translation is provided for reference purpose only.

BUSINESS REPORT

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2017	31 Dec. 2016
Total assets	**3,606,340**	3,614,833
Total amount of deposits of the non-banking sector	**2,786,731**	2,775,399
Total amount of loans to the non-banking sector	**1,810,557**	1,806,473
Total equity	**573,527**	616,828

INCOME STATEMENT (EUR thousand)	Jan.-June 2017	Jan.-June 2016
Net interest income	**37,456**	40,103
Net non-interest income	**25,146**	33,739
Labour costs, general and administration costs	**(31,818)**	(34,352)
Depreciation	**(4,317)**	(4,347)
Impairment and provisions	**9,595**	22,218
Profit or loss from ordinary operations before tax	**36,062**	57,361
Corporate income tax on ordinary operations	**(3,513)**	(10,064)

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2017	Jan.-June 2016
Other comprehensive income before tax	**(8,468)**	(6,659)
Income tax relating to components of other comprehensive income	**1,609**	1,132

INDICATORS	Jan.-June 2017	Jan.-June 2016
Common Equity Tier 1 capital ratio	**25.7%**	26.8%
Tier 1 capital ratio	**25.7%**	26.8%
Total capital ratio	**25.7%**	26.8%
Performance (in %)		
- return on assets after tax(1)	**1.79** *	2.49 *
- return on equity after tax(2)	**10.71** *	16.52 *

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

Notes:

Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out 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)	30 June 2017	31 Dec. 2016
Total assets	**3,604,649**	3,612,362
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,789,442**	2,776,583
– from legal and other persons, who pursue a business activity[1]	**829,000**	850,784
– retail	**1,960,442**	1,925,799
Total amount of loans to the non-banking sector, measured at amortised cost	**1,829,661**	1,826,524
– to legal and other persons, who pursue a business activity[1]	**1,003,088**	1,011,425
– retail	**826,573**	815,099
Total equity	**571,056**	614,451
Impairment of financial assets and provisions	**270,131**	289,157
Off-balance sheet items (B.1 to B.4)	**800,911**	695,525

INCOME STATEMENT (EUR thousand)	Jan.-June 2017	Jan.-June 2016
Net interest income	**36,655**	39,427
Net non-interest income	**24,993**	32,584
Labour costs, general and administration costs	**(30,626)**	(32,864)
Depreciation	**(3,729)**	(3,731)
Impairment and provisions	**8,606**	21,751
Profit or loss before tax from ordinary operations	**35,899**	57,167
Corporate income tax from ordinary operations	**(3,444)**	(9,781)

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2017	Jan.-June 2016
Other comprehensive income before tax	**(8,468)**	(6,659)
Income tax relating to components of other comprehensive income	**1,609**	1,132

NUMBER OF EMPLOYEES	30 June 2017	31 Dec. 2016
	1,115	1,147

SHARES	30 June 2017	31 Dec. 2016
Number of shareholders	**1**	1
Number of shares	**15,100,000**	15,100,000
Proportion of par-value shares in share capital (in EUR)	**10.00**	10.00
Book value per share (in EUR)	**37.82**	40.69

Note:

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

INDICATORS	Jan.-June 2017	Jan.-June 2016
Common Equity Tier 1 capital ratio	**25.4%**	**26.6%**
Tier 1 capital ratio	**25.4%**	**26.6%**
Total capital ratio	**25.4%**	**26.6%**
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	**8.46**	9.96
Performance (in %)		
– interest margin(1)	**2.02 ***	2.04 *
– financial intermediation margin(2)	**3.40 ***	3.73 *
– return on assets after tax(3)	**1.79 ***	2.46 *
– return on equity before tax(4)	**11.78 ***	19.99 *
– return on equity after tax(5)	**10.65 ***	16.57 *
Operational costs (in %)		
– operational costs/average assets	**1.89 ***	1.90 *
Liquidity (in %)		
– liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost	**44.03**	49.99
– liquid assets/average assets	**27.50**	28.40

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

Notes:

Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out 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 7 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(2) The indicator equals the ratio **(net interest income+net non-interest income)/average assets**. Average assets have been calculated as the average amount of assets over the last 7 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(3) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets over the last 7 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(4) The indicator equals the ratio **profit or loss before tax/average equity**. Average equity has been calculated as the average amount of equity over the last 7 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

(5) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity over the last 7 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

PRESENTATION OF THE BANK AND THE ABANKA GROUP

ABOUT THE BANK

Abanka d.d. is a bank with a long tradition in the Slovene banking sector. The origins of Abanka date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was reorganised as a public limited company. On 31 December 2002, Banka Vipa merged with Abanka. Since then, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. The shares of Abanka were listed on the Ljubljana Stock Exchange from October 2008 to December 2013, when on the basis of the Decision of the Bank of Slovenia on Extraordinary Measures, all qualified liabilities of the Bank on 18 December 2013 ceased in full. On 18 December 2013, the Republic of Slovenia subscribed and fully paid in all 15,000,000 shares newly issued by Abanka, and thereby became the 100% owner of the Bank. On 8 October 2014, the Republic of Slovenia paid in another 100,000 new shares. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. Since that date, the merged bank has operated under the name Abanka d.d. As at 30 June 2017, Abanka's market share in terms of total assets was 9.7%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 59 branches across Slovenia, e-banking, advisory services and a personal approach, the Bank provides integrated financial services, ranging from traditional banking and bancassurance to investment banking. Moreover, Abanka has gained international reputation. In interbank operations, it uses a network of correspondent banks across the globe to provide quality customer services relating to international payment transactions.

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

SERVICES OF THE BANK

As at 30 June 2017 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,	YES
– mortgage loans,	YES
– factoring, with or without recourse,	YES
– financing of commercial transactions (including forfeiting);	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:	YES
– money market instruments,	YES
– foreign exchange, including currency exchange transactions,	YES
– financial futures and options,	YES
– exchange and interest-rate instruments,	YES
– transferable securities;	YES
8. Participation in the issuance of securities and services related to such issues;	YES
9. Advice and services related to mergers and acquisitions of undertakings;	YES
10. Money intermediation on inter-bank markets;	NO
11. Advice on portfolio management;	YES
12. Safekeeping of securities and other services related to the safekeeping of securities;	YES
13. Credit reference services: collection, analysis and provision of information on creditworthiness;	YES
14. Renting of safe deposit boxes;	YES
15. Investment services and operations and ancillary investment services in accordance with the Financial Instruments Market Act.	YES

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

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

BANK PROFILE

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

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

ABOUT THE GROUP

As at 30 June 2017, in addition to Abanka as the parent company, the Abanka Group included the following two subsidiaries: Aleasing d.o.o. and Anepremičnine d.o.o. with its subsidiary Anekretnine d.o.o. in Montenegro. Abanka is a 100% owner of both subsidiaries. In the first half of 2017, the nominal value of Abanka's equity stake in Anepremičnine d.o.o. amounted to EUR 3,843 thousand and in Aleasing d.o.o. EUR 640 thousand, the same as at the 2016 year-end.

In accordance with the commitments made to the European Commission, which are also reflected in the strategy of the Bank, in the reporting period Abanka continued with the sale of Aleasing d.o.o., which was completed on 18 July is 2017 when Abanka signed an agreement to sell its 100% stake in the said company with Sparkasse d.d., Ljubljana.

Activities of Subsidiaries

Anepremičnine Group

Anepremičnine, trgovanje z lastnimi nepremičninami d.o.o. (short company name: Anepremičnine d.o.o.), which was entered into 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. The current operations of Anepremičnine d.o.o. are geographically limited to Slovenia and Montenegro, where its subsidiary Anekretnine d.o.o. is headquartered in Podgorica.

Gregor Žvipelj is the director of the company. As at 30 June 2017, the Supervisory Board was composed of Davorin Leskovar as its Chairman, Maja Domitrovič as its Vice Chairman and Dejan Grum as its member. On 12 June 2017, Maja Domitrovič was appointed member of the Supervisory Board, who on 21 June 2017 became Vice Chairman of the Supervisory Board, because on 11 May 2017 Peter Jančič resigned as Vice Chairman of the Supervisory Board. On 19 December 2016, Peter Jančič was appointed member of the Supervisory Board to replace Gregor Hudobivnik; furthermore, on 25 January 2017, he was appointed Vice Chairman of the Supervisory Board.

Anepremičnine performs the full range of real property portfolio management activities, which include conducting sales procedures, leasing and selling real property, analysing real property development projects, construction and completion of projects, acquiring new real property on the market, selling to third parties and optimising real property management. With the aim of ensuring transparency and price maximisation, Anepremičnine established a procedure for selling commercial real property at public auctions or invitations to submit binding or non-binding bids (tendering).

In the first half of 2017, Anepremičnine d.o.o. sold flats in the Gorenjska region, acting as the investor. The company achieved its annual sales plan in the first five months of 2017 as the result of higher demand for residential real property and an appropriate organisation of its sales and after-sales services.

In the reporting period, Anepremičnine d.o.o. was strongly involved in the valuation and revaluation procedures of real property pledged as collateral to the Bank, as the number of the services performed in connection with real property valuation doubled.

Aleasing d.o.o.

Aleasing, financiranje, svetovanje, trženje d.o.o. (short company name: Aleasing d.o.o.) started its operations on 11 February 2000 under the name of Eurofin leasing. After Abanka 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 d.o.o. 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 leasing products provided by Aleasing d.o.o. complement the range of products and services provided by the Abanka Group. This company operates in a relatively narrow and highly specialised market niche. The main products are financial leasing of real property and movables and operating leasing of vehicles. Within the framework of its core business, the company is proactive in selling insurance services.

There were no significant changes in the ownership and management of the company. Aleasing d.o.o. is managed and represented by Nikolaj Fišer, Director. The Supervisory Board supervises the company. Until 11 May 2017, the Supervisory Board consisted of Davorin Leskovar as its Chairman, Jure Poljšak as its Vice Chairman and Peter Jančič as its member, who resigned from his function on 11 May 2017. On 12 June 2017, the General Meeting of Shareholders appointed Maja Domitrovič a Supervisory Board member. On 20 December 2016, Gregor Hudobivnik, Vice Chairman of the Supervisory Board, was replaced by Peter Jančič, Member of the Supervisory Board. Jure Poljšak was appointed Vice Chairman of the Supervisory Board on 24 January 2017.

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

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

In line with the commitments made to the European Commission, in the first half of 2017 Abanka continued with the activities to sell Aleasing d.o.o. The company's employees were intensively involved in the sales activities so as to provide credible and transparent information on the company's operations to potential customers. On 18 July 2017, Abanka signed an agreement to sell its 100% stake in the said company with Sparkasse d.d., Ljubljana, in which it is stipulated that the stake will be transferred to the buyer after the fulfilment of the suspensive conditions. Based on the signed agreement, the company continues to operate normally and Abanka will remain its owner until the fulfilment of the suspensive conditions.

MAJOR BUSINESS EVENTS IN THE FIRST HALF OF 2017 AND AFTER THE FIRST HALF OF 2017

Major Business Events in the First Half of 2017

Major business events in the first half of 2017 included:

- **Changes to the Management Board:**
  - On 13 March 2017, the Supervisory Board appointed Matevž Slapničar a new member of the Management Board, whose term of office began on 12 June 2017.

- **Changes to the Supervisory Board:**
  - At the 34th General Meeting of Shareholders held on 28 February 2017, Dejan Kaisersberger was appointed a Supervisory Board member with a four-year term of office starting on 28 February 2017.
  - On 18 May 2017, the Supervisory Board took note of the resignation of the Supervisory Board Member Vid Leskovec, resigning as a member of the Supervisory Board of Abanka d.d. as of 18 May 2017. He will continue to serve as a member of the Supervisory Board until the appointment of a new Supervisory Board member but for maximum three months from the date the notice was given.

- **Changes to the Supervisory Board committees:**
  - As at the 2016 year-end, the **Audit Committee** consisted of: Blaž Šterk as its Chairman, and Melita Malgaj, Rok Pivk and Alenka Vrhovnik Težak as its members. The composition of the Committee changed over the course of the year as on 13 March 2017 Dejan Kaisersberger joined the Committee as its member.
  - As at 31 December 2016, **the Risk Management and Asset Liability Management Committee** had the following composition: Alenka Vrhovnik Težak as its Chairman, and Marko Garbajs, Blaž Šterk and Rok Pivk as its members. In the reporting period, the composition of the Risk Management and Asset Liability Management Committee changed as on 13 March 2017 Dejan Kaisersberger joined the Committee as its member.

- **Credit rating by Fitch Ratings:**
  - On 5 May 2017, the international rating agency Fitch Ratings upgraded Abanka's Long-Term Issuer Default Rating from BB to BB+ and assigned it a stable outlook. Abanka's Viability Rating was also upgraded from bb to bb+. Other bank ratings remain unchanged: Short-Term IDR at B, Support Rating at 5 and Support Rating Floor at No Floor. The Agency's higher Long-Term Issuer Default Rating and Viability Rating of the Bank are based on the improved economic situation in Slovenia and the continued restructuring of the corporate sector, lower risks from the Bank's credit portfolio and NPL management, a strong capital base, the Bank's high liquidity reserves and a solid structure of sources of funding.

- **Credit ratings by Moody's Investors Service:**
  - On 21 June 2017, the credit rating agency Moody's Investors Service upgraded Abanka's Long-Term Issuer Default Rating from Ba3 to Ba1 with a stable outlook as well as its BCA (baseline credit assessment) from b2 to ba3.

Major Business Events After the First Half of 2017

The following business events occurred after the reporting period:

- **Notice on seeking investors:**
  - On 17 July 2017, Abanka published a notice on seeking investors for the purchase of the NPL portfolio in the total gross value of approximately EUR 246 million.

- **The activities related to the subsidiaries of the Abanka Group:**
  - On 18 July 2017, Abanka d.d. signed an agreement with Banka Sparkasse d.d., Ljubljana to sell its 100% stake in its subsidiary Aleasing d.o.o., Ljubljana. The Agreement stipulates that the stake will be transferred to the buyer after the fulfilment of the suspensive conditions, which *inter alia* include obtaining the relevant approvals of the supervisory authorities. Abanka will remain the owner of the said company until the fulfilment of the suspensive conditions.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

The unaudited consolidated financial statements of the Abanka Group for the first six months of 2017 include the subsidiary Aleasing and the Anepremičnine Group, in addition to Abanka as the parent bank.

The unaudited consolidated financial statements of the Abanka Group for the first six months of 2016 include the subsidiaries Afaktor, Aleasing and the Anepremičnine Group, in addition to Abanka as the parent bank. The participation in the associate Agradnja of the subsidiary Aleasing was also consolidated under the equity method.

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

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

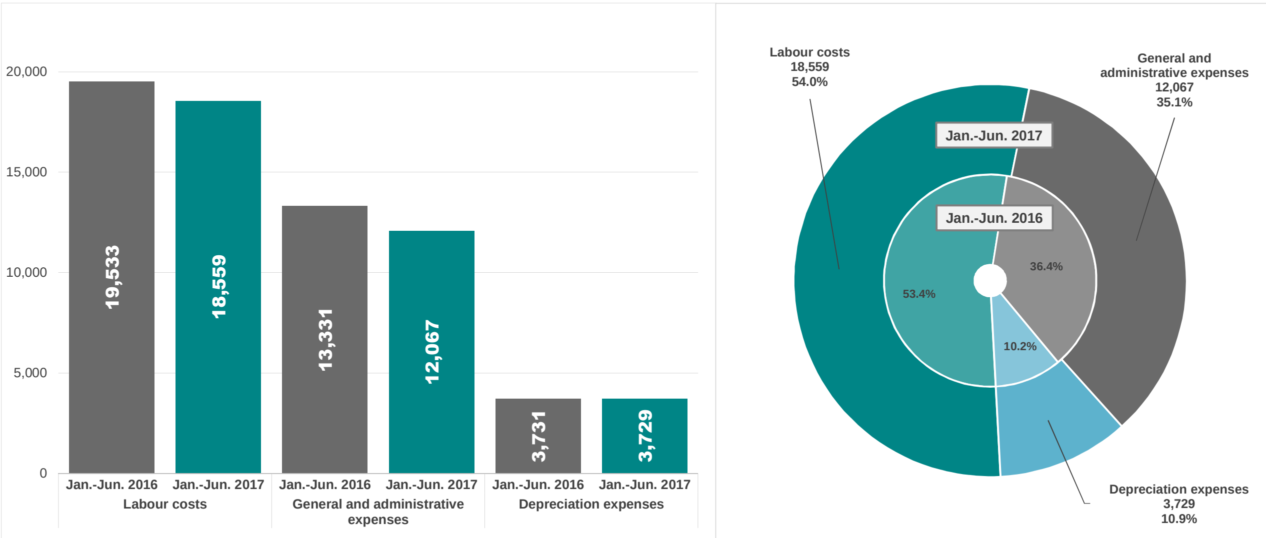
In the highly competitive and extremely low interest rate environment characterised by high liquidity, Abanka continued with its restructuring and implementing the set strategic objectives, aimed at further integration of both banks, accelerating the digital transformation, optimising the loan process, staff renewal and sound performance.

The **Abanka Group's interest income** earned in the first six months of 2017 totalled EUR 40,943 thousand, **interest expenses of the Group** amounted to EUR 3,487 and **net interest income** reached 37,456 thousand. **Abanka's interest income** totalled EUR 40,136 thousand and its **interest expenses** equalled EUR 3,481 thousand, whilst its **net interest income** amounted to EUR 36,655 thousand, down by 7.0% or EUR 2,772 thousand compared to the respective period last year. Both interest income and interest expenses were lower primarily because of lower average realised interest rates. In the first half of 2017, Abanka’s market share of net interest income accounted for 11.5%, down by only 0.1 percentage point compared to the first half of 2016. Despite the unfavourable trends in interest rates, the interest margin stood at the same level as in H1 2016, i.e. 2%.

In the first six months of 2017, the **Abanka Group** posted EUR 20,933 thousand in **net fee and commission income**, while **Abanka** posted EUR 20,971 thousand in net fee and commission income, which is 4.1% more than in the same period last year. Consequently, the market share rose from 12.7% to 13.4%. The bulk of net fee and commission income was generated by payment transactions and card and ATM operations.

In the first half of 2017, the **Abanka Group’s operating expenses** amounted to EUR 36,135 thousand and those of **Abanka** totalled EUR 34,355 thousand. Through streamlining of costs, the Bank managed to increase its cost-effectiveness, thereby reducing its costs by 6.1% or EUR 2,240 thousand compared to the same period last year. Operating expenses, excluding restructuring costs, amounted to EUR 33,832 thousand, having decreased by 4.2% or EUR 1,467 thousand compared to H1 2016.

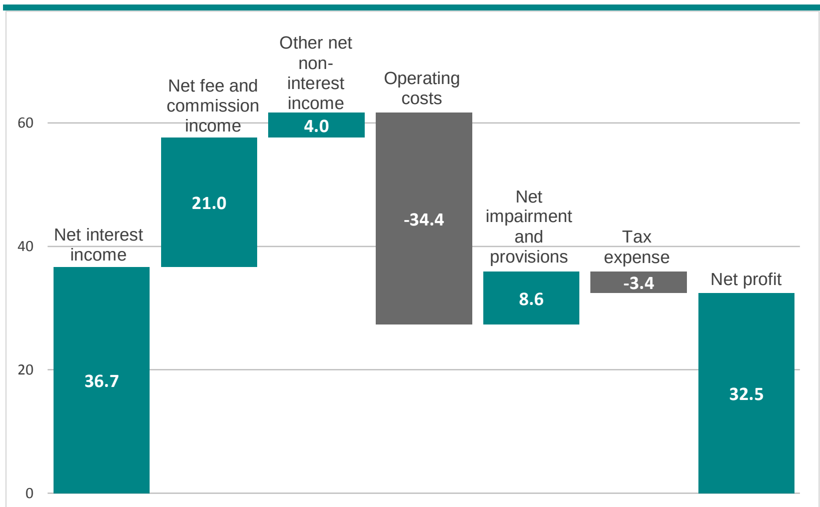
OPERATING EXPENSES IN H1 2017 AND H1 2016 (amounts in EUR thousand)



Other net non-interest income (excluding net fee and commission income) **of the Abanka Group** in the first six months of 2017 amounted to EUR 4,213 thousand and that of **Abanka** totalled EUR 4,022 thousand. In the reporting period, the Bank sold a part of its DUTB bonds, thereby generating a profit of EUR 1,656 thousand. In the first half of 2016, Abanka posted EUR 12,434 thousand in other net non-interest income, of which EUR 9,910 thousand were generated by the sale of Visa Europe Limited to Visa Inc.

In the first half of 2017, **the Abanka Group** recorded EUR 9,595 thousand in **net provisioning and impairment income**, of which EUR 1,656 thousand by accounted for by **net provisioning income** and EUR 7,939 thousand by **net impairment income**. **Abanka's net impairment and provisions cancelled** amounted to EUR 8,606 thousand (in the corresponding period of 2016: EUR 21,751 thousand). In the reporting period, the Bank cancelled loan impairment of EUR 7,131 thousand, made impairment for other financials assets in the amount of EUR 185 thousand and cancelled provisions in the amount of EUR 1,660 thousand. A significant portion of income from the cancelled provisions for off-balance-sheet liabilities related to the service guarantees that were either collected or whose validity expired in the first half of 2017; the reversal of impairment for loans to non-bank customer in the first half of 2017 was primarily the result of the improved financial position of companies, regular and early loan repayment, and income from debt collection.

NET PROFIT IN H1 2017 and H1 2016 (amounts in EUR million)

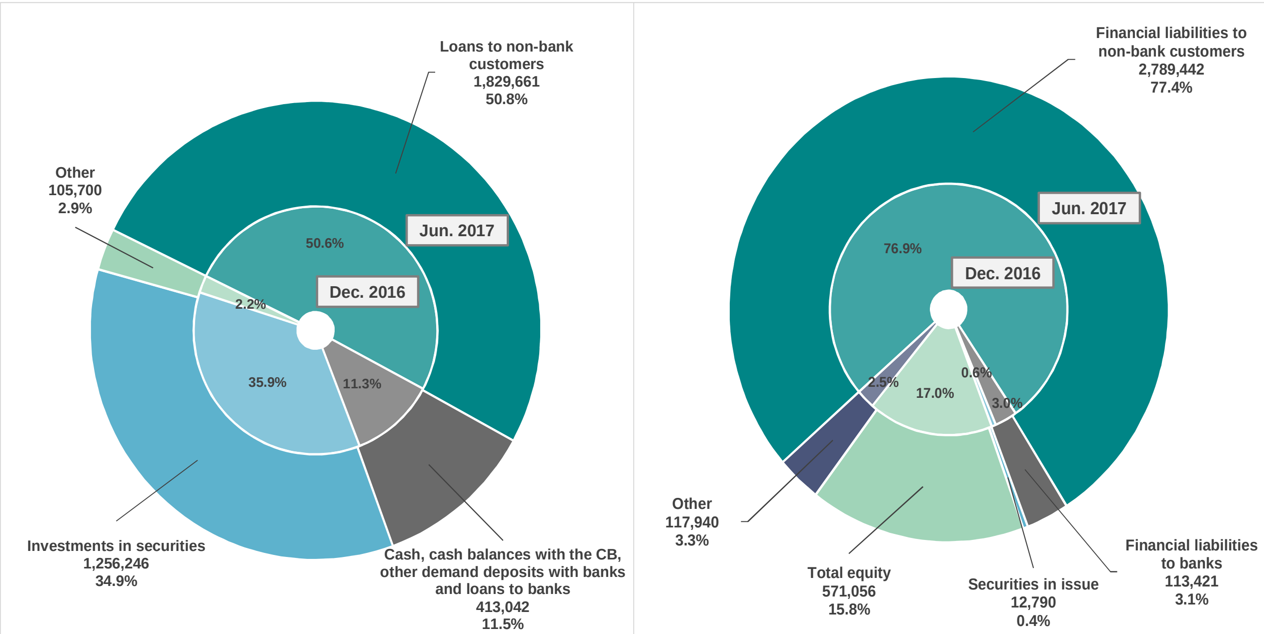


In the first half of 2017, **the Abanka Group** generated a **profit before tax** of EUR 36,062 thousand, whilst **consolidated profit after tax** equalled EUR 32,549 thousand. **Abanka** alone reported EUR 35,899 thousand in **profit before tax** and a return on equity of 11.8%. In the first half of 2017, **Abanka** posted a **profit after tax** in the amount of EUR 32,455 thousand, taking into account the **corporate income tax** of EUR 3,444 thousand, which is EUR 14,931 less compared to the corresponding period of 2016 due to the abovementioned reasons. In the reporting period, **return on equity after tax** was 10.6%.

PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 30 June 2017 amounted to EUR 3,606,340 thousand, which was EUR 8,493 thousand or 0.2% below the level posted at the 2016 year-end. The combined balance sheet assets of consolidated subsidiaries, which totalled EUR 64,637 thousand, accounted for 1.8% of consolidated total assets. After the elimination of inter-company transactions between Abanka and both subsidiaries, the consolidated total assets of the Abanka Group were higher by EUR 1,691 thousand than the **total assets of Abanka**, which amounted to EUR 3,604,649 thousand as at the reporting date, and was lower by 0.2% or EUR 7,713 thousand compared to the 2016 year-end. As at 30 June 2017, Abanka's market share stood at 9.7%.

ASSETS AND LIABILITIES OF ABANKA AS AT 30 JUNE 2017 AND 31 DECEMBER 2016 (amounts in EUR thousand)



As at 30 June 2017**, loans to non-bank customers** accounted for over 50% of **consolidated balance sheet assets**, amounting to EUR 1,810,557 thousand, while in **Abanka** they totalled EUR 1,829,661 thousand, up by 0.2% or EUR 3,137 thousand compared to the 2016 year-end. In total loans to the non-banking sector, retail loans accounted for the bulk with 45.2%, followed by loans to large companies with 24.6%, loans to SMEs with 17.6% and other loans with small shares.

As at 30 June 2017, the **Abanka Group's cash, cash balances with the central bank, other demand deposits with banks and loans to banks** totalled EUR 413,597 thousand, accounting for 11.5% of consolidated balance sheet assets. The abovementioned **Abanka's** balance sheet items as at the reporting date stood at EUR 413,042 thousand and were 0.8% or EUR 3,312 thousand nominally higher over the 2016 year-end. The increase resulted from higher demand deposits with banks and deposits with the central bank, whereas the remaining abovementioned balance sheet items declined in the reporting period.

As at 30 June 2017, the **Abanka Group's investments in securities** amounted to EUR 1,256,246 thousand and equalled **those of Abanka**, as the subsidiaries did not disclose securities operations in their balance sheets. In the first six months of 2017, they experienced a decrease of 3.0% or EUR 38,986 thousand in nominal terms. As at 30 June 2017, <u>the equities portfolio of Abanka</u> amounted to EUR 46,196 thousand, up by 2.7% or EUR 1,193 thousand compared to the 2016 year-end. The equities portfolio includes EUR 24,701 thousand paid into the Bank Resolution Fund. <u>The debt securities portfolio of Abanka</u> as at the end of June 2017 totalled EUR 1,210,050 thousand and accounted for 96.3% of total securities held by the Bank. Compared to the end of 2016, debt securities dropped by 3.2% or EUR 40,179 thousand nominally. In May and June, the early sale of DUTB bonds started, therefore by the end of June 2017 they decreased by EUR 183,640 thousand. They were primarily replaced by investments in other debt securities, which increased by EUR 143,461 thousand in the reporting period.

Abanka's equity investments in subsidiaries, accounting for 0.1%, totalled EUR 4,483 thousand as at the reporting date, thus remaining at the same level as at the 2016 year-end.

As at the reporting date, **tangible and intangible assets of the Abanka Group** totalled EUR 47,727 thousand and **those of Abanka** equalled EUR 44,472 thousand, down by 4.8% or EUR 2,258 thousand compared to the 2016 year-end.

As at 30 June 2017, **consolidated balance sheet liabilities** were composed of EUR 3,032,813 thousand in total liabilities and EUR 573,527 thousand in total equity. In **Abanka's balance sheet liabilities**, which were lower by EUR 1,691 thousand than consolidated balance sheet liabilities, total liabilities amounted to EUR 3,033,593 thousand and total equity to EUR 571,056 thousand.

The Abanka Group's deposits from non-bank customers accounted for over 75% of **the Group's total liabilities** and reached EUR 2,786,229 thousand as at the reporting date. Together with **loans from customers** of EUR 502 thousand they amounted to EUR 2,786,731 thousand. **Deposits from non-bank customers in Abanka** amounted to EUR 2,788,910 thousand. Together with **loans from customers** of EUR 532 thousand they reached EUR 2,789,442 thousand. In the first half of 2017, retail deposits grew by 1.8% (or EUR 34,643 thousand), whereas corporate deposits declined by 2.6% (or EUR 21,752 thousand), which means that customer deposits in total rose by 0.5% or EUR 12,891 thousand.

As at the end of June 2017, **the Abanka Group's financial liabilities to banks** were equal to **those of Abanka** and amounted to EUR 113,421 thousand, up by 3.7% or EUR 4,057 thousand compared to the end of 2016 as the result of an increase in deposits from banks by 62.6% or EUR 12,338 thousand and a drop in loans from banks by 9.2% or EUR 8,281 thousand.

Securities in issue of the Abanka Group equalled **those of Abanka.** As at the reporting date, certificates of deposit amounted to EUR 12,790 thousand, accounting for the Bank's total securities in issue, which decreased by EUR 8,257 thousand or 39.2% in the first half of 2017. As at 30 June 2017, the Bank did no longer hold any other securities which amounted to EUR 48 thousand as at the 2016 year-end.

As at the reporting date, the **total equity** of the **Abanka Group** amounted to EUR 573,527 thousand and that of **Abanka** to EUR 571,056 thousand, down by 7.1% or EUR 43,395 thousand compared to the 2016 year-end. Total equity decreased as the result of the dividend payment in May 2017 in the amount of EUR 68,991 thousand and the reduction in accumulated other comprehensive income of EUR 6,859 thousand, whereas it increased by the net profit for the year of EUR 32,455 thousand.

PERFORMANCE OF THE GROUP IN THE FIRST HALF OF 2017

Corporate Banking

In the first half of 2017, the period of low interest rates on both loans and deposits continued. In the case of the latter, the levels at which the banks charge a negative interest rate, which is set by the European Central Bank, are increasingly lower. The ECB did not change its expansionary monetary policy, even though there were demands to do so, the strongest coming from the largest EMU member – Germany. The EU economy is entering its fifth year of recovery, which the European Commission estimates that this year will extend to all Member States. The recovery is expected to continue throughout 2018. Considering the fact that the elections in the most important EU Member States were already held this year and given the current expectations with respect to the autumn elections in Germany, no major political instability in the EU is expected. At this time, a major uncertainty within the European economies is represented by the activities relating to the exit of Great Britain from the EU, where following the recent elections the situation regarding the manner of exit became more unclear.

In 2017, especially in the second quarter, a higher demand of corporate customers for different forms of financing of business operations was recorded, accompanied by a stronger investment activity of companies compared to previous periods. Considering the current trends in demand and the realisation of long-term investment loans, it is estimated that the investment activity will remain strong in the second half of the year. An additional incentive for investments resulted from the favourable macroeconomic results of Slovenia's main trading partners, relatively favourable interest rates and the possibilities of long-term financing at a fixed interest rate. The latter is also reflected in the strong price pressure as the demand for refinancing the existing exposures is not declining, which causes additional price pressures on the existing portfolio.

It is estimated that in the second half of the year the current situation of excess liquidity of banks accompanied by a higher demand for the financing of real property development projects and the growth in the volume of housing and consumer loans granted to households will be a good basis for further growth in demand for financing of corporate customers. It is believed that this demand will also be reflected in different segments of the economy, the bulk of which will continue to be accounted for by the exporting companies. With respect to the latter, a higher investment activity related to either equipment or increasing space capacity was observed in the first half of the year.

In trade finance, a lower volume of issued guarantees was recorded in the reporting period. The main reasons for fewer guarantees issued were the changes in the issuing of customs bonds without an expiration date and the changed practice of participating in invitations to tender for companies, where other forms of collateral were required in addition to guarantees. It is estimated that the volume of guarantee operations will continue to grow as the result of the aforementioned increased economic activity, but there will be a delay in the rise in demand, which will depend on the volume of investment activity of the Government and local communities. With regard to other trade finance products, an increase in demand was observed in the first half of 2017, as they represent important protection against the risks in cross-border transactions.

Digital solutions, particularly those relating to transaction accounts and payment services, were effectively sold throughout the reporting period. Both Abanet com and Abamobi com are increasingly used by the Bank's customers, who provide a positive feedback, as due to the today's rapid pace of life both services give a high added value to the fast and effective implementation of payment orders as well as to real-time monitoring of a customer's business. This year, an increasing trend in cashless payments and the substitution of cash payments with payments using business cards was also observed. The Bank continued to provide for the security of transactions with card products. Customers often point out their satisfaction with Abanka's security measures, especially the SMS notification service – Abasms.

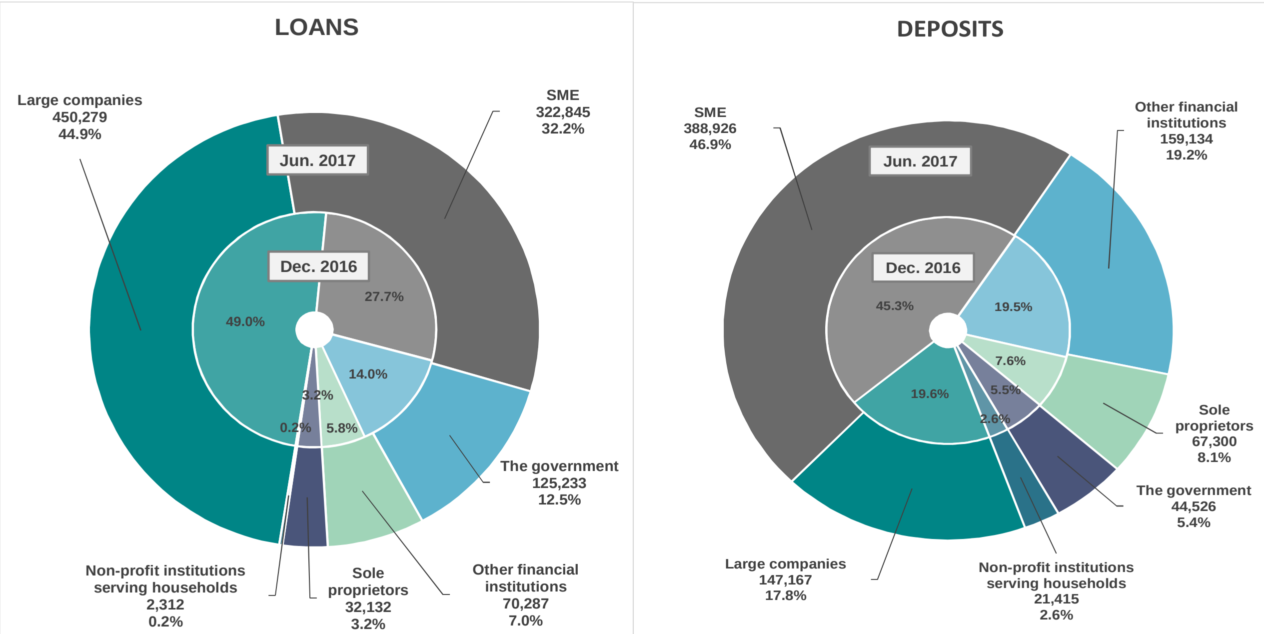
Through the strategic values of kindness, excellence, partnership, innovation and implementation, the Bank continues to follow the fundamental goal of ensuring customers' satisfaction with its products and services. To this end, in the first half of 2017 the loan process was reorganised and upgraded with technologically advanced application for loan proposal monitoring and preparation. In this way, Abanka shows its commitment to the digitisation of business operations as one of the most important guidelines relating to the Bank's operations. In order to provide rapid and professional solutions and to ensure customer satisfaction, the loan application will be further upgraded.

In the first half of 2017, the mobile bank for corporate customers was upgraded to allow a data transfer from an UPN order using a QR code and to view the transactions on card accounts and cards. In the beginning of the summer, the Abanet com online bank application was upgraded with the receiving and issuing of new e-documents. In addition to the existing e-invoice, this functionality enables to receive and issue e-pro forma invoices, e-reminders, e-credit, e-debit, e-purchase orders and e-delivery notes. With the added view of the transactions on card accounts and cards as well as of trade finance transactions, customers are ensured an even greater transparency of their business finance. For the companies that cooperate with several banks, the multi-banking functionality was introduced, which enables them to view the accounts with other banks and simultaneously sign payments at all banks that support Halcom e-banking.

Other products are adapted in accordance with market demand and the offering of competitors. For the purpose of cashless operations, the Bank offers its customers a range of card services. Despite the high level of competition in card operations (acceptance of cards by merchants), the Bank managed to retain all the key existing customers and attract new customers by applying an appropriate marketing approach and expertise. In order to fulfil its customers' needs by applying modern approaches and providing flexible services in terms of price, the Bank not only creates its own special offerings but also provides special offers in cooperation with business partners (SID Bank, municipalities and others). All new customers receive a welcome package (a business package for legal entities and a business package for sole proprietors). In May, a professional business meeting in Ljubljana was organised especially for the existing and new customers. Thus, as the main supporter of the event *Family Entrepreneurship* in mid-June, attention was also devoted to this corporate customer segment.

Microenterprises and sole proprietors were specifically addressed through cooperation with selected regional chambers of craft and small business as well as through business events organised either by the Bank or others, which potential new customers were invited to attend. The SME segment will remain the Bank's strategic focus, to which its sales activities will be adapted by the end of the year.

LOANS AND DEPOSITS BY SEGMENT AS AT 30 JUNE 2017 AND 31 DECEMBER 2016 (amounts in EUR thousand)



As at the reporting date, **Abanka's loans to corporate customers and sole proprietors** amounted to EUR 1,003,088 thousand, which accounted for a 27.8% share of total balance sheet assets. Despite a 0.8% decrease (EUR 8,337 thousand nominally) in the first six months of 2017, their market share of 8.3% remained unchanged.

Deposits from corporate customers and sole proprietors in Abanka reached EUR 828,468 thousand as at the reporting date after decreasing by 2.6% or EUR 21,752 thousand nominally. In the same period, deposits from SMEs and sole proprietors were up, whilst deposits in other segments fell; the highest drop of 11.6% was observed in the segment of deposits from large companies. The market share of deposits from corporate customers and sole proprietors stood at 8.9% as at 30 June 2017 (vs. 9.1% as at the 2016 year-end).

Retail Banking

In the first half of 2017, Abanka focused on the challenges brought by market digitisation and responded by developing and adjusting its banking products and services. The emphasis was on user experience, product optimisation, simplification of the banking systems and operations, and strengthening of distribution channels.

As at 30 June 2017, Abanka provided fast and quality services to its customers through its business network of 59 branches across Slovenia.

In June 2017, a new branch office on Trdinova 4 in Ljubljana was opened. In its Abasvet branch, the Bank uses an innovative approach to both the existing and potential customers. Abasvet is a different branch, which provides new experiences, exploration of virtual reality and other technological innovations, in addition to enabling customers to perform basic cashless transactions.

In the first half of 2017, the Private Banking Department was redesigned with the aim of achieving an even better cooperation with customers with a high credit rating. The organisation of work enables a quality treatment of private banking customers even outside Ljubljana.

By upgrading the mobile and online banking services, the Bank aims to satisfy the wishes of advanced users, who even in banking expect the best technological solutions and strive for increasingly better user experience. In early April, a new version of the Abamobi application was launched, which includes the option of preparing a payment order by using a special QR code. The required information is transferred from the QR code to the Abamobi application using the camera on the mobile phone, which is activated by selecting the Scan and Pay function. For the purpose of cashless operations, the Bank offers its customers a range of card services. At the end of 2016, a new technically and graphically redesigned website was launched, which was upgraded with the option of opening a personal account at a distance in the first half of 2017. Customers can easily and quickly open a personal account online, and then sign the relevant documents in agreement with a bank clerk, according to the their wishes and available time.

In most branches, alternative forms of saving continue to be available in 2017. The existing insurance services of Zavarovalnica Triglav d.d., in cooperation with which Abanka provides quality and competitive insurance services to its customers, were expanded to include Specialists+ insurance product and teeth insurance. This way the customers have the possibility to avoid unforeseen costs, and thus provide additional social security for themselves and their loved ones. Abanka continues to cooperate with Triglav Skladi d.o.o. in the sale of mutual funds. Other alternative forms of saving were added to the special bundled product – an undedicated deposit and an investment in a selected mutual fund. Customers were offered the possibility of diversifying their investments by concluding a deposit with guaranteed interest payment and the new single-premium unit-linked life insurance Fleks or by concluding a deposit with guaranteed interest payment and purchasing Slovene shares on the Ljubljana Stock Exchange.

To enable paperless operations, e-pen was introduced into the process of opening a personal account, savings account, Apaket družina (Apaket Family) and Abacent, which lowers the operating expenses and increases customer satisfaction.

In marketing communication, numerous marketing activities implemented in the first half of 2017 targeted three segments of young and the youngest customers by using the hedgehog mascot "Abanka ježek" for pre-school children, the Akeš junior brand for elementary school pupils and the Akeš brand for high school and university students. The youngest savers and their parents were addressed through promotional activities in the context of Cici Vesela šola sponsorship, via current topics on the website abanka/jezek.si and through puppet shows "Ježek na obisku" ("Hedgehog Visiting"), shown in kindergartens across Slovenia. The activities for the elementary school children continued also within the Vesela šola and the logic competition (ZOTKS) sponsorship as well as through the up-to-date content on abanka/akes-junior.si. Minor marketing activities in the reporting period were also launched for high school and university students. In this segment, the still leading Facebook banking profile continues to be actively managed, in addition to abanka/akes.si. In the youth segment, Abanka maintained the highest net promoter score (NPS), which was improved in the past year according to the research by an external agency.

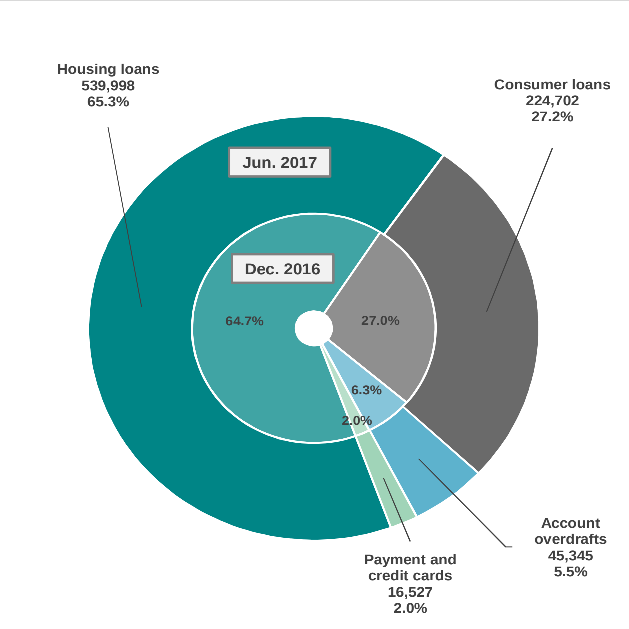
A welcome package was prepared for all new customers, Aračun users, retired persons, small businesses and entrepreneurs, enabling them more favourable banking operations. The package of benefits Apaket Podjetnik (Apaket Entrepreneur) was designed for entrepreneurs and sole proprietors. For families and employed individuals, numerous marketing activities were organised to promote the sale and use of payment cards, as well as to take out favourable consumer and housing loans and promote the use of the Abamobi mobile bank application. Furthermore, in late Spring, focus was on those Abanka's banking services that are wise to choose before going on summer holidays (payment cards, Abamobi, card insurance, travel insurance, safe-deposit boxes).

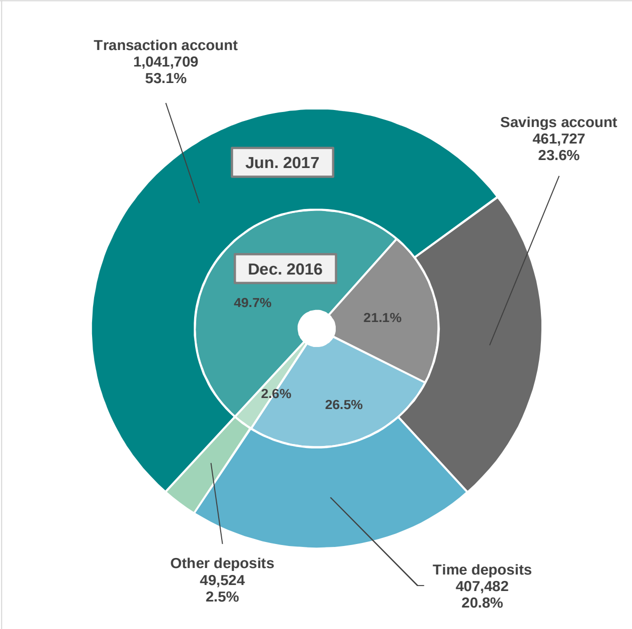
A part of the marketing activities in the first six months of 2017 was targeted at the demanding customers of personal and private banking.

Marketing communication activities were mostly implemented at the national level, while some focused on the local or regional marketing specificities. Local presence is very important, therefore in the first half of 2017 employees attended several local events, where they presented the banking services. Marketing communication activities are also carried out on the key social networks and other communication channels of Abanka.

Even the contact centre of the Bank strives to ensure quick and quality customer treatment and assistance in the use of services. In the reporting period, the contact centre answered 39,458 calls, up by 40% compared to the same period last year. Apart from that, replies were sent to 8,329 messages, which is 32% more compared to the same period last year. The visitors of Abanka's website may contact the Bank also via chat, while a knowledge base will be set up for website visitors in the second half of the year, where they will be able to find answers to the questions about Abanka's products and their features.

RETAIL LOANS AND DEPOSITS OF ABANKA AS AT 30 JUNE 2017 AND 31 DECEMBER 2016 (amounts in EUR thousand)





As at 30 June 2017, **Abanka's retail loans** amounted to EUR 826,573 thousand and increased by 1.4% or EUR 11,474 thousand nominally in the reporting period, whilst their share in balance sheet assets rose by 0.3 percentage point to 22.9% as at the reporting date. The market share of retail loans stood at 9.6%, while as at the 2016 year-end it was 9.8%.

As at 30 June 2017, **Abanka's retail deposits** amounted to EUR 1,960,442 thousand and increased by 1.8% or EUR 34,643 thousand nominally in the reporting period, whilst their share in balance sheet liabilities rose from 53.3% as at the 2016 year-end to 54.4% as at the reporting date. The market share of retail deposits stood at 11.7%, while at the 2016 year-end it was 11.8%.

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

Over the past period, the macroeconomic situation in Slovenia considerably improved, as confirmed by higher ratings assigned by some credit rating agencies. The short-term indicators of economic activity in Slovenia are improving. The unemployment rate is falling – from the record 11% in 2013 it dropped to 7%; even future forecasts are optimistic. In the first quarter of the year, a record growth in GDP of 5.3% was recorded. A positive trend was observed in the inflation rate, export is on the rise and Slovenia's public debt is slowly falling below 80% of GDP (mostly on account of GDP growth).

In the first half of 2017, Slovenia continued with the borrowing on international markets without difficulty. In January, Slovenia issued a new 10-year bond at a coupon rate of 1.25% and at the same time increased the existing issue with maturity of 2045 in the total amount of EUR 1.3 billion. In March, Slovenia made a partial purchase of US bonds with maturity in 2022, 2023 and 2024 at a total value of USD 700 billion, thereby decreasing its US dollar debt. In parallel, the Public Treasury increased the existing issues with maturity in 2027 and 2040 at a total value of EUR 1.3 billion, thereby financing the purchase of US bonds. In May, the Public Treasury again financed the purchase of US bonds with the same maturity as in March in total amount of USD 1.1 billion and increased the existing euro issues with maturity in 2027 and 2040 in the total value of EUR 2 billion.

The macroeconomic situation is also improving in the euro area; the pressing problem remains the uncertain geopolitical situation, which has a major impact on the euro. For now, the European Central Bank (ECB) continues to implement its government bond-buying programme. Should the target inflation rate in the euro area be achieved, the ECB intends to end the said programme and gradually introduce a more restrictive monetary policy in the coming years.

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

Abanka remains an important primary dealer in Slovene government bond issues and participates as a market maker in MTS Slovenija as an official liquidity provider. Through different activities, it has been steadily increasing the trading volume on the primary and secondary markets of Slovene government bonds, thus becoming an important player in both the local and the international market. In the most recent international bond issue and the domestic issue of RS treasury bills, Abanka played an active role as a co-organiser and achieved a high market share in the local market. This is confirmed by the fact that Abanka is recognised by domestic and foreign institutional investors as an important partner in ensuring the liquidity of the Slovene government securities.

In January 2017, Abanka and several other renowned foreign banking groups were selected to participate in a syndicate of banks (lead managers) in charge of issuing a new 10-year bond in the amount of EUR 1 billion. In cooperation with other banks from the syndicate, the issuance was successful on both the international and local markets.

Payment transactions

As regards domestic and cross-border payment transactions in the first six months of 2017, Abanka processed 13.0 million orders through the Target 2 payment system, the small-value payment system (SIMP), the correspondence network and internally in the total value of EUR 17,556,480 thousand. In the domestic credit payment system, the Bank maintained a high 15.4% market share.

Abanka is an important operator in the direct debit scheme (SEPA DD). In the first half of 2017, Abanka processed 3.6 million transactions worth EUR 166,552 thousand through this payment system, accounting for a 25.2% market share.

Card and ATM Operations

As at the end of the reporting period, the Bank issued 448,383 payment cards with which 14.6 million transactions were performed in the amount of EUR 716,810 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 the reporting period, the network of points of sale was already combined after the merger, through which 13.7 million transactions were processed worth EUR 574,312 thousand.

One of Abanka's current distribution channels is its extensive ATM network. As at the reporting date, Abanka operated 303 ATMs. Its ATM network was again ranked the second largest despite the fact that the number of bank-owned ATMs fell by 4 compared to the 2016 year-end and its market share to 18.1%. Abanka's ATMs processed 4.7 million transactions of cash withdrawal worth EUR 501,163 thousand.

Investment Brokerage

In the first half of 2017, Abanka contributed on average 2.94% to the total volume of trading on the Ljubljana Stock Exchange, and enabled its customers access to the most important global stock exchanges via its contractual partners.

Custody and Administrative Services

Abanka maintains the leading position in custody services for investment and pension funds.

In the first half of 2017, the Bank's internal resources were also used to adapt to the new regulatory requirements and provisions, which introduced new duties for custodian banks.

In Slovenia, Abanka is the sole provider of administrative services for investment, pension and internal funds, which it expanded to include alternative investment funds.

Total Equity and Ownership Structure

As at 30 June 2017, the total equity of the Abanka Group amounted to EUR 573,527 thousand, whilst that of Abanka equalled EUR 571,056 thousand.

The unaudited share book value was EUR 37.82 as at 30 June 2017, based on 15,100,000 shares (31 December 2016: EUR 40.69). It was calculated as the ratio of all capital components, including net profit for the reporting period, to the number of shares subscribed as at the reporting date.

At the 35th regular General Meeting of Shareholders held on 18 May 2017, the shareholders were informed that the accumulated profit for 2016 totalled EUR 91,077,857.84 consisting of the remaining net profit for 2016 of EUR 68,990,452.84 and profit brought forward in the amount of EUR 22,087,405.00 as at the 2016 year-end. The General Meeting of Shareholder decided that a part of accumulated profit for 2016 in the amount of EUR 68,990,452.84 shall be allocated for dividend payments, whereas the remaining part of the profit amounting to EUR 22,087,405.00 shall be allocated to profit brought forward.

The Bank's share capital amounted to EUR 151,000 thousand as at 30 June 2017. On 18 December 2013, the Republic of Slovenia subscribed and fully paid up all 15,000,000 shares (ABKS) newly issued by Abanka, and thereby became its 100% owner, holding 15,000,000 ordinary registered no-par value shares with voting rights attached. On 8 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand. The share capital increase of EUR 1,000,000.00 was entered in the Companies Register on 10 October 2014. The share capital of Abanka amounts to EUR 151,000,000.00 and is divided into 15,100,000 ABKS shares, wholly owned by the Republic of Slovenia. In accordance with the commitment made to the European Commission, Banka Celje d.d. was merged with Abanka Vipa d.d. on 5 October 2015. After the merger with Banka Celje, the **share capital of Abanka** remained unchanged in the amount of EUR 151,000 thousand, while the share capital of Banka Celje was transferred to the **share premium of Abanka**, amounting to EUR 282,459 thousand as at the 2016 year-end and remained unchanged in the first six months of 2017.

As at the reporting date, Abanka's **accumulated other comprehensive income** amounted to EUR 35,607 thousand (a decrease of EUR 6,859 thousand in H1 2017), **reserves from profit** equalled EUR 47,448 thousand (the same as at the 2016 year-end) and **retained profit** totalled EUR 54,542 thousand (an increase in net profit of EUR 32,455 thousand and a decrease for dividend payment in the amount of EUR 68,991 thousand).

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

RISK MANAGEMENT

RISK MANAGEMENT IN THE FIRST HALF OF 2017

In 2016, gross domestic product at current prices (hereinafter: GDP) amounted to EUR 39,769 million, nominally 3.1% more over 2015. In real terms, GDP went up by 2.5%. The favourable trend in economic activity has continued in 2017. Growth in exports and manufacturing has continued, while labour market developments have strengthened the private consumption, thereby significantly contributing to growth in trade and services. In the reporting period, domestic consumption strongly increased by 5% over the Q1 2016. Gross fixed capital formation went up by 12%. Only the construction activity remained moderate primarily due to low government investments. In the first three months of 2017, GDP rose by 5.3% compared to Q1 2016. Total employment in Q1 2017 reached 964,000 persons, up by 2.6% compared to the corresponding period of the preceding year.

The higher economic activity, the large volume of liquid assets and improved labour market conditions at persistent low interest rates will boost credit demand. The performance of businesses in 2016, with strongly increased profits nearing the 2007 pre-crisis level, further improved their creditworthiness. Several indicators on the side of both supply and demand show that the growth of corporate loans since December 2016 may be a turning point in the lending activity of banks and are the basis for positive expectations. Favourable economic conditions will continue to maintain a stable growth in deposits from the non-banking sector, but in the low interest rate environment most growth will stem from demand deposits.

In the first half of 2017, the Bank continued to focus on the activities related to the merger with Banka Celje, such as the unification of information systems, and on the activities for the implementation of the IFRS 9 requirements, which will enter into force on 1 January 2018. A special emphasis was given to the improvement of the credit risk management process, especially the early warning system (EWS) for increased credit risk, the recovery procedures, NPL management and credit collateral management. The Bank will update its Recovery Plan (an obligatory document for all banks in the EU), which contains the definition of critical functions and the measures envisaged in the event of identified capital or liquidity weakness.

After the merger with Banka Celje, Abanka became one of the three largest banks in Slovenia in terms of total assets; therefore the responsibility for supervision was transferred to the European Central Bank (ECB).

The Bank also launched the RISK 2017 project, also including IFSR 9 project, in order to ensure smooth transition and compliance of the Bank's accounting with the provisions of the new international accounting standard for classification, measurement and impairment of financial instruments and general hedging against risks. In the framework of the IFRS 9 project, the Bank will establish a system of classification of financial assets into individual groups according to the exposure to credit risk and revise its system of assessment of credit risk losses, which will introduce expected credit losses. In accordance with the IFRS 9 requirement, the Bank will not only upgrade the probability of default (PD) assessment model by individual debtor segment and the loss given default (LGD) assessment model but also develop an exposure at default (EAD) measurement model and a credit conversion factor (CCF) calculation model.

With respect to collateral, the focus was on monitoring and ensuring the current value of collateral. The Bank developed a new valuation methodology and the rules on collateral with the definition of collateral valuation/revaluation. Furthermore, commercial and residential properties were revalued in relation to the type of real property and the type of previous value through new appraisals, automatic indexation and checking the values of appraisers; residential real property was also revalued to the Surveying and Mapping Authority of the Republic of Slovenia's value based on an appraiser's opinion. The Bank placed great emphasis on preparing reports on collateral. Apart from that, migration of collateral into the Central Collateral Records (CEZ+) application continued.

The Bank developed a strategy for reducing non-performing loans to customers as well as for identifying the objectives and activities to achieve the target values. In the reporting period, the share of non-performing loans went down by EUR 27 million, while their share in gross loans fell by 1.2 percentage point. The non-performing loans (NPLs) to gross loans ratio stood at 13.6% as at 30 June 2017. A decrease in the share of NPLs was mainly a result of a lower volume of NPLs arising from repayments. In the first half of 2017, the non-performing loan coverage ratio increased to 77.2% as at the reporting date.

The table below shows the amount of non-performing loans to non-bank customers[1], their share in total loans[2] and the non-performing loan coverage ratio[3] as at 30 June 2017 and as at 31 December 2016 (data on a non-consolidated basis).

	30 June 2017	31 Dec. 2016
Non-performing loans (in EUR thousand)	287,469	314,458
Share of NPLs in total loans (in %)	13.6	14.8
NPL coverage ratio (in %)	77.2	75.7

As of 30 June 2017, the Bank started using the methodology applied by the EBA in the report "Risk Dashboard"[4] in order to calculate the proportion of non-performing loans and the coverage ratio of non-performing loans. The difference in the amount of non-performing loans results from the inclusion of non-performing loans from other assets (30 June 2017: EUR 1,629 thousand, 31 December 2016: EUR 1,401 thousand). The proportion of non-performing loans is lower because in accordance with the EBA methodology gross loans in the denominator also include “cash balances with the central bank” (30 June 2017: EUR 234,517 thousand, 31 December 2016: EUR 235,406 thousand), “loans to banks and demand deposits with banks” (30 June 2017: EUR 151,434 thousand, 31 December 2016: EUR 138,464 thousand) and “other assets” (30 June 2017: EUR 40,267 thousand, 31 December 2016: EUR 12,190 thousand).

The calculation in accordance with the EBA methodology (based on the FINREP report-Table F-18)	30 June 2017	31 Dec. 2016
Non-performing loans (in EUR thousand)	289,098	315,859
Share of NPLs in total loans (in %)	11.7	12.9
NPL coverage ratio (in %)	76.9	75.5

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

In the reporting period, the European Central Bank maintained the interest rate on the main refinancing operations at 0% and the deposit facility rate at –0.40%. The European Central Bank further maintained the monthly purchases in the framework of the asset purchase programme at EUR 80 billion until March 2017, whereas from April to at least December 2017 the purchases will continue at the monthly pace of EUR 60 billion, aimed at reaching the inflation trend close to the medium-term objective defined as the inflation rate of nearly 2.0%. In the reporting period, the downward trend of Euribor interest rates continued.

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

In the first six months of 2017, Abanka continued its policy of limited trading in financial instruments. Trading in equity financial instruments was banned, whilst trading in debt instruments was carried out primarily for the purpose of actively maintaining the market of domestic government securities, where Abanka acts as a primary dealer and official liquidity provider, and to a limited extent with the aim of generating short-term profit. Trading in derivatives was limited to foreign exchange and interest rate financial instruments requested by customers (mostly corporates) for the purpose of hedging against interest rate and currency risks. The Bank closes such positions with back-to-back transactions so as to limit its market risk exposures. The Bank does not trade in more complex financial instruments.

In the reporting period, the trading portfolio of debt financial instruments totalled EUR 0.7 million on average. The banking book equity portfolio includes only the strategic investments of the Bank and investments obtained from collateral foreclosure or debt-to-equity swaps. The size of the debt securities portfolio of the banking book, serving as an asset and liability management tool, decreased in the first six months of 2017 by 3%, amounting to EUR 1,210 million as at the end of the reporting period. The banking book portfolio consisted of mainly domestic and foreign government debt instruments, the bonds of DUTB and the bonds of European banks suitable to be pledged as collateral to the European Central Bank. In the first half of 2017, the value at risk (VaR) of the banking book of debt financial instruments at the 95% confidence level

[1] Non-performing loans to non-bank customers do not include the following items: “NPL – cash balances with the central bank”, “NPL – demand deposits with banks” and “NPL – other financial assets”.
[2] Gross loans do not include the following items: “cash balances with the central bank”, “demand deposits with banks” and “other financial assets”.
[3] Impairment do not include the item “impairment - other financial assets”.
[4] Reports are available at https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard.

increased to EUR 2,238 thousand as at 30 June 2017. The value of the securities portfolio was the most susceptible to the lowering of the Slovene government's sovereign debt rating and a consequently higher required rate of return, the decline in stock index prices and poor liquidity of domestic securities.

With regard to operational risk management, the Bank upgraded its database of incidents and loss events. It performed regular preventive activities aimed at limiting the occurrence of incidents and other loss events, as well as correction activities designed to prevent their reoccurrence. Special attention was paid to model and conduct risk management, which are monitored as new special categories of operational risk. Moreover, additional risk analyses for several key services were prepared and contingency plans were revised.

The Bank upgraded its Internal Capital Adequacy Assessment Process (hereinafter: ICAAP). With the risk profile assessment in place, the Bank identified the material risks arising from its core business and assessed its risk-bearing capacity in line with the regulatory requirements. In the reporting period, Abanka evaluated the adequacy of its capital level and quality in relation to its risk profile by calculating internal capital requirements. This calculation not only takes into account the capital requirements for credit, market and operational risks (calculated in accordance with the applicable rules set out in Pillar 1 of the Basel II banking accord) but also identifies internal capital requirements (under Pillar 2) for all other risks not fully or not at all included in Pillar 1 (e.g. concentration risk, interest rate risk, business risk, reputation risk, compliance risk, etc.).

As at the reporting date, the Bank disclosed higher consolidated total capital ratio and consolidated Common Equity Tier 1 capital ratio than required by the supervisor. For details see Note 12 – Capital, capital adequacy and leverage ratio in the Financial Report of the Abanka Group for the First Half of 2017. Despite high capital ratios, the Bank continues to implement its prudent capital management policy.

SIGNIFICANT TYPES OF RISKS AND HAZARDS IN THE SECOND HALF OF 2017

In the second half of 2017, the Bank will continue with the activities on RISK 2017 projects, which among others include the implementation of IFRS 9 and the development of models for the measurement of credit risk parameters (PD, LGD, EAD and CCF). It will also upgrade the ICAAP and EWS processes and prepare the recovery plan. Apart from that, the Bank will implement activities for earliest possible detection of increased credit risk and prompt creation of required impairment as well as activities to reduce non-performing exposures (recovery, collection of collateral, sale of receivables, write-offs, implementation and monitoring of the EWS measures). Moreover, it will ensure a high coverage of non-performing exposures by creating appropriate impairment. The debts of defaulting borrowers will be restructured using a business model that will generate a sufficient cash flow to repay their loans.

The Bank plans to maintain a low appetite for market risk in the future. However, the realisation of collaterals in lending operations or potential debt-to-equity swaps may lead to a temporary growth of the equity and debt securities portfolio, increasing the Bank's market risk exposure. A potential increased exposure 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.

It is foreseen that the good liquidity conditions will continue in the second half of 2017, which will also be a positive impact of the unconventional monetary policy implemented by the European Central Bank. Irrespective of the above, the Bank will further upgrade the liquidity management processes or the ILAAP process. Furthermore, in the second half of 2017, it will continue not only to actively manage interest rate risk but also to upgrade internal interest rate risk measurement and management.

Apart from that, appropriate attention will be paid to operational risk management, particularly in the areas needing further improvement (model risk, conduct risk, cyber risk). The Bank will develop the relevant methodology and continue to conduct risk analysis. Apart from that, the business continuity management system will continue to be maintained and upgraded. The Bank will continue with the establishment of a system for regular updating of business continuity plans and the preparation of a testing plan.

In the context of ICAAP, the existing system is regularly upgraded within the plan of activities for the current year. In addition, the Bank regularly monitors the risk profile, conducts stress tests, calculates internal capital requirements and capital, assesses its risk-bearing capacity in line with the regulatory requirements and reports to both the Management Board and the Supervisory Board.

CHANGES TO THE SUPERVISORY BOARD AND TO THE MANAGEMENT BOARD

CHANGES TO THE SUPERVISORY BOARD

As at the reporting date, the Supervisory Board was composed of Marko Garbajs as the Chairman of the Supervisory Board, Melita Malgaj as Vice-Chairman, and Blaž Šterk, Alenka Vrhovnik Težak, Rok Pivk, Vid Leskovec and Dejan Kaisersberger as its members.

In early 2017, the Supervisory Board was composed of six members: Marko Garbajs as its Chairman, Melita Malgaj as its Vice-Chairman, and Blaž Šterk, Alenka Vrhovnik Težak, Rok Pivk and Vid Leskovec as its members.

At the 34th General Meeting of Shareholders held on 28 February 2017, Dejan Kaisersberger was appointed a Supervisory Board Member for a four-year term of office commencing on 28 February 2017. As of 13 March 2017, Dejan Kaisersberger started serving on the Audit Committee and the Risk Management and Asset Liability Management Committee.

On 18 May 2017, the Supervisory Board took note of the resignation of the Supervisory Board Member Vid Leskovec, resigning as a member of the Supervisory Board of Abanka d.d. as of 18 May 2017. He will continue to serve as a member of the Supervisory Board until the appointment of a new Supervisory Board member but for maximum three months from the date the notice was given.

CHANGES TO THE MANAGEMENT BOARD

As at 30 June 2017, Abanka was governed by a three-member Management Board, composed of Jože Lenič as its President and Matej Golob Matzele and Matevž Slapničar as its members.

In the beginning of 2017, Abanka was governed by a three-member Management Board, composed of Jože Lenič as its President and Aleksander Vozel and Matej Golob Matzele as its members. In December 2016, Aleksander Vozel resigned as a Management Board Member, who served as a Management Board member until 31 March 2017. On 13 March 2017, the Supervisory Board appointed Matevž Slapničar a new member of the Management Board, who started his term of office on 12 June 2017.

FINANCIAL REPORT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of Abanka d.d. and the consolidated financial statements of the Abanka Group for the half-year ended 30 June 2017 (pages 30 to 43 of the Interim Report), the applied accounting policies, and the notes to the financial statements (pages 44 to 65 of the Interim Report).

The Management Board is responsible for preparing the financial statements for the half-year 2017 and 2016, which gives a true and fair representation of the financial position of the Bank and the Group as at 30 June 2017, and the results of their operations for the year then ended.

The Management Board confirms that accepted accounting policies adopted for the half year ended 30 June 2017 are consistent with those of the annual financial statements for the year ended 31 December 2016. 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 Accounting Standard 34.

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

In the period ended 30 June 2017, Abanka d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 17 August 2017

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

INDEX TO THE FINANCIAL STATEMENTS

NOTE PAGE

(All amounts in EUR thousand unless otherwise stated)

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

UNAUDITED INCOME STATEMENT OF ABANKA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	Period ended 30 June 2016
1	2	3	4
1	Interest income (Note 3)	40,136	47,196
2	Interest expenses (Note 3)	(3,481)	(7,769)
3	**Net interest income (1+2)**	**36,655**	**39,427**
4	Dividend income	1,469	171
5	Fee and commission income (Note 4)	27,176	26,661
6	Fee and commission expenses (Note 4)	(6,205)	(6,511)
7	**Net fee and commission income (5+6)**	**20,971**	**20,150**
8	Net realised gains on financial assets and liabilities not measured at fair value through profit or loss (Note 5)	4,391	10,862
9	Net gains on financial assets and liabilities held for trading	1,040	989
10	Net losses on financial assets and liabilities designated at fair value through profit or loss	(12)	(19)
11	Fair value adjustments in hedge accounting	-	238
12	Exchange differences	417	239
13	Net losses on derecognition of assets	(10)	(53)
14	Net other operating expenses	(3,276)	(3,021)
15	Administrative expenses (Note 6)	(30,626)	(32,864)
16	Depreciation and amortisation (Note 6)	(3,729)	(3,731)
17	Provisions (Note 7)	1,660	5,085
18	Impairment (Note 8)	6,946	16,666
19	Total profit from non-current assets held for sale	3	3,028
20	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+ 8+9+10+11+12+13+14+15+16+17+18+19)	35,899	57,167
21	Tax expense related to profit from continuing operations	(3,444)	(9,781)
22	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (20+21)	32,455	47,386
23	**NET PROFIT for the financial year (22)**	**32,455**	**47,386**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME OF ABANKA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	AMOUNT Period ended 30 June 2016
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**32,455**	**47,386**
2	**OTHER COMPREHENSIVE LOSS AFTER TAX (3)**	**(6,859)**	**(5,527)**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (3.1 + 3.2)**	**(6,859)**	**(5,527)**
3.1	Available-for-sale financial assets (3.1.1 + 3.1.2)	(8,468)	(6,659)
3.1.1	Net valuation (losses)/gains taken to equity	(5,296)	3,017
3.1.2	Net gains transferred to profit or loss	(3,172)	(9,676)
3.2	Income tax relating to items that may be reclassified to profit or loss	1,609	1,132
4	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**25,596**	**41,859**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF FINANCIAL POSITION OF ABANKA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2017	AMOUNT As at 31 December 2016
1	2	3	4
1	Cash, cash balances with the central bank and other demand deposits with banks	348,639	344,241
2	Financial assets held for trading	3,513	5,225
3	Financial assets designated at fair value through profit or loss	2,398	2,412
4	Available-for-sale financial assets	1,238,596	1,260,618
5	Loans and receivables	1,933,884	1,903,830
	- loans to banks	64,403	65,489
	- loans to non-bank customers	1,829,661	1,826,524
	- other financial assets	39,820	11,817
6	Held-to-maturity investments	15,072	32,032
7	Non-current assets held for sale	806	806
8	Property and equipment	37,089	38,698
9	Investment property	193	165
10	Intangible assets	7,383	8,032
11	Investments in subsidiaries (Note 9)	4,483	4,483
12	Tax assets	9,396	9,396
	- deferred tax assets	9,396	9,396
13	Other assets	3,197	2,424
14	**TOTAL ASSETS (from 1 to 13)**	**3,604,649**	**3,612,362**

(All amounts in EUR thousand unless otherwise stated)

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

Ser. No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2017	AMOUNT As at 31 December 2016
1	2	3	4
15	Financial liabilities held for trading	2,976	4,933
16	Financial liabilities measured at amortised cost	2,975,434	2,929,202
	- deposits from banks and the central bank	32,044	19,706
	- deposits from non-bank customers	2,788,910	2,776,019
	- loans from banks and the central bank	81,377	89,658
	- loans from non-bank customers	532	564
	- debt securities issued (Note 10)	12,790	21,047
	- other financial liabilities	59,781	22,208
17	Provisions	47,832	50,792
18	Tax liabilities	6,594	11,834
	- current tax liabilities	404	4,041
	- deferred tax liabilities	6,190	7,793
19	Other liabilities	757	1,150
20	TOTAL LIABILITIES (from 15 to 19)	3,033,593	2,997,911
21	Share capital	151,000	151,000
22	Share premium	282,459	282,459
23	Accumulated other comprehensive income	35,607	42,466
24	Reserves from profit	47,448	47,448
25	Retained earnings (including income from the current year)	54,542	91,078
26	TOTAL EQUITY (from 21 to 25)	571,056	614,451
27	**TOTAL LIABILITIES AND EQUITY (20+26)**	**3,604,649**	**3,612,362**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 2017

Ser. No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total Equity (from 3 to 7)**
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**42,466**	**47,448**	**91,078**	**614,451**
2	**Comprehensive income for the financial year after tax**	**-**	**-**	**(6,859)**	**-**	**32,455**	**25,596**
3	Dividends (Note 11)	-	-	-	-	(68,991)	**(68,991)**
4	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**35,607**	**47,448**	**54,542**	**571,056**

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 2016

Ser. No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total Equity (from 3 to 7)**
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**53,124**	**20,533**	**41,349**	**548,465**
2	**Comprehensive income for the financial year after tax**	**-**	**-**	**(5.527)**	**-**	**47,386**	**41,859**
3	Transfer of net profit to reserves from profit	-	-	-	19,249	(19,249)	**-**
4	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**47,597**	**39,782**	**69,486**	**590,324**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CASH FLOW STATEMENT OF ABANKA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	Period ended 30 June 2016
1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit before tax	35,899	57,167
	Depreciation and amortisation	3,729	3,731
	(Reversal of impairments) of loans and receivables	(6,946)	(16,666)
	Net (gains) from exchange differences	(417)	(239)
	Net losses from sale of tangible assets	6	53
	Net losses from sale of intangible assets	1	-
	Other (gains) from investing activities (Note 13)	(464)	(3,623)
	Other adjustments to total profit or loss before tax	(1,656)	(5,079)
	Cash flow from operating activities before changes in operating assets and liabilities	**30,152**	**35,344**
b)	**(Increases)/decreases in operating assets (excl. cash & cash equivalents)**	**(1,137)**	**167,471**
	Net decrease in financial assets held for trading	1,705	2,236
	Net decrease in financial assets designated at fair value through profit or loss	14	19
	Net decrease in financial assets available for sale	11,351	88,802
	Net (increase)/decrease in loans and receivables	(13,431)	77,322
	Net decrease in assets-derivatives - hedge accounting	-	237
	Net decrease in non-current assets held for sale	-	(109)
	Net (increase) in other assets	(776)	(1,036)
c)	**Increases/(decreases) in operating liabilities**	**51,423**	**(150,407)**
	Net (decrease)/increase in financial liabilities held for trading	(1,951)	198
	Net increase/(decrease) in deposits, loans and receivables measured at amortised cost	62,024	(108,931)
	Net (decrease) in debt instruments in issue measured at amortised cost	(8,257)	(41,252)
	Net (decrease) in other liabilities	(393)	(422)
d)	**Cash flow from operating activities (a+b+c)**	**80,438**	**52,408**
e)	**Income taxes (paid)**	**(7,078)**	**(3,374)**
f)	**Net cash flow from operating activities (d+e)**	**73,360**	**49,034**

(All amounts in EUR thousand unless otherwise stated)

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

Ser. No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	 Period ended 30 June 2016
1	2	3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**17,511**	**4,455**
	Receipts from the sale of tangible assets	86	28
	Receipts from non-current assets held for sale	3	3,137
	Receipts from the sale of financial assets held to maturity	17,422	1,290
b)	**Cash payments on investing activities**	**(1,604)**	**(2,547)**
	(Cash payments to acquire tangible assets)	(524)	(1,221)
	(Cash payments to acquire intangible assets)	(1,080)	(1,326)
c)	**Net cash flow from investing activities (a+b)**	**15,907**	**1,908**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**-**	**-**
b)	**Cash payments on financing activities**	**(68,991)**	**-**
	(Dividends paid)	(68,991)	-
c)	**Net cash flow from financing activities (a+b)**	**(68,991)**	**-**
D.	Effects of change in exchange rates on cash and cash equivalents	(5,755)	(989)
E.	**Net increase in cash and cash equivalents (Af+Bc+Cc)**	**20,276**	**50,942**
F.	**Opening balance of cash and cash equivalents**	**385,760**	**344,362**
G.	**Closing balance of cash and cash equivalents (D+E+F)** (Note 13)	**400,281**	**394,315**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED INCOME STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	Period ended 30 June 2016
1	2	3	4
1	Interest income (Note 3)	40,943	47,869
2	Interest expenses (Note 3)	(3,487)	(7,766)
3	**Net interest income (1+2)**	**37,456**	**40,103**
4	Dividend income	1,469	171
5	Fee and commission income (Note 4)	27,169	26,670
6	Fee and commission expenses (Note 4)	(6,236)	(6,562)
7	**Net fee and commission income (5+6)**	**20,933**	**20,108**
8	Net realised gains on financial assets and liabilities not measured at fair value through profit or loss (Note 5)	4,391	10,901
9	Net gains on financial assets and liabilities held for trading	1,040	989
10	Net losses on financial assets and liabilities designated at fair value through profit or loss	(12)	(19)
11	Fair value adjustments in hedge accounting	-	238
12	Exchange differences	417	239
13	Net (losses)/gains on derecognition of assets	(5)	25
14	Net other operating expenses	(3,090)	(1,941)
15	Administrative expenses (Note 6)	(31,818)	(34,352)
16	Depreciation and amortisation (Note 6)	(4,317)	(4,347)
17	Provisions (Note 7)	1,656	5,094
18	Impairment (Note 8)	7,939	17,124
19	Total profit from non-current assets held for sale	3	3,028
20	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)	36,062	57,361
21	Tax expense related to profit from continuing operations	(3,513)	(10,064)
22	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (20+21)	32,549	47,297
23	**NET PROFIT for the financial year (22)**	**32,549**	**47,297**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	AMOUNT Period ended 30 June 2016
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**32,549**	**47,297**
2	**OTHER COMPREHENSIVE LOSS AFTER TAX (3)**	**(6,859)**	**(5,527)**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (3.1+3.2)**	**(6,859)**	**(5,527)**
3.1.	Available-for-sale financial assets (3.1.1+3.1.2)	(8,468)	(6,659)
3.1.1	Net valuation (losses)/gains taken to equity	(5,296)	3,017
3.1.2	Net gains transferred to profit or loss	(3,172)	(9,676)
3.2	Income tax relating to items that may be reclassified to profit or loss	1,609	1,132
4	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**25,690**	**41,770**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2017	AMOUNT As at 31 December 2016
1	2	3	4
1	Cash, cash balances with the central bank and other demand deposits with banks	349,194	344,259
2	Financial assets held for trading	3,513	5,225
3	Financial assets designated at fair value through profit or loss	2,398	2,412
4	Available-for-sale financial assets	1,238,596	1,260,618
5	Loans and receivables	1,915,115	1,884,134
	- loans to banks	64,403	65,489
	- loans to non-bank customers	1,810,557	1,806,473
	- other financial assets	40,155	12,172
6	Held-to-maturity investments	15,072	32,032
7	Non-current assets held for sale	2,047	973
8	Property and equipment	40,150	41,730
9	Investment property	7,619	8,700
10	Intangible assets	7,577	8,240
11	Tax assets	9,466	9,466
	- deferred tax assets	9,466	9,466
12	Other assets	15,593	17,044
13	**TOTAL ASSETS (from 1 to 12)**	**3,606,340**	**3,614,833**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2017	As at 31 December 2016
1	2	3	4
14	Financial liabilities held for trading	2,976	4,933
15	Financial liabilities measured at amortised cost	2,973,228	2,928,606
	- deposits from banks and the central bank	32,044	19,706
	- deposits from non-bank customers	2,786,229	2,774,878
	- loans from banks and the central bank	81,377	89,658
	- loans from non-bank customers	502	521
	- debt securities issued (Note 10)	12,790	21,047
	- other financial liabilities	60,286	22,796
16	Provisions	47,933	50,891
17	Tax liabilities	6,650	11,863
	- current tax liabilities	460	4,070
	- deferred tax liabilities	6,190	7,793
18	Other liabilities	2,026	1,712
19	TOTAL LIABILITIES (from 14 to 18)	3,032,813	2,998,005
20	Share capital	151,000	151,000
21	Share premium	282,459	282,459
22	Accumulated other comprehensive income	35,586	42,445
23	Reserves from profit	47,468	47,468
24	Retained earnings (including income from the current year)	57,014	93,456
25	TOTAL EQUITY (from 20 to 24)	573,527	616,828
26	**TOTAL LIABILITIES AND EQUITY (19 + 25)**	**3,606,340**	**3,614,833**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 2017

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total equity** (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**42,445**	**47,468**	**93,456**	**616,828**
2	**Consolidated comprehensive income for the financial year after tax**	-	-	**(6,859)**	-	**32,549**	**25,690**
3	Dividends (Note 11)	-	-	-	-	(68,991)	**(68,991)**
4	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**35,586**	**47,468**	**57,014**	**573,527**

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 2016

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total equity** (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**53,108**	**20,533**	**43,279**	**550,379**
2	**Consolidated comprehensive income for the financial year after tax**	-	-	**(5,527)**	-	**47,297**	**41,770**
3	Transfer of net profit to reserves from profit	-	-	-	19,249	(19,249)	**-**
4	Other*	-	-	-	-	(389)	**(389)**
5	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4)**	**151,000**	**282,459**	**47,581**	**39,782**	**70,938**	**591,760**

Other*
*Merger of the subsidiary Posest d.o.o. to the subsidiary Anepremičnine d.o.o.

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	 Period ended 30 June 2016
1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit before tax	36,062	57,361
	Depreciation and amortisation	4,317	4,347
	(Reversal of impairments) of loans and receivables	(6,247)	(16,382)
	Impairments of investment property and other assets	(1,692)	(137)
	Impairments of capital investments in a subsidiary	-	(605)
	Net (gains) from exchange differences	(417)	(239)
	Net losses/(gains) from sale of tangible assets	1	(25)
	Net losses from sale of intangible assets	1	-
	Other (gains) from investing activities (Note 13)	(464)	(3,623)
	Other adjustments to total profit or loss before tax	(1,652)	(5,088)
	Cash flow from operating activities before changes in operating assets and liabilities	**29,909**	**35,609**
b)	**(Increases)/decreases in operating assets (excl. cash & cash equivalents)**	**(14)**	**177,697**
	Net decrease in financial assets held for trading	1,705	2,236
	Net decrease in financial assets designated at fair value through profit or loss	14	19
	Net decrease in financial assets available for sale	11,351	88,802
	Net (increase)/decrease in loans and receivables	(14,732)	87,246
	Net decrease in assets-derivatives - hedge accounting	-	237
	Net decrease/(increase) in non-current assets held for sale	167	(109)
	Net decrease/(increase) in other assets	1,481	(734)
c)	**Increases/(decreases) in operating liabilities**	**50,518**	**(160,543)**
	Net (decrease)/increase in financial liabilities held for trading	(1,951)	198
	Net increase/(decrease) in deposits, loans and receivables measured at amortised cost	60,412	(119,017)
	Net (decrease) in debt instruments in issue measured at amortised cost	(8,257)	(41,252)
	Net increase/(decrease) in other liabilities	314	(472)
d)	**Cash flow from operating activities (a+b+c)**	**80,413**	**52,763**
e)	**Income taxes (paid)**	**(7,120)**	**(3,069)**
f)	**Net cash flow from operating activities (d+e)**	**73,293**	**49,694**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2017	Period ended 30 June 2016
1	2	3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**18,623**	**5,114**
	Receipts from the sale of tangible assets and investment properties	1,198	687
	Receipts from non-current assets held for sale	3	3,137
	Receipts from the sale of financial assets held to maturity	17,422	1,290
b)	**Cash payments on investing activities**	**(2,112)**	**(3,719)**
	(Cash payments to acquire tangible assets and investment properties)	(1,024)	(2,381)
	(Cash payments to acquire intangible assets)	(1,088)	(1,338)
c)	**Net cash flow from investing activities (a+b)**	**16,511**	**1,395**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**-**	**-**
b)	**Cash payments on financing activities**	**(68,991)**	**-**
	(Dividends paid)	**(68,991)**	**-**
c)	**Net cash flow from financing activities (a+b)**	**(68,991)**	**-**
D.	Effects of change in exchange rates on cash and cash equivalents	(5,755)	(989)
E.	**Net increase in cash and cash equivalents (Af+Bc+Cc)**	**20,813**	**51,089**
F.	**Opening balance of cash and cash equivalents**	**385,778**	**344,384**
G.	**Closing balance of cash and cash equivalents (D+E+F)** (Note 13)	**400,836**	**394,484**

These interim financial statements were approved for issue by the Management Board on 17 August 2017.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Matevž SLAPNIČAR
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 44 to 65 are an integral part of these interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity
Abanka d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the half year ended 30 June 2017 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The Group is primarily involved in corporate, retail and investment banking.

1.1 Basis of preparation

(a) Basis of preparation
Accepted accounting policies, applied in the preparation of the financial statements for the half year ended 30 June 2017, are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in the annual financial statements for the year ended 31 December 2016. Accepted accounted policies have been used on a consistent basis, and the accounting estimates have been made in compliance with the principles of prudence and good management. The Management Board confirms that the condensed interim financial statements and the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group for the period of assessment, being twelve months from the date of approval of these interim financial statements and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

(b) Statement of compliance
The condensed interim financial statements of the Bank and the consolidated financial statements for the half-year ended 30 June 2017 have been compiled in accordance with IAS 34, »Interim Financial Reporting«. Annual financial statements of the Bank and of the Group have been compiled in accordance with the International Financial Reporting Standards as adopted by the European Union. The interim half-yearly financial statements contain less comprehensive explanatory notes and disclosures than the financial statements that form part of the Annual Report. The half-yearly financial statements have been compiled in condensed form, and must therefore be read in conjunction with the annual financial statements for the 2016 financial year.

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

The implementation of IFRS 9

<u>Introduction</u>

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

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

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

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

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

1. Recognition and Measurement

In accordance with IFRS 9, the classification and measurement of financial instruments in the financial statements is determined by the selected business model and contractual cash flows. At initial recognition, each financial asset will be classified into one of the following business models:

1. the model whose objective is to hold the financial asset to collect the contractual cash flows (measurement at amortised cost),
2. the model whose objective is achieved by collecting contractual cash flows and selling financial assets (measurement at fair value through other comprehensive income – FVTOCI),
3. other models (measurement at fair value through profit or loss – FVTPL).

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

The Group's business model of assets held for the purpose of both collecting contractual cash flows and selling financial assets (valued at fair value through equity) will consist of debt securities held in the banking book, which are intended to regulate operational, current liquidity and are, as a rule, more liquid, high quality and less exposed to credit risk and a part of non-performing loans destined for sale according to the Group's strategy. The Group will select the irrevocable option of valuation of equity instruments not held for trading at fair value through other comprehensive income, where only dividend income will be recognised in profit or loss in the following cases:

- equity securities that are complementary to the principal activity of the Bank (of strategic nature for the Bank) and
- equity securities that support the principal activity of the Bank (of infrastructure nature for the Bank) and are currently classified as available-for-sale financial assets.

For the existing loans and debt securities to be classified into the business model whose objective is to hold the financial asset to collect the contractual cash flows and for the existing debt securities held with the purpose of collecting the contractual cash flows and selling, the Group checked whether their cash flows include solely payments of principal and interest on the principal amount outstanding (the SPPI test). In relation to the above, the Group does not expect any significant effects as the SPPI test was largely passed.
The Group will measure at fair value through profit or loss those instruments that will not pass the SPPI test as well as the following financial assets:

- instruments obtained for hedging of other positions;
- structured products, which were recognised at fair value through profit or loss even as at the 2016 year-end;
- securities held for trading;
- equity securities, for which the option of irrevocable election of measurement through other comprehensive income will not be selected at initial recognition.

IFRS 9 requires that for financial liabilities measured at fair value through profit or loss the amount of the change in fair value attributable to changes in credit risk be recognised in other comprehensive income, unless where this would contribute to a significant accounting mismatch in profit or loss. Changes in the fair value of credit risk of the financial liability will not be subsequently transferred to profit or loss.

The Group defined those financial assets which are expected to be measured at amortised cost or at fair value through other comprehensive income and which will be subject to impairment in accordance with the IFRS 9, as described below. The effect due to IFRS 9 in the part relating to classification and measurement depends on the business models and the types of financial assets held as at the date of transition to IFRS 9.

2. Impairment of Financial Assets

The IFRS 9 requirements regarding impairments relate to financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income (debt securities) and off-balance-sheet assets originating from potential liabilities arising from loan commitments and financial guarantees.

Compared to IAS 39, IFRS 9 introduces the expected loss model instead of the incurred loss model. In accordance with the expected loss model, credit losses will already be recognised at initial recognition of a financial asset based on the expected future losses.

In accordance with IAS 39, the Group currently recognises credit losses based on the incurred loss model, which means that a loss is recognised only upon the occurrence of a loss event. For individually significant financial assets, the Group assesses whether there is objective evidence of impairment. For financial assets that are not individually significant and for those individually significant financial assets for which objective evidence of impairment does not exist, the Group performs a collective assessment of impairment.

In general, IFRS 9 makes a distinction in the recognition of loss between 12-month expected credit losses and full lifetime expected credit losses. In view of the above, the Group will classify the financial assets subject to impairment in accordance with IFRS 9 into the following groups:

- **Stage 1** – a financial asset is classified into Stage 1 upon initial recognition and remains there until a significant increase in credit risk has been identified. Impairment is calculated on the basis of 12-month expected credit losses. Interest income is calculated on the gross carrying value of the asset;
- **Stage 2** – a financial asset is reclassified into Stage 2 once an increased credit risk has been identified and remains there until the occurrence of a default event. Any payment more than 30 days past due shall be considered an increased credit risk. Impairment is calculated on the basis of full lifetime expected credit losses. Interest income is calculated on the gross carrying value of the asset;
- **Stage 3** – a financial asset is reclassified into Stage 3 when there is objective evidence of impairment or when a default event has occurred (i.e. exposures in default pursuant to Article 178 of the CRR). Impairment is calculated on the basis of full lifetime expected credit losses. Interest income is calculated on the net carrying value of the asset;
- **Stage 4** includes purchased or originated credit-impaired (POCI) financial assets. Impairments and interest income are calculated in the same way as described for Stage 3.

The Group has defined triggers for the transition or re-classification of financial assets between the stages for individual debtor segments, which include:

- credit rating;
- number of days past due;
- restructuring of financial assets;
- watch list.

In relation to financial assets with a low credit risk, IFRS 9 provides for the possibility to choose an appropriate accounting policy regarding the creation of a group of financial assets with a low credit risk. The Group decided to choose an accounting policy under which such a group of financial assets is not foreseen.

The expected losses will be calculated on the basis of the data on probability of default (PD), loss given default (LGD) and exposure at default (EAD). These credit risk parameters will be adjusted to take account of macroeconomic forecasts, thereby ensuring the inclusion of forward-looking information in accordance with the expected loss concept. Expected losses will be calculated as the probability-weighted estimate of expected credit losses over the life of the financial instrument.

3. Hedge Accounting

Considering the fact that the Group is not expected to have any hedging transactions as at the date of application of IFRS 9 and in view of the possibility provided for in the standard, the Group will choose the accounting policy under which it will continue to apply the hedge accounting requirements from IAS 39 for hedging transactions until the entry into force of IFRS 9 in the part relating to hedge accounting.

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

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

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

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied for the first time);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IFRS 15 “Revenue from Contracts with Customers” - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).
- IFRS 17 – Insurance Contracts (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 23 – Uncertainty over Income Tax Treatments – (effective for annual periods beginning on or after 1 January 2019).

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

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

e) Information in the selected notes to the financial statements

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable given the circumstances.

(a) 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 Credit 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 impairment 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 the half year ended 30 June 2017, credit risk losses would increase by 2.1% (30 June 2016: 2.3%) or EUR 5.2 million (30 June 2016: EUR 6.9 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 the half year ended 30 June 2017, credit risk losses would rise by 3.9% (30 June 2016: 4%) or EUR 9.9 million (30 June 2016: EUR 11.9 million).

(c) Held-to-maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances (e.g. selling an insignificant amount close to maturity) the Bank is required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

If all held-to-maturity investments were to be so reclassified, the carrying value would increase by EUR 1,464 thousand (30 June 2016: a EUR 2,503 thousand increase), with a corresponding entry in accumulated other comprehensive income in shareholders' equity.

(All amounts in EUR thousand unless otherwise stated)

(c) Fair value of financial assets and liabilities

Financial instruments carried at fair value

The accepted accounting policies used at measuring fair value in the half year ended 30 June 2017 are consistent with those of the annual financial statements fort he year ended 31 December 2016. In line with IFRS 13, the Group categorises financial instruments into three fair value levels based on the nature of inputs used to determine fair value.

Valuation techniques and fair value hierarchy are more detailed presented in Annual Report 2016.

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 June 2017	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	10	3,333	170	**3,513**
– debt securities	10	–	–	**10**
– equity securities	–	–	170	**170**
– derivatives	–	3,330	–	**3,330**
– other	–	3	–	**3**
Financial assets designated at fair value through profit or loss	2,398	–	–	**2,398**
– unit linked investments	2,398	–	–	**2,398**
Available-for-sale financial assets	374,436	859,066	5,094	**1,238,596**
– debt securities	360,604	834,363	–	**1,194,967**
– equity securities	13,832	2	2,453	**16,287**
– equity holdings	–	–	2,641	**2,641**
– Bank Resolution Fund	–	24,701	–	**24,701**
Total financial assets	**376,844**	**862,400**	**5,263**	**1,244,507**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	2,976	–	2,976
– derivatives	–	2,976	–	2,976
– spot transactions	–	–	–	–
Total financial liabilities	–	**2,976**	–	**2,976**

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2016	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	–	5,055	170	**5,225**
– equity securities	–	–	170	**170**
– derivatives	–	5,049	–	**5,049**
– other	–	6	–	**6**
Financial assets designated at fair value through profit or loss	2,412	–	–	**2,412**
– unit linked investments	2,412	–	–	**2,412**
Available-for-sale financial assets	413,311	841,910	5,397	**1,260,618**
– debt securities	401,054	817,143	–	**1,218,197**
– equity securities	12,257	2	674	**12,933**
– equity holdings	–	–	4,723	**4,723**
– Bank Resolution Fund	–	24,765	–	**24,765**
Total financial assets	**415,723**	**846,965**	**5,567**	**1,268,255**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	4,933	–	**4,933**
– derivatives	–	4,913	–	**4,913**
– spot transactions	–	20	–	**20**
Total financial liabilities	**–**	**4,933**	**–**	**4,933**

In the first half of 2017 there were no transfers between levels.

(All amounts in EUR thousand unless otherwise stated)

ASSETS 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 2017	**170**	**5,397**	**5,567**
Total gains/(losses) - in other comprehensive income	–	223	**223**
Sales, redemptions, settlements	–	(526)	**(526)**
As at 30 June 2017	**170**	**5,094**	**5,264**
Gains/(losses) in profit or loss for assets/liabilities held as at 30 June 2017	**–**	**–**	**–**

	Financial assets held for trading	Available-for-sale financial assets	Total
	Equity securities	Equity holdings	
As at 1 January 2016	**5**	**10,154**	**10,159**
Total gains/(losses) - in other comprehensive income	–	1,833	**1,833**
Sales, redemptions, settlements	–	(9,880)	**(9,880)**
Transfers to level 3	–	2,598	**2,598**
As at 30 June 2016	**5**	**4,705**	**4,710**
Gains/(losses) in profit or loss for assets/liabilities held as at 30 June 2016	**–**	**–**	**–**

(All amounts in EUR thousand unless otherwise stated)

Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

As at 30 June 2017	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	349,194	349,149	–	–	349,149
Loans and receivables	1,915,115	–	104,470	1,906,188	2,010,658
– loans to banks	64,403	–	64,315	–	64,315
– loans to non-bank customers	1,810,557	–	–	1,906,188	1,906,188
– other financial assets	40,155	–	40,155	–	40,155
Held-to-maturity investments	15,072	16,536	–	–	16,536
Financial liabilities					
Financial liabilities measured at amortised cost	2,973.228	–	2,943,696	–	2,943,696
– deposits from banks and the central bank	32,044	–	32,043	–	32,043
– deposits from non-bank customers	2,786,229	–	2,751,493	–	2,751,493
– loans from banks and the central bank	81,377	–	84,220	–	84,220
– loans from non-bank customers	502	–	502	–	502
– debt securities issued	12,790	–	15,152	–	15,152
– other financial liabilities	60,286	–	60,286	–	60,286

As at 31 December 2016	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	344,259	344,259	–	–	344,259
Loans and receivables	1,884,134	–	77,799	1,901,194	1,978,993
– loans to banks	65,489	–	65,627	–	65,627
– loans to non-bank customers	1,806,473	–	–	1,901,194	1,901,194
– other financial assets	12,172	–	12,172	–	12,172
Held-to-maturity investments	32,032	33,980	–	–	33,980
Financial liabilities					
Financial liabilities measured at amortised cost	2,928,606	–	2,912,738	–	2,912,738
– deposits from banks and the central bank	19,706	–	19,291	–	19,291
– deposits from non-bank customers	2,774,878	–	2,756,947	–	2,756,947
– loans from banks and the central bank	89,658	–	92,136	–	92,136
– loans from non-bank customers	521	–	521	–	521
– debt securities issued	21,047	–	21,047	–	21,047
– other financial liabilities	22,796	–	22,796	–	22,796

The major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements were presented in Annual Report 2016.

(All amounts in EUR thousand unless otherwise stated)

3 NET INTEREST INCOME

	Abanka		Group	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Interest income				
Loans and advances	29,994	35,324	30,801	35,997
– to banks	254	166	254	166
– to customers	29,740	35,158	30,547	35,831
Available-for-sale securities	9,406	10.419	9,406	10,419
Financial assets held to maturity	461	595	461	595
Financial assets held for trading	154	810	154	810
Other assets	121	48	121	48
	40,136	**47,196**	**40,943**	**47,869**
Interest expenses				
Deposits	2,044	4,872	2,044	4,872
– from banks	58	24	58	24
– from customers	1,986	4,848	1,986	4,848
Debt securities issued	390	756	390	756
Financial liabilities held for trading	137	778	137	778
Loans from banks and the central bank	380	884	380	884
Other liabilities	530	479	536	476
	3,481	**7,769**	**3,487**	**7,766**
Net interest income	**36,655**	**39,427**	**37,456**	**40,103**

4 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	Abanka		Group	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Fee and commission income				
Payment transactions	9,651	9,763	9,651	9,762
Transaction account management	3,269	3,497	3,264	3,490
Card and ATM operations	9,642	9,221	9,642	9,221
Lending operations and guarantees granted	2,198	2,204	2,195	2,200
Other services	2,416	1,976	2,417	1,997
	27,176	**26,661**	**27,169**	**26,670**
Fee and commission expenses				
Payment transactions	996	1,017	996	1,017
Card and ATM operations	4,872	5,151	4,872	5,151
Other services	337	343	368	394
	6,205	**6,511**	**6,236**	**6,562**
Net fee and commission income	**20,971**	**20,150**	**20,933**	**20,108**

(All amounts in EUR thousand unless otherwise stated)

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

	Abanka		Group	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Net realised gains from available-for-sale financial assets	2,127	9,949	2,127	9,949
Realised losses from loans and other financial assets and liabilities	(1)	(8)	(1)	(8)
Realised gains from loans and other financial assets and liabilities	2,265	921	2,265	960
	4,391	**10,862**	**4,391**	**10,901**

In the first half of 2017, the Bank sold a part of its DUTB bonds, thereby generating a profit of EUR 1,656 thousand.

When Visa Europe Limited was sold to Visa Inc, Abanka as a Principal Member of Visa Europe Limited was entitled to a participating share and newly issued Class C preference shares of Visa Inc, thus earning a profit of EUR 9,910 thousand in the first half of 2016.

6 ADMINISTRATION COSTS

	Abanka		Group	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Staff costs	18,559	19,533	19,094	20,261
– gross salaries	15,811	17,094	16,268	17,730
– social security costs	1,012	1,099	1,041	1,139
– pension costs	1,736	1,340	1,785	1,392
Professional services	7,098	6,953	7,527	7,468
Advertising and marketing	760	606	789	660
Other administration costs	1,183	1,459	1,225	1,510
IT and software costs	2,249	3,423	2,249	3,436
Rent payable	474	563	519	633
Other costs	303	327	415	384
	30,626	**32,864**	**31,818**	**34,352**

Within the administration costs in the first half of 2017, EUR 156 thousand referred to costs of restructuring (first half of 2016: EUR 948 thousand). The residual restructuring cost in the amount of EUR 367 thousand are included in depreciation and amortisation cost (first half of 2016: 348 thousand).

(All amounts in EUR thousand unless otherwise stated)

7 PROVISIONS

	Abanka		Group	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Provisions for legal proceedings	(72)	309	(72)	305
Other provisions	(13)	(226)	(13)	(226)
Provisions for guarantees and commitments	(1,575)	(5,168)	(1,571)	(5,173)
Net (release)/charge of provisions	**(1,660)**	**(5,085)**	**(1,656)**	**(5,094)**

A significant part of the income from the cancelled provisions for guarantees and commitments in the first half of 2017 refers to guarantees that had been either called or expired in the first half of 2017.

8 IMPAIRMENT

	Abanka		Group	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Impairment/(release of impairment) of financial assets:				
– loans to non-bank customers	(7,131)	(16,693)	(6,433)	(16,397)
– other financial assets	185	27	186	15
Impairment of investments in subsidiaries	–	–	–	(605)
Impairment/(release of impairment) of non-financial assets:				
– investment property	–	–	(477)	–
– other non-financial assets	–	–	(1,215)	(137)
	(6,946)	**(16,666)**	**(7,939)**	**(17,124)**

The reversal of impairment for loans to non-bank customers in the first half of 2017 was primarily the result of an improved financial position of the companies, regular and early loan repayment and income from debt collection.

9 INVESTMENTS IN SUBSIDIARIES

	Abanka		Group	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Subsidiaries				
As at 1 January	**4,483**	**6,024**	**–**	**1,652**
Additions	–	–	–	545
Disposals	–	(106)	–	(106)
Impairment	–	(1,435)	–	166
Acquisition of subsidiary Posest by subsidiary Anepremičnine	–	–	–	(2,257)
Closing balance	**4,483**	**4,483**	**–**	–

In line with the strategy of the Bank, the activities to sell Aleasing d.o.o. continued in the first half of 2017. Due to the immateriality in the financial statements (investment in amount EUR 640 thousand), the subsidiary was not re-classified into non-current assets held for sale. In the consolidated statement of financial position, the assets of the subsidiary Aleasing as at 30 June 2017 amounted to EUR 41,507 thousand, which accounted for 1.15% consolidated assets, and its liabilities totalled EUR 39,146 thousand, which accounted for 1.29% of consolidated liablities. In the consolidated income statement, the net profit of Aleasing equalled EUR 323 thousand, accounting for 0.99% of consolidated net profit, its income totalled EUR 2,232 thousand (1.54% of total consolidated income), and its expenses amounted to EUR 1,909 thousand (1.70% of total consolidated expenses).

(All amounts in EUR thousand unless otherwise stated)

10 ISSUE, REPURCHASE AND REPAYMENT OF DEBT AND EQUITY SECURITIES

	Interest rate on 30 June	Group	
		30 June 2017	31 December 2016
Certificates of deposit (falling due: 2017 to 2020)	0.55 %–5.95 %	12,790	20,999
Other securities	7.95%	–	48
Total debt securities issued		**12,790**	**21,047**

As at 29 May 2017 the Bank made an early payment of other debt securities issued in the amount of EUR 48 thousand.

Fair value is disclosed in Note 2(c).

11 DIVIDEND PAYMENT

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

Based on the resolution adopted by the General Meeting of Shareholders, a part of the accumulated profit for 2016 in the amount of EUR 68,990 thousand was used for the payment of dividends, the remaining part of the profit for 2016 in the amount EUR 22,087 thousand is allocated to retained earnings. The dividends were paid out to the sole shareholder, i.e. the Republic of Slovenia, on 25 May 2017.

12 CAPITAL, CAPITAL ADEQUACY AND LEVERAGE RATIO

As at 30 June 2017 the regulatory capital of the Abanka totalled EUR 501,576 thousand, which is EUR 7,980 thousand more than at the end of 2016. As at 30 June 2017 the total risk exposure amount of the Abanka totalled EUR 1,971,596 thousand, which is EUR 98,316 thousand more than at the end of 2016. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Abanka were 25.44% or 91 basis points less than at the end of 2016.

As at 30 June 2017 the regulatory capital of the Group totalled EUR 503,763 thousand, which is EUR 8,848 thousand more than at the end of 2016. As at 30 June 2017 the total risk exposure amount of the Group totalled EUR 1,962,326 thousand, which is EUR 95,305 thousand more than at the end of 2016. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Group were 25.67% or 84 basis points less than at the end of 2016.

In accordance with Regulation (EU) No 575/2013 credit institutions shall apply the following own funds requirements from 1 January 2015 further: a Common Equity Tier 1 capital ratio at 4.5% or higher; a Tier 1 capital ratio at 6% or higher; and a total capital ratio at 8% or higher. As at 30 June 2017, the Group's capital adequacy ratios were above the legally required levels. By including the simulation of the stress scenarios performed by the European Central Bank (ECB), the ECB prepared the resolution on the determination of prudential requirements. In 2017, the Group is required to maintain the total SREP capital requirement of 13.25% and the Common Equity Tier 1 capital ratio of 12%. As at 30 June 2017, the Group exceeded the ECB’s prudential requirements.

(All amounts in EUR thousand unless otherwise stated)

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

As at 30 June 2017 the Tier 1 capital measure of the Abanka totalled EUR 501,576 thousand, which is EUR 7,980 thousand more than at the end of 2016. As at 30 June 2017 the total exposure measure of the Abanka totalled EUR 3,822,938 thousand, which is EUR 189,318 thousand less than at the end of 2016. At the same date, the leverage ratio of the Abanka was 13,12% or 82 basis points more than at the end of 2016.

As at 30 June 2017 the Tier 1 capital measure of the Group totalled EUR 503,763 thousand, which is EUR 8,848 thousand more than at the end of 2016. As at 30 June 2017 the total exposure measure of the Group totalled EUR 3,824,179 thousand, which is EUR 188,877 thousand less than at the end of 2016. At the same date, the leverage ratio of the Abanka was 13,17% or 84 basis points more than at the end of 2016.

13 CASH FLOW STATEMENT

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

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Cash, cash balances with the central bank and other demand deposits with banks	348,639	318,156	349,194	318,325
Loans to banks	51,642	76,159	51,642	76,159
	400,281	**394,315**	**400,836**	**394,484**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Interest paid	4,115	11,054	4,115	11,054
Interest received	51,843	60,537	53,188	62,150
Dividends received	1,469	18	1,469	18

OTHER ITEMS IN THE CASH FLOW STATEMENT

Other adjustments to total profit or loss before tax of the Group in the first half of 2017 related to net provisions, losses on derecognition of other assets, excluding held-for-sale assets and to realised losses on derecognition of financial assets not measured at fair value. Other gains from investing activities totalling EUR 464 thousand related to held-to-maturity investments (EUR 461 thousand) and to non-current assets held for sale (EUR 3 thousand).

Other gains from investing activities totalling EUR 3,623 thousand in the first half of 2016 related to held-to-maturity investments (EUR 595 thousand) and to non-current assets held for sale (EUR 3,028 thousand). In March 2016, the Group received EUR 3,137 thousand in cash from the successful restructuring of a large company and the sale of this investment, disclosed under non-current assets held for sale, and thus earned profit in the same amount.

(All amounts in EUR thousand unless otherwise stated)

14 INCOME TAX

In 2016, the amendments to the Corporate Income Tax Act were adopted, setting the 19% corporate income tax rate. In accordance with the above-mentioned amendment as of 1 January 2017 the Bank is subject to the 19% corporate income tax rate.

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the period of five years subsequent to the reported tax year and may impose additional tax assessments and penalties. In 2015, a tax inspection was initiated. The subject of the inspection was the corporate income tax for the period 1 January 2009 to 31 December 2014. Inspection activities started at the end of 2016.

15 CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

a) Capital expenditure commitments

As at 30 June 2017 the Bank or the Group had no significant capital expenditure commitments. In the first half of 2017 there were no significant additions and disposals of property and equipments.

b) Legal proceedings

As at 30 June 2017, the Group and the Bank are involved as defendants in several judicial proceedings and other disputes. The total amount of pecuniary claims filed against the Bank on the reporting date stands at EUR 26,300 thousand excluding default interest (as at 31 December 2016: EUR 25,226 thousand). Based on the assessment of the likely outcome of disputes, respective provisions were made.

In the field of intellectual property rights, the Bank is involved in several disputes brought against it by ABANCA CORPORACION BANCARIA S.A. from Spain, who is seeking the annulment of two international brands ABANKA no. 860 632 and no. 860 561. Proceedings have been initiated in Spain, Portugal, France, the United Kingdom, Germany and Switzerland, with the claimant opposing the use of the abovementioned brands in these countries. Proceedings are at various stages and are pending, the Bank pursues legal remedies in order to protect its interests.

c) Credit-related commitments

The following table indicates the contractual amounts of the Bank's and the Group's guarantees and commitments to extend credit to customers.

GUARANTEES AND COMMITMENTS

	Abanka		Group	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Performance bonds	123,329	127,892	123,145	127,761
Financial guarantees	57,672	57,013	57,672	57,013
Loan commitments	343,506	292,238	342,698	290,896
Derivatives	3,329	5,049	3,329	5,049
Other	–	1,437	–	1,437
	527,836	**483,629**	**526,844**	**482,156**
Provisions:				
– provisions for guarantees and commitments	(29,433)	(31,008)	(29,427)	(30,998)
– other provisions				
– national housing savings scheme (NHSS)	–	(163)	–	(163)
	498,403	**452,458**	**497,417**	**450,995**

(All amounts in EUR thousand unless otherwise stated)

16 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise a significant influence over the other party in making financial or operational decisions.

Related parties of the Bank include: subsidiaries, key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, all of these persons' close family members) and other related companies (individual companies in which key management personnel have significant influence).

Related parties of the Group include: associates, key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, directors of subsidiaries, all of these persons' close family members) and other related companies (individual companies in which key management personnel have significant influence).

A number of banking transactions have been entered into with related parties in the normal course of business. The volume of transactions involving related parties for the reported period and related expenses and income for the reported period are as follows:

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

	Subsidiaries		Key management personnel		Indirectly related companies	
Type of related party	**30 June 2017**	**31 December 2016**	**30 June 2017**	**31 December 2016**	**30 June 2017**	**31 December 2016**
Financial assets						
Loans	55,800	56,899	331	339	–	–
Equity securities						
– investments in subsidiaries	4,483	4,483	–	–	–	–
Financial liabilities						
Deposits	2,681	1,140	895	1,078	466	553
Loans from non-bank customers	30	43	–	–	–	–
Other financial liabilities	8	5	–	–	–	–
Off-balance sheet records						
Nominal amount of loan commitments and financial guarantees issued	993	1,474	54	37	–	–
Allowances for impairment losses on financial assets	408	421	1	1	–	–
Provisions for guarantees and commitments	6	10	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

Type of related party	Subsidiaries		Key management personnel		Indirectly related companies	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Interest income	669	1,109	3	4	–	–
Interest expenses	–	–	2	3	–	–
Fee and commission income	3	5	1	1	–	–
Net other operating income/(expenses)	51	49	–	–	–	–
Administration costs	182	124	–	–	–	–
(Impairment)/release of impairment of financial assets	13	152	–	–	–	–
Income/(expenses) on provisions for guarantees and commitments	4	(4)	–	–	–	–

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Key management personnel		Indirectly related companies	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Financial assets				
Loans	335	343	–	–
Financial liabilities				
Deposits	1,016	1,249	466	553
Off-balance sheet records				
Nominal amount of loan commitments and financial guarantees issued	56	40	–	–
Allowances for impairment losses on financial assets	1	1	–	–

(All amounts in EUR thousand unless otherwise stated)

Type of related party	Associates		Key management personnel		Indirectly related companies	
	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016	1 January – 30 June 2017	1 January – 30 June 2016
Interest income	–	–	3	4	–	–
Interest expenses	–	–	2	3	–	–
Fee and commission income	–	–	1	1	–	–

As at 30 June 2017, the Bank's available-for-sale financial assets included available-for-sale debt securities of the Republic of Slovenia in the amount of EUR 391,496 thousand (31 December 2016: EUR 429,718 thousand), while the Bank's held-to-maturity financial assets included debt securities of the Republic of Slovenia in the amount of EUR 15,071 thousand (31 December 2016: EUR 32,032 thousand). As at 30 June 2017, purchased receivables from the state amounted to EUR 486 thousand (31 December 2016: EUR 970 thousand).

Interest income from these transactions totalling EUR 4,280 thousand in the first half of 2017 (first half of 2016: EUR 4,935 thousand).

In the first half of 2017, net gains from trading with debt securities reached EUR 101 thousand (first half of 2016: EUR 585 thousand).

As at 30 June 2017, deposits of the Ministry of Finance amounted to EUR 10,001 thousand (31 December 2016: EUR 10,009 thousand). Interest expenses from these deposits totalling EUR 27 thousand in the first half of 2017 (first half of 2016: EUR 289 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. In the first half of 2017, the Bank sold a part of its DUTB bonds. As at 30 June 2017, individually significant debt securities available for sale totalled EUR 372,081 thousand (31 December 2016: EUR 555,346 thousand), given long-term loans EUR 164,371 thousand (6 contracts) (31 December 2016: 7 contracts amounting to EUR 194,046 thousand), received long-term loans EUR 29,811 thousand (2 contracts) (31 December 2016: 2 contracts amounting to EUR 31,285 thousand) and received deposits EUR 10,499 thousand (1 contract) (31 December 2016: 11,000 thousand) (1 contract).

As at 30 June 2017, the remaining (individually insignificant) debt securities available for sale totalled 23,654 thousand (31 December 2016: EUR 26,574 thousand), given loans EUR 38,119 thousand (31 December 2016: EUR 35,913 thousand), received long-term loans EUR 49,088 thousand (31 December 2016: EUR 55,689 thousand) and received deposits EUR 32,662 thousand (31 December 2016: EUR 32,555 thousand).

In the first half of 2017, interest income from transactions with state-related companies amounted to EUR 5,285 thousand (first half of 2016: EUR 5,421 thousand) and interest expenses totalled EUR 738 thousand (first half of 2016: EUR 1,132 thousand).

17 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) and the impact of inter-company transactions.

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

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

Liabilities, interest expenses and other non-interest expenses from financing were allocated to those business segments that generated them.

Assets and liabilities by business segment represent a majority of the statement of financial position assets and liabilities, but they exclude tax receivables that are disclosed at the group level and not allocated to business segments.

Business segments are reported to the Management Board of the Bank.

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 30 June 2017	Retail banking (Retail customers and sole proprietors)	Corporate banking	Financial markets	Other	Total
External net income[1]	24,681	22,718	10,825	1,634	59,858
Revenues from other segments	–	–	–	–	–
Segment result	2,144	15,924	5,208	12,786	36,062
Operating profit					36,062
Profit before tax					36,062
Income tax					(3,513)
Net profit for the year					**32,549**
Segment assets	884,458	1,013,726	1,661,541	46,615	3,606,340
Investments in subsidiaries and associates	–	–	4,483	(4,483)	–
Total assets					**3,606,340**
Segment liabilities	2,032,173	749,007	227,917	23,716	3,032,813
Total liabilities					**3,032,813**
Other segment items					
Capital expenditure	550	8	3	1,551	2,112
Depreciation and amortisation	1,059	178	27	3,053	4,317
Net impairment and provision	1,629	6,908	–	1,058	9,595
[1] Including:					
– interest income	14,697	15,077	10,362	807	40,943
– interest expenses	(1,624)	(260)	(1,587)	(16)	(3,487)
– dividend income	–	–	1,469	–	1,469
– fee and commission income	14,773	10,641	880	875	27,169
– fee and commission expenses	(3,165)	(2,740)	(299)	(32)	(6,236)

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 30 June 2016	**Retail banking** (Retail customers and sole proprietors)	**Corporate banking**	**Financial markets**	**Other**	**Total**
External net income[1]	23,180	26,520	8,808	1,874	60,382
Revenues from other segments	–	–	–	–	–
Segment result	6,400	32,622	6,445	11,894	57,361
Operating profit					57,361
Profit before tax					57,361
Income tax					(10,064)
Net profit for the year					**47,297**
Segment assets	858,029	991,568	1,821,243	45,438	3,716,278
Investments in subsidiaries and associates	–	–	6,024	(6,024)	–
Total assets					**3,716,278**
Segment liabilities	1,975,248	830,740	285,652	32,878	3,124,518
Total liabilities					**3,124,518**
Other segment items					
Capital expenditure	614	23	10	3,072	3,719
Depreciation and amortisation	1,137	186	33	2,991	4,347
Net impairment and provision	2,296	19,399	223	300	22,218
[1] **Including:**					
– interest income	15,666	19,350	12,038	815	47,869
– interest expenses	(3,681)	(477)	(3,609)	1	(7,766)
– dividend income	–	–	171	–	171
– fee and commission income	14,490	10,603	467	1,110	26,670
– fee and commission expenses	(3,295)	(2,956)	(259)	(52)	(6,562)

Capital expenditure relates to the purchases of tangible and intangible assets in the current reporting period.

18 SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

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

19 THE NATURE AND AMOUNT OF UNUSUAL ITEMS

In the first half of 2017 there were no unusual items that, in terms of their nature, scope or occurrence, could have an impact on assets, debts, capital, net profit or loss or cash flow.

20 EVENTS AFTER THE REPORTING DATE

On 17 July 2017, Abanka announced the commencement of a search for investors to acquire a portfolio of non-performing loans. The Portfolio comprises well-diversified non-performing exposures of the Group to different companies with a total gross claim value of approximately EUR 246 million. The process is currently in its initiation phase.

On 18 July 2017, Abanka d.d. signed an agreement with Banka Sparkasse d.d., Ljubljana to sell its 100% stake in its subsidiary Aleasing d.o.o., Ljubljana. The Agreement stipulates that the stake will be transferred to the buyer after the fulfilment of the suspensive conditions, which inter alia include obtaining the relevant approvals of the supervisory authorities. The company operates normally within the scope of the signed agreement and Abanka d.d. remains the holder of the share capital until the fulfilment of conditions precedent.

There were no other events after the reporting period that might have an impact on business decisions of the Report's users made on presented financial statements.