ANNUAL REPORT

2019

ABANKA

Your friendliest bank

Kindness at heart

Kindness is a core value at Abanka, and is at the heart of everything we do. It is obvious to our customers when they deal with us, be that when they use mobile or online banking, when they call our user helpline, or when they visit one of our branches. It is also with kindness that we build our working environment, so that our employees feel it too. The workplace is being modernised and made more pleasant, communications are becoming faster and easier, and there is an ever-increasing opportunity to express ideas and praise. Abanka is the friendly bank at every step.

CONTENTS

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

An important part of the community

Kindness also lies at the heart of Abanka's social responsibilities. We believe in the power and importance of knowledge, and so we use our sponsorship and donations to support science and knowledge, from teaching the youngest in society, through spreading access to knowledge to the widest possible circle, to backing research by the top people in their fields. We are also expanding our voluntary work: our employees are selflessly active in a number of fields. We are firm believers in making the world a bit kinder for everyone.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017
Total assets	**3,822,659**	3,731,542	3,654,177
Total amount of deposits of the non-banking sector, measured at amortised cost	**3,075,476**	2,934,453	2,856,026
Total amount of loans to the non-banking sector (non-trading)	**1,965,407**	1,952,759	1,967,460
Total equity	**578,837**	583,407	580,283

INCOME STATEMENT (EUR thousand)	2019	2018	2017
Net interest income	**59,751**	61,075	73,428
Net non-interest income	**54,146**	64,125	46,993
Labour costs, general and administration costs	**(62,921)**	(65,243)	(67,626)
Depreciation	**(7,752)**	(7,804)	(8,559)
Impairment and provisions (credit losses)	**14,688**	21,962	5,994
Profit or loss from ordinary operations before tax	**68,761**	70,081	47,022
Corporate income tax on ordinary operations	**(7,522)**	(4,489)	(5,427)
Profit after tax from ordinary operations	**61,239**	65,592	41,595

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2019	2018	2017
Other comprehensive income before tax	**1,081**	(606)	(11,273)
Income tax relating to components of other comprehensive income	**(239)**	110	2,112

INDICATORS			
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017
Common Equity Tier 1 capital ratio	**24.1%**	23.7%	24.6%
Tier 1 capital ratio	**24.1%**	23.7%	24.6%
Total capital ratio	**24.1%**	23.7%	24.6%
Quality of assets and contingent liabilities (in %)			
Non-performing (on-balance sheet and off-balance sheet) exposures / classified on-balance sheet and off-balance sheet exposures[(3)]	**2.31**	3.21	5.62
Non-performing loans and other financial assets / classified loans and other financial assets[(3)]	**3.94**	5.72	9.51
Value adjustments for credit losses / non-performing loans and other financial assets[(3)]	**48.08**	43.58	55.43
Received insurance / non-performing loans and other financial assets[(3)]	**49.09**	51.10	39.00
	2019	2018	2017
Performance (in %)			
– return on assets after tax[(1)]	**1.62**	1.77	1.15
– return on equity after tax[(2)]	**10.67**	11.39	6.96
Operational costs (in %)			
– operating expenses in gross income (CIR)	**62.05**	58.34	63.27

Note:
Financial highlights and performance indicators are in compliance with IFRS 9, while the comparative data for 2017 are in compliance with IAS 39. Due to the changes in accounting policies regarding the calculation of the tax on financial services, the comparative data in the income statement for 2017 were changed.

Notes:
Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out.

(1) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets as at the last day of each quarter, including the amount of assets as at the last day of December of the previous year.
(2) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity as at the last day of each quarter, including the amount of equity as at the last day of December of the previous year.
(3) The indicator as at 31 December 2017 is calculated based on the data as at 1 January 2018 (under the IFRS 9 standard).

LIQUIDITY	31 Mar. 2019	30 June 2019	30 Sep. 2019	31 Dec. 2019
- Liquidity coverage ratio (in %)	437%	374%	411%	388%
- Liquidity buffer (EUR thousand)	1,330,277	1,241,330	1,323,279	1,392,866
- Net liquidity outflow (EUR thousand)	304,314	331,580	321,914	358,646

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017
Total assets	**3,823,452**	3,728,713	3,655,984
Total amount of deposits of the non-banking sector, measured at amortised cost	**3,076,564**	2,935,223	2,861,197
– from legal and other persons, who pursue a business activity[1]	**853,797**	847,605	879,572
– retail	**2,222,767**	2,087,618	1,981,625
Total amount of loans to the non-banking sector (non-trading)	**1,968,181**	1,959,283	1,982,137
– to legal and other persons, who pursue a business activity[1]	**1,010,274**	1,053,585	1,132,563
– retail	**957,907**	905,698	849,574
Total equity	**579,247**	583,384	578,943
Value adjustments and provisions for credit losses[(6)]	**85,963**	105,778	176,075
Off-balance sheet items (B.1 to B.4)	**1,156,217**	1,182,200	913,098

INCOME STATEMENT (EUR thousand)	2019	2018	2017
Net interest income	**59,758**	60,610	71,915
Net non-interest income	**52,203**	64,370	46,774
Labour costs, general and administration costs	**(61,943)**	(63,798)	(65,424)
Depreciation	**(7,448)**	(7,235)	(7,373)
Impairment and provisions (credit losses)	**14,803**	22,040	8,186
Profit or loss before tax from ordinary operations	**69,152**	71,212	47,835
Corporate income tax from ordinary operations	**(7,487)**	(4,475)	(5,215)
Profit after tax from ordinary operations	**61,665**	66,737	42,620

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2019	2018	2017
Other comprehensive income before tax	**1,088**	(608)	(11,261)
Income tax relating to components of other comprehensive income	**(239)**	110	2,112

NUMBER OF EMPLOYEES	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017
	964	1,010	1,047

SHARES	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017
Number of shareholders	**1**	1	1
Number of shares	**15,100,000**	15,100,000	15,100,000
Proportion of par-value shares in share capital (in EUR)	**10.00**	10.00	10.00
Book value per share (in EUR)	**38.36**	38.63	38.34

Note:
Financial highlights and performance indicators are in compliance with IFRS 9, while the comparative data for 2017 are in compliance with IAS 39. Due to the changes in accounting policies regarding the calculation of the tax on financial services, the comparative data in the income statement for 2017 were changed.

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

INDICATORS

	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017
Common Equity Tier 1 capital ratio	**24.1%**	23.6%	24.3%
Tier 1 capital ratio	**24.1%**	23.6%	24.3%
Total capital ratio	**24.1%**	23.6%	24.3%
Quality of assets and contingent liabilities (in %)			
Non-performing (on-balance sheet and off-balance sheet) exposures / classified on-balance sheet and off-balance sheet exposures(6)	**2.18**	3.06	5.30
Non-performing loans and other financial assets / classified loans and other financial assets(6)	**3.66**	5.40	8.99
Value adjustments for credit losses / non-performing loans and other financial assets(6)	**45.29**	41.49	53.99
Received insurance / non-performing loans and other financial assets(6)	**52.98**	54.10	41.13
	2019	**2018**	**2017**
Performance (in %)			
– interest margin(1)	**1.58**	1.64	1.98
– financial intermediation margin(2)	**2.96**	3.38	3.27
– return on assets after tax(3)	**1.63**	1.80	1.18
– return on equity before tax(4)	**12.06**	12.47	8.02
– return on equity after tax(5)	**10.75**	11.68	7.15
Operational costs (in %)			
– operational costs/average assets	**1.84**	1.92	2.01
– operating expenses in gross income (CIR)	**61.98**	56.84	61.33

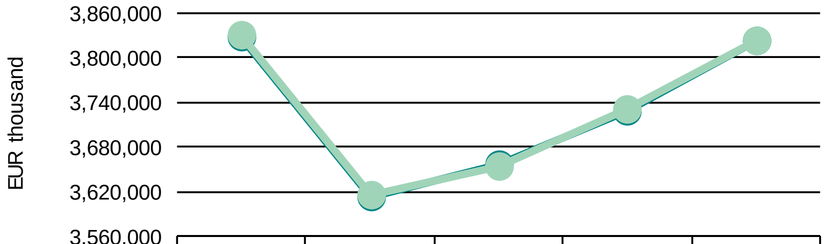
Notes:
Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out.

(1) The indicator equals the ratio **net interest income/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.
(2) The indicator equals the ratio **(net interest income+net non-interest income)/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.
(3) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.
(4) The indicator equals the ratio **profit or loss before tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.
(5) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.
(6) The indicator as at 31 December 2017 is calculated based on the data as at 1 January 2018 (under the IFRS 9 standard).

LIQUIDITY

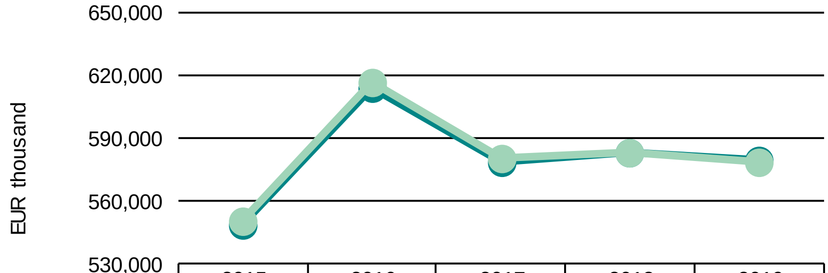
	31 Mar. 2019	30 June 2019	30 Sep. 2019	31 Dec. 2019
– Liquidity coverage ratio (in %)	435%	373%	410%	388%
– Liquidity buffer (EUR thousand)	1,330,277	1,241,330	1,323,279	1,392,866
– Net liquidity outflow (EUR thousand)	305,757	332,475	322,428	359,099

TOTAL ASSETS



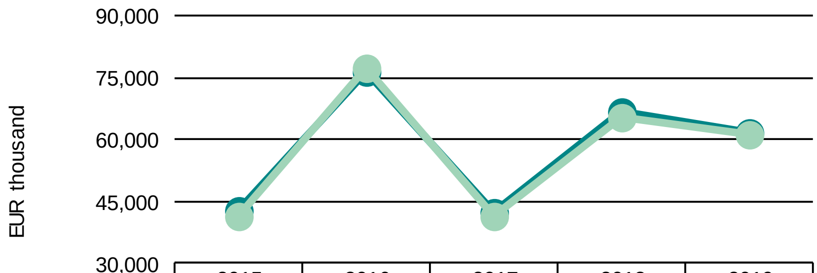
	2015	2016	2017	2018	2019
Abanka	3,828,463	3,612,362	3,655,984	3,728,713	3,823,452
Abanka Group	3,830,227	3,614,833	3,654,177	3,731,542	3,822,659

TOTAL EQUITY



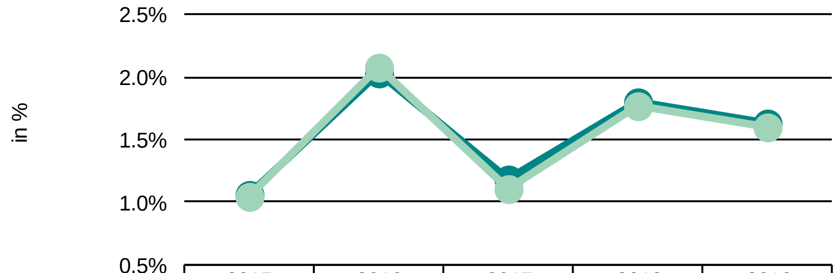
	2015	2016	2017	2018	2019
Abanka	548,465	614,451	578,943	583,384	579,247
Abanka Group	550,379	616,828	580,283	583,407	578,837

PROFIT AFTER TAX



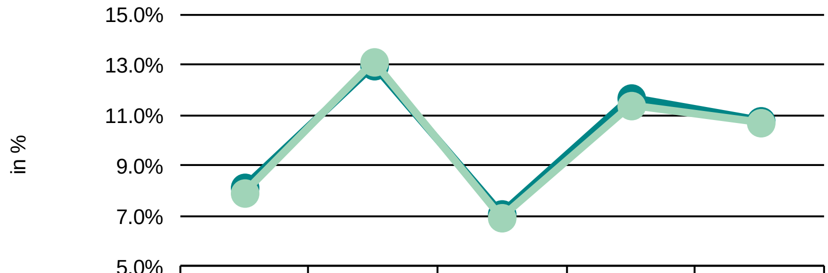
	2015	2016	2017	2018	2019
Abanka	42,775	76,656	42,620	66,737	61,665
Abanka Group	41,722	77,514	41,595	65,592	61,239

RETURN ON AVERAGE ASSETS (net ROAA)



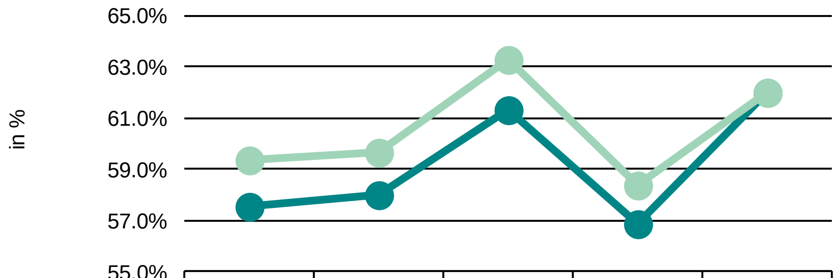
	2015	2016	2017	2018	2019
Abanka	1.1%	2.0%	1.2%	1.8%	1.6%
Abanka Group	1.0%	2.1%	1.1%	1.8%	1.6%

RETURN ON AVERAGE EQUITY (net ROAE)



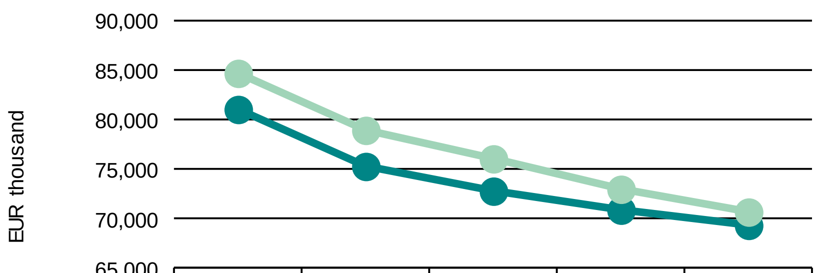
	2015	2016	2017	2018	2019
Abanka	8.1%	13.0%	7.1%	11.7%	10.8%
Abanka Group	8.0%	13.1%	7.0%	11.4%	10.7%

COST TO INCOME RATIO (CIR)



	2015	2016	2017	2018	2019
Abanka	57.6%	58.0%	61.3%	56.8%	62.0%
Abanka Group	59.4%	59.7%	63.3%	58.3%	62.0%

COSTS



	2015	2016	2017	2018	2019
Abanka	81,225	75,431	72,797	71,033	69,391
Skupina Abanka	84,786	79,053	76,185	73,047	70,673

MANAGEMENT

MANAGEMENT BOARD OF THE BANK

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

Report of the Management Board

Dear customers, business partners and colleagues,

Abanka performed exceedingly well in 2019 and earned EUR 61.7 million in net profit. In an environment characterised by strong competition and surplus liquidity, the Bank continued with the modernisation of its business processes and digital transformation with the aim of increasing customer satisfaction, improving user experience and creating new market opportunities in line with its **vision: to become the first bank by choice of customers, employees and investors**. In 2019, activities related to the sale of the Bank continued and in June 2019 an agreement was signed on the sale of the 100% stake of the Republic of Slovenia in Abanka d.d. to Nova Kreditna banka Maribor d.d. The transaction was finalised on 5 February 2020.

In 2019, Abanka continued optimising its business operations. This resulted in lower operating expenses, which fell by 2.3% in 2019 and were EUR 1.6 million lower than in 2018. In line with its strategy of reducing non-performing exposures, the Bank continued to take an active approach to reducing the share of non-performing loans, which resulted in a drop of 1.8 percentage points in the share of Abanka Group's non-performing loans for 2019 to 3.9%.

In line with the bank's strategy, innovative services were introduced in 2019 and existing ones modernised. Abamobi mobile bank and Abanet online bank were upgraded. A single landing page was created for Abamobi and all Abanet mobile applications were combined. In addition, a mobile wallet named Abadenarnica was expanded to support Visa cards and to enable corporate transactions using smart phones. As always, the highest security standards were followed in developing the user applications and the method of accessing digital channels was modified in September. Abanka was the first bank in Slovenia to offer a PSD2 compliant channel in September 2019. Some processes were simplified and several minor improvements were introduced to enhance the quality of services and promote paperless operations. The Abaklub customer loyalty programme has also been upgraded with new facilities provided by our business partners. In order to create a better Abanka, employees were invited to participate in Aideja – a system designed to pool ideas. As the first bank in Slovenia, Abanka received the "Tap Water" certificate from the Chamber of Commerce and Industry of Slovenia, intended to encourage the Bank's staff to contribute to waste reduction by drinking tap water. Our strategic and comprehensive integration of the corporate volunteering programme continued in 2019.

Treasury instruments were again marketed actively in 2019. Because of the highly volatile foreign exchange market, the best performers were financial instruments designed for currency risk hedging. As interest rates again experienced record-low levels in 2019, increasing numbers of customers opted for derivative financial instruments aimed at hedging against interest rate risks. In 2019, Abanka was again recognised by domestic and foreign institutional investors as an important partner providing liquidity for Government of Slovenia securities.

Abanka had an excellent working relationship with all customer segments, combining our strategic focus on SMEs with vigorous banking with big corporates. We remain the leading bank in custody services for investment and pension funds and provide a range of custody and administrative services for alternative investment funds. Abanka retained a high market share in the domestic payment system and was actively engaged in bullion trading. Our customers continued to enjoy high-quality insurance and mutual fund services provided by Zavarovalnica Triglav, d.d., and Triglav Skladi, d.o.o. Abanka provided its customers with a broad range of card services for cashless operations and a comprehensive range of trade finance products supported by professional performance and an individual approach tailored to the specific needs of the individual customer.

Abanka's values are the bedrock of our **mission of "UNITING WITH EXCELLENCE IN FINANCIAL SERVICES**". **Friendliness** is our hallmark, because we are friendly to the people for whom we develop banking services, to the partners with whom our success is built and to the environment in which we operate. We pursue **excellence** by seeking better ways of doing business in day-to-day operations and by developing services aimed at increasing the satisfaction of every person with whom we interact. **Partnership** lies at the heart of our success as we build long-term relationships with our employees and partners on the basis of respect, caring, honesty, trust and cooperation. **Innovation** gives us the advantage when improving our services and business processes. We place utmost emphasis on **execution**, which means being as good as we can at what we do and achieving our objectives promptly and with excellence.

Abanka is an innovative commercial **bank of friendly people** whose broad range of banking and insurance products is focused mainly on its customers as only a satisfied customer base can contribute to strong and profitable long-term performance. We believe that the success of the Bank largely depends on motivated employees and good working relationships in an open working environment that inspires staff to strive for a better Abanka of the future.

The alliance between Abanka and Nova KBM, which in early February 2020 competed the sale of Abanka, represents an important and positive move as we believe that this alliance will provide our customers with the most competitive tailored services. By combining the best of the two banks and reinvesting in products, services and staff, we can create together a new bank that will be the best choice for customers and employees alike.

The Management Board is grateful for the contribution of our colleagues to the excellent business results in 2019, for our business partners' good cooperation, and for the trust our customers placed in our ability to achieve business and strategic goals.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

SUPERVISORY BOARD

31 December 2019

Marko GARBAJS	• GRIFFON&ROMANO S.P.A., Chairman of the management body (Non-Executive Director) from 20 December 2018 to 9 December 2019; Executive Director from 10 December 2019
Melita MALGAJ	• Slovenski državni holding, d.d., Director of Tourism and Economy Management Department
Alenka VRHOVNIK TEŽAK	• VTT, storitve z dodano vrednostjo, d.o.o., Financial Adviser • Sodno izvedeništvo in svetovanje, Mag. Alenka Vrhovnik Težak, Sodna izvedenka za ekonomijo-finance in bančništvo, s.p.
Rok PIVK	• Triglav Osiguruvanje A.D., Skopje, Executive Director
Dejan KAISERSBERGER	• SIDG, d.o.o., Director of Finance, Accounting and Controlling until 5 May 2019 • Livar, d.d., Non-Executive Member of the Board of Directors from 25 February 2019 to 5 May 2019 • Livar, d.d., Executive Director of Finance, IT and Procurement from 6 May 2019
Varja DOLENC	• Union hoteli d.d., Ljubljana, Director of Procurement and Real Property Management • IP Central d.o.o., Deputy Director from 1 February 2019
Miha KOŠAK	• Fraport Slovenija, d.o.o., Member of the Advisory Committee • Independent Consultant • Emona Capital LLP, London, Adviser • Elan Inventa, d.o.o., Member of the Strategy Committee • Šiaulių Bankas, Vilnius, Lithuania, Member of the Supervisory Board • The British-Slovenian Chamber of Commerce, London, UK/Ljubljana, Slovenia, Member of the Management Board

Report of the Supervisory Board

As at 31 December 2019, the Supervisory Board of Abanka was composed of seven members. Marko Garbajs was the Chairman of the Supervisory Board, Melita Malgaj was the Vice Chairman, and Alenka Vrhovnik Težak, Rok Pivk, Dejan Kaisersberger, Varja Dolenc and Miha Košak were its members. The composition of the Supervisory Board did not change in 2019, as it was the same as at 31 December 2018. Due to the expiration of their term of office, at the 41st General Meeting of Shareholders held on 19 September 2019, Melita Malgaj and Alenka Vrhovnik Težak were re-appointed to four-year terms of office as Supervisory Board members, starting on 3 October 2019 and 9 October 2019, respectively.

Throughout 2019 the bank was subject to a privatisation process which had started in 2018 and was closed on 5 February 2020 with the transfer of shares to the new owner. At the General Meeting of Shareholders held on 5 February 2020 John Denhof, Jon Locke, Sabina Župec Kranjc, Andrej Fatur, Andrea Moneta and Michele Rabà were appointed to five-year terms of office as new Supervisory Board members. The members of the Supervisory Board remained previous Chairman of the Supervisory Board Marko Garbajs and Miha Košak. John Denhof is the new Chairman of the Supervisory Board, and Marko Garbajs is the Vice Chairman.

The Supervisory Board had four committees:

- The **Audit Committee**, which was composed of Dejan Kaisersberger as its Chair and Melita Malgaj, Rok Pivk and Miha Košak as its members as at 31 December 2019, the same as at 31 December 2018. Following her re-appointment as Supervisory Board member, on 8 October 2019 Melita Malgaj was re-appointed member of the Audit Committee. In 2019, the committee held eight meetings. The main purpose of the Audit Committee is to assist the Supervisory Board in discharging its supervisory duties regarding the reliability of financial statements, financial reports and other financial information that the Bank provides to its shareholders and other members of the public concerning the qualifications, effectiveness and independence of the external auditor, the operation of the internal audit function and compliance of the Bank with the applicable legal and regulatory requirements.
- The **Nomination Committee**, which consisted of Melita Malgaj as its Chair and Marko Garbajs and Dejan Kaisersberger as its members as at 31 December 2019, the same as at 31 December 2018. Following her re-appointment as Supervisory Board member, Melita Malgaj was re-appointed chair of the Nomination Committee on 8 October 2019. The committee held nine meetings and one correspondence meeting in 2019. The main purpose of the Nomination Committee is to support the Supervisory Board in the execution of its supervisory responsibilities with respect to personnel issues involving the Management Board and Supervisory Board membership.
- The **Remuneration Committee**, which was composed of Rok Pivk as its Chair and Alenka Vrhovnik Težak and Varja Dolenc as its members as at 31 December 2019, the same as at 31 December 2018. Following her re-appointment as Supervisory Board member, Alenka Vrhovnik Težak was re-appointed member of the Remuneration Committee on 8 October 2019. The committee held seven meetings and one correspondence meeting in 2019. The main purpose of the committee is to support the Supervisory Board in the execution of its supervisory duties in relation to preparing decisions on remuneration, including those having an impact on the risks and risk management of the Bank.
- The **Risk Monitoring and Asset Liability Management Committee**, which consisted of Alenka Vrhovnik Težak as its Chair and Marko Garbajs, Varja Dolenc and Miha Košak as its members. As at 31 December 2018, the committee was composed of Alenka Vrhovnik Težak as its chair and Marko Garbajs, Dejan Kaisersberger and Varja Dolenc as its members. The composition of the committee changed in 2019. Dejan Kaisersberger was a member of the committee until 31 March 2019, after which he was replaced by Miha Košak on 1 April 2019. Following her re-appointment as Supervisory Board member, Alenka Vrhovnik Težak was re-appointed chair of the Risk Monitoring and Asset Liability Management Committee on 8 October 2019. In 2019, the committee held eight meetings. The main purpose of the committee is to support the Supervisory Board in the execution of its supervisory duties with respect to taking decisions related to the risk management function, the risk profile and the control of asset liability management at the Bank.

With the exception of the above committees, the Supervisory Board has no other segregation of duties among its members. The Rules of Procedure of the Supervisory Board and its committees were published on Abanka’s website.

The results of a self-assessment of the work of the Supervisory Board and its committees in 2019 were positive and adequate. The assessment of the Supervisory Board's work included proposed activities for the elimination of any identified deficiencies. The Supervisory Board members’ professional qualifications, knowledge and experience cover a broad spectrum of expertise in finance, auditing, supervision and management, restructuring, risk management and other fields. The Supervisory Board fulfils the criteria of diversity, and its members possess know-how and experience that complement one another. In 2019, the Supervisory Board members paid a great deal of attention to additional training, particularly in the areas of banking regulation and risk management. The organisation and functioning of Supervisory Board members as a team facilitates the ongoing monitoring and supervision of the Bank's operations, as well as initiatives and guidelines for its development. The results of the Supervisory Board's self-assessment had a positive and stimulating effect on its work, and confirmed that the Board performed its activities properly.

All Supervisory Board members submitted signed statements of independence in accordance with the Corporate Governance Code. Those statements were published on the Bank’s website.

In 2019, the Supervisory Board members consistently managed any conflicts of interest in their work and decisions. In cases when the Supervisory Board discussed issues related to a member of the Supervisory Board and/or persons linked to the members of the Supervisory Board, the latter were regularly excluded from the discussion and voting on those issues. Any such exclusion was entered into the minutes. The Bank kept records of the circumstances of any conflicts of interest and the management thereof. In 2019, the average proportion of decisions from which Supervisory Board members were excluded was less than 1.8%.

Review of the Supervisory Board's activities in 2019

The Supervisory Board oversees the management of the Bank's transactions. In accordance with the powers and obligations defined in the Banking Act, the Companies Act, the Regulation on internal governance arrangements, the governing body and the internal capital adequacy assessment process for banks and savings banks and the Articles of Association of the Bank, the Supervisory Board operated pursuant to the principles of modern corporate governance and thus, through its supervisory function, contributed to the efficiency and transparency of the Bank's operations. At its sessions, the Supervisory Board was briefed on the Bank’s financial operations, credit portfolio, non-performing loans and risk management activities, and gave special attention to the Bank’s management of capital, credit, liquidity, interest rate and operational risks. At Supervisory Board sessions, the members of the Supervisory Board actively participated in and initiated discussions primarily regarding the financial operations of Abanka and the Abanka Group, and monitored the implementation of supervisory recommendations. In 2019, special attention was paid to the sale of the Bank, both the competitive process until the agreement with the best bidder was signed and the monitoring of the fulfilment of commitments in the period until the conclusion of the transaction. The Supervisory Board approved the Annual Plan of Abanka and the Abanka Group for 2020, including financial plans until 2022.

The Supervisory Board held nine regular sessions and one correspondence session in 2019. All Supervisory and Management Board members regularly attended Supervisory Board sessions.

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

At its sessions held in 2019, the Supervisory Board:

- approved and adopted the Audited Annual Report of Abanka for 2018, including the auditor’s report by Deloitte Revizija d.o.o. and adopted the Corporate Governance Statement for 2018;
- took note of information on the progress of Abanka d.d.'s sales process;
- was briefed on the Addendum to the Business Strategy of Abanka d.d. for 2018–2020 (updating of financial performance indicators for 2019–2021);
- discussed reports on the financial operations of Abanka and the Abanka Group in 2018 and 2019;
- approved the Annual Plan of Abanka and the Abanka Group for 2020, including financial plans until 2022, taking into account certain assumptions;
- was briefed on the reports on the implementation of the commitments made to the European Commission and the reports of the Monitoring Trustee;
- adopted the updated Guidelines for the selection, independence and evaluation of the auditor of the annual report of the Abanka Group within the Audit Committee;
- discussed and issued an opinion on the Annual Internal Audit Report for 2018 and discussed the internal audit reports for 2019;
- approved the Internal Audit Department's Framework Work Plan for 2020 and the Internal Audit Department's Framework Strategic Action Plan for 2021–2022, and adopted the Self-Assessment Report on the Quality of Work of the Internal Audit Department;
- approved the re-appointment of the Director of the Internal Audit Department;
- adopted an agreement on the consensual termination of the term of office of Matevž Slapničar, Management Board member, as of 30 June 2019, discussed the appointment of his successor and appointed Nada Mertik as member of the Management Board of Abanka d.d.;
- adopted the Policy on the Appointment of Management Body Members, Fit and Proper Assessment and Succession Concept at Abanka d.d. (a revised policy);
- approved the draft agenda of the 40th General Meeting of Shareholders held on 16 May 2019 and the 41st General Meeting of Shareholders held on 19 September 2019;
- proposed to the 41st General Meeting of Shareholders the re-appointment of Melita Malgaj and Alenka Vrhovnik Težak to four-year terms of office as Supervisory Board members;
- was briefed on the Bank's commercial activities;

- was briefed on and approved credit limits;
- was briefed on the material relating to the ICAAP and ILAAP, and on the ECB's ICAAP inspection and the Bank's response;
- was briefed on the content and progress of the ECB's 2019 liquidity stress test;
- approved the revised Risk Management and Risk Appetite Strategy and the Statements of the Bank's Management Body on Capital and Liquidity Adequacy;
- discussed the comprehensive risk reports of Abanka and the Abanka Group;
- was briefed on and discussed the largest non-performing exposures and approved Abanka d.d.'s revised NPL Management Strategy for 2019–2021;
- approved the Abanka Group Recovery Plan and the related rules and manual;
- discussed reports of the Compliance Office;
- adopted the updated Policy on the Management of Conflicts of Interest at Abanka d.d., the Code of Business Ethics of Abanka d.d., the Policy on the Internal Control System at Abanka d.d. and the Compliance Policy of the Abanka Group;
- monitored and approved the implementation of the recommendations made by the ECB;
- monitored legislative and regulatory amendments;
- discussed and decided on the remuneration policy for Management Board members and other categories of employees whose work is of a specific nature and adopted the revised Remuneration Policy of Abanka d.d.;
- discussed the staffing issues of management bodies, as well as the activities and procedures related to the Supervisory Board's work; and
- discussed other issues related to the operations of the Bank and the Group.

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

Annual Report for 2019

The Supervisory Board adopted the Corporate Governance Statement (including the Statement of Compliance with the Corporate Governance Code), which is an integral part of the Annual Report of Abanka for 2019.

At its session on 6 March 2020, the Supervisory Board discussed the Annual Report of Abanka for 2019, including the audit report by Deloitte Revizija d.o.o. Cooperation with the audit firm was of high quality; the auditors responsible attended sessions of the Supervisory Board and Audit Committee, and participated in the resolution of open issues. The Supervisory Board confirmed that the Annual Report is a true and fair presentation of the Bank's and the Group's position, gives a comprehensive view of operations in 2019 and thus complements the information it received during the financial year. The Supervisory Board also compared the Annual Report with the audited financial statements for 2019 and determined that the financial results presented in the Annual Report match the audit report. In its opinion, the Supervisory Board, together with the Management Board, fulfilled all their legal requirements during the 2019 financial year.

The Supervisory Board hereby finds that the certified external auditor, in its report, issued a positive opinion regarding the financial statements, which present a true and fair picture of the Bank's and Group's financial position in all material aspects. The Supervisory Board has no comments on the audit report by Deloitte Revizija d.o.o. and believes the Bank's and the Group's operations in 2019 complied with the applicable regulations. Based on its insights into the Bank's operations during the year and following the careful verification of the audited Annual Report and the positive opinion issued by the certified auditor in its audit report, the Supervisory Board hereby approves and adopts the Annual Report of Abanka for 2019 without any objections.

Ljubljana, 6 March 2020

Marko GARBAJS
Vice Chairman of the Supervisory Board

John DENHOF
Chairman of the Supervisory Board

PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

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 31 December 2019, Abanka’s market share in terms of total assets was 9.3%. On 20 June 2019, an agreement was signed on the sale of the Republic of Slovenia’s 100% participating interest in Abanka d.d. to Nova KBM d.d., which on 5 February 2020 became the holder of 100% of the shares of Abanka d.d. after obtaining all the required authorisations and approvals and completing the acquisition procedure. The merger of the two banks into a single legal entity is planned for 2020, until which time Abanka will operate as a subsidiary of the Nova KBM Group.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 53 branch offices across Slovenia, e-banking, advisory services and personal approach, Abanka provides comprehensive financial services ranging from traditional banking to bancassurance services. 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.

As at the 2019 year-end, the subsidiary Anepremičnine d.o.o. complemented the Bank’s offer by providing trading in own real property.

9.3%

Abanka's market share as at the 2019 year-end

SERVICES OF THE BANK

As at 31 December 2019 Abanka was authorised to provide the following mutually recognised financial services under Article 5 of the Banking Act (ZBan-2):

SERVICE	LICENCE ISSUED
1. Acceptance of deposits and other repayable funds;	YES
2. Lending including, inter alia:	
– consumer loans,	YES
– mortgage loans,	YES
– factoring, with or without recourse,	YES
– financing of commercial transactions (including forfeiting);	YES
3. Financial leasing (lease) is leasing of assets where all of the material risks and benefits derived from the property right of the leased asset are transferred to the lessee; the transfer of the property right is possible, but not required;	NO
4. Payment services;	YES
5. Issuance and administering of payment instruments (e.g. travellers' cheques and bankers' drafts insofar as this service is not covered by previous point);	YES
6. Issuance of guarantees and other commitments;	YES
7. Trading for own account or for the account of customers in:	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 to companies on the capital structure, business strategy and related matters, and advice and services relating to the mergers and acquisitions of companies;	YES
10. Money intermediation on inter-bank markets;	NO
11. Investment management and advice in relation thereto;	YES
12. Safekeeping of securities and other services related to the safekeeping of securities;	YES
13. Credit reference services: collection, analysis and provision of information on creditworthiness;	YES
14. Renting of safe deposit boxes;	YES
15. Investment services and operations and ancillary investment services in accordance with the Financial Instruments Market Act.	YES

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

SERVICE	LICENCE ISSUED
1. Insurance brokerage in accordance with the law governing the insurance business;	YES
2. Payment system management services;	NO
3. Pension fund management in accordance with the law governing pension and disability insurance;	NO
4. Custody services in accordance with the law governing investment funds and management companies;	YES
5. Credit brokerage in consumer and other loans;	NO
6. Finance leasing brokerage and administrative services for investment funds.	YES

BANK PROFILE

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

Registered office:	Slovenska cesta 58, 1517 Ljubljana
Transaction account:	SI56 0100 0000 0500 021
SWIFT:	ABANSI2X
VAT identification number:	SI68297530
Company registration number:	5026024
Share capital:	EUR 151,000,000.00
Telephone:	(+386 1) 47 18 100
Website:	http://www.abanka.si
E-mail:	info@abanka.si
Facebook Abanka:	https://www.facebook.com/abanka.vipa/
Facebook Akeš:	https://www.facebook.com/akes.abanka/
LinkedIn Abanka:	https://www.linkedin.com/company/87740/
YouTube Abanka:	https://www.youtube.com/user/abankavipa
YouTube Akeš:	https://www.youtube.com/user/abankaakes

ABOUT THE GROUP

As at 31 December 2019, in addition to Abanka as the parent company, the Abanka Group included the **subsidiary** Anepremičnine d.o.o.

Structure as at 31 December 2019.

On 28 June 2019, the subsidiary Anepremičnine d.o.o. and the buyer signed an agreement to sell a 100% participating interest in the subsidiary Anekretnine d.o.o. with its registered office in Podgorica, Montenegro, and at the same time received the agreed consideration for that interest. As at the end of the year, Anekretnine was no longer part of the Abanka Group.

The following table shows the activitiy of the subsidiary of the Abanka Group, the equity stake and the nominal value of the equity stake as at the reporting date compared to 31 December 2018.

Company	Activity	Equity stake 31 Dec. 2019	Equity stake 31 Dec. 2018	Nominal value of equity stakes as at 31 December 2019 (in EUR thousand)	Nominal value of equity stakes as at 31 December 2018 (in EUR thousand)
Anepremičnine d.o.o.	real property management	100.0%	100.0%	8,278	8,278

Note: Because Anekretnine was sold in 2019, the data as at the end of 2019 and 2018 refer to Anepremičnine d.o.o. and the Anepremičnine Group respectively.

Activities of Subsidiary

Anepremičnine d.o.o.

Anepremičnine d.o.o., which was entered in the Companies Register on 31 May 2013, was established by assuming a portion of assets from Aleasing d.o.o. to the company Anepremičnine d.o.o. As of the day of the entry, in addition to assuming a portion of assets, the new company, as legal successor, entered into all legal relationships concerning the demerged assets previously held by Aleasing d.o.o. The new company's core business is trading in own real property. Its registered office is located in Ljubljana.

The director of the company is Gregor Žvipelj. The composition of the Supervisory Board at the end of 2019 was the same as at the end of 2018: Davorin Leskovar as Chairman, Maja Bogdanoski as Vice Chairman and Dejan Grum as member.

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

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

The company was established with the aim of centralising real property management at the Abanka Group level, optimising the real property portfolio and managing the latter more efficiently. The company's main task is to manage the real property portfolio in a uniform, transparent and predictable manner that will enable the maximisation of value and achievement of an appropriate level of profitability. The company also participates in the completion of unfinished projects as an investor.

Anepremičnine is closely involved in the entire process of real property activities of the Abanka Group in the part that relates to commercial transactions. This entails the acquisition of real property within the Group, sales, development, investment, the search for tenants, real property management, divestment and the operational marketing of real property. In 2019, Anepremičnine developed and either sold or leased many residential and commercial real properties on its own behalf and performed real property valuations for the Group.

The company was actively involved in sales of materially and substantively complex real property within its portfolio, which were successfully completed by the end of 2019. Following the sale of the real property in Montenegro in June 2019, the subsidiary Anekretnine with its registered office in Montenegro was sold.

ABANKA'S FINANCIAL PLAN FOR 2020

The financial plan for 2020 was prepared in autumn 2019 on the basis of available macroeconomic forecasts and prospects, and certain assumptions – one of which was that Abanka would remain an independent legal entity. The Annual Plan of Abanka and the Abanka Group for 2020, including financial plans until 2022, were approved by the Supervisory Board in December 2019.

Abanka's main goals in 2020 will again include retail banking, the SME segment and key customers with significant focus on non-interest income.

Abanka's main goals in 2020 will again include retail banking, the SME segment and key customers with significant focus on non-interest income.

The implementation of projects and development activities aimed at ensuring the Bank's compliance with requirements imposed primarily by internal and external regulators will continue in 2020 with the highest priority.

MAJOR BUSINESS EVENTS IN 2019 AND AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

Major Business Events in 2019

Major business events in 2019 included:

- **Changes to the Management Board:**
  - On 18 March 2019, the Supervisory Board adopted an agreement on the consensual termination of the term of office of Matevž Slapničar, Management Board member, as of 30 June 2019.
  - On 16 April 2019, the Supervisory Board appointed Nada Mertik as new member of the Management Board. Ms Mertik's term of office began following the receipt of authorisation from the regulator. On 23 July 2019, the European Central Bank issued authorisation for Nada Mertik to serve on the Management Board of Abanka. Abanka's Management Board has thus been composed of Jože Lenič as President and Nada Mertik and Matej Golob Matzele as members since 24 July 2019.

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

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

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

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

- **The sale of the company Anekretnine d.o.o.:**
  - An agreement to sell Anekretnine d.o.o., which was fully owned by the subsidiary Anepremičnine d.o.o., was signed on 28 June 2019.

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

The following business events occurred after the reporting period:

- **Activities related to the sale of the Bank**
  - On 5 February 2020, Nova KBM d.d. acquired a 100% shareholding in Abanka d.d. after obtaining all the required permits and approvals and completing the acquisition procedure. Prior to the merger, Abanka will operate as a subsidiary of the Nova KBM Group.
  - The commitment given to the European Commission regarding the privatisation of Abanka was met, thereby ending the restructuring period.

- **Changes to the Supervisory Board of the Bank**
  - At the General Meeting of Shareholders held on 5 February 2020 the following persons were appointed new members of the Supervisory Board with a five-year term of office: John Denhof, Jon Locke, Sabina Župec Kranjc, Andrej Fatur, Andrea Moneta and Michele Rabà. Marko Garbajs, the former Chairman of the Supersory Board, and Miha Košak remained its members. John Denhof was appointed the new Chairman and Marko Garbajs new Deputy Chairman.

- **Appointment of the authorised representative**
  - On 5 February 2020 the Supervisory Board appointed authorised representative Rok Zupančič for a one-year term of office.

THE ECONOMIC AND BANKING ENVIRONMENT IN 2019 AND OUTLOOK FOR 2020

The Economic Environment in 2019

The year 2019 was characterised by a strong **decline in economic growth worldwide**. In particular, international trade and manufacturing output contracted as a result of the tensions in international trade, especially between the US and China. The automotive industry, which in turn has an impact on the shrinking of supply chains, has a negative effect. In 2019, the OECD estimated global GDP grew by 2.9%, which is a significant drop compared to 3.5% growth in 2018.[1]

The **EU economy** faced the long-term low interest rate scenario in the second half of 2019, defined by low inflation (1.2%) and modest economic growth (1.1% in 2019) in the absence of aggregate demand. Some of the largest Member States are on the verge of recession. The factors driving the stagnation of the European economy outweigh the positive factors in employment, wage growth and historically low levels of borrowing costs. In the **euro area**, slightly higher real economic growth of 1.2% is expected for 2019.[2]

According to the first estimates for 2019 and spring forecasts, real growth in gross domestic product in the **Slovene economy** reached 2.8%, a significant decrease from 2018 (4.1%), as the situation deteriorated significantly in the second half of 2019, especially for the export economy. According to the first IMAD estimate, the value of gross domestic product at the end of 2019 was EUR 48,242 million, an increase of 5.4% in nominal terms relative to 2018. The contribution of private consumption to economic growth in 2019 remained high, while investment growth was lower and the contribution of net exports was considerably negative.[3]

MAJOR MACROECONOMIC INDICATORS

	2019	2018	2017	2016	2015
GDP, EUR million (current prices)	48,242*	45,755	42,987	40,367	38,853
GDP growth (%)	2.8*	4.1	4.8	3.1	2.2
GDP per capita, EUR (current prices)	23,350*	22,083	20,809	19,551	18,830
Labour productivity (GDP per employee, %)	0.3*	0.9	1.8	1.3	0.9
Unemployment (registered, %)	7.7*	8,2	9.5	11.2	12.3
Unemployment (ILO methodology, %)	4.3*	5,1	6.6	8.0	9.0
Inflation, year-end (%)	1.8	1.4	1.7	0.5	-0.4
Inflation, average (%)	1.6	1.7	1.4	-0.1	-0.5

Note: *IMAD forecast (Autumn Forecast of Economic Trends 2019, September 2019. Ljubljana: Institute of Macroeconomic Analysis and Development).
Source: Slovenian Economic Mirror, No. 1/2020, January 2020. Ljubljana: Institute of Macroeconomic Analysis and Development, January 2020, and Statistical Office of the Republic of Slovenia (https://www.stat.si/StatWeb/News/Index/8607).

Banking Environment in 2019

In the second half of 2019, the US Federal Reserve (FED) reverted to an expansionary monetary policy with a strong forward guidance. The ECB continued, rather than ending as originally intended, its quantitative easing policy with an even more expansionary monetary policy, with a tendency to flatten the yield curve in both short (lowering the marginal deposit rate) and long maturities (extending the maturity of securities buyback). Despite optimism in service activities and robust domestic consumption as a result of good labour market conditions, expansionary monetary policy, particularly of the **euro area**, has somewhat limited opportunities to contribute to economic growth. Its negative impact on banks' profitability and capital adequacy is increasingly evident, while failing to reach its main objective: an inflation rate of below, but close to 2%. As many as 11 of 17 central banks of developed and emerging economies established or continued an expansionary monetary policy in 2019. The central banks are also calling for structural or stimulative fiscal policies.

ECB data until October 2019 indicate that external financial inflows and loans to the private sector contribute most to growth in monetary aggregates. Due to the long-term low level of interest rates, the proportion of demand deposits or narrow monetary

[1] Source: Rethink policy for a changing world!, OECD – Economic Outlook, November 2019. Consumption Smoothing, Fitch Ratings – Global Economic Outlook.
[2] ECB staff macroeconomic projections for the euro area, ECB, September and December 2019.
[3] Autumn Forecast of Economic Trends 2019, September 2019. Ljubljana: Institute of Macroeconomic Analysis and Development.

aggregate (M1) is constantly increasing. Growth in loans to the private sector is largely driven by liquidity inflows into the banking system through non-standard monetary policy measures, such as the asset purchase programme (APP), which in the period from 1 January to 31 October 2019 was limited only to the reinvestment of the principal of maturing securities. The original purpose of the restriction was to phase out non-standard measures. The forecasts of the cooling economy in the **euro area** for the second half of 2019 prompted the ECB to re-introduce non-standard measures, such as new Targeted Longer-Term Refinancing Operations (TLTRO) in September 2019, and to re-launch the full APP, with monthly asset purchases of EUR 20 billion on the secondary market, starting 1 November 2019. In addition to non-standard measures, the ECB Governing Council began using formal forward guidance for monetary policies in July 2013. By publishing expectations about the future movement of key interest rates and the time horizon for the implementation of the APP, the ECB aims to promote greater interest rate certainty and influence future monetary policies so as to achieve the monetary policy objective (an inflation rate below, but close to 2%), thereby contributing to a more predictable economic environment in the euro area. The overall expansiveness of the ECB's monetary policy also reflects a reduction in the marginal deposit rate from -0.4% to -0.5%, which implies monetary policy action on the short end of the yield curve as well, in order to strengthen the transmission of savings transfer into productive investments. Corporate and household lending growth rates ranged from 3% to 4% annually over the first ten months of 2019. According to the bank lending survey[4], credit standards for lending had only slightly eased by October 2019. Despite the increasing competitive pressure on riskier and more profitable loans, credit standards actually tightened in the third quarter of 2019. Investment loans represent a large part of corporate loans, while the contribution of loans for working capital to total corporate loan demand was negative for the first time since 2013. In the aforementioned survey, banks highlighted the positive contribution of the APP to liquidity and financing conditions, but also the negative impact on their profitability, the latter being particularly true of the amended marginal deposit rate. Such expansiveness of monetary policy also made it possible to reduce interest rates for the segment of small and medium-sized enterprises, which was hit hardest in the major crisis. The latter could also enable banks to deal with such non-performing loans more effectively. The limits of monetary policy expansiveness or its potentially negative effects, such as bank profitability and the emergence of new non-performing loans, point to the need for the coherent and effective implementation of other economic policies. In this regard, the Governing Council is specifically calling on Member States to create an appropriate fiscal space that will enable fiscal policy and monetary policy to provide the necessary stimulus, and to act in a coordinated manner.[5]

Bank lending activity **in Slovenia** was well above the euro area average during the first ten months of 2019. Annual growth in loans to the non-banking sector was 5.7%. Growth in corporate loans increased (by 5.9% in year-on-year terms in October 2019), with strong growth recorded in the most profitable segment of consumer loans to households (which were up by 11.9% in October 2019). In November 2019, the regulator introduced restrictions on this type of lending through a macroprudential measure. A similar phenomenon followed in housing loans. Since the recovery of the banking system, the quality of banks' credit portfolio has improved significantly. The proportion of the banking system's total exposure accounted for by non-performing exposures stood at only 2.6% at the end of October 2019, reflecting the low risk level in accordance with the European Banking Authority (EBA) criteria. Risky levels of exposure are still present in activities such as trade and construction, with a greater concentration of individual companies that have been undergoing restructuring for a long time. In terms of investments, 2019 also saw an increase in banks' investments in securities (by 2.0% in year-on-year terms in October 2019). As a result, the total assets of the banking system increased further to EUR 40.6 billion (as at 30 October 2019), but were still lower than at the end of the pre-crisis year of 2008 (EUR 47.9 billion).[6] Following the recovery and fulfilment of EC commitments, the institutional concentration of banking service providers is increasing. Despite the environment of extremely low interest rates and margins, very costly regulatory requirements, the need for continuous investments in digitalisation and the adaptation of business processes primarily due to the entry of unregulated, non-banking providers of certain payment services, banks are improving their performance and profitability through economies of scale, rationalisation and consolidation. Return on equity stood at 13.75% at the end of October 2019. In addition to growth in interest income, non-interest income, in particular fee and commission income, is of increasing importance. High growth in inflows of demand deposits, particularly by the household segment, represents the main source of bank funding. The aforementioned deposits are very stable. The liquidity coverage ratio (LCR) of banks was high at 320% in October 2019. Measured on a consolidated basis, the Slovene banking system's average total capital ratio was at the level of the Eurosystem (18.2% in October 2019). However, the proportion of total capital accounted for by the highest quality capital was 3 percentage points higher.

According to the regulator's analyses, the Slovene financial system was very stable in 2019. The only exception among internal risk factors in Slovenia is the real property market, the structural imbalance of which reflects the long-term absence of the necessary economic policies. Amongst the risks to which banks are exposed, the regulator highlights income risk during the expected long-term period of low interest rates and bank margins as a key medium-term systemic risk.[7] Similar to the euro area, coordinated economic policy measures are required in the future. This was seen in particular in the implementation of the macroprudential measures to limit consumer loans. At the same time, new challenges have arisen in connection with business

[4] Source: Euro area bank lending survey, Third quarter of 2019, October 2019, European Central Bank.
[5] Source: Economic Bulletin, Issue 8/2019, December 2019, European Central Bank.
[6] Source: Monthly Report on Bank Performance, December 2019, Bank of Slovenia.
[7] Source: Financial Stability Review, December 2019, Bank of Slovenia.

strategies, such as the use of financial technologies and climate change. Of particular importance for banks in the scope of the latter is the promotion of the sustainable financing of general initiatives for green growth.

Outlook for 2020

The OECD thus assesses that **global economic growth** will be 2.9% in 2019 and remain at around 3% over the next two years. This is the most significant cut in the forecast of global economic growth since the end of the major financial crisis (one year ago, the OECD forecasted 3.5% economic growth in 2019). Economic growth in the **euro area** was also revised downward by 0.3 percentage points from May's forecast for 2020 to 1.1% (the total downward revision was one half of a percentage point relative to one year ago). In the above-mentioned deteriorating conditions during the second half of 2019, monetary policy must remain extremely flexible, as well as expansive and predictable (i.e. signal the monetary policy stance) in the described circumstances. Representing risk is a lack of greater coherence between economic and financial union, with other words, a lack of economic policies actions outside the monetary ones. International trade tensions could be resolved sooner than expected, and should be taken into account in forecasts.

Slowing economic growth will affect certain countries in Central and Eastern Europe via international production chains with a delay. Those countries include **Slovenia**. According to the OECD's forecasts, the Slovene economy will be very average with respect to the global economy in the period 2019–2021 (with consecutive economic growth rates of 3.1%, 3.0% and 3.1%). In November 2019, the OECD revised its forecast for Slovene economic growth in 2020 downward by just 0.1 percentage points relative to its May 2019 forecast.[8]

	SLOVENIA					EVRO AREA	
INDICATOR		FORECAST					
	2018		2019	2020	2021	2019	2020
Gross Domestic Product (real growth, in %)	4.1	IMAD (March)	3.4	3.1	2.8		
		IMAD (September)	2.8	3.0	2.7		
		BS (June)	3.2	2.9	2.9		
		BS (December)	2.6	2.5	2.7		
		OECD (May)	3.4	3.1	-	1.2	1.4
		OECD (November)	3.1	3.0	3.1	1.2	1.1

Source: IMAD, Bank of Slovenia (BS), OECD

Even official domestic institutions such as the IMAD and Bank of Slovenia (BS) cut their expectations regarding economic growth significantly in their autumn forecasts. Those two institutions are forecasting economic growth in Slovenia in 2020 of 3.0% (IMAD) and just 2.5% (BS). Risks associated with the realisation of forecasts derive primarily from the external environment, the most significant of those risks being geopolitical risks and risks in connection with escalation of protectionist measures. A major cooling of the Chinese and German economies (according to the most recent forecasts for the latter) in the context of declining competitiveness (costs of materials, energy and labour) and extremely favourable financing conditions (costs of capital) could continue to have a negative impact on Slovenia's export-oriented economy. Alternative scenarios alongside the aforementioned risks could lead to a drop in real economic growth over the next two years, by as much as one percentage point. Domestic risks in connection with the realisation of forecasts primarily relate to the necessary structural reforms and economic policy challenges outside the context of monetary policy.[9]

In the context of high levels of own funds, further growth in the lending activity of banks and accessibility to affordable sources of financing will allow banks to continue providing loans to finance the corporate investment cycle. As the release of provisions is gradually phased out, banks are expected to record slightly lower profit than in previous years. Credit risk indicators will shift very gradually, on average, towards increased risk, as potential shocks in the external environment will be absorbed by companies themselves due to low corporate leverage, high profits and high liquidity.[10]

[8] Source: Rethink policy for a changing world!, OECD Economic Outlook, November 2019.
[9] Source: Autumn Forecast of Economic Trends 2019, September 2019. Ljubljana: Institute of Macroeconomic Analysis and Development;
Macroeconomic Projections for Slovenia, December 2019. Ljubljana: Bank of Slovenia;
Outlook 2020, December 2019. Ljubljana: Managers' Association of Slovenia.
[10] Source: Financial Stability Review, December 2019, Ljubljana: Bank of Slovenia.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

In addition to Abanka as the parent company, the consolidated financial statements of the Abanka Group for 2019 include the Anepremičnine Group (the income statement of Anekretnine for the year until 30 June 2019).

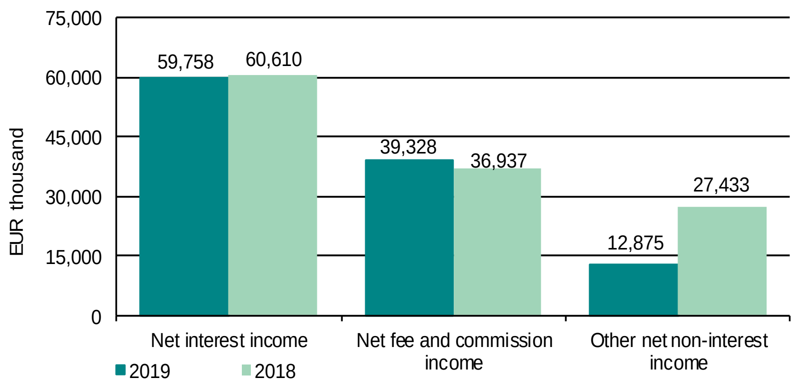
In addition to Abanka as the parent bank, the consolidated financial statements of the Abanka Group for 2018 include the subsidiary Aleasing (the income statement for the year until 31 March 2018) and the Anepremičnine Group.

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

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

In an extremely low interest rate and highly competitive environment characterised by high liquidity, Abanka not only continued to implement its strategic objectives, but also focused on digital transformation, the upgrading of business processes and cost rationalisation, thereby achieving excellent business results.

GROSS INCOME OF ABANKA IN 2019 COMPARED TO 2018 (amounts in EUR thousand)



In the reporting year, the **Abanka Group** recorded **net interest income** of EUR 59,751 thousand, a decrease of 2.2% relative to the previous year. **Abanka's net interest income** amounted to EUR 59,758 thousand, a decrease of interest income of 0.5%, while interest expenses were up by 8.1%. Net interest income earned in 2019 was slightly lower compared to 2018, primarily due to higher interest expense arising from negative interest rates on deposits with banks and lower income from debt securities. On the other hand, the reporting year saw higher interest income from loans to non-bank customers.

Abanka's market share of net interest income was 8.8% in 2019 (compared with 9.0% in 2018), while its interest margin stood at 1.58% (compared with 1.64% in 2018).

The **net fee and commission income of the Abanka Group** totalled EUR 39,305 thousand, an increase of 6.6% compared to the previous year, while **Abanka** generated similar income of EUR 39,328 thousand, which is 6.5% more than 2018. The bulk of net fee and commission income was generated by payment transactions and card operations.

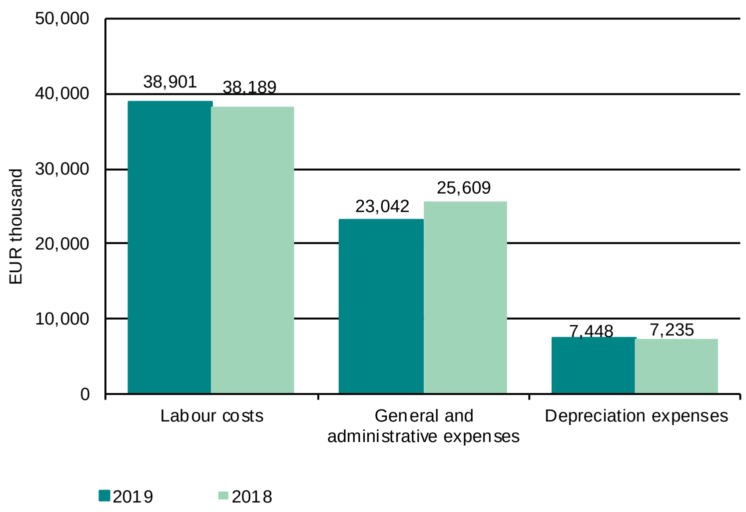
11.8%

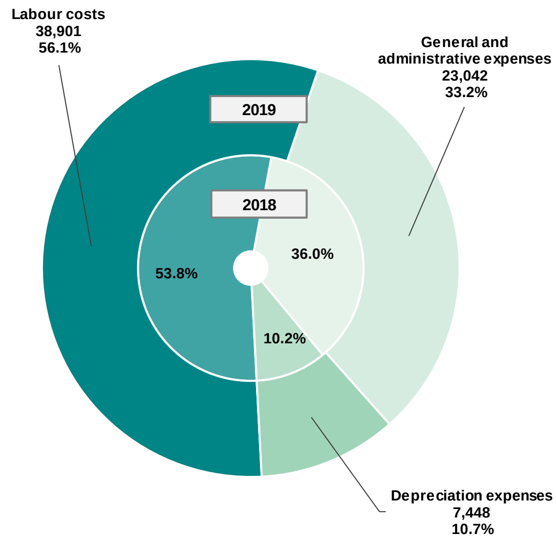
market share of Abanka in net fee and commission income in 2019 (in 2018: 11.7%)

Other net non-interest income (excluding net fee and commission income) of the **Abanka Group** amounted to EUR 14,841 thousand in 2019 (compared with EUR 27,256 thousand in 2018), while **Abanka** generated similar income of EUR 12,875 thousand, a decrease of 53.1% compared to the previous year. Lower non-interest income in 2019 was primarily the result of one-off realised gains on the sale of the non-performing loans in March 2018.

In 2019, the **Abanka Group's operating expenses** amounted to EUR 70,673 thousand, a decrease of 3.2% relative to the previous year. **Abanka'**s operating expenses totalled EUR 69,391 thousand in 2019. By streamlining costs and cutting the number of employees, the Bank managed to increase its cost-effectiveness, as costs were down by 2.3% or EUR 1,642 thousand compared to 2018. Excluding restructuring costs, operating expenses were lower by EUR 1,170 thousand or 1.7% compared to 2018, and totalled EUR 68,614 thousand.

OPERATING EXPENSES OF ABANKA IN 2019 COMPARED TO 2018 (amounts in EUR thousand)

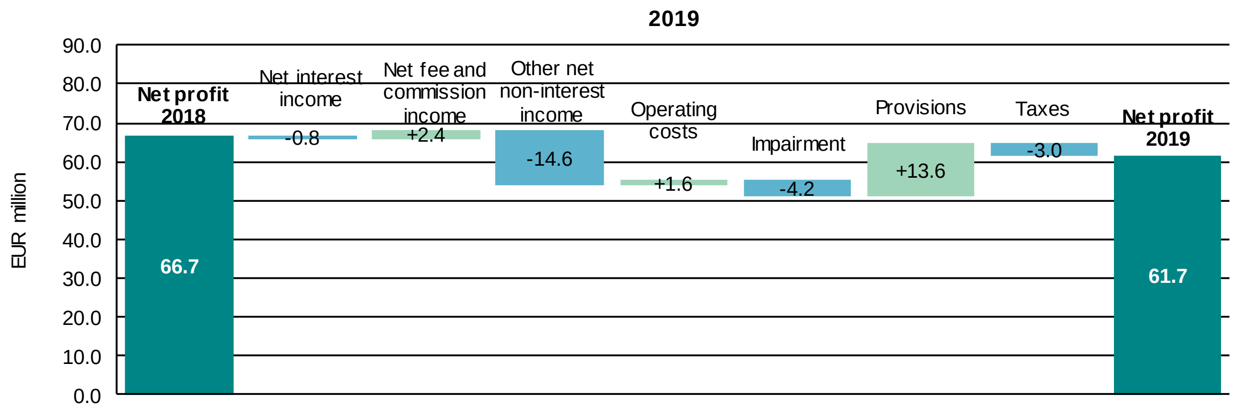




In 2019, the **Abanka Group cancelled net impairment and provisions** of EUR 25,537 thousand (compared with EUR 17,928 thousand in 2018), of which **provisions were cancelled** in the amount of EUR 13,282 thousand and **impairment** in the amount of EUR 12,255 thousand. **Abanka's net impairment and provisions cancelled** amounted to EUR 26,582 thousand (compared with EUR 17,265 thousand in 2018). In 2019, the Bank cancelled EUR 15,121 thousand of impairment for loans to non-bank customers and EUR 182 thousand of impairment for debt securities, as well as made EUR 1,976 thousand of impairment for property, plant and equipment, EUR 26 thousand of impairment for investment property, EUR 148 thousand of impairment for loans to banks and EUR 42 thousand of impairment for other assets. The Bank cancelled EUR 9,212 thousand of provisions for pending legal proceedings, EUR 1,900 thousand of provisions for reorganisation and EUR 3,132 thousand of other provisions. Provisions were formed for employee benefits in the amount of EUR 462 thousand and EUR 311 thousand for off-balance sheet liabilities. The reversal of impairments for loans to non-bank customers in 2019 is primarily a result of loan repayments and the recalibration of credit risk parameters. Income arising from released provisions for legal proceedings in 2019 largely relates to a legal proceeding that has been finally resolved.

The **Abanka Group** generated **profit before tax** of EUR 68,761 thousand, while **consolidated profit after tax** equalled EUR 61,239 thousand. **Abanka** alone reported EUR 69,152 thousand in **profit before tax** and a 12.1% return on equity. The Bank posted **profit after tax** of EUR 61,665 thousand, taking into account **corporate income tax** of EUR 7,487 thousand, which is EUR 5,072 less than the comparative period in 2018 due to the above-mentioned reasons. During the reporting period, **return on equity after tax** was 10.8%.

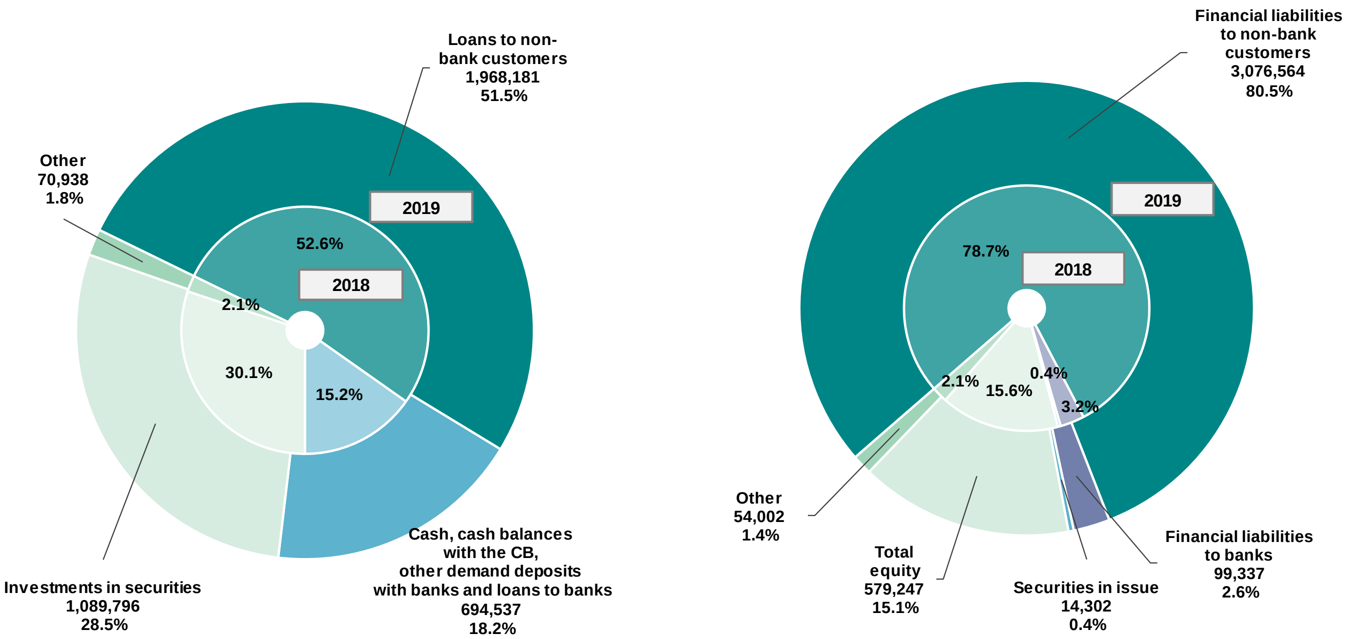
IMPACT OF INDIVIDUAL CATEGORIES OF THE INCOME STATEMENT ON THE PROFIT OF ABANKA IN 2019 COMPARED TO 2018 (amounts in EUR million)



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 31 December 2019 amounted to EUR 3,822,659 thousand, an increase of 2.4% relative to the previous year. The total assets of subsidiaries amounted to EUR 14,096 thousand (compared with EUR 21,998 thousand as at 31 December 2018) and accounted for 0.4% of consolidated total assets (compared with 0.6% as at 31 December 2018). After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group were EUR 793 thousand lower than Abanka's total assets. The **total assets of Abanka** as at the reporting date amounted to EUR 3,823,452 thousand, which was 2.5% higher than the figure posted at the end of 2018.

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

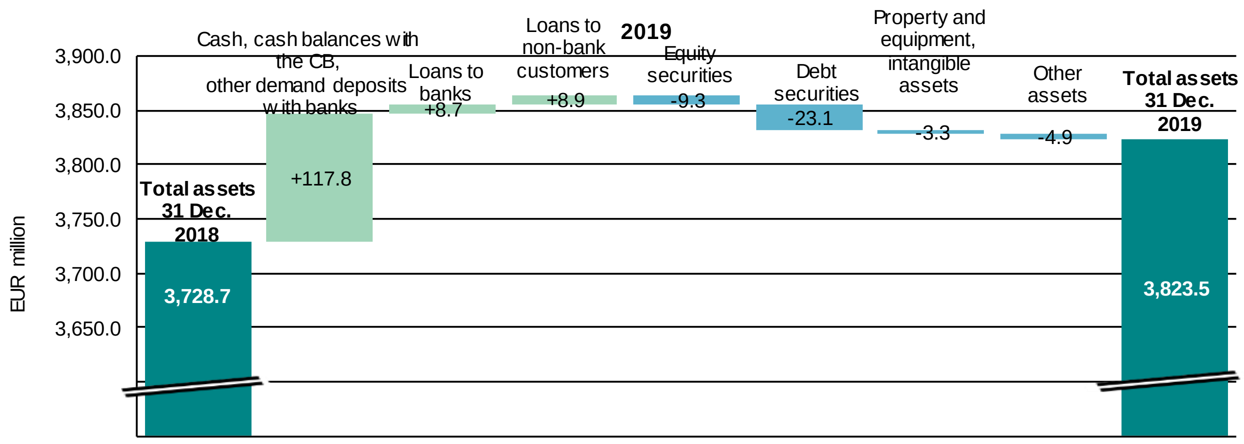


In **consolidated on-balance sheet assets, loans to non-bank customers** amounted to EUR 1,965,407 thousand at the end of 2019 and accounted for 51.4% of total assets, an increase of 0.6% relative to the end of 2018. At the end of 2019, **loans to non-bank customers of Abanka** stood at EUR 1,968,181 thousand and were 0.5% or EUR 8,898 thousand higher than at the end of 2018. The proportion of total assets that they account for decreased from 52.5% to 51.5%. In total loans to the non-banking sector as at the 2019 year-end, retail loans accounted for the bulk with 48.7% (compared to 46.2% as at the 2018 year-end), followed by loans to large companies with 23.3% (compared to 22.7% as at the 2018 year-end) and loans to SMEs with 16.6% (vs. 17.4% as at the 2018 year-end).

Cash, cash balances with the central bank and other demand deposits with banks of the Abanka Group as at the reporting date amounted to EUR 655,050 thousand and equalled those of Abanka. **Loans to banks of the Abanka Group** and/or of **Abanka** totalled EUR 39,487 thousand. Cash, cash balances with the central bank and other demand deposits with banks as at 31 December 2019 were up by 21.7% relative to 31 December 2018 at the Group level and by 21.9% at Abanka, primarily due to excess liquidity in the system and negative interest rates on the market.

As at the reporting date, the **Abanka Group's investments in securities** amounted to EUR 1,089,796 thousand and **equalled those of Abanka**, as the subsidiary did not disclose securities transactions in its financial statements. Compared to the 2018 year-end, total investments in securities decreased by 2.9% or EUR 32,394 thousand in nominal terms. As at 31 December 2019, the equities portfolio of Abanka was worth EUR 34,130 thousand and was lower by 21.5%, of which EUR 24,830 thousand was accounted for by the Bank Resolution Fund. The debt securities portfolio of Abanka as at the end of the reporting year totalled EUR 1,055,666 thousand and accounted for 96.9% of total securities held by the Bank.

CHANGES IN ASSETS OF THE STATEMENT OF FINANCIAL POSITION OF ABANKA AS AT 31 DEC. 2019 COMPARED TO 31 DEC. 2018 (amounts in EUR million)



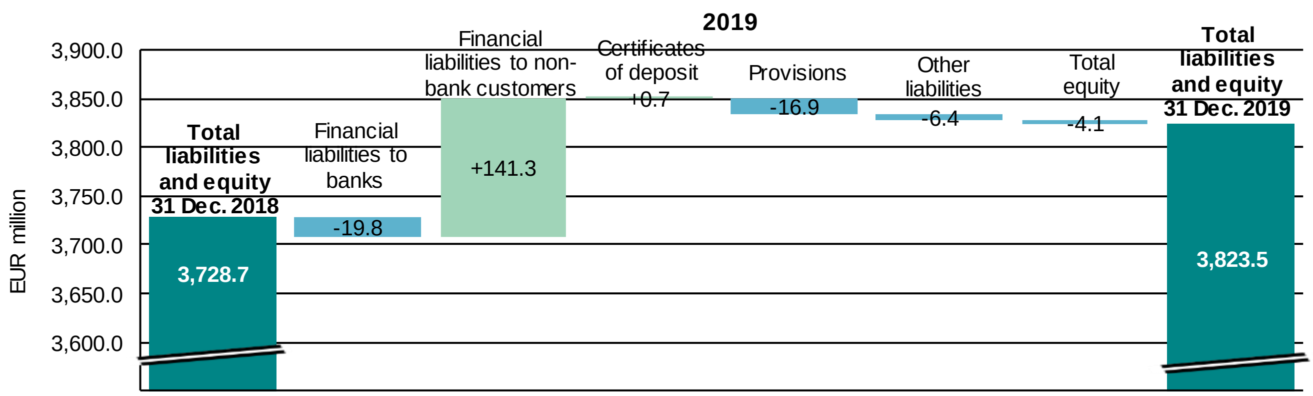
As at 31 December 2019, **consolidated on-balance sheet liabilities** comprised total liabilities of EUR 3,243,822 thousand and total equity of EUR 578,837 thousand. **Abanka's balance sheet liabilities** comprised total liabilities of EUR 3,244,205 thousand and total equity of EUR 579,247 thousand. See section Total equity and ownership structure for more details.

The **Abanka Group's deposits from non-bank customers** accounted for the bulk of the **Group's total liabilities** and amounted to EUR 3,073,228 thousand as at the reporting date (compared with EUR 2,934,448 in 2018). Together with loans from customers of EUR 2,248 thousand (compared with EUR 5 thousand in 2018), they amounted to EUR 3,075,476 thousand at the end of 2019. Deposits from non-bank customers grew by 4.7% or EUR 138,780 thousand in nominal terms relative to the end of 2018. As at the reporting date, **Abanka's deposits from non-bank customers** amounted to EUR 3,074,316 thousand (compared with EUR 2,935,218 thousand in 2018). Together with **loans from customers** of EUR 2,248 thousand (compared with EUR 5 thousand in 2018), they totalled EUR 3,076,564 thousand at the end of 2019. Deposits from non-bank customers grew by 4.7% or EUR 139,098 thousand in nominal terms relative to the end of 2018. They accounted for 80.4% of total liabilities (compared with 78.7% in 2018).

The **Abanka Group's financial liabilities to banks** amounted to EUR 99,337 thousand as at 31 December 2019 and **equalled those of Abanka**. Those liabilities were down by 16.6% relative to 31 December 2018. As at the reporting date, there were no financial liabilities to the central bank, while lower financial liabilities to banks were the result of a 29.5% decrease in deposits from banks and a 14.6% decrease in loans from banks relative to the end of 2018.

The securities in issue of the Abanka Group equalled those of Abanka. As at 31 December 2019, they amounted to EUR 14,302 thousand, an increase of 4.8% relative to the previous year. As at the reporting date, certificates of deposit equalled securities in issue.

CHANGES IN LIABILITIES OF THE STATEMENT OF FINANCIAL POSITION OF ABANKA AS AT 31 DEC. 2019 COMPARED TO 31 DEC. 2018 (amounts in EUR million)



PERFORMANCE OF THE GROUP IN 2019

Corporate Banking

As expected, no significant reversal in corporate banking was recorded in 2019. Economic growth in the euro area is low but remains stable, which has a significant impact on economic developments in Slovenia. Domestic demand is growing, despite uncertainty surrounding global trade. Both industrial production and merchandise exports strengthened, while the service sector continues to enjoy a favourable position. The employment rate and gross salaries grew, while consumer purchasing power strengthened. Following growth in recent years, construction activity slowed during the year and remains at the level of the previous year.

Both lending and deposit rates remained at very low levels and continued to decline slightly, resulting in a decrease in the interest margin. The European Central Bank announced at its June meeting that its key interest rates would not be raised at least until mid-2020. Due to the negative consequences of the trade war and certain signs of cooling economies on both side of the Atlantic, an increasing number of analysts are revising their assessments of future financial outlooks for the euro area, and are predicting new expansive measures by the ECB aimed at promoting European economic activity.

Corporate demand for investment loans and loans to finance working capital was slightly less intensive in 2019 compared with 2018. Nevertheless, companies are still taking advantage of the period of very favourable interest rates. There is also a discernible trend of increasingly longer-term loans, an area in which the Bank is relatively reserved on account of past experiences. Despite moderate growth, companies are more cautious, as they are aware that it is only a matter of time before there will be a reversal in the economic cycle, resulting in a recession. According to companies, lower economic growth is expected to be seen first in leading EU countries and will then spill over to Slovenia via a reduction in orders in supply chains, with a six-month or one-year delay. Worthy of particular note is the automotive industry, where the Bank’s customers noted a drop in orders for 2019 during the year, with that decline continuing into 2020.

The trend of loan refinancing as the result of improving corporate credit ratings in combination with an excess supply of liquid assets on the market slowed in 2019, as successful companies refinanced past loans with higher interest rates during the last two or three years, in so much as this was economically justified.

SMEs continue to represent the Bank’s strategic segment. The Bank will continue to work intensively with large companies with the goal of maintaining previously achieved market shares. In order to ensure the professional and high-quality monitoring of all customers and provide individualised solutions, the additional training and motivation of employees are high priorities for the Bank. In addition to retaining the existing customers, the Bank is very active in attracting new customers by focusing on comprehensive customer management and launching modern banking products, with the greatest emphasis on digital products. The Bank continues to pursue its strategic policy of establishing or increasing cooperation with customers with higher credit ratings, which is reflected in an improving credit portfolio. The Bank is also careful to invest in sectors that represent less risk (e.g. food production, the chemical and metal industries, manufacturing, transport, tourism and information technology).

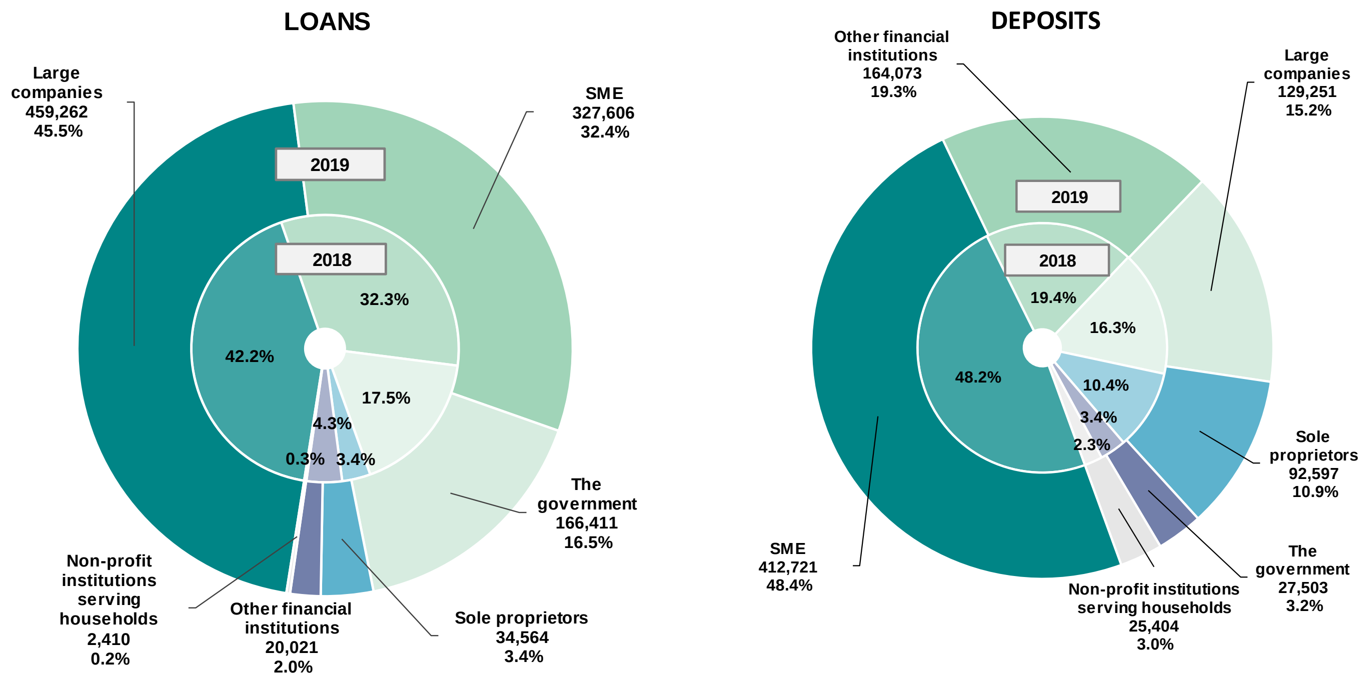
The Bank continues to pursue its strategic policy of establishing or increasing cooperation with customers with higher credit ratings, which is reflected in an improving credit portfolio.

There was a wide range of various sources available on the Slovene banking market. The Bank continued its cooperation with SID and the Slovene Enterprise Fund by together offering financing to a significant number of small and medium-sized enterprises.

Another important aspect of corporate banking is cooperation with other commercial sectors at the Bank, in particular the micro-enterprise and retail customer segments, which are presented uniformly to customers. With the help of employees from the Financial Markets Division, the Bank also offers its customers products and services from that area.

Trade finance represents one of the most important complementary services in corporate banking, with the number of such transactions rising constantly in recent years. The reasons for this lie in the positive experiences of customers in the successful execution of domestic and international commercial transactions, and in customers’ growing awareness of the importance of specific trade finance products that offer protection against various risks in international operations. In the area of trade finance, Abanka offers customers a comprehensive range of all trade finance products (letters of credit, collection services, guarantees, cheques, etc.) that provide them a choice of the most appropriate product or combination of products, depending on the type and complexity of individual transactions. Alongside the execution of transactions, the Bank's expert advice and individual approach to customers' wishes and needs, and the continuous development of services with a focus on digitalisation represent another competitive advantage that, according to its customers, makes Abanka an important and recognised business partner in the area of trade finance services. The organisation of professional meetings where Abanka and its customers exchange their extensive experiences in the area of international business contributes further to the strengthening of long-term business cooperation.

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



Abanka's loans to corporate customers and sole traders amounted to EUR 1,010,274 thousand as at the end of 2019, after having dropped by EUR 43,311 thousand or 4.1% since the end of the previous year.

7.6%

market share of Abanka in loans to corporate customers as at the end of 2019
(as at the end of 2018: 8.3%)

Deposits and loans from corporate customers and sole proprietors at Abanka amounted to EUR 853,797 thousand as at the close of 2019 and grew by 0.7% or EUR 6,192 thousand over the previous year; deposits rose by EUR 3,949 thousand to EUR 851,549 thousand, while loans from customers grew by EUR 2,243 and peaked at EUR 2,248 thousand.

8.1%

market share of Abanka in deposits from corporate customers as at the end of 2019
(as at the end of 2018: 8.3%)

Retail Banking

The retail banking segment performed well throughout 2019, as the Bank achieved or exceeded all ambitiously planned business objectives and maintained its market position.

The appropriate expertise of employees and their skills are crucial for offering the Bank's customers a wide range of products. For this reason, a great many activities focused on employee training. The necessary knowledge and qualifications of employees are important for establishing an appropriate relationship, trust and kindness to the customer.

The Bank offers customers a comprehensive portfolio of banking products and services via its branch network and Contact Centre, and nurtures relationships with customers in the personal and private banking sectors.

Abanka provides customers a comprehensive range of financial services in one place. As a broker on the insurance market, it has provided insurances services since November 2003. The Bank cooperates with Zavarovalnica Triglav, d.d., Triglav, Zdravstvena zavarovalnica, d.d., and Triglav Skladi, d.o.o., in the areas of bancassurance products and investment funds.

In the age of digitalisation, the Bank offers its users modern electronic and mobile products and thus pursues its business objective of migrating customers to digital sales channels, where Abanka has exceeded established sales targets, primarily in sales of the Abamobi mobile bank application, which are constantly on the rise. The Bank successfully markets the Abadenarnica product, Abaklub and the Visa Electron instalment card.

In the age of digitalisation, the Bank offers its users modern electronic and mobile products and thus pursues its business objective of migrating customers to digital sales channels.

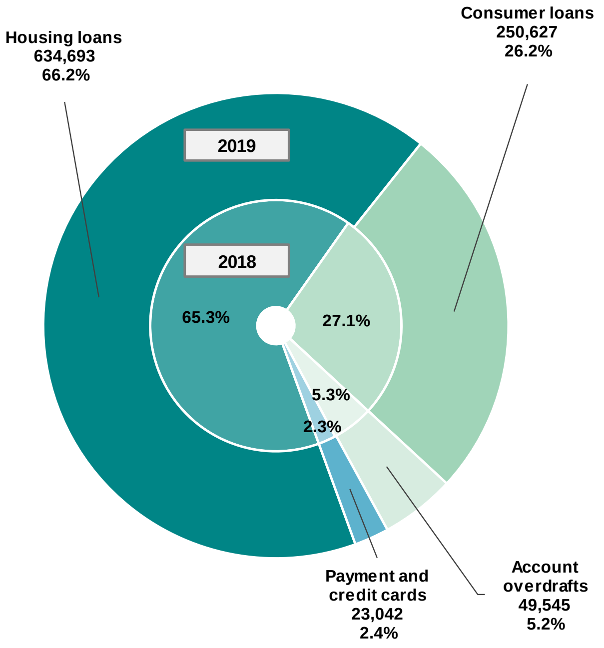
Abanka has an extensive branch network across Slovenia. Through optimisation activities in previous years, branch offices were transformed into sales-/advice-oriented branches with high added value. At the Central Slovenia Main Branch Office, customers will find the unique Abasvet branch office, where Abanka is transforming a traditional branch office into a bank of the future, while keeping pace with digitalisation.

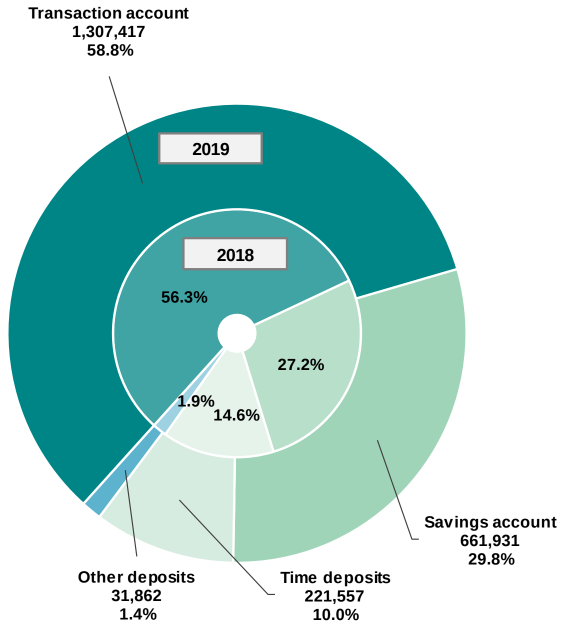
Transactions with micro-enterprises and sole proprietors remain an important element of the Bank's overall operations and are executed at all main branches throughout Slovenia. Abanka thus facilitated a comprehensive range of banking-financial services in one place and easy access to those services across Slovenia.

Commercial activities were strengthened through cooperation with various funds and strategic partners, such as chambers of craft and small business and chambers of commerce and industry, the Slovene Enterprise Fund, regional agencies for the promotion of development and municipalities, all of which focus on promoting and accelerating the development of small businesses.

Competition in this area remains intense. However, neither interest rates nor operating costs are the main factor when a customer selects their primary bank. The quality of services, response time, a personal approach and a full-range of products and services in one place represent the key indicators of satisfaction, and thus the building of long-term relationships that strengthen the Bank's share of and position on the market. Through an active and constant presence on the market, the Bank continuously drew attention to itself, sought and exploited market opportunities, maintained good business relationships with existing micro-enterprises and entrepreneurs, and attracted new customers.

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





Abanka's loans to retail customers totalled EUR 957,907 thousand as at the 2019 year-end. Compared to 31 December 2018, they rose by 5.8% or EUR 52,209 thousand in nominal terms.

9.4%

market share of Abanka's loans to retail customers as at the end of 2019 (as at the end of 2018: 9.5%)

As at the reporting date, **Abanka's deposits from retail customers** totalled EUR 2,222,767 thousand. Compared to the 2018 year-end, they increased by 6.5% or nominally EUR 135,149 thousand.

11.3%

market share of Abanka in deposits from retail customers at the 2019 year-end (as at the end of 2018: 11.4%)

Operations with Other Banks and Securities

Cash on hand, cash balances with the central bank, demand deposits placed at banks and loans to banks amounted to EUR 694,537 thousand **within the Abanka Group** and at **Abanka** at the end of 2019. At **Abanka**, the balance of the aforementioned items was up by 22.3% in 2019 relative to the end of 2018.

The **Abanka Group's financial liabilities to banks** amounted to EUR 99,337 thousand at the end of 2019 and were equal to **Abanka's financial liabilities to banks**. Financial liabilities at the end of 2019 were down by 16.6% relative to the end of 2018.

Management of the debt securities portfolio included in the trading and banking books continued with a conservative and prudent investment policy, meaning investments in highly liquid, investment-grade securities. The banking book portfolio was managed in accordance with the Bank's business and financial plan for 2019, and with the current liquidity situation. The balance of debt securities held in the banking book at the end of the year was slightly lower than originally planned for 2019, primarily as the result of a lack of eligible and appropriate investments in securities that would provide a higher yield to maturity than the ECB's valid deposit rate.

The value of the **Abanka Group's investments in securities** at the end of 2019 was equal to **those of Abanka**. That value was down by 2.9% relative to the end of 2018 to stand at EUR 1,089,796 thousand. The securities portfolio included both equity and debt securities.

Liabilities from securities issued by the Abanka Group at the end of 2019 were also equal to **Abanka's liabilities for securities issued**. Those liabilities amounted to EUR 14,302 thousand at the end of 2019, an increase of 4.8% relative to the end of 2018.

Abanka remains an important primary dealer in Slovene government bond issues and serves in the role of market maker in MTS Slovenija as an official liquidity provider. Through different activities, the Bank has been steadily increasing its trading volume on the primary and secondary Slovene government bond markets, and has become an important player on both the local and the international market. In the most recent international issues of government bonds and domestic issues of Republic of Slovenia (RS) treasury bills, Abanka played an active role as a co-lead manager and achieved an enviable market share on the local market. In January 2019, Abanka and other reputable foreign banking groups (**Barclays, BNP Paribas, Credit Agricole CIB, Commerzbank and HSBC**) were selected to form a syndicate of banks (as lead managers) responsible for the issue of new 10-year bonds in the amount of EUR 1.5 billion. This confirms the fact that Abanka is recognised by domestic and foreign institutional investors as an important partner in ensuring the liquidity of Slovene government securities.

Payment transactions

With regard to domestic and cross-border payment transactions in 2019, Abanka processed 18.7 million transactions through Target payment systems and the small-value payment system (SIMP) with a total value of EUR 22,778.4 million. Domestic and cross-border payments were up by 2.2% relative to 2018 in terms of the number of orders and by 1.1% in terms of value. The Bank also processed 10.7 million internal credit payment transactions valued at EUR 12,950.5 million.

Abanka is an important participant in the SEPA direct debit (SEPA DD) scheme. In 2019, Abanka processed 7.3 million external direct debit transactions and 1.7 million internal direct debit transactions in the total amount of EUR 384.1 million through the aforementioned payment system. The Bank achieved a 23.4% market share in terms of the number of external direct debit transactions.

Card and ATM Operations

The Bank had issued 487,482 cards by the end of 2019, an increase of 3.5% relative to the end of 2018. BA Maestro cards, which function as a personal account cards, accounted for the majority or 72.6% of all cards. A total of 37.5 million transactions were made with cards issued by Abanka in 2019, an increase of 12.6% relative to 2018. The total value of those transactions was EUR 1,746.8 million, representing an increase of 8.7% relative to the previous year.

Abanka has an extensive network of points of sale for all types of card products, which enable transactions via Abanka-owned POS terminals or through the terminals of other banks. On the basis of vendor agreements, 36.3 million transactions with all types of cards were executed in 2019, an increase of 10% relative to 2018. The nominal value of those transactions was EUR 1,458.9 million and exceeded the previous year's figure by 7%.

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.

Abanka operated 246 ATMs at the end of 2019. With the reduction of the number of ATMs by 13 and a 16% market share, Abanka's ATM network is the third largest. Abanka's ATMs processed 9 million cash withdrawal transactions with a total value of EUR 1,025.4 million.

246

ATMs owned by Abanka as at the end of 2019

Precious Metals

During 2019, 101.40 kg of gold bars and coins (compared with 126.51 kg in 2018) with a total value of EUR 4,224 thousand (compared with EUR 4,492 thousand in 2018) were sold at 19 branch offices, while 56.36 kg of gold bars and coins (compared with 28.03 kg in 2018) with a total value of EUR 2,284 thousand (compared with EUR 961 thousand in 2018) were bought at six branch offices.

Custody and Administrative Services

In 2019, Abanka maintained its leading market position in the segment of custody services for investment and pension funds.

In 2019, Abanka maintained its leading market position in the segment of custody services for investment and pension funds.

The provision of custody services for investment funds was upgraded in accordance with the legal provisions of the Investment Funds and Management Companies Act (ZISDU-3) and the regulatory requirements of Commission Delegated Regulation (EU) 2016/438, which introduced broader tasks and increased responsibility vis-à-vis custodian banks, both in terms of control over assets and the safekeeping of the financial instruments of investment funds. In accordance with legal provisions, the process of providing services for pension funds and the internal funds of insurance companies was adapted to meet higher asset protection standards.

In Slovenia, Abanka has the longest tradition in the provision of administrative services for investment funds. Its many years of professional experience also enable the Bank to provide administrative services for pension funds and the internal funds of insurance companies.

In addition, a comprehensive range of services is provided for alternative investment funds with broader investment policies, demand for which is increasing on the Slovene financial market, as well.

Abanka supplements its offer with custody services under the Market in Financial Instruments Act (ZTFI-1), which enables the Bank to provide management services for custodial accounts for securities to domestic institutional customers.

Total Equity and Ownership Structure

As at 31 December 2019, the **total equity of the Abanka Group** was EUR 578,837 thousand, whilst **that of Abanka** equalled EUR 579,247 thousand. In 2019, the total equity of Abanka experienced a year-on-year decrease of 0.7% or EUR 4,137 thousand in nominal terms. Profit earned in 2019 increased equity by EUR 61,665 thousand, whereas dividend payments decreased equity by EUR 66,737 thousand. The equity increase resulted also from accumulated other comprehensive income which was higher by EUR 849 thousand and the increase of EUR 86 thousand of retained profit, which was accounted for under other changes. As at the reporting date, the Bank's total equity accounted for 15.1% of total balance sheet liabilities, while as at the 2018 year-end it was higher at 15.6%.

On 16 May 2019, the Bank's 40th regular General Meeting of Shareholders was briefed on accumulated profit for 2018, which amounted to EUR 88,208,003.31. The General Meeting of Shareholders decided that a portion of accumulated profit earned in 2018 of EUR 66,736,886.53 shall be paid to the Bank's shareholder as dividend, while the remaining EUR 21,471,116.80 shall remain undistributed (profit brought forward).

As at the reporting date, Abanka's **accumulated other comprehensive income** amounted to EUR 4,182 thousand (in 2019 an increase of EUR 849 thousand), **reserves from profit** equalled EUR 64,550 thousand (an increase of EUR 6,166 thousand compared to the 2018 year-end) and **retained profit** totalled EUR 77,056 thousand (in 2019 increased by EUR 61,665 thousand in net profit, decreased by EUR 66,737 thousand in dividend payment, decreased by EUR 6,166 thousand for allocation of net profit to reserves from profit and increased by EUR 86 thousand for other changes).

The audited share book value was EUR 38.36 as at 31 December 2019 based on 15,100,000 shares (vs. EUR 38.63 as at 31 December 2018). It was calculated as the ratio of all capital components, including net profit for the reporting period, to the number of shares subscribed as at the reporting date.

The Bank's share capital amounted to EUR 151,000 thousand as at the reporting date. On 18 December 2013, the Republic of Slovenia subscribed and fully paid up all 15,000,000 shares (ABKS) newly issued by Abanka, and thereby became its 100% owner, holding 15,000,000 ordinary registered no-par value shares with voting rights attached. On 25 September 2014, based on a relevant decision of the European Commission, the Government of the Republic of Slovenia was able to finally adopt its decision on measures for strengthening the stability of Abanka, which also included the second round of the capital increase of EUR 243,000 thousand. On 3 October 2014, the General Meeting of Shareholders of Abanka passed a resolution to increase the share capital through the in-kind contribution of the Republic of Slovenia in bonds totalling EUR 242,999,943.49 and through the cash contribution of EUR 56.51. In accordance with the resolution passed by the 29th General Meeting of Shareholders of Abanka on 8 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand. The share capital increase of EUR 1,000,000.00 was entered in the Companies Register on 10 October 2014. The share capital of Abanka amounts to EUR 151,000,000.00 and is divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. After the merger of Banka Celje, the **share capital of Abanka** remained unchanged in the amount of EUR 151,000 thousand, while the share capital of Banka Celje was transferred to the **share premium of Abanka**, amounting to EUR 282,459 thousand as at the 2018 year-end, which remained unchanged in 2019. The corresponding amount per no-par value share in the share capital was EUR 10.00 as at the end of 2019.

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

THE SHAREHOLDER OF THE BANK

31 Dec. 2019 and 31 Dec. 2018

	Number of shares	Holding in %
THE REPUBLIC OF SLOVENIA	15,100,000	100.0

With regard to **transparency of financial relations between public authorities and bodies of self-governing local communities and public undertakings**, Abanka is not required to settle the operating loss and ensure the capital because in 2019 the Bank generated a profit of EUR 61,665 thousand.

Issue of shares and capital increase - Abanka

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

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

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

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

Simultaneously with the reduction of the share capital of Abanka Vipa d.d. to zero, on 18 December 2013, in accordance with the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, and the Decision of the Bank of Slovenia Approving the Share Capital Increase of Abanka Vipa d.d., dated 18 December 2013, the Bank's capital share was increased to EUR 150,000,000 through the issue of 15,000,000 new ordinary registered no-par value voting shares. On the same day, respective entries were made in the Companies Register and, as a result, the above-mentioned shares were entered in the Central Securities Depository of securities issued in dematerialised form. After 18 December 2013, the share capital of Abanka Vipa d.d. was divided into 15,000,000 new shares with voting rights attached. After the subscription of new ABKS shares, the Republic of Slovenia held 15,000,000 ABKS shares, which was 100% of all issued shares of Abanka Vipa d.d. In accordance with the resolution passed by the 29th General Meeting of Shareholders on 3 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand on 8 October 2014. The share capital increase of EUR 1,000,000.00 was entered in the Companies Register on 10 October 2014. After the increase, **the share capital of Abanka** amounted to EUR 151,000,000.00 and was divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia as at 31 December 2019.

Issue of shares and capital increase – Banka Celje

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

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

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

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

On 5 February 2020 Nova KBM d.d. became the holder of 100% shares of Abanka d.d.

THE BANK'S DEVELOPMENT

DEVELOPMENT AND MARKETING COMMUNICATIONS IN 2019

Corporate banking

With the aim of improved control over corporate finances, the Bank upgraded the Abamobi com and Abanet com applications during the year. Special conditions for short-term and long-term loans were developed for the purpose of offering micro- and small enterprises affordable financing. In the corporate lending segment, the Bank continued to work with municipalities, SID Bank and the Slovene Enterprise Fund to facilitate the raising of corporate loans at favourable interest rates. A welcome package was designed for new customers and includes price-adjusted services required by companies in their day-to-day operations. The Bank added Visa cards to the Abadenarnica mobile wallet, and facilitated the execution of commercial payments using advance phones. Despite the high level of competition in card operations (acceptance of cards by merchants), the Bank retained all of its key customers and attracted new customers by using an appropriate marketing approach and applying its expertise. The digitalisation of business processes continued with the upgrading of the existing lending application, the automatic completion of forms, the sending of statements to users of the electronic and mobile banking applications over secure digital channels, etc. The Bank met the requisite legal requirements and in September 2019 became the first bank to facilitate the PSD2 channel.

The Bank added Visa cards to the Abadenarnica mobile wallet, and facilitated the execution of commercial payments using advance phones.

In 2019, the Bank organised several regional training-social events for the business community, with a focus on micro-, small and medium-sized enterprises, as well a larger main event for the business community in Ljubljana. The Bank’s range of corporate products was presented at numerous conferences and business events in cooperation with various commercial and entrepreneurial organisations, such as the Chamber of Commerce and Industry of Slovenia and Slovenian Business Club, and at many regional and local events organised by regional chambers of craft and small business.

In addition to various business events and memberships in different commercial and entrepreneurial organisations that serve as a contact point for the promotion of the Bank’s corporate products and services, marketing activities in the corporate banking segment include advertising in the business media. The primary objective of that advertising was to raise the visibility of brands for corporate customers, such as Abamobi com, Abanet com, Abasms com in Abadenarnica (a mobile wallet also available to corporate customers). The Bank also made use of various forms of direct marketing communication (e-mail, text messages, calls from account managers, etc.) via the customer relationship management support system. It also used many modern (internal) communication channels and social networks, such as LinkedIn, to promote corporate products and services.

Retail Banking

The Bank continued to pursue its established strategy in 2019, and strove to offer the market innovative new services or updated existing services. At the beginning of the year, it thus offered advanced users an improved user experience. The Bank offered a single entry page in the Abamobi mobile bank and thus combined all of Abanka's mobile applications (with a link to Abaklub and Abadenarnica). The mobile bank and Abanet online bank were upgraded with the possibility of requesting a change to the limit on debit cards (valid for VED and BA Maestro), while users were offered the possibility of requesting quick loans. In developing applications for its users, the Bank always takes into account the highest security standards. To that end, it changed the way digital channels are accessed in September. Accessing Abanet requires the entry of the user's e-mail address, personal password and one-time SMS password, which the user receives on their mobile phone each time they enter the application. Only the user's PIN is required to enter Abamobi. In September, Abanka was the first bank in Slovenia to offer the PSD2 channel to retail customers. Visa cards were added to the Abadenarnica mobile wallet. We retained alternative forms of savings for customers, and continued to offer the insurance services and mutual funds of Zavarovalnica Triglav, d.d., and Triglav Skladi, d.o.o. The Bank developed a special bundled product, based on which customers were offered the possibility of diversification by placing their investment in a non-purpose deposit and selected mutual fund or in an insurance product. To maintain customer loyalty and increase the number of users of the Abaklub loyalty programme, new benefits offered by certain business partners were added to that programme. A welcome package was prepared for new customers, Račun users, retired persons, small businesses and entrepreneurs, with the aim of making their operations more affordable. In accordance with the Bank of Slovenia's Regulation on macroprudential restrictions on household lending, Abanka adjusted its consumer loan approval process. The Bank offered retail customers a range of affordable consumer and housing loans in 2019. It participated in a number of municipal tenders for interest-rate subsidies and thus offered customers more affordable housing loans. Several processes were simplified and a series of minor improvements was made, which have an impact on the quality of services. The Bank accelerated the introduction of paperless operations and stopped sending paper statements to the users of digital channels. It also facilitated the receipt of e-invoices by entrepreneurs in Abanet.

Abanka continued to upgrade marketing tools and followed the preferences of specific customer segments in the selection of communication channels, as well. A great deal of effort was invested in obtaining the consent of customers for the processing of personal data and in the notification process, both of which serve as the basis for implementing direct marketing activities tailored to specific customers. Through marketing campaigns in the media, the Bank raised the visibility of numerous service brands, particularly in the areas of mobile and electronic channels, and card operations. A great deal of marketing communication was dedicated to the lending offer. Content marketing communication was the core of summer marketing communication for a range of banking services recommended for customers prior to holidays. Where changes in the competitive environment or the need to improve sales results were identified, the Bank's portfolio was also presented regionally to bring it closer to customers in selected local communities. Using a comprehensive customer relationship management support system, a great deal of emphasis was placed on targeted direct marketing communication based on predictive analytics models via the channels preferred by customers (e-mail, text messages and phone calls). In this way, different target groups were addressed taking into account their purchasing behaviour and decision making. Where possible, the customer's purchase journey and decisions were taken into account. The Bank also maintained contact with customers after purchases by providing advice and guidance to make the use of services even easier, and thus contributed to the more active and frequent use of services and improved customer satisfaction. Content marketing was strengthened, while a monthly electronic newsletter for customers was introduced. Communication on social networks was expanded to additional channels, enabling the Bank to improve the quality of communication with (potential) customers and obtain their contact information for future direct marketing communication. In all marketing activities, loyal customers were informed and addressed through numerous internal communication channels.

Abanka continued to upgrade marketing tools and followed the preferences of specific customer segments in the selection of communication channels, as well.

Financial Markets

In 2019, in terms of liquidity management, the Treasury Department:

- continued with the process of upgrading, automating and centralising the management of operational liquidity;
- continued the management of secondary liquidity reserves in the environment of extremely low or negative interest rates and ensured the appropriate level, quality and structure of the banking book.

All treasury products were actively marketed in 2019, while the highest increase in demand was seen in financial instruments for hedging against currency risks. Volatility on financial markets was high in 2019, which was reflected on foreign exchange markets in particular. Customers thus actively used derivatives for hedging against changes in exchange rates. Interest rates remained at record-low levels in 2019, which resulted in an increasing number of customers opting for derivatives transactions for hedging against interest rate risk when raising long-term loans. The interest rate cap proved to be a highly effective instrument in the period of negative rates because, in return for paying an optional premium, it provides dynamic protection, under which the customer will receive payment in the event of a rise in Euribor above the agreed interest rate without having any additional obligations from the interest rate cap agreement.

Abanka not only strengthened cooperation with the existing customers in 2019, but also attracted new customers, thereby enhancing its visibility in the sale of treasury products, which was confirmed by the extremely good attendance of corporate customers at the traditional 12th meeting with the Treasury Department, organised in October 2019 in Ljubljana.

Abanka remains an important primary dealer in the government bond issues of the Republic of Slovenia, continues to actively participate as a domestic and international market maker in MTS Slovenija, and acts as an official liquidity provider. In January 2019, Abanka and several other reputable foreign banking groups were selected to participate in a syndicate of banks (as lead managers) responsible for issuing a new 10-year bond in the amount of EUR 1.5 billion.

Abanka remains an important primary dealer in the government bond issues of the Republic of Slovenia, continues to actively participate as a domestic and international market maker in MTS Slovenija, and acts as an official liquidity provider.

CORPORATE GOVERNANCE STATEMENT

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

Abanka d.d. was a state-owned company in 2019 and not a public company within the meaning of the Financial Instruments Market Act. The governance of the Bank was defined in the Articles of Association of Abanka d.d. and the Governance Policy of Abanka d.d. The governance of subsidiaries in the Abanka Group was defined in the Framework Corporate Governance Policy of the Abanka Group, in accordance with which even subsidiaries must comply with the corporate governance standards that applied to the parent company of the Abanka Group, in proportion to the characteristics, scope and complexity of their operations. The governance policies and practices of Abanka were published on its website at http://www.abanka.si/.

In 2019, Abanka d.d. implemented its internal governance arrangements, including corporate governance, in accordance with the applicable legislation of the Republic of Slovenia, particularly the provisions of the Banking Act (ZBan-2) on internal governance arrangements in Section 3.4 (Governance System of a Bank) and Section 6 (Internal Governance Arrangements and Internal Capital Adequacy), the latter in the part relating to the requirements which apply to a bank or to the members of the management body, in addition to taking into account the regulations referred to in the second paragraph of Article 9 of the Banking Act (ZBan-2). Apart from that, the Bank adhered to the Decision on Internal Governance, the Management Body and the Adequate Internal Capital Assessment Procedure for Banks and Savings Banks and the relevant EBA guidelines on internal governance, on the assessment of the suitability of members of the management body and key function holders as well on remuneration policies and practices. Furthermore, the Bank sought to follow non-mandatory recommendations from the letter of the Bank of Slovenia (ref. 38.20-0288/15-TR of 23 October 2015) to the maximum possible extent.

In 2019, the Bank complied with the legal requirements on the governance of a bank, including the reference codes and recommendations set out in the Statement of compliance with corporate governance codes.

The acquisition of Abanka by **Nova KBM d.d.** was headed by current owner SDH, d.d. and successfully concluded on 5 February 2020, meaning that Abanka is now part of **Nova KBM Group's portfolio**. The 42nd General Meeting of Shareholders changed the membership of the Supervisory Board on 5 February 2020. This Corporate Governance Statement for 2019 will thus be received by the Management Board and the new Supervisory Board.

Statement of Compliance with Corporate Governance Codes

The Management and Supervisory Boards declare that in their work and operations in 2019 Abanka d.d. observed the corporate governance recommendations as set out in:
- **Corporate Governance Code** adopted by Ljubljanska borza d.d. (Ljubljana Stock Exchange) and the Slovenian Directors' Association on 27 October 2016. The Code is available on the website of the Ljubljana Stock Exchange at http://www.ljse.si.
- **Corporate Governance Code for Companies with Capital Assets of the State** adopted by Slovenski državni holding, d.d. (hereinafter: SDH) in May 2017 and the **Recommendations and Expectations of Slovenski državni holding** adopted by Slovenski državni holding, d.d. in March 2018. Both documents are published on the SDH's website www.sdh.si.

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

a) Corporate Governance Code

Code provision 6.2: Abanka is of the view that providing information to the public via its sole shareholder – the Republic of Slovenia about their investment policy is primarily at the shareholder's discretion, in line with the regulations governing capital assets of the State. No encouragement by Abanka could specifically influence its shareholder's decision to inform the public.

Code provision 9.2: In 2019, six members of the Supervisory Board were independent, one member was in a position of dependency, but she acted independently as an impartial expert in the interests of the Bank. According to the Bank's then applicable Articles of Association, two-thirds of the members of the Supervisory Board must be independent experts.

Code provision 12.3: The scope of topics and time frames to be respected by the Management Board in its regular reporting to the Supervisory Board were not set in the Rules of Procedure of the Supervisory Board but in a separate document – an annual calendar of meetings of the Supervisory Board and its committees, including the planned scope of topics to be discussed, which was approved by the Supervisory Board at its last session of each year for the following year. The Management Board provided up-to-date materials for the Supervisory Board sessions, both in writing and in electronic form (by ensuring adequate protection), while seeking to improve the quality of the materials.

Code provision 12.8: The manner of communicating with the public with respect to the decisions adopted at a Supervisory Board session was not stipulated by the Rules of Procedure of the Supervisory Board, but the manner of publishing announcements and data of the Bank was determined by the Articles of Association of Abanka d.d.

Code provision 27.4: Given that in 2019 the Bank was wholly-owned by one shareholder, it ensured the transparency of operations by timely and appropriately informing the shareholder of the expected dates of its significant announcements.

Code provision 29.7: The Bank disclosed the remuneration of each Management Board member for 2018 by disclosing the total gross amount of the variable part of remuneration but not the gross amount broken down to the items calculated based on quantitative and qualitative criteria.

b) Corporate Governance Code for Companies with Capital Assets of the State

Code provisions 4.1 and 6.6: In 2019, six members of the Supervisory Board were independent, one member was in a position of dependency, but she acted independently as an impartial expert in the interests of the Bank. According to the Bank's then applicable Articles of Association, two-thirds of the members of the Supervisory Board must be independent experts.

Code provision 8.3: The Bank disclosed the remuneration of each Management Board member for 2018 by disclosing the total gross amount of the variable part of remuneration but not the gross amount broken down to the items calculated based on quantitative and qualitative criteria.

Code provision 8.5: Given that in 2019 the Bank was wholly-owned by one shareholder, it ensured the transparency of operations by timely and appropriately informed the shareholder of the expected dates of its significant announcements.

c) Recommendations and Expectations of the Slovenian Sovereign Holding

Recommendation No. 5: Attainment of quality and excellence in the operations: The Bank performed a range of activities in 2019 to determine, assess, manage and monitor the quality of its operations in various segments. The Code of Ethics constituted the basis for improving the corporate culture of the Bank, thereby achieving business excellence and quality. The activities aimed at improving the quality of operations included verification of customer satisfaction (analyses on the basis of received complaints, loss events and other incidents, checking the service level among organisational units), care for employee satisfaction (measurement of the organisational climate, management staff assessment, a Family-Friendly Enterprise Certificate, concern for employee safety and health, monitoring of staff turnover, monitoring of reported infringements and irregularities, promotion and rewarding of promoters of the Bank's values and innovative ideas), and professional training, raising employees' awareness about ethical and responsible actions, and acquisition of leadership skills. By ensuring adequate staffing in IT area, the quality and security of information systems was properly managed. Moreover, with their activities, the qualified internal control functions contributed to higher quality of the Bank's operations through their activities.

Main characteristics of the internal control and risk management systems in financial reporting for 2019

In 2019, risk management was an important part of the Bank's governance and internal management system, which refers to the systematic identification, measurement and assessment of risks arising from the Bank's operations and its environment. The internal control system, as part of the Bank's internal management, ensures adequate management of all material risks within the Bank. Internal controls of accounting and financial reporting are established at the level of ongoing internal controls (reporting, work procedures, segregation of powers and responsibilities, and automatic and manual controls) and include the verification of administrative and accounting procedures at all stages of the accounting process. They are embedded in business and support processes for carrying out core and ancillary activities of the Bank.

The quality and effectiveness of the internal controls put in place were monitored by the Internal Audit Department and the external auditor in connection with the preparation and fair presentation of accounting categories in the annual audit of the financial statements.

In order to provide quality, reliable and comprehensive accounting information and, consequently, correct and timely financial reporting, the Bank performed accounting control through the operation of the entire accounting function. The day-to-day security of the implementation of tasks was managed through an appropriate system of authorisations, separation of duties, compliance with accounting rules, business event documentation, the custody system, built-in control mechanisms in analytical applications and archiving in accordance with the applicable legislation and internal regulations. The Bank ensured the reliability of the support system for business operations and decision-making as well as compliance with legal and other requirements through effective implementation of primary accounting control, which was mostly carried out in analytical accounting, and secondary accounting control, which was aimed at verifying the effectiveness of primary accounting controls.

The basic risk appetite framework of Abanka d.d. consisted of the Risk Management Strategy and Risk Appetite, Risk Management Limits, and ICAAP and ILAAP Rules, which served as the basis to identify, measure or assess, manage, monitor and adequately report on all material risks to which the Bank is or could be exposed in its operations.

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

- **The structure of the company's share capital, including all securities, as defined by the act governing takeovers**
  As at 31 December 2019, the share capital of Abanka amounted to EUR 151,000,000.00 and was divided into 15,100,000 ordinary no-par value registered shares wholly owned by the Republic of Slovenia. Abanka d.d. had only one class of shares without any restrictions on their transferability. Each ordinary share carried one vote at the General Meeting of Shareholders unless stipulated otherwise by the Articles of Association or the law (no voting right).

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

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

- **Voting right restrictions**
  According to the Articles of Association, voting rights were not restricted to a certain holding or to a minimum number of shares. Detailed information on the exercise of voting rights is contained in Section Functioning of the General Meeting of Shareholders in 2019, its key competencies, description of shareholders' voting rights and the manner in which they are exercised, which is part of this statement.
  The Bank is unaware of any agreements according to which the financial rights attached to securities are through the involvement of the Bank separated from the rights attached to the holding of such securities.

- **Rules on the appointment or replacement of members of the management or supervisory bodies and amendments to the Articles of Association**
  The rules on the appointment or replacement of members of the management or supervisory bodies that were applicable in 2019 are presented in Section "Composition and functioning of management or supervisory bodies and their committees/commissions in 2019", which is part of this statement.
  The rules regarding amendments to the Articles of Association that were applicable in 2019 are disclosed in Section "Functioning of the General Meeting of Shareholders in 2019, its key competencies, description of shareholders' voting rights and the manner in which they are exercised", which is part of this statement.

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

Functioning of the General Meeting of Shareholders in 2019, its key competencies, description of shareholders' voting rights and the manner in which they are exercised

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

In accordance with the Articles of Association, the General Meeting of Shareholders was convened at least once a year by the Management Board. It could also be convened by the Supervisory Board. In addition, shareholders holding a total of one-twentieth of the share capital could require that a General Meeting of Shareholders be convened.

According to the Articles of Association, the General Meeting of Shareholders has to be convened no later than 30 days in advance by sending a notice with the agenda and proposed resolutions. The notice of the General Meeting of Shareholders has to be published as required by law and the said articles. The Bank should have enabled its shareholders to inspect the material needed for decision-making at the General Meeting on its premises since the publication of the notice. As all shareholders of the Bank were present or represented at the General Meeting of Shareholders, the General Meeting of the Shareholders took decisions without prejudice to the provisions of the law or the Articles of Association concerning the content, date and publication of the notice convening the General Meeting, the provisions relating to the deadlines and publication of amendments to the agenda of the General Meeting and the provisions on the majority required for the Management Board of the Bank to take a decision on the convocation of the General Meeting of Shareholders.

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

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

The General Meeting of Shareholders was convened twice in 2019.

At the 40th General Meeting of Shareholders held on 16 May 2019, the shareholders were briefed on the Annual Report of Abanka for 2018 and remuneration of the members of the Supervisory Board and the Management Board for 2018. The General Meeting of Shareholders was informed that the Bank’s accumulated profit as at 31 December 2018 amounted to EUR 88,208,003.31 and decided that a portion of accumulated profit in the amount of EUR 66,736,886.53 shall be paid to the Bank’s shareholder as dividends, while the remainder in the amount of EUR 21,471,116.78 shall be undistributed (allocated to profit brought forward). A portion of accumulated profit to be distributed (a portion of dividends) in the amount of EUR 11,135,000.00 shall be distributed from the Bank’s non-monetary assets by transferring 655,000 shares with the ticker symbol POSR issued by Sava RE d. d., (ISIN code: SI0021110513) to the shareholder at their fair value or EUR 17.000 per POSR share, which is the market price of the POSR share at the close of Ljubljana Stock Exchange on 9 May 2019 (one week before the General Meeting of Shareholders). The higher of the following two values was used to determine the fair value of non-monetary assets, i.e. POSR shares: (i) the market value of the POSR share at the close one week before the General Meeting of Shareholders (EUR 17.000), (ii) the weighted average of the closing price of the POSR share attained on the Ljubljana Stock Exchange during the one-year period ended one week before the date of the General Meeting of Shareholders (EUR 16.50146 per share). The remainder in the amount of EUR 55,601,886.53 shall be paid to the shareholder in cash. The General Meeting of Shareholders decided to pay out dividends on 24 May 2019 to the shareholders entered in KDD on 23 May 2019. The General Meeting of Shareholders granted a discharge to the members of the Management Board and the Supervisory Board, was briefed on the Annual Internal Audit Report of Abanka d.d. for 2018, including the opinion of the Supervisory Board. Furthermore, it agreed that Abanka d.d. as the donor and the National Gallery as the donee enter into a deed of gift under which the donor shall donate to the donee works of art from its art collection in the total amount of EUR 215,945.28 as at 31 March 2019.

At the 41st General Meeting of Shareholders held on 19 September 2019, Melita Malgaj and Alenka Vrhovnik Težak were appointed to four-year terms of office as Supervisory Board members of Abanka d.d., starting on 3 October 2019 and 9 October 2019, respectively. The General Meeting of Shareholders was briefed on the Rules on Remuneration and Rights of the Management Board Members of Abanka d.d. and on the Remuneration Policy of Abanka d.d.

Composition and functioning of management or supervisory bodies and their committees/commissions in 2019

Abanka used a two-tier management system in 2019. The Bank was run by the Management Board, whose work was supervised by the Supervisory Board. The governance of the Bank was based on the applicable legal regulations, the Articles of Association, internal documents, generally accepted business practices, the Corporate Governance Code for Listed Companies, the Corporate Governance Code for State-Owned Enterprises and the Recommendations and Expectations of the Slovenian Sovereign Holding (with certain exceptions and differences disclosed in the Statement of Compliance with Corporate Governance Codes).

Management Board

The Bank's operations were managed by the Management Board, which presented and represented the Bank independently and at its own responsibility. In legal transactions, the Bank was always jointly represented by two members of the Management Board who were entitled to sign on its behalf. Members of the Management Board were appointed and dismissed by the Supervisory Board. The Management Board had at least two and no more than five members, of whom one acted as its President. The number of Management Board members was determined by the Supervisory Board. The President and members of the Management Board were appointed for a five-year term with the possibility of reappointment. The Management Board reported to the Supervisory Board in accordance with the applicable regulations.

The composition of the Management Board in 2019 is presented in Appendix 1 of the Corporate Governance Statement.

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

If a member of the Management Board is appointed director or if their function in other companies and organisations has ended, they were required to immediately inform in writing the Bank, the Supervisory Board and the Bank of Slovenia or the European Central Bank.

A member of the Management Board was obligated to notify the Supervisory Board of the circumstances due to which a potential conflict of interest may have arisen with respect to the performance of the function of a Management Board member and of other circumstances that could affect the fulfilment of the conditions for the appointment as a Management Board member in line with the Banking Act, including any significant change which affected or could ahve affect the Bank's assessment as to their suitability as a Management Board member.

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

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

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

The Rules of Procedure of the Management Board stipulate the methods of its work, and distribute the areas of work and tasks among its members. The Management Board assigned individual organisational units of the Bank to its members and made them responsible for their management and co-ordination. The Management Board adopted its decisions at regular and extraordinary meetings. If needed, the Management Board convened a meeting with select or several senior management members to share information, coordinate the operations of the Bank and discuss other important business matters.

The data on the remuneration of the Management Board members for 2019 are disclosed in Appendix 2 of the Corporate Governance Statement.

The Management Board was able to transfer certain decision-making rights to executive and other employees as well as to **collective decision-making bodies**. The number and type of bodies was determined by the Bank's rules on organisation, while the composition, scope of powers and working methods are defined by the rules of procedure of an individual body. The Bank's committees in 2019 were as follows:

- **Risk Management and Asset-Liability Committee**
  The committee was in charge of monitoring and assessing the appropriateness of the risk management strategy, policies and methodologies, risk appetite framework and risk appetite statement (capital and liquidity appetite), the appropriateness of the recovery plan and all ICAAP and ILAAP elements, activities related to the Single Resolution Committee (SRB), SRB reporting for MREL determination and bank recovery needs, monitoring risk exposure and taking appropriate action, capital and capital adequacy management, monitoring the exposure of all material risks arising from stress tests and taking measures to reduce exposure, monitoring security in its broadest sense, discussing and approving the limit system so as to manage risks, exposure to banks, examining internal transfer prices, considering and deciding on transactions that have a material impact on the Bank's position in terms of liquidity, interest rates, currencies and capital. The Committee was composed of Management Board members and senior management representatives. The Management Board appointed the committee's chair, vice chair and members as well as other persons with a standing invitation to attend the committee's meetings. As at the end of 2019, the committee had eight members. Regular meetings of the committee were convened once a month, whereas extraordinary meetings were held when necessary. The meetings could be held by correspondence.
- **Assets and Liabilities Management Commission**
  In the area of assets and liabilities management, the Commission was responsible for deciding on the specific terms and conditions for transactions with customers and for setting interest rates and tariffs for transactions with customers. The Commission was composed of senior management representatives. As at the 2019 year-end, the Commission had six members. Regular meetings of the commission were convened once a week, whereas extraordinary meetings were held when necessary. The meetings could be held by correspondence.
- **Operational Risk Commission**
  The Operational Risk Commission was a working body of the Risk Management and Asset-Liability Committee in charge of the development of the operational risk management system within the Bank. The Commission's duties included in particular: monitoring the implementation of the operational risk management strategy and policy and other documents related to operational risks, discussing reports on operational risk incidents, addressing significant operational risk incidents, proposing and monitoring the implementation of incident management measures and reporting, addressing operational risk elements, provision of proposals and warnings to change and improve operational risk management, development of the fraud risk management system, monitoring the implementation of the decisions of the superior bodies and reporting on their implementation, and performance of other operational risk-related activities. The Commission was composed of representatives of various divisions and/or departments of the Bank. The Commission adopted decisions at regular meetings, which were usually held every quarter. Extraordinary meetings were held when necessary and could be held through correspondence.
- **Credit Committee**
  With regard to asset management, the Committee decided on borrowings to customers, credit limits, accepting syndicated loan agent services, project financing and other financial services, discusses financial restructuring plans, recovery plans, investment restructuring proposals, proposals to initiate insolvency proceedings, discuses reports, monitors the execution of powers of authorised employees and the implementation of the Committee's decisions, as well as decides on other matters. The Committee was composed of two Management Board members and heads of various divisions and/or departments. The Management Board appointed the committee's chair, vice chair and members as well as other persons with a standing invitation to attend the committee's meetings. As at 31 December 2019, the Committee was composed of six members. Regular meetings of the committee were convened once a week, whereas extraordinary meetings were held when necessary. The meetings could be held by correspondence.
- **Development Committee**
  With regard to project work, the Committee was in charge of adopting a strategic annual plan for development activities, an annual investment plan and a plan of available internal human resources for the implementation of development activities, classifying all development activities in the portfolio of development activities, supervising the implementation of development activities and initiatives relating to data management, monitoring the implementation of regulatory projects and other strategically important projects, deciding on proposals and overseeing the work of the Development Committee, as well as giving initiatives and proposals to the Management Board. The Committee was composed of Management Board members and heads of various divisions and/or departments. The Management Board appointed the committee's chair, vice chair and members as well as other persons with a standing invitation to attend the committee's meetings. As at 31 December 2019, the committee was

composed of thirteen members. Regular meetings of the committee were convened every three months, whereas extraordinary meetings were held when necessary. The meetings could be held by correspondence.

- **Development Council**
  With regard to project work, the Council assessed proposals for capacity development and took decisions on how to continue to implement development activities, took decisions at all stages of the project lifecycle and development task, decided on development activities within the approved plan while monitoring the availability of human resources, monitored the implementation of projects, development tasks and other development activities, prepared a draft annual plan for development activities and possible changes, directed and controlled the development of data management, as well as developed proposals for discussion at the Development Committee. The Council was composed of two Management Board members and heads of various divisions and/or departments. The Management Board appointed the chair, vice chair and members as well as the persons with a standing invitation to attend the board's meetings. As at 31 December 2019, the board was composed of five members. Regular meetings were convened once in two weeks but at least once a month, whereas extraordinary meetings were held when necessary. The meetings could be held by correspondence.
- **Sales and Marketing Committee**
  The Committee monitored market trends, the trends and activities of competitors on the market in terms of prices and content of products, sales channels and responsiveness, defined key performance indicators, monitored, supervised, directed and coordinated marketing activities, monitored the business results, promoted the creation of new products and approved their launch, monitored surveys on the Bank's reputation, market position and customer satisfaction, as well as adopted appropriate measures. The Committee was composed of Management Board members and heads of various divisions and/or departments. The Management Board appointed the committee's chair, vice chair and members as well as the persons with a standing invitation to attend the committee's meetings. As at 31 December 2019, the committee was composed of ten members. Regular meetings of the committee were convened once a month, whereas extraordinary meetings were held when necessary. The meetings could be held by correspondence.
- **Liquidity Commission**
  The Commission designed the current liquidity, currency and interest policies of the Bank, set interest rates on the deposits of corporate, retail and private clients and specified other special terms and conditions regarding these deposits, as well as performed other duties within its powers. The Commission was composed of Management Board members and heads of various divisions and/or departments. The Management Board appointed the Chair, Vice Chair and members of the Commission. As at 31 December 2019, the Commission was composed of eleven members. Regular meetings of the Commission were convened daily, whereas extraordinary meetings were held when necessary. The meetings could be held by correspondence.
- **Commission for the Treatment of High-Risk Customers in Terms of Money Laundering and Terrorist Financing Prevention**
  The Commission discussed cases of high-risk customers in order to take appropriate measures to ensure their conduct is in compliance with the applicable laws and to adopt measures for a comprehensive management of all types of risks to which the Bank is or could be exposed when dealing with such customers. The Commission was composed of representatives of various divisions and/or departments of the Bank. As at 31 December 2019, the Commission was composed of six members. Regular meetings of the Commission were convened daily, whereas extraordinary meetings were held when necessary.
- **Procurement Commission**
  The Procurement Commission was responsible for transparent conclusion of transactions related to the procurement of goods and services based on previously set and appropriately balanced selection criteria as well as on the basis of obtained comparable offers, which was the responsibility of the relevant departments of the Bank. The composition of the Commission was determined by the Management Board. The Commission met when necessary and at the request of the department proposing individual purchases. As at 31 December 2019, the Commission was composed of three members.
- **Security Council**
  The Council was the advisory body of the Security Officer, established to address matters that were critical to security. The Council was responsible for coordinating the development of the security management system, mutual notification, consulting and coordinating of security matters, coordinating the annual plan of penetration tests, security-related activities and monitoring the implementation thereof, addressing identified deviations from internal security rules, handling security events and incidents in order to prevent them or minimise their impact on the Bank's operations, discussing major changes to the Bank's IT system, and for monitoring the creation of legislation in the area of security and information security. The Council's composition was determined by the Management Board. As at 31 December 2019, the Council was composed of twelve members. Regular meetings were convened once in two weeks but at least once a month.

Supervisory Board

In adherence to applicable regulations and the Articles of Association of Abanka d.d., the Supervisory Board supervised the business management of the Bank in 2019. The board was composed of seven members, who were appointed and dismissed by the General Meeting of Shareholders. Two thirds of the Supervisory Board members must be independent experts. Independent persons were those who were not or had not been employed by the Slovene Government within the last 24 months since their appointment to the Supervisory Board, or who had not performed a senior or managerial function in any Slovene political party in the preceding 24 months. Any natural person fulfilling the relevant requirements and for whom no restrictions were stipulated in the act regulating banking, the act regulating companies and other applicable regulations may be appointed to the Supervisory Board. The members of the Supervisory Board were appointed for a four-year term with the possibility of reappointment.

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

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

The Supervisory Board adopted resolutions at its sessions. The work of the Supervisory Board was performed in accordance with the Rules of Procedure of the Supervisory Board. The quorum of the Supervisory Board was constituted if a majority of members is present at a session. The decisions were adopted according to the majority of votes cast by the members present.

On 5 February 2020, Nova KBM d.d. became the new and sole owner of Abanka d.d. The General Meeting of Shareholders, which was held on the same day, confirmed the changes to the Supervisory Board.

Supervisory Board Committees

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

• Audit Committee

The duties of the Committee in 2019 included in particular: a) monitoring the integrity of financial information provided by the Bank; b) monitoring the financial reporting process, preparing recommendations and making recommendations for ensuring its integrity and comprehensiveness; c) supervising and monitoring the effectiveness and efficiency of the internal governance system; d) assessing the drafting of the annual report; e) monitoring the statutory audit of annual and consolidated financial statements; f) cooperating with the auditor in conducting the audit of the annual report of the banking group; g) reporting to the Supervisory Board on the result of the statutory audit; h) reviewing and monitoring the independence of the auditor for the annual report of the banking group; i) participating in the identification of important audit areas and reviewing the frequency of auditing of financial statements; j) cooperating with the Internal Audit Department and monitoring its work; k) participating in the identification of important audit areas; l) being in charge of the auditor selection procedure and proposing a candidate to the Supervisory Board for auditing the annual report of the banking group; m) participating in the drafting of an agreement between the auditor and the Bank; n) monitoring the effectiveness and efficiency of the internal control system; o) monitoring or supervising the establishment of the accounting policies of the banking group; p) other duties as defined by the law, the Bank's Articles of Association, the guidelines of supervisory bodies or a Supervisory Board resolution.

• Remuneration Committee

The committee's duties in 2019 included in particular: a) advising to the Supervisory Board and drafting proposals regarding general remuneration policy principles, reviewing the adequacy of the general remuneration policy principles and preparing recommendations for their implementation; b) performing professional and independent assessments of remuneration policies, practices and processes and on that basis developing incentives or recommendations to amend the existing remuneration policy as well as measures to improve the Bank's risk, capital and liquidity management; c) ensuring a regular, central and independent audit of remuneration policy and practices by the Internal Audit Department, the relevant corporate functions and oother Supervisory Board committees as well as providing all the required information (reports) to the Supervisory Board; d) providing support to the Supervisory Board in establishing and implementing the remuneration system for the Management Board and other employees whose professional activities significantly affect the institution's risk profile; e) monitoring the remuneration of senior managers who perform the risk management and compliance functions; f) assessing the adequacy of the established policies and methodologies (mechanisms) of the remuneration system with respect to risk, capital and liquidity management, as well as assessing compliance with the business strategy, objectives, corporate culture, values and the long-term interest of the institution; g) assessing the achievement of performance targets and the need for ex-post risk adjustment, including the use of malus and clawback arrangements; h) reviewing various possible scenarios with a view to verifying the response of the remuneration policy and practice to external and internal events and testing the criteria used to determine the allocation and preliminary adjustments of variable remuneration on the basis of the results of realised risks; i) reviewing the suitability of an external consultant whose services are used by the Supervisory Board in determining the remuneration policies of the bank or other issues within the powers of the Committee; j) informing shareholders about remuneration policies and practices; k) actively engaging in the process of identifying employees whose work is of a specific nature; l) ensuring the participation of a member of the Risk Monitoring and Asset Liability Management Committee in the Remuneration Committee's meetings, and vice versa; m) other duties set out in the Articles of Association or a Supervisory Board resolution.

• Nomination Committee

The committee's duties in 2019 included in particular: a) defining and preparing the fit and proper assessments of the candidates and members of the Management and Supervisory Boards and of the two bodies as a whole; b) making recommendations to the Supervisory Board regarding the selection of candidates for members of the Management and Supervisory Boards; c) defining the duties and conditions required for appointment to a Management Body function; d) setting a gender representation target for the gender that is underrepresented in both the Management Board and the Supervisory Board and formulating a policy on how to increase the number of representatives of the underrepresented gender in the Management Board and the Supervisory Board so as to achieve this target; e) evaluating at least once a year the structure, size, composition and performance of the Management Board and the Supervisory Board, and making recommendations regarding any changes; f) at least once a year assessing the knowledge, skills and experience of individual members of the Management Board and the Supervisory Board as well as bodies as a whole, and reporting thereon to the Supervisory Board and the Management Board; g) regularly reviewing the policy of the Management Board with regard to the selection and appointment of suitable candidates for members of senior management of the Bank and making recommendations regarding any changes; h) actively contributing to fulfilling the Bank's responsibility to adopt appropriate policies on fit and proper assessment of the members of the Management Board and the Supervisory Board; i) providing support in evaluating the work of the Management Board and preparing explanatory reasons for recalling individual members of the Management Board, when they occur; j) other duties set out in the Articles of Association or a Supervisory Board resolution.

• Risk Monitoring and Asset Liability Management Committee

The committee's duties in 2019 included in particular: a) advising on the general current and future risk appetite and the risk management strategy of the Bank, b) reviewing the Bank's exposure to risks and verifying that the risk profile of the Bank is in accordance with the adopted risk appetite; c) monitoring the quality of the investment portfolio of the Bank and the adequacy of impairments and provisions formed; d) analysing the organisation and performance of risk management of the competent organisational parts of the Bank; e) reviewing the Management Board's reports on risks and asset liability management; f) reviewing and assessing the appropriateness in the drafting of documents governing risk underwriting, risk management and asset liability management; g) assessing the adequacy of the Bank's risk reporting as set out by the applicable regulations; h) monitoring the implementation of the risk management strategy and the policies for all relevant types of risks in the Bank; i) verifying that the incentives provided by the remuneration system take into account the risks, capital, liquidity, and the probability and timing of the Bank's income, with the aim of formulating prudent remuneration practices and policies; j) actively engaging in the process of identifying employees whose work is of a specific nature; k) ensuring the participation of a Committee member in the Remuneration Committee meetings, and vice versa; l) verifying that the prices of products are fully compatible with the Bank's business model and risk management strategy, and drafting corrective action proposals; m) preparing recommendations to the Supervisory Board regarding the implementation of the risk management strategy and related policies; n) other duties as defined by the law, the Bank's Articles of Association or a Supervisory Board resolution.

The composition of the Supervisory Board and its committees in 2019 is presented in Appendix 3 of the Corporate Governance Statement.

Activities of the Supervisory Board and its committees in 2019

	Number of regular sessions	Number of extraordinary sessions	Number of correspondence sessions
Supervisory Board	8	1	1
Audit Committee	8	0	0
Risk Monitoring and Asset Liability Management Committee	8	0	0
Nomination Committee	9	0	1
Remuneration Committee	7	0	1

The data on the remuneration of the Supervisory Board and its committees in 2019 are disclosed in Appendix 4 of the Corporate Governance Statement.

Diversity policy

Taking into account the diversity requirements within the management body, the Bank aimed in 2019 to ensure appropriate representation of both men and women of different ages, education, professional experience and expertise, while striving for the management body to have all the relevant knowledge, experience and skills required for an effective performance of the Bank's management and supervisory functions. The Diversity Policy of the Management Body of Abanka d.d. set out (i) the criteria for management body diversity, (ii) the selection procedure of candidates for the members of the management body, and (iii) fit and proper assessment of the management body. Based on the defined elements of management body diversity, the Bank sought to achieve the objective of effective performance of the management and supervisory functions.

The goal was to ensure such a composition of the management body, whose members:
- had different types of education acquired based on the applicable educational programmes;
- had a diverse professional profile, i.e. work experience and skills from different fields of expertise, which are necessary for an in-depth understanding of the Bank's activities and risks to which the Bank is exposed; and
- were representatives of both genders of different ages: a member of the management body was selected between a candidate who fulfilled the fit and proper criteria and a candidate of the underrepresented gender, explaining the choice made. If the list of candidates of both genders of different ages was too short, the principle of diversity may be ignored in order to ensure the smooth functioning of the management body.

In periodic/annual fit and proper assessment of the management body or in the case of changed circumstances, the Nomination Committee checked the fulfilment of objectives with regard to the diversity in the composition of the management body and reported to the Supervisory Board. The committee assessed in particular the following:
- the work of the body in the interest of the Bank and the governance policy;
- the suitability of the body's composition/heterogeneity/banking knowledge and experience;
- independence of the body;
- the diversity of composition in terms of representation of both men and women of different ages in accordance with the Diversity Policy;

- the appointment procedure of body members;
- the succession concept;
- meetings of the body, including reporting and the quality of materials;
- attendance or participation of management body members at the meetings;
- appropriateness of notification of body members;
- the culture and development of the body;
- the body's performance of duties;
- the work of Supervisory Board committees;
- the adequacy of training;
- the appropriateness of support provided to the body;
- the contribution of each body member.

When assessing or evaluating the management body and the committees in terms of diversity, the Nomination Committee analysed the following criteria:
- gender,
- age,
- education,
- work experience (relating to the business activity and other) and banking knowledge.

According to the analysis performed in 2019 and presented in the joint periodic assessment report, the diversity policy was properly reflected in the composition of the management body. During the analysis in 2018, the Bank set up an accompanying maturity model with target values for individual content items. The target values were set for the 2019–2021 period and were regularly monitored in the context of periodic fit and proper assessments of the management body. This system provided retrospective comparability of assessment, as well as regular monitoring of progress and improvements.

The implementation of the criterion of the management body's diversity by individual criterion was checked in the framework of the body's periodic performance assessment. The Supervisory Board members asseed the achievement of diversity in accordance with the set methodology (bank maturity model), which was used to monitors the achievement of the maturity model. In terms of gender diversity, the Supervisory Board achieved the maximum score (the same as in 2018), while the score of the Management Board was significantly higher in 2019 compared to 2018, because the composition of the Management Board changed by becoming more gender diverse. The portion of women was 42.9% in the Supervisory Board and 40% in the Management Board and the Supervisory Board taken together. The age diversity score of the Supervisory Board and the Management Board was very high according to the bank maturity model and higher for both bodies compared to 2018. The management body was composed of individuals of different ages; 6 members were in the age group of 41–50 years and 4 members in the age group of over 50 years. The diversity score of education, knowledge and experience of the Supervisory Board and the Management Board according to the bank maturity model was high and unchanged compared to 2018. In order to ensure adequate diversity among the members of the Supervisory Board, the Bank strove to have at least half (50%) of the members of the Supervisory Board with adequate banking knowledge and experience. In the existing seven-member Supervisory Board, 71% of members possessed adequate banking knowledge and experience. Adequacy of knowledge, skills and experience was also one of the criteria, which is checked in the framework of the fit and proper assessment of management body members in accordance with the Policy on the appointment of management body members, fit and proper assessment and the succession concept at Abanka d.d.

The overall average diversity score of the Management Board for 2019 was higher than in 2018. The target overall diversity score of the Management Board set in the framework of the 2019 bank maturity model was also exceeded. The overall average diversity score of the Supervisory Board for 2019 was high and has remained unchanged compared to 2018.

The composition of the Bank's Management Board and Supervisory Board, based on the analysis carried out in the framework of the 2019 periodic report, reflected an appropriate group of experts in terms of education, knowledge and experience, including appropriate representation of both genders of different ages.

In 2019, the diversity policy was publicly accessible and published in its entirety on Abanka's website at http://www.abanka.si/.

Corporate integrity

The Bank's guiding principle is lawful, professional, ethical, safe and diligent business, which it implemented by complying with the applicable regulations, standards, codes, best practices and other rules of the financial and banking sector. In order to ensure a stable governance arrangement, the management body adopted the Code of Business Ethics. The Code not only sets the standard of Abanka's corporate culture based on its corporate values but also defines the conduct of the members of the management body and other employees in business or personal relations with the customers, co-workers, shareholders, business partners and the natural and social environment (the stakeholders).

The Abanka d.d. corporate integrity system in 2019 consisted of the rules of conduct, arising from the Code and defining the management of various types of risks such as the risk of unlawful operations, conduct contrary to the interests at all levels of decision-making and operation, the different types of fraud, employee harassment and mobbing, money laundering and terrorist financing, abuse of all kinds of confidential information, non-transparent and inappropriate selection of outsourcers, improper handling of consumers, market abuse, inadequate information about the performance and other.

The compliance function in 2019 was integrated into the corporate integrity system so as to develop and implement the compliance programme, including the provision of advisory services and training and the identification, monitoring and assessment of risks in this area. On the basis of the self-assessment, the general annual assessment on the state of corporate integrity was made.

All employees were familiar with the Code of Business Ethics; it was published on the Intranet portal and on the website of the Bank. Employees were able to report any detected violations to their superiors or using the internal electronic reporting system to report violations or incidents. The Bank ensured any employee submitting such a report that no retaliatory measures would be taken against them as a result.

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

The Corporate Governance Statement is published on Abanka's website at (https://www.abanka.si/).

Ljubljana, 6 March 2020

Management Board

Jože LENIČ
President of the Management Board

Nada MERTIK
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

John DENHOF
Chairman of the Supervisory Board

Marko GARBAJS
Vice Chairman of the Supervisory Board

Appendix 1: Composition of the Management Board in 2019

2019

Management Board	Function	Area of work*	First appointment to the office	Termination of office in 2019	Year of birth	Education	Professional profile	Membership in supervisory bodies of non-related companies
Jože Lenič	President of the Management Board	Compliance Office	17 Jan. 2011		1965	Msc in International Economics	Management, corporate governance, compliance, legal affairs, human resources and organisation, audit, risk management	Bank Association of Slovenia (ZBS), Vice Chairman of the Supervisory Board
		Internal Audit Department				BA in Geography and Geology		
		Legal Office						
		Personnel and Organisation Department						
		Corporate Communications Department						
		Financial Markets Division (1 January–30 June 2019)						
		Procurement and General Affairs Department (1 January–30 June 2019)						
		Coordination of work with the regulator and supervisory bodies						
		Coordination of subsidiaries (1 January–30 June 2019)						
		Risk Management Division (1 July–31 December 2019)						
		Finance Division (1–23 July 2019)						
		Information Technology Division (1–23 July 2019)						
		Back Office Operations Division (1–23 July 2019)						
		Custody and Administrative Services (1–23 July 2019)						
Matej Golob Matzele	Member of the Management Board	Corporate Banking Division	28 Dec. 2015		1972	BSc in Economics	Management, front office, development of products and services, marketing and marketing communications	Bankart d.o.o., member of the Supervisory Board; The British-Slovenian Chamber of Commerce, member of the Supervisory Board
		Retail Banking and Small Business Division						
		Development and Marketing Department						
		Financial Markets Division (1 July–31 December 2019)						
		Procurement and General Affairs Department (1 July–31 December 2019)						
		Coordination of subsidiaries (1 July–31 December 2019)						
Matevž Slapničar	Member of the Management Board	Risk Management Division	12 June 2017	30 June 2019	1969	Master of Economic Science	Management, risk management, IT, finance, back office	/
		Finance Division						
		Information Technology Division						
		Back Office Operations Divisions						
		Custody and Administrative Services						
Nada Mertik	Member of the Management Board	Finance and Back Office Operations Division**	24 July 2019		1957	BSc in Economics	Management, IT, finance, back office	/
		Information Technology Division						
		Custody and Administrative Services						

* If not stated otherwise, it applies to the duration of the term of office.
** Since 1 August 2019, the Finance Division and the Back Office Operations Division have been merged into a single division – Finance and Back Office Operations Division.

Appendix 2: Remuneration of the Management Board in 2019

2019

First and last name	Function	Fixed remuneration – gross	Variable remuneration – gross	Deferred remuneration	Termination payments	Benefits	Clawback	Total gross	Total net
		1	2	3	4	5	6	1 + 2 + 3 + 4 + 5 + 6	
Jože Lenič	President of the Management Board	145,065.04	19,162.01	19,700.17	–	19,564.26	–	203,491.48	75,593.94
Matej Golob Matzele	Member	143,548.93	18,821.41	–	–	11,208.22	–	173,578.56	74,842.03
Nada Mertik[2]	Member	50,874.85	–	–	–	5,974.80	–	56,849.65	21,377.59
Matevž Slapničar[3]	Member	144,463.96*	18,821.41	–	–	4,395.30	–	167,680.67	76,279.70
Igor Stebernak[4]		–	–	6,536.73	–	–	–	6,536.73	3,819.08
Aleksander Vozel[5]		–	–	18,529.62	–	–	–	18,529.62	10,825.94
		483,952.78	**56,804.83**	**44,766.52**	**–**	**41,142.58**	**–**	**626,666.71**	**262,738.28**

1 The table does include cost reimbursement, insurance premiums (SVPI) and other rights under the agreement.
2 Management Board Member from 24 July 2019.
3 Management Board Member until 30 June 2019.
4 Management Board Member until 30 April 2015.
5 Management Board Member until 31 March 2017.
*Includes compensation for the non-compete clause and for unused leave.

Appendix 3: Composition of the Supervisory Board and its Committees in 2019

2019

First and last name Function in 2019	First appointment to the office	Termination of office in 2019	Attendance of the SB sessions according to the total number of sessions in 2019	Gender	Citizenship	Year of birth	Education	Professional profile	Independence pursuant to Article 23 of the Code (yes/no)	Existence of conflict of interest	Membership in other companies (executive and non-executive funtions) in 2019
Marko Garbajs											
Supervisory Board, Chairman	4. 10. 2014		100%	male	Slovene	1975	MSc in Economics	Management, management of capital investments, banking regulation, risk management, asset-liability management, corporate governance	yes	no	GRIFFON&ROMANO S.P.A., Chairman of the management body (Non-Executive Director) from 20 December 2018 to 9 December 2019; Executive Director from 10 December 2019
Nomination Committee, Member	25. 2. 2016		100%								
Risk Monitoring and Asset Liability Management Committee, member	13. 10. 2014		100%								
Melita Malgaj											
Vice Chair of the Supervisory Board	2. 10. 2015	expiry of term of office on 2 October 2019 and reappointment as a SB member on 3 October 2019	100%	female	Slovene	1971	BSc in Economics	Management and organisation, management of capital investments, banking regulation, corporate governance	no, but acts independently as an impartial expert who looks after the interests of the Bank	no	Slovenski državni holding, d.d., Director of Tourism and Economy Management Department
Nomination Committee, Chair	11. 11. 2015	expiry of term of office on 2 October 2019 and reappointment on 8 October 2019	100%								
Audit Committee, Member	11. 11. 2015	expiry of term of office on 2 October 2019 and reappointment on 8 October 2019	100%								
Alenka Vrhovnik Težak											
Supervisory Board, Member	8. 10. 2015	expiry of term of office on 8 October 2019 and reappointment as a SB member on 9 October 2019	100%	female	Slovene	1968	MSc in Business and Organisation	Management, international and strategic finance, court-appointed expert witness in economics, finance and banking	yes	no	VTT, storitve z dodano vrednostjo, d.o.o., Financial Adviser Sodno izvedeništvo in svetovanje, Mag. Alenka Vrhovnik Težak, Sodna izvedenka za ekonomijo – finance in bančništvo, s.p.
Remuneration Committee, Member	11. 11. 2015	expiry of term of office on 8 October 2019 and reappointment on 8 October 2019	100%								
Risk Monitoring and Asset Liability Management Committee, Chair	11. 11. 2015	expiry of term of office on 8 October 2019 and reappointment on 8 October 2019	100 %								
Rok Pivk											
Supervisory Board, Member	13. 5. 2016		100%	M	Slovene	1972	BSc in Economics	Management, investment banking and treasury	yes	no	Triglav Osiguruvanje A.D., Skopje, Executive Director
Remuneration Committee, Chair	10. 11. 2017		100%								
Audit Committee, Member	1. 6. 2016		100 %								
Dejan Kaisersberger											
Supervisory Board, Member	28. 2. 2017		100%	male	Slovene	1979	BSc in Economics	Management, banking and finance, risk management	yes	no	SIDG, d.o.o., Director of Finance, Accounting and Controlling until 5 May 2019 Livar, d.d., Non-Executive Member of the Board of Directors from 25 February 2019 to 5 May 2019 Livar, d.d., Executive Director of Finance, IT and Procurement from 6 May 2019
Nomination Committee, Member	31. 8. 2017		90%								
Audit Committee, Chair	13. 3. 2017		100%								
Risk Monitoring and Asset Liability Management Committee, Member	13. 3. 2017	31. 3. 2019	100%								
Varja Dolenc											
Supervisory Board, Member	31. 7. 2018		100%	female	Slovene	1971	BSc in Economcis, MSc in International Securities, Investment and Banking	Management, financial markets, front office operations, knowledge of the domestic banking environment and the internal organisation of the Bank	yes	no	Union hoteli d.d., Ljubljana, Director of Procurement and Real Property Management IP Central d.o.o., Deputy Director from 1 February 2019
Remuneration Committee, Member	5. 9. 2018		87.5%								
Risk Monitoring and Asset Liability Management Committee, Member	5. 9. 2018		87.5%								
Miha Košak											
Supervisory Board, Member	22. 9. 2018		100%	male	Slovene and British*	1968	Master of Business Administration (MBA), MA in Economics of the European Community	International knowledge of the banking system, financial markets and investment banking, knowledge of the internal organisation of the Bank, corporate governance	yes	no	Fraport Slovenija, d.o.o., Member of the Advisory Committee Independent Consultant Emona Capital LLP, London, Adviser Elan Inventa, d.o.o., Member of the Strategy Committee Šiaulių Bankas, Vilnius, Lithuania, Member of the Supervisory Board The British-Slovenian Chamber of Commerce, London, ZK/Ljubljana, Slovenia, Member of the Management Board
Audit Committee, Member	9. 10. 2018		100%								
Risk Monitoring and Asset Liability Management Committee, Member	1. 4. 2019		83.3 %								

* The citizenship of the United Kingdom of Great Britain and Northern Ireland.

Appendix 4: Remuneration of the Supervisory Board and its Committees in 2019

2019

First and last name	Function	Basic SB payment – gross	Attendance fees for the Supervisory Board and committees – gross	Total – gross	Total – net*	Travel expenses – net
		1	2	1 + 2		
Varja Dolenc	Member	22,500.00	6,226.00	28,726.00	20,577.72	1,245.11
Marko Garbajs	Chairman of the Supervisory Board	30,000.00	7,326.00	37,326.00	26,884.51	692.08
Dejan Kaisersberger	Member	25,625.00	7,766.00	33,391.00	24,022.59	132.77
Miha Košak	Member	21,250.00	6,050.00	27,300.00	17,654.95	18,473.02
Melita Malgaj	Vice Chair	25,875.00	7,326.00	33,201.00	23,884.44	–
Rok Pivk	Member	24,375.00	6,666.00	31,041.00	22,313.37	3,981.40
Alenka Vrhovnik Težak	Member	24,375.00	6,666.00	31,041.00	22,313.37	1,598.72
		174,000.00	**48,026.00**	**222,026.00**	**157,650.95**	**26,123.10**

* The amount paid to an individual's account as remuneration after income tax prepayment, which does not take into account any subsequent surcharge of prepayment.

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

As the foundation of its success, Abanka identified the partnership with all its stakeholders – employees, customers, suppliers, partners and shareholders as well as a positive attitude towards the social and the natural environment. The Bank aims to build long-term relationships with all its stakeholders based on respect, care, honesty, trust and cooperation. This is a strong basis for its corporate social responsibility. As a responsible bank integrated in its environment, Abanka is aware of the many challenges facing the modern society at all levels. The shocks witnessed over the past decade strengthened the Bank's belief of not only how much interdependent we are but also that everyone should bear a part of the responsibility and contribute to the broader prosperity. Abanka therefore sees its future in the context of sustainable development, in which the economic, social and environmental aspects are integrated with the temporal aspect, which considers future generations.

Sustainable banking means carrying out banking operational and business activities, with conscious consideration for the environmental and social impacts of those activities. This means that environmental, social and governance (ESG) criteria are integrated into traditional banking. Thus far, capital market decisions were based on a two dimensional risk and return analysis. In the new era of sustainable banking, they are based on three dimensions: risk, return and impacts.

Abanka seeks to implement sustainable banking both in its internal daily operations (in terms of how it manages its branches, human capital, costs, opportunities, risk exposures, etc.) and its activities relating to external interactions with its customers and the types of projects it funds. The Bank will continue on its path of sustainability, proactively expanding it with the opportunities offered by the environment.

THE KEY CHALLENGES OF SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

The dynamic banking environment is impacted by many strong forces: specific and rising customer expectations, extremely rapid technological changes, new regulatory requirements, and demographic, social, climate and other changes. Non-traditional or non-banking players are entering the traditional banking market and redefining the established order. Value and behaviour patterns are changing in the wider social environment, with the prevailing characteristic being that trust among people and in institutions is low. In such an environment, banks cannot be passive and operate according to existing business models. Moreover, banks should not only respond to today's challenges, but should also introduce innovations in several areas and should transform themselves for the future.

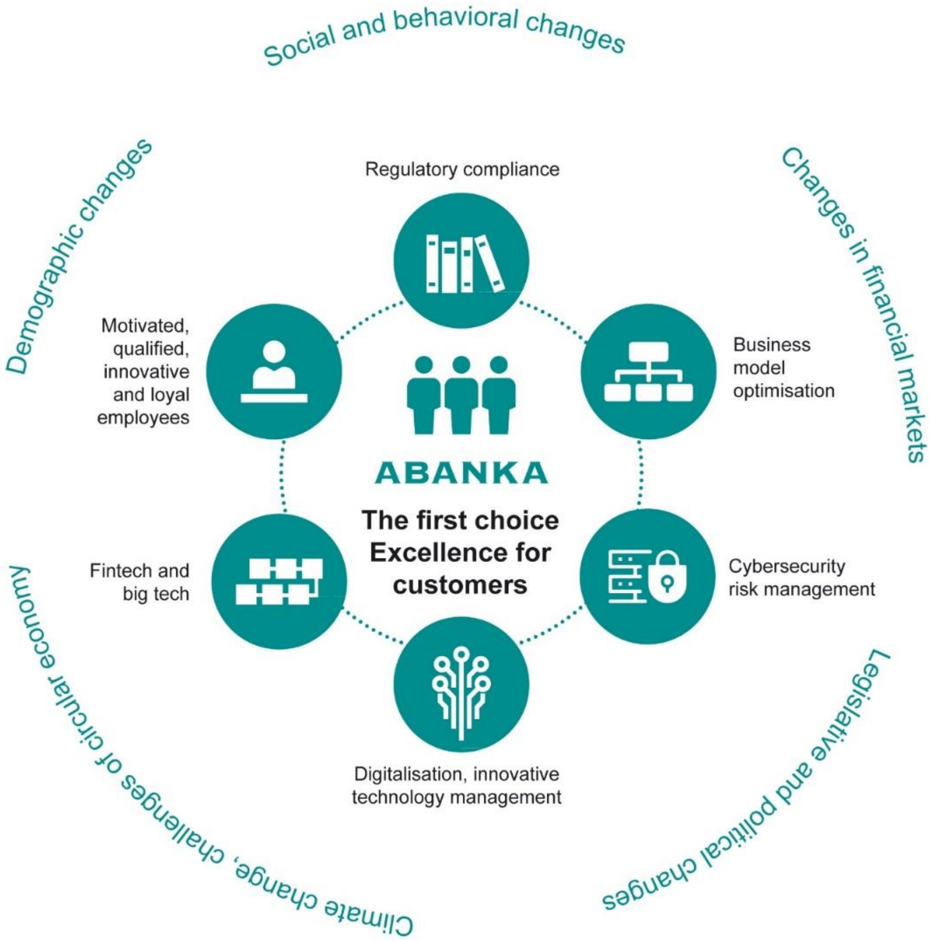
Abanka carefully analyses the banking and broader social environment, and proactively responds to the necessary changes by following its vision of becoming the first bank in Slovenia according to the choice of customers, employees and investors. Customers are at the very centre of all the Bank's activities. In the area of digitalisation, Abanka has always set ambitious goals, which it has effectively pursued. The area of digitalisation will be further developed and strategically redesigned in the future. This does not only involve responding to the challenges of fintech and big tech, but changing these processes into the Bank's competitive advantages and market strength. The aim of integrating technological changes taking place at an unprecedented speed is to ensure the long-term sustainability of the Bank's business model. Banks used to invest in the security and resilience of their digital systems, but did not focus much on optimising the user experience (including social media). This is one of today's key challenges. The Bank is aware of its responsibility not to impair customer security (cyber security in particular) through innovative changes. Its cooperation with regulatory policy-makers is therefore essential in order to ensure that regulations are fair for all.

The acceleration of its digital transformation is one of the Bank's strategic programmes, the aim of which is to be and remain a technologically advanced bank with innovative solutions in order to retain existing customers and attract new ones, and to find new sources of income by adding modern sales channels.

In the context of accelerating digital transformation, the Bank focuses on both building a digital organisational culture and on creating a collaborative and open work environment. All employees are included in the digitalisation process in order to collectively build a better Abanka of the future. The Bank is aware that it is vital to keep track of changes and development trends in banking, on financial markets and in the business world.

We are living in a digital age where it is understandable that even the work environment is adapting to the spirit of the times. Several changes were made to adapt the work environment to the modern age. The Bank's employees use communication tools, Skype and a live video download platform, which allows the Management Board to address all employees directly and live. Employees can ask questions and receive real-time answers during the live feed. The Skype communication tool was upgraded in 2019 with a new communication channel: Microsoft Teams. The goal of using this communication channel is to accelerate and simplify daily communication with colleagues and to strengthen closer cooperation between different areas.

Sustainable change management in Abanka



By using a customer-centric approach, the Bank actively co-manages the following areas: regulatory compliance, digitalisation, innovative technology management, cyber risk management, fintech and big tech, and the strategic management of human resources.

Abanka is aware that long-term sustainable growth in banking is only possible by radically moving away from the established way of thinking about the sale of traditional banking products and by truly focusing on the customer. Growing fintech ecosystems, which focus on the customers' user experience and which were initially perceived as a threat by banks, may also provide an opportunity to better meet and exceed customer expectations. Digital technology is only a part of the solution. The main goal is to achieve the organisational agility of the Bank, which is only possible through continuous innovation, excellent talent management and strategic partnerships (particularly in data collection, data analytics and cognitive technologies) in the wider ecosystem for providing excellent customer solutions.

The management of sustainable challenges and risks and corporate social responsibility is based on Abanka's business strategy and the Code of Business Ethics, which was approved by the Supervisory Board on 26 November 2019. The Code of Business Ethics lays down the main principles of conduct of members of the management body and the Bank's employees in business or personal relationships with customers, co-workers, shareholder(s), business partners, and the natural and the social environment. The management of sustainable development and corporate social responsibility is the responsibility of the Management Board, which integrates the cooperation of all areas of the Bank and employees in accordance with their respective powers and responsibilities in order to achieve established objectives.

STAKEHOLDER RELATIONS MANAGEMENT

Respecting the legitimate expectations of everyone involved in business processes was defined as the basis of Abanka’s ethical stance in its Code of Business Ethics.

Abanka's strategic stakeholders are:
- employees,
- customers,
- owners,
- regulators,
- suppliers, and
- other interested publics (the media, the expert public, business associations, civil initiatives, etc.).

Based on two-way communication and research, key areas of interest, communication content and communication channels were defined for every stakeholder group. The focus in communication is on two-way and open communication channels. The aim is to adapt communication to every stakeholder group separately by following the principles of materiality, promptness and transparency.

In communication, the following objectives are pursued among the stakeholders:
- consolidation of the reputation and credibility of the Bank;
- awareness of the identity and competitive advantages of the Bank;
- building of trust in the Bank; and
- positioning of Abanka as the first bank in Slovenia according to the choice of customers, employees and investors.

The Bank complies with the applicable legislation in its communication activities. The Bank informs its owners and other interested publics about its performance and any significant business events by the prescribed deadlines and in the prescribed manner.

The key stakeholders, interests, communication content and communication channels

Stakeholders	Interests, communication content	Communication channels
Employees, trade unions	Satisfied, loyal, motivated, innovative employees Talent integration Transfer of skills and experience between generations Good and open relations Good business results	• Intranet • Corporate communications e-mails • In-house newspaper “A View from the Inside” • Aideja – an idea and improvement management system • Anovičnik • Events for employees • Live – address by the Management Board • Skype – a digital communication channel • Microsoft Teams – communication tool • Personal interviews • Joint meetings, colleges • Annual interview, setting of objectives • Satisfaction and commitment survey
Owner	Achievement of business objectives Fair relations Long-term development of the Bank	• General Meeting of Shareholders and Supervisory Board sessions • Annual and interim reports • Other business documents
Regulators	Achievement of compliance	• Mutual information • Supervisory performance reviews • Performance reports
Customers – natural persons and legal entities	Maximum possible fulfilment of wishes and needs Building and consolidation of good business relations Achievement of common business and sustainability objectives	• Satisfaction and reputation survey • Abaklub – customer loyalty programme • Electronic and mobile applications (Abamobi, Abanet, Abadenarnica) • Website • Personal communication – by telephone and via electronic, personal and group meetings • Printed matter • Electronic presentations and other presentation material • Advising • Personal interviews • Expert meetings with entrepreneurs • Receptions for business partners
Business partners, suppliers	Establishment of fair business relationships	• Personal interviews and meetings • Websites • Printed matter • Corporate gifts • Professional meetings
Expert and business publics	Formation of expert opinions and relations Strengthening of business relationships, economic growth and social welfare Prevention of unfair competition	• Website • Round tables • Expert workshops • Annual report • Membership in professional associations and interest groups
Community at large (children, the general public)	Financial literacy of children Raising awareness about the digital culture and the virtual world Historical heritage of banking in Slovenia	• Children's museum Herman's Den – the permanent exhibition • Puppet shows for children • Vesela Šola (Cici) competition • Financial literacy events for young adults • Abasvet • Facebook Abanka, Facebook Akeš • Instagram Abanka, Instagram Akeš • YouTube Abanka, YouTube Akeš • LinkedIn Abanka
Media	Credible information on the activities of the company Strengthening of the company reputation and prompt elimination of any communication noise	• Reports and press releases • Digital communication with the media • Up-to-date and honest answers to all questions • Monitoring and analysis of media publications

REPORTING ON SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY – NON-FINANCIAL STATEMENT OR REPORT

In its Annual Report for 2019, Abanka discloses information regarding its sustainable and socially responsible management in an integrated manner, as in previous years. Sustainable and socially responsible management models and activities are based on the business policy of the Bank, the Code of Business Ethics and the sectoral policies of individual segments of management.

The disclosure of non-financial information is based on the requirements of the EU Directive on the disclosure of non-financial and diversity information by certain large undertakings and groups and on the requirements of the Companies Act.

The Business Report therefore contains the non-financial statement or report, which includes information relating to environmental, social and personnel matters, respect for human rights, and anti-corruption and bribery matters. An integral part of the Business Report is the Corporate Governance Statement, which also partially covers the areas mentioned above.

The Bank's guiding principle is lawful, professional, ethical, secure and prudent operations, which it achieves by complying with the applicable regulations, standards, codes, best practices and other rules of the financial and banking sector.

The beliefs, communication and conduct of each individual employee in accordance with ethical and professional standards represent the foundation of the Bank's corporate integrity, which leads to business success, maintains the Bank's reputation, ensures customer loyalty, and helps to attract or retain talented employees. The corporate integrity enhancement system primarily includes the Management Board, Supervisory Board and senior management, which together set the appropriate tone from the top. Internal control functions are also actively involved in the system by developing programmes and carrying out activities to assess the adequacy and compliance of operations. Also included are the assessment of risks relating to environmental, social and personnel matters, respect for human rights, and anti-corruption and bribery.

The Management Board and Supervisory Board adopted the Code of Business Ethics, which not only sets the standard of Abanka's corporate culture based on its corporate values, but also defines the conduct of Management Board and Supervisory Board members and other employees in business or personal relationships with customers, co-workers, shareholders, business partners, and the natural and the social environment (stakeholders).

The Code is the basis for numerous policies and implementing rules that define in detail the management of risks of unlawful operations, conduct contrary to the Bank's interests at all levels of decision-making and operations, different types of fraud, employee harassment and mobbing, money laundering and terrorist financing, the abuse of all types of confidential information, IT system abuse, the non-transparent and inappropriate selection of outsourcers, the non-transparent and inappropriate selection of the members of the management body, the improper handling of consumers, market abuse, inadequate information about performance, etc.

In accordance with the applicable regulations, the Bank has established stable internal governance, which includes: (i) a clear organisational structure with precisely defined, transparent and consistent internal relationships in terms of responsibility; (ii) effective risk management processes for the risks to which the Bank is or could be exposed in its operations; (iii) adequate internal control mechanisms and (iv) appropriate remuneration policies and practices consistent with prudent and efficient risk management. Internal governance is proportionate to the nature, scope and complexity of the risks arising from the Bank's business model and the business activities performed by the Bank.

All employees are familiar with the Code of Business Ethics and other internal documents that serve as the basis for developing corporate integrity. They are published on the intranet portal, while the Code is also available on the Bank's website. The Bank is responsible for raising awareness and training employees with regard to the identification of inappropriate conduct by its employees or bodies. Employees may report an identified violation of the Code or unlawful, unethical or otherwise questionable conduct to their superior, via the internal system of electronic reporting of violations of the law and internal acts, via the incident reporting system or to the Compliance Office. Reporting may be anonymous or the person reporting a violation may disclose their identity. The Bank ensures that no retaliatory measures will be taken against the person reporting a violation. An incident can also be identified and disclosed in the context of internal control functions or by customers reporting a violation via the complaint system. In all cases, the competent persons, bodies or functions address such events by taking appropriate action in order to prevent further occurrence and eliminate any negative consequences.

The methodology of the GRI standard was used as the basis to prepare content of the disclosure of non-financial information. When selecting content, the Bank took into account the sustainable context, the materiality of individual areas and stakeholder engagement. Content is presented in such a way so as to ensure the balance, comparability, accuracy, clarity and reliability of data.

The GRI reporting standard allows the Bank to expand the measurement of and reporting on its sustainable and socially responsible management as needed. The Bank is committed to taking long-term strategic steps in this area.

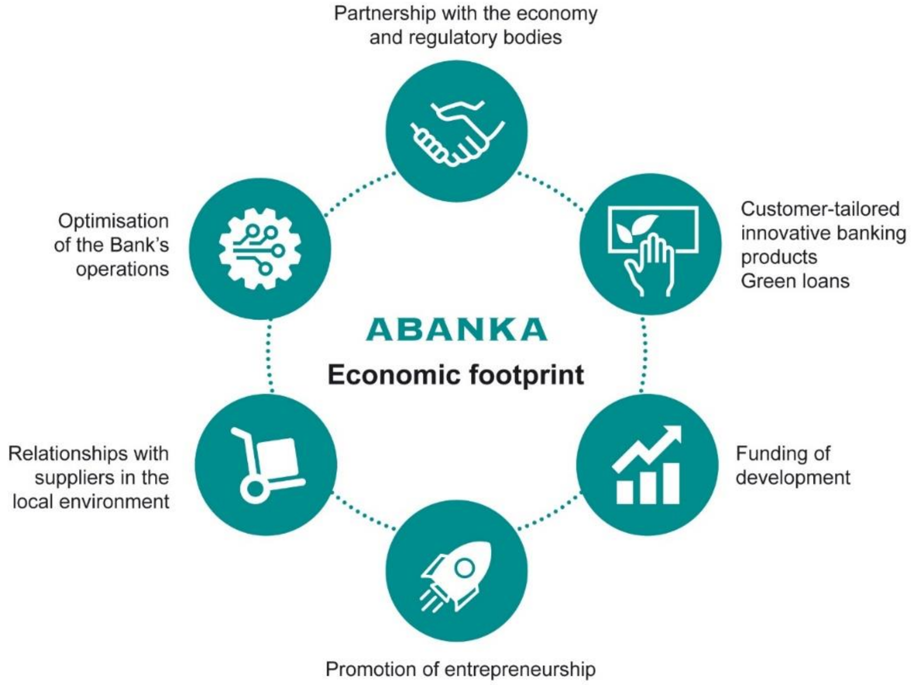
This report is transparent and accurate with respect to the data currently monitored within the Abanka Group. As Abanka d.d. is the parent company of the Abanka Group, the majority of non-financial disclosures relate to the Bank.

Content from the areas of sustainable development and corporate social responsibility are integrated by the Corporate Communications Department, which is also responsible for reporting on sustainable development and the corporate social responsibility of Abanka. All divisions of the Bank contributed the relevant data for the report.

ECONOMIC FOOTPRINT

In accordance with its vision of becoming the first Bank in Slovenia according to the choice of customers, employees and investors, Abanka carefully manages its economic footprint in the context of sustainable development and corporate social responsibility. In its governance model, the Bank included its partnership with the economy and regulatory bodies, customer-tailored innovative banking products (including the special offer of housing and consumer loans), the financing of development, the promotion of entrepreneurship, relationships with suppliers in the local environment and the optimisation of the Bank's operations.

Economic footprint of Abanka



Partnership with the corporate sector and regulatory bodies
As an active member of the Bank Association of Slovenia, Abanka contributes to the development of the banking and financial system. The Bank is a member of the Slovene-American and the Slovene-British Chamber of Commerce, while its employees are active members of various professional associations, and thus contribute to the development of expertise, integration and the strengthening of the economic environment.

Customer-tailored products
The Bank strives to meet all customer expectations. For this reason, it develops banking services that improve the user experience and ensure the better anticipation of customer needs, while it also designs customer-tailored and easy-to-use services that are accessible anytime and anyplace. Particular attention is paid to both promising and the vulnerable customer groups. The Bank offers young people and retired persons the possibility of using banking products under special terms and conditions. In accordance with its focus on sustainable development, the Bank promotes environmentally friendly investments under favourable lending terms and conditions – a special offer of housing and consumer loans. The Bank has designed a green consumer loan product especially for investments in energy-efficient household appliances, cars or the renovation of an environmentally friendly home, which provide a return to the customer in the form of a better quality of life, and energy and money savings.

Financing of development
With regard to securing specific-purpose long-term funding sources, Abanka has cooperated for several years with SID Bank, from which it receives long-term sources that provide funding for a wide range of projects in accordance with the following programmes:
- financing of the development of a competitive economy and internationalisation;
- financing of the development of the knowledge-based society and innovative entrepreneurship;
- financing of the development of an environmentally friendly society and production; and
- financing of regional and social development.

Promotion of entrepreneurship
Abanka promotes entrepreneurship and innovative ways of thinking. For this purpose, the Bank organises interactive events for various stakeholders, at which entrepreneurial ideas and projects are promoted and current topics are addressed. Before the summer 2019, an event for the Bank's corporate customers was organised on the topic "Impact of artificial intelligence on our lives – today and tomorrow", which discussed the opportunities and threats of modern technology.

An educational business event for micro-, small and medium-sized companies was also held in Celje. Participants received information regarding current tax changes, currency risk hedging, the traps of rapid business growth, and the benefits of electronic and mobile banking for companies and entrepreneurs.

Supplier relationships
Abanka mostly cooperates with Slovene companies, which means that it stimulates the local environment. Because its business activity is dispersed throughout Slovenia, local suppliers are also considered when seeking suppliers. Over the years, the Bank has started to change its purchasing concept, which was implemented in its internal documents. The Bank aims to centralise purchasing to the greatest extent possible and to ensure that the purchasing process is transparent and complies with the prescribed procedures. In addition to the pricing conditions, several criteria are taken into account in the selection of suitable suppliers, including references, the business relationship, the quality of services provided, the supplier's credit rating, etc. Purchasing functions as a management system by cost type. Control over purchasing is centralised. The monitoring of actual costs is performed in the scope of the cost group to which cost administrators report on deviations. Purchasing and the monitoring thereof as it relates to investments in buildings and equipment are carried out by the Procurement Department, which is directly subordinated to the Management Board. The Procurement Department thus manages the purchase of fixed assets and investment and is thus responsible for supplier management.

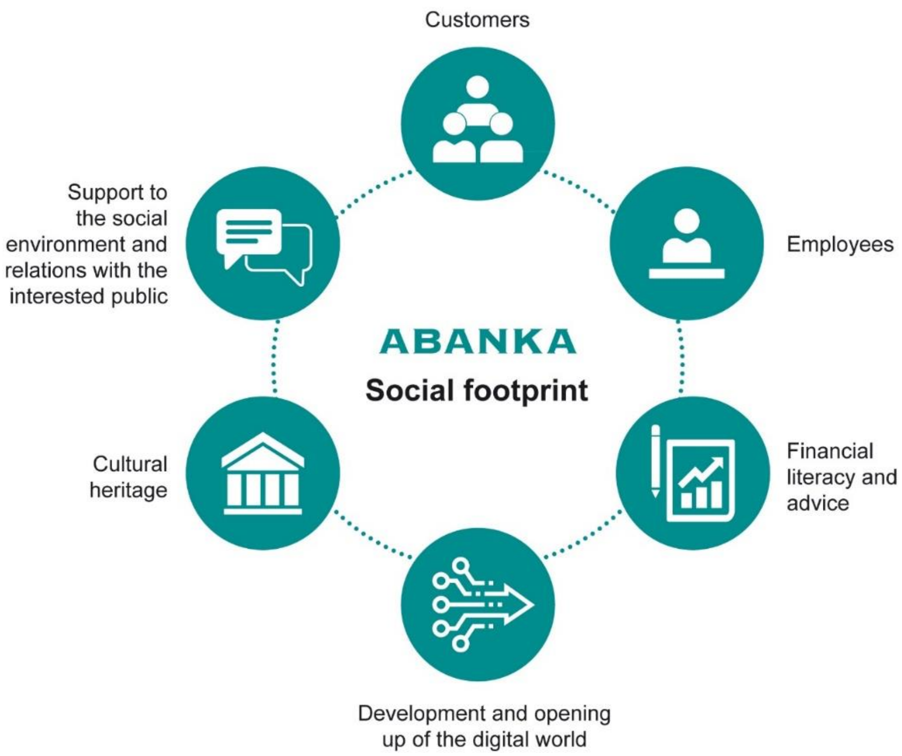
Abanka builds its corporate social responsibility in part through cooperation with suppliers who employ disabled persons. In this context, some services were outsourced to a sheltered workshop. In this way, the Bank optimised its labour costs and began to set the foundations for the renovation of the mailroom with the aim of gradually transitioning to the digitalisation of incoming mail.

Optimisation of operations
The Bank promotes the search for the best solutions and the introduction of beneficial changes at all levels of its operations. Innovation is the guideline followed by the Bank when introducing technological innovations to improve both its services and its business processes. The Bank will continue with the optimisation of its operations and the acceleration of its digital transformation in 2020.

SOCIAL FOOTPRINT

In managing its social footprint, Abanka gives priority to sustainable relationships with its customers and employees. Being a socially responsible bank, its mission is to increase financial literacy and provide financial advice. Benefiting from its rich 150 years of banking tradition, the Bank contributes significantly to the preservation of cultural heritage, which is closely linked to the heritage of banking in Slovenia. As a bank that considers state-of-the-art digital solutions as one of its key competitive advantages, it enables the general public to experience the digital world. Abanka's ethical attitude towards all stakeholders requires that it fosters open relationships with all segments of the interested public.

Abanka's social footprint



Corporate volunteering at Abanka

Corporate volunteering is a very effective way of integrating the company into the environment in which it operates. The Bank is aware of the problems of the socially disadvantaged and is willing to help. By taking part in the volunteer programme, we do something good and useful, and contribute to an even better and friendlier society. Abanka is a bank of friendly people, and by helping those who need it most, it shows its friendliest face.

The Bank continued to use a strategic and comprehensive approach to the corporate volunteer programme in 2019. To that end, Abanka's employees helped the Ljubljana Moste Polje chapter of the Friends of Youth Association in cleaning and tidying its logistics premises, collecting and distributing food and hygiene products, and collecting gifts and packages for the association's Magic Winter project. In the spring, the Bank joined the Slovene volunteer campaign "Let's rejuvenate Slovenia's forests together 2019", and contributed to the restoration and conservation of Slovenia's forests. In the autumn, help was again provided to the Local Development Foundation for the Pomurje Region, which organised the #podarizvezek ("give a notebook") campaign, together with the Helping with an Open Heart charity organisation. In the campaign, all employees collected school supplies for school children from socially disadvantaged families.

Throughout the year, the Bank's employees participated in blood drives across Slovenia. As part of the project "Donate a Book, Create a Book Escape" (Podari knjigo, naredi Knjigobežnico), the location of Abanka's new book escape in the Municipality of Dol pri Ljubljani was placed on the map of Slovenia. In light of awareness of its responsibility for the environment and employee health, the Bank purchased five Akoles (A-bikes) that employees can use during their working time, and was the first bank in Slovenia to obtain the "Tap Water" certificate awarded by the Chamber of Commerce and Industry of Slovenia. This measure is designed to encourage employees to drink tap water and to take an important step in reducing waste and the carbon footprint, conserving natural resources and implementing measures to promote the health of all employees at the Bank.

Customer relationships
In customer relationships, the Bank aims to establish highly ethical and collaborative partnerships that meet customers' expectations. The desires and the perception of the Bank's services and its reputation among existing and potential customers are measured each year in a special survey. Special measures are taken based on the results.

In customer relationships, it is vital to provide timely, comprehensive and clear information about the Bank's services and operations in order to direct the customers to the best solutions tailored to their needs. The Bank consistently avoids any incomplete and thus misleading information. It personally communicates with its customers via a range of communication channels (branch offices, online and mobile banking applications, an info@ address, a toll-free number 080 and a digital chat room).

Particular attention is paid to resolving customer complaints, comments and compliments. The Bank takes this information seriously, as it is key feedback from its customers, and thus an important part of continuous improvement and development. The Bank has a system in place for handling customer complaints. All employees are required to accept every customer complaint in a respectful and responsible manner, and submit it to the responsible persons in accordance with the complaint handling system. The Contact Centre is responsible for resolving and coordinating complaints.

The Bank prefers to settle disputes out of court. If a customer is not satisfied with the Bank's final decision regarding an appeal or complaint or did not receive a reply, they can file a request with the provider of the out-of-court resolution of consumer disputes (ADR service provider) to initiate proceedings against the Bank's decision or action, i.e. with the Bank Association of Slovenia or with the European Centre for Dispute Resolution (ECDR).

In the area of physical and technical security, the Bank developed internal instructions and rules that are in line with the recommendations of the Bank Association of Slovenia regarding the physical security of banks and the applicable legislation. The Bank carries out regular inspections and control over the implementation of security, as well as training on the topics of robbery, burglary and internal and external fraud. Physical security is accompanied by fire protection, in the context of which the Bank implements fire protection activities and the measures prescribed by law.

Abanka also cares about the health of its customers in its premises. To this end, defibrillators (leased from and maintained by an outsourcer) were installed at two locations. Additional measures are also taken to prevent customer falls and injuries when accessing and visiting bank branches: the removal of physical barriers and equipment that could pose a threat to customers' health, the marking of uneven floors, etc.

Employee relationships
Human resource management at the Bank is regulated by the Human Resource Policy and other strategic human resource documents which, together with key human resource activities and objectives, are presented in greater detail in the section Employees.

In staffing, recruitment and employee development procedures, as set out in the Human Resource Policy, everyone is given an equal opportunity, as this is the foundation for building an effective organisational culture, fostering respect for the values of the Bank and maintaining the Bank's reputation as a good employer in the social environment. Through its extensive branch network in Slovenia, the Bank provides employment opportunities for different staffing profiles in various regions across Slovenia. This means that local workers, including young generations, have the chance to find a job outside of major employment centres in Slovenia and thus stay in their local environment. Other employees work in the Bank's commercial buildings in Ljubljana, Maribor, Nova Gorica and Celje.

The largest proportion (54.0%) of employees works in Central Slovenia, while the lowest (10.2%) proportion works in Eastern Slovenia. The highest average age of employees is in the Celje region (48 years), while the lowest average age is in Central Slovenia and Western Slovenia (45 years). The highest proportion of male employees was recorded in Central Slovenia (29.8%), while the lowest proportion is in Eastern Slovenia (18%).

Great care is taken to ensure the continuous development of employees and to invest in their knowledge and skills, which is important from the point of view of the Bank and the individual; should the latter become unemployed, they would have a competitive advantage in looking for a job.

By awarding jubilee benefits, giving solidarity assistance, providing support to employees transitioning into open unemployment and awarding scholarships to the children of deceased employees, the Bank also takes care of those in a less advantageous situation.

A special emphasis is placed on employing young people, who bring fresh knowledge and skills to the Bank. To that end, the Bank has cooperated with universities, enabled work placement to young people and casual work if necessary, and awarded company scholarships in recent years, with the aim of linking the needs of the Bank with promising young staff early on.

Employee structure

No major changes have been seen in the age and gender structure of employees in recent years. The Bank has a high proportion of female employees and a relatively high proportion of older employees, depending on the type of activity (particularly in the back office and the front office). Data regarding the average age and proportion of employees by gender for 2019 are presented in the section Employees.

In the context of the Human Resource Renewal Programme, various objectives were set, such as staff regeneration, the intergenerational transfer of know-how and experience (intergenerational mentoring), training and learning tailored to different generations, the acquisition of leadership skills for leading teams with a diverse generation structure, etc.

The employee educational structure has been improving from year to year; the proportion of employees with vocational education has been decreasing, while the proportion of employees with higher education and master’s or doctorate degrees has been increasing. The educational structure of the Bank is presented in detail in the section Employees.

A total of 43 new employees were hired in 2019, 37% of whom were men and 63% of whom were women. The average age of new hires was 35.77 years. In line with the objectives of the strategic programme, most new hires were for front office positions, primarily in Central Slovenia. The satisfaction and loyalty of employees is ensured through numerous additional measures described in the section Employees.

The Bank employs 21 disabled persons, of whom 10% are men and 90% are women. All are employed for an indefinite period, with 71% working part-time. Their average age is 50.9 years. Great care is taken to ensure that the employees with disabilities have appropriate working conditions and a workload that are in line with the limitations of their category of disability.

The Bank has in place employee incentive schemes to reward and motivate employees. Those schemes are described in greater detail in the section Employees.

Maternity and parental leave were used by 38 employees, while paternity leave was used by 10 employees in 2019. The right to part-time work due to child care was exercised by 27 employees.

Employee training

The Bank puts a great deal of emphasis on continuing education, professional and personal development and the training of employees. Special attention was devoted to these activities, which is reflected in part in the fact that the average number of training hours per employee was 36 in 2019. All Bank employees participated in training.

The greatest attention in employee training was devoted to sales, marketing, the development of leadership competencies and sales skills, and to upgrading banking and financial knowledge. Training in products, foreign language courses and learning how to use various IT tools represent a significant proportion of the training organised by the Bank. More information on employee training is presented in the section Employees.

Measurement of satisfaction and the organisational climate

The Bank measures the organisational climate and employee engagement every year. In this way, it identifies and monitors factors that affect the climate, engagement and well-being of employees in the workplace. On the basis of survey results, the Bank prepares and implements an action plan every year, with the aim of targeting areas where results require improvement. According to 2019 survey results, the Bank’s efforts paid off, as the general employee job satisfaction and engagement index increased relative to 2018, while 5% more employees participated in the survey than in 2018.

Health at work and recreation

In addition to the safety and health at work activities presented in the section Employees, employees had the opportunity to participate in health promotion workshops in 2019, where they could learn how to improve the quality of their life and how to cope more easily with everyday responsibilities. Regular health check-ups are scheduled for employees, while care is taken to ensure that a sufficient number of employees are qualified to administer first aid and extinguish fires. Ergonomic workplace arrangements are provided for employees based on their needs, and employees are encouraged to participate in sports activities in the scope of the Abanka Sports Club and Mountaineering Club.

The Bank employs preventive approach to maintain a low proportion of workplace injuries, which has been declining in recent years. The number of workplace injuries decreased in 2019, as there was only one such injury, which is one fewer than in 2018.

Internal communication
Abanka devotes a great deal of attention to internal communication. It manages the following communication tools: corporate communication e-mails, intranet sites, the in-house newspaper “A View from the Inside”, Anovičnik and events for employees.

In internal newsletters, ecological awareness is regularly promoted by introducing a new “eco-challenge” in each issue, which encourages employees to adopt a healthy and eco-friendly lifestyle. Awareness and sustainability are the guiding principles followed when giving presents at an event organised for all Abanka employees. They received an eco-friendly reusable shopping bag in order to promote the use of less plastic where this is not absolutely necessary.

Trade unions
Abanka constructively cooperates with both trade unions at the Bank and provides them suitable conditions for their activities. Through regularly meetings with representatives of the trade unions, an ongoing dialogue is maintained and transparent information about all relevant HR topics is ensured. The Bank also replies to all questions raised by the trade unions or individual employees. The Bank obtains the consent of the trade unions before adopting internal human resource documents. The Bank gives an annual donation to both trade unions and takes part in the giving of New Year’s presents to employees’ children.

Abanka’s clubs
The Bank’s employees may join the Abanka Sports Club and Abanka Mountaineering Club. Abanka provides financial support to both clubs.

The Bank remains in contact with its former employees who have retired by supporting two Abanka pensioners’ associations.

Family-Friendly Enterprise
Abanka was the first among Slovene banks to receive the Family-Friendly Enterprise certificate. Adopted measures are consistently implemented, while new measures are being developed, with the aim of facilitating work-life balance for employees. The relevant measures and actions are presented in detail in the section Employees.

Financial literacy and advice
Abanka has a long tradition of teaching financial literacy to children. The Bank continued its long-term partnership with the children's museum Herman's Den in 2019, where a bank for children was created. In it, children are taught the basics of banking through fun and games.

The online advisory service offers advice to parents about finance for children at different ages. In cooperation with puppeteers, puppet shows for children entitled “The Hedgehog Gathers Food” were organised again in 2019. Children were actively involved in the puppet show, through which they learned about saving. The Bank actively participated in the *Vesela šola* and *Cici Vesela šola* projects in 2019, and improved the advanced, digital banking literacy of young people.

Cultural heritage
Abanka is proud of its 150-year tradition and is dedicated to the careful management of banking artefacts. Five buildings in which it conducted or still conducts its banking activity are protected as cultural heritage (Krekov trg 6 in Celje, Braslovče 25 in Braslovče, Lapajnetova 47 in Idrija, Rozmanova 40 in Novo mesto and Partizanska 41 in Sežana). Through responsible management, the Bank contributes to the preservation of cultural heritage in several regions across Slovenia.

Development and opening of the digital world
The Bank actively monitors technological development with the aim of designing advanced, digital solutions and customer-tailored products, and helping the general public to get acquainted with the digital world through personal experience. The aim will be to monitor new technologies in artificial intelligence, predictive buying, the integration of devices into the IoT (Internet of Things), augmented reality and other breakthroughs, and to evaluate the possibility of integrating them into the Bank’s services. In accordance with its established strategy, the Bank continued with the development of advanced channels, offering the possibility of buying and reviewing traditional banking products through Abamobi and Abanet, and using advanced mobile payments with Abadenarnica (payment card digitalisation).

The Abasvet branch office was set up at Trdinova 4 in Ljubljana, where anyone can try out and experience virtual reality and other technological innovations.

Support of the social environment and relations with the interested public
Abanka contributes to social, cultural, sports and other development through donations, sponsorships and other contributions. This is done by using transparent and documented procedures to prevent any personal or business conflicts of interest.

Under the slogan “We Support Knowledge”, sponsorship focused strategically on corporate sponsorship of the programmes and projects under the auspices of the Scientific Research Centre of the Slovenian Academy of Science and Arts (ZRC SAZU). The Bank continued to support ZRC SAZU sponsorship activities in 2019. General sponsorship focused on the Fran.si platform, the Anthropological and Spatial Studies research programme led by Dr Ivan Šprajc, to which funds were allocated funds for the publication of a revised edition of the book entitled Izgubljena mesta (Lost Cities), while a portion of funds was allocated by ZRC SAZU to their current projects.

Additional support was provided in 2019 to the Slovene Reading Badge – ZPMS, under the slogan “Reading Brings Knowledge, Reading Fosters Dreams”. The Bank also sponsors the Reading Badge “Mentoring Tea Party” project. The Bank provided financial support for a range of projects, including the children's museum Herman’s Den, the Veronika Award cultural project and sports activities (the Kladivar Celje Athletic Club, the Green Valley Marathon, skiing competitions on Rogla, the Abanka Sports Club, etc.).

Cooperation with the media is fair and transparent, and the Bank replies to questions from the press in a timely manner. Media publications are monitored on a daily basis and subject to an in-depth assessment. On the basis of an analysis, the Bank plans corporate communications and manages reputation risk.

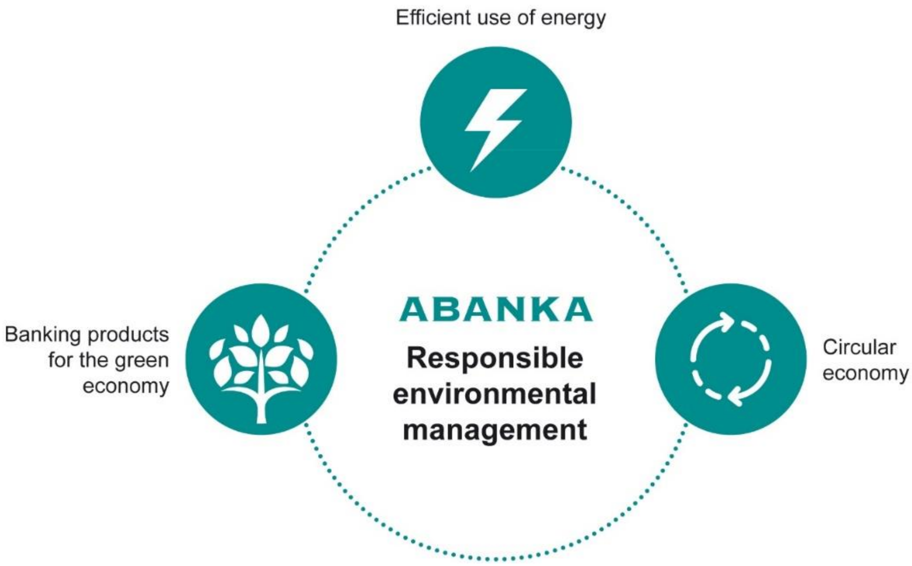
The general assessment of Abanka’s presence in the media in 2019 was positive.

ENVIRONMENTAL FOOTPRINT

In conducting its business operations, Abanka has an impact on the natural environment. For this reason, it actively manages its environmental footprint. The key elements of the impact on the natural environment and business economics include: efficient energy use, the circular economy and banking products for the green economy.

Abanka demonstrates its care for the adequate protection of the natural environment through following measures and activities:
- separate waste collection is provided for in all locations where utility service providers enable the removal of separated waste;
- use of a central collection point for waste electronic equipment, which is then handed over to authorised companies for further recovery; the installation of modern energy-efficient cooling/heating/ventilation systems in business premises in accordance with the investment and major maintenance plan; and
- use of energy-efficient lighting (LED lamps).

Responsible environmental management



Efficient energy use
With respect to efficient energy use, the focus is on two areas in particular: the energy management of commercial buildings and the vehicle fleet. Abanka began to perform an energy audit in 2019 in accordance with the Energy Act (EZ-1).

The total floor area of business premises (rented and owned) used by the Bank for its operations in Slovenia is over 30,000 m^2. By optimising the use of business premises and selling unnecessary real property, the required floor area and the number of buildings are being reduced, resulting in a decrease in the consumption of energy needed for heating business premises, as well as electricity consumption. Relative to consumption in 2018, the cost of electricity consumption was down by 12% in 2019, while the cost of heating was down by 6.5%, despite rising energy prices on the market. Renovations and major maintenance are carried out in accordance with energy efficiency guidelines and legal provisions relating to the construction of buildings. The Bank is installing modern cooling/heating/ventilation systems with energy recuperation, energy-efficient lighting, gas condensing boilers, heat pumps, energy-efficient construction/insulating materials and energy-efficient illuminated signs. Upgrades and maintenance are carried out in accordance with the investment and major maintenance plan, taking into account the estimated useful life of equipment and the economic/technical viability of replacement or upgrade.

Cooling, heating and ventilation systems were upgraded in 2019 in line with the investment and major maintenance plan, which included replacing worn-out appliances with newer ones that are more energy efficient. Two major projects were the upgrading of the air-conditioning system at the Koper Branch Office and the upgrading of the boiler room in the Krekov trg Celje commercial building. The old heating oil system at the Šmarje pri Jelšah Branch Office was replaced with a new gas connection and a gas boiler for heating with gas. The fitting of LED lamps to replace older bulbs continued, which significantly reduces power consumption due to the higher efficiency of the LED lamps. Energy-efficient systems will continue to be installed everywhere this is justified in terms of lower operating expenses and the level of investment in modern equipment.

In accordance with house rules and instructions on the efficient use of energy at Abanka, all employees are required to rationally use heating/cooling systems and to remember to switch off any electrical equipment not in use.

The Bank is gradually renewing its vehicle fleet by purchasing low CO_2 emission vehicles with a more efficient engine. A certain number of vehicles is included in the replacement plan every year based on a thorough analysis of the vehicle fleet and the fulfilment of replacement criteria (consumption, costs, model year, etc.). In terms of environmental protection, the Bank is striving to reduce the number of rides given to employees between locations through videoconferencing, which is available in large commercial buildings.

Circular economy

Abanka is aware of the importance of the circular economy. For that reason, the aforementioned concept is being gradually implemented at all levels of its operations. Separate waste collection is organised at all locations. The Bank uses a central collection point for waste electronic equipment, which is then handed over to authorised companies for further recovery.

In large commercial buildings, special rooms for printing were arranged and the number of large printers was optimised, meaning all arrangements have been made for changing the printing infrastructure and using multifunction devices at agreed locations. These guidelines will continue to be implemented in 2020 with the aim of increasing control and thus reducing paper consumption through controlled access to printers.

Abanka obtains quotes from the suppliers who are concerned about the natural environment. When purchasing toners and cartridges, the Bank also cooperates with the suppliers offering renewable toners. Renewable toners account for 10% of all toner purchases at the Bank level. Through the organised collection of used toners and cartridges, the Bank is striving to make a positive impact on the environment. For this reason, such waste is collected in special waste separation bins. Collection is carried out by Bitea d.o.o. several times a year upon request.

A great deal of attention is devoted to setting up a modern document management system. The introduction of e-pen in retail banking enables the processing of electronic documents. Paper documents are only provided for the needs of customers. Instead of paper, modern document processing methods are also used to transfer other documentation to the electronic archive.

Through these measures, paper consumption was reduced by 13%, toner consumption by 15.5% and the number of copies by approximately 40% in 2019. The volume of electronic document capture relating to lending operations was up in 2019. These types of documents account for a large proportion of all documents at the Bank.

Banking products for the green economy

Abanka expanded its range of products by including the products that promote a positive impact on the natural and social environment. This portfolio of banking products is expected to grow in line with the increased commitment of companies to the green economy and consumers' commitment to green consumption.

Management Board

Matej GOLOB MATZELE	Nada MERTIK	Jože LENIČ
Member of the Management Board	Member of the Management Board	President of the Management Board

RISK MANAGEMENT

The risk appetite framework defines all processes and mechanisms that ensure the taking up of risks by the Abanka Group is in line with the desired and sustainable level of risk, and available resources.

The key elements of the Abanka Group's risk appetite framework are the identification of material risks, risk-bearing capacity, risk appetite and risk management at all three levels of the pyramid.

The Risk Appetite Framework of the Abanka Group includes risk management processes per significant risk type, risk capacity and risk appetite.

The Group identified the following risks as material in 2019: credit, operational, interest rate risk, reputation, business and liquidity risks. It regularly verified its exposure to identified risks and studied the possible emergence of new types of risks with the aim of ensuring the adequate level and quality of capital. Risk assessment monitoring facilitates the timely identification of key changes in the risk profile and serves as the basis for adopting necessary measures. The Group revised the content of reports, optimised reporting flows and upgraded escalation processes.

The Abanka Group's risk-bearing capacity illustrates how much risk it is capable of taking up given its current and planned level of resources, without exceeding capital and liquidity requirement limits.

Risk appetite is a clear indication of how the Group wishes to take up risks in order to achieve its strategic and business objectives. Risk appetite may never exceed risk-bearing capacity.

The Abanka Group defines its risk appetite based on selected key risk indicators at the highest level. Those indicators limit the risk to which the Group is exposed and are classified according to a comprehensive risk management pyramid. The Group allocates capital and defines limits by risk type and sub-type at the second level of that pyramid. Operational risk management limits serve as the basis for daily decision-making and ensure that limits for specific types of risks, which are allocated to organisational units with respect to the nature thereof, are not breached in daily management activities.

The risk management process within the Abanka Group is defined through the following five elements of the process framework:
- identifying which risks the Group is exposed to or could be exposed to in the future;
- assessing and measuring risks, processes that include the drafting of quantitative and/or qualitative risk assessments;
- monitoring risks, which comprises key control processes and procedures, including limits;
- risk reports that facilitate management decisions regarding risk management measures, and monitoring the results of those measures; and
- risk management.

A model comprising three lines of defence is in place for effective risk management. The first line of defence comprises organisational units that take up risks and serve as risk owners. The second line of defence comprises organisational units that manage risks and participate in the establishment of a risk management system. Second-line organisational units are independent of the first line, and provide support in the identification of risks and implementation of the relevant controls. The second line of defence formulates an appropriate risk management framework and methodologies. It also monitors the risk profile and the success of controls in all organisational units. The third line of defence independently oversees and evaluates the established risk management system, reports on the effectiveness of the design and functioning of the risk management framework, performs tests of key internal controls, and reviews the activities of the first and second lines of defence.

At the strategic level, the Group has set the following risk management objectives:
- ensuring the effective and comprehensive treatment of the risks to which the Group is exposed in its operations;
- defining the risk appetite of the Group and ensuring it is consistent with the business model and business plans of the Group, taking into account its risk-bearing capacity and the results of strategic analysis;
- the timely identification and comprehensive review of all relevant risks;
- the design, maintenance and continuous upgrading of a system that allows the Group to identify a deterioration of its financial situation or risk profile in a timely manner, and to define risk mitigation measures;
- clearly defined risk management responsibilities and competences within the Group; and
- conscious decisions regarding the optimisation of the risk profile and benefits.

Special attention is given in the risk management strategy and risk appetite to risk management policies, quantitative definitions of risk-bearing capacity and risk appetite for capital and liquidity, transparency, consistency and control, unimpeded communication regarding risks, and consideration of the relevant proposals of internal control representatives in the decision-making process. The Group operates in accordance with the adopted Code of Business Ethics and other applicable policies that make up the broader risk management framework.

The Group is aware that the business plan and business decisions must be adopted in a way that ensures long-term sustainable and profitable operations. Exposure to risks is thus carefully assessed, a process that includes stress testing. Stress testing at the Group level is an important part of the strategic planning of risk appetite, as it provides information as to whether the financial position of the Group could withstand the impact of exceptional but plausible events.

The Risk Management Division, an organisational unit independent from the front office, is responsible for the risk management function. Its role includes the development and use of risk management techniques as defined by elements of the process framework at the Group level. Those elements ensure the Group's long-term stable and secure operations within the limits defined by the risk appetite.

The activities of the Risk Management Division in 2019 and achieved results are presented in more detail below.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Group regularly performs the Internal Capital Adequacy Assessment Process (hereinafter: the ICAAP). The ICAAP and risk appetite framework are closely linked. This is appropriately reflected in risk management limits at the level of the Group and portfolios, and in integration with the business strategy, business plan and recovery plan.

The Group updated its internal capital requirement assessment metrics for material and immaterial risks again in 2019. Those metrics are based on an internal economic approach.

> In 2019, the Group upgraded its internal capital requirement assessment matrices using the internal approach.

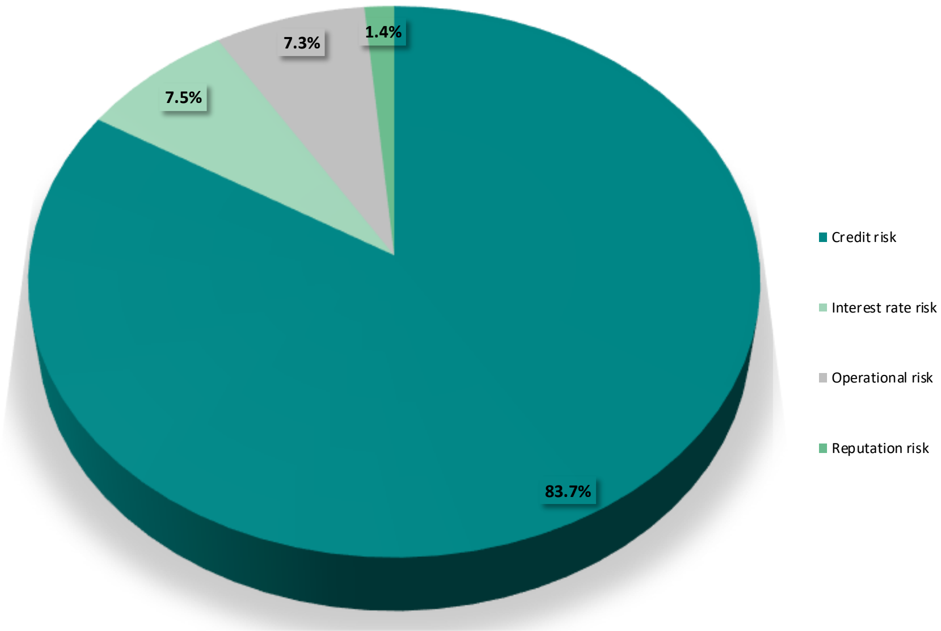
In the scope of the ICAAP, the Group places a great deal of emphasis on regular stress testing, which is performed to identify the vulnerability of the Group in the event of less likely, but still possible, changes in various risk factors. The ICAAP thus represents the basis for the definition of the Group's risk-bearing capacity and risk appetite.

The internal capital adequacy assessment process is defined by two variables. On the one hand are risks defined as material in the risk identification process, while on the other hand is the capital the Group requires to cover risks and potential losses arising from those risks.

A comparison of the internal assessment of capital requirements and the internal assessment of capital reflects the Group's ability to cover all of the risks to which it is exposed.

The internal assessment of capital requirements was structured as follows at the end of 2019:

INTERNAL ASSESSMENT OF CAPITAL REQUIREMENTS



INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS

The Group performs the Internal Liquidity Adequacy Assessment Process (hereinafter: the ILAAP), which includes assessments of liquidity requirements and available liquidity. The ILAAP is closely linked to the Group's risk appetite framework, which includes an internal economic perspective and a normative regulatory perspective, based on which the Group sets the required level of the liquidity buffer. The latter is appropriately reflected in risk management limits and in integration with the business strategy, the business plan and the recovery plan.

In addition to recalibrating its risk appetite, which is reflected in the limit system and the critical values of indicators set out in the recovery plan, the Bank also expanded the set of indicators and number of scenarios that it analyses in the scope of the recovery plan for the area of liquidity in 2019. It also upgraded its mechanism for allocating benefits and costs in connection with liquidity. That mechanism is a system of internal transfer prices, as one of the elements of the ILAAP, where the Group regularly verifies its liquidity adequacy in the scope of both its ordinary operations and its business plan in the future planning period. The verification of liquidity adequacy includes liquidity stress testing, which is also carried out in the scope of ordinary operations and during the drafting of the business plan for the future planning period.

The Group discloses its liquidity adequacy by using selected ratios, whose values are properly calibrated, both in the risk management strategy and in the Group's other documents, such as the business plan, recovery plan, plan to restore adequate liquidity and others.

The ILAAP includes an assessment of the adequacy of the Group's funding and the appropriateness of the liquidity risk management system. The assessment of the adequacy of funding is particularly important in the planning process, where the funding policy for the current planning period is formulated. The adequacy of funding is also seen in current operations, in the scope of which decisions regarding sources of funding are made, taking into account the actual circumstances and potential corrective measures to achieve the planned situation. Within the ILAAP, the Group revises methodologies, particularly in the area of stress testing, and establishes an effective liquidity adequacy planning system, both in the context of regular planning and in the scope of verifying the impact of business decisions on current and future liquidity adequacy.

CREDIT RISK

Credit risk is the most important risk to which the Abanka Group is exposed. In addition to default risk, credit risk also includes concentration risk, the risk of less effective collateral (residual risk), country risk, dilution risk in connection with purchased receivables, foreign currency lending risk, participation risk, migration risk and shadow banking risk. The Abanka Group has identified the following as material credit risks: default or counterparty risk, concentration risk, migration risk and residual risk.

The main objective of credit risk management within the Abanka Group is to achieve and maintain the quality and diversification of the credit portfolio at a level that ensures stable and sound operations. To achieve these objectives, the Group has established procedures to monitor credit risk exposure and prevent losses.

The main objective of credit risk management within the Abanka Group is to achieve and maintain the quality and diversification of the credit portfolio at a level that ensures stable and sound operations.

The Abanka Group has in place a credit risk management process that includes credit risk identification, measurement/assessment, monitoring and reporting procedures. It uses various tools to manage and mitigate credit risk. They include a limit system, collateral, master netting agreements, financial covenants and other provisions in credit agreements (e.g. contractual (financial) commitments).

Exposure to credit risk depends on the following three components:
- the probability of default associated with a debtor, which is reflected in their credit rating;
- the loss rate or repayment of debt in the event of default; and
- the level of exposure in the event of default (including the conversion factor in the case of off-balance-sheet exposure).

The Group uses expected and unexpected loss as a measure of credit risk. In doing so, the assessment of credit portfolio risk, the amount and quality of collateral and exposure maturity are taken into account as well as the risk characteristics of various types of exposures. Credit risk assessment takes into account the volume and concentration of assets, as well as asset quality.

The Abanka Group continued to implement development activities in 2019 in the area of credit risk management. The methods/models used to assess credit parameters for calculating impairments and provisions were evaluated, while credit parameters (probability of default and loss given default) were recalibrated. The methodology for assessing expected credit losses was updated in line with the new regulatory requirements for non-performing exposures (hereinafter: NPEs).

The Abanka Group upgraded its early warning system (EWS) for increased credit risk by linking the EWS with the SISBIZ information system for legal entities (the Central Credit Register of the Bank of Slovenia) and by upgrading the EWS for entrepreneurs and retail customers.

A number of improvements were introduced in the area of collateral management in 2019. These facilitated a reduction in the weights used to calculate capital requirements in accordance with the law and thus the more effective management of capital.

The Group continued in 2019 with an active approach to reducing the proportion of non-performing loans, which was reflected in the continued reduction of the proportion of non-performing exposures. Excluding exposures to banks, the proportion of C-, D- and E-rated loans in the Abanka Group's credit portfolio decreased in 2019 relative to the previous year. The reasons for the decrease in the proportion of non-performing loans were successful collection activities, the restructuring of loans to companies with an appropriate business model and sufficient cash flow to repay loans in the future, the implementation of activities relating to the early warning system (EWS) for increased credit risk and a selective approach to approving new loans.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or as the result of external events. That definition also includes model risk, conduct risk, outsourcing risk, compliance risk, legal risk and cyber risk, but excludes business risk and reputation risk, although the realisation of operational risk may, as a consequence, impair the Group's reputation.

The Group regularly identifies and assesses exposure to operational risk, while also taking stock of preventive and corrective measures in the event of operational risk incidents. The system for reporting the occurrence of operational risk incidents within the Abanka Group includes all employees and facilitates quick action if problems arise, as the Management Board and senior management are involved in the discussion of reports. The Security Officer, Information Security Management Officer and Information System Security Administrator are actively involved in the discussion of incidents. The occurrence and frequency of operational risk incidents (financial, non-financial and potential) are discussed quarterly by the Operational Risk Commission and the Risk Management and Asset-Liability Committee. When extraordinary events occur, the Abanka Group carries out activities in accordance with the umbrella business continuity plan.

The results of analyses of operational risk incidents indicate that external factors and losses due to human error were the main sources of losses from operational risk during the last year. The Abanka Group has drafted a specific action plan for all significant operational risk incidents with the aim of preventing or reducing the likelihood of them reoccurring. That plan includes responsible persons and deadlines for implementation. The implementation of measures is monitored regularly.

The Abanka Group paid particular attention to and carried out activities in the following areas in 2019:
- in the area of business continuity management, it tested business continuity plans and updated basic acts in this area;
- updated the Abanka Group's outsourcing policy in accordance with the provisions of the EBA's guidelines;
- updated the operational risk management methodology and upgraded software support; and
- organised training for all employees.

INTEREST RATE RISK

Interest rate risk is the risk arising from exposure to unfavourable changes in the levels of market interest rates. Fluctuations in the levels of prevailing market interest rates have an impact on the value of financial instruments and the associated future cash flows. Interest margins and profits also fluctuate as the result of such changes.

The Group has in place an effective interest rate risk management process that keeps risks at an acceptable level. The Bank's model comprising three lines of defence facilitates the management and monitoring of interest rate risk independent of the take-up of risk and the fulfilment of requirements.

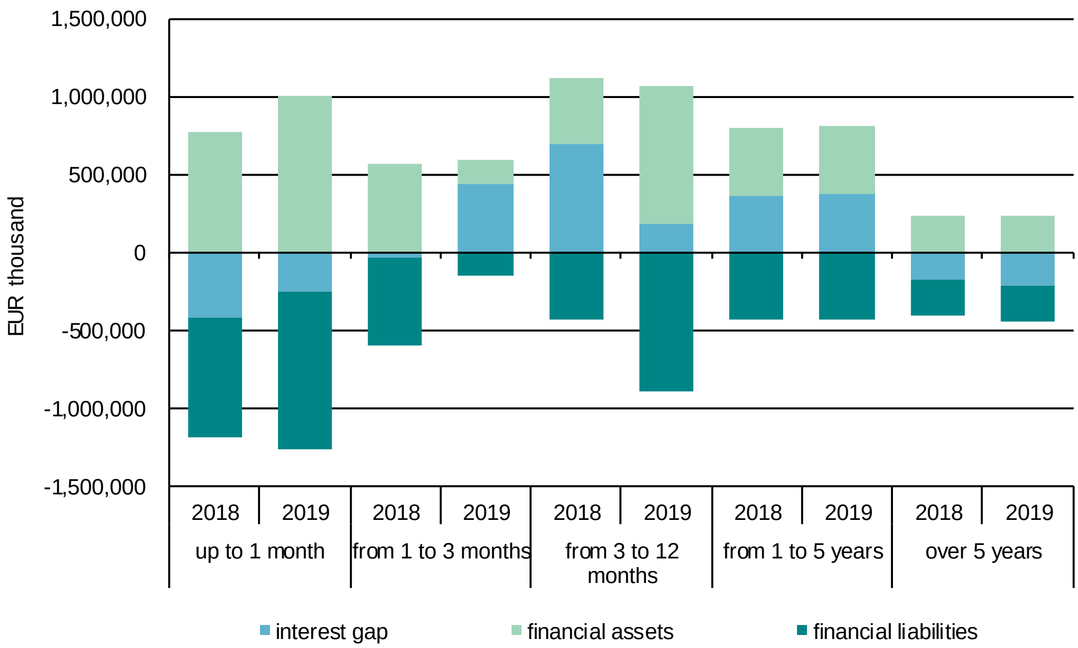
The interest rate risk that arises in trading is monitored in the scope of the monitoring of market risks, while the interest rate risk that arises from the banking book is measured through interest rate gaps and the regular analysis of the interest rate sensitivity of balance-sheet items. An interest rate sensitivity analysis, which takes into account various scenarios and forecasts, measures the impact of potential changes in interest rates and other factors on the economic value of capital and on net interest income. The basis risk that derives from various types of reference interests rates and the option risk associated with the early repayment of loans are taken into account when measuring risks. The Bank fully incorporated the prepayments model in the measurement of interest rate risk in 2019. In the current extremely low interest rate environment, interest rate risk continues to be carefully monitored and managed. Stress testing is regularly performed for measuring the impact of changes to the yield curve on interest rate risk. The extent of interest rate risk is mitigated by an established limit system.

The Abanka Group continuously adjusts its interest rate policy to the conditions on the domestic and international markets, and balances its interest rate position. The Bank updated its methodology for identifying and measuring interest rate risk in 2019 in accordance with the Guidelines on the management of interest rate risk arising from non-trading activities.

The Abanka Group continuously adjusts its interest rate policy to the conditions on the domestic and international markets, and balances its interest rate position.

The figure below shows interest rate gaps by time bucket at Abanka at the end of 2019 relative to the situation at the end of 2018.

INTEREST RATE GAPS IN ABANKA



LIQUIDITY RISK

Liquidity risk is the risk of loss that includes the risk of failing to secure sources of liquidity, market liquidity risk and asset encumbrance risk. The risk of failing to secure sources of liquidity is the risk that the Abanka Group might be unable to settle all maturing obligations in a timely manner or that as a consequence of its inability to secure sufficient funding to settle obligations at maturity, it might be forced to secure the required funding at costs significantly above the average market costs. Market liquidity risk is the risk of loss due to the inability to sell or replace positions (in financial instruments) in a short period of time without this having a significant impact on the market price due to insufficient market depth, market imbalances or other reasons. Liquidity risk also includes asset encumbrance risk, which arises from the encumbrance of the Group's assets, and entails an increase in the risk associated with securing sources of liquidity, and market liquidity risk due to fewer opportunities to secure sources of liquidity sources and dispose of assets.

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

The liquidity risk management process comprises:

- the planning and monitoring of future cash flows, which include daily funding to ensure the settlement of assumed liabilities and the structural balancing of received funds and investments;
- the maintenance of an adequate liquidity buffer that can be easily liquidated as protection against any unforeseen cash flow trends;
- the monitoring and calculation of liquidity ratios and indicators, taking into account the Abanka Group's own requirements and regulatory requirements;
- the monitoring of the diversity of sources of funding and the profile of maturing liabilities; and
- the implementation of liquidity management scenarios based on the normal course of business and liquidity stress situations (stress scenarios).

For the purpose of hedging and mitigating liquidity risk, the Abanka Group has in place an internal limit system that includes quantitatively measurable risks and material liquidity risk factors. The Group also uses other qualitative tools to reduce exposure to liquidity risk. In setting limits, the Group takes into account regulatory requirements and the results of internal stress scenarios. The setting of limits and monitoring of liquidity risk are organisationally segregated from daily operational liquidity management.

For the purpose of liquidity management in stress conditions, three groups of stress scenarios at different degrees of severity and for different durations are analysed. The idiosyncratic scenario is adapted to the internal liquidity position. The market scenario is linked to a significant macroeconomic event, a sudden change of risk in the financial system or tightening conditions on several markets simultaneously, while the combined scenario is defined as a combination of the idiosyncratic and market scenarios. In order to hedge against liquidity risk, the Group has established procedures for the early identification of liquidity shortfalls by monitoring liquidity ratios and other indicators, based on which the Group is able to identify any liquidity problems in a timely manner. An action plan taking into account the source and severity of a stress situation is in place with the aim of restoring a normal liquidity position in the event of liquidity shortfalls.

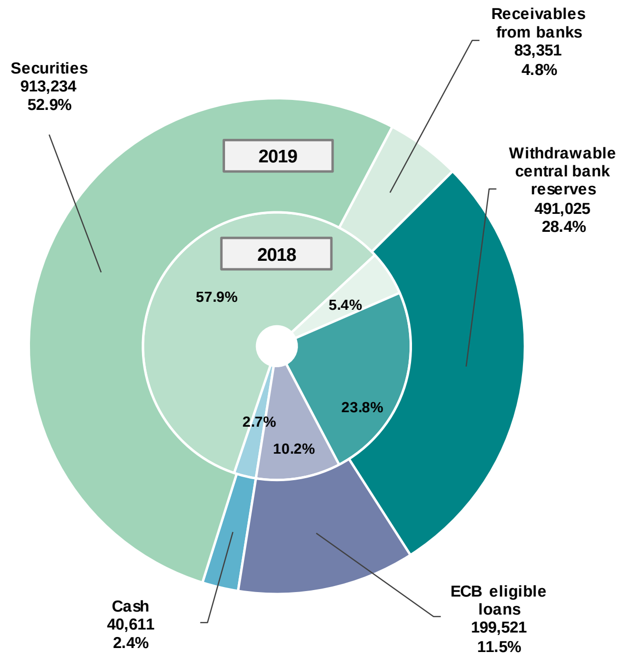
The Abanka Group maintained a favorable liquidity position and a high liquidity buffer in 2019. Still at the forefront are risks arising from the persistent environment of low or negative interest rates and the resulting high proportion of total sources of funding accounted for by demand deposits. On the other hand, conditions on the markets create excess liquidity. The Abanka Group holds a high proportion of free assets eligible as collateral for central bank operations and thus a potential source of liquidity at the ECB. In addition to the above, declining dependence on wholesale funding and an appropriate emphasis on securing a sufficient level of secondary liquidity ensured appropriate liquidity risk management.

The Abanka Group maintained
a favorable liquidity position and
a high liquidity buffer in 2019.

With regard to the development of econometric models, the Group redesigned models of utilisation of individual off-balance-sheet items. It also recalibrated its risk appetite and liquidity limit system, as well as critical values for the recovery plan and the plan to restore adequate liquidity, and harmonised those plans.

Abanka's internal liquidity buffer structure is shown in the following graph.

INTERNAL LIQUIDITY BUFFER STRUCTURE IN ABANKA



MARKET RISK

Market risk is the risk of loss due to the unfavourable movement of market prices. It arises due to unfavourable changes in risk factors, including interest rates, exchange rates, credit spreads, share prices, commodity/gold prices and other important factors. The Abanka Group monitors exposure to market risk as the result of positions in financial instruments held in its trading and banking books separately.

The main purpose of market risk management is to achieve a balance between the return and the acceptable level of risk, taking into account the Group's risk appetite and risk-bearing capacity, factors from the macroeconomic environment, legal restrictions and applicable business policies. The Group’s trading units are operationally and organisationally segregated from risk management units and other support services.

The Abanka Group continued its policy of limited trading in financial instruments in 2019. The Group did not trade in equity financial instruments, while trading in debt financial instruments for own account was mainly limited to primary dealing in Slovene government bonds and the active maintenance of this bond market. Trading in derivatives was limited to foreign exchange and interest rate derivatives requested by customers (mostly corporates) for the purpose of hedging against interest rate and currency risks.

The Abanka Group continued its policy of limited trading in financial instruments in 2019.

The banking book portfolio includes both equity and debt securities that are not held for trading. The equity portfolio of the banking book only includes the Bank’s strategic positions and positions obtained from the redemption of collateral or debt-to-equity swaps. The balance of debt financial instruments held in the banking book for the purposes of ensuring secondary liquidity, stabilising the interest margin and managing the interest rate risk to which the Abanka Group is exposed amounted to EUR 1,056 million at the end of 2019, an decrease of EUR 23 million relative to the end of 2018.

For the purpose of measuring market risk, the Group also uses Value at Risk (VaR), a quantitative measure that assesses a potential loss in the value of a position due to unfavourable changes in risk factors over a given future period at a given level of confidence in normal market conditions. The Group calculates VaR for debt financial instruments based on an historical method at confidence levels of 95% and 99%, with a 10-day holding period. At a 99% confidence level, with a 10-day holding period and under the assumption of normal market conditions, the Abanka Group could not have incurred a loss of more than EUR 4 thousand at the end of 2019 from trading in debt financial instruments.

The Group's basic tool for managing market risk is a limit system that includes credit and position limits, stop-loss limits, market rate limits, VaR limits and limits by individual authorised person. In setting limits in the trading and banking books of financial instruments, the Abanka Group follows the principles of prudence and increased portfolio diversification to minimise its exposure to credit and market risks.

Trading in derivatives was based on a back-to-back trading policy in 2019. Trading in derivatives with other companies was primarily carried out with the sole purpose of hedging positions against interest rate and currency risks. There was no trading in more complex derivatives.

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

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

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

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

Ljubljana, 6 March 2020

Management Board

Jože LENIČ
President of the Management Board

Nada MERTIK
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Supervisory Board

John DENHOF
Chairman of the Supervisory Board

Marko GARBAJS
Vice Chairman of the Supervisory Board

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

A concise statement of the management and supervisory bodies on risks in accordance with Article 435(1)f of Regulation (EU) No. 575/2013 (CRR) succinctly describes the Bank's or the Group's overall risk profile associated with the business strategy, business models and risk tolerance level.

Abanka and the Abanka Group pursue strategic objectives based on their pre-defined risk appetite limits. The aim of defining the risk appetite is to manage both the acceptable profitability and the capital and liquidity adequacy of the Bank and the Group within the limits, laid down by the management body, which are in line with the applicable regulations and good banking practices.

In line with the above, Abanka and the Abanka Group adhere to the following guidelines:
- focusing on the domestic market;
- strengthening the SME and retail business;
- investing in less risky debtors and limiting the exposures associated with a very high risk;
- focusing on further decreasing the share of non-performing exposures;
- pursuing credit portfolio diversification at the exposure level of individual borrowers, groups of related parties and industries;
- acquiring collateral of appropriate form, size and quality;
- maintaining an adequate level of liquidity reserves and liquidity ratios as defined in the applicable risk management strategy and risk appetite;
- ensuring stable and diversified sources of funding.

The Abanka Group establishes and manages the framework and processes of comprehensive risk management by taking into account its business model, strategic objectives and risk profile under normal and stress scenarios. As a rule the Bank defines its risk appetite limits on a longer time scale, regularly revising and modifying it as required.

After taking into account all the above mentioned elements and results of ICAAP and ILAAP processes, it is our assessment that the risk profile of the Bank and the Group is moderate, which means that the Bank will assume the volume of risk that is acceptable in view of its business model and capital strength.

The risk management strategy defines not only the key risk appetite elements but also the processes and mechanisms to ensure that the Bank's risk-taking always complies with its target and sustainable risk appetite. To ensure that the risk profile complies with the defined risk appetite and adopted risk policies, the Bank maintains the appropriate separation of powers and duties, clear and efficient processes, focuses on and raises awareness about the importance of risk identification and management, as well as uses various risk management tools and techniques.

Among other things, the risk appetite is limited so as to ensure adequate capital and liquidity levels also under stressed conditions. Limiting risk appetite represents an important part of the decision-making process. Regular risk monitoring and reporting processes enable the Bank and the Group to take timely action within the pre-set limits before the limits are reached. Risk management involves the entire senior management through their participation in various bodies of the Bank which make risk management decisions. Within the framework of the Supervisory Board, the Risk Committee and Credit Committee have been set up to specifically focus on risk management issues.

The Bank and Group monitor and assess all the risks on the basis of a risk catalogue. Special emphasis is put on careful management of all material risks, including: credit risk, operational risk, interest rate risk, liquidity risk, reputational risk, compliance risk and business risk. Among material risks special attention is put on credit and liquidity risks.

Credit risk taking is moderate and in compliance with the specified tolerable quality and diversification of the credit portfolio. To ensure the quality of the portfolio, the risk management function is actively involved in the credit process for approving new loans; furthermore, the Group places great emphasis on further reduction of non-performing exposures and their prevention.

Liquidity risk appetite is low as the Bank aims to ensure a secure liquidity position and an adequate liquidity buffer, both under normal and stressed conditions.

Interest rate risk exposure is low but may slightly increase in order to enable the Bank to improve the profitability of its operations in the future, staying within the pre-set limits and regulatory requirements.

The non-financial risk appetite, which includes broad operational risks, is low. Exposure to operational risks is managed by appropriately adjusting internal controls, increasing the risk awareness culture and upgrading internal processes.

In the context of risk control, the Group consistently manages also non-material risks.

Abanka and the Abanka Group monitor the appropriateness of the risk profile based on six key risk measures (indicators), which define the risk appetite with respect to the following values:

- total capital ratio – over 17.3%,
- Common Equity Tier 1 (CET1) ratio – over 13.8%,
- weighted probability of default on new exposures – under 3%,
- liquidity coverage ratio (LCR) – over 150%,
- net stable funding ratio (NSFR) – over 110% and
- survival period under liquidity stress conditions – over 3 months.

The key indicators are presented in the Business Report (Section Financial Highlights and Performance Indicators) and the Financial Report (Sections Risk Management and Capital Management). Additional information on risk management is disclosed under Section Disclosures in line with Pillar 3 of Basel standards.

The risk profile of Abanka and the Abanka Group is within the risk appetite limits set by the Bank's management body. The Bank regularly monitors the compliance of its risk profile at any given time with the pre-set risk appetite limits, and regular ICAAP and ILAAP calculations. The results are reported to the Management Board, senior management and Supervisory board of the Bank. All key indicators are a constituent part of risk reports that are regularly discussed by the Supervisory Board and its committees.

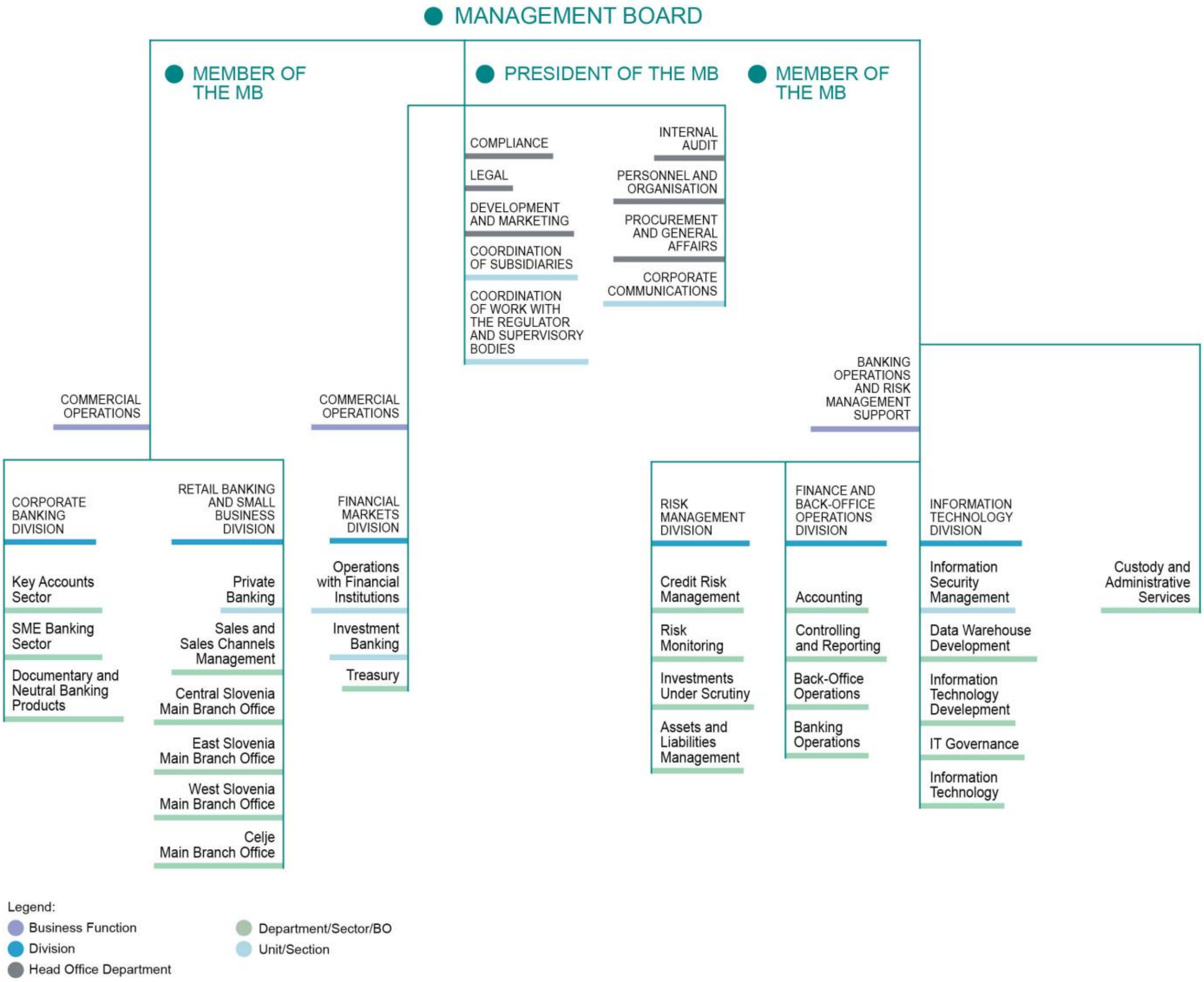
The risk management systems in Abanka and the Abanka Group are appropriate and compliant with the Business Strategy and the Risk Management Strategy, based on the defined key risk management indicators.

Ljubljana, 6 March 2020

Management Board	**Supervisory Board**
Jože LENIČ President of the Management Board	**John DENHOF** Chairman of the Supervisory Board
Nada MERTIK Member of the Management Board	**Marko GARBAJS** Vice Chairman of the Supervisory Board
Matej GOLOB MATZELE Member of the Management Board	

ORGANISATION AND PROCESSES

ORGANISATIONAL CHART AS AT 31 DECEMBER 2019



The optimisation of the Bank's organisational structure continued in 2019 based on the guidelines set out in the Bank's strategy.

The goal is to establish and maintain an efficient organisational structure adapted to the planned volumes of business not only in the front office, but also in the back office and management. The optimisation and supplementation of the organisational structure continued with the aim of including additional functions, centralisation and the more efficient performance of individual functions.

Finding **new solutions in process and organisational structures** facilitates a reduction of the burden on the vital parts of the Bank in the form of administrative barriers that create bottlenecks in sales activities, as well as the rapid adaptation to the needs of the market, the establishment of a lean organisational structure and the implementation of the digitalisation strategy.

The goal is to set up and maintain an efficient organisational structure adapted to the planned volumes of business not only in the front office but also in the back office and management.

EMPLOYEES

HUMAN RESOURCE POLICY AND STRATEGIC HUMAN RESOURCE HIGHLIGHTS

Efficient, motivated and engaged employees are crucial to achieving the Bank's strategic and business objectives.

The Bank's operations are based on good interpersonal relationships, strengthened by the values for which the Bank stands. New employees are recruited in accordance with the principle of equal opportunity. All employees enjoy optimal working conditions and social security, have the possibility of personal and professional development, and are presented with work-related challenges through which they harmonise their personal goals with the objectives and needs of the Bank. By using transparent and open communication, the Bank creates the basis for trust and a work environment that contributes to employee satisfaction, provides a pleasant atmosphere and encourages employee engagement and commitment.

New employees are recruited in accordance with the principle of equal opportunity. All employees enjoy optimal working conditions and social security, have the possibility of personal and professional development, and are presented with work-related challenges.

The year 2019 was marked by many human resource activities related to the Bank's strategic guidelines, which included the implementation of commitments from the restructuring plan. In addition to the Human Resource Policy as the main document regulating human resource management, the Bank implements activities aimed at human resource optimisation, human resource regeneration and a digital culture.

The strategic highlights of the **Human Resource Policy** focus on increasing the Bank's productivity and performance, retaining key staff and attracting the best workers from the external labour market, increasing employee engagement and performance, and enhancing the visibility of the Bank in the banking and wider environments. Human Resource Policy activities are divided into the following four areas: staffing levels and procedures, development and training, motivation and remuneration policy, organisational culture and values.

On the basis of **human resource optimisation**, the Bank optimises its personnel structure by reducing the number of employees, restructuring existing posts and ensuring staffing and employee profiles that adapt to changes on the market and in the competitive environment.

Through **human resource regeneration**, the Bank continuously adapts to future challenges on the labour market. The implementation of qualitative changes to the staffing structure continued in 2019, with a primary focus on strengthening the Bank's sales channels, both in terms of number and specialisation. The Human Resource Regeneration Programme also defines other activities aimed at staff regeneration, enhancing intergenerational cooperation, building a pool of potential promising staff, cooperation with universities, awarding scholarships and maintaining the Bank's reputation by presenting Abanka at various HR events and employment fairs. Scholarships were awarded to 10 students in the areas of IT and risk management in 2019. Moreover, work placement and gaining new knowledge and experience at the Bank was provided to pupils and students. In order to connect the academic and business worlds, the Bank entered into a career partnership with the Faculty of Economics of the University of Ljubljana, in the context of which the project of branding one of the faculty's classrooms was launched and an educational event for students was held in the form of a banking school that addressed three main topics: human resources, risk management and the development of banking services (mobile banking). Abanka was promoted as a good employer at the Career Fair in Ljubljana.

An additional set of activities carried out in the context of the digital transformation process is defined in **Abanka's Digital Culture Project**, which was developed with a view to creating a cooperative work environment, introducing new and modern forms of work, equipping employees with an appropriate set of skills in the digital era, and applying new digital approaches to recruitment and employment.

Other disclosures about the human capital of the Abanka Group and Abanka in 2019 are shown in the table below:

	The Abanka Group	Abanka
Total employees as at 31 December 2019	974	964
Average number of employees during the year	1,009	998
New recruits in 2019	43	43
Employees leaving in 2019	90	89
Employees – permanent work contract	962	952
Employees – fixed-term work contract	12	12
Employees with disabilities	21	21

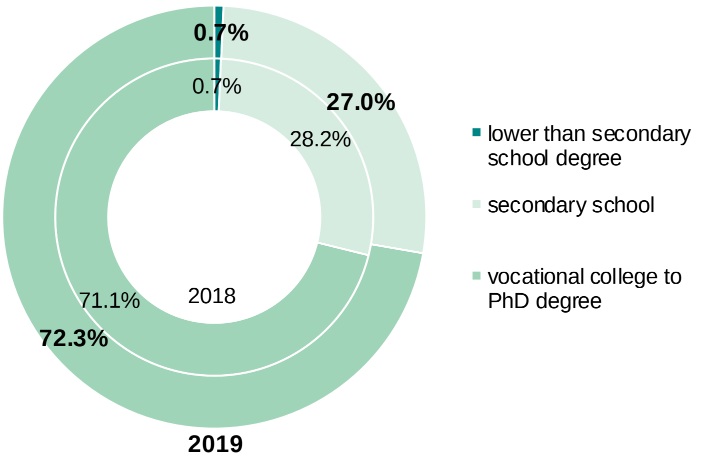
964

employees of Abanka as at the 2019 year-end

Of the total number of employees, **75% were women and 25% were men**. Most employees were aged between 40 and 49 years, with an average age of 46.1 years. The Bank's employees perform their work in different regions as Abanka is present across Slovenia through its extensive branch office network.

More than 72% of its employees have university or higher education (level VI or higher). The educational structure has been improving from year to year.

EMPLOYEE EDUCATIONAL STRUCTURE IN ABANKA IN 2019 AND 2018



EMPLOYEE EDUCATION AND TRAINING

Investing in the education and training of employees is an investment for the future success of the Bank. Education and training needs arise from individual needs relating to the professional and personal development of employees, and from business needs relating to the Bank's business strategy. **All employees attended at least one training course in 2019.**

Education and training needs arise not only from individual needs relating to the professional and personal development of employees but also from business needs relating to the business strategy of the Bank.

The key activities in education and training during the reporting period were aimed at the acquisition of the relevant know-how and skills required by business priorities, which employees obtained through **in-house and external training**.

External training was provided by hiring recognised external experts, while in-house training was based on the transfer of know-how and skills among co-workers. In the scope of in-house training, **mentoring** is a frequently used method, particularly for employees who are assuming new duties or greater responsibility.

In the spirit of digital transformation, the Bank continues to increase the proportion of e-learning. The Bank upgraded its e-learning **platform** in 2019, where a library of e-learning materials, prepared primarily by in-house trainers, is being built.

The average number of training hours per employee was 36.

As in previous years, the **work study** of employees who participated in an internal tender was co-financed in 2019. The Bank's employees regularly participate in various forms of training to obtain different types of certificates, licenses or qualifications.

The greatest attention in employee training in 2019 was devoted to upgrading professional banking and financial knowledge, sales, marketing, developing leadership competencies and sales skills, and acquiring the knowledge prescribed by the applicable legislation. Training in products, foreign language courses, learning how to use various IT tools and acquiring the knowledge of business analytics account for a significant proportion of training organised by the Bank. Many training courses are intended for the targeted training of key staff.

The development of leadership competencies focused on different types of leadership training and coaching, and on soft leadership skills and communication. A great deal of attention was paid to the unification of the organisational culture and mutual communication. Managers and employees are thus offered a diverse range of team-building exercises, including those that support corporate social responsibility.

EMPLOYEE DEVELOPMENT

Abanka constantly upgrades its employee development activities. Different tools and approaches are used in employee development, including various motivational mechanisms, while ever-increasing intergenerational differences are taken into account.

Career plans and a retention programme were prepared for all key staff at the Bank in 2019, while the implementation of the planned activities was actively monitored. The management of key staff provides an opportunity for employees to build a successful career and for the Bank to retain key, tacit knowledge gained through work experience.

Coordinated succession mapping for key positions provides the Bank greater efficiency and security in terms of the transfer and retention of key know-how within the Bank, while a substitution system in the event of the absence of key employees is also in place.

One of the tools that the Bank has used for many years and that facilitates management by objectives is the annual interview, which is held with a very high percentage of employees. The purpose of the annual interview is to maintain appropriate communication between managers and employees, review achieved objectives and set new ones, prepare development plans for employees and discuss a possible career change.

> One of the tools that the Bank has used for many years, and that allows management by objectives is the annual interview.

The implementation of measures that have a significant impact on the organisational culture of the Bank continued in 2019, among them systematic training for managers in order to upgrade their leadership competencies.

EMPLOYEE MOTIVATION AND REMUNERATION

Employee motivation and remuneration are not only an important factor in ensuring the success and competitiveness of the Bank, but also an important factor in ensuring the satisfaction and commitment of employees. An effective and transparent remuneration system is key in stimulating employees to perform better. Employees' salaries are subject to collective agreements and internal regulations. The Bank has in place appropriate remuneration schemes for all employee categories.

> An effective and transparent remuneration system is key in stimulating the employees to perform better.

In past years, the Bank upgraded the **employee promotion and remuneration system** with the aim of simplifying promotion criteria in a way that is close to the Bank's current needs and existing practices, and that is primarily based on employees' performance and the quality of work. A special emphasis was placed on variable remuneration focused on the sales staff as part of a broad systematic approach to improving sales efficiency.

As the frequency of project work is increasing at the Bank and because it involves the specific workloads of employees who work on a project in addition to their regular duties, a **project remuneration concept** was formalised, where the most engaged and effective project team members receive bonuses for effectively completing the projects.

In addition, the Bank:
- pays supplemental voluntary **pension insurance premiums** for its employees;
- awards **solidarity assistance** to those employees who are entitled to it;
- ensures **accident insurance** for the employees in positions with increased risk exposure, as defined in the Safety Statement and Risk Assessment;
- rewards employees – **jubilarians** who have continuously worked at the Bank for 10, 20, 30 or 40 years;
- each year selects **the best front office employees**, **and the best colleagues and ambassadors of Abanka's values**;
- rewards **employment ambassadors** with the aim of involving employees in the recruitment process;
- rewards **employees who put forth good ideas**;
- has **a scholarship system for the children of deceased employees** in the context of implementing Family-Friendly Enterprise measures;
- implements measures for mitigating the consequences faced by employees who lose their job; and
- enables employees to actively spend their free time as members of the **sports club and the mountaineering society**.

Abanka builds **commitment and loyalty to the bank** by rewarding jubilarians and recognising those employees who deserve it.

ORGANISATIONAL CULTURE AND PRESENCE OF THE BANK

The **organisational culture and employee engagement** are measured every year at the Bank, enabling the employees to contribute to the improvement of working conditions and interpersonal relationships in the workplace. According to the 2019 survey results, the general employee job satisfaction and engagement index increased relative to 2018. On the basis of the survey results, the Bank prepares and implements an action plan every year, which targets areas where results need to be improved.

A new Apohvala platform was launched in 2019, which allows employees to publicly praise those employees who have particularly excelled in their work.

A great deal of attention was paid to activities aimed at raising the Bank's innovative and digital culture. The **idea management** system was thus upgraded in 2019. In the context of its digital transformation, the Bank developed a plan of activities relating to the **training of employees in digitalisation** and computer tools, and the implementation of tools that will facilitate the easier and faster transfer of information between the employees, and contribute to the development of a **cooperative work environment and culture** at the Bank.

The Bank strives to maintain an ongoing constructive dialogue with employee representatives. **Two trade unions** were active at Abanka in 2019: the Abanka Workers' Union and Banka Celje Workers' Union.

With regard to the prevention of mobbing and any other forms of harassment in the workplace, the Bank has established appropriate rules and appointed **anti-mobbing officers**, who provide advice or information in confidence to all employees.

The development of the organisational culture is affected by the implementation of **Family-Friendly Enterprise Certificate** measures, the aim of which is to facilitate the work-life balance for employees. The upgrading of Family-Friendly Enterprise Certificate measures continued in 2019.

Two forms of work were formalised in 2019 as an additional measure to find the right work-life balance: working from home and occasional teleworking. Working from home is limited to a maximum of 50 working days a year and teleworking to a maximum of 24 hours per month.

The possibility of working in regional centres was provided for in the scope of the Digital Culture Project. Regional centres are intended for employees who commute to work from different Slovene regions on a daily basis and may, with the approval of their supervisor, occasionally work from a remote location in Celje, Maribor, Nova Gorica or Kranj. Regional centres are properly equipped workspaces that enable employees to connect to the Bank's information system and to carry out their work smoothly. Working in regional centres proved to be a very suitable form of work, which is used by approximately 40 employees.

Special attention is devoted to the **safety and health of employees**. Employees are regularly referred to preventive and periodic health checks, and to different training courses on health and safety at work. The goal is to prevent workplace injuries and reduce the amount of sick leave through employee training and a preventive approach. In the scope of health promotion, various in-house training courses were organised for employees in 2019.

POLICY ON THE FIT AND PROPER ASSESSMENT OF MANAGEMENT AND SUPERVISORY BOARD MEMBERS AND POLICY ON THE FIT AND PROPER ASSESSMENT OF KEY FUNCTION HOLDERS

In accordance with the Banking Act and related regulations and guidelines issued by the European Banking Authority (hereinafter: EBA), the Bank formulated two policies: the Policy on the appointment of management body members, fit and proper assessment and the succession concept at Abanka d.d. and the Policy on the fit and proper assessment of key function holders in the Abanka Group.

The **Policy on the appointment of management body members, fit and proper assessment and the succession concept at Abanka d.d.** was developed in order to define the qualifications required by candidates for to serve as member of the Management Board or Supervisory Board, and the qualifications required by persons already serving on the Management Board or Supervisory Board. In defining the required qualifications of members of the Management Board and Supervisory Board, the Bank follows the fit and proper principle, with the of appointing independent persons who manage and supervise the operations of the Bank in a fair, responsible and professional manner, and who are appropriately engaged themselves. The Policy also defines procedures and activities for recruiting the members of both bodies, the induction and training of the members of both bodies, and the succession concept. With respect to the relevant criteria, the diversity of the required knowledge and experience of members of the management body will be considered, including the appropriate representation of both men and women of different ages, each member's contribution to diversity, expertise and the segregation of duties within the management body.

Criteria for fit and proper assessment

A fit and proper assessment of a **member** is made based on the following criteria defined in the policy:
- knowledge, skills and experience;
- reputation;
- conflicts of interest and independence;
- sufficient time to perform the function on the management body; and
- collective suitability.

When assessing **knowledge, skills and experience**, a wide range of knowledge (theoretical and practical), skills and experience is taken into account, including the nature and complexity of the function for which a member is a candidate or to which they have been appointed. In line with the Policy, at minimum of university education and five years of work experience in a managerial function are required, in addition to knowing at least one foreign language. A study programme will be deemed appropriate if, in terms of content, it is related to banking and finance, economics, administrative sciences, financial regulations, or mathematical and statistical knowledge (the conditions for the performance of an individual function).

A member must be a person of sufficiently good **repute** and possess qualifications for managing the bank's operations or supervising the management of the bank's operations and transactions, and whose conduct does not raise doubt about their ability to ensure the safe and prudent management of the bank's operations or to supervise the management of the bank's operations and transactions in accordance with risk management regulations, professional diligence, the highest ethical standards and the prevention of conflicts of interest.

A member's **independence and independent conduct** and any **conflicts of interest** are also taken into account.

A member of the management body must have **sufficient time to perform their function**.

With respect to the **collective suitability** criterion, the diversity of the required knowledge and experience of members of of the management body will be considered, including the appropriate representation of men and women of different ages, while also taking into account each member's contribution to the heterogeneity, complementary expertise and segregation of duties within the management body.

Supervisory Board members are appointed to Supervisory Board committees, taking into account the criteria described above.

In making a fit and proper assessment of the **management body**, the Nomination Committee assesses in particular:
- the work of the body in the interest of the Bank, and the governance policy;
- the suitability of the body's composition/heterogeneity/banking knowledge and experience;
- the independence of the body;
- the diversity of composition in terms of representation of both men and women of different ages in accordance with the Diversity Policy;

- the appointment procedure for members of the body;
- the succession concept;
- meetings of the body, including reporting and the quality of materials;
- attendance or participation of the management body's members at meetings;
- the appropriateness of the notification of the body's members;
- the culture and development of the body;
- the body's performance of duties;
- the work of Supervisory Board committees;
- the adequacy of training;
- the appropriateness of support provided to the body; and
- the contribution of each body member.

With the aim of being familiar with and understanding the manner of work, content, organisation and key strategic areas that the Bank manages in its operations, the Policy also defines the method and time required for the induction of new members. A training plan is also adopted on an annual basis.

The composition of the Bank's Supervisory Board and Management Board is evident from the information published on the Bank's website.

The Nomination Committee, which was established as a working body of the Supervisory Board, prepares fit and proper assessments for members of the Management Board and Supervisory Board once a year or upon any substantial change in circumstances, and for the Management Board and Supervisory Board as collective bodies. This is a documented fit and proper assessment of every candidate for the position of member of the Management Board or Supervisory Board or of members already performing these functions, and includes reputation, skills and experience, time available to perform the function, fairness, independence and collective suitability. The assessment is made based on predetermined procedures and criteria in line with the Policy on the appointment of management body members, fit and proper assessment and the succession concept at Abanka d.d. When making a periodic assessment, the Bank defines a staffing profile based on a knowledge and experience matrix of existing members. That profile is used in the recruitment of new Management Board and Supervisory Board members, and as the basis for developing a training plan for Management Board and Supervisory Board members.

In line with the law and the implementation of this Policy, the Supervisory Board discussed and approved fit and proper assessments again in December 2019.

The **Policy on the fit and proper assessment of key function holders at the Abanka Group** was established with the aim of defining the qualifications required by candidates for key functions within the Abanka Group, and the qualifications required by persons who already hold key functions within the Abanka Group. Key function holders are those employees whose work tasks and activities have a material impact on the operations and reputation of the Bank but who are not members of the management body. These positions are defined in greater detail in the Policy. The Bank adheres to the fit and proper principle when defining the necessary qualifications of an employee.

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

At least once a year – as part of periodic reporting – the Bank reports to the Nominating Committee and the Supervisory Board on the implementation of the policies on the fit and proper assessment of management body members and key function holders, most recently in November 2019.

REMUNERATION POLICY

Abanka has regulated remuneration pursuant to the applicable legislation (the Banking Act (ZBan-2) and the regulations arising from that act, the EBA Guidelines and Abanka's Remuneration Policy) since the end of 2011. Because the Bank is subject to special legislation for companies in which the Republic of Slovenia, directly or indirectly, holds a majority stake and due to the commitments made to the European Commission under the restructuring plan, remuneration is also regulated in line with this legislation.

The bodies responsible for the formulation, implementation and control of the remuneration policy are the Management Board, the Remuneration Committee and Risk Monitoring and Asset Liability Management Committee as expert bodies of the Supervisory

Board, and the Supervisory Board itself. Furthermore, independent control functions within the Bank participate in the development, control and assessment of the adequacy of the remuneration policy. Once a year, the Bank reports on the implementation of the remuneration policy to the Remuneration Committee and the Supervisory Board as part of a periodic report. Such a report was given in November 2019.

The Remuneration policy is designed for all employees and defines different employee groups, including a group of employee based on the significance of their impact on the risk profile of the Bank in accordance with the criteria laid down in EU regulations or in accordance with the Bank’s criteria. The aforementioned group comprises employees whose work is of a specific nature. Employees whose work is of a specific nature are defined based on the qualitative and quantitative criteria of the remuneration policy.

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

Employee remuneration is determined based on an assessment of compliance with the guidelines set out in the business strategy and the risk management strategy, corporate values, risk appetite and the long-term interests of the Bank.

Abanka’s remuneration policy of is in line with the its mission, business strategy, risk management strategy, corporate culture, values and established goals. The remuneration policy and practices are strictly focused on the fulfilment of the objectives set out in the Bank's business strategy and adjusted to the risk profile of the Bank and its risk-bearing capacity.

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

INFORMATION TECHNOLOGY

The Information Technology Division is responsible for the development and management of the Bank's information system. Its role is to develop IT solutions and manage highly available, integrated, secure and user-friendly IT services at minimum cost and with maximum reliability. The Information Technology Division is also responsible for ensuring the security of the IT system.

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

With regard to the development of internal software solutions, a great deal of effort was put into ensuring support for the General Data Protection Regulation (GDPR) and the Payment Services Directive (PSD2), which entered into force in September 2019. As part of the required amendments to ensure compliance with PSD2 regulatory and technical standards, the existing system for logging into digital banking channels was completely redesigned, and is now centralised and standardised for all channels. An advanced system for detecting fraud risks and malware on a user's device was set up. To this end, some elements of software as well as support for the operational implementation of procedures and processes required upgrades.

Software solutions in 2019 focused on the development and introduction of modern IT concepts. Applications continued to be developed in the AIDO framework (the online Abanka integrated work environment), To that end, the single customer view (SCV) system was further developed, the EWS application was upgraded and optimised, and further upgrades were made to NKAPO, CEZ+ and several other applications.

The Bank also continued to introduce software solution development processes based on the continuous development/integration concept. An enterprise service bus was set up to facilitate the future development of new services and the upgrading or replacement of old core systems. The implementation of the application programming interface management (API management) system continued. The latter is already used by the Abaklub mobile application, and since 2018 by applications for opening an account, GDPR and subscribing to e-statements. The API is also prepared for integration with Bankart for instant payments.

A significant portion of development capacities was earmarked for projects focusing on the acceleration of digital transformation. Activities are underway in various areas. Online banking services for retail and corporate customers were upgraded, and the system for opening a transaction account online was upgraded with video identification, which is not yet in production. During the second half of 2019, intensive preparations were underway to implement the instant payment system and ensure compliance with the PSD2 and the related Digital Platform project, which will establish the technical bases for open banking.

A significant portion of development capacities was earmarked for projects focusing on the acceleration of digital transformation.

In the area of outsourced software development, the Information Technology Division took part in the review of agreements and licenses, with an emphasis on the coordination of outsourcers in connection with software upgrades. Some of the resources involved in the development of software for electronic and mobile banking for retail customers became part of the agile team, which employs agile methods to change the manner of work. A great deal of time was devoted to participating in the implementation of audit recommendations.

The large part of the resources allocated to the development of the **banking data warehouse** (BDW) in 2019 was devoted to the activities related to the ANACREDIT project and the asset-liability management application. The team was also deeply involved in the AnaCredit project. The team's participation was required in the Bank's various other projects, primarily in terms of providing the necessary data from the data warehouse. In addition, various amendments to reporting were made due to methodological changes (e.g. matrix reporting, the blacklist, LCR, NSFR, FINREP, CRM reports, guarantees, controlling DM, credit exposure, stress tests and liquidity exercises), while development tasks/reports were implemented in the BI tool Business Objects. A great deal of development and maintenance work was required on central analytical accounting systems.

In **IT management**, the year 2019 was characterised by activities relating to the consolidation and optimisation of solutions and technologies used at Abanka. Data storage systems and databases were adapted in line with business needs and the resulting increase in data quantities. Obsolete central computer equipment and some of the peripheral equipment of end-users were replaced. The necessary adaptations and upgrades to wired and wireless networks were made. The Information Technology Division also participated in other projects undertaken by the Bank and its subsidiaries by providing IT support for new business applications and solutions, and cooperating in the development of new security solutions. In addition, the system and application software of servers, workstations and communication equipment were regularly updated. Business continuity tests were performed, as they are every year.

In the area of **technical support**, focus was on internal user assistance requests, data processing, system operation control and the installation of hardware and software.

In the area of **information system security and protection**, cyber security continued to be tested in 2019 and included penetration tests. Cyber resilience was improved by upgrading security systems. The Division participated in the planning, development and implementation of new information systems and changes to existing systems, and took part in incident management.

Based on the adopted IT strategy, which defines the main guidelines of Abanka's development, the Bank implemented the main strategic initiative, which focuses on building a digital platform consisting of an enterprise service bus and a central identity management system that will separate core systems from applications intended for customers, and provide support for the PSD2 standard and the development of API economy systems.

PROCUREMENT AND GENERAL AFFAIRS DEPARTMENT

By centrally managing and controlling the procurement process, fixed assets and investments, the Procurement and General Affairs Department complies with the Banks' strategy and achieves established objectives.

The Procurement and General Affairs Department manages the following four business processes:
- documentation and archive management,
- the management of incoming/outgoing mail,
- the management of the Bank's assets, and
- the management of capacity building.

Through these processes, the Department is closely connected and intertwined with the Bank's business segments. Above all, the Department aims to provide appropriate and reasonable support at the Bank level.

Its role is reflected in particular in the implementation of a cost-effective and rational purchasing process, the responsible planning and management of the Bank's fixed assets, the transparency of procedures, clearly defined purchasing rules, a comprehensive overview of costs and investments, and the careful selection of high-quality and reliable suppliers.

Key activities in 2019 related to fixed assets management, the effective implementation of the purchasing process, cost and investment optimisation, the maintenance of commercial buildings, the optimisation of processes within the Department, the regular monitoring of the relevant legislation, and the coordination of development and project work.

As part of cost and process optimisation, the Department also pursues strategic initiatives in the context of paperless operations, in particular the printing infrastructure, where reducing the volume of printed material results in lower paper and toner consumption, and thus demonstrates its corporate social responsibility.

Particular attention was paid to optimising the use of business premises and the sale of non-core assets, specifically business premises owned by the Bank that were previously used to conduct its business. With respect to the latter, the Department cooperates with the subsidiary Anepremičnine.

The protection of property also represents an important activity. Technical and mechanical security systems were further upgraded and redesigned in 2019 in order to maintain high standards of protection of property and people at the Bank. The best practice of regular employee training in security continued.

Taking into account regulatory changes in personal data protection and the GDPR, the Department was closely involved in making adjustments to archiving, particularly with regard to electronic documents.

INTERNAL AUDIT

As the third line of defence, the internal audit control function is performed by the Internal Audit Department (hereinafter: IAD), which is functionally and organisationally separated from other units and is directly subordinated to the Bank's Management Board. The IAD also reports regularly on its work, audit findings and the implementation of recommendations to the Audit Committee and the Supervisory Board. The IAD works in accordance with the Banking Act, the International Standards for the Professional Practice of Internal Auditing, the Code of Professional Ethics for Internal Auditors and the Code of Internal Auditing Principles. The work of the IAD as a whole is regulated by the Rules of Procedure of the Internal Audit Department, which are adopted by the Management Board with the approval of the Supervisory Board. The operational procedures of the internal audit activity are defined in greater detail in the Manual on Internal Auditing.

The IAD provides the management body, Audit Committee and senior management an independent assessment of the quality and efficiency of internal management, including the risk management and internal control systems and processes, and thus contributes to improving the performance and achievement of the Bank's objectives and to strengthening risk management and internal governance. The IAD carries out its mission by performing internal audits of riskier areas, and by providing advisory services in line with the IAD's annual plan and the strategic work plan. Both plans are based on the risk analysis and regulatory requirements, and are approved by the Management Board with the consent of the Supervisory Board. The IAD concentrated on regulatory mandatory audits and audits of the Bank's key risk areas in 2019, including: risk management development activities connected to the internal processes for determining adequate levels of capital and liquidity, the drafting of the Bank's recovery plans and strategy, the operational risk management framework, the model risk management framework, the management of control over outsourcers, cyber security and online payment security, the management of the business network and custody services. In addition to internal auditing and advisory services, the IAD's employees devoted a considerable amount of their time to monitoring the implementation of recommendations made in audits.

As at 31 December 2019, the IAD employed nine internal auditors, including the Director of the IAD. The internal auditors have adequate knowledge of the profession and banking processes, and hold the following titles: certified internal auditor, certified auditor, FCCA[11] and CISA[12]. Because it is aware of the importance of the internal auditing role in its governance system, the Bank invests in employee training and the acquisition of additional licenses by internal audit employees, and actively seeks new recruits.

[11] FCCA stands for Fellow Chartered and Certified Accountant.
[12] CISA stands for Certified Information Systems Auditor.

SENIOR MANAGEMENT

MANAGEMENT BOARD	Jože Lenič	President of the Management Board
	Nada Mertik	Member of the Management Board
	Matej Golob Matzele	Member of the Management Board
Coord. of work with the regulator and supervisory bodies	Mitja Mavko	The authorised Representative of the Management Board
Coordination of subsidiaries	Davorin Leskovar	The authorised Representative of the Management Board
Procurement and General Affairs	Davorin Leskovar	In charge of Procurement and General Affairs
Compliance	Bojan Salobir	Director of the Compliance
Internal Audit	Tatjana Kirn Volk	Director of the Internal Audit
Custody and Administrative Services	Klavdija Markič	Director of the Custody and Administrative Services
Legal	Tomaž Marinček	Director of the Legal
Personnel and Organisation	Mateja Sedej	Director of the Personnel and Organisation
Development and Marketing	Jasna Kajtazović	Director of the Development and Marketing
CORPORATE BANKING DIVISION	Aleš Zupančič	Division Executive Director
	Blaž Stiplovšek	Assistant Executive Director and in charge of the SME Banking Sector
	Barbara Jagodič	Director of the Key Accounts Sector
	Nataša Velunšek Golčer	Director of the Documentary and Neutral Banking Products
RETAIL BANKING AND SMALL BUSINESS DIVISION	Nataša Damjanovič	Division Executive Director
	Simon Ličen	Director of Sales and Sales Channels Management
	Bojan Stanković	Director of the Central Slovenia Main Branch Office
	Alenka Kikec	Director of the Celje Main Branch Office
	Nastja Colja	Director of the West Slovenia Main Branch Office
	Urška Travner	Director of the East Slovenia Main Branch Office
FINANCIAL MARKETS DIVISION	Boštjan Herič	Division Executive Director
	Jure Gedrih	Director of the Treasury
RISK MANAGEMENT DIVISION	Boštjan Rupar	Division Executive Director
	Franci Hočevar	Director of Credit Risk Management
	Matej Jovan	Director of Risk Monitoring
	Simon Svet	Director of the Investments Under Scrutiny
	Tatjana Štuler Štavt	Director of the Assets and Liabilities Management
FINANCE AND BACK-OFFICE OPERATIONS DIVISION	Alenka Plut	Division Executive Director
	Irena Rojc	Director of the Accounting
	Silva Matko Gosak	Director of the Controlling and Reporting
	Mojca Žlak	Director of the Back-Office Operations
	Maja Moškrič	Director of the Banking Operations
INFORMATION TECHNOLOGY	Vojko Božiček	Division Executive Director
	Marko Zabukovec	Director of the Data Warehouse Development
	Davor Hvala	Director of the IT Governance
	Peter Novak	Director of Information Technology Development
	Ivan Turk	Director of the Information Technology

Senior management organisational chart as at 31 December 2019.

BRANCH NETWORK

Regional and branch offices of Abanka

CENTRAL SLOVENIA MAIN BRANCH OFFICE

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

EAST SLOVENIA MAIN BRANCH OFFICE

Glavni trg Branch Office	Glavni trg 18	Maribor
Cankarjeva Branch Office	Cankarjeva 6b	Maribor
Tabor Branch Office	Kardeljeva 61	Maribor
Murska Sobota Branch Office	Kocljeva 16	Murska Sobota
Ptuj Branch Office	Osojnikova 9	Ptuj
Slovenj Gradec Branch Office	Ronkova 4a	Slovenj Gradec
Tezno Branch Office	Prvomajska 26	Maribor
Slovenske Konjice Branch Office	Oplotniška 1A	Slovenske Konjice
Zreče Branch Office	Cesta na Roglo 13B	Zreče
Rogaška Slatina Branch Office	Kidričeva 5	Rogaška Slatina
Podčetrtek Branch Office	Zdraviliška cesta 27C	Podčetrtek
Rogatec Branch Office	Ulica ceste 10	Rogatec

WEST SLOVENIA MAIN BRANCH OFFICE

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

CELJE MAIN BRANCH OFFICE

Aškerčeva Branch Office	Aškerčeva 10	Celje
Vojnik Branch Office	Celjska cesta 29	Vojnik
CMH Branch Office	Krekov trg 6	Celje
Citycenter Branch Office	Mariborska cesta 100	Celje
TUŠ Celje Branch Office	Mariborska cesta 128	Celje
Žalec Branch Office	Savinjska cesta 20	Žalec
Mozirje Branch Office	Na trgu 53	Mozirje
Polzela Branch Office	Malteška cesta 38	Polzela
Šentjur Branch Office	Mestni trg 8	Šentjur
Laško Branch Office	Valvasorjev trg 5	Laško
Radeče Branch Office	Ulica OF 4A	Radeče
Šmarje Branch Office	Aškerčev trg 13	Šmarje pri Jelšah
Miklošičeva Branch Office	Miklošičeva 1	Celje
Velenje Branch Office	Kersnikova 1	Velenje

Branch network overview as at 31 December 2019.

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This report has been prepared in accordance with the GRI Standards: Core.

Kind to the environment

We are kind to people, and to our social environment, and it goes without saying that we try to be kind to the natural world. We take part in charity campaigns aimed at helping the natural environment, we are introducing paperless operations, we practise waste separation, we use bikes to get around town, we use video communications for meetings to reduce travel, we are reducing the use of bags, and we drink our water from the tap. Respecting the natural world is increasingly becoming a way of life for us: we are kind to the environment, as we are in everything we do.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of ABANKA d.d. and the consolidated financial statements of the ABANKA GROUP for the year ended 31 December 2019 (pages 107 to 120 of the Annual Report), the applied accounting policies, and the notes to the financial statements (pages 121 to 252 of the Annual Report).

The Management Board is responsible for preparing the Annual Report, which gives a true and fair presentation of the financial position of the Bank and the Group as at 31 December 2019, and the results of their operations for the year then ended.

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

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

Abanka d.d. did not execute any related party transactions under unusual market conditions in the year ended 31 December 2019.

Ljubljana, 6 March 2020

Management Board

Matej GOLOB MATZELE	**Nada MERTIK**	**Jože LENIČ**
Member of the Management Board	Member of the Management Board	President of the Management Board

FINANCIAL STATEMENTS

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(All amounts in EUR thousand unless otherwise stated)

INCOME STATEMENT OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2019	2018
1	**2**		**3**	**4**
1	Interest income	6	66,849	67,167
2	Interest expenses	6	(7,091)	(6,557)
3	**Net interest income (1+2)**		**59,758**	**60,610**
4	Dividend income	7	510	1,435
5	Fee and commission income	8	56,667	53,227
6	Fee and commission expenses	8	(17,339)	(16,290)
7	**Net fee and commission income (5+6)**		**39,328**	**36,937**
8	Net gains on financial assets and liabilities not measured at fair value through profit or loss	9	1,472	18,229
9	Net gains on financial assets and liabilities held for trading	10	2,231	3,199
10	Net gains on non-trading financial assets mandatorily at fair value through profit or loss	11	8,777	4,345
11	Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss		722	(410)
12	Exchange differences		(19)	(628)
13	Net losses on derecognition of non-financial assets		(334)	(79)
14	Net other operating expenses	12	(996)	(916)
15	Administrative expenses	13	(61,943)	(63,798)
16	Depreciation and amortisation	14	(7,448)	(7,235)
17	Net gains/(losses) on modification of financial assets		14	(52)
18	Provisions	15	13,471	(76)
19	Impairment	16	13,111	17,341
20	Total profit from non-current assets held for sale		498	2,310
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7 to 20)		69,152	71,212
22	Tax expense related to profit from continuing operations	17	(7,487)	(4,475)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)		61,665	66,737
24	**NET PROFIT for the financial year (23)**		**61,665**	**66,737**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 121 to 252 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF OTHER COMPREHENSIVE INCOME OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2019	2018
1	2		3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**		**61,665**	**66,737**
2	**OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX (3+4)**		**849**	**(498)**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1 + 3.2 + 3.3)**		**571**	**205**
3.1	Actuarial losses on defined benefit pension plans	31	(172)	(31)
3.2	Fair value changes of equity instruments measured at fair value through other comprehensive income		917	291
3.3	Income tax relating to items that will not be reclassified to profit or loss	32	(174)	(55)
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1 + 4.2)**		**278**	**(703)**
4.1	Debt instruments at fair value through other comprehensive income (4.1.1 + 4.1.2)		343	(868)
4.1.1	Net valuation gains/(losses) taken to equity		428	(978)
4.1.2	Net (gains)/losses transferred to profit or loss		(85)	110
4.2	Income tax relating to items that may be reclassified to profit or loss	32	(65)	165
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**62,514**	**66,239**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

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Member of the Management Board

Jože LENIČ
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2019	2018
1	**2**		**3**	**4**
1	Cash, cash balances with the central bank and other demand deposits with banks	18	655,050	537,269
2	Financial assets held for trading	19	4,034	3,837
3	Non-trading financial assets mandatorily at fair value through profit or loss	20	15,798	36,587
4	Financial assets at fair value through other comprehensive income	21	150,743	163,466
5	Financial assets at amortised cost		2,939,494	2,924,518
	– debt securities	22	936,913	946,334
	– loans to banks	22	39,487	30,784
	– loans to non-bank customers	22	1,954,268	1,934,862
	– other financial assets	22	8,826	12,538
6	Investments in subsidiaries	27	8,278	8,278
7	Tangible assets		30,812	33,033
	– property and equipment	23	30,658	32,832
	– investment property	24	154	201
8	Intangible assets	25	7,881	8,930
9	Tax assets		8,576	10,225
	– current tax assets		169	–
	– deferred tax assets	32	8,407	10,225
10	Other assets	28	2,741	2,082
11	Non-current assets held for sale	26	45	488
12	**TOTAL ASSETS (from 1 to 11)**		**3,823,452**	**3,728,713**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2019	2018
1	**2**		**3**	**4**
13	Financial liabilities held for trading	19	3,334	3,044
14	Financial liabilities designated at fair value through profit or loss		1,560	2,281
15	Financial liabilities at amortised cost		3,207,596	3,089,588
	– deposits from banks and the central bank	30	11,510	16,335
	– deposits from non-bank customers	30	3,074,316	2,935,218
	– loans from banks and the central bank	30	87,827	102,788
	– loans from non-bank customers		2,248	5
	– debt securities issued	30	14,302	13,644
	– other financial liabilities	30	17,393	21,598
16	Provisions	31	29,193	46,059
17	Tax liabilities		1,097	2,732
	– current tax liabilities		–	1,897
	– deferred tax liabilities	32	1,097	835
18	Other liabilities	33	1,425	1,625
19	TOTAL LIABILITIES (from 13 to 18)		3,244,205	3,145,329
20	Share capital	34	151,000	151,000
21	Share premium	34	282,459	282,459
22	Accumulated other comprehensive income	34	4,182	3,333
23	Reserves from profit	34	64,550	58,384
24	Retained earnings (including income from the current year)	34	77,056	88,208
25	TOTAL EQUITY (from 20 to 24)		579,247	583,384
26	**TOTAL LIABILITIES AND EQUITY (19+25)**		**3,823,452**	**3,728,713**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2019

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total Equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**3,333**	**58,384**	**88,208**	**583,384**
2	**Comprehensive income for the financial year after tax**	**–**	**–**	**849**	**–**	**61,665**	**62,514**
3	Dividends (Note 35)	–	–	–	–	(66,737)	**(66,737)**
4	Transfer of net profit to reserves from profit	–	–	–	6,166	(6,166)	**–**
5	Other	–	–	–	–	86	**86**
6	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5)**	**151,000**	**282,459**	**4,182**	**64,550**	**77,056**	**579,247**
7	**DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR**	**–**	**–**	**–**	**–**	**77,056**	**77,056**

STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2018

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total Equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD** (before adjustments)	**151,000**	**282,459**	**33,317**	**51,710**	**60,457**	**578,943**
2	Transition to IFRS 9	–	–	(29,486)	–	10,937	**(18,549)**
3	Transition to IFRS 9 - correction (spin-off)	–	–	–	–	(646)	**(646)**
4	**OPENING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**3,831**	**51,710**	**70,748**	**559,748**
5	**Comprehensive income for the financial year after tax**	**–**	**–**	**(498)**	**–**	**66,737**	**66,239**
6	Dividends (Note 35)	–	–	–	–	(42,620)	**(42,620)**
7	Transfer of net profit to reserves from profit	–	–	–	6,674	(6,674)	**–**
8	Other	–	–	–	–	17	**17**
9	**CLOSING BALANCE FOR THE REPORTING PERIOD (4+5+6+7+8)**	**151,000**	**282,459**	**3,333**	**58,384**	**88,208**	**583,384**
10	**DISTRIBUTABLE PROFIT FOR THE FINANCIAL YEAR**	**–**	**–**	**–**	**–**	**88,208**	**88,208**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 121 to 252 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT OF ABANKA D.D.

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2019	2018
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit before tax		69,152	71,212
	Depreciation and amortisation	14	7,448	7,235
	(Reversal of impairments)/impairments of investments in debt securities measured at fair value through other comprehensive income	16	(112)	113
	(Reversal of impairments) of loans and other financial assets measured at amortised cost	16	(14,931)	(17,875)
	Impairments of tangible assets (including investment property)	16	2,002	283
	Net losses from exchange differences		19	628
	Net losses from sale of tangible assets		251	78
	Net losses from sale of intangible assets		83	1
	Other (gains) from investing activities	36	(8,439)	(10,941)
	Net (gains) from sale of investment in a subsidiary	27	–	(307)
	Other adjustments to total profit or loss before tax	36	(22,349)	(3,858)
	Cash flows from operating activities before changes in operating assets and liabilities		**33,124**	**46,569**
b)	**Decreases in operating assets (excluding cash & cash equivalents)**		**5,671**	**66,682**
	Net (increase) in financial assets held for trading		(194)	(781)
	Net decrease in non-trading financial assets mandatorily at fair value through profit or loss		18,431	9,339
	Net decrease in financial assets measured at fair value through other comprehensive income		14,405	10,211
	Net (increase)/decrease in loans and other financial assets measured at amortised cost		(26,312)	46,625
	Net decrease in non-current assets held for sale		–	1,086
	Net (increase)/decrease in other assets		(659)	202
c)	**Increases in operating liabilities**		**108,047**	**69,506**
	Net increase in financial liabilities held for trading		290	552
	Net increase in received deposits and loans measured at amortised cost		107,299	68,072
	Net increase in debt securities issued measured at amortised cost		658	623
	Net (decrease)/increase in other liabilities		(200)	259
d)	**Cash flows from operating activities (a+b+c)**		**146,842**	**182,757**
e)	**Income taxes (paid)**		**(7,680)**	**(659)**
f)	**Net cash flows from operating activities (d+e)**		**139,162**	**182,098**

(All amounts in EUR thousand unless otherwise stated)

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

			AMOUNT	
			Year ended 31 December	
Desig-nation	ITEM DESCRIPTION	NOTE	2019	2018
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**467,369**	**232,297**
	Receipts from the sale of tangible assets		61	74
	Receipts from the disposal of a subsidiary	27	–	1,477
	Receipts from the disposal and maturity of investments in debt securities measured at amortised cost		465,632	224,749
	Receipts from non-current assets held for sale		1,676	5,997
b)	**Cash payments on investing activities**		**(452,196)**	**(277,243)**
	(Cash payments to acquire tangible assets)	23	(1,999)	(1,785)
	(Cash payments to acquire intangible assets)	25	(2,542)	(5,130)
	(Cash payments to acquire debt securities measured at amortised cost)		(447,655)	(270,328)
c)	**Net cash flows from investing activities (a+b)**		**15,173**	**(44,946)**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**–**
b)	**Cash payments on financing activities**		**(55,602)**	**(42,620)**
	(Dividends paid)	35	(55,602)	(42,620)
c)	**Net cash flows from financing activities (a+b)**		**(55,602)**	**(42,620)**
D	Effects of change in exchange rates on cash and cash equivalents		3,319	2,564
E	**Net increase in cash and cash equivalents (Af+Bc+Cc)**		**98,733**	**94,532**
F	**Opening balance of cash and cash equivalents**		**557,003**	**459,907**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**36**	**659,055**	**557,003**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 121 to 252 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED INCOME STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2019	2018
1	**2**		**3**	**4**
1	Interest income	6	66,843	67,638
2	Interest expenses	6	(7,092)	(6,563)
3	**Net interest income (1+2)**		**59,751**	**61,075**
4	Dividend income	7	510	1,435
5	Fee and commission income	8	56,654	53,212
6	Fee and commission expenses	8	(17,349)	(16,343)
7	**Net fee and commission income (5+6)**		**39,305**	**36,869**
8	Net gains on financial assets and liabilities not measured at fair value through profit or loss	9	1,472	18,229
9	Net gains on financial assets and liabilities held for trading	10	2,231	3,199
10	Net gains on non-trading financial assets mandatorily at fair value through profit or loss	11	8,777	4,345
11	Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss		722	(410)
12	Exchange differences		(19)	(628)
13	Net losses on derecognition of non-financial assets		(332)	(57)
14	Net other operating income	12	414	307
15	Administrative expenses	13	(62,921)	(65,243)
16	Depreciation and amortisation	14	(7,752)	(7,804)
17	Net gains/(losses) on modification of financial assets		14	(52)
18	Provisions	15	13,282	(78)
19	Impairment	16	12,255	18,006
20	Total profit from non-current assets held for sale		1,052	888
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7 to 20)		68,761	70,081
22	Tax expense related to profit from continuing operations	17	(7,522)	(4,489)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)		61,239	65,592
24	**NET PROFIT for the financial year (23)**		**61,239**	**65,592**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

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The notes on pages 121 to 252 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2019	2018
1	**2**		**3**	**4**
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**		**61,239**	**65,592**
2	**OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX (3+4)**		**842**	**(496)**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS (3.1 + 3.2 + 3.3)**		**564**	**207**
3.1	Actuarial losses on defined benefit pension plans	31	(179)	(29)
3.2	Fair value changes of equity instruments measured at fair value through other comprehensive income		917	291
3.3	Income tax relating to items that will not be reclassified to profit or loss	32	(174)	(55)
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1 + 4.2)**		**278**	**(703)**
4.1	Debt instruments at fair value through other comprehensive income (4.1.1 + 4.1.2)		343	(868)
4.1.1	Net valuation gains/(losses) taken to equity		428	(978)
4.1.2	Net (gains)/losses transferred to profit or loss		(85)	110
4.2	Income tax relating to items that may be reclassified to profit or loss	32	(65)	165
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**62,081**	**65,096**

These financial statements were approved for publication by the Management Board on 6 March 2020.

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President of the Management Board

The notes on pages 121 to 252 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2019	2018
1	**2**		**3**	**4**
1	Cash, cash balances with the central bank and other demand deposits with banks	18	655,050	538,234
2	Financial assets held for trading	19	4,034	3,837
3	Non-trading financial assets mandatorily at fair value through profit or loss	20	15,798	36,587
4	Financial assets at fair value through other comprehensive income	21	150,743	163,466
5	Financial assets at amortised cost		2,936,849	2,918,162
	– debt securities	22	936,913	946,334
	– loans to banks	22	39,487	30,784
	– loans to non-bank customers	22	1,951,494	1,928,338
	– other financial assets	22	8,955	12,706
6	Tangible assets		35,213	37,496
	– property and equipment	23	30,868	33,072
	– investment property	24	4,345	4,424
7	Intangible assets	25	8,001	9,074
8	Tax assets		8,576	10,225
	– current tax assets		169	–
	– deferred tax assets	32	8,407	10,225
9	Other assets	28	8,070	9,459
10	Non-current assets held for sale	26	325	5,002
11	**TOTAL ASSETS (from 1 to 10)**		**3,822,659**	**3,731,542**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2019	2018
1	2		3	4
12	Financial liabilities held for trading	19	3,334	3,044
13	Financial liabilities designated at fair value through profit or loss		1,560	2,281
14	Financial liabilities at amortised cost		3,206,814	3,089,052
	– deposits from banks and the central bank	30	11,510	16,335
	– deposits from non-bank customers	30	3,073,228	2,934,448
	– loans from banks and the central bank	30	87,827	102,788
	– loans from non-bank customers		2,248	5
	– debt securities issued	30	14,302	13,644
	– other financial liabilities	30	17,699	21,832
15	Provisions	31	29,433	46,109
16	Tax liabilities		1,097	2,550
	– current tax liabilities		–	1,715
	– deferred tax liabilities	32	1,097	835
17	Other liabilities	33	1,584	5,099
18	TOTAL LIABILITIES (from 12 to 17)		3,243,822	3,148,135
19	Share capital	34	151,000	151,000
20	Share premium	34	282,459	282,459
21	Accumulated other comprehensive income	34	4,174	3,332
22	Reserves from profit	34	64,567	58,401
23	Retained earnings (including income from the current year)	34	76,637	88,215
24	TOTAL EQUITY (from 19 to 23)		578,837	583,407
25	**TOTAL LIABILITIES AND EQUITY (18+24)**		**3,822,659**	**3,731,542**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
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Jože LENIČ
President of the Management Board

The notes on pages 121 to 252 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2019

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total Equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**3,332**	**58,401**	**88,215**	**583,407**
2	**Comprehensive income for the financial year after tax**	**–**	**–**	**842**	**–**	**61,239**	**62,081**
3	Dividends (Note 35)	–	–	–	–	(66,737)	**(66,737)**
4	Transfer of net profit to reserves from profit	–	–	–	6,166	(6,166)	**–**
5	Other	–	–	–	–	86	**86**
6	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5)**	**151,000**	**282,459**	**4,174**	**64,567**	**76,637**	**578,837**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2018

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total Equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD** (before adjustments)	**151,000**	**282,459**	**33,284**	**51,760**	**61,780**	**580,283**
2	Transition to IFRS 9	–	–	(29,486)	–	10,763	**(18,723)**
3	Transition to IFRS 9 - correction (spin-off)	–	–	–	–	(646)	**(646)**
4	**OPENING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**3,798**	**51,760**	**71,897**	**560,914**
5	**Comprehensive income for the financial year after tax**	**–**	**–**	**(496)**	**–**	**65,592**	**65,096**
6	Dividends (Note 35)	–	–	–	–	(42,620)	**(42,620)**
7	Transfer of net profit to reserves from profit	–	–	–	6,684	(6,684)	**–**
8	Other	–	–	30	(43)	30	**17**
9	**CLOSING BALANCE FOR THE REPORTING PERIOD (4+5+6+7+8)**	**151,000**	**282,459**	**3,332**	**58,401**	**88,215**	**583,407**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Nada MERTIK
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 121 to 252 are an integral part of these financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2019	2018
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit before tax		68,761	70,081
	Depreciation and amortisation	14	7,752	7,804
	(Reversal of impairments)/impairments in debt securities measured at fair value through other comprehensive income	16	(112)	113
	(Reversal of impairments) of loans and other financial assets measured at amortised cost	16	(14,816)	(17,797)
	Impairments/(reversal of impairments) of tangible assets (including investment property) and other assets	16	2,743	(460)
	Net losses from exchange differences		19	628
	Net (gains)/losses from sale of tangible assets		(345)	56
	Net losses from sale of intangible assets		83	1
	Other (gains) from investing activities	36	(8,982)	(10,941)
	Net (gains)/losses from sale of investment in a subsidiary	27	(11)	1,115
	Other adjustments to total profit or loss before tax	36	(22,160)	(3,856)
	Cash flows from operating activities before changes in operating assets and liabilities		**32,932**	**46,744**
b)	**Decreases in operating assets (excluding cash & cash equivalents)**		**1,906**	**60,714**
	Net (increase) in financial assets held for trading		(194)	(781)
	Net decrease in non-trading financial assets mandatorily at fair value through profit or loss		18,431	9,339
	Net decrease in financial assets measured at fair value through other comprehensive income		14,405	10,211
	Net (increase)/decrease in loans and other financial assets measured at amortised cost		(30,425)	38,562
	Net decrease/(increase) in non-current assets held for sale		79	(2,725)
	Net (increase)/decrease in other assets		(390)	6,108
c)	**Increases in operating liabilities**		**104,487**	**75,710**
	Net increase in financial liabilities held for trading		290	552
	Net increase in received deposits and loans measured at amortised cost		107,054	72,199
	Net increase in debt securities issued measured at amortised cost		658	623
	Net (decrease)/increase in other liabilities		(3,515)	2,336
d)	**Cash flows from operating activities (a+b+c)**		**139,325**	**183,168**
e)	**Income taxes (paid)**		**(7,498)**	**(1,038)**
f)	**Net cash flows from operating activities (d+e)**		**131,827**	**182,130**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP (continued)

Designation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2019	2018
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**473,899**	**233,525**
	Receipts from the sale of tangible assets		1,596	1,037
	Receipts from the disposal of a subsidiary	27	262	1,477
	Receipts from the disposal and maturity of investments in debt securities measured at amortised cost		465,632	224,749
	Receipts from non-current assets held for sale		6,409	6,262
b)	**Cash payments on investing activities**		**(452,356)**	**(278,041)**
	(Cash payments to acquire tangible assets)	23, 24	(2,156)	(2,556)
	(Cash payments to acquire intangible assets)	25	(2,545)	(5,157)
	(Cash payments to acquire debt securities measured at amortised cost)		(447,655)	(270,328)
c)	**Net cash flows from investing activities (a+b)**		**21,543**	**(44,516)**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**–**
b)	**Cash payments on financing activities**		**(55,602)**	**(42,620)**
	(Dividends paid)	35	(55,602)	(42,620)
c)	**Net cash flows from financing activities (a+b)**		**(55,602)**	**(42,620)**
D	Effects of change in exchange rates on cash and cash equivalents		3,319	2,564
E	**Net increase in cash and cash equivalents (Af+Bc+Cc)**		**97,768**	**94,994**
F	**Opening balance of cash and cash equivalents**		**557,968**	**460,410**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**36**	**659,055**	**557,968**

These financial statements were approved for publication by the Management Board on 6 March 2020.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

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Jože LENIČ
President of the Management Board

The notes on pages 121 to 252 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The separate and consolidated financial statements were compiled in accordance with the basic accounting policies defined below.

Reporting entity

Abanka d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the year ended 31 December 2019 comprise the Bank and its subsidiary (together referred to as the “Group” and individually as “Group entities”).

1.1 Basis of preparation

(a) Basis of preparation
Appropriate accounting policies have been applied consistently, and accounting estimates have been made in accordance with the principles of prudence and good management. The accounting policies applied in the preparation of the financial statements for 2019 are the same as those applied in the preparation of the Annual Report for 2018, except for changes in accounting standards and other changes effective from 1 January 2019 and approved by the European Union. The Management Board confirms that the financial statements and the accompanying notes have been prepared on a going concern basis for the Bank and the Group for the period of assessment, being twelve months from the date of the approval of these financial statements, and in accordance with the relevant legislation and the International Financial Reporting Standards, as adopted by the European Union.

These statutory financial statements have been prepared for the purpose of compliance with legal requirements. The Bank is legally required to ensure the independent auditing of these financial statements. The scope of that audit is limited to the general purpose statutory financial statements in order to fulfil the legal requirement of the auditing thereof. The audit addresses the statutory financial statements as a whole, and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for the purpose of decisions regarding ownership, financing or any other specific transactions relating to the Bank. Accordingly, the users of the audited statutory financial statements should not rely exclusively on the financial statements and should carry out other procedures before making decisions.

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

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

(c) Basis of measurement
The financial statements of the Bank and the consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position, which are measured at fair value:

- financial assets held for trading;
- financial assets mandatorily at fair value through profit or loss; and
- financial assets at fair value through other comprehensive income.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(e) Use of estimates and judgements
The preparation of the financial statements in accordance with the IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information regarding critical judgements in the application of accounting policies that have the most significant effect on the amounts recognised in the financial statements is presented in Note 3 Critical accounting estimates, judgments and sources of uncertainty in the application of accounting policies.

(f) Standards, interpretations and amendments effective for the financial year beginning on 1 January 2019
Among the standards effective on 1 January 2019, primarily IFRS 16 – Leases (adopted by the EU on 31 October 2017) affected the Group to a lesser extent in terms of its financial statements.

That standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. In accordance with IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability on the day a lease commences. A right-of-use asset is treated in a similar way as other non-financial assets and is depreciated accordingly. A lease liability is initially valued at the present value of lease payments payable over the lease term, discounted at the rate implicit in the lease.

As at 1 January 2019, the Group recognised right-of-use assets in the amount of EUR 2,862 thousand and lease liabilities in the same amount as the result of the transition to IFRS 16. More detailed disclosures are provided in Notes 1.14 and 38.

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

The adoption of these new standards, amendments to existing standards and new interpretations did not lead to significant changes in the Group's financial statements.

(g) Standards, interpretations and amendments not yet effective for the financial year beginning on 1 January 2019
The Group decided not to apply early the following published standards and interpretations approved by the EU but not yet effective for the financial year beginning on 1 January 2019:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material, adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020); and
- Amendments to References to the Conceptual Framework in IFRS Standards, adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The Group estimates that the introduction of these amendments to the existing standards will not have a material impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

- IFRS 17 Insurance Contracts (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 Business Combinations – Definition of a Business (effective for annual periods beginning on or after 1 January 2020); and
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020).

The Group does not expect the adoption of these new standards and amendments to existing standards to have a material impact on its financial statements in the period of initial application.

- Hedge accounting (part of IFRS 9) in connection with the portfolio of financial assets and liabilities, the principles of which the EU has not yet adopted, remains unregulated. The Group assesses that the application of hedge accounting to the portfolio of financial assets or liabilities pursuant to IAS 39 Financial Instruments: Recognition and Measurement would not have a significant impact on the financial statements, if applied as at the balance sheet date.

1.2 Consolidation

Subsidiaries

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

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

Investments in subsidiaries are measured at cost in the separate financial statements of the Bank.

1.3 Segment reporting

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

In accordance with IFRS 8, the Group voluntarily reports on the following business segments: retail banking, corporate banking and financial markets. Additional information is disclosed in Note 5 Segment Analyses.

1.4 Foreign currency translation

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

(a) Transactions and balances

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

income. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate on the transaction date.

1.5 Financial assets and financial liabilities

Recognition and measurement at recognition

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

Financial assets are initially measured at fair value, plus transaction costs that are directly attributable to an asset's acquisition for items not measured at fair value through profit or loss.

Financial liabilities are initially recognised at fair value less costs incurred.

Classification and measurement of financial assets

The classification and measurement of financial instruments in the financial statements is determined according to the selected business model in which financial assets are managed and by the characteristics of contractual cash flows. Each financial asset is classified into one of the following business models on initial recognition:

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

The Group assesses the purpose of a business model in the context of which a financial asset is classified on a portfolio basis, as this is the way the business is managed and information submitted to senior management. The Group takes into account the following information when defining a business model:

- policies and objectives for the portfolio of financial assets and the implementation of these policies in practice;
- the frequency, volume and timing of sales in prior periods, the reasons for these sales and expectations about future sales activity;
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's senior management;
- the risks that affect the performance of the business model (and the financial assets held within that business model), in particular how those risks are managed; and
- the method of setting the variable component of the remuneration of the manager responsible for these transactions (e.g. whether the remuneration is based on the fair value of the assets managed or the contractual cash flows collected) on the basis of the remuneration criteria laid down in the internal rules of the Group.

Loans and debt securities not used to balance current operational liquidity but to collect contractual cash flows are classified into the business model whose objective is to hold the financial asset to collect the contractual cash flows (valued at amortised cost).

Debt securities held in the banking book that are used to balance current operational liquidity and that are generally more liquid and less exposed to credit risk are classified into the business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (valued at fair value through other comprehensive income). The Group chose the irrevocable option of valuation of equity instruments not held for trading at fair value through other comprehensive income, where only dividend income is recognised in profit or loss in the following cases:

- equity securities that are complementary to the principal activity of the Bank (of a strategic nature for the Bank); and
- equity securities that support the principal activity of the Bank (of an infrastructure nature for the Bank).

NOTES TO THE FINANCIAL STATEMENTS (continued)

All financial assets not classified as measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. The Group measures at fair value through profit or loss those instruments that do not pass the SPPI test, as well as the following financial assets:

- instruments obtained for the hedging of other positions;
- structured products;
- securities held for trading; and
- equity securities for which the option of irrevocable election of measurement at fair value through other comprehensive income is not selected at initial recognition.

Financial assets held for trading and those whose performance is measured on the basis of fair value are measured at fair value through profit or loss because their purpose is neither to collect contractual cash flows nor to collect contractual cash flows and sell financial assets.

In accordance with IFRS 9, where the host contract falls within the scope of IFRS 9, embedded derivatives will not be separated from the host contract but will be assessed in their entirety for the purpose of classification in accordance with IFRS 9.

Assessment of whether contractual cash flows meet the solely payments of principal and interest (SPPI) criterion (i.e. the SPPI test)

The Group performs the SPPI test for debt instruments in a hold-to-collect or hold-to-collect or sell business model. For this purpose, principal is the fair value of the financial asset on initial recognition. Interest is defined as compensation for the time value of money, the credit risk associated with outstanding principal, other basic lending risks and costs (liquidity risk and administrative costs), and as the profit margin.

The Bank assesses contractual cash flow characteristics on an individual basis, upon the conclusion of a loan agreement or an annex thereto with corporate customers and sole proprietors, and upon the initial recognition of an investment in debt securities. In retail lending, the Bank assesses contractual cash flow characteristics at the product level, taking into account existing general loan agreement templates, annexes and the General Terms and Conditions on Housing, Consumer, Bridging, Lombard and Express Loans.

In assessing whether contractual cash flows meet the solely payments of principal and interest criterion, the Group assesses the contractual features of a financial instrument. This includes an assessment of whether a financial asset contains contractual terms that may change the time and amount of contractual cash flows in a way that this criterion would no longer be fulfilled. To this end, the following are taken into account:

- potential events that may change the time and amount of contractual cash flows;
- the possibility of early repayment or extension of repayment;
- the conditions that limit the Group with respect to the cash flows of certain assets (e.g. the subordination of payments); and
- the features that change the perception of the time value of money (e.g. interest rates are periodically reset).

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, when it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, when the terms of an existing financial asset measured at amortised cost are changed and those changes have a significant effect on the cash flows of the modified financial asset or with the write-off. If the Group, in its debt collection process, based on available information and past experience, assesses that a balance-sheet exposure will not be repaid and, in accordance with IFRS 9, the conditions for the derecognition of that exposure from the statement of financial position have been fulfilled, the Group writes it off from the statement of financial position and maintains it in off-balance-sheet records in the amount due until the legal basis for concluding the collection process has been established.

Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset in the statement of financial position. Upon the derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and the cumulative gain or loss that has been recognised in other comprehensive income is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The total gain or loss on equity securities for which the irrevocable option to classify them into assets measured at fair value through other comprehensive income was chosen is not recognised in profit or loss upon derecognition.

Modification of terms of an existing financial asset

When the cash flows of a modified financial asset measured at amortised cost are not substantially different, such modification will not result in derecognition. The Group recalculates the gross carrying amount of the financial asset by discounting the modified cash flows using the original effective interest rate. The resulting difference is then recognised in profit or loss as a net gain or loss from the modification of financial assets. If terms are modified due to a counterparty's financial difficulties, the resulting profit or loss is recognised as impairment loss.

Restructured loans

Restructured loans are presented in Section 2 Risk Management.

Financial liabilities

Financial liabilities include financial liabilities held for trading and financial liabilities measured at amortised cost.

Financial liabilities held for trading include liabilities arising from the valuation of forward sale of securities, and are measured at fair value.

Among financial liabilities designated at fair value through profit or loss, the Group presents the valuation of the undrawn portion of non-trading loans mandatorily measured at fair value through profit or loss.

Financial liabilities measured at amortised cost comprise deposits and loans from banks (including the central bank) and non-bank customers, liabilities arising from debt securities issued, and other financial liabilities.

Financial liabilities measured at amortised cost are recognised in the amount of proceeds received net of any direct transaction costs. After initial recognition, the liabilities are measured at amortised cost, and any difference between net proceeds and the redemption value is recognised in profit or loss using the effective interest method.

A financial liability is derecognised when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability that is cancelled or transferred to another party and the compensation paid is recognised in profit or loss.

1.6 Offsetting of financial instruments

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

1.7 Derivatives

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

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

All of the Group's derivatives are classified as held-for-trading (Note 19). Changes in the fair value of derivatives are recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

1.8 Interest income and expenses

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

The effective interest method is a method used to calculate the amortised cost of a financial asset or a financial liability and to allocate the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, except in the case of credit-impaired financial assets, the Group estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows, which take into account credit risk.

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

Interest income is calculated by applying the effective interest rate on the gross carrying amount of the asset when it does not relate to a credit-impaired asset. For financial assets whose credit risk has deteriorated since initial recognition, interest income is calculated by applying the effective interest rate on the amortised cost of the asset. When the asset is no longer credit-impaired, interest income is again calculated on the basis of the gross value.

For purchased or originated credit-impaired (POCI) assets, interest income is calculated by applying a credit-adjusted effective interest rate on the amortised cost of the financial asset. The calculation of interest income does not change even if the credit risk of the asset has improved.

The definition of an increase in credit risk is presented in Note 2.1.

1.9 Fee and commission income and expenses

Income is recognised when control is transferred to the customer and the performance obligation is fulfilled. The transfer of control can take place at a particular moment or gradually over a certain period. Fees and commissions received are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct cost) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as income over the life of the loan, and if the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party (e.g. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognised upon completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised in accordance with IFRS 15 proportionately over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled. Transaction-related income is recognised in accordance with IFRS 15 at the moment a transaction is executed.

Paid fees and commissions that primarily relate to payment transactions are recognised as the Group's expenses as they arise.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.10 Dividend income

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

1.11 Impairment of financial assets

Expected credit losses are recognised for the following financial instruments not measured at fair value through profit or loss:
- loans to banks,
- loans to non-bank customers,
- debt securities,
- trade receivables, and
- off-balance-sheet exposures from credit commitments and financial guarantee contracts.

Equity securities are not subject to impairment.

Except in the case of POCI assets, as presented in detail below, expected credit losses are measured as the amount of:
- possible losses expected within 12 months after the reporting date (hereinafter: stage 1), or
- all possible losses expected over the entire lifetime of a financial asset (hereinafter: stage 2 or stage 3).

The measurement of all possible losses expected over the entire lifetime of a financial asset is required in the event of a significant increase in credit risk of a financial asset since initial recognition. For other financial assets, impairment losses are measured on the basis of possible losses expected within 12 months after the reporting date. Significant increase in credit risk is presented in Section 2.1.2.

Expected credit losses are measured on the basis of individual or collective assessment for portfolios of assets with similar credit risk characteristics, as explained in more detail in Section 2. The measurement of credit losses is based on expected cash flows by applying an asset's original effective interest rate, irrespective of whether it is measured based on the individual or collective assessment of credit losses.

See Section 2.1.2 for more information on credit loss measurement.

<u>Credit-impaired financial assets</u>
At each reporting date, it is assessed whether financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income are credit-impaired. A financial asset is credit-impaired when one or more events have occurred that have a negative impact on the asset's estimated future cash flows. Evidence that a financial asset is credit‑impaired includes the following:
- significant financial difficulties of the borrower;
- an actual breach of contract (default or arrears of 90 days or more in the settlement of obligations);
- the restructuring of financial assets for economic or legal reasons in connection with a borrower's financial difficulty, where the borrower is granted a concession that would not otherwise be considered;
- it is becoming probable that the borrower will enter bankruptcy or an other form of financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

<u>Purchased or originated credit-impaired (POCI) assets</u>
POCI financial assets are treated differently because an asset is credit-impaired at initial recognition. By recognising these assets at their fair value, expected credit losses are recognised since initial recognition as impairment losses and any changes are recognised in profit or loss. Any favourable changes (an increase in value) in such assets represent an impairment gain.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Presentation of expected credit losses in the statement of financial position:

- financial assets measured at amortised cost: as a decrease in gross carrying amount of the asset;
- undrawn loan commitments and financial guarantees: as provisions; and
- debt instruments measured at fair value through other comprehensive income: expected credit losses as a loss allowance are not recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, this value adjustment is disclosed and included in accumulated other comprehensive income.

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

Land and buildings mainly comprise investments in branches and offices. All property and equipment are disclosed at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of such items.

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

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

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

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

	2019	2018
Buildings (including investments in third-party property and equipment)	2–10%	2–10%
Equipment	14–20%	14–20%
Computers	10–50%	10–50%
Intangible assets	9–50%	9–50%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.13 Impairment of investments in subsidiaries

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

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

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

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

1.14 Leases

At the inception of a contract, the Group assesses whether the contract is or contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group company as lessor

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

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

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

Group company as lessee

The Group rents business premises, computer and other equipment, cars and locations for ATM machines. Except for short-term leases, low-value leases and other leases that do not meet the criteria to be recognised under IFRS 16, leases are disclosed in the statement of financial position as right-of-use assets and lease liabilities. The right of use is disclosed by the Group under property and equipment with respect to content.

A right-of-use asset is treated similarly to other non-financial assets and is depreciated accordingly. A lease liability is initially valued at the present value of lease payments payable over the lease term, discounted at the rate implicit in the lease. In the case of the agreements concluded for an indefinite period, the Group assumed a lease term that coincides with the long-term planning period (strategy). The Group uses an opportunity interest rate as the discount rate (Note 5).

In the case of short-term leases or leases for which the underlying asset is of low value, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as a cost in the period in which termination takes place.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand and non-restricted balances with the central bank, demand deposits with banks, loans to other banks and ECB-eligible debt securities with less than three months maturity from the date of acquisition.

1.16 Provisions

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

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

1.17 Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Following initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise the fee income earned on a straight line basis over the life of the guarantee and provisions for expected credit losses in accordance with IFRS 9, which presents the best estimate of the expenditure required to settle any financial obligation existing as at the statement of financial position date. These estimates are determined based on the experience of similar transactions and a history of past losses.

Any increase in liabilities relating to guarantees is recorded in the income statement under provisions.

1.18 Employee benefits

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

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

Defined contributions for social security at the state level are deducted each month from wages, expensed as incurred and included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.19 Taxation

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

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

The Group has created deferred taxes on the temporary differences arising from the impairment of tangible and intangible assets, from different depreciation rates for accounting and tax purposes, from the revaluation and impairment of debt and equity securities measured at fair value through other comprehensive income, from the impairment of equity securities measured at fair value through profit or loss (created before transition to IFRS 9 in the available-for-sale category), from the impairment of debt securities measured at amortised cost, from provisions created for employee benefits, from restructuring provisions, from the impairment of loans and receivables in subsidiaries and from tax losses carried forward.

The Group fully recognises deferred taxes for the above-mentioned temporary differences, while deferred taxes for tax loss are created by taking into account other recorded deferred tax assets to the extent that it is probable that future taxable profits will be available, against which they can be utilised in the foreseeable future period (i.e. a three-year period). Current income tax payable, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Deferred tax related to the remeasurement of the fair value of financial assets measured at fair value through other comprehensive income, which is charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently (upon derecognition or impairment) recognised in the income statement, together with the deferred gain or loss.

1.20 Share capital

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or to a business combination are shown as a reduction in equity.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank’s shareholders. Non-cash dividends are recognised in accordance with IFRIC 17.

1.21 Transactions in the name and for the account of third parties

In accordance with Slovene legislation, Note 39 includes data regarding assets, liabilities and accounts on which the Group manages customers’ financial assets arising from brokered transactions, for services provided to customers in connection with the acceptance, transmission and execution of orders, and the custody of financial instruments.

1.22 Sale and repurchase agreements

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.23 Precious metals

The Group discloses precious metals among other assets. Although precious metals are not considered to be financial assets, they are recognised, measured and derecognised in accordance with IFRS 9. This means that the stock of precious metals held for trading is measured at fair value through profit or loss. Gains and losses from valuation and sales are recognised in net other operating income or expenses.

1.24 Information in the notes to the financial statements

Disclosures in the notes to the financial statements are presented for the Bank and for the Group separately. In the cases of completely identical information for the Bank and the Group, only information for the Group is presented. Notes 2, 3, 4 and 5 are prepared on a consolidated basis, as there are no significant differences between the Bank and the Group.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 RISK MANAGEMENT

In its operations, the Group is exposed to the following financial risks:
- credit risk,
- market risk,
- interest rate risk and
- liquidity risk.

In addition, the Group is exposed to other types of risks, such as: capital management, operational risk, business risk, reputational risk and compliance risk. The ability to manage and appropriately control risks has a direct impact on the long-term stability and performance of the Group, thus payis an incresing amount of attention to the risk management function, including risk identification, measurement or assessment, control, monitoring and risk reporting procedures.

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

The Group is most exposed to credit risk, which remained the most important systemic risk in the banking system in 2019, even though it gradually stabilised with the resolution of non-performing loans. Credit risk is analysed in greater detail in Seciton 2.1.

Risk management system in the Group

The Management Board is responsible for the establishment and monitoring of the Group's risk management system. For this purpose, the Management Board has set up special committees, such as the Risk Management and Asset-Liability Committee, the Credit Committee and the Asset-Liability Management Commission, which are responsible for the development and monitoring of risk management policies. The management body of the Bank approves the strategic objectives and strategy, as well as related risk management policies. As special bodies of the Supervisory Board, the Audit Committee and the Risk Monitoring and Asset-Liability Management Committee supervise how the Management Board ensures compliance with the Group's risk management policies and procedures, and review the adequacy of the risk management system in relation to the actual risks to which the Group is exposed. In this type of supervision, the Audit Committee cooperates with the Internal Audit Department of the Bank, which performs regular and extraordinary audits of internal controls and procedures related to risk management, and reports its findings to the Audit Committee of the Group. The risk management function is independent from operational functions.

The Abanka Group is a systemically important bank, included in the supervision performed by the European Central Bank (ECB) via the Single Supervisory Mechanism (SSM). The ECB assesses the overall viability of an institution in accordance with the guidelines on common procedures and methodologies for the supervisory review and evaluation process.

2.1 Credit risk

Credit risk is the risk that a debtor or counterparty will cause a financial loss for the Group by failing to discharge an obligation. This risk represents the potential unwillingness or inability of a debtor to fully meet their contractual obligations within the agreed period and/or amount and arises primarily from loans to banks and loans to non-bank customers and investments in debt securities, and from loan commitments and derivatives. In addition to default risk and counterparty risk, credit risk includes the following significant risks: concentration risk, residual risk and credit rating risk.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

2.1.1 Credit risk management process

The main objective of credit risk management in the Group is to achieve and maintain the quality and diversification of the credit portfolio. The careful and prudent management of the credit portfolio includes the minimisation of credit risk in achieving planned credit risk management objectives, which are defined in the Risk Management Strategy and Risk Appetite.

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

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

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

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

The Group hase in place **internal control system**, that includes:
- the protection of confidential information;
- operational procedures in processes, operating instructions and rules;
- physical controls;
- internal and external audits;
- compliance with the applicable legislation and internal documents;
- IT support development and security and its use in the credit risk management process;
- a human resource policy; and
- a public data disclosure policy.

The purpose of internal controls in credit risk management is to effectively carry out tasks in accordance with the credit risk management policy and the internal control system policy regarding the efficient use of funds and their protection against loss due to negligence, abuse, misadministration, default, fraud and other errors, compliance with primary and secondary legislation and instructions by the Management Board and senior management of the Bank, the provision and maintenance of timely, comprehensive and reliable data and information and their fair disclosure in internal and external reports.

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

2.1.1.1 Credit risk measurement

a) Loans

The Group's exposure to credit risk depends on the following three credit risk components: exposure amount, a debtor's probabilitiy of default reflected in its credit rating, and the recovery ratio on defaulted obligations, which is dependent on collateral and debt collection. The above-stated credit risk components are defined in more detail below in Section 2.1.2.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group has set up its own internal methodologies for measuring credit risk, which serve as the basis for the process of classifying borrowers and exposures into credit rating categories: A, B, C, D and E.

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

Companies are ranked in ten credit classes (credit ratings A and B have three credit sub-grades, while credit rating C has two).The assignment of credit ratings to customers and exposures is based on quantitative and qualitative criteria, such as an assessment of a borrowers' financial position, the ability to generate sufficient cash flow for future debt servicing, the borrower's loan servicing record, and the quality and amount of credit protection. Country risk is also taken into account when assigning credit ratings to foreign borrowers.

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

Prior to credit approval, all debtors must be classified into the appropriate rating category. For the duration of the legal relationship on which credit exposure is based, the Group monitors the borrower's operations and the quality of credit protection. The Group also regularly assesses the level of expected credit losses and creates the necessary impairments and provisions in accordance with the IFRS.

b) Debt securities

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

c) Loan commitments and contingent liabilities

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

d) Derivatives

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

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

2.1.1.2 Credit risk mitigation

a) Credit limits

The Group mitigates credit risk by setting and monitoring credit limits at the level of individual borrowers and groups of related parties, and concentration limits that ensure the diversification of the Group's portfolio. Structural limits are also established for industries, geographical regions, for homogeneous groups of debtors with similar characteristics (leveraged funding), and for specific products. The system of credit limits is also the basic tool for the successful management of the credit risk arising from positions in debt securities, derivatives, repo and reverse transactions. Credit risk exposure limits ensure that the Group's credit portfolio is adequately diversified. The Group has also set limits on the weighted-average probability of default (wPD), which are designed to measure the quality of newly approved transactions and capital requirements limits.

Credit limits are set and monitored according to internal methodologies. The Risk Management Division proposes credit limits, taking into account the limits prescribed by the law. Credit limits are approved by the Risk Management and Asset-Liability Committee, the Credit Committee or by duly authorised employees, depending on the type of credit limit. Exposure limits and limits after exemption that are set on individual customers or groups of related parties whose direct or indirect exposure (i.e. the exposure before any reductions due to impairments, provisions and credit risk adjustments) equals or exceeds 10% (and every further 5%) of the capital of the Bank or Group or is very likely to reach or exceed 10% (and every further 5%) of the capital of the Bank or Group in the near future. Limits on exposure to individuals in a special relationship with the Bank and limits on the weighted-average probability of default are subject to prior approval by the Supervisory Board.

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

b) Credit protection (collateral and guarantees)

In addition to the risk limit system, the Group also requires credit protection in order to reduce credit risk. The types of funded and unfunded credit protection accepted by the Group, as well as the procedures for assessing and monitoring the adequacy and value of credit collateral are defined in the rules on collateral and the real property valuation methodology. The most common forms of credit protection are real property collateral and bank guarantees.

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

Most important for the Group when approving loans is a borrower's creditworthiness, which indicates their ability to settle all obligations, while accepted credit protection serves as a secondary source of loan repayment. The quality of collateral and the loan-to-value ratio required by the Group depend on a borrower's credit rating and loan maturity. Credit protection instruments (CRM techniques) mitigate credit risk losses, improve the recovery of past-due receivables and decrease capital requirements under the condition that they are compliant with minimum requirements in terms of their adequacy, as defined in banking regulations.

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

c) Master netting agreements

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

2.1.1.3 Credit risk management in extreme circumstances

The Group performs activities to reduce credit risk and mitigate the impact of extreme situations on its operations.

In a difficult economic and financial conditions, the Group adapts its credit policy and takes measures based on stricter credit standards.

2.1.2 Impairment and provisioning methodologies

Impairment and provisioning methodologies are designed in accordance with IFRS 9.

The estimate of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes (credit losses in the event of different scenarios). All reasonable and supportable information, including forward-looking information, is considered in such an estimate.

Types of financial instruments subject to impairment
Impairment requirements apply to the following financial instruments not measured at fair value through profit or loss:
- financial assets measured at amortised cost,
- financial assets (debt financial instruments) measured at fair value through other comprehensive income,
- lease receivables, and
- off-balance sheet exposures from loan commitments and financial guarantee contracts (including service guarantees).

Definition of default
In accordance with IFRS 9, the Group deems a financial asset to be in default when the following conditions are met:
- the Group has assessed that the debtor is unlikely to pay their credit obligations in full without the redemption collateral (loans to D- and E-rated debtors according to the internal credit rating); and
- the debtor is over 90 days past due with the payment of a significant obligation.

This default definition is consistent with the definition of default that will be used for regulatory reporting purposes.

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

Classification of financial instruments into stages by risk
The Group makes a distinction in the recognition of losses between 12-month expected credit losses and full lifetime expected credit losses. In view of the above, the Group classifies financial assets subject to impairment into the following four stages:
- stage 1: an ECL estimate on the basis of possible losses expected within 12 months. A financial asset is reclassified to stage 1 when approved and remains there until increased credit risk is identified;
- stage 2: an ECL estimate on the basis of full lifetime expected credit losses of a non-impaired financial asset. A financial asset is reclassified to stage 2 once increased credit risk has been identified and remains there until the occurrence of a default event;
- stage 3: an ECL estimate on the basis of full lifetime expected credit losses of an impaired financial asset a financial asset is reclassified to stage 3 when there is objective evidence of impairment or when a default event has occurred (i.e. non-performing exposures pursuant to Article 178 of the CRR); and
- POCI within stage 3: purchased or originated credit-impaired financial assets (POCI).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Inputs in the calculation of expected credit losses

Key variables used in the calculation of expected credit losses are as follows:

- probability of default (PD),
- loss given default (LGD), and
- exposure at default (EAD), including the credit conversion factor (CCF).

These parameters are derived from internally developed statistical models, publicly available data and other historical information used in regulatory models, taking into account characteristics relating to the segments of exposure to corporate custumer, retail customers and the state. They are adjusted to forward-looking information as described below.

Probability of default is the probability of a non-payment event, calculated on the basis of statistical models.
These models are based on internally collected data, which include both qualitative and quantitative factors, and in some cases even publicly available data (in the case of exposures to central governments, banks and debt securities). If an exposure or customer moves between different rating grades, this leads to a change in the estimated PD. The estimated PD is adjusted to various macroeconomic scenarios.

Loss given default: The Group estimates LGD on the basis of internally developed statistical models, publicly available data and other historical information. The data are primarily collected from the portfolio of customers in default, where the repayment of past-due outstanding exposures is observed from the time of the occurrence of default. In some cases (e.g. securities), these data are also based on other data used in regulatory models. The estimated LGD is adjusted to various macroeconomic scenarios.

Exposure at default is the expected exposure upon the occurrence of a default event. The Group estimates EAD for each future month. The starting point is the current exposure of the Group, which is monitored based on estimated changes in exposure. In the case of transactions with a contractual amortisation schedule, exposure is estimated on the basis of the amortisation plan adjusted for any potential late payments (hereinafter: the late payment scenario). In the case of transactions without a predefined amortisation schedule, EAD of the drawn portion of an exposure is equal to the drawn amount until the maturity of the transaction, including future interest. At the time of maturity of the transaction, the late payment scenario is taken into account. EAD for the off-balance sheet portion of the exposure is equal to the off-balance-sheet amount as at the date of credit loss calculation until the transaction maturity date. At the time of maturity, the late payment scenario is taken into account. The off-balance-sheet portion is multiplied by the conversion factor estimated on the basis of historical data or the regulatory prescribed conversion factor when the Group does not have enough available historical data on actual drawn amounts.

Methods for assessing expected credit losses

The Group creates impairments of financial assets or provisions for off-balance-sheet commitments and contingencies on the basis of:

- individual assessment, or
- collective assessment.

Individual assessment of expected credit losses is normally used in the case of significant exposures with deteriorated credit quality (non-performing exposures), depending on the specific amount of gross exposure. Individual assessments of expected credit losses are made on the basis of projected future cash flows, taking into account all relevant information about a debtor's financial position and ability to pay.

For the purpose of the **collective** assessment of expected credit losses, the credit portfolio is divided into exposure classes according to the following types of debtors:

- central government,
- corporates,
- sole proprietors,
- retail customers, and
- banks.

Credit risk parameters used to calculate expected credit losses are typically designed in the form of models and vary depending on the type of debtor, i.e. PD for retail customers, LGD and CCF depending on the type of financial instrument. Models are based on historical data and take into account future prospects.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Methodologies for measuring expected credit losses

Expected credit losses are measured as follows:

- financial assets not impaired as at the reporting date: the difference between the present value of contractual cash flows and the present value of expected cash flows;
- financial assets impaired as at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value of the difference between contractual cash flows if the loan is drawn down and expected cash flows; and
- financial guarantees: the present value of expected payments to the guarantee holder less any amounts that the Group expects to replace.

The estimation of expected credit losses is complex and requires significant judgements by management, as well as estimates and assumptions, particularly in the following areas:

- assessment of a significant increase in credit risk since initial recognition; and
- inclusion of forward-looking information in the measurement of expected credit risk losses.

Significant increase in credit risk

The Group classifies financial instruments into stages upon initial recognition and on the reporting date based on the following criteria that may reflect a significant increase in credit risk:

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

Forward-looking information

IFRS 9 is based on the concept of expected losses, based on which expected credit losses are adjusted to macroeconomic forecasts, thus ensuring that future events are taken into account. Where there is a non-linear link between various macroeconomic forecasts and the associated credit risk losses, more than one macroeconomic scenario should be included in the measurement of expected credit losses. In such a case, expected credit losses will be calculated as the probability-weighted estimate of expected credit losses over the life of the financial instrument on the basis of pre-calculated macroeconomic scenarios.

For the purposes of calculating expected losses, three scenarios are calculated and cover significant non-linearities between macroeconomic forecasts and the associated credit losses:

- the baseline scenario, which is based on the forecasts of economic trends of the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD) and which has also been used in the preparation of the Business Plan;
- the optimistic (upside) scenario, which assumes a more favourable economic environment in the future than that forecast in the baseline scenario; and
- the pessimistic (downside) scenario, which assumes a deteriorating economic environment compared to the one used in the baseline scenario.

The methodology of macroeconomic scenarios allows the Group to use more than three scenarios for the purpose of calculating ECL in the event of increased volatility in the economy or one-off events. In view of the latest forecasts of macroeconomic trends given by the Bank of Slovenia, risks related to economic growth generally show a negative trend. Negative risks mainly arise from the external environment and primarily depend on trends in world trade; growth in economic activity may be slowed down by new protectionist measures or deterioration in the geopolitical environment. Despite the withdrawal of the United Kingdom from the EU (Brexit), the uncertainty associated with the effects of Brexit is still present. Thus, according to the index values produced by the Munich Institute for Macroeconomic Research (IFO), the global economic climate deteriorated in almost all regions in autumn 2019.

For the above reasons, the Group decided to prepare a fourth scenario for calculating expected credit losses for 2020, so that it now has two pessimistic scenarios:

- pessimistic scenario 1, which assumes a deteriorating economic environment compared to the one used in the baseline scenario; and

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
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- pessimistic scenario 2, which allows for a significant deterioration in the global economic environment and assumes that real economic growth in 2020 will be slower by two standard deviations from its historical values.[1]

Both optimistic and pessimistic scenarios are designed to meet each of the following requirements:
- The scenario should be based on events that are most relevant for the Group, taking into account the Group's business and financing models.
- The scenario should be based on events that are highly probable, and not on extreme events that present a risk of collapse of the Group.

The table below shows the forecasts of macroeconomic variables required to calculate expected credit losses across all four scenarios.

FORCASTS OF MACROECONOMIC VARIABLES INCLUDED IN MEASUREMENT OF ECLs IN SCENARIOS

Year	2020	2021	2022	2023
GDP growth				
– Base scenario	2.95 %	2.68 %	2.42 %	2.53 %
– Upside scenario	4.33 %	4.05 %	3.80 %	3.45 %
– Downside scenario 1	(0.95 %)	(1.23 %)	(1.48 %)	(0.07%)
– Downside scenario 2	(2.02 %)	(1.05 %)	(0.06 %)	0.87%
Unemployment rates				
– Base scenario	5.56 %	5.78 %	5.99 %	6.31 %
– Upside scenario	5.51 %	5.68 %	5.85 %	6.21 %
– Downside scenario 1	5.72 %	6.01 %	6.31 %	6.52 %
– Downside scenario 2	5.78 %	6.08 %	6.35 %	6.54 %

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

[1] In Slovenia, the standard deviation from real economic growth in the period 1996–2018 was 3.11%.

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

	Change of macroeconomic indicator as expected (in %)
GDP growth	
– Base scenario	–
– Upside scenario	1.26
– Downside scenario	(3.44)
Unemployment rates	
– Base scenario	–
– Upside scenario	(0.10)
– Downside scenario	0.24

SCENARIO	Average PD	Average LGD	ECL (in thousand EUR)
Base scenario	4.79 %	42.14 %	50,445
Upside scenario	4.12 %	36.46 %	36,459
Downside scenario	5.66 %	48.37 %	68,224

Note:
The average change in any individual macroeconomic variable for the optimistic or the pessimistic scenario is calculated as the average of changes in the individual macroeconomic variable by optimistic or pessimistic scenario against the expected scenario in the 2020–2023 period.

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

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

The sensitivity analysis of credit parameters to changes in macroeconomic indicators shows that in the optimistic scenario, an increase in GDP growth by 1.3 percentage point and a decrease in the unemployment rate by 0.1 percentage point result in a decrease in the average probability of default by 0.7 percentage points, and a decrease in the average loss given default by 5.7 percentage points and the expected loss by EUR 14 million. In the pessimistic scenario, a decrease in GDP growth by 3.4 percentage points and an increase in the unemployment rate by 0.2 percentage points result in an increase in the average probability of default by 0.9 percentage point, and an increase in the average loss given default by 6.2 percentage points and the expected loss by EUR 17.8 million.

2.1.3 Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk from the balance sheet items and off-balance sheet items, without taking collateral or other credit protection into account.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MAXIMUM EXPOSURE TO CREDIT RISK WITHOUT TAKING INTO ACCOUNT THE EFFECTS OF LOAN COLLATERAL AND OTHER REDUCTIONS

	As at 31 December	Note	Maximum exposure 2019	2018
	Credit risk exposures:			
1	Cash balances with the central bank and other demand deposits with banks	2.1.4. a)	614,439	494,590
2	Financial assets at fair value through other comprehensive income	2.1.4. b)	118,753	132,393
3	Financial assets at amortised cost		2,936,849	2,918,162
	– debt securities	2.1.4. c)	936,913	946,334
	– loans to banks	2.1.4. d)	39,487	30,784
	– loans to non-bank customers		1,951,494	1,928,338
	– loans and receivables to retail customers	2.1.4. e)	957,943	905,739
	– loans and receivables to corporate entities	2.1.4. f)	993,551	1,022,599
	– other financial assets	2.1.4. g)	8,955	12,706
	Total credit risk exposure - relating to on-balance sheet assets		**3,670,041**	**3,545,145**
	Credit risk exposures relating to commitments and contingencies			
	– financial guarantees	2.1.4. h)	55,223	48,411
	– other commitments and contingencies	2.1.4. i)	636,498	635,567
	Total credit risk exposure - relating to off-balance sheet assets		**691,721**	**683,978**
	Total credit risk exposure		**4,361,762**	**4,229,123**

The exposure arising from balance-sheet assets and commitments and contingencies shown above is based on the carrying amaunts disclosed in the statement of financial position and in commitments and contingencies. Balance sheet assets are disclosed at their carrying amount after impairment, while off-balance sheet items are disclosed at nominal value.

Financial assets measured at fair value through other comprehensive income only include debt financial instruments.

Non-trading financial assets mandatorily at fair value through profit or loss (both used and unused) are excluded from the table. and amounted to EUR 15.1 million as at 31 December 2019.

Lease receivables are included in loans to non-bank customers and are not specifically addressed with due to low exposure.

2.1.4 Balance of loans and loan commitments by credit rating grade and risk group

Gross exposure to credit risk and impairments or provisions by credit rating grade and risk group are shown below with regard to type of financial assets and type of loan commitments.

a) Cash balances with the central bank and other demand deposits with banks
Balances with the central bank and demand deposits with banks mainly comprise of cash balances with the central bank, which are classified into stage 1.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Financial assets at fair value through other comprehensive income

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Financial assets at fair value through other comprehensive income					
Credit rating "A"	104,978	–	–	–	104,978
Credit rating "B"	13,785	–	–	–	13,785
Credit rating "C"	–	–	–	–	–
Credit rating "D"	–	–	–	–	–
Credit rating "E"	–	–	–	–	–
Total gross amount	**118,763**	**–**	**–**	**–**	**118,763**
Less: total impairment	(10)	–	–	–	(10)
Total net amount	**118,753**	**–**	**–**	**–**	**118,753**

As at 31 December	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Financial assets at fair value through other comprehensive					
Credit rating "A"	122,111	–	–	–	122,111
Credit rating "B"	10,404	–	–	–	10,404
Credit rating "C"	–	–	–	–	–
Credit rating "D"	–	–	–	–	–
Credit rating "E"	–	–	–	–	–
Total gross amount	**132,515**	**–**	**–**	**–**	**132,515**
Less: total impairment	(122)	–	–	–	(122)
Total net amount	**132,393**	**–**	**–**	**–**	**132,393**

c) Debt securities, measured at amortised cost

DEBT SECURITIES, MEASURED AT AMORTISED COST

As at 31 December	2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Debt securities, measured at amortised cost					
Credit rating "A"	893,140	–	–	–	893,140
Credit rating "B"	43,979	–	–	–	43,979
Credit rating "C"	–	–	–	–	–
Credit rating "D"	–	–	–	–	–
Credit rating "E"	–	–	–	–	–
Total gross amount	**937,119**	**–**	**–**	**–**	**937,119**
Less: total impairment	(206)	–	–	–	(206)
Total net amount	**936,913**	**–**	**–**	**–**	**936,913**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Debt securities, measured at amortised cost					
Credit rating "A"	918,624	–	–	–	918,624
Credit rating "B"	27,986	–	–	–	27,986
Credit rating "C"	–	–	–	–	–
Credit rating "D"	–	–	–	–	–
Credit rating "E"	–	–	–	–	–
Total gross amount	**946,610**	**–**	**–**	**–**	**946,610**
Less: total impairment	(276)	–	–	–	(276)
Total net amount	**946,334**	**–**	**–**	**–**	**946,334**

d) Loans to banks, measured at amortised cost

LOANS TO BANKS, MEASURED AT AMORTISED COST

As at 31 December	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loans to banks					
Credit rating "A"	11,871	–	–	–	11,871
Credit rating "B"	27,796	–	–	–	27,796
Credit rating "C"	–	–	–	–	–
Credit rating "D"	–	–	–	–	–
Credit rating "E"	–	–	–	–	–
Total gross amount	**39,667**	**–**	**–**	**–**	**39,667**
Less: total impairment	(180)	–	–	–	(180)
Total net amount	**39,487**	**–**	**–**	**–**	**39,487**

As at 31 December	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loans to banks					
Credit rating "A"	21,302	–	–	–	21,302
Credit rating "B"	9,514	–	–	–	9,514
Credit rating "C"	–	–	–	–	–
Credit rating "D"	–	–	–	–	–
Credit rating "E"	–	–	–	–	–
Total gross amount	**30,816**	**–**	**–**	**–**	**30,816**
Less: total impairment	(32)	–	–	–	(32)
Total net amount	**30,784**	**–**	**–**	**–**	**30,784**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

e) Loans to retail customers, measured at amortised cost

LOANS TO RETAIL CUSTOMERS, MEASURED AT AMORTISED COST

	2019				
As at 31 December	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loans to retail costumers					
Credit rating "A"	945,451	907	1,365	–	947,723
Credit rating "B"	3,396	424	959	–	4,779
Credit rating "C"	16	3,930	2,076	–	6,022
Credit rating "D"	–	–	2,223	–	2,223
Credit rating "E"	–	–	6,539	–	6,539
Total gross amount	**948,863**	**5,261**	**13,162**	**–**	**967,286**
Less: total impairment	(1,293)	(1,179)	(6,871)	–	(9,343)
Total net amount	**947,570**	**4,082**	**6,291**	**–**	**957,943**

	2018				
As at 31 December	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loans to retail costumers					
Credit rating "A"	889,271	837	2,771	–	892,879
Credit rating "B"	4,005	1,297	697	–	5,999
Credit rating "C"	182	6,385	1,359	–	7,926
Credit rating "D"	–	–	2,945	–	2,945
Credit rating "E"	–	–	7,909	–	7,909
Total gross amount	**893,458**	**8,519**	**15,681**	**–**	**917,658**
Less: total impairment	(1,128)	(2,541)	(8,250)	–	(11,919)
Total net amount	**892,330**	**5,978**	**7,431**	**–**	**905,739**

f) Loans to corporate customers, measured at amortised cost

LOANS TO CORPORATE COSTUMERS, MEASURED AT AMORTISED COST

	2019				
As at 31 December	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loans to corporate entities					
Credit rating "A"	547,570	20	–	–	547,590
Credit rating "B"	328,310	19,875	–	–	348,185
Credit rating "C"	59,320	48,045	–	–	107,365
Credit rating "D"	–	–	10,378	12,304	22,682
Credit rating "E"	–	–	17,811	650	18,461
Total gross amount	**935,200**	**67,940**	**28,189**	**12,954**	**1,044,283**
Less: total impairment	(17,023)	(14,670)	(20,524)	1,485	(50,732)
Total net amount	**918,177**	**53,270**	**7,665**	**14,439**	**993,551**

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NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loans to corporate entities					
Credit rating "A"	516,162	32	105	–	516,299
Credit rating "B"	367,282	22,513	10	–	389,805
Credit rating "C"	64,045	57,387	1	–	121,433
Credit rating "D"	–	–	22,242	14,310	36,552
Credit rating "E"	–	–	18,231	491	18,722
Total gross amount	**947,489**	**79,932**	**40,589**	**14,801**	**1,082,811**
Less: total impairment	(16,462)	(21,900)	(25,974)	4,124	(60,212)
Total net amount	**931,027**	**58,032**	**14,615**	**18,925**	**1,022,599**

g) Other financial assets

Other financial assets primarily include ATM cash withdrawals and receivables from card transactions that are classified into stage 1.

h) Financial guarantees

FINANCIAL GUARANTEES

As at 31 December	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Financial guarantees					
Credit rating "A"	27,781	–	–	–	27,781
Credit rating "B"	20,094	1,323	–	–	21,417
Credit rating "C"	2,417	1,449	–	–	3,866
Credit rating "D"	–	–	5,417	–	5,417
Credit rating "E"	–	–	–	–	–
Total gross amount	**50,292**	**2,772**	**5,417**	**–**	**58,481**
Less: total impairment	(499)	(199)	(2,560)		(3,258)
Total net amount	**49,793**	**2,573**	**2,857**	**–**	**55,223**

As at 31 December	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Financial guarantees					
Credit rating "A"	22,715	–	–	–	22,715
Credit rating "B"	17,286	619	–	–	17,905
Credit rating "C"	1,630	2,227	–	–	3,857
Credit rating "D"	–	–	5,875	–	5,875
Credit rating "E"	–	–	19	–	19
Total gross amount	**41,631**	**2,846**	**5,894**	**–**	**50,371**
Less: total impairment	(211)	(236)	(1,513)		(1,960)
Total net amount	**41,420**	**2,610**	**4,381**	**–**	**48,411**

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NOTES TO THE FINANCIAL STATEMENTS
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i) Other commitments and contingencies

OTHER COMMITMENTS AND CONTINGENCIES

	2019				
As at 31 December	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Other commitments and contingencies					
Credit rating "A"	432,938		–	–	432,938
Credit rating "B"	150,757	5,181	–	–	155,938
Credit rating "C"	30,491	13,627	–	–	44,118
Credit rating "D"	–	–	7,539	–	7,539
Credit rating "E"	–	–	7,940	–	7,940
Total gross amount	**614,186**	**18,808**	**15,479**	**–**	**648,473**
Less: total impairment	(2,374)	(1,655)	(7,946)	–	(11,975)
Total net amount	**611,812**	**17,153**	**7,533**	**–**	**636,498**

	2018				
As at 31 December	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Other commitments and contingencies					
Credit rating "A"	438,987	28	–	–	439,015
Credit rating "B"	131,400	17,638	–	–	149,038
Credit rating "C"	19,318	26,639	–	–	45,957
Credit rating "D"	–	–	1,743	–	1,743
Credit rating "E"	–	–	12,777	–	12,777
Total gross amount	**589,705**	**44,305**	**14,520**	**–**	**648,530**
Less: total impairment	(1,658)	(1,188)	(10,117)	–	(12,963)
Total net amount	**588,047**	**43,117**	**4,403**	**–**	**635,567**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.5 Credit risk exposure by sector and geographical area

The following table shows the credit risk exposure of financial assets by sector and geographical area.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS ACCORDING TO SECTOR AND GEOGRAPHICAL AREA

		2019					
	As at 31 December	Loans to banks measured at amortised cost	Loans to non-bank customers measured at amortised cost	Debt securities, measured at amortised cost	Financial assets at fair value through other comprehensive income	Other financial assets	Financial guarantees and other commitments and contingencies
	Sector						
1	Manufacturing	–	296,006	63,481	–	37	145,669
2	Construction	–	31,097	5,523	–	45	88,390
3	Trade	–	161,992	4,184	–	510	143,678
4	Financial and insurance activities	39,487	22,059	235,377	15,406	621,797	33,390
5	Professional, scientific and technical activities	–	27,029	–	–	10	31,943
6	Public administration and defence	–	43,482	576,618	103,347	787	3,061
7	Other	–	411,886	51,730	–	163	120,828
8	Retail customers	–	957,943	–	–	45	124,762
	– covered by mortgages	–	473,154	–	–	–	2,312
	– not covered by mortgages	–	484,789	–	–	45	122,450
	Total	**39,487**	**1,951,494**	**936,913**	**118,753**	**623,394**	**691,721**
	Geographical area						–
1	Slovenia	1	1,938,683	267,218	20,831	539,689	690,101
2	Other EU countries	36,943	5,557	604,199	89,149	60,132	749
3	Europe (without the EU member	–	1,765	19,485	–	19,284	790
4	Other coutries	2,543	5,489	46,011	8,773	4,289	81
	Total	**39,487**	**1,951,494**	**936,913**	**118,753**	**623,394**	**691,721**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	As at 31 December	2018					
		Loans to banks measured at amortised cost	Loans to non-bank customers measured at amortised cost	Debt securities, measured at amortised cost	Financial assets at fair value through other comprehensive income	Other financial assets	Financial guarantees and other commitments and contingencies
	Sector						
1	Manufacturing	–	297,498	40,874	–	47	139,866
2	Construction	–	34,044	5,597	–	42	78,184
3	Trade	–	105,016	2,053	–	640	170,024
4	Financial and insurance activities	30,784	48,874	208,218	12,373	505,484	42,559
5	Professional, scientific and technical activities	–	32,038	–	–	35	33,425
6	Public administration and defence	–	34,884	660,333	120,020	829	4,447
7	Other	–	470,245	29,259	–	200	95,673
8	Retail customers	–	905,739	–	–	19	119,800
	– covered by mortgages	–	453,805	–	–	–	2,031
	– not covered by mortgages	–	451,934	–	–	19	117,769
	Total	**30,784**	**1,928,338**	**946,334**	**132,393**	**507,296**	**683,978**
	Geographical area						
1	Slovenia	5,001	1,915,285	352,920	38,283	431,801	678,087
2	Other EU countries	23,297	5,936	537,725	85,056	43,284	5,240
3	Europe (without the EU member states)	–	1,032	13,412	–	22,845	584
4	Other coutries	2,486	6,085	42,277	9,054	9,366	67
	Total	**30,784**	**1,928,338**	**946,334**	**132,393**	**507,296**	**683,978**

Note:
Non-trading financial assets mandatorily at fair value through profit or loss are excluded from the table.
Other financial assets include "Cash, cash balances with the central bank and other demand deposits with banks" and "Other financial assets".

The Group's exposure by geographical areas is based on the domicile or head office of a debtor or counterparty.

The entire portfolio exposed to credit risk (other than financial assets measured at fair value through profit and loss and not held for trading) increased by 3.1% in 2019 and amounted to EUR 4,361.8 million as at the end of 2019 (2018: EUR 4,229.1 million). On balance-sheet exposure increased by 3.5% in 2019, while off-balance-sheet exposure was up by 1.1%. The largest absolute increase was in financial and insurance activities, and in trade and manufacturing. Exposures to retail customers also increased.

The Group operates mainly in the territory of the Republic of Slovenia. The largest exposure to the rest of the world is to customers from other EU Member States, primarily from Netherlands, Luxembourg, France, Germany, Belgium, Austria and the Czech Republic, and largely takes the form of exposure to debt securities.

2.1.6 Loans to non-bank customers by past due status

Presented below is gross exposure to non-bank customers and their impairments by maturity bucket.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

LOANS TO NON-BANK CUSTOMERS BY PAST DUE STATUS

As at 31 December	2019		2018	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Non past-due	1,959,950	(38,714)	1,943,434	(48,857)
Past due up to 30 days	17,418	(1,390)	19,822	(2,598)
Past due 31 to 60 days	5,157	(1,007)	9,137	(2,855)
Past due 61 to 90 days	2,908	(961)	3,102	(1,117)
Over 90 days past due	26,136	(18,003)	24,974	(16,704)
Total	**2,011,569**	**(60,075)**	**2,000,469**	**(72,131)**

Note:
Non-trading financial assets mandatorily at fair value through profit or loss are excluded from the table.

Past-due loans are loans where the debtor has failed to make a payment when contractually due in part or in the total amount. Past-due loans include the total amount of exposure under a single loan agreement and not just an instalment not paid when contractually due. Exposures from other loan agreements to the same debtor not in arrears are not included among past due loans.

In the report concerned, only loans to non-bank customers are presented by maturity bucket because others exposures are not past-due or do not include significant amounts past due.

In the reporting period, past due loans to non-bank customers declined by 9.5% to EUR 51.6 million at the end of 2019 (compared with EUR 57 million in 2018). Loans past due 31 to 60 days and loans past due up to 30 days decreased the most.

2.1.7 Movements in gross carrying amounts

Tables below show the movement in gross carrying amounts between stages and by class of assets.

a) Cash balances with the central bank and demand deposits with banks

Cash balances with the central bank and other demand deposits with banks amounted to EUR 614.4 million at the end of 2019, an increase of EUR 119.8 million compared to 2018.

b) Financial assets (debt securities) measured at fair value through other comprehensive income

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS (DEBT SECURITIES) MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
As at 1 January	**132,515**	**–**	**–**	**–**	**132,515**
New financial assets originated or purchased (increase)	–	–	–	–	–
Transfers between stages due to change in credit risk	–	–	–	–	–
transfer to Stage 1	–	–	–	–	–
transfer to Stage 2	–	–	–	–	–
transfer to Stage 3	–	–	–	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	–	–	–	–	–
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition (modification)	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(13,976)	–	–	–	(13,976)
Other changes	224	–	–	–	224
As at 31 December	**118,763**	**–**	**–**	**–**	**118,763**

c) Debt securities at amortised cost

MOVEMENTS IN GROSS CARRYING AMOUNTS OF DEBT SECURITIES AT AMORTISED COST

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
As at 1 January	**946,610**	**–**	**–**	**–**	**946,610**
New financial assets originated or purchased (increase)	150,820	–	–	–	150,820
Transfers between stages due to change in credit risk	–	–	–	–	–
transfer to Stage 1	–	–	–	–	–
transfer to Stage 2	–	–	–	–	–
transfer to Stage 3	–	–	–	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(183,470)	–	–	–	(183,470)
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	22,545	–	–	–	22,545
Other changes	614	–	–	–	614
As at 31 December	**937,119**	**–**	**–**	**–**	**937,119**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

d) Loans to banks at amortised cost

MOVEMENTS IN GROSS CARRYING AMOUNTS OF LOANS TO BANKS AT AMORTISED COST

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
As at 1 January	**30,816**	**–**	**–**	**–**	**30,816**
New financial assets originated or purchased (increase)	–	–	–	–	–
Transfers between stages due to change in credit risk	–	–	–	–	–
transfer to Stage 1	–	–	–	–	–
transfer to Stage 2	–	–	–	–	–
transfer to Stage 3	–	–	–	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	–	–	–	–	–
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	–	–	–	–	–
Other changes	8,851	–	–	–	8,851
revolving loans and overedrafts	8,709	–	–	–	8,709
exchange rate differences and other changes	142	–	–	–	142
As at 31 December	**39,667**	**–**	**–**	**–**	**39,667**

e) Loans to retail customers at amortised cost

MOVEMENTS IN GROSS CARRYING AMOUNTS OF LOANS TO RETAIL CUSTOMERS AT AMORTISED COST

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
As at 1 January	**893,458**	**8,519**	**15,681**	**–**	**917,658**
New financial assets originated or purchased (increase)	195,443	14	–	–	195,457
Transfers between stages due to change in credit risk	876	(1,969)	1,093	–	–
transfer to Stage 1	5,412	(2,985)	(2,427)	–	–
transfer to Stage 2	(2,319)	2,489	(170)	–	–
transfer to Stage 3	(2,217)	(1,473)	3,690	–	–
transfer to Stage 3 - POCI	–	–		–	–
Financial assets that have been derecognised or recovered (decrease)	(173,805)	(839)	(3,075)		(177,719)
Write-offs	–	–	(985)	–	(985)
sale	–	–	–	–	–
other write-offs	–	–	(985)	–	(985)
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	28,357	(513)	455	–	28,299
Other changes	4,534	49	(7)	–	4,576
revolving loans and overedrafts	4,285	46	(23)	–	4,308
exchange rate differences and other changes	249	3	16	–	268
As at 31 December	**948,863**	**5,261**	**13,162**	**–**	**967,286**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

f) Loans to corporate customers at amortised cost

MOVEMENTS IN GROSS CARRYING AMOUNTS OF LOANS TO CORPORATE CUSTOMERS AT AMORTISED COST

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
As at 1 January	**947,489**	**79,932**	**40,589**	**14,801**	**1,082,811**
New financial assets originated or purchased (increase)	615,988	1,577	1,114	6,974	625,653
Transfers between stages due to change in credit risk	(34,345)	30,938	3,406	–	(1)
transfer to Stage 1	14,523	(14,470)	(53)	–	–
transfer to Stage 2	(47,729)	47,852	(123)	–	–
transfer to Stage 3	(1,139)	(2,444)	3,582	–	(1)
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(681,303)	(30,586)	(11,906)	(12,864)	(736,659)
Write-offs	–	–	(1,096)	–	(1,096)
sale	–	–	–	–	–
other write-offs	–	–	(1,096)	–	(1,096)
Changes due to modifications that did not result in derecognition	–	2	12	–	14
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	56,565	(13,808)	(4,164)	4,043	42,636
Other changes	30,806	(115)	234	–	30,925
revolving loans and overedrafts	30,664	(526)	234	–	30,372
exchange rate differences and other changes	142	–	–	–	142
As at 31 December	**935,200**	**67,940**	**28,189**	**12,954**	**1,044,283**

g) Financial guarantees

Other financial assets amounted to EUR 9 million at the end of 2019, a decrease of EUR 3.8 million compared to 2018.

h) Financial guarantees

MOVEMENTS IN GROSS CARRYING AMOUNTS OF FINANCIAL GUARANTEES

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
As at 1 January	**41,631**	**2,846**	**5,894**	**–**	**50,371**
New financial assets originated or purchased (increase)	26,579	–	11	–	26,590
Transfers between stages due to change in credit risk	(708)	578	130	–	–
transfer to Stage 1	626	(626)		–	–
transfer to Stage 2	(1,289)	1,289		–	–
transfer to Stage 3	(45)	(85)	130	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(2)	–	–	–	(2)
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(17,218)	(641)	(618)	–	(18,477)
Other changes	10	(11)	–	–	(1)
revolving loans and overedrafts	–	–	–	–	–
exchange rate differences and other changes	10	(11)	–	–	(1)
As at 31 December	**50,292**	**2,772**	**5,417**	**–**	**58,481**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

i) Other loan commitments

MOVEMENTS IN GROSS CARRYING AMOUNTS OF OTHER LOAN COMITTMENTS

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
As at 1 January	**589,705**	**44,305**	**14,520**	**–**	**648,530**
New financial assets originated or purchased (increase)	195,518	–	1,340	–	196,858
Transfers between stages due to change in credit risk	6,325	(13,919)	7,594	–	–
transfer to Stage 1	18,357	(18,351)	(6)	–	–
transfer to Stage 2	(10,857)	10,874	(17)	–	–
transfer to Stage 3	(1,175)	(6,442)	7,617	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(88,748)	(52)	(1,544)		(90,344)
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(91,332)	(6,275)	(6,531)	–	(104,138)
Other changes	2,718	(5,251)	100	–	(2,433)
revolving loans and overedrafts	2,747	(5,251)	100	–	(2,404)
exchange rate differences and other changes	(29)	–	–	–	(29)
As at 31 December	**614,186**	**18,808**	**15,479**	**–**	**648,473**

2.1.8 Movements in impairments and provisions

Tables below show the movement in impairments and provisions between stages and by class of assets.

a) Impairments of cash and cash balances with the central bank and demand deposits with banks

Impairments made by the Bank for cash, cash balances with the central bank and demand deposits with banks amounted to EUR 0.

b) Impairments of financial assets (debt securities) measured at fair value through other comprehensive income

Impairments of financial assets (debt financial instruments) measured at fair value through other comprehensive income amounted to EUR 10 thousand at the end of 2019, a decrease of EUR 112 thousand compared to 2018. Impairments were classified in full into stage 1.

c) Impairments of debt securities at amortised cost

Impairments of debt securities at amortised cost amounted to EUR 206 thousand at the end of 2019, a decrease of EUR 70 thousand compared to 2018. Impairments were classified in full into stage 1.

d) Impairments of loans to banks at amortised cost

Impairments of loans to banks at amortised cost amounted to EUR 180 thousand at the end of 2019, an increase of EUR 148 thousand compared to 2018. Impairments were classified in full into stage 1.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

e) Impairments of loans to retail customers at amortised cost

MOVEMENTS IN LOSS ALLOWANCE FOR LOANS TO RETAIL CUSTOMERS AT AMORTISED COST

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loss allowance as at 1. January	**1,128**	**2,541**	**8,250**	**–**	**11,919**
New financial assets originated or purchased (increase)	206	4	–	–	210
Transfers between stages due to change in credit risk	1,757	(1,136)	(621)	–	–
transfer to Stage 1	1,823	(743)	(1,080)	–	–
transfer to Stage 2	(13)	88	(75)	–	–
transfer to Stage 3	(53)	(481)	534	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(894)	(615)	(1,617)	–	(3,126)
Write-offs	–	–	(985)	–	(985)
sale	–	–	–	–	–
other write-offs	–	–	(985)	–	(985)
Changes due to modifications that did not result in derecognition	–	(1)	–	–	(1)
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(1,093)	246	1,769	–	922
Other changes	189	140	75	–	404
revolving loans and overdraft	185	140	68	–	393
foreign exchange and other	4		7	–	11
Loss allowance as at 31 December	**1,293**	**1,179**	**6,871**	**–**	**9,343**

Year	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loss allowance as at 1. January	**944**	**4,481**	**10,640**	**–**	**16,065**
New financial assets originated or purchased (increase)	233	134	3	–	370
Transfers between stages due to change in credit risk	2,174	(1,720)	(454)	–	–
transfer to Stage 1	2,181	(1,939)	(242)	–	–
transfer to Stage 2	(3)	791	(788)	–	–
transfer to Stage 3	(4)	(572)	576	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(965)	(554)	(2,137)	–	(3,656)
Write-offs	–	–	(2,383)	–	(2,383)
sale	–	–	(1,310)	–	(1,310)
other write-offs	–	–	(1,073)	–	(1,073)
Changes due to modifications that did not result in derecognition	–	72	–	–	72
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(1,216)	214	2,589	–	1,587
Other changes	(42)	(86)	(8)	–	(136)
revolving loans and overdraft facilities	(44)	(94)	(12)	–	(150)
foreign exchange and other movements	2	8	4	–	14
Loss allowance as at 31 December	**1,128**	**2,541**	**8,250**	**–**	**11,919**

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Impairments of loans to retail customers decreased by EUR 2.6 million in 2019, mainly due to repayments and write-offs of receivables. Credit risk was also lower due to the recalibration of the LGD (loss given default) model in 2019. The PD (probability of default) model was also recalibrated, followed by two macro calibrations that raised credit risk. The total effect of all recalibrations was a reduction in impairments of retail loans of EUR 0.6 million.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

f) Impairments of loans to corporate customers at amortised cost

MOVEMENTS IN LOSS ALLOWANCE FOR LOANS TO CORPORATE CUSTOMERS AT AMORTISED COST

	2019				
Year	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loss allowance as at 1. January	**16,462**	**21,900**	**25,974**	**(4,124)**	**60,212**
New financial assets originated or purchased (increase)	6,712	681	1,032	27	8,452
Transfers between stages due to change in credit risk	3,210	(4,199)	989	–	–
transfer to Stage 1	4,938	(4,922)	(16)	–	–
transfer to Stage 2	(1,647)	1,716	(69)	–	–
transfer to Stage 3	(81)	(993)	1,074	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(7,892)	(6,725)	(6,064)	2,509	(18,172)
Write-offs	–	–	(1,096)	–	(1,096)
sale	–	–	–	–	–
other write-offs	–	–	(1,096)	–	(1,096)
Changes due to modifications that did not result in derecognition	1	–	(13)	–	(12)
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(1,442)	3,128	(408)	103	1,381
Other changes	(28)	(115)	110	–	(33)
revolving loans and overdraft	(29)	(115)	110	–	(34)
foreign exchange and other	1	–	–	–	1
Loss allowance as at 31 December	**17,023**	**14,670**	**20,524**	**(1,485)**	**50,732**

	2018				
Year	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Loss allowance as at 1. January	**11,055**	**30,477**	**77,524**	**(585)**	**118,471**
New financial assets originated or purchased (increase)	10,552	2,462	360	(2)	13,372
Transfers between stages due to change in credit risk	4,778	(5,511)	733	–	–
transfer to Stage 1	5,456	(5,456)	–	–	–
transfer to Stage 2	(631)	736	(105)	–	–
transfer to Stage 3	(47)	(791)	838	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(8,105)	(9,152)	(9,069)	(4,012)	(30,338)
Write-offs	–	(6)	(44,087)	(909)	(45,002)
sale	–	(6)	(42,614)	(909)	(43,529)
other write-offs	–	–	(1,473)	–	(1,473)
Changes due to modifications that did not result in derecognition	–	5	–	–	5
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(2,301)	5,005	(30)	1,384	4,058
Other changes	483	(1,380)	543	–	(354)
revolving loans and overdraft facilities	483	(1,381)	543	–	(355)
foreign exchange and other movements	–	1	–	–	1
Loss allowance as at 31 December	**16,462**	**21,900**	**25,974**	**(4,124)**	**60,212**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Impairments of loans to non-bank customers decreased by EUR 9.5 million in 2019, mostly due to loan repayments and write-offs of receivables. Impairments were also lower due to the recalibration of the LGD (loss given default) model. The PD (probability of default) model was also recalibrated, followed by two macro calibrations that increased credit risk. The total effect of all recalibrations was a reduction in impairments of corporate loans of EUR 7.3 million.

g) Impairments of other financial assets at amortised cost

Impairments of other financial assets amounted to EUR 0.3 million as at 31 December 2019 (2018: EUR 0.5 million). As much as 99.1% of the gross value of other financial assets was classified into stage 1.

h) Provisions for financial guarantees

MOVEMENTS IN PROVISIONS FOR FINANCIAL GUARANTEES

	2019				
Year	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Provisions as at 1. January	**211**	**236**	**1,513**	**–**	**1,960**
New financial assets originated or purchased (increase)	221	–	3	–	224
Transfers between stages due to change in credit risk	54	(69)	15	–	–
transfer to Stage 1	67	(67)	–	–	–
transfer to Stage 2	(7)	7	–	–	–
transfer to Stage 3	(6)	(9)	15	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	–	–	–	–	–
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	13	31	1,029	–	1,073
Other changes	–	1	–	–	1
revolving loans and overdraft	–	–	–	–	–
foreign exchange and other	–	1	–	–	1
Provisions as at 31 December	**499**	**199**	**2,560**	**–**	**3,258**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Provisions as at 1. January	**243**	**862**	**2,157**	**–**	**3,262**
New financial assets originated or purchased (increase)	173	–	871	–	1,044
Transfers between stages due to change in credit risk	4	22	(26)	–	–
transfer to Stage 1	39	(11)	(28)	–	–
transfer to Stage 2	(35)	35	–	–	–
transfer to Stage 3	–	(2)	2	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	–	–	(77)	–	(77)
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(209)	(648)	(1,412)	–	(2,269)
Other changes	–	–	–	–	–
revolving loans and overdraft facilities	–	–	–	–	–
foreign exchange and other movements	–	–	–	–	–
Provisions as at 31 December	**211**	**236**	**1,513**	**–**	**1,960**

Provisions for financial guarantees rose by EUR 1.3 million during the reporting year, primarily as the result of the recalculation of credit parameters due to new macroeconomic environment forecasts, and due to the recalibration of the PD (probability of default) and the LGD (loss given default) models.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

i) Provisions for other loan commitments

MOVEMENTS IN PROVISIONS FOR OTHER LOAN COMMITMENTS

Year	2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Provisions as at 1 January	**1,658**	**1,188**	**10,117**	**–**	**12,963**
New financial assets originated or purchased (increase)	993	–	137	–	1,130
Transfers between stages due to change in credit risk	42	(304)	262	–	–
transfer to Stage 1	263	(260)	(3)	–	–
transfer to Stage 2	(174)	181	(7)	–	–
transfer to Stage 3	(47)	(225)	272	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(545)	–	(1,544)	–	(2,089)
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(437)	659	(1,069)	–	(847)
Other changes	663	112	43	–	818
revolving loans and overdraft facilities	663	112	43	–	818
foreign exchange and other movements	–	–	–	–	–
Provisions as at 31 December	**2,374**	**1,655**	**7,946**	**–**	**11,975**

Year	2018				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Stage 3 - POCI Lifetime ECL	Total
Provisions as at 1. January	**928**	**1,475**	**13,670**	**–**	**16,073**
New financial assets originated or purchased (increase)	633	52	381	–	1,066
Transfers between stages due to change in credit risk	678	(669)	(9)	–	–
transfer to Stage 1	830	(816)	(14)	–	–
transfer to Stage 2	(151)	153	(2)	–	–
transfer to Stage 3	(1)	(6)	7	–	–
transfer to Stage 3 - POCI	–	–	–	–	–
Financial assets that have been derecognised or recovered (decrease)	(337)	(61)	(1,091)	–	(1,489)
Write-offs	–	–	–	–	–
sale	–	–	–	–	–
other write-offs	–	–	–	–	–
Changes due to modifications that did not result in derecognition	–	–	–	–	–
Changes in models/risk parameters	–	–	–	–	–
Net increases/(decreases) due to change in credit risk	(386)	609	(2,836)	–	(2,613)
Other changes	142	(218)	2	–	(74)
revolving loans and overdraft facilities	142	(217)	2	–	(73)
foreign exchange and other movements	–	(1)	–	–	(1)
Provisions as at 31 December	**1,658**	**1,188**	**10,117**	**–**	**12,963**

Provisions for other loan commitments were down by EUR 1 million in 2019, primarily due to the derecognition of other loan commitments.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

j) Impact of significant changes in gross financial assets on impairments and provisions in 2019

The level of impairments and provisions was mostly affected during the reporting year by loan repayments and expiration of guarantee periods.

k) Impact of model recalibration on impairments and provisions in 2019

Impairments and provisions were down by a total of EUR 6.7 million in 2019 as a result of recalibrations of the PD (probability of default) and LGD (loss given default) models, and due to a macro recalibration.

2.1.9 Modified financial assets

The table below shows financial assets for loans to non-bank customers that in 2019 experienced changes in contractual cash flows, their amortised cost before modification, the net modification gain/loss and the gross carrying amount of financial assets for which loss allowance has changed from stage 2 (where the value adjustment for loss was equal to the expected credit losses over the entire life) to stage 1 (where the value adjustment for loss was equal to the expected credit losses in a 12-month period).

MODIFIED FINANCIAL ASSETS

	2019	2018
Financial assets (with loss allowance based on lifetime ECL) modified during the period Stage 2, 3 (lifetime ECL)		
– Amortised cost before modification	394	799
– Net modification gain/(loss)	14	(52)
Financial assets for which loss allowance has changed in the period from Stage 2 (lifetime ECL) to Stage 1 (12-month ECL)		
– Gross carrying amount	–	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.10 Restructured loans

Restructured loans are loans that arise as the result of a debtor's inability to repay debt in accordance with the originally agreed contractual terms due to the financial difficulties of the debtor (i.e. problematic debts), where the Group has taken actions or measures that it would not have taken had the economic and financial position of the debtor been normal. Restructuring measures may entail a loss for the Group, as they comprise concessions to a debtor.

Loans can be restructured in two ways:
- by modifying the terms and conditions of the original loan contract with an annex; and
- throug the approval of a new contract on the partial or total or repayment of the original debt (refinancing).

Restructuring actions may include:
- extending the term of the loan or declaring a moratorium on the repayment of debt;
- decreasing the amount of a claim following a contractually agreed write-off or equity restructuring;
- a debt-to-equity swap;
- the repossession of other assets (e.g. property, plant and equipment, and securities) including the redemption of collateral for partial or full debt recovery;
- a reduction in the interest rate to a level below market conditions, i.e. a level that could be approved at the same time by the same institution for other debtors who are not yet in a default;
- a reduction in the interest rate to a level that is not below market conditions, i.e. a level that could be approved at the same time by the same institution for other debtors who are not yet in default; and
- other similar actions.

Restructuring measures are divided into short-term and long-term. Most solutions comprise a combination of different restructuring measures that sometimes relate to a different time period, with a combination of short-term and long-term options.
The Group must determine the primary measure for each restructured loan. This is the measure that most affects the net present value of the restructured loan.

All loan restructuring decisions within the Group that exceed a certain threshold are supported by a documented analysis of alternative solutions with their economic effects (that may arise from the redemption of collateral, sales of loans, the termination of loan agreements or any other foreseeable action). After restructuring, loans cease to be accounted for as restructured when all the terms and conditions (exit criteria) are met, as required by the standards set by the European Banking Authority on the treatment of restructured and non-performing exposures.

The Group assesses whether the restructuring of an exposure to a defaulter is reasonable. This also applies to exposures included in compulsory settlements procedures. When the restructuring of exposure to a debtor is reasonable, the Group forms an appropriate restructuring plan, and monitors its implementation and effects. When restructuring an exposure to a company is not reasonable without the restructuring of that entire company, the latter is obliged to submit to the Group its business plan including operational, equity and financial restructuring measures. When the Group decides that it is no longer reasonable to continue restructuring an exposure, an approximate loan recovery plan is made.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

RESTRUCTURED LOANS

As at 31 December 2019	Loans to retail customers			Loans to corporates			Total restructured loans
	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Gross loans	217	3,935	**4,152**	3,665	54,425	**58,090**	**62,242**
– performing loans	168	2,204	**2,372**	133	2,309	**2,442**	**4,814**
– non-performing loans (NPLs)	49	1,731	**1,780**	3,532	52,116	**55,648**	**57,428**
Less: total impairments	(65)	(1,234)	**(1,299)**	(2,972)	(20,840)	**(23,812)**	**(25,111)**
– impairments of performing loans	(37)	(627)	**(664)**	(11)	(720)	**(731)**	**(1,395)**
– impairments in Stage 1	–	–	**–**	–	(283)	**(283)**	**(283)**
– impairments in Stage 2	(37)	(627)	**(664)**	(11)	(437)	**(448)**	**(1,112)**
– impairments of non-performing loans (NPLs)	(28)	(607)	**(635)**	(2,961)	(20,120)	**(23,081)**	**(23,716)**
– impairments in Stage 1	–	–	**–**	–	–	**–**	**–**
– impairments in Stage 2	(28)	(607)	**(635)**	(2,961)	(6,698)	**(9,659)**	**(10,294)**
– accumulated fair value impairments due to credit risk	–	–	**–**	–	(13,422)	**(13,422)**	**(13,422)**
Net loans	**152**	**2,701**	**2,853**	**693**	**33,585**	**34,278**	**37,131**

Share of restructured **gross loans** in **total gross loans** to non-bank customers	**3.05%**
Share of restructured **net loans** in total **net loans** to non-bank customers	**1.89%**

As at 31 December 2018	Loans to retail customers			Loans to corporates			Total restructured loans
	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Gross loans	1,394	4,961	6,355	5,000	92,188	97,188	103,543
– performing loans	1,324	1,596	2,920	475	11,001	11,476	14,396
– non-performing loans (NPLs)	70	3,365	3,435	4,525	81,187	85,712	89,147
Less: total impairments	(413)	(1,869)	(2,282)	(2,865)	(33,987)	(36,852)	(39,134)
– impairments of performing loans	(392)	(596)	(988)	(62)	(4,722)	(4,784)	(5,772)
– impairments in Stage 1	–	–	–	(3)	(3)	(6)	(6)
– impairments in Stage 2	(392)	(596)	(988)	(59)	(4,719)	(4,778)	(5,766)
– impairments of non-performing loans (NPLs)	(21)	(1,273)	(1,294)	(2,803)	(29,265)	(32,068)	(33,362)
– impairments in Stage 1	(13)	(809)	(822)	–	–		
– impairments in Stage 2	(8)	(464)	(472)	(2,803)	(8,479)	(11,282)	(11,754)
– accumulated fair value impairments due to credit risk	–	–	–	–	(20,786)	(20,786)	(20,786)
Net loans	**981**	**3,092**	**4,073**	**2,135**	**58,201**	**60,336**	**64,409**

Share of restructured **gross loans** in **total gross loans** to non-bank customers	**5.18%**
Share of restructured **net loans** in total **net loans** to non-bank customers	**3.34%**

Note:
Loans include non-trading financial assets mandatorily at fair value through profit or loss.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Gross restructured loans were down by EUR 41.3 million in 2019, broken down as follows: performing restructured loans were down by EUR 9.6 million and non-performing restructured loans were down by EUR 31.7 million. Due to the reduction in gross restructured loans, the proportion of total gross loans to non-bank customers accounted for by gross restructured loans was down by 2.1 percentage points. The reduction in gross restructured loans was mainly the result of regular and early repayments of non-performing restructured loans.

2.1.11 Non-performing loans

All defaulted and impaired loans that fulfil at least one of the following conditions are treated as non-performing loans:
- the debtor is past due more than 90 days on any material credit obligation to the Group; and
- the Group assesses that the debtor is unlikely to pay its credit obligations to the Group in full without the Group resorting to actions such as redeeming collateral (loans to D- and E-rated debtors according to the internal credit rating methodology).

For loans to retail customers, the Group uses the definition of default at the level of individual exposure.

Loans are classified as non-performing in their full amount and without taking into account the existence of any collateral.

NON-PERFORMING LOANS

Stanje 31. december 2019	Loans to non-bank customers	Loans to banks	Other Financial assets	Total loans and other Financial assets
Non-performing loans	81,706	–	643	**82,349**
Share of NPLs in total loans	4.01 %	–	6.94 %	**3.94 %**
Coverage of NPLs w ith total impairments	89.95 %	–	48.57 %	**89.85 %**

Stanje 31. december 2018	Loans to non-bank customers	Loans to banks	Other Financial assets	Total loans and other Financial assets
Non-performing loans	118,616	–	956	**119,572**
Share of NPLs in total loans	5.80%	–	0.19%	**4.63%**
Coverage of NPLs w ith total impairments	78.33%	–	50.09%	**78.14%**

Note:
Loans include non-trading financial assets mandatorily at fair value through profit or loss.
As at 31 December 2018 other financial assets included balances with the central bank, demand deposits and other financial assets, while they only included other financial assests as at 31 December 2019.

The amount of non-performing loans fell to EUR 82.3 million in 2019 (2018: EUR 119.6 million). The decline in non-performing loans was mainly due to regular and early repayments, write-offs, recoveries (redeption of collateral) and the reclassification of debtors into higher credit rating classes thanks to the improvement of their financial position. In order to reduce non-performing loans, the Group carries out recovery proceedings, writes off receivables that were justifiably deemed unrecoverable in the recovery process (as explained in Note 1.5), implements procedures for the early identification of increased credit risk and applies a selective approach to granting new loans. The basic criterion for the approval of a new loan is a sufficient cash flow to repay the loan or identified crediworthiness for the approval of loans to retail customers.

The proportion of non-performing loans as at the reporting date was determined in line with the Bank of Slovenia’s Instructions for Compiling Statements of Financial Position, Income Statements, Statements of Comprehensive Income and Calculations of Bank Performance Indicators, dated 3 December 2019. According to the new methodology, the proportion of total gross loans accounted for by gross non-performing loans was calculated by deducting balances with the central bank and demand deposits with banks. As at 31 December 2019 non-performing loans accounted for 3.94% of total gross loans, a decrease relative to the proportion at the end of 2018. According to the old and new methodologies it amounted to 4.63% and 5.72%, respectively.

The coverage ratio of non-performing loans by total impairments increased to 89.85% in 2019 (compared with 78.14% in 2018). This increase in the coverage ratio was due to the fact that total impairments decreased less than non-performing loans. The higher coverage ratio of non-performing loans by total impairments was mainly due to the maintenance of the minimum coverage

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

ratio for non-performing loans. Also contributin to the increase in impairments were new macroeconomic environment forecasts, changes in the probability of different scenarios and the recalibration of the PD (probability of default) model in all segments.

2.1.12 Loan collateral

The value of collateral and credit risk concentration by type of collateral accepted by the Group is shown in the table below.

VALUE OF COLLATERAL BY COLLATERAL TYPE

As at 31 December		2019		2018	
	Type of collateral	Amount	Structure	Amount	Structure
1	Deposits from banks	12,409	0.3 %	11,216	0.3%
2	Irrevocable guarantees of Republic of Slovenia	194,100	5.4 %	224,495	6.1%
3	Financial guarantees excluded irrevocable guarantees of Republic of Slovenia	281,706	7.8 %	304,706	8.3%
4	Securities and equities	25,701	0.7 %	137,190	3.7%
5	Real estate	2,284,539	63.2 %	2,324,238	63.0%
6	Other real collateral	137,010	3.8 %	115,138	3.1%
7	Insurance company	420,702	11.6 %	388,084	10.5%
8	Other collateral	261,374	7.2 %	184,824	5.0%
	Total amount of collateral	**3,617,541**	100.0 %	**3,689,891**	100.0%

Note:
The table includes eligible forms of collateral. These are forms of collateral that the Group takes into account under the IFRS when calculating the impairment or fair value of financial assets or provisions for off-balance sheet commitments.

At 63.2%, real property accounted for the highest proportion of total collateral, while insurance policies, financial guarantees and irrevocable guarantees of the Republic of Slovenia accounted for almost 25 % of total loan collateral.

The table below shows gross exposure (not impaired and impaired presented separately) and the associated impairments and provisions by loan-to-value ratio. Impaired exposures are exposures with a deteriorated credit quality, including purchased or originated credit impaired assets. These are non-performing exposures that the Group classifies for the purpose of estimating expected credit losses into stage 3.

MORTGAGE-SECURED EXPOSURES BY LTV RATIO

Non-impaired exposures secured by commercial and residential real properties

As at 31 December		2019		2018	
	LTV	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
1	less than 50%	288,614	(9,342)	280,629	(10,407)
2	from 50 to 70%	305,919	(5,659)	297,869	(7,228)
3	from 50 to 70%	220,473	(4,288)	196,637	(3,550)
4	from 50 to 70%	42,855	(2,838)	48,330	(1,314)
5	more than 100%	202,046	(3,742)	272,613	(11,838)
	Total	**1,059,907**	**(25,868)**	**1,096,077**	**(34,337)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Impaired exposures secured by commercial and residential real properties

As at December		2019		2018	
	LTV	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
1	less than 50%	5,757	(2,455)	12,067	(4,072)
2	from 50 to 70%	12,728	(3,478)	13,766	(4,519)
3	from 50 to 70%	41,950	(2,215)	7,800	(1,390)
4	from 50 to 70%	17,938	1,322	43,988	(2,585)
5	more than 100%	46,579	(8,841)	21,113	(3,429)
	Total	**124,951**	**(15,668)**	**98,735**	**(15,995)**

In 2019, changes occurred in impaired exposures secured by commercial real property and residential real property by LTV class for the following reasons:

- gross amounts decreased in the class up to 50%, which resulted in lower impairments and provisions due to regular loan repayments by customers;
- a shift from the class from 90% to 100% to the class from 70% to 90% was due to loan instalment repayments without any changes in real-property collateralisation, resulting in improved LTVs; and
- the class above 100% increased primarily due to the reclassification of one large and several smaller exposures to impaired exposures.

2.1.13 Assets seized for debt repayment

As at the reporting date the value of assets received for the recovery of claims through collateral redeption was 38.2% lower than at the end of 2018, primarily due to the sale of real properties received as debt repayment.

ASSETS SEIZED FOR DEBT REPAYMENT

	Carrying amount	
As at 31 December 2019	2019	2018
Non-current assets held for sale	281	4,376
Property and equipment	138	148
Investment properties	3,716	3,434
Equity and debt securities	–	199
Other	4,642	6,049
Total	**8,777**	**14,206**

Assets obtained in recovery procedures are sold off by the Group at the earliest possible date and certain investment properties are leased out.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 Market risk

Market risk is the uncertainty that an adverse change in risk factors, including interest rates, exchange rates, credit spreads, prices of financial instruments, commodity prices and other relevant parameters, may have an adverse effect on the value of a financial instrument and/or consequently lead to a loss.

The Group monitors exposure to market risk in its trading and banking books. Market risks primarily arise from activities performed in treasury and the investment banking department. Trading book positions primarily include positions in equity and debt instruments that the Group intends to sell at a profit in the short term. Part of the trading book also comprises derivatives that the Group sells to its customers to hedge against interest rate and foreign exchange risk. These positions are closed according to the Group's back-to-back policy. In the reporting period, the balance of the trading book averaged EUR 1.9 million and increased by EUR 1.3 million compared to the average balance in 2018. Banking book positions include positions in debt instruments, foreign exchange instruments and derivatives held for asset and liability management purposes of the Group, equity instruments (acquired through collateral redemption and/or debt-to-equity swaps) and strategic positions. The balance of the banking book averaged EUR 1,100 million in 2019, a decreas of EUR 5 million relative to the 2018 average, and primarly comprised debt financial instruments.

2.2.1 Market risk management process

The market risk management strategy is based on the Group's market risk-bearing capacity, existing and expected market conditions, actual and projected financial data, regulations in force and existing risk management systems. The Group traded in debt financial instruments on a limited scale during the reporting period, while trading in equity financial instruments for own account was not allowed. The Group's trading in derivatives is based on a policy of back-to-back trading and the involvement of counterparties with higher credit ratings. Such trades are concluded primarily to hedge against financial risks.

The purpose of **the market risk management process** is to minimise losses from positions in the trading and banking books. It also takes into account business policies, the balance sheet structure, capital adequacy and opportunities on the capital markets. The Group strives to achieve the most favourable ratio between generated return and assumed risk, and it manages market risk pursuant to the Market Risk Policy of the Group.

The market risk management process comprises:
- the identification, measurement/assessment, monitoring and control of market risk, and
- internal reporting on market risk.

Identification procedures are used to define existing and potential risks that arise from trading and banking book positions. The associated risks and a risk management process must be defined before launching new services or entering new markets. Every year, the Group develops a policy on the management of debt securities in the banking book, which includes the purpose, objectives and limitations of management, as well as potential risks and the method used to manage them, which is approved by the Risk Management and Asset-Liability Committee and/or the Management Board. The Group also drafts an investment and trading policy, which defines the target annual volume and structure of trading (the trading book) and operations with financial instruments and clients (the banking book), and a financial impact assessment in connection with the performance of this activity.

The system of limits for trading in financial instruments keeps market risk appetite at low levels. This system also requires investing in highly liquid positions, while maintaining an adequate level of risk diversification. The Risk Management Department establishes the limit system primarily based on the Group's market risk appetite and capital adequacy. The limit system includes credit and position limits, stop-loss limits, market rates compliance limits and limits per single authorised person.

The Group has also established a system of limits for debt financial instruments in the banking book, through which it implements its policy of investing in bonds of high credit quality that are eligible as collateral in operations of the European Central Bank, while pursuing the goal of credit diversification and maximum loss limitation.

The structure and organisation of appropriate functions for market risk management is the responsibility of the Management Board and senior management.

Competencies and responsibilities are clearly segregated between trading units, the back office, the middle office and the Risk Monitoring Department, which is organisationally independent of the units that assume market risk.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

The extent and features of internal reporting: The Risk Monitoring Department is responsible for the daily calculation of exposures from financial instruments in the trading and in the banking books, and for reporting to the Management Board, senior management and trading units. Quarterly reports on market risk exposure and the utilisation of limits are presented to the Management Board. The Supervisory Board discusses and reviews a report on the Group's exposure to various types of risks, including market risk, on at least a quarterly basis.

2.2.1.1 Market risk measurement techniques

Market risk measurement techniques comprise risk analyses and validation. This includes assessing the possible frequency of a potential event and the scope of its consequences. Market risk is regularly measured by:
- using the Value-at-Risk method (i.e. VaR);
- through stress testing;
- through sensitivity analysis and
- by calculating capital requirements for market risk using the standardised approach.

The Group is aware of the limitations of the VaR method in cases of extreme market conditions. For this reason, it performs stress testing as a supplement to the VaR method. Stress testing assesses the potential impacts of extraordinary, yet plausible, events on the financial markets on the value of financial instruments. Market risk is also measured using sensitivity analyses to determine the impact of changes in different risk factors and their influence on the level of the Group's profit and equity.

2.2.1.2 Market risk mitigation

An adequate limit system, in line with a conservative market risk policy, is the basic tool of effective risk management. For the purpose of **hedging and reducing market risk,** a system of trading limits and a system of limits on transactions with debt financial instruments in the banking book are in place. The market risk regime is implemented on a daily basis through systems of limits and clear guidelines on responsibilities and competencies in assuming risk.

In the majority of trading in derivatives, exposures to position risk, interest rate risk and currency risk are reduced by pursuing a back-to-back policy. Market risks are hedged using counter-transactions.

2.2.1.3 VaR of debt securities

A value-at-risk assessment (VaR assessment) is a quantitative measure used for assessing potential losses in the value of positions caused by adverse risk factor changes over a given future period at a given confidence level. The Group calculates value-at-risk (VaR) by applying the historical simulation approach. The model assumes the following:
- a 10-day holding period, meaning that within 10 days, all the positions included in the calculation can be liquidated, i.e. sold off. This assumption does not necessarily always hold true for all positions, i.e. not in a period of the general illiquidity of the financial markets. Expanding the daily VaR to a longer period is based on a static portfolio assumption;
- a 1-year observation period, meaning that the latest year should sufficiently reflect the market situation changes that affect the business of the Group. In fact, historical data do not necessarily represent a good indicator of potential future risk factors. This is especially true in periods of extreme market conditions; and
- a 99% level of confidence, meaning that on any one day of one hundred trading days, the Group would suffer a loss from trading activities that exceeds the calculated value. The amount of such excessive losses cannot be measured using VaR.

Measuring VaR shows that the Group's potential loss on one day out of one hundred trading days will be at least be equal to the calculated VaR on an individual trading day, under the assumption that positions can be sold over the following 10-day period.

Slovenia witnessed stable macroeconomic conditions and high growth in major global stock indices in 2019. The yield-to-maturity on ten-year Slovene government bonds was 0.3% at the end of the year. Annual growth in stock indices on the Ljubljana Stock Exchange was 15%.

The Group's market risk appetite remained low. In 2019, the Value-at-Risk measure was at somewhat lower levels compared to the previous year. The Group's market risk exposure was carefully managed through a system of exposure limits.

The following table presents the VaR value of debt securities.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

VAR OF DEBT SECURITIES

2019	As at 31 December	Average	Maximum	Minimum
VaR of debt securities	**4,125**	3,880	4,408	3,437

2018	As at 31 December	Average	Maximum	Minimum
VaR of debt securities	**3,897**	4,333	5,971	3,861

In 2019, the majority of the potential loss using a value-at-risk model was the result of the debt securities portfolio of the banking book**.** At the end of the reported year, the Group estimated with 99% probability that it would lose no more than EUR 4.1 million over the next ten days.

2.2.1.4 Sensitivity analyses

The Group uses sensitivity analyses to measure the impact of changes in various factors on market risk.

The sensitivity analysis of the equity securities portfolio reflects the impact of changes in risk factors on the value of positions, while also showing the impact of changes on profit or loss and equity. The methodology for determining potential changes in risk factors is based on expectations concerning their movement in the next calendar year. When defining expected changes in equity indices, the Group uses internal assessments made by analysts based on the trend in stock market indices.

The table below shows the sensitivity analysis of equity securities.

SENSITIVITY ANALYSES OF EQUITY SECURITES

(Note 19, 20 and 21)

As at 31 December 2019

Equity securities	Carrying amount	Effect on result of income statement	Effect on equity
Equity securities, held for trading (measured at fair value through profit or loss)	255	64	–
Equity securities, at fair value through other comprehensive income	6,466	–	1,617
Total	**6,721**	**64**	**1,617**

As at 31 December 2018

Equity securities	Carrying amount	Effect on result of income statement	Effect on equity
Equity securities, held for trading (measured at fair value through profit or loss)	224	56	–
Equity securities, at fair value through other comprehensive income	15,304	–	3,826
Total	**15,528**	**56**	**3,826**

Taking into account a 25% decrease in the value of the equity securities portfolio, equity would have been EUR 1,617 thousand as at the reporting date, but the impact on total loss would be minimal. The sharp drop relative to the previous year was the result of the 2019 equity portfolio disinvestment policy**.**

The impact of interest rate changes on net interest income and the economic value of equity based on a sensitivity analysis is presented in Section 2.2.3.2.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2.2 Currency risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

2.2.2.1 Currency risk management process

Currency risk strategy focuses on risk exposure in accordance with set limits and the Group's risk-bearing capacity with respect to of its income and capital adequacy. Currency risk is identified, measured, controlled and monitored in line with the Group's established Currency risk management policy. **The currency risk management process** is based on procedures for identifying, measuring, monitoring and managing currency risk and includes internal reporting.

The structure and organisation of appropriate functions for currency risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system of currency risk management is monitored by the Risk Management and Asset-Liability Committee. The implementation of the relevant strategies or policies is monitored and controlled by the Risk Management and Asset-Liability Committee. Foreign exchange risk management is the responsibility of the Assets and Liabilities Management Department, while the Treasury Department and other divisions are responsible for the operationalisation of policies and guidelines.

Extent and features of internal reporting: it is an established practice to produce daily reports on foreign exchange exposures, including daily calculations of maximum potential losses arising from net foreign exchange positions. Regular monthly reports on foreign exchange exposures are also produced for the Risk Management and Assets-Liability Committee. The Supervisory Board discusses and reviews quarterlya report on a Group's exposure to various types of risks, including currency risk.

The currency measurement system covers the daily monitoring of net foreign exchange positions by currency and currency groups, as well as the daily calculation of maximum loss limits associated with currency risk by using the Value-at-Risk method. Currency risk is measured and assessed in accordance with an internal methodology. This defines the stress testing used by the Group to assess potential losses resulting from foreign exchange rate fluctuations.

The Group **hedges and reduces currency risk,** as fluctuations in prevailing foreign currency exchange rates have an impact on its financial position and cash flows. The gaps between foreign currency inflows and outflows, which mostly arose from payment transactions, were managed by arbitrage in 2019. These exposures associated with financial instruments in foreign currencies were low and well established limits.

The following table presents the Group's currency risk exposure and includes the Group's financial instruments at their carrying amounts by currency.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

As at 31 December 2019

		EUR	USD	CHF	Other	Total
	Financial assets					
1	Cash, cash balances with the central bank and other demand deposits with banks	594,024	17,197	19,403	24,426	**655,050**
2	Financial assets held for trading	3,507	320	–	207	**4,034**
3	Non-trading financial assets mandatorily at fair value through profit or loss	15,798	–	–	–	**15,798**
4	Financial assets at fair value through other comprehensive income	139,037	11,706	–	–	**150,743**
5	Financial assets at amortised cost	2,888,724	36,966	7,144	4,015	**2,936,849**
	– debt securities	909,547	27,366	–	–	**936,913**
	– loans to banks	32,940	2,543	–	4,004	**39,487**
	– loans to non-bank customers	1,937,307	7,043	7,144	–	**1,951,494**
	– other financial assets	8,930	14	–	11	**8,955**
	Total financial assets	**3,641,090**	**66,189**	**26,547**	**28,648**	**3,762,474**
	Financial liabilities					
1	Financial liabilities held for trading	2,851	264	2	217	**3,334**
2	Financial liabilities designated at fair value through profit or loss	1,560	–	–	–	**1,560**
3	Financial liabilities at amortised cost	3,091,049	65,684	26,237	23,844	**3,206,814**
	– deposits from banks and the central bank	3,063	3,822	2,248	2,377	**11,510**
	– deposits from non-bank customers	2,966,439	61,457	23,920	21,412	**3,073,228**
	– loans from banks and the central bank	87,827	–	–	–	**87,827**
	– loans from non-bank customers	2,248	–	–	–	**2,248**
	– debt securities issued	14,302	–	–	–	**14,302**
	– other financial liabilities	17,170	405	69	55	**17,699**
	Total financial liabilities	**3,095,460**	**65,948**	**26,239**	**24,061**	**3,211,708**
	Net on-balance sheet position	**545,630**	**241**	**308**	**4,587**	**550,766**
	Loan commitments	**411,279**	**1,500**	**–**	**–**	**412,779**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2018

		EUR	USD	CHF	Other	Total
	Financial assets					
1	Cash, cash balances with the central bank and other demand deposits with banks	482,984	14,019	18,533	22,698	**538,234**
2	Financial assets held for trading	3,138	565	–	134	**3,837**
3	Non-trading financial assets mandatorily at fair value through profit or loss	36,587	–	–	–	**36,587**
4	Financial assets at fair value through other comprehensive income	149,248	14,218	–	–	**163,466**
5	Financial assets at amortised cost	2,861,849	47,963	8,345	7	**2,918,164**
	– debt securities	916,118	30,216	–	–	**946,334**
	– loans to banks	19,566	11,219	–	–	**30,785**
	– loans to non-bank customers	1,913,479	6,515	8,345	–	**1,928,339**
	– other financial assets	12,686	13	–	7	**12,706**
	Total financial assets	**3,533,806**	**76,765**	**26,878**	**22,839**	**3,660,288**
	Financial liabilities					
1	Financial liabilities held for trading	2,395	490	–	159	**3,044**
2	Financial liabilities designated at fair value through profit or loss	2,282	–	–	–	**2,282**
3	Financial liabilities at amortised cost	2,966,870	75,357	27,150	19,675	**3,089,052**
	– deposits from banks and the central bank	7,315	5,025	1,619	2,376	**16,335**
	– deposits from non-bank customers	2,821,718	70,024	25,515	17,190	**2,934,447**
	– loans from banks and the central bank	102,788	–	–	–	**102,788**
	– loans from non-bank customers	5	–	–	–	**5**
	– debt securities issued	13,644	–	–	–	**13,644**
	– other financial liabilities	21,400	308	16	109	**21,833**
	Total financial liabilities	**2,971,547**	**75,847**	**27,150**	**19,834**	**3,094,378**
	Net on-balance sheet position	**562,259**	**918**	**(272)**	**3,005**	**565,910**
	Loan commitments	**423,904**	**2,774**	**–**	**4,564**	**431,242**

2.2.2.2 Value-at-risk (VaR) of net foreign exchange position

The table below shows Value-at-Risk (VaR) of net foreign exchange positions. Calculations are based on a historical simulation in a 1-year period, at a 99% confidence level and with a 10-day holding period.

VAR OF NET CURRENCIES POSITION

2019	As at 31. December	Average	Maximum	Minimum
currency risk	**8**	25	104	6

2018	As at 31. December	Average	Maximum	Minimum
currency risk	**24**	22	46	7

The Group's exposure to currency risk was minimal. As at 31 December 2019, the Group estimated with 99% probability that it would lose no more than EUR 8 thousand over the next ten days.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2.3 Interest rate risk

Interest rate risk is the risk arising from the exposure of the Group's financial position to unfavourable changes in interest rate levels on the market. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on fair value risk and cash flow risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As a consequence of these changes, interest margins and the Group's income also change.

Interest rate risk management is defined by the adopted risk appetite framework, which includes the strategy, policies and risk appetite, the limit system and risk management processes.

The identification and measurement of interest rate risk is defined by the adopted Methodology for interest rate risk identification and measurement based on the general Basel standards for interest rate risk management in the banking book and EBA guidelines on interest rate risk management arising from non-trading activities. With this methodology, the Group defines a set of methods for identifying and measuring interest rate risk, assumptions for identifying and measuring interest rate risk, and the scenarios for measuring the interest rate sensitivity of the Group.

In identifying and measuring interest rate risk the Group takes into account all aspects thereof, including gap risk, basis risk and option risk. In 2019, the Group applied the prepayment model to include option risk in all interest rate risk measurements.

2.2.3.1 Interest rate risk management process

The Group implements an efficient **interest rate risk management process,** that ensures that the risk remains at an acceptable level. Interest rate risk is identified, assessed and monitored or controlled in line with the established risk appetite framework. The interest rate risk management process includes interest rate risk management procedures alongside efficient internal reporting.

In accordance with the risk appetite framework, the Group has limited the extent of interest rate risk by setting up a limit system and by defining the amount of required internal capital. The Group monitors interest risk by managing assets and liabilities management in terms of their maturity, amount and interest rate setting method and through the use of derivative.

With regard to the segregation of roles and responsibilities in the interest rate risk management process, the Risk Management and Asset-Liability Committee is responsible for the adequacy of the strategy, policy and limit system and for monitoring and supervising the implementation of the adopted policy. The Asset and Liability Management Department is responsible for the management of interest rate risk, while the operational implementation of policies is carried out by commercial departments and the Financial Markets Division.

Interest rate risk in the banking book is measured, monitored and reported on a monthly basis. The level of exposure to interest rate risk is discussed monthly by the Risk Management and Asset-Liability Committee, while quarterly Risk reports are submitted to the Supervisory Board. As required by its **internal reporting**, the Group monitors interest rate risk arising from trading in the framework of global market risk control, and uses the Value-at-Risk method, stress testing, and sensitivity analysis to measure it.

The Group **measures the interest rate risk**, that arises from unreconciled balances in the banking book, by applying interest gaps and sensitivity analyses, taking into account loan prepayments. Cashflows from financial instruments are classified in different time buckets according to the next adjustment of the associated interest rate and/or maturity date. The Group classifies non-maturity items in accordance with internal assumptions and models. With regard to non-maturity deposits, which include demand deposits and savings accounts, the Group also determines the proportion of core non-maturity deposits, with respect to which there is a low probability of changes in interest rates, even in the event of significant changes in market interest rates. Core deposits are calculated as a percentage of stable deposits, for corporate and individual customers separately. Core non-maturity deposits are evenly distributed to time buckets up to a maximum of 10 years, while non-core deposits are assumed to have an immediate maturity.

A prepayment model, which differentiates between interest rate prepayments and liquidity prepayments, is used to calculate the impact of prepayments. A prepayment is the borrower's option to repay the loan before maturity. Liquidity prepayments related to cash flow, while interest rate prepayments related to the setting of a new interest rate which includes not only cash flow but also a decrease in interest rate on loans with fixed interest rates, a decrease in premiums above the reference interest rate on loans with variable interest rates and the replacement of fixed interest rates with variable rates. Eight prepayment models were

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

assessed, for corporate and retail customers separately. Corporate customers were additionally classified depending on their size, while retail customers were classified according to loan purpose and interest rate type. The models gave different prepayment rate forecasts. Prepayment rates are assessed with regression models, depending on market interest rates and macro variables. Prepayment rate forecasts are made for the baseline and stress scenarios.

The Group is exposed to the effects of interest rate fluctuations. It is therefore important for the Group to measure its interest rate sensitivity and manage its assets and liabilities in accordance therewith. The Group regularly calculates the effect of interest rate changes on the economic value of equity and net interest income. Several stress scenarios were designed for the measurement of interest rate sensitivity, in which the Group takes into account its risk profile, including the definition of the parameters used in the ICAAP, historical data on individual scenario variables and regulatory prescribed scenarios. Stress testing is used for determining the interest rate position of the Bank, interest rate risk management and ensuring compliance with the defined risk appetite.

The Group's exposure to interest rate risk was reduced by closing interest rate positions by individual time buckets. The following table summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates. In addition, prepayment rate forecasts are used to recalculate cash flows from retail and corporate loans by taking prepayments into account. The table below shows the impact of prepayments on the value of interest gaps in 2019 and 2018.

CONCENTRATION OF INTEREST RATE RISK

As at 31. December 2019

		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Interest-sensitive assets						
1	Cash, cash balances with the central bank and other demand deposits with banks	614,514	–	–	–	–	**614,514**
2	Non-trading financial assets mandatorily at fair value through profit or loss	20	11,360	–	–	153	**11,533**
3	Financial assets at fair value through other comprehensive income	2,548	4,349	41,693	46,433	23,816	**118,839**
4	Financial assets at amortised cost	390,834	574,941	1,030,364	760,920	213,388	**2,970,447**
	– debt securities	106,118	32,725	129,535	573,191	117,520	**959,089**
	– loans to banks	12,201	24,716	2,561		–	**39,478**
	– loans to non-bank customers	272,515	517,500	898,268	187,729	95,868	**1,971,880**
	Total interest-sensitive assets	**1,007,916**	**590,650**	**1,072,057**	**807,353**	**237,357**	**3,715,333**
	Interest-sensitive liabilities						
1	Financial liabilities at amortised cost	1,265,582	149,234	890,969	430,885	452,244	**3,188,914**
	– deposits from banks and the central bank	11,507	–	–	–	–	**11,507**
	– deposits from non-bank customers	1,253,610	118,542	825,676	424,302	451,738	**3,073,868**
	– loans from banks and the central bank	43	30,691	50,574	6,552	483	**88,343**
	– debt securities issued	–	–	14,713		–	**14,713**
	– other financial liabilities	422	1	6	31	23	**483**
	Total interest-sensitive liabilities	**1,265,582**	**149,234**	**890,969**	**430,885**	**452,244**	**3,188,914**
	Interest rate sensitivity gap	**(257,666)**	**441,416**	**181,088**	**376,468**	**(214,887)**	
	Interest rate sensitivity gap excluding prepayments	(272,270)	426,265	184,154	380,233	(178,206)	

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

A at 31. December 2018

		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Interest-sensitive assets						
1	Cash, cash balances with the central bank and other demand deposits with banks	494,641	–	–	–	–	**494,641**
2	Non-trading financial assets mandatorily at fair value through profit or loss	–	21,817	–	–	132	**21,949**
3	Financial assets at fair value through other comprehensive income	1,000	38,915	9,750	74,430	2,000	**126,095**
4	Financial assets at amortised cost	276,063	500,978	1,113,107	720,213	228,252	**2,838,613**
	– debt securities	10,000	95,188	73,946	559,888	165,389	**904,411**
	– loans to banks	25,299	–	–	5,451	–	**30,750**
	– loans to non-bank customers	240,764	405,790	1,039,161	154,874	62,863	**1,903,452**
	Total interest-sensitive assets	**771,704**	**561,710**	**1,122,857**	**794,643**	**230,384**	**3,481,298**
	Interest-sensitive liabilities						
1	Financial liabilities at amortised cost	1,195,928	595,150	428,882	433,737	411,717	**3,065,414**
	– deposits from banks and the central bank	16,330	–	–	–	–	**16,330**
	– deposits from non-bank customers	1,177,419	560,143	370,969	412,453	410,692	**2,931,676**
	– loans from banks and the central bank	1,079	35,003	57,895	7,944	948	**102,869**
	– debt securities issued	–	–	–	13,246	–	**13,246**
	– other financial liabilities	1,100	4	18	94	77	**1,293**
	Total interest-sensitive liabilities	**1,195,928**	**595,150**	**428,882**	**433,737**	**411,717**	**3,065,414**
	Interest rate sensitivity gap	**(424,224)**	**(33,440)**	**693,975**	**360,906**	**(181,333)**	
	Interest rate sensitivity gap excluding prepayments	(437,226)	(50,236)	699,910	355,120	(151,684)	

Note:
Cash flows in 2019 include principal amounts and future contractual interest, while cash flows in 2018 only include principal amount.

The tables include the following:
- debt securities at nominal value with future contractual interest (not at market value or amortised cost);
- loans after taking into account impairments in relation to the first re-defining of interest rates or contractual maturity;
- principal amounts of loans and deposit with future contractual interest for 2019 (excluding commission receivables and initial recognition costs); and
- principal amounts of loans and deposits for 2018 (excluding interest, commission receivables and initial recognition costs).

2.2.3.2 Interest rate sensitivity analyses

The impact of interest rate changes on net interest income and the economic value of equity arising from the presented existing interest sensitivity gaps is presented in the table below. The sensitivity of the economic value of equity and net interest income to interest rate movements is calculated taking into account and exluding the assessed prepayment rate.

The economic value of equity is calculated as a sum of discounted cash flow of individual interest-sensitive assets and interest-sensitive liabilities in the banking book. The defined scenarios of yield curve movements are used to calculate a new economic value and, consequently, the effect of interest rate fluctuations on the economic value of equity.

The impact of interest rate changes on interest income is calculated for a 1-year period. Interest rate changes have an impact on the interest income and expenses associated with items linked to a variable interest rate over a period when the latter is not yet defined (i.e. from the date the interest rate is redefined). The calculation is based on the static balance sheet, which includes reinvesting and refinancing.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

INTEREST RATE SENSITIVITY ANALYSES

	As at 31 December 2019		As at 31 December 2018	
	Effect on interest rate income	Effect on the economic value of equity	Effect on interest rate income	Effect on the economic value of equity
+200 basis points	(5,630)	6,285	(5,150)	(8,158)
+50 basis points	(3,247)	2,153	(1,823)	(2,009)
–50 basis points	(2,551)	(2,585)	(2,150)	2,006
–200 basis points	(10,266)	(4,092)	(10,227)	7,955

Note:
Calculations for 2019 take into account for the effect of prepayments, while calculations for 2018 are not available.

If a market interest rate **increase** of 200 basis points was taken into account, the economic value of equity would increase by EUR 6,285 thousand based on the data at the end of 2019. If a market interest rate **decrease** of 200 basis points was taken into account, the economic value of equity would decrease by EUR 4,092 thousand based on the same data. Wheninterest rates shift downwards, the Group takes into account the prescribed interest rate floor, which may not be lower than -100 basis points**.**

According to data at the end of 2019, if market interest rates increased by 200 basis points, net interest income would be reduced by EUR 5,630 thousand over a one-year period, as the result of interest expenses arising from non-core non-maturity deposits for which immediate maturity is assumed. If market interest rates decreased by 200 basis points, net interest income would be reduced by EUR 10,266 thousand over a one-year period. The reduction in net interest income in the event of a decrease in interest rates is the result of the assumption that, when interest rates fall, the interest rate for retail customers and corporate entities may not be negative.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2.3.3 Interest rates by currency

The Group monitors interest rates by currency for financial instruments. Average interest rates are shown in the following table.

AVERAGE INTEREST RATES BY CURRENCY FOR FINANCIAL INSTRUMENTS

		2019			2018		
		EUR	USD	CHF	EUR	USD	CHF
	Financial assets						
1	Cash, cash balances with the central bank and other demand deposits with banks	(0.45%)	1.48%	0.00%	(0.32%)	1.54%	0.00%
2	Non-trading financial assets mandatorily at fair value through profit or loss	3.25%	–	–	3.21%	–	–
3	Financial assets at fair value through other comprehensive income	0.18%	2.66%	–	0.39%	2.44%	–
4	Financial assets at amortised cost	1.81%	3.52%	1.31%	1.89%	3.12%	1.38%
	– debt securities	0.79%	3.60%	–	0.96%	3.23%	–
	– loans to banks	(0.32%)	0.25%	–	(0.23%)	1.86%	–
	– loans to non-bank customers	2.31%	4.40%	1.31%	2.34%	4.83%	1.38%
	Financial liabilities						
1	Financial liabilities at amortised cost	0.10 %	0.10 %	(0.17 %)	0.12%	0.08%	(0.05%)
	– deposits from banks and the central bank	(0.61 %)	1.19 %	(2.03 %)	(0.41%)	0.81%	(1.01%)
	– deposits from non-bank customers	0.05 %	0.03 %	0.01 %	0.08%	0.03%	0.01%
	– loans from banks and the central bank	0.70 %	–	–	0.71%	–	–
	– debt securities issued	5.95 %	–	–	5.95%	–	–
	– other financial liabilities	0.00 %	0.00 %	0.00 %	0.00%	0.00%	0.00%

2.3 Liquidity risk

Liquidity risk includes the risk of failing to secure liquidity sources, market liquidity risk and asset encumbrance risk.

The risk of failing to secure liquidity sources is the risk that the Group might not be able to meet its payment obligations when due, and/or that as a consequence of its inability to secure sufficient funding to meet payment obligations by the due date, the Group might be forced to secure the required funding at costs significantly higher than normal.

Market liquidity risk is the risk of loss arising from the inability to sell or replace positions (in financial instruments) in a short period of time without this bearing a significant impact on the market price, due to insufficient market depth, market imbalances or other reasons.

Asset encumbrance risk is the risk arising from the encumbrance of the Group’s assets and means an increase in the risk of associated with securing liquidity sources and market liquidity risk due to fewer opportunities to secure liquidity sources and dispose of assets. Any decrease in the value of encumbered assets as a result of market factors and the related demand for additional coverage further increases this risk.

2.3.1 Liquidity risk management process

The liquidity risk management strategy is based on prudent and stable operations, and includes the careful management of assets and liabilities (both on and off-balance sheet) as well as a balanced borrowing strategy, that enables the Group to meet its financial obligations as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group ensures for the appropriate volume and structure of the liquidity buffer, taking into account the risk associated with securing liquidity sources, market liquidity risk and asset encumbrance risk.

The liquidity risk management process follows the adopted risk appetite framework, which includes the strategy, policies and risk appetite, the limit system and risk management processes. The Group identifies, measures and monitors or controls liquidity risk in line with the adopted risk appetite framework. The liquidity risk management process includes liquidity risk management procedures alongside efficient internal reporting.

The liquidity risk management process consists of:
- the integrated planning and monitoring of future cash flows, which include day-to-day funding, with a view to ensuring that requirements are met and sources are replenished as they mature;
- intraday cash flow planning and monitoring;
- maintaining an appropriate level of the liquidity buffer, i.e. a portfolio of highly liquid assets that can be easily liquidated and serve as protection against unforeseen cash flow developments;
- assessing market liquidity risk;
- monitoring and calculating liquidity ratios in line with the requirements of the Bank and regulatory requirements;
- monitoring the diversity of funding sources and the profile of outstanding liabilities;
- testing liquidity management scenarios for the normal course of business and for extraordinary liquidity requirements (stress scenarios);
- monitoring the liquidity position of the banking system and the national economy;
- adopting adequate liquidity policies in the given circumstances; and
- establishing an adequate relationship between the costs, benefits and risks involved in securing liquidity.

The structure and organisation of appropriate functions for liquidity risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system for liquidity risk management is monitored by the Risk Management and Asset-Liability Committee. The implementation of the relevant policy is controlled by the Risk Management and Asset-Liability Committee and the Liquidity Commission, while liquidity risk management is the responsibility of the Treasury Department and the Assets and Liabilities Management Department. The Financial Markets Division and other divisions are responsible for the operationalisation of policies and guidelines.

Internal reporting takes the form of cash flow measurement and projections for the next day, week and month, as these are key periods for operational liquidity management. Furthermore, liquidity measurements for longer periods are carried out to monitor liquidity exposure in those periods, and to manage stress liquidity situations. The starting point for those projections is the contractual maturity of financial liabilities, the expected recovery date of financial assets, the expected early repayment of loans and an assessment of expected changes in unstable sources. Liquidity risk exposure is monitored and controlled by the Liquidity Committee on a daily basis and by the Risk Management and Asset-Liability Committee on a monthly basis. The Supervisory Board discusses a quarterly report on the Group’s exposure to various types of risks, including liquidity risk.

2.3.1.1 Liquidity risk measurement

The procedures for **measuring liquidity risk** include qualitative and quantitative assessments for risk measurement. The Group has developed its own methods for establishing, measuring, managing and monitoring liquidity, which enable the matching of actual and potential liquid funds with the actual and potential use of such funds over certain time periods. The Group assess the adequacy of liquid assets and their availability. When an assessment of liquidity is made, the Group primarily takes into account the possibility of securing liquidity in the short term on the basis of these funds. The Group also monitors allocation of costs, benefits and risks involved in securing liquidity. An internal methodology has been developed for this purpose, and covers material assets and liability items, off-balance items and all liquidity maintenance costs. This methodology is regularly upgraded by the Group.

The Group also regularly upgrades its methodology for assessing expected cash flows. Discrepancies between expected and contractual cash flows are assessed using assumptions that are based on historical data and model estimates. The Group regularly verifies the adequacy and accuracy of these assumptions.

The Group implements the internal liquidity adequacy assessment process (ILAAP). The key aim of the ILAAP is ensuring that the Group has sufficient short-term and medium-term liquidity available under both normal and stress conditions. The ILAAP includes an assessment of liquidity requirements and an assessment of available liquidity. The Group regularly verifies liquidity

NOTES TO THE FINANCIAL STATEMENTS (continued)

adequacy, both the scope of the ordinary course of business and in the context of the business plan for the future planning period. The verification of liquidity adequacy also includes liquidity stress testing for pre-defined stress situations of varying severity.

2.3.1.2 Liquidity risk mitigation

With the aim **of hedging and reducing liquidity risk**, the Group prudently manages assets and liabilities management. Because this is the foundation of stable operations, the following objectives are pursued:
- the ability to fulfil all obligations related to on- and off balance-sheet outflows in the short term;
- minimizing the costs of maintaining liquidity; and
- foreseeing the occurrence of extraordinary liquidity conditions and implementing the adopted action plan for re-establishing appropriate liquidity in the event that such extraordinary conditions materialise.

In order to reduce the liquidity risk, the Group has in palace a limit system that includes compliance with regulatory requirements and internally defined limits as well as monitoring of target structural liquidity indicators.

For the purpose of liquidity risk hedging, the Group applies a methodology for identifying and measuring liquidity risk, and maintains an action plan for re-establishing liquidity adequacy. The Group hedges against liquidity risk by virtue of diligent and effective liquidity buffer management and the availability of adequate sources of funding, which are kept as diverse as possible. The Group also appropriately addresses liquidity risk in its Recovery Plan.

In order to monitor the effectiveness of hedging and minimise liquidity risk, the Group regularly assesses its risk-bearing capacity in accordance with the established methodology.

2.3.1.3 Liquidity management scenarios in extreme situations

The Group prepares various **liquidity scenarios in extreme situations** with the aim of identifying potential weaknesses and vulnerabilities in its liquidity position. These scenarios assume deteriorating liquidity conditions due to the weakened financial position of the Group and its diminished reputation domestically and internationally. The Group also prepares scenarios assuming extreme liquidity situations on the domestic and foreign financial markets, diminished confidence in the banking system, and a decline in economic activity.

The Group prepares various liquidity management scenarios that also includ liquidity risk mitigation measures, and uses these scenarios as the basis for testing the assumptions used in decision-making on liquidity-related issues. Based on these scenarios, the Group determines the most appropriate measures for ensuring adequate liquidity, taking into account:
- the baseline scenario: a scenario whose assumptions reflect the continuation of the current direction and conditions of the Group’s operations and for which it can be assumed with certainty that they will affect the Group’s liquidity in the normal course of business; and
- a liquidity stress scenario, in which a liquidity stress situation is unlikely but probable, is a liquidity management scenario, whose assumptions include significant changes in factors that lead to the deterioration of the Group's liquidity.

Liquidity stress scenarios are divided into three main groups:
- a scenario adapted to the Group’s own liquidity position or the idiosyncratic scenario;
- the market scenario, which is associated with a significant macroeconomic event or a sudden risk change in the financial system, or with worsening conditions on several markets at the same time; and
- the combined scenario, which is based on a combination of the idiosyncratic and market scenarios.

Liquidity stress scenarios are performed for two levels of severity, where the intensity of the liquidity stress situation changes over time. The Group regularly verifies the appropriateness and accuracy of the assumptions used in scenarios.

In 2019, the Group recalibrated its risk appetite together with the limit system for liquidity and critical values for the recovery plan and the contingency plan for the re-establishment of adequate liquidity, with the aim of bringing them into line.

Based on the results of liquidity stress tests, the Group determines the overall level and composition of the liquidity buffer.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3.1.4 Contingency plan

In order to hedge against liquidity risk, procedures are in place for minimising the occurrence of crisis situations that would prevent the Group from duly and promptly discharging its obligations. The early identification of potential crisis situations is carried out during the daily monitoring of the Group's liquidity position.

The contingency plan for the re-establishment of adequate liquidity is a catalogue of processes aimed at the early detection of liquidity deficits based on the monitoring of liquidity ratios and other indicators used by the Group to identify potential liquidity issues in a timely manner. The plan also includes a list of situations deemed as examples of liquidity deficits, with the aim of restoring the Group's normal liquidity position.

2.3.2 Liquidity ratios and structural liquidity indicators

Liquidity ratios determine the ratio of financial assets to financial liabilities according to residual maturity. For this purpose, the following prescribed ratios are calculated and monitored:

- liquidity coverage ratio (LCR), the purpose of which is to provide liquidity in the short term by determining the required volume of highly liquid assets for settling liabilities in times of extraordinary liquidity conditions;
- net stable funding ratio (NSFR), the purpose of which is to provide medium and long-term stable funding for banks' operations by determining the appropriate structure of assets and liabilities relative to maturity; and
- the liquidity ratio for assets and liabilities with a residual maturity of up to 30 days (first-bucket liquidity ratio) and the liquidity ratio for assets and liabilities with a residual maturity of up to 180 days (second-bucket liquidity ratio).

The Group calculates the LCR every month and the NSFR on a quarterly basis as at last day of the month, and the firs-bucket and second-bucket liquidity ratios on a daily basis.

All ratios were at high levels and above the relevant limits at the end of 2019.

The Group also measures liquidity risk using the survival period indicator, which measures the number of days the Group can survive in a liquidity stress situation. The value of this indicator significantly exceeds the predetermined risk appetite of the Group, which is three moths for the survival period.

LIQUIDITY RATIOS

	Average 2019	As at 31 December 2019	Average 2018	As at 31 December 2018
Liquidity coverage ratio (LCR)	4.01	3.88	4.14	4.30
Net stable funding ratio (NSFR)	1.74	1.81	1.69	1.74
Liquditiy ratio (Maturity up to 30 days)	1.43	1.40	1.48	1.47

The Group also monitored the liquidity situation by continuously calculating structural liquidity indicators. Cash and cash equivalents, reserves held at the central bank, receivables due from banks, securities and loans eligible as collateral for Eurosystem claims constitute the Group's liquidity buffer.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

STRUCTURAL LIQUIDITY INDICATORS (%)

	Average 2019	As at 31 December 2019	Average 2018	As at 31 December 2018
Liquidity buffer/total assets	43.6	45.2	43.5	43.8
Liquidity buffer/short-term deposits of the non-banking sector	235.1	231.1	256.3	252.7
Loans to non-banking sector/deposits of the non-banking sector	66.7	64.0	67.2	66.5

2.3.3 Funding approach

The Group keeps its funding sources at an adequate level and appropriately diversifies them by currency, lender/creditor, banking product, and maturity.

2.3.4 Non-derivative cash flows from liabilities based on contractual maturity

The following table shows non-derivative cash flows according to their residual contractual maturity as at the date of the statement of financial position. On-balance-sheet items disclosed in the maturity table represent undiscounted cash flows including future payments. Off-balance-sheet items are included in the time bucket containing the earliest date on which loan commitments could be drawn down (according to the requirement of IFRS7 B11C(b)), or on which financial guarantees could be called (according to the requrement of IFRS7 B11C(c)).

Foreign currency cash flows are converted into euros using the spot exchange rate as at the date of the statement of financial position.

NON-DERIVATIVE CASH FLOWS BASED ON CONTRACTUAL MATURITY

	As at 31 December 2019	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1	Financial liabilities designated at fair value through profit or loss	1,560	–	–	–	–	**1,560**
2	Financial liabilities at amortised cost	2,737,626	77,527	265,078	113,175	25,600	**3,219,006**
	– deposits from banks and the central bank	11,510	–	–	–	–	**11,510**
	– deposits from non-bank customers	2,708,419	74,571	236,640	60,794	2,251	**3,082,675**
	– loans from banks and the central bank	0	2,956	11,476	52,381	23,349	**90,162**
	– loans from non-bank customers	–	–	2,248	–	–	**2,248**
	– debt securities issued	–	–	14,713	–	–	**14,713**
	– other financial liabilities	17,698	–	–	–	–	**17,698**
	Total financial liabilities	**2,739,186**	**77,527**	**265,078**	**113,175**	**25,600**	**3,220,566**
	Loan commitments and financial guarantees	**468,002**	–	–	–	–	**468,002**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	As at 31 December 2018	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1	Financial liabilities designated at fair value through profit or loss	2,282	–	–	–	–	**2,282**
2	Financial liabilities at amortised cost	2,512,954	75,196	320,964	158,563	37,283	**3,104,960**
	– deposits from banks and the central bank	16,334	–	–	–	–	**16,334**
	– deposits from non-bank customers	2,474,069	72,219	308,965	86,952	2,911	**2,945,115**
	– loans from banks and the central bank	894	2,978	11,823	56,922	34,373	**106,990**
	– loans from non-bank customers	–	–	5	–	–	**5**
	– debt securities issued	–	–	170	14,689	–	**14,859**
	– other financial liabilities	21,656	–	–	–	–	**21,656**
	Total financial liabilities	**2,515,235**	**75,196**	**320,964**	**158,563**	**37,283**	**3,107,241**
	Loan commitments and financial guarantees	**479,653**	–	–	–	–	**479,653**

The majority of liquidity reserves held by the Group in 2019 to meet on- and off-balance sheet obligations was composed of debt securities, while the second largest liquidity reserve item as at the reporting date was cash and cash equivalents. The Group did not have any commitments and contingencies that would exceed the contractually determined amount of obligations.

2.3.5 Cash flows from financial instruments based on expected maturity

The following table shows on- and off-balance-sheet cash flows according to their expected maturity as at the date of the statement of financial position including future interests.

Expected cash flows from on-balance-sheet items for individually assessed large loans include expected cash flows instead of contractually agreed cash flowa. Demand deposits and saving accounts are classified into different time buckets according to an internal methodology. They are divided into stable and unstable sources, using a statistical method based on a multi-annual time series. Stable sources are subsequently classified into different long-term time buckets. Expected cash flows from off-balance-sheet items are classified into different time buckets according to an internal methodology based on historical data.

The Group takes measures to maintain an adequate liquidity position. These measures include maintaining the appropriate level and quality of the liquidity buffer, activities for raising long-term funds, maturity matching of assets and liabilities and ongoing adjustments to the interest rate policy.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CASH FLOWS OF FINANCIAL INSTRUMENTS BASED ON EXPECTED MATURITY

	As at 31 December 2019	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1	Cash, cash balances with the central bank and other demand deposits with banks	626,549	–	–	28,563	–	**655,111**
2	Financial assets held for trading	30	44	176	1,909	1,875	**4,034**
3	Non-trading financial assets mandatorily at fair value through profit or loss	20	73	255	13,346	153	**13,846**
4	Financial assets at fair value through other comprehensive income	2,548	4,349	41,693	51,014	51,111	**150,715**
5	Financial assets at amortised cost	209,548	156,755	447,535	1,581,952	780,090	**3,175,880**
	– debt securities	106,118	32,725	129,535	573,191	117,520	**959,089**
	– loans to banks	3,822	24,710	2,813	7,230	872	**39,446**
	– loans to non-bank customers	90,778	99,320	315,187	1,001,531	661,699	**2,168,515**
	– other financial assets	8,830	–	–	–	–	**8,830**
	Total financial assets	**838,694**	**161,221**	**489,658**	**1,676,783**	**833,230**	**3,999,586**
	Financial liabilities						
1	Financial liabilities held for trading	24	62	145	1,686	1,392	**3,308**
2	Financial liabilities designated at fair value through profit or loss	1,560	–	–	–	–	**1,560**
3	Financial liabilities at amortised cost	249,715	115,592	450,869	1,117,580	1,280,598	**3,214,354**
	– deposits from banks and the central bank	11,507	–	–	–	–	**11,507**
	– deposits from non-bank customers	221,081	112,505	424,087	1,063,534	1,257,042	**3,078,248**
	– loans from banks and the central bank	0	2,956	11,476	52,381	23,349	**90,162**
	– loans from non-bank customers	62	125	562	1,499	–	**2,248**
	– debt securities issued	–	–	14,713	–	–	**14,713**
	– other financial liabilities	17,064	7	31	166	207	**17,474**
4	Capital	–	–	–	–	578,412	**578,412**
	Total financial liabilities	**251,299**	**115,655**	**451,014**	**1,119,266**	**1,860,401**	**3,797,634**
	Net liquidity gap	**587,396**	**45,566**	**38,645**	**557,517**	**(1,027,172)**	**201,952**
	Loan commitments and financial guarantees	**43,834**	**16,029**	**43,465**	**–**	**–**	**103,328**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	As at 31 December 2018	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1	Cash, cash balances with the central bank and other demand deposits with banks	476,480	–	–	61,800	–	**538,281**
2	Financial assets held for trading	442	9	139	1,852	1,396	**3,837**
3	Non-trading financial assets mandatorily at fair value through profit or loss	53	322	2,037	33,029	132	**35,573**
4	Financial assets at fair value through other comprehensive income	1,467	40,607	11,358	80,156	29,902	**163,489**
5	Financial assets at amortised cost	147,777	167,985	406,057	1,645,466	820,906	**3,188,191**
	– debt securities	16,288	100,268	83,812	601,950	170,742	**973,059**
	– loans to banks	19,699	(2)	1,119	9,447	511	**30,774**
	– loans to non-bank customers	99,256	67,720	321,127	1,034,069	649,653	**2,171,824**
	– other financial assets	12,534	–	–	–	–	**12,534**
	Total financial assets	**626,219**	**208,923**	**419,591**	**1,822,303**	**852,336**	**3,929,371**
	Financial liabilities						
1	Financial liabilities held for trading	427	45	125	1,616	827	**3,041**
2	Financial liabilities designated at fair value through profit or loss	2,282	–	–	–	–	**2,282**
3	Financial liabilities at amortised cost	244,592	117,787	491,749	1,070,878	1,179,955	**3,104,960**
	– deposits from banks and the central bank	16,334	–	–	–	–	**16,334**
	– deposits from non-bank customers	206,841	114,790	479,664	998,809	1,145,010	**2,945,115**
	– loans from banks and the central bank	894	2,978	11,823	56,922	34,373	**106,990**
	– loans from non-bank customers	–	–	5	–	–	**5**
	– debt securities issued	–	–	170	14,689	–	**14,859**
	– other financial liabilities	20,522	19	86	458	572	**21,656**
4	Capital	–	–	–	–	583,407	**583,407**
	Total financial liabilities	**247,300**	**117,832**	**491,874**	**1,072,494**	**1,764,189**	**3,693,689**
	Net liquidity gap	**378,919**	**91,090**	**(72,283)**	**749,809**	**(911,853)**	**235,682**
	Loan commitments and financial guarantees	**65,312**	**15,607**	**40,105**	**–**	**–**	**121,024**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3.6 Derivative cash flows

2.3.6.1 Derivatives settled on a net basis

The Group's derivatives that are settled on a net basis include:
- foreign exchange derivatives: over-the-counter (OTC) currency options, and
- interest rate derivatives: interest rate swaps and interest rate options.

The following table shows an analysis of the Group's derivative with a negative fair value that are settled on a net basis, arranged in groups according to maturity on the basis of the residual contractual maturity on the date of the statement of financial position. The amounts disclosed in the table are contractual undiscounted cash flows.

DERIVATIVES WITH A NEGATIVE FAIR VALUE SETTLED ON A NET BASIS

As at 31 December 2019	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	–	–	–	–	**–**
– interest rate derivatives	(23)	(437)	(553)	(1,406)	(277)	**(2,696)**
Total	**(23)**	**(437)**	**(553)**	**(1,406)**	**(277)**	**(2,696)**

As at 31 December 2018	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	–	–	–	–	**–**
– interest rate derivatives	(11)	(320)	(166)	(368)	(11)	**(876)**
Total	**(11)**	**(320)**	**(166)**	**(368)**	**(11)**	**(876)**

2.3.6.2 Derivatives settled on a gross basis

The Group's derivatives that are settled on a gross basis include foreign exchange derivatives:
- currency forwards, and
- currency swaps.

The following table shows an analysis of the Group's derivatives with a negative fair value settled on a gross basis and arranged in logical groups according to maturity on the basis of residual contractual maturity on the date of the statement of financial position. Items shown in the table represent the contractual undiscounted cash flows.

DERIVATIVES WITH A NEGATIVE FAIR VALUE SETTLED ON A GROSS BASIS

As at 31 December 2019	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	2,991	4,423	26,979	102	–	**34,495**
– outflows	3,002	4,447	27,032	104	–	**34,585**
Total inflows	**2,991**	**4,423**	**26,979**	**102**	**–**	**34,495**
Total outflows	**3,002**	**4,447**	**27,032**	**104**	**–**	**34,585**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2018	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	10,828	2,095	23,495	682	–	**37,100**
– outflows	11,277	2,091	23,770	716	–	**37,854**
Total inflows	**10,828**	**2,095**	**23,495**	682	–	**37,100**
Total outflows	**11,277**	**2,091**	**23,770**	716	–	**37,854**

2.3.7 Commitments and contingencies

Items relating to potential obligations are presented off-balance-sheet. The triggering events for these obligations have not occurred and these facilities are not yet due. Those obligations for which trigger events have already occurred are presented in the statement of financial position.

a) Loan commitments

The table below presents a summary of the contractual values of loan commitments (overdrafts and credit lines, granted undrawn loans and revolving loans) that oblige the Group to provide loans to customers.

b) Guarantees and other financial facilities

The table below also includes guarantees and other financial facilities, arranged according to contractual maturity.

COMMITMENTS AND CONTINGENCIES

(Note 37)

As at 31 December 2019	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	316,657	42,015	54,107	**412,779**
Guarantees and other financial facilities	195,332	67,733	21,020	**284,085**
– financial guarantees	43,308	11,068	847	**55,223**
– performance guarantees	151,291	55,149	18,643	**225,083**
– derivatives	248	1,503	1,510	**3,261**
– other	485	13	20	**518**
Total	**511,989**	**109,748**	**75,127**	**696,864**

As at 31 December 2018	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	320,559	17,861	92,822	**431,242**
Guarantees and other financial facilities	167,552	69,337	20,618	**257,507**
– financial guarantees	28,137	18,440	1,834	**48,411**
– performance guarantees	137,658	48,670	17,453	**203,781**
– derivatives	586	1,852	1,172	**3,610**
– other	1,171	375	159	**1,705**
Total	**488,111**	**87,198**	**113,440**	**688,749**

Commitments and contingencies are reduced by the provisions for guarantees and commitments, and by the other provisions.

Commitments and contingencies are disclosed at nominal value, the only exception being derivatives which are disclosesd at market value. Exposure to counterparty credit risk (credit replacement cost) amountied to EUR 7,113 thousand at the end of 2019 (compared with EUR 8,940 thousand at the end of 2018) and was the sum of the market value of derivatives (current exposure) and potential exposure.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4 Capital management

Capital management comprises monitoring the level of capital and capital adequacy ratios, drafting guidelines for achieving the planned capital adequacy and monitoring the implementation of measures aimed at maintaining minimum capital adequacy ratios, which are either legally prescribed or planned on the basis of the Group's adopted business policy, risk management strategy and risk appetite.

The management and supervisory bodies regularly monitor and assess the effectiveness of the capital management system. The Group calculates its regulatory capital and capital adequacy at least quarterly.

The Group's capital must be at least equal to the total sum of minimum capital requirements set out in Article 92 of Regulation (EU) No 575/2013, the requirements for maintaining capital buffers set out in Article 128 of Directive (EU) No 2013/36 and the requirements to ensuring adequate internal capital set out in Article 97 of Directive (EU) No 2013/36 at all times.

2.4.1 Regulatory capital and capital adequacy

Regulatory capital includes Tier 1 capital and Tier 2 capital. The Group's Tier 1 capital is the sum of its Common Equity Tier 1 capital and Additional Tier 1 capital. Regulation (EU) No. 575/2013 stipulates the application of three ratios:

- a Common Equity Tier 1 capital ratio of at least 4.5%,
- a Tier 1 capital ratio of at least 6%, and
- a total capital ratio of at least 8%.

The following table presents components of regulatory capital and capital adequacy ratios.

REGULATORY CAPITAL AND CAPITAL ADEQUACY

As at 31 December	2019	2018
Paid up capital instruments	151,000	151,000
Share premium	282,459	282,459
Previous years retained earnings	21,565	19,190
Profit or loss eligible	–	–
Accumulated other comprehensive income	4,173	3,332
Other reserves	58,401	51,727
Adjustments to CET1 capital due to prudential filters	(175)	(209)
(-) Other intangible assets	(8,001)	(9,073)
(-) Deferred tax assets thar rely on future profitability and do not arise from temporary differences	(7,418)	(8,641)
(-) Excess of deduction from AT1 items over AT1 capital	–	–
(-) Other transitional adjustments to CET1 capital	–	–
(-) CET1 capital elements or deductions - other	–	–
Common Equity Tier 1 capital (CET1)	**502,004**	**489,785**
Additional Tier 1 capital (AT1)	**–**	**–**
Tier 1 capital (T1)	**502,004**	**489,785**
Additional Tier 2 capital (AT2)	**–**	**–**
Total regulatory capital (for solvency purposes)	**502,004**	**489,785**
Risk w eighted exposure amounts for credit risk	1,861,921	1,835,763
Risk exposure amount for position and foreign-exchange risk	610	590
Risk exposure amounts for operational risk	219,734	230,369
Risk exposure amount for credit valuation adjustment	1,392	2,160
Settlement/delivery risk exposure amount	–	–
Total risk exposure amount	**2,083,657**	**2,068,883**
Common Equity Tier 1 capital ratio	**24.09%**	**23.67%**
Tier 1 capital ratio	**24.09%**	**23.67%**
Total capital ratio	**24.09%**	**23.67%**

NOTES TO THE FINANCIAL STATEMENTS (continued)

The regulatory capital of the Group amounted to EUR 502,004 thousand as at 31 December 2019, representing a year-on-year increase of EUR 12,218 thousand. As at the reporting date, total risk exposure amounted to EUR 2,083,657 thousand, an increase of EUR 14,774 thousand relative to 31 December 2018. The total capital ratio, i.e. capital adequacy, was 24.09%, an increase of almost half percentage point relative to the end of 2018. Regulatory capital was comprised solely of Common Equity Tier 1 capital in 2019. As a result, all three prescribed ratios were the same.

2.4.2 Internal capital adequacy assessment process

The internal capital adequacy assessment process is defined by two variables. The first variable represents the risks to which the Group is exposed and that exeed the scope covered by Pillar 1 capital requirements, while the second variable is the capital at the Group's disposal to cover risks and potential losses arising from those risks. A comparison of the internal assessment of capital requirements and the internal assessment of capital indicates the Group's ability to cover all risks to which it is exposed.

In the scope of the Internal Capital Adequacy Assessment Process (ICAAP), the Group upgraded existing methods for calculating the internal assessments of capital requirements, continued to regularly monitor its risk profile and evaluated its risk-bearing capacity, set up and performed stress tests, and calculated the amount of its internal assessment of capital and internal assessment of capital requirements for all material types of risks. The findings of the ICAAP are included in risk reports, which are communicated to the members of the Risk Management and Asset-Liability Committee, comprising the Bank's senior management, Management Board members, members of the The Risk Monitoring and Asse-Liability Management Committee and Supervisory Board members.

As at 31 December 2019, the consolidated total capital ratio, Common Equity Tier 1 ratio and Additional Tier 1 capital ratio were all 24.09% (non-consolidated 24.14%). In accordance with Regulation (EU) No 575/2013, the following own funds requirements apply from 1 January 2015 on: a Common Equity Tier 1 capital ratio at 4.5% or higher; a Tier 1 capital ratio at 6% or higher; and a total capital ratio at 8% or higher. As at 31 December 2019, the Group's capital adequacy ratios were above the legally prescribed levels. At the end of 2019, the overall capital requirement (OCR) was 14.53% on a consolidated basis, consisting of:
- 11.75% of the total SREP capital requirement (TSCR), comprising 8% of the Pillar 1 requirement and 3.75% of the Pillar 2 requirement; and
- 2.78% of the combined buffer requirement, broken down as follows: a capital conservation buffer of 2.5%, a buffer for other systemically important banks of 0.25% and a bank-specific countercyclical buffer of 0.03%.

The overall capital requirement (OCR) was 13.64% at the end of 2018 and rose to 14.53% in 2019 due to the regulatory requirement to gradually include the capital conservation buffer and buffer for other systemically important banks.

As of 1 January, 2020, the Group must achieve a total capital requirement of 14.28%. The reduction in that requirement relative to 2019 was the result of a lower Pillar 2 requirement by 0.25%.

2.5 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Group's basic classification of operational risk derives from the following seven categories, which are in line with the CRR requirements:
- internal fraud,
- external fraud,
- employment practices and workplace safety,
- customers, products and business practices,
- damage to physical assets,
- business disruption and systems failures, and
- execution, delivery and process management.

In the context of this classification, the Group also monitors the following sub-categories of operational risk:
- conduct risk,
- outsourcing risk,
- model risk,
- compliance risk,

NOTES TO THE FINANCIAL STATEMENTS (continued)

- legal risk, and
- cyber risk.

The definition excludes business risk and reputation risk. The realisation of operational risk may, however, impair the Group's reputation.

2.5.1 Operational risk management process

The strategy, policy, framework, system and processes for managing operational risk are defined by the following documents: Risk Management Strategy and Risk Appetite, Risk Management Limits, and ICAAP and ILAAP Rules.

In 2019, the Group continued with the activities sset out in the above-mentioned strategy, which was updated in 2019 to include current amendments. In addition, the accompanying internal instructions, which relate to all operational risk management steps and to the Group’s risk-bearing capacity and risk appetite, were brought in line with the strategy's requirements. The Group introduced a new Policy on Outsourcing and Other Contracting within the Abanka Group in 2019 and thoroughly revised all of its business continuity documents.

The objective of the operational risk management process is to establish procedures for reducing risk and limiting the occurrence of operational risk losses. Measures to reduce the frequency and severity of operational incidents will be planned and implemented.

The operational risk management process includes:
- the identification, measurement/assessment, monitoring (controlling) and mitigation of operational risk; and
- operational risk reporting.

The Group regularly identifies and quantitatively assesses exposure to operational risk, and adopts preventive and corrective measures for operational risk incidents. The Group's internal reporting system for operational risk involves all employees and facilitates a quick reaction in the event of difficulties, as the Management Board and senior management are involved in such reporting. If necessary, additional measures are taken after each incident, while responsible persons and deadlines are defined in order to mitigate the consequences or prevent or reduce the possible reoccurrence of an incident with the aim of improving operational risk management. The Risk Management Department monitors the implementation of measures and reports to the Operational Risk Commission and to the Risk Management and Asset-Liability Committee.

The structure and organisation of appropriate operational risk management in the Group involves employees at all levels with different responsibilities and duties. Operational risk management and risk mitigation measures are decentralised and are implemented in all organisational units. The Risk Management Department is responsible for of coordinating the operational risk management function.

Working within the Group are the Operational Risk Commission, which is responsible for the development of the operational risk management system, and the Risk Management and Asset-Liability Committee, which is a collective decision-making body responsible for directing and controlling operational risk management. The latter includes all senior managers and is chaired by a member of the Management Board.

For the purpose of **internal reporting on operational risk**, the Group uses an internaly developed application for reporting operational risk incidents, which faciliates the regular/non-anonymous and anonymous reporting of such incidents. In the context of incident reporting, the Group also collects information on operational risk sub-categories.

The Risk Management Department is responsible for the preparation of summary quarterly reports on loss events, which are discussed by the Operational Risk Commission and the Risk Management and Asset-Liability Committee. The latter discusses major loss events in greater detail, adopts appropriate measures as they occur and monitors the implementation of those measures. It also discusses other reports on operational risk and the management thereof, and investigates all operational risk profiles (assessed and actual) by organisational units and at the Group level. It is responsible for making decisions regarding the method used to manage medium and high risks. The Supervisory Board discusses the Operational Risk Exposure Report at a minimum on quarterly basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.5.1.1 Operational risk measurement

Characteristic of the **operational risk measurement system** is the identification and assessment and/or measurement of operational risk in accordance with the Methodology for operational risk assessment within the Group. Risk measurement is based on the **assessment of exposure to operational risk by individual organisational units,** using a standardised form and the list of sub-categories derived from the seven types of operational risk incidents. Each sub-category is assessed in terms of the probability of occurrence and the severity of the consequences in the event of occurrence. The assessment uses a quantitative approach, and a frequency and effect method. Key controls are defined for all operational risk sub-categories, followed by an assessment of their efficiency, quality and economic viability of those controls.

In parallel, exposure to operational risk is measured by reporting individual operational risk incidents to the centralised database of incidents. The financial impact is measured/assessed for each reported incident.

2.5.1.2. Operational risk mitigation

The Group carries out activities within the framework of **operational risk hedging and mitigation**, which are based on the identification, measurement, assessment, monitoring and internal reporting on operational risk. In addition, the Group performs activities to mitigate the consequences of loss events that have occurred. The implementation of these activities is the responsibility of individual organisational units.

Measures are prepared **for the financially highest ranked operational risk sub-categories** in terms of financial impact, with the aim of preventing or reducing the likelihood of the occurrence of incidents. Measures include resposible persons and deadlines for implementation.

For **each reported incident**, measures are also prepared to most effectively address the consequences of an incident and, where appropriate, measures to avoid similar incidents in the future.

In order to appropriately manage and reduce operational risk, the Group has **developed business continuity plans and disaster recovery plans** for all important processes and systems. Those plans are updated, upgraded and tested at least once a year, and also include the Recovery Time (RTO) and Recovery Point Objective (RPO) parameters, and ensure the effective coordination of those parameters between the IT Department and organisational units.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS AND SOURCES OF UNCERTAINTY IN THE APPLICATION OF ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities during the next financial year. Estimates and judgements are continuously assessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable given the circumstances.

Critical judgements in applying accounting policies

Described below are the management's critical judgements in applying the accounting policies that have the most significant effect on the amounts reported in the financial statements:

- the definition of business models for the classification and measurement of financial assets, as explained in more detail in Note 1.5 Financial assets and financial liabilities;
- a significant increase in credit risk: as explained in Section 2, expected credit losses are measured as the amount of potential losses expected within 12 months after the reporting date for financial assets classified to stage 1 or as the amount of all potential losses expected over the entire lifetime of a financial asset for financial assets classified to stage 2 and stage 3. An asset is reclassified to stage 2 when there is a significant increase in credit risk. However, IFRS 9 does not define what constitutes a significant increase in credit risk and therefore judgement is needed. In using judgement to determine whether there has been a significant increase in credit risk, both qualitative and quantitative forward-looking information is used, as explained in more detail in Section 2;
- the definition of segments with similar credit risk characteristics: when expected credit losses are measured on the basis of collective assessment, financial assets are classified to individual segments based on similar credit risk characteristics using judgements. Classification to individual segments is described in detail in Section 2; and
- assessment models and the assumptions used: the Group uses the corresponding valuation models in the valuation of financial assets at fair value and estimation of expected credit losses. Judgement is needed to determine which models are appropriate for a particular financial asset or group of financial assets as well as the definition of the relevant assumptions used in these models. The fair value of financial assets is further defined in Note 4, while the assessment of expected credit losses is described in detail in Section 2.

Critical estimates and sources of uncertainty

Described below are the critical estimates that the management used in the accounting policies and have the most significant effect on the amounts reported in the financial statements:

- the selection of the appropriate number of macroeconomic scenarios and applied weights, as well as forward-looking information relevant for each scenario: expected credit losses are estimated using reasonable and supportable forward-looking information that is based on assumptions about future developments of various economic indicators and the interaction between those indicators. See Section 2 for additional information, including a sensitivity analysis;
- probability of default: probability of default is one of the main parameters in the measurement of expected credit losses, the value of which depends on historical data, assumptions and expectations about future conditions. See Section 2 for additional information, including a sensitivity analysis;
- loss given default is the estimated loss as the result of default. It is determined on the basis of the difference between contractual cash flows due and those that the Group expects to receive, taking into account collateral. See Section 2 for additional information, including a sensitivity analysis;
- fair value measurement: fair value is estimated by using market observable data to the extent available. When these data (level 1) are not available, the fair value of financial assets is estimated using valuation models. The fair value measurement of financial assets is described in detail in Note 4;
- an estimate of provisions for legal proceedings and provisions for employee benefits (disclosed in more detail in Notes 1.16 and 31); and
- recognition of deferred taxes (disclosed in more detail in Notes 1.19 and 32).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments measured at fair value

Fair value is defined as the price achieved in the sale of an asset or paid to transfer a liability in an orderly transaction on the principal market (or on the most advantageous market if there is no principal market) under current market conditions between participants at the measurement date. Such a definition of price requires the market participants to be independent and unrelated, informed and capable, willing and not forced to enter into a transaction.

When measuring fair value, it is assumed that an asset or liability is exchanged in an orderly transaction between market participants under current market conditions at the measurement date, regardless of whether the price can be directly observed or estimated by applying other valuation techniques.

Fair value hierarchy

In line with IFRS 13, the Group classifies financial instruments to three fair value levels based on the nature of inputs used to determine fair value. Higher levels include financial instruments whose fair value was measured using directly observable inputs (directly observable prices). Financial instruments for which fair value was also measured using unobservable inputs are classified to lower fair value levels. The level of inputs with the most significant impact on determining the fair value of a financial instrument is taken into consideration. In cases where several types of inputs impact the determination of fair value, the lowest level in the hierarchy of inputs is used.

- Level 1: the Group classifies financial instruments for which fair value was measured through direct price observation on markets for identical financial instruments, to which the Group had access at the measurement date, to fair value level 1. Debt instruments must meet the detailed liquidity criteria stipulated in internal acts, while equity instruments listed on the Ljubljana Stock Exchange must comply with the liquidity rules defined by the Ljubljana Stock Exchange.

- Level 2: the Group classifies financial instruments for which fair value was measured through direct price observation on markets for similar financial instruments to fair value level 2. The Group classifies debt instruments to fair value level 2 if fair value was measured using the direct observation of quoted prices by third parties (e.g. BGN, BVAL, etc.). In addition, the Group classifies to fair value level 2 those financial instruments whose fair value was measured using inputs that make it impossible to classify a financial instrument to fair value level 1, while the inputs are accessible on the market and indirectly indicate market conditions, or are derived from observable market prices or from observable quoted prices for similar financial instruments from market participants or third parties, provided that prices are set based on orderly transactions and represent the binding quote of a third party.

- Level 3: the Group classifies financial instruments for which the fair value was measured using unobservable inputs to fair value level 3. Unobservable inputs comprise assumptions and expectations. In using this valuation technique, the Group forms assumptions and expectations in line with other market participants. In addition, the Group classifies to fair value level 3 financial instruments whose fair value was measured using insufficient or unknown inputs in applying the selected valuation technique, and those financial instruments whose fair value was measured on the basis of third party quoted prices that do not indicate an orderly transaction or the binding quote of a third party. Equity securities and equity holdings for which fair value was measured using internal valuation methods are also classified to fair value level 3.

Valuation techniques for financial instruments measured at fair value

Valuation techniques used in the measurement of fair value encourage maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The markets where inputs for the valuation of financial instruments can be observed include organised exchange markets, dealer markets, brokered markets and principal-to-principal markets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The Group measures the fair value of financial instruments using directly observable market prices for identical assets or liabilities, accessible to the Group at the measurement date. As a rule, the Group makes use of closing market prices on the valuation cut-off date in such cases. The Group may also use quoted prices provided by market participants or third parties to measure the fair value of financial instruments, provided that prices are set based on orderly transactions and constitute the binding quote of a third party. In the event of several quotations, the Group may use the most favourable quotation.

If directly observable market prices for identical assets or liabilities are not available and there are also no quoted prices available from market participants or third parties (provided that prices are set based on orderly transactions, and constitute the binding quote of a third party, or when the Group deems that there is no active market for a financial instrument), the market approach or valuation techniques based on the income approach are used to determine fair value.

The fair value of equity securities for which there is no active market or for which no market price is available is mainly determined using a yield-based valuation technique, namely the discounted cash flow method. When a sufficient number of similar listed companies exists, the Group uses a market-based valuation method, namely the method of similar listed companies.

The valuation of debt securities is based on a market-based valuation method using the method of similar companies.

The valuation of derivatives is based on the discounting of expected future cash flows estimated on the basis of market information, such as interest rates and exchange rates. The Group applies the Garman-Kohlhagen model for the valuation of European-type currency options, and the Barone-Adesi and Whaley model for the valuation of American-type currency options. The Blacks model is used for the valuation of interest options.

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

Internal environment for valuation

The Group has created an internal environment for the proper performance of the valuation function. The valuation of financial instruments that are measured at fair value is carried out by an organisational unit that is completely independent of the organisational unit that manages assets and liabilities. The valuation of financial instruments received as collateral for the Group's investments is carried out by an organisational unit that is not the owner of claims collateralised with financial instruments subject to valuation.

Valuation models, modes of application and types of inputs are defined in the internal rules of the Group, which also restricts any subjective judgement in fair value measurement. On a daily basis, the Group independently verifies recorded exchange rates and prices used in the valuation of financial instruments.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 31 December 2019	Quoted prices on active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	–	3,779	255	**4,034**
– shares	–	–	255	**255**
– derivatives	–	3,777	–	**3,777**
– other	–	2	–	**2**
Non-trading financial assets mandatorily at fair value through profit or loss	1,885	–	13,913	**15,798**
– shares and equity holdings	1,885	–	–	**1,885**
– loans and other financial assets	–	–	13,913	**13,913**
Financial assets at fair value through other comprehensive income	76,191	67,392	7,160	**150,743**
– shares and equity holdings	–	–	7,160	**7,160**
– debt securities	76,191	42,562	–	**118,753**
– Bank Resolution Fund	–	24,830	–	**24,830**
Total financial assets	**78,076**	**71,171**	**21,328**	**170,575**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	3,334	–	**3,334**
– derivatives	–	3,308	–	**3,308**
– spot transactions	–	26	–	**26**
Financial liabilities designated at fair value through profit or loss	–	–	1,560	**1,560**
Total financial liabilities	**–**	**3,334**	**1,560**	**4,894**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2018	Quoted prices on active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	–	3,613	224	**3,837**
– shares	–	–	224	**224**
– derivatives	–	3,609	–	**3,609**
– other	–	4	–	**4**
Non-trading financial assets mandatorily at fair value through profit or loss	11,963	–	24,624	**36,587**
– shares and equity holdings	11,963	–	203	**12,166**
– loans and other financial assets	–	–	24,421	**24,421**
Financial assets at fair value through other comprehensive income	97,701	59,409	6,356	**163,466**
– shares and equity holdings	–	–	6,356	**6,356**
– debt securities	97,701	34,692	–	**132,393**
– Bank Resolution Fund	–	24,717	–	**24,717**
Total financial assets	**109,664**	**63,022**	**31,204**	**203,890**

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

FAIR VALUE TRANSFERS OF FINANCIAL INSTRUMENTS

There were no significant migrations between fair value levels in 2019 and 2018.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehen-sive income	Total
	Shares			
As at 1 January 2019	**224**	**24,624**	**6,356**	**31,204**
Total gains	31	8,789	804	**9,624**
– in profit or loss	31	8,789	–	**8,820**
– in other comprehensive income	–	–	804	**804**
Change in balance that is not the result of migrations between levels or valuation (repayments and similar)	–	(19,500)	–	**(19,500)**
As at 31 December 2019	**255**	**13,913**	**7,160**	**21,328**
Gains in profit or loss for financial instruments held as at 31 December 2019	**–**	**6,633**	**–**	**6,633**

	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehen-sive income	Total
	Shares			
As at 1 January 2018	**217**	**26,641**	**6,058**	**32,916**
Total gains	7	4,743	324	**5,074**
– in profit or loss	7	4,743	–	**4,750**
– in other comprehensive income	–	–	324	**324**
Change in balance that is not the result of migrations between levels or valuation (repayments and similar)	–	(6,760)	(26)	**(6,786)**
As at 31 December 2018	**224**	**24,624**	**6,356**	**31,204**
Gains in profit or loss for financial instruments held as at 31 December 2018	**7**	**4,759**	**–**	**4,766**

	Financial liabilities designated at fair value through profit or loss	Total
As at 1 January 2019	**2,281**	**2,281**
Total (gains) – in profit or loss	(721)	**(721)**
As at 31 December 2019	**1,560**	**1,560**
(Gains) in profit or loss for financial instruments held as at 31 December 2019	**(721)**	**(721)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Financial liabilities designated at fair value through profit or loss	Total
As at 1 January 2018	**1,871**	**1,871**
Total losses – in profit or loss	410	**410**
As at 31 December 2018	**2,281**	**2,281**
Losses in profit or loss for financial instruments held as at 31 December 2018	**410**	**410**

Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of financial assets and liabilities not measured at fair value in the Group's statement of financial position.

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

As at 31 December 2019	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	655,050	655,050	–	–	655,050
Financial assets at amortised cost	2,936,849	115,232	893,949	1,988,854	2,998,035
– debt securities	936,913	115,232	845,512	–	960,744
– loans to banks	39,487	–	39,482	–	39,482
– loans to non-bank customers	1,951,494	–	–	1,988,854	1,988,854
– corporate entities	993,551	–	–	1,025,848	1,025,848
– retail customers	957,943	–	–	963,006	963,006
– other financial assets	8,955	–	8,955	–	8,955
Financial liabilities					
Financial liabilities at amortised cost	3,206,814	–	3,210,146	–	3,210,146
– deposits from banks and the central bank	11,510	–	11,509	–	11,509
– deposits from non-bank customers	3,073,228	–	3,075,924	–	3,075,924
– corporate entities	850,461	–	851,128	–	851,128
– retail customers	2,222,767	–	2,224,796	–	2,224,796
– loans from banks and the central bank	87,827	–	88,453	–	88,453
– loans from non-bank customers	2,248	–	2,259	–	2,259
– debt securities issued	14,302	–	14,302	–	14,302
– other financial liabilities	17,699	–	17,699	–	17,699

In order to calculate fair values for the purpose of the merger (Note 41), the Bank upgraded the methodology for calculating fair values for 2019, which is different as for 2018, in particular in terms of the increased differentiation in discount curves according to credit ratings and taking into account the interest rates of the Bank of Slovenia for new lending, which are divided by products and segments. According to the new methodology, the Bank takes into account the method of net present value, where discount curves comprise a risk-free curve and credit spreads, separated by credit ratings, and a product-specific spread, separated by segment or product (housing loans, consumer loans and corporate loans). According to the previous methodology, the Bank took into account a single discount curve for all loans, consisting of a risk-free curve and credit spreads, calculated on the basis of the EU Industrial BBB curve. In the case of deposits and loans from banks, the Bank used the net present value method under the previous methodology, where the discount curve was equal to the risk-free curve, while according to the new methodology the discount curve for loans from banks also took into account credit spreads calculated on the basis of the EU Financial BBB curve. In the past, the Bank distributed deposits without maturity to longer time buckets due to their stability. However, taking into account the high volume of demand deposits, surplus liquidity and discounting with the current negative risk-free curve, the Bank takes into account the carrying amount as the fair value for deposits without maturity.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2018	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	538,234	538,234	–	–	538,234
Financial assets at amortised cost	2,918,162	189,497	819,933	1,985,370	2,994,800
– debt securities	946,334	189,497	776,602	–	966,099
– loans to banks	30,784	–	30,625	–	30,625
– loans to non-bank customers	1,928,338	–	–	1,985,370	1,985,370
– corporate entities	1,022,599	–	–	1,034,028	1,034,028
– retail customers	905,739	–	–	951,342	951,342
– other financial assets	12,706	–	12,706	–	12,706
Financial liabilities					
Financial liabilities at amortised cost	3,089,052	–	3,046,108	–	3,046,108
– deposits from banks and the central bank	16,335	–	15,670	–	15,670
– deposits from non-bank customers	2,934,448	–	2,889,209	–	2,889,209
– corporate entities	846,831	–	830,131	–	830,131
– retail customers	2,087,617	–	2,059,078	–	2,059,078
– loans from banks and the central bank	102,788	–	105,748	–	105,748
– loans from non-bank customers	5	–	5	–	5
– debt securities issued	13,644	–	13,644	–	13,644
– other financial liabilities	21,832	–	21,832	–	21,832

The following summarises the main methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements.

- Loans to banks and to non-bank customers
  Estimating the fair value of loans is based on the income approach valuation technique by applying the discounted cash flow method. It takes into account the sum of individual contractual future cash flows (principal and interest). The discount curve consists of three components: risk-free yield curve, credit spreads calculated from the EU Composite curves of different credit ratings and a product-specific spread, determined on the basis of Bank of Slovenia's data on interest rates of new banking system operations in the last six months. The discount factor is linearly interpolated as a function of residual maturity in days.

- Debt securities at amortised cost
  The fair value of debt securities measured at amortised cost is determined based on the direct observation of market prices for identical financial instruments available to the Group on the day of valuation. If these debt securities also meet the liquidity criteria stipulated in the Bank's internal acts, they are classified to fair value level 1; if not, they are classified to fair value level 2, provided that the fair value was based on the direct observation of quoted prices provided by third parties (e.g. Bloomberg Generic (BGN), Bloomberg Valuation (BVAL)).

- Deposits and loans from banks, the central bank and non-bank customers
  Estimating the fair value of loans is based on the income approach valuation technique by applying the discounted cash flow method. It takes into account the sum of individual contractual future cash flows (principal and interest), which are discounted with the rates of return on risk-free interest rates for each currency. The credit spreads used for loans from banks are those that apply to the EU financials BBB curve. The calculation takes into account the residual maturity of each cash flow. The discount factor is linearly interpolated as a function of residual maturity in days.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 SEGMENT ANALYSES

(a) By business segment

The Group provides services in three business segments:

- Retail banking – comprising 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 and e-accounts;
- Corporate banking – comprising 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 and AbaSMS mobile service; and
- Financial markets – comprising trading with financial instruments, liquidity management and inter-bank operations.

The segment “Other” includes the activities of the Group that relate to custody and administrative services, the activities of subsidiaries and the impact of inter-company transactions in the consolidated statements.

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

The results of business segments are also affected by transactions between business segments for the purpose of the 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, charging of overheads to commercial segments, internal transfers of income effects among business segments, etc.).

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

Assets and liabilities by business segment account for the majority of assets and liabilities disclosed in the statement of financial position, 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)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 31 December 2019	**Retail banking** (retail customers and sole proprietors)	**Corporate banking**	**Financial markets**	**Other[3]**	**Total**
External net income[1]	52,392	38,412	6,526	2,236	99,566
Income from other segments	–	–	–	–	–
Segment result	3,052	35,129	1,106	29,474	68,761
Operating profit					68,761
Profit before tax					68,761
Income tax					(7,522)
Net profit for the year					**61,239**
Segment assets	988,053	1,010,394	1,713,324	110,888	3,822,659
Investments in subsidiaries	–	–	8,278	(8,278)	–
Unallocated assets					–
Total assets					**3,822,659**
Segment liabilities	2,299,794	760,716	157,964	25,348	3,243,822
Unallocated liabilities					–
Total liabilities					**3,243,822**
Other segment items					
Capital expenditure[2]	850	16	37	3,798	4,701
Depreciation and amortisation	1,628	239	47	5,838	7,752
Net impairments and provisions	450	15,475	46	9,566	25,537
[1]Including					
– interest income	32,310	24,115	10,424	(6)	66,843
– interest expenses	(1,621)	(374)	(5,084)	(13)	(7,092)
– dividend income	–	–	510	–	510
– fee and commission income	28,942	22,176	1,115	4,421	56,654
– fee and commission expenses	(7,239)	(7,505)	(439)	(2,166)	(17,349)

[2] Capital expenditure relates to the purchases of tangible and intangible assets during the current financial year.
[3] The result of the segment “Other” is largely accounted for by maturity transformation, which is not allocated to profit segments.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2018	**Retail banking** (retail customers and sole proprietors)	**Corporate banking**	**Financial markets**	**Other[3]**	**Total**
External net income[1]	48,495	38,822	9,253	2,809	99,379
Income from other segments	–	–	–	–	–
Segment result	(335)	53,807	(71)	16,680	70,081
Operating profit					70,081
Profit before tax					70,081
Income tax					(4,489)
Net profit for the year					**65,592**
Segment assets	940,292	1,049,908	1,644,517	96,825	3,731,542
Investments in subsidiaries	–	–	8,278	(8,278)	–
Unallocated assets					–
Total assets					**3,731,542**
Segment liabilities	2,178,971	743,879	185,494	39,791	3,148,135
Unallocated liabilities					–
Total liabilities					**3,148,135**
Other segment items					
Capital expenditure[2]	341	17	4	7,351	7,713
Depreciation and amortisation	1,393	200	26	6,185	7,804
Net impairments and provisions	1,381	20,930	(266)	(4,117)	17,928
[1]Including					
– interest income	29,993	25,588	11,586	471	67,638
– interest expenses	(1,970)	(465)	(4,109)	(19)	(6,563)
– dividend income	–	–	1,435	–	1,435
– fee and commission income	26,948	20,641	1,134	4,489	53,212
– fee and commission expenses	(6,476)	(6,942)	(793)	(2,132)	(16,343)

[2] Capital expenditure relates to the purchases of tangible and intangible assets during the current financial year.
[3] The result of the segment “Other” is largely accounted for by maturity transformation, which is not allocated to profit segments.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Geographical concentration

In the course of its business, the Group also assumes country risk as part of credit risk. In order to manage country risk, the Bank drafted a set of rules and a methodology stipulating the procedure for setting and monitoring exposure limits to foreign countries, and the procedure for identifying and monitoring the risk associated with foreign countries. In line with that methodology, the risk associated with a foreign country is identified on a quarterly basis using credit ratings obtained from external credit rating institutions, and annually using key macroeconomic indicators. Foreign countries are classified to four categories in terms of their location and to ten internal credit rating grades that serves as the basis for setting exposure limits for foreign countries in accordance with the relevant rules. This ensures the appropriate diversification of investments and thus the achievement of an optimal return in the context of acceptable risk.

GEOGRAPHICAL CONCENTRATIONS OF NON-CURRENT ASSETS AND INCOME

	Group	
As at 31 December 2019	**Total non-current non-financial assets**	**Income**
Slovenia	58,718	118,458
Other European Union countries	–	4,528
Europe (excluding the EU Member States)	–	592
Other countries	–	429
	58,718	**124,007**

	Group	
As at 31 December 2018	**Total non-current non-financial assets**	**Income**
Slovenia	69,699	116,744
Other European Union countries	–	4,093
Europe (excluding the EU Member States)	–	1,076
Other countries	–	371
	69,699	**122,284**

Income comprises interest income, fee and commission income and dividend income.

The Group primarily operates in Slovenia, where it is based. Inter-bank exposures account for more than 50% of all international transactions, while the rest are transactions with foreign companies and at the level of the central government.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

ADDITIONAL DISCLOSURE IN ACCORDANCE WITH THE COUNTRY-BY-COUNTRY REPORTING REQUIREMENT PURSUANT TO ARTICLE 89 OF DIRECTIVE 2013/36/EU (CRD IV)

INFORMATION FOR THE 2019 FINANCIAL YEAR ON A CONSOLIDATED BASIS BY EU MEMBER STATE AND BY THIRD COUNTRY

States	Name(s) and nature of activities	Turnover*	Profit before tax	Tax on profit	Number of employees on a full-time equivalent basis
EU Member States:					
Slovenia	ABANKA d.d. (bank), ANEPREMIČNINE d.o.o. (real property management)	124,000	68,476	(7,487)	953.87
Third countries:					
Montenegro	Anekretnine d.o.o. (real property management)**	7	285	(35)	0.25
TOTAL ABANKA GROUP		**124,007**	**68,761**	**(7,522)**	**954.12**

* Including interest income, fee and commission income and dividend income by country in which an individual Abanka Group company is registered.
** Until 30 June 2019 (sale of the subsidiary Anekretnine).

The Group did not receive any public subsidies in 2019 and 2018.

INFORMATION FOR THE 2018 FINANCIAL YEAR ON A CONSOLIDATED BASIS BY EU MEMBER STATE AND BY THIRD COUNTRY

States	Name(s) and nature of activities	Turnover*	Profit before tax	Tax on profit	Number of employees on a full-time equivalent basis
EU Member States:					
Slovenia	ABANKA d.d. (bank), ALEASING d.o.o. (leasing)**, ANEPREMIČNINE d.o.o. (real property management)	122,210	70,046	(4,489)	1,009.08
Third countries:					
Montenegro	Anekretnine d.o.o. (real property management)	75	35	–	0.50
TOTAL ABANKA GROUP		**122,285**	**70,081**	**(4,489)**	**1,009.58**

***** Including interest income, fee and commission income and dividend income by country in which an individual Abanka Group company is registered.
** Until 31 March 2018 (sale of the subsidiary Aleasing).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 NET INTEREST INCOME

	Abanka		Group	
	2019	2018	2019	2018
Interest income				
Financial assets at amortised cost	63,678	63,834	63,672	64,305
– debt securities	8,447	9,526	8,447	9,526
– loans to banks	57	282	57	282
– loans to non-bank customers	55,174	54,026	55,168	54,497
Financial assets held for trading	994	411	994	411
Non-trading financial assets mandatorily at fair value through profit or loss	1,172	1,544	1,172	1,544
Financial assets at fair value through other comprehensive income	524	920	524	920
Other assets	481	458	481	458
	66,849	**67,167**	**66,843**	**67,638**
Interest expenses				
Deposits	2,075	2,642	2,075	2,642
– from banks	81	168	81	168
– from non-bank customers	1,994	2,474	1,994	2,474
Debt securities issued	806	770	806	770
Financial liabilities held for trading	867	315	867	315
Loans from banks and the central bank	743	770	744	776
Other liabilities	2,600	2,060	2,600	2,060
	7,091	**6,557**	**7,092**	**6,563**
Net interest income	**59,758**	**60,610**	**59,751**	**61,075**

Net interest income was slightly lower in 2019 relative to 2018, mainly due to higher expenses from negative interest rates on deposits with banks and lower income from debt securities. On the other hand, the year was marked by higher interest income from loans to non-bank customers.

7 DIVIDEND INCOME

	Group	
	2019	2018
Held-for-trading securities	11	10
Non-trading securities mandatorily at fair value through profit or loss	229	1,162
Securities at fair value through other comprehensive income	270	263
	510	**1,435**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION

	Abanka		Group	
	2019	2018	2019	2018
Fee and commission income				
Payment transactions	18,920	18,341	18,920	18,341
Transaction account management	7,072	6,653	7,064	6,645
Card and ATM operations	21,775	20,131	21,775	20,131
Lending operations and guarantees granted	4,211	3,844	4,206	3,837
Other services	4,689	4,258	4,689	4,258
	56,667	**53,227**	**56,654**	**53,212**
Fee and commission expenses				
Payment transactions	2,185	2,247	2,195	2,257
Card and ATM operations	14,496	13,183	14,496	13,183
Other services	658	860	658	903
	17,339	**16,290**	**17,349**	**16,343**
Net fee and commission income	**39,328**	**36,937**	**39,305**	**36,869**

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

	Group	
	2019	2018
Net gains from financial assets and liabilities at amortised cost:	2,097	18,593
– loans	1,516	18,278
– securities	–	185
– other financial assets	293	113
– financial liabilities	288	17
Net losses from financial assets and liabilities at amortised cost:	(625)	(364)
– loans	(621)	(348)
– securities	(4)	(16)
	1,472	**18,229**

Net gains realised in 2018 were primarily the result of gains on the sale of the NPL package.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 NET GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	Group	
	2019	2018
Foreign exchange transaction gains	1,365	1,993
Net gains from derivatives	246	597
Realised gains from trading with:	589	597
– debt securities	589	597
– shares and equity holdings	–	–
Unrealised gains from securities held for trading	31	12
	2,231	**3,199**

11 NET GAINS/LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2019	2018
Realised gains from equity securities and equity holdings	1,207	440
Unrealised losses from equity securities and equity holdings	(56)	(951)
Realised gains from loans	–	97
Unrealised gains from loans	7,626	4,759
	8,777	**4,345**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 NET OTHER OPERATING INCOME/EXPENSES

	Abanka		Group	
	2019	2018	2019	2018
Other operating income				
– income from non-banking services	3	3	3	3
– income from sale of vehicles, real property and other	–	–	797	938
– income from property and equipment and investment property leased out under operating leases	79	113	677	940
– other operating income	2,171	2,230	2,198	2,493
	2,253	**2,346**	**3,675**	**4,374**
Other operating expenses				
– taxes	(78)	(13)	(84)	(29)
– contributions	(25)	(23)	(25)	(23)
– membership fees and similar	(127)	(123)	(127)	(129)
– Single Resolution Fund (SRF)	(487)	(682)	(487)	(682)
– Deposit Guarantee Fund	(1,984)	(1,641)	(1,984)	(1,641)
– expenses from sale of real property	–	–	(4)	(620)
– expenses for investment property leased out under operating leases	(1)	–	(1)	–
– other operating expenses	(547)	(780)	(549)	(943)
	(3,249)	**(3,262)**	**(3,261)**	**(4,067)**
Net other operating (expenses)/income	**(996)**	**(916)**	**414**	**307**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 ADMINISTRATIVE EXPENSES

	Abanka		Group	
	2019	2018	2019	2018
Staff costs	38,901	38,189	39,457	38,878
– gross salaries	33,137	32,505	33,607	33,084
– social security costs	2,031	2,005	2,061	2,042
– pension costs	3,733	3,679	3,789	3,752
Professional services	13,597	15,397	13,821	15,881
Advertising and marketing	1,681	1,961	1,713	1,983
Other administrative expenses	2,001	1,974	2,029	2,019
IT and software costs	4,524	4,557	4,524	4,557
Rent payable	862	1,262	873	1,294
Other costs	377	458	504	631
	61,943	**63,798**	**62,921**	**65,243**

	Abanka		Group	
Amount spent[1] for the auditor of the annual report and subsidiaries:	2019	2018	2019	2018
– auditing of the annual report	73	124	78	135
– other assurance services	–	7	–	7
– other non-auditing services[2]	51	191	51	191
– tax advisory services	–	–	–	–
	124	**322**	**129**	**333**

[1] Includes amounts paid in each reporting year. Payments were lower in 2019 than the previous year, that included the one-off IFRS 9 transition audit and the majority of non-audit due diligence services in connection with the sale of the Bank.
[2] The services in question were provided by the auditor of the annual report and a member of its network.

Administrative expenses in 2019 included EUR 524 thousand in connection with the restructuring costs of the Bank (2018: EUR 678 thousand) and EUR 515 thousand in connection with the restructuring costs of the Group (2018: EUR 578 thousand).

14 DEPRECIATION AND AMORTISATION

		Abanka		Group	
	Note	2019	2018	2019	2018
Property and equipment, of which:	23	4,010	3,793	4,029	4,018
– right-of-use assets	23	625	/	625	/
Investment property	24	22	22	281	336
Intangible assets	25	3,416	3,420	3,442	3,450
		7,448	**7,235**	**7,752**	**7,804**

Depreciation and amortisation costs in 2019 included EUR 254 thousand in connection with the restructuring costs (2018: EUR 571 thousand).

Depreciation and amortisation rates did not change in 2019.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 PROVISIONS

		Abanka		Group	
	Note	2019	2018	2019	2018
Restructuring provisions	31	(1,900)	–	(1,900)	–
Provisions for legal proceedings	31, 37	(9,212)	4,460	(9,027)	4,460
Provisions for employee benefits	31	462	32	467	34
Other provisions	31	(3,132)	–	(3,132)	–
Provisions for guarantees and commitments	31, 2.1.8	311	(4,416)	310	(4,416)
Net (released)/additional provisions		**(13,471)**	**76**	**(13,282)**	**78**

Income arising from released provisions for legal proceedings in 2019 primarily relates to a legal proceeding that was finally resolved, while income arising from released other provisions relates to the expiration of the period (first phase) for which guarantees were given in connection with the sale of the NPL portfolio.

A significant part of the income from released provisions for guarantees and commitments of the Group in 2018 relates to service guarantees that were either redeemed or expired in 2018.

16 IMPAIRMENT

		Abanka		Group	
	Note	2019	2018	2019	2018
Impairments/(reversal of impairments) of financial assets:					
– debt securities at fair value through other comprehensive income		(112)	113	(112)	113
– loans and receivables at amortised cost		(14,931)	(17,875)	(14,816)	(17,797)
– loans to banks	2.1.8	148	19	148	19
– loans to non-bank customers	2.1.8	(15,121)	(18,104)	(15,018)	(18,046)
– other financial assets		42	210	54	230
– debt securities at amortised cost		(70)	138	(70)	138
Impairments/(reversal of impairments) of non-financial assets:		2,002	283	2,743	(460)
– property and equipment	23	1,976	283	1,976	283
– investment property	24	26	–	36	(172)
– other non-financial assets		–	–	731	(571)
Net (released) impairments		**(13,111)**	**(17,341)**	**(12,255)**	**(18,006)**

The reversal of impairments for loans to non-bank customers in 2019 is primarily a result of loan repayments and the recalibration of credit risk parameters.

The reversal of impairments for loans to non-bank customers in 2018 was primarily a result of the improved financial position of companies subject to the financial restructuring process, more optimistic expectations of the Bank regarding future individual loan repayments, regular loan repayments and income from debt collection.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 INCOME TAX

		Abanka		Group	
	Note	2019	2018	2019	2018
Current tax		(5,647)	(5,602)	(5,682)	(5,616)
Deferred tax	32	(1,840)	1,127	(1,840)	1,127
		(7,487)	**(4,475)**	**(7,522)**	**(4,489)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	Abanka		Group	
	2019	2018	2019	2018
Profit before tax	69,152	71,212	68,761	70,081
Tax calculated at the prescribed tax rate of 19%	(13,139)	(13,530)	(13,065)	(13,315)
19% of tax-exempt income	1,100	2,143	1,176	2,526
19% of non-deductible expenses	(454)	(1,894)	(625)	(2,018)
Tax relief and coverage of tax loss	6,785	7,375	6,793	7,375
	(5,708)	**(5,906)**	**(5,721)**	**(5,432)**
Tax from the transition to IFRS 9 booked to retained earnings	–	304	–	304
Tax from previous years	61	–	61	–
Effect of unrecognised deferred taxes on the tax loss of the current year	–	–	–	(485)
Net deferred tax credit/(charge)	(1,840)	1,127	(1,840)	1,127
Effect of tax rate differences between countries	–	–	(22)	(3)
Total	**(7,487)**	**(4,475)**	**(7,522)**	**(4,489)**

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the five-year period subsequent to the reported tax year and may impose additional tax assessments and penalties. The Bank has no open tax audits.

The effective income tax rate of the Bank for 2019 (excluding tax from previous years) was 10.92% (2018: 5.80%). The effective income tax rate of the Group for 2019 was 11.03% (2018: 5.89%).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 CASH, CASH BALANCES WITH THE CENTRAL BANK AND OTHER DEMAND DEPOSITS WITH BANKS

	Abanka		Group	
	2019	2018	2019	2018
Cash in hand	40,611	43,645	40,611	43,645
Settlement account and obligatory reserve (balances with the central bank)	531,089	416,387	531,089	416,387
Demand deposits with banks	83,350	77,237	83,350	78,202
Total cash, cash balances with the central bank and other demand deposits with banks	**655,050**	**537,269**	**655,050**	**538,234**
Included in cash and cash equivalents (Note 36)	655,050	537,269	655,050	538,234

The balance on the settlement account increased by EUR 85,928 thousand compared to balance as at 31 December 2018, primarily as the result of surplus liquidity in the system and negative interest rates on the market.

An interest rate analysis of cash, cash balances with the central bank and other demand deposits with banks is disclosed in Note 2.2.3.3. Fair value is disclosed in Note 4.

19 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	Group	
	2019	2018
Shares	255	224
Derivatives	3,777	3,609
Other	2	4
Total financial assets held for trading	**4,034**	**3,837**
Current	505	814
Non-current	3,529	3,023

MOVEMENTS IN FINANCIAL ASSETS HELD FOR TRADING ARE AS FOLLOWS:

	Group	
	2019	2018
As at 1 January	**3,837**	**3,048**
Acquisition	8,662	6,199
Decrease (derecognition)	(8,496)	(5,421)
Valuation, of which:	31	11
– reversal of impairments	31	11
As at 31 December	**4,034**	**3,837**

An interest rate analysis of financial assets and liabilities held for trading is presented in Note 2.2.3.3. Additional information regarding fair value is disclosed in Note 4.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Derivatives
The Group uses the following derivatives for economic hedging purposes:

Currency forwards represent an obligation to buy or sell a certain amount of a currency in accordance with the provisions of the forward contract.

Foreign currency and interest rate futures are contractual rights and obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established on an organised financial market. The associated credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted interest rate and the current market rate, based on a notional principal amount.

An **interest rate cap** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of an interest rate cap is to provide a hedge against rising interest rates, for which the buyer pays a premium in advance.

An **interest rate floor** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of an interest rate floor is to provide a hedge against falling interest rates, for which the buyer pays a premium in advance.

An **interest rate collar** is an interest rate option: a combination of purchasing an interest rate cap and selling an interest rate floor.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. No exchange of principal takes place, except for certain currency swaps. The associated credit risk to which the Group is exposed is the potential cost of replacing swap contracts if counterparties fail to fulfil their obligations. This risk is monitored on an on-going basis with respect to current fair value, a proportion of the notional amount of contracts and the liquidity of the market. To control the level of credit risk assumed, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency options are contractual agreements under which the seller (issuer) grants the buyer (owner) the right, but not the obligation, to buy (call option) or to sell (put option) foreign currency on or by a specified date or within a specified period in accordance with the provisions of a contract (amount, price in a specified amount at a pre-determined rate). The buyer of the option pays and the seller receives a premium to compensate for the currency risk assumed. The Group negotiates foreign currency options with its customers (OTC market). The Group is exposed to credit risk only if it purchases such options and up to their carrying amount that is equal to their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and are thus not an indication of the Group's exposure to credit or price risks. Derivatives become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivatives on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time. The fair values of derivative instruments held by the Group are presented below.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DERIVATIVES HELD FOR TRADING

	Group		
	Notional contract amount	Fair values	
As at 31 December 2019		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	29,381	202	207
– currency swaps	39,025	45	24
Interest rate derivatives (OTC):			
– interest rate swaps	257,103	2,729	2,276
– OTC interest rate options	113,278	801	801
Total derivative assets/liabilities held for trading		**3,777**	**3,308**

As at 31 December 2019, financial liabilities held for trading also included (besides derivatives) spot transactions in the amount of EUR 26 thousand (2018: EUR 3 thousand).

	Group		
	Notional contract amount	Fair values	
As at 31 December 2018		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	35,774	578	598
– currency swaps	39,139	29	20
Interest rate derivatives (OTC):			
– interest rate swaps	293,215	1,422	843
– OTC interest rate options	104,713	1,580	1,580
Total derivative assets/liabilities held for trading		**3,609**	**3,041**

20 NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2019	2018
Shares and equity holdings	1,885	12,166
Loans	13,913	24,421
Total non-trading financial assets mandatorily at fair value through profit or loss	**15,798**	**36,587**
Current	4,359	14,642
Non-current	11,439	21,945

Additional information regarding fair value is disclosed in Note 4.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS ARE AS FOLLOWS:

	Group	
	2019	2018
As at 1 January	**36,587**	**41,580**
Increases (purchases, drawn amounts*)	20,782	24,364
Decreases (sales, payments*)	(49,142)	(33,159)
Valuation, of which:	7,571	3,802
– credit risk	7,365	3,737
– other risks	206	65
As at 31 December	**15,798**	**36,587**

* Increases and decreases include drawn amounts and repayments of revolving loans.

In assessing fair value of the majority of credit exposure of non-trading financial assets mandatorily measured at fair value through profit or loss, the Group considers two scenarios, namely the going concern scenario and the liquidation of the collateral scenario.

In the going concern scenario, the Group estimates the sustainable debt level expressed as a multiple of the generated EBITDA, reduced for the estimated required annual investment cost. Based on the estimated sustainable debt level the Group expects a partial repayment of its existing exposure.

Under the scenario of the liquidation of the collateral, the Group expects a partial repayment from the sales of the pledged collateral applying a haircut to its estimated value.

The Group weights each scenario with an estimated percentage of probability (the projected cash flows are similar in both scenarios, therefore the Group expects approximately the same repayment under both scenarios). Consequently, a change in the probability of the individual scenario does not have a significant effect on the fair value of the exposure (in the event of a change in the percentages of the probability of each scenario, the fair value of the exposure would not change by more than 2%).

Sensitivity analysis of the going concern scenario shows that an increase or decrease of the EBITDA by 10% does not increase nor decrease the estimated fair value of the exposure by more than 6%.

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Group	
	2019	2018
Debt securities	118,753	132,393
Shares	4,582	3,143
Equity holdings*	2,578	3,213
Bank Resolution Fund	24,830	24,717
Total financial assets at fair value through other comprehensive income	**150,743**	**163,466**
Current	48,248	52,597
Non-current	102,495	110,869

* investments in limited liability companies

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Pledged assets in the portfolio of financial assets at fair value through other comprehensive income amounted to EUR 3,204 thousand as at 31 December 2019.

Additional information regarding fair value is disclosed in Note 4.

	Group	
	2019	**2018**
Gross debt securities	118,763	132,515
Valuation – credit risk	(10)	(122)
Net debt securities	**118,753**	**132,393**

MOVEMENTS IN EQUITY INSTRUMENTS ARE AS FOLLOWS:

	Group	
	2019	**2018**
As at 1 January	**31,073**	**30,791**
Derecognition	–	(26)
Valuation	917	308
As at 31 December	**31,990**	**31,073**

In 2019, dividends recognised in connection with equity instruments measured at fair value through other comprehensive income amount to EUR 270 thousand.

	Group	
	2019	**2018**
Visa INC.	4,582	3,143
Bank Resolution Fund	24,830	24,717
Bankart d.o.o.	2,465	3,105
SWIFT	113	108
	31,990	**31,073**

MOVEMENTS IN DEBT SECURITIES ARE AS FOLLOWS:

	Group	
	2019	**2018**
As at 1 January	**132,393**	**142,828**
Recognition of additional financial assets	54,419	12,813
Interest	647	1,407
Net revaluation through equity	456	(981)
Derecognition of financial assets upon sale or maturity	(69,162)	(23,674)
As at 31 December	**118,753**	**132,393**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 FINANCIAL ASSETS AT AMORTISED COST

	Abanka		Group	
	2019	2018	2019	2018
Debt securities (22 a.)	936,913	946,334	936,913	946,334
Loans to banks (22 b.)	39,487	30,784	39,487	30,784
Loans to non-bank customers (22 c.)	1,954,268	1,934,862	1,951,494	1,928,338
Other financial assets (22 d.)	8,826	12,538	8,955	12,706
	2,939,494	**2,924,518**	**2,936,849**	**2,918,162**

Fair value is disclosed in Note 4.

The movement of impairments and gross value in accordance with IFRS 7 for the 2019 financial year is presented in Section 2.1.8.

a. Debt securities

	Group	
	2019	2018
Gross debt securities	937,119	946,610
Loss allowance (Note 2.1.8)	(206)	(276)
Net debt securities	**936,913**	**946,334**
Current	262,529	194,053
Non-current	674,384	752,281

b. Loans to banks

	Group	
	2019	2018
Gross loans to banks	39,667	30,816
Loss allowance (Note 2.1.8)	(180)	(32)
Net loans to banks	**39,487**	**30,784**
Current	31,389	20,857
Non-current	8,098	9,927
Included in cash and cash equivalents (Note 36)	4,005	19,734

c. Loans to non-bank customers

	Abanka		Group	
	2019	2018	2019	2018
Loans to corporate entities	1,042,270	1,084,350	1,044,283	1,082,811
Loans to retail customers	967,216	917,558	967,286	917,658
Gross loans to non-bank customers	**2,009,486**	**2,001,908**	**2,011,569**	**2,000,469**
Loss allowance (Note 2.1.8)	(55,218)	(67,046)	(60,075)	(72,131)
Net loans to non-bank customers	**1,954,268**	**1,934,862**	**1,951,494**	**1,928,338**
Current	259,625	248,081	255,485	239,851
Non-current	1,694,643	1,686,781	1,696,009	1,688,487

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Receivables for interest are recognised together with the underlying financial instrument.

The fair value of listed securities received by the Group as loan collateral and eligible for sale or re-pledging as collateral was EUR 758 thousand (2018: EUR 11,595 thousand).

The table of movements in loss allowance is presented in Section 2.1.8 Movements in impairments and provisions.

MOVEMENTS IN LOANS TEMPORARILY WRITTEN OFF AND HELD IN OFF-BALANCE-SHEET RECORDS ARE AS FOLLOWS:

	Group		
	Corporate entities	Retail customers	Total
As at 1 January 2019	**64,782**	**7,259**	**72,041**
Increase	1,460	724	2,184
Decrease due to final write-offs – completion of the collection process	(629)	(701)	(1,330)
Decrease due to repayments, sale, debt to equity	(940)	(506)	(1,446)
Transfers between groups (from sole proprietors to natural persons)	(1,574)	1,574	–
As at 31 December 2019	**63,099**	**8,350**	**71,449**

	Group		
	Corporate entities	Retail customers	Total
As at 1 January 2018	**222,128**	**7,570**	**229,698**
Increase	1,636	823	2,459
Decrease due to final write-offs – completion of the collection process	(2,847)	(868)	(3,715)
Decrease due to repayments, sale, debt to equity	(156,135)	(266)	(156,401)
As at 31 December 2018	**64,782**	**7,259**	**72,041**

Loans assessed (as described in Note 1.5) as unrecoverable by the Group were excluded from the statement of financial position, but are kept in off-balance-sheet records until the legal basis for the completion of the collection process has been obtained.

Temporarily written-off loans held in off-balance-sheet records decreased by EUR 148,070 thousand in 2018 due to the sale of the NPL portfolio.

Loans to banks and non-bank customers are further analysed in the following notes: Credit risk (Note 2.1), Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 4) and Related-party transactions (Note 40).

Loans to non-bank customers also include finance lease receivables as disclosed in Note 38 Leases.

d. Other financial assets

	Abanka		Group	
	2019	2018	2019	2018
Gross other financial assets, of which:	8,955	12,846	9,267	13,185
– receivables from customers	24	11	318	337
– receivables from card and ATM operations	4,357	5,512	4,357	5,512
– receivables from settlements	2,871	1,795	2,871	1,795
– other receivables	1,703	5,528	1,721	5,541
Loss allowance (Note 2.1.8)	(129)	(308)	(312)	(479)
Net other financial assets	**8,826**	**12,538**	**8,955**	**12,706**
Current	8,821	11,999	8,933	12,155
Non-current	5	539	22	551

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 PROPERTY AND EQUIPMENT – ABANKA

	Land and buildings	Computer equipment	Other equipment	Property and equipment in progress	**Total property and equipment**
Cost					
As at 1 January 2018	**77,032**	**25,396**	**19,044**	**138**	**121,610**
Additions	512	833	347	93	1,785
Transfer between groups (Notes 24 and 26)	(4,752)	–	–	–	(4,752)
Disposals	(404)	(3,167)	(1,698)	–	(5,269)
Impairment (Note 16)	(333)	–	–	–	(333)
As at 31 December 2018	**72,055**	**23,062**	**17,693**	**231**	**113,041**
Depreciation					
As at 1 January 2018	**47,158**	**22,919**	**15,305**	**–**	**85,382**
Depreciation (Note 14)	1,852	1,433	508	–	3,793
Transfer between groups (Notes 24 and 26)	(4,072)	–	–	–	(4,072)
Disposals	(163)	(3,030)	(1,651)	–	(4,844)
Impairment (Note 16)	(50)	–	–	–	(50)
As at 31 December 2018	**44,725**	**21,322**	**14,162**	**–**	**80,209**
Net book amount as at 31 December 2018	**27,330**	**1,740**	**3,531**	**231**	**32,832**
Cost					
As at 31 December 2018	**72,055**	**23,062**	**17,693**	**231**	**113,041**
Transition to IFRS 16	1,753	1,043	66	–	2,862
As at 1 January 2019	**73,808**	**24,105**	**17,759**	**231**	**115,903**
Additions	666	987	476	(128)	2,001
Transfer to non-current assets held for sale (Note 26)	(1,459)	–	–	–	(1,459)
Disposals	(5)	(5,370)	(1,862)	(1)	(7,238)
Impairment (Note 16)	(2,670)	–	–	–	(2,670)
As at 31 December 2019	**70,340**	**19,722**	**16,373**	**102**	**106,537**
Depreciation					
As at 1 January 2019	**44,725**	**21,322**	**14,162**	**–**	**80,209**
Depreciation (Note 14)	2,136	1,397	477	–	4,010
Transfer to non-current assets held for sale (Note 26)	(724)	–	–	–	(724)
Disposals	(3)	(5,299)	(1,620)	–	(6,922)
Impairment (Note 16)	(694)	–	–	–	(694)
As at 31 December 2019	**45,440**	**17,420**	**13,019**	**–**	**75,879**
Net book amount as at 31 December 2019	**24,900**	**2,302**	**3,354**	**102**	**30,658**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PROPERTY AND EQUIPMENT – ABANKA GROUP

	Land and buildings	Computer equipment	Other equipment	Property and equipment in progress	**Total property and equipment**
Cost					
As at 1 January 2018	**77,670**	**25,396**	**23,243**	**138**	**126,447**
Additions	512	833	943	93	2,381
Transfer between groups (Notes 24 and 26)	(4,605)	–	–	–	(4,605)
Disposals	(404)	(3,167)	(1,932)	–	(5,503)
Impairment (Note 16)	(333)	–	–	–	(333)
Disposal of subsidiary	(212)	–	(4,500)	–	(4,712)
As at 31 December 2018	**72,628**	**23,062**	**17,754**	**231**	**113,675**
Depreciation					
As at 1 January 2018	**47,512**	**22,919**	**17,053**	**–**	**87,484**
Depreciation (Note 14)	1,871	1,433	714	–	4,018
Transfer between groups (Note 26)	(3,964)	–	–	–	(3,964)
Disposals	(163)	(3,030)	(1,772)	–	(4,965)
Impairment (Note 16)	(50)	–	–	–	(50)
Disposal of subsidiary	(140)	–	(1,780)	–	(1,920)
As at 31 December 2018	**45,066**	**21,322**	**14,215**	**–**	**80,603**
Net book amount as at 31 December 2018	**27,562**	**1,740**	**3,539**	**231**	**33,072**
Cost					
As at 31 December 2018	**72,628**	**23,062**	**17,754**	**231**	**113,675**
Transition to IFRS 16	1,753	1,043	66	–	2,862
As at 1 January 2019	**74,381**	**24,105**	**17,820**	**231**	**116,537**
Additions	666	987	477	(128)	2,002
Transfer to non-current assets held for sale (Note 26)	(1,459)	–	–	–	(1,459)
Disposals	(22)	(5,370)	(1,866)	(1)	(7,259)
Impairment (Note 16)	(2,670)	–	–	–	(2,670)
As at 31 December 2019	**70,896**	**19,722**	**16,431**	**102**	**107,151**
Depreciation					
As at 1 January 2019	**45,066**	**21,322**	**14,215**	**–**	**80,603**
Depreciation (Note 14)	2,153	1,397	479	–	4,029
Transfer to non-current assets held for sale (Note 26)	(724)	–	–	–	(724)
Disposals	(9)	(5,299)	(1,623)	–	(6,931)
Impairment (Note 16)	(694)	–	–	–	(694)
As at 31 December 2019	**45,792**	**17,420**	**13,071**	**–**	**76,283**
Net book amount as at 31 December 2019	**25,104**	**2,302**	**3,360**	**102**	**30,868**

No items of property and equipment were pledged as collateral by the Group as at 31 December 2019.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The disclosures below and disclosures in Note 38 Leases indicate the assets held by the Group.

PROPERTY AND EQUIPMENT

	Abanka		Group	
	2019	2018	2019	2018
Land and buildings owned by the Bank	23,476	27,330	23,680	27,562
Computer equipment owned by the Bank	1,531	1,740	1,531	1,740
Other equipment owned by the Bank	3,310	3,531	3,316	3,539
Right-of-use assets	2,239	/	2,239	/
Property and equipment in progress	102	231	102	231
Total property and equipment	**30,658**	**32,832**	**30,868**	**33,072**

RIGHT-OF-USE-ASSETS

	Group			
	Office buildings	Computer equipment	Other equipment	Total right-of-use assets
As at 1 January 2019	**1,753**	**1,043**	**66**	**2,862**
Increase due to modification	2	–	–	2
Depreciation	(331)	(272)	(22)	(625)
As at 31 December 2019	**1,424**	**771**	**44**	**2,239**

The Group recorded an increase in right-of-use assets of EUR 2 thousand in 2019.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 INVESTMENT PROPERTY

	Abanka	Group
Cost		
As at 1 January 2018	**617**	**8,215**
Additions	–	175
Transfer between groups (Note 23)	147	(205)
Transfer from inventories	–	212
Transfer to inventories	–	(1,843)
Disposals	–	(981)
Impairment (Note 16)	–	172
As at 31 December 2018	**764**	**5,745**
Depreciation		
As at 1 January 2018	**433**	**1,193**
Depreciation (Note 14)	22	336
Transfer between groups (Note 23)	108	(19)
Transfer to inventories	–	(117)
Disposals	–	(72)
As at 31 December 2018	**563**	**1,321**
Net book amount as at 31 December 2018	**201**	**4,424**
Cost		
As at 1 January 2019	**764**	**5,745**
Additions	–	156
Transfer from inventories	–	1,159
Transfer to inventories	–	(163)
Disposals	–	(1,053)
Impairment (Note 16)	(55)	(65)
As at 31 December 2019	**709**	**5,779**
Depreciation		
As at 1 January 2019	**563**	**1,321**
Depreciation (Note 14)	22	281
Transfer to inventories	–	(20)
Disposals	–	(118)
Impairment (Note 16)	(30)	(30)
As at 31 December 2019	**555**	**1,434**
Net book amount as at 31 December 2019	**154**	**4,345**

All investment property generates income and expenses. A total of EUR 51 thousand in rental income from investment property (2018: EUR 46 thousand) and EUR 22 thousand in direct expenses was recognised in the Bank's income statement in 2019 (2018: EUR 23 thousand). The Bank's income from other operating leases totalled EUR 26 thousand in 2019 (2018: EUR 68 thousand).

The Group recognised EUR 670 thousand in rental income from investment property (2018: EUR 674 thousand) and EUR 281 thousand in direct expenses in the consolidated income statement in 2019 (2018: EUR 337 thousand). The Group's income from other operating leases totalled EUR 4 thousand in 2019 (2018: EUR 266 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

The fair values of all material investment properties were assessed in 2019 by a certified appraiser, so the fair value of investment property as at 31 December 2019 approximates the carrying amount.

The Group holds a building right on one of the investment properties. The assets are free of encumbrance.

25 INTANGIBLE ASSETS

	Abanka			Group		
	Intangible assets	Intangible assets in preparation	**Total intangible assets**	Intangible assets	Intangible assets in preparation	**Total intangible assets**
Cost						
As at 1 January 2018	**35,484**	**1,616**	**37,100**	**36,035**	**1,616**	**37,651**
Additions	5,104	26	5,130	5,131	26	5,157
Disposals	(4,604)	–	(4,604)	(4,609)	–	(4,609)
Disposal of subsidiary	–	–	–	(324)	–	(324)
As at 31 December 2018	**35,984**	**1,642**	**37,626**	**36,233**	**1,642**	**37,875**
Amortisation						
As at 1 January 2018	**29,846**	**–**	**29,846**	**30,224**	**–**	**30,224**
Amortisation (Note 14)	3,420	–	3,420	3,450	–	3,450
Disposals	(4,570)	–	(4,570)	(4,575)	–	(4,575)
Disposal of subsidiary	–	–	–	(298)	–	(298)
As at 31 December 2018	**28,696**	**–**	**28,696**	**28,801**	**–**	**28,801**
Net book amount as at 31 December 2018	**7,288**	**1,642**	**8,930**	**7,432**	**1,642**	**9,074**
Cost						
As at 1 January 2019	**35,984**	**1,642**	**37,626**	**36,233**	**1,642**	**37,875**
Additions	2,917	(375)	2,542	2,920	(375)	2,545
Disposals	(3,495)	(20)	(3,515)	(3,506)	(20)	(3,526)
As at 31 December 2019	**35,406**	**1,247**	**36,653**	**35,647**	**1,247**	**36,894**
Amortisation						
As at 1 January 2019	**28,696**	**–**	**28,696**	**28,801**	**–**	**28,801**
Amortisation (Note 14)	3,416	–	3,416	3,442	–	3,442
Disposals	(3,340)	–	(3,340)	(3,350)	–	(3,350)
As at 31 December 2019	**28,772**	**–**	**28,772**	**28,893**	**–**	**28,893**
Net book amount as at 31 December 2019	**6,634**	**1,247**	**7,881**	**6,754**	**1,247**	**8,001**

The Group may freely dispose of its intangible assets, none of which are pledged as collateral.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 NON-CURRENT ASSETS HELD FOR SALE

	Abanka		Group	
	2019	2018	2019	2018
Property and equipment held for sale	45	488	325	4,918
Investment property held for sale	–	–	–	84
Total non-current assets held for sale	**45**	**488**	**325**	**5,002**

	Abanka	Group
Cost		
As at 1 January 2018	**1,975**	**2,240**
Transfer from property and equipment (Note 23)	4,605	4,791
Transfer from inventories	–	4,328
Disposals	(5,134)	(5,399)
As at 31 December 2018	**1,446**	**5,960**
Depreciation		
As at 1 January 2018	**1,169**	**1,169**
Transfer from property and equipment (Note 23)	3,964	3,964
Disposals	(4,175)	(4,175)
As at 31 December 2018	**958**	**958**
Net book amount as at 31 December 2018	**488**	**5,002**
Cost		
As at 1 January 2019	**1,446**	**5,960**
Transfer from property and equipment (Note 23)	1,459	1,459
Transfer from inventories	–	280
Transfer to inventories	–	(245)
Disposals	(2,812)	(7,081)
Impairment	(20)	(20)
As at 31 December 2019	**73**	**353**
Depreciation		
As at 1 January 2019	**958**	**958**
Transfer from property and equipment (Note 23)	724	724
Disposals	(1,646)	(1,646)
Impairment	(8)	(8)
As at 31 December 2019	**28**	**28**
Net book amount as at 31 December 2019	**45**	**325**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 INVESTMENTS IN SUBSIDIARIES

	Abanka	
	2019	**2018**
Subsidiaries		
As at 1 January	**8,278**	**9,448**
Increase	–	–
Decrease, of which:	–	(1,170)
– disposal	–	(1,170)
As at 31 December	**8,278**	**8,278**

SUBSIDIARIES

2019 Name	Carrying amount of investment	Assets	Liabilities	Equity	Income	Net loss	Percentage of voting rights/ interest
Anepremičnine d.o.o. (Slovenia)	8,278	14,104	5,142	8,962	5,224	(468)	100

On 28 June 2019, the subsidiary Anepremičnine d.o.o. signed an agreement with a buyer on the sale of the 100% participating interest in the subsidiary Anekretnine d.o.o. Podgorica, Montenegro and received consideration for that participating interest at the same time. The company Anekretnine was thus no longer part of the Abanka Group at the end of December.

2018 Name	Carrying amount of investment	Assets	Liabilities	Equity	Income	Net profit	Percentage of voting rights/ interest
Anepremičnine Group (Slovenia)	8,278	22,013	12,607	9,406	6,807	213	100

2018 Name	Country of incorporation	Assets	Liabilities	Equity	Income	Net profit/ (loss)	Percentage of voting rights/ interest
Anepremičnine Group							
Anepremičnine d.o.o.	Slovenia	18,974	9,537	9,437	6,791	197	100
Anekretnine d.o.o.	Montenegro	4,782	4,773	9	75	(24)	100

In July 2017, Abanka d.d. signed an agreement with Banka Sparkasse d.d., Ljubljana to sell its 100% participating interest in its subsidiary Aleasing d.o.o., Ljubljana. That agreement stipulated that the participating interest would be transferred to the buyer after the fulfilment of suspensive conditions that included, *inter alia*, obtaining the relevant approvals of the supervisory authorities. At the end of March 2018, Abanka d.d. as the seller and Banka Sparkasse d.d. as the buyer of Aleasing d.o.o. confirmed that all suspensive conditions required for the conclusion of the sales procedure had been fulfilled. In accordance with the sales agreement, the participating interest was held by the buyer as of 1 April 2018, making it the owner of Aleasing d.o.o., Ljubljana on that date.

In agreements on the sale of the subsidiaries Afaktor d.o.o. and Aleasing d.o.o., the Bank gave a commitment to the buyer to settle all potential contingent liabilities that might arise from certain business events incurred before the closing of the sale of Afaktor and Aleasing for a specified period of time after that sale.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

ANALYSIS OF ASSETS AND LIABILITIES OVER WHICH CONTROL WAS LOST

2019	Anekretnine d.o.o.
Total assets	295
Total liabilities	(44)
Net value of assets sold	**251**

GAIN ON THE SALE OF A SUBSIDIARY

2019	Group
Consideration received	262
Carrying amount of the investment in a subsidiary	–
Net value of assets sold	(251)
Gain on sale	**11**

NET CASH OUTFLOW FROM THE SALE OF A SUBSIDIARY

2019	Group
Consideration received in cash and cash equivalents	262
Less: cash and cash equivalent balances disposed of	(280)
Net cash outflow from sale	**(18)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 OTHER ASSETS

	Abanka		Group	
	2019	2018	2019	2018
Inventories, of which:	147	158	5,265	6,785
– assets received in settlement of claims	138	148	4,780	6,197
– other inventories	9	10	485	588
Precious metals	1,632	1,118	1,632	1,118
Prepayments and accrued income	817	433	842	442
Claims arising from advance payments	135	358	574	786
Prepaid taxes	13	17	13	583
Gross other assets	**2,744**	**2,084**	**8,326**	**9,714**
Loss allowance	(3)	(2)	(256)	(255)
Net other assets	**2,741**	**2,082**	**8,070**	**9,459**
Current	2,741	2,082	8,070	9,459

29 PLEDGED ASSETS

	Group	
	2019	2018
Loans to banks	5,683	7,697
Financial assets at amortised cost	18,911	17,985
Financial assets at fair value through other comprehensive income	3,204	4,320
Obligatory reserve	28,563	27,309
Financial assets of the Bank pledged for Bank's liabilities	11,501	16,491
Other financial assets	–	89
Total pledged assets	**67,862**	**73,891**

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

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 FINANCIAL LIABILITIES AT AMORTISED COST

	Abanka		Group	
	2019	2018	2019	2018
Deposits from banks and the central bank (30 a.)	11,510	16,335	11,510	16,335
Deposits from non-bank customers (30 b.)	3,074,316	2,935,218	3,073,228	2,934,448
Loans from banks and the central bank (30 c.)	87,827	102,788	87,827	102,788
Loans from non-bank customers	2,248	5	2,248	5
Debt securities issued (30 d.)	14,302	13,644	14,302	13,644
Other financial liabilities (30 e.)	17,393	21,598	17,699	21,832
	3,207,596	**3,089,588**	**3,206,814**	**3,089,052**

An interest rate analysis of financial liabilities at amortised cost is additionally disclosed in Note 2.2.3.3. Fair value is disclosed in Note 4.

Financial liabilities at amortised cost are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 4) and Related-party transactions (Note 40).

a. Deposits from banks and the central bank

	Group	
	2019	2018
Deposits from banks	11,510	16,335
Total deposits from banks and the central bank	**11,510**	**16,335**
Current	11,510	16,335

All deposits from banks had fixed interest rates in 2019 and 2018.

b. Deposits from non-bank customers

	Abanka		Group	
	2019	2018	2019	2018
Deposits from corporate entities	851,549	847,601	850,461	846,831
Deposits from retail customers	2,222,767	2,087,617	2,222,767	2,087,617
Total deposits from non-bank customers	**3,074,316**	**2,935,218**	**3,073,228**	**2,934,448**
Current	3,012,983	2,847,236	3,011,895	2,846,466
Non-current	61,333	87,982	61,333	87,982

Fixed and variable interest rate deposits from non-bank customers accounted for 77.4% (2018: 79.6%) and 22.6% (2018: 20.4%) of the total, respectively.

Bank deposits received as collateral for loans granted in 2019 totalled EUR 12,409 thousand (2018: EUR 11,216 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

c. Loans from banks and the central bank

	Group	
	2019	2018
Loans from banks	87,827	102,788
Total loans from banks and the central bank	**87,827**	**102,788**
Current	150	1,293
Non-current	87,677	101,495

Fixed and variable interest rate loans from banks and the central bank accounted for 10.1% (2018: 10.6%) and 89.9% (2018: 89.4%) of the total, respectively.

d. Debt securities issued

	Interest rate on 31 December	Group	
		2019	2018
Certificates of deposit (falling due: 2020)	5.95%	14,302	13,644
Total debt securities issued		**14,302**	**13,644**
Current		14,302	397
Non-current		–	13,247

e. Other financial liabilities

	Abanka		Group	
	2019	2018	2019	2018
Liabilities from card operations	1,532	1,300	1,532	1,300
Liabilities to suppliers	1,169	1,673	1,244	1,756
Liabilities for unexecuted payments	1,065	1,780	1,065	1,780
Liabilities for salaries	2,471	2,879	2,508	2,921
Accruals and deferred income	5,098	6,098	5,126	6,127
Other financial liabilities	6,058	7,868	6,224	7,948
Total other financial liabilities	**17,393**	**21,598**	**17,699**	**21,832**
Current	17,229	21,445	17,523	21,665
Non-current	164	153	176	167

The item “Other financial liabilities” primarily comprises liabilities from securities purchases and settlement liabilities.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 PROVISIONS

ABANKA

	Restructuring provisions	Provisions for legal proceedings	Provisions for employee benefits	Provisions for guarantees and commitments	Other provisions	Total
As at 1 January 2018	**6,240**	**12,371**	**5,421**	**19,341**	**–**	**43,373**
Additional/(released) provisions through profit or loss (Note 15)	–	4,460	32	(4,416)	4,678	4,754
Additional provisions through equity – actuarial losses	/	/	29	/	/	29
Utilised during the year	(1,808)	(168)	(110)	(2)	(9)	(2,097)
As at 31 December 2018	**4,432**	**16,663**	**5,372**	**14,923**	**4,669**	**46,059**
Additional/(released) provisions through profit or loss (Note 15), of which:	(1,900)	(9,212)	462	311	(3,132)	(13,471)
– additional provisions	–	651	462	5,263	–	6,376
– released provisions	(1,900)	(9,863)	–	(4,952)	(3,132)	(19,847)
Additional provisions through equity – actuarial losses	/	/	172	/	/	172
Utilised during the year	(1,485)	(1,767)	(72)	/	(243)	(3,567)
As at 31 December 2019	**1,047**	**5,684**	**5,934**	**15,234**	**1,294**	**29,193**

GROUP

	Restructuring provisions	Provisions for legal proceedings	Provisions for employee benefits	Provisions for guarantees and commitments	Other provisions	Total
As at 1 January 2018	**6,240**	**12,371**	**5,548**	**19,341**	**–**	**43,500**
Sale of the subsidiary Aleasing	–	–	(75)	–	–	(75)
Additional/(released) provisions through profit or loss (Note 15)	–	4,460	34	(4,416)	4,678	4,756
Additional provisions through equity – actuarial losses	/	/	27	/	/	27
Utilised during the year	(1,808)	(168)	(112)	(2)	(9)	(2,099)
As at 31 December 2018	**4,432**	**16,663**	**5,422**	**14,923**	**4,669**	**46,109**
Additional/(released) provisions through profit or loss (Note 15), of which:	(1,900)	(9,027)	467	310	(3,132)	(13,282)
– additional provisions	–	836	467	5,262	–	6,565
– released provisions	(1,900)	(9,863)	–	(4,952)	(3,132)	(19,847)
Additional provisions through equity – actuarial losses	/	/	179	/	/	179
Utilised during the year	(1,485)	(1,767)	(78)	/	(243)	(3,573)
As at 31 December 2019	**1,047**	**5,869**	**5,990**	**15,233**	**1,294**	**29,433**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Provisions for retirement benefits and jubilee payments were created by the Group as at 31 December 2019. That calculation is based on the following key assumptions:

- a discount rate of 0.91% (2018: 1.89%),
- an employee turnover rate of 3.99% (2018: 2.97%), and
- average wage growth: 2.12% per annum (2018: 2.39%).

Employees are also entitled to jubilee payments for every decade of service in the Group.

The Bank sold the NPL portfolio in 2018 and created provisions for certain guarantees given to the buyer in the amount of EUR 4,678 thousand (other provisions). A decrease in the aforementioned provisions in 2019 relates to the expiration of the period (first phase) for which guarantees were given in connection with the sale of the NPL portfolio.

The decrease in provisions for legal proceedings in 2019 primarily relates to a legal proceeding that was finally resolved.

32 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using effective tax rates according to the tax rate valid in the year the elimination of temporary differences is projected, i.e. 19% or up to the amount recoverable against future profits.

A reduction in the tax base due to unused tax losses is permitted up to a maximum of 50% of the tax base for the current period. The tax loss from previous years amounting to EUR 32,876 thousand was used in the Bank's corporate tax return in 2019.

As at 31 December 2019, unused tax losses for which deferred tax assets were not recognised in the statement of financial position amounted to EUR 694,693 thousand for the Bank (2018: EUR 720,814 thousand) and EUR 702,813 thousand for the Group (2018: EUR 728,956 thousand). The Bank's total tax loss amounted to EUR 733,735 thousand (2018: EUR 766,288 thousand), while that of the Group amounted to EUR 741,855 thousand (2018: EUR 774,430 thousand). In accordance with the Slovene Corporate Income Tax Act, tax losses can be carried forward indefinitely.

MOVEMENTS IN THE DEFERRED INCOME TAX ACCOUNT ARE AS FOLLOWS:

	Group		
	2018	**Movement**	**2019**
Net deferred income tax assets			
Impairment of equity investments	–	–	–
Impairment of property and equipment, investment property and intangible assets	93	–	93
Provisions for employee benefits	625	34	659
Restructuring provisions	421	(321)	99
Impairment of equity securities at fair value through profit or loss	393	(294)	99
Impairment of debt securities at amortised cost	52	(13)	39
Tax losses carried forward	8,641	(1,223)	7,418
	10,225	**(1,817)**	**8,407**
Net deferred income tax liabilities			
Debt securities at fair value through other comprehensive income	730	260	991
Different depreciation rates for accounting and tax purposes	104	2	106
	834	**262**	**1,097**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

INCLUDED IN THE INCOME STATEMENT:

	Note	Group	
		2019	2018
Impairment of equity securities at fair value through profit or loss		(294)	393
Impairment of debt securities at amortised cost		(13)	24
Impairment of debt securities at fair value through other comprehensive income		(21)	21
Impairment of equity investments		–	(709)
Different depreciation rates for accounting and tax purposes		(2)	(6)
Provisions for employee benefits		34	(10)
Restructuring provisions		(321)	(172)
Tax losses carried forward		(1,223)	1,586
	17	**(1,840)**	**1,127**

INCLUDED IN EQUITY:

	Group	
	2019	2018
Securities at fair value through other comprehensive income – unrealised gains	345	430
Securities at fair value through other comprehensive income – unrealised losses	(584)	(320)
	(239)	**110**

33 OTHER LIABILITIES

	Abanka		Group	
	2019	2018	2019	2018
Liabilities arising from advance payments received	–	–	33	3,126
Liabilities in respect of taxes and contributions	982	946	1,083	1,228
Accruals and deferred income	443	679	468	745
Total other liabilities	**1,425**	**1,625**	**1,584**	**5,099**

34 SHARE CAPITAL, SHARE PREMIUM, ACCUMULATED OTHER COMPREHENSIVE INCOME AND RESERVES FROM PROFIT

2019	Share
Republic of Slovenia	100%

2018	Share
Republic of Slovenia	100%

The amounts of share capital and share premium are the same for the Bank and the Group.

The share premium, and legal and statutory reserves may be used to covering after-tax loss for the year, if it cannot be covered by retained earnings or other reserves from profit.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

SHARE CAPITAL

	Abanka	
	2019	**2018**
Ordinary shares – 15,100,000 shares	151,000	151,000

SHARE PREMIUM

The share premium comprises payments exceeding the nominal amounts of paid-in shares (paid-in surplus) in the amount of EUR 277,296 thousand and amounts from the simplified share capital reduction through the withdrawal of shares (Banka Celje) in the amount of EUR 5,163 thousand.

ACCUMULATED OTHER COMPREHENSIVE INCOME

The Bank's accumulated other comprehensive income amounted to EUR 4,182 thousand as at 31 December 2019, as the result of the valuation of financial assets measured at fair value through other comprehensive income in the amount of EUR 4,710 thousand and actuarial losses on provisions for retirement benefits in the amount of EUR 528 thousand.

The Bank's accumulated other comprehensive income amounted to EUR 3,333 thousand as at 31 December 2018, as the result of the valuation of financial assets measured at fair value through other comprehensive income in the amount of EUR 3,689 thousand and actuarial losses on provisions for retirement benefits in the amount of EUR 356 thousand.

The Group's accumulated other comprehensive income in the amount of EUR 4,174 thousand as at 31 December 2019 related to the valuation of financial assets measured at fair value through other comprehensive income, which totalled EUR 4,710 thousand, and actuarial losses on provisions for retirement benefits in the amount of EUR 536 thousand.

The Group's accumulated other comprehensive income in the amount of EUR 3,332 thousand as at 31 December 2018 related to the valuation of financial assets measured at fair value through other comprehensive income, which totalled EUR 3,689 thousand, and actuarial losses on provisions for retirement benefits in the amount of EUR 357 thousand.

	Abanka		Group	
	2019	**2018**	**2019**	**2018**
Accumulated other comprehensive loss in respect of actuarial losses on defined benefit pension plans	**(528)**	**(356)**	**(536)**	**(357)**
– revaluation	(528)	(356)	(536)	(357)
Accumulated other comprehensive income relating to change in fair value of investments in equity instruments	**4,062**	**3,320**	**4,062**	**3,320**
– revaluation	5,015	4,099	5,015	4,099
– deferred taxes	(953)	(779)	(953)	(779)
Accumulated other comprehensive income relating to investments in debt financial instruments at fair value	**648**	**369**	**648**	**369**
– revaluation	800	456	800	456
– deferred taxes	(152)	(87)	(152)	(87)
Total	**4,182**	**3,333**	**4,174**	**3,332**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

RESERVES FROM PROFIT

	Abanka		Group	
	2019	2018	2019	2018
Legal reserves	16,213	16,213	16,230	16,230
Statutory reserves	29,045	22,879	29,045	22,879
Other reserves from profit	19,292	19,292	19,292	19,292
Total reserves from profit	**64,550**	**58,384**	**64,567**	**58,401**

Reserves from profit include legal reserves, statutory reserves and other reserves from profit. In the past, the Group created legal reserves in accordance with the Companies Act.

RETAINED EARNINGS (INCLUDING INCOME FROM THE CURRENT YEAR)

	Abanka		Group	
	2019	2018	2019	2018
Retained earnings from previous years	21,557	28,145	21,565	29,307
Net profit from the financial year	55,499	60,063	55,072	58,908
Total	**77,056**	**88,208**	**76,637**	**88,215**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 DISTRIBUTABLE PROFIT

	Abanka	
	2019	2018
Net profit from the current year	61,665	66,737
Distribution of net profit from the current year:		
– for statutory reserves	(6,166)	(6,674)
– for other reserves from profit	–	–
Retained earnings	21,557	28,145
Distributable profit	**77,056**	**88,208**

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

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

The allocation of distributable profit is subject to a decision by the Bank's annual General Meeting of Shareholders.

36 CASH FLOW STATEMENT

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

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	2019	2018	2019	2018
Cash, cash balances with the central bank and other demand deposits with banks (Notes 1.15 and 18)	655,050	537,269	655,050	538,234
Loans to banks (Notes 1.15 and 22)	4,005	19,734	4,005	19,734
	659,055	**557,003**	**659,055**	**557,968**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	2019	2018	2019	2018
Interest paid	5,911	5,591	5,911	5,591
Interest received	85,407	87,539	85,526	88,366
Dividends received	510	1,435	510	1,435

OTHER ITEMS IN THE CASH FLOW STATEMENT

In 2019, other gains from the investing activities of the Bank totalling EUR 8,439 thousand and of the Group totalling EUR 8,982 thousand related to debt securities measured at amortised cost (EUR 7,941 thousand) and non-current assets held for sale (EUR 498 thousand at the Bank and EUR 1,041 thousand at the Group level).

In 2018, other gains from the investing activities of the Bank and the Group totalling EUR 10,941 thousand related to debt securities measured at amortised cost (EUR 8,938 thousand) and non-current assets held for sale (EUR 2,003 thousand).

In 2019, other adjustments to the total profit or loss before tax of the Bank and the Group relate to net provisions (EUR 13,471 thousand at the Bank and EUR 13,282 thousand at the Group level), gains from non-trading financial assets mandatorily at fair value through profit or loss (EUR 8,777 thousand), gains from financial assets and liabilities designated at fair value through profit or loss (EUR 722 thousand) and realised losses on loans at amortised cost (– EUR 621 thousand).

In 2018, other adjustments to the total profit or loss before tax of the Bank and the Group related to net provisions (– EUR 76 thousand at the Bank and – EUR 78 thousand at the Group level), gains from non-trading financial assets mandatorily at fair value through profit or loss (EUR 4,345 thousand), losses from financial assets and liabilities designated at fair value through profit or loss (– EUR 410 thousand) and realised losses on loans at amortised cost (– EUR 1 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

37 COMMITMENTS AND CONTINGENCIES

a) *Legal proceedings*

As at 31 December 2019, the Group and the Bank were involved as defendants in several judicial proceedings and other disputes. The total amount of pecuniary claims filed against the Bank on the reporting date was EUR 2,757 thousand excluding default interest (EUR 21,712 thousand as at 31 December 2018), while the total amount of claims against the Group was EUR 3,214 thousand (EUR 22,226 thousand as at 31 December 2018). Provisions were created based on an assessment of the likely outcomes of disputes (Note 31).

In the area of intellectual property rights, the Bank is involved in several disputes brought against it by ABANCA CORPORACION BANCARIA S.A. from Spain, which is seeking the annulment of two international brands: ABANKA no. 860 632 and no. 860 561. Proceedings have been initiated in Spain, Austria, France, the United Kingdom, Germany, Switzerland, Croatia, Hungary and Portugal, with the claimant opposing the use of the abovementioned brands in these countries. Proceedings are at various stages and are pending. The Bank is pursuing legal remedies in order to protect its interests. The proceedings in Switzerland, Spain, Germany and Hungary have been concluded, with the court ruling in favour of Abanca Corporacion Bancaria S.A.

b) *Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to customers upon request. Guarantees and standby letters of credit (which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet their obligations to third parties) carry the same credit risk as loans, documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions), and are collateralised by the underlying shipments of goods to which they relate, or cash deposits, and therefore carry less risk than direct borrowing. Cash requirements under guarantees and standby letters of credit are considerably lower than the amount of the commitment because the Group does not generally expect the third party to draw the funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of a loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, as it derives from the possibility of unused portions of loan authorisations being drawn by a customer and, secondly, from the subsequent failure to repay these when due. The Group monitors the term to maturity of credit commitments because long-term commitments generally involve greater credit risk than short-term commitments. The total outstanding contractual amount of credit commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

GUARANTEES AND COMMITMENTS

		Abanka		Group	
	Note	2019	2018	2019	2018
Service guarantees		234,904	215,422	234,654	215,014
Financial guarantees		58,481	50,371	58,481	50,371
Letters of credit		64	34	64	34
Loan commitments		417,547	436,056	416,742	435,251
Derivatives		3,261	3,610	3,261	3,610
Other		455	1,673	455	1,673
		714,712	**707,166**	**713,657**	**705,953**
Provisions for guarantees and commitments and other provisions:					
– provisions for guarantees and commitments	31	(15,234)	(14,923)	(15,233)	(14,923)
– provisions for undrawn portion of loans measured at fair value		(1,560)	(2,281)	(1,560)	(2,281)
		697,918	**689,962**	**696,864**	**688,749**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

38 LEASES

IFRS 16 entered into force on 1 January 2019. For this reason,the Group amended its accounting policies in accordance with the requirements, as described in Note 1.14.

At the end of 2018, the Group examined existing lease agreements and identified which leases correspond to the definition of a lease in accordance with the new standard. In accordance with the new standard, leases of business premises and certain leases of computer equipment and other equipment are recognised as fixed assets. Other leases either do not meet the criteria for recognition under IFRS 16 or they fall under possible exemptions that the standard permits and the Group decided to apply, i.e. short-term leases or leases of low-value assets.

In the case of agreements concluded for an indefinite period, the Group assumed a lease term that coincides with the long-term planning period (strategy). The Group used an opportunity interest rate as a discount rate (Note 5).

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

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

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

	Group			
	Up to 1 year	Over 1 year to 5 years	Over 5 years	Total
Lease liabilities:	**620**	**1,198**	**430**	**2,248**
– business premises	326	675	430	1,431
– computer equipment	272	501	–	773
– other equipment	22	22	–	44

a. Impact on the statement of financial position

	Group	
	As at 31 December 2019	As at 1 January 2019
Assets:		
– right-to-use assets	2,239	2,862
Liabilities:		
– long-term lease liabilities	2,248	2,862

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

b. Impact on the income statement

	Group
	2019
Interest expenses	21
Depreciation	625
Tax (value added tax on the right-to-use assets)	65

c. Impact on the cash flow statement

	Group
	2019
Principal repayments – cash flow from financing activities (rents, principal component)	614
Interest payments – cash flow from operating activities (rents, interest component)	21
Tax (value added tax on the right-to-use assets)	65

RECEIVABLES FROM LEASE CONTRACTS

	Group	
	2019	2018
Gross finance lease receivables:	**6,695**	**7,691**
– up to 1 year	5,185	5,763
– from 1 year up to 5 years	1,500	1,809
– more than 5 years	10	119
Unearned future finance income on finance leases	182	293
Net finance lease receivables:	**6,513**	**7,398**
– up to 1 year	5,091	5,649
– from 1 year up to 5 years	1,412	1,633
– more than 5 years	10	116

Notwithstanding Note 1.24, the amount of finance lease receivables relates only to the receivables of subsidiaries.

	Abanka		Group	
	2019	2018	2019	2018
Operating lease receivables:	**39**	**53**	**1,925**	**2,271**
– up to 1 year	14	14	347	347
– from 1 year up to 5 years	25	39	1,356	1,370
– more than 5 years	–	–	222	554

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

LIABILITIES FROM LEASE CONTRACTS

	Group	
	2019	**2018**
Lease liabilities:	**2,248**	**/**
– up to 1 year	620	/
– from 1 year up to 5 years	1,198	/
– more than 5 years	430	/

	Group	
	2019	**2018**
Operating lease liabilities:	**/**	**2,256**
– up to 1 year	/	478
– from 1 year up to 5 years	/	1,455
– more than 5 years	/	323

	Group	
	2019	**2018**
Finance lease liabilities:	**/**	**4**
– up to 1 year	/	4
– from 1 year up to 5 years	/	–
– more than 5 years	/	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

39 TRANSACTIONS IN THE NAME AND FOR THE ACCOUNT OF THIRD PARTIES

Pursuant to the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks issued by the Bank of Slovenia, the Bank discloses transactions in the name and for the account of third parties.

	Abanka	
	2019	**2018**
Assets	**3,869,957**	**3,439,760**
Claims of settlement and transaction accounts for customer assets	**3,752,976**	**3,270,770**
– from financial instruments	3,752,536	3,270,452
– investment services and transactions (Financial Instruments Market Act - ZTFI)	1,605	27,624
– reception, transmission and execution of orders	1,605	27,624
– custody operations (Investment Trusts and Management Companies Act - ZISDU)	3,750,931	3,242,828
– against the CSCC (Central Securities Clearing Corporation) or the Bank's clearing account for sold financial instruments	–	–
– against other settlement systems and institutions for sold financial instruments (buyers)	440	318
– against brokerage for purchased financial instruments and net receivables from the CSCC (ZISDU)	–	–
Customers' cash	**5,809**	**1,034**
– on the settlement account for customer assets	1	9
– on banks' transaction accounts (ZTFI)	–	–
– on banks' transaction accounts (ZISDU)	5,808	1,025
Other transactions authorised by the customer	**111,172**	**167,956**
Liabilities	**3,869,957**	**3,439,760**
Liabilities of settlement and transaction accounts for customer assets	**3,758,785**	**3,271,804**
– to customers from cash and financial instruments	3,752,837	3,270,714
– investment services and transactions (ZTFI)	1,603	27,620
– reception, transmission and execution of orders	1,603	27,620
– custody operations (ZISDU)	3,751,234	3,243,094
– to the CSCC (Central Securities Clearing Corporation) or the Bank's clearing account for purchased financial instruments	–	–
– to other settlement systems and institutions for purchased financial instruments (sellers)	5,945	1,077
– to the Bank or the Bank's settlement account for commission, fees, etc.	3	13
– to brokerage for sold financial instruments and income from transactions in the name and for the account of third parties (ZISDU)	–	–
Other transactions authorised by the customer	**111,172**	**167,956**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Abanka	
	2019	2018
Income from fees and commissions related to (ancillary) investment services and transactions for customers	**1,970**	**2,530**
Reception, transmission and execution of orders	98	589
Custody and related services	1,735	1,699
Maintenance of customers' dematerialised securities accounts	130	236
Advice to undertakings on capital structure, business strategy and related matters and advice and services relating to corporate mergers and acquisitions	7	6

Expenses from fees and commissions related to (ancillary) investment services and transactions for customers	**155**	**371**
Fees and commissions in connection with the CSCC (Central Securities Clearing Corporation) and similar organisations	49	293
– from investment banking operations (ZTFI)	49	293
Fees and commissions in connection with the stock exchange and similar organisations	28	19
Other transactions	78	59

40 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise 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 and the immediate family members of all those persons) and other related companies (individual companies in which key management personnel have significant influence).

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

Transactions with related parties are made under normal market conditions.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

A number of banking transactions were entered into with related parties in the normal course of business. Transactions with related parties for the year-end and related expenses and income for the year included:

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

	Subsidiaries		Key management personnel		Other related companies	
Type of related party	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Financial assets						
Loans to non-bank customers	4,425	8,832	332	243	–	–
Equity securities						
– investments in subsidiaries	8,278	8,278	–	–	–	–
Financial liabilities						
Deposits from non-bank customers	1,088	769	1,252	1,056	154	7
Loans from non-bank customers	–	–	–	–	–	–
Other financial liabilities	–	–	–	–	–	–
Off-balance-sheet records						
Nominal amount of loan commitments and financial guarantees issued	1,055	1,213	52	51	–	–
Comfort letters	–	–	–	–	–	–
Allowances for impairment losses on financial assets	–	–	–	–	–	–
Provisions for guarantees and commitments	–	–	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Type of related party	Subsidiaries		Key management personnel		Other related companies	
	2019	2018	2019	2018	2019	2018
Interest income	135	449	6	4	–	–
Interest expenses	–	–	–	2	–	–
Dividend income	–	–	–	–	–	–
Fee and commission income	13	6	3	3	–	–
Fee and commission expenses	–	–	–	–	–	–
Net gains on financial assets held for trading	–	–	–	–	–	–
Net gains on hedge accounting	–	–	–	–	–	–
Net gains on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	–	–
Net gains on derecognition of investments in subsidiaries	–	307	–	–	–	–
Net other operating income	51	81	–	–	–	–
Administrative expenses	346	330	–	–	–	–
Income from the reversal of impairments of financial assets	4	60	–	–	–	–
Income from the reversal of impairments of investments in subsidiaries	–	–	–	–	–	–
Income on provisions for guarantees and commitments	–	–	–	–	–	–

In terms of transactions that have an impact on profit or loss, related parties include all parties that meet the definition of related parties in the reporting period.

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Key management personnel		Other related companies	
	2019	2018	2019	2018
Financial assets				
Loans to non-bank customers	334	245	–	–
Financial liabilities				
Deposits from non-bank customers	1,366	1,155	154	7
Loans from non-bank customers	–	–	–	–
Debt securities issued	–	–	–	–
Other financial liabilities	–	–	–	–
Off-balance-sheet records				
Nominal amount of loan commitments and financial guarantees issued	54	53	–	–
Comfort letters	–	–	–	–
Allowances for impairment losses on financial assets	–	–	–	–
Provisions for guarantees and commitments	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Type of related party	Key management personnel		Other related companies	
	2019	2018	2019	2018
Interest income	6	4	–	–
Interest expenses	–	2	–	–
Dividend income	–	–	–	–
Fee and commission income	3	3	–	–
Fee and commission expenses	–	–	–	–
Net gains on financial assets held for trading	–	–	–	–
Net gains on hedge accounting	–	–	–	–
Net gains on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–
Net other operating income	–	–	–	–
Administrative expenses	–	–	–	–
Income from the reversal of impairments of financial assets	–	–	–	–
Income on provisions for guarantees and commitments	–	–	–	–

In terms of transactions that have an impact on profit or loss, related parties include all parties that meet the definition of related parties in the reporting period.

As at 31 December 2019, the Bank's financial assets measured at amortised cost included debt securities of the Republic of Slovenia in the amount of EUR 248,575 thousand, while the Bank's financial assets measured at fair value through other comprehensive income included debt securities of the Republic of Slovenia in the amount of EUR 20,831 thousand. In 2019, net interest income from these transactions totalled EUR 5,140 thousand, net gains from trading with debt securities amounted to EUR 26 thousand and fee and commission income totalled EUR 102 thousand. The Bank did not hold deposits by the Ministry of Finance as at 31 December 2019.

As at 31 December 2018, the Bank's financial assets measured at amortised cost included debt securities of the Republic of Slovenia in the amount of EUR 350,344 thousand, while the Bank's financial assets measured at fair value through other comprehensive income included debt securities of the Republic of Slovenia in the amount of EUR 29,550 thousand. In 2018, net interest income from these transactions totalled EUR 7,076 thousand, net gains from trading with debt securities amounted to EUR 402 thousand and fee and commission income totalled EUR 71 thousand. The Bank did not hold deposits by the Ministry of Finance as at 31 December 2018. Interest expenses from these deposits totalled EUR 6 thousand in 2018.

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

Individually significant transactions with state-related companies include granted and received long-term loans and deposits. As at 31 December 2019, individually significant long-term loans granted totalled EUR 195,477 thousand (four contracts), received long-term loans amounted to EUR 51,768 thousand (four contracts) and received deposits totalled EUR 30,000 thousand (one contract).

As at 31 December 2019, the remaining (individually insignificant) long-term loans granted totalled EUR 23,162 thousand, received long-term loans amounted to EUR 35,208 thousand and received deposits totalled EUR 23,097 thousand.

Individually significant transactions with state-related companies include granted and received long-term loans and deposits. As at 31 December 2018, individually significant long-term loans granted totalled EUR 211,248 thousand (three contracts), received long-term loans amounted to EUR 68,718 thousand (five contracts) and received deposits totalled EUR 40,168 thousand (one contract).

As at 31 December 2018, the remaining (individually insignificant) long-term loans granted totalled EUR 39,605 thousand, received long-term loans amounted to EUR 32,211 thousand and received deposits totalled EUR 26,943 thousand.

In 2019, interest income from transactions with state-related companies amounted to EUR 1,892 thousand (2018: EUR 2,307 thousand), while interest expenses totalled EUR 1,666 thousand (2018: EUR 1,677 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

DISCLOSURES REGARDING RELATED PARTIES BASED ON OTHER REGULATIONS

LOANS AND REPAYMENTS OF THE MANAGEMENT BOARD, MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT PERSONNEL OF THE BANK

Abanka	Members of the Management Board of Abanka		Members of the Supervisory Board		Management personnel of the Bank	
	2019	2018	2019	2018	2019	2018
Loan balance as at 31 December	–	–	–	–	1,476	1,188
Average interest rate						
– reference IR	/	/	/	/	*6M Euribor spread 1.98%*	*6M Euribor spread 1.96%*
– nominal IR	/	/	/	/	4.10%	4.56%
Repayments in the year	–	3	–	–	282	271

Group	Members of the Management Board of Abanka		Members of the Supervisory Board		Management personnel of the Group	
	2019	2018	2019	2018	2019	2018
Loan balance as at 31 December	–	–	–	–	1,477	1,188
Average interest rate						
– reference IR	/	/	/	/	*6M Euribor spread 1.98%*	*6M Euribor spread 1.96%*
– nominal IR	/	/	/	/	4.10%	4.56%
Repayments in the year	–	3	–	–	289	271

The balance of loans includes all loans that were previously granted by the Bank to Management Board members, Supervisory Board members and management personnel of the Bank who performed these functions as at 31 December 2019 or 31 December 2018, regardless of whether the persons concerned were performing these functions at the time of loan approval.

The average interest rate is calculated on the basis of the balance of loans and other interest-bearing exposures and the applicable contractual interest rates as at 31 December 2019 or 31 December 2018.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

BREAKDOWN OF PAYMENTS TO MANAGEMENT AND SUPERVISORY BOARD MEMBERS, MANAGEMENT PERSONNEL AND THE DIRECTORS OF SUBSIDIARIES

PAYMENTS TO THE MANAGEMENT BOARD MEMBERS FROM 1 JANUARY TO 31 DECEMBER 2019

	Jože Lenič	Matej Golob Matzele	Nada Mertik[6]	Matevž Slapničar[7]	Igor Stebernak[8]	Aleksander Vozel[9]	Total in EUR
Fixed part of the salary (gross)	145,065.04	143,548.93	50,874.85	82,972.73	–	–	422,461.55
Variable part of the salary (gross)	38,862.18	18,821.41	–	18,821.41	6,536.73	18,529.62	101,571.35
Profit sharing	–	–	–	–	–	–	–
Options and other remuneration	–	–	–	–	–	–	–
Reimbursements[1]	895.61	919.74	400.11	421.09	–	–	2,636.55
Insurance premiums[2]	2,114.25	2,537.16	700.66	1,480.01	–	–	6,832.08
Benefits[3]	19,564.26	11,208.22	5,974.80	4,395.30	–	–	41,142.58
Fees and commissions	–	–	–	–	–	–	–
Other additional payments[4]	–	–	–	61,491.23	–	–	61,491.23
Total payments	**206,501.34**	**177,035.46**	**57,950.42**	**169,581.77**	**6,536.73**	**18,529.62**	**636,135.34**
Total net payments	**76,489.55**	**75,761.77**	**21,777.70**	**76,700.79**	**3,819.08**	**10,825.94**	**265,374.83**
Other rights under the contract[5]	**14,160.19**	**17,194.18**	**7,392.32**	**9,157.77**	**–**	**–**	**47,904.46**

[1] Meal and transport allowance
[2] Supplemental voluntary pension insurance premium
[3] Company car, liability insurance, voluntary pension insurance and other insurance
[4] Compensation for invocation of non-compete clause and unused leave
[5] Medical examinations, education, other insurance and membership fees
[6] Member of the Management Board since 24 July 2019
[7] Member of the Management Board until 30 June 2019
[8] Member of the Management Board until 30 April 2015
[9] Member of the Management Board until 31 March 2017

As at 31 December 2019, Matej Golob Matzele, a member of the Management Board, was also a member of the supervisory board of an unrelated company, i.e. Bankart d.o.o., Ljubljana, while no Management Board member was a member of the supervisory board of any related company.

PAYMENTS TO THE MANAGEMENT BOARD MEMBERS FROM 1 JANUARY TO 31 DECEMBER 2018

	Jože Lenič	Matej Golob Matzele	Matevž Slapničar	Aleksander Vozel[5]	Total in EUR
Fixed part of the salary (gross)	129,036.96	126,655.60	126,812.51	–	382,505.07
Variable part of the salary (gross)	6,387.34	6,273.80	3,659.72	1,568.45	17,889.31
Profit sharing	–	–	–	–	–
Options and other remuneration	–	–	–	–	–
Reimbursements[1]	913.93	887.86	995.62	–	2,797.41
Insurance premiums[2]	1,973.28	2,537.16	2,537.16	–	7,047.60
Benefits[3]	17,259.04	9,541.60	9,158.18	–	35,958.82
Fees and commissions	–	–	–	–	–
Other additional payments	–	–	–	–	–
Total payments	**155,570.55**	**145,896.02**	**143,163.19**	**1,568.45**	**446,198.21**
Total net payments	**58,507.11**	**64,807.56**	**61,484.13**	**1,221.82**	**186,020.62**
Other rights under the contract[4]	**8,203.06**	**9,591.06**	**9,254.22**	**–**	**27,048.34**

[1] Meal allowance
[2] Supplemental voluntary pension insurance premium
[3] Company car, liability insurance, voluntary pension insurance and other insurance
[4] Medical examinations, education, other insurance and membership fees
[5] Member of the Management Board until 31 March 2017

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PAYMENTS TO THE DIRECTORS OF DIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2019

	Gregor Žvipelj (Anepremičnine d.o.o.)
Fixed part of the salary (gross)	74,207.32
Variable part of the salary (gross)	10,151.75
Reimbursements	1,400.20
Insurance premiums[1]	2,537.16
Benefits[2]	1,688.24
Total payments	**89,984.67**
Total net payments	**50,161.18**
Other rights under the contract[3]	**1,190.00**

[1] Supplemental voluntary pension insurance premium
[2] Company car, life insurance and liability insurance
[3] Medical examinations

PAYMENTS TO THE DIRECTORS OF DIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2018

	Nikolaj Fišer (Aleasing d.o.o.)[4]	Gregor Žvipelj (Anepremičnine d.o.o.)	Total in EUR
Fixed part of the salary (gross)	18,135.00	73,849.09	91,984.09
Variable part of the salary (gross)	–	10,155.60	10,155.60
Reimbursements	228.08	1,339.64	1,567.72
Insurance premiums[1]	704.76	2,537.12	3,241.88
Benefits[2]	1,648.14	1,991.06	3,639.20
Total payments	**20,715.98**	**89,872.51**	**110,588.49**
Total net payments	**9,669.39**	**49,122.00**	**58,791.39**
Other rights under the contract[3]	**–**	**680.00**	**680.00**

[1] Supplemental voluntary pension insurance premium
[2] Company car, life insurance and liability insurance
[3] Education
[4] Payments until 31 March 2018 (sale of subsidiary Aleasing)

PAYMENTS TO THE DIRECTORS OF INDIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2019

	Slobodan Radović (Anekretnine d.o.o., Montenegro)[1]
Fixed part of the salary (gross)	2,014.86
Variable part of the salary (gross)	–
Remuneration	1,300.00
Total payments	**3,314.86**
Total net payments	**2,221.00**
Other rights under the contract	**–**

[1] Payments until 30 June 2019 (sale of subsidiary Anekretnine)

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PAYMENTS TO THE DIRECTORS OF INDIRECT SUBSIDIARIES FROM 1 JANUARY TO 31 DECEMBER 2018

	Slobodan Radović (Anekretnine d.o.o., Montenegro)
Fixed part of the salary (gross)	4,029.72
Variable part of the salary (gross)	–
Total payments	**4,029.72**
Total net payments	**2,700.00**
Other rights under the contract	**–**

PROVISIONS, ACCRUED COSTS AND DEFERRED REMUNERATION FOR THE BANK'S MANAGEMENT BOARD AND THE DIRECTORS OF SUBSIDIARIES

	Abanka		Group	
	2019	2018	2019	2018
Provisions for retirement benefits and jubilee payments	94	80	101	85
Accrued costs for unused leave	25	26	30	31
Deferred part of the variable remuneration	57	18	67	28
	176	**124**	**198**	**144**

TOTAL EARNINGS RECEIVED BY MANAGEMENT PERSONNEL

	Abanka		Group	
	2019	2018	2019	2018
Salaries	3,388	3,199	3,496	3,304
Retirement, severance and jubilee payments	64	3	64	3
	3,452	**3,202**	**3,560**	**3,307**

PROVISIONS, ACCRUED COSTS AND DEFERRED REMUNERATION FOR MANAGEMENT PERSONNEL

	Abanka		Group	
	2019	2018	2019	2018
Provisions for retirement benefits and jubilee payments	923	833	942	849
Accrued costs for unused leave	119	120	129	128
	1,042	**953**	**1,071**	**977**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE FINANCIAL STATEMENTS (continued)

PAYMENTS TO MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2019

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits[1]
Varja Dolenc	22,500.00	6,226.00	1,711.96	30,437.96	21,822.83	8,205.64
Marko Garbajs	30,000.00	7,326.00	951.57	38,277.57	27,576.59	3,516.83
Dejan Kaisersberger	25,625.00	7,766.00	182.56	33,573.56	24,155.36	1,390.12
Miha Košak	21,250.00	6,050.00	28,042.54	55,342.54	36,127.97	7,013.47
Melita Malgaj	25,875.00	7,326.00	–	33,201.00	23,884.44	1,981.52
Rok Pivk	24,375.00	6,666.00	5,474.22	36,515.22	26,294.77	2,465.33
Alenka Vrhovnik Težak	24,375.00	6,666.00	2,198.16	33,239.16	23,912.09	4,802.31
	174,000.00	**48,026.00**	**38,561.01**	**260,587.01**	**183,774.05**	**29,375.22**

[1] Liability insurance, education, renewal of the certificate and membership fee to Slovenian Directors' Association

PAYMENTS TO MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2018

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits[6]
Bernarda Babič[1]	11,552.42	4,070.00	–	15,622.42	11,270.97	334.54
Varja Dolenc[2]	6,831.99	2,200.00	–	9,031.99	6,488.67	2,149.50
Marko Garbajs	31,427.08	8,140.00	–	39,567.08	28,696.94	1,352.07
Dejan Kaisersberger	28,125.00	9,625.00	1,389.63	39,139.63	28,386.05	294.50
Miha Košak[3]	3,419.35	770.00	5,725.15	9,914.50	6,430.66	294.50
Melita Malgaj	25,023.85	8,305.00	–	33,328.85	24,159.89	902.30
Peter Merc[4]	13,669.35	3,850.00	–	17,519.35	12,741.83	–
Rok Pivk	23,235.89	6,886.00	4,238.74	34,360.63	24,910.18	902.30
Blaž Šterk[5]	1,875.00	495.00	–	2,370.00	1,723.70	–
Alenka Vrhovnik Težak	28,719.76	9,185.00	853.32	38,758.08	28,108.48	2,385.33
	173,879.69	**53,526.00**	**12,206.84**	**239,612.53**	**172,917.37**	**8,615.04**

[1] Member of the Supervisory Board until 5 July 2018
[2] Member of the Supervisory Board since 31 July 2018
[3] Member of the Supervisory Board since 22 September 2018
[4] Member of the Supervisory Board until 9 July 2018
[5] Member of the Supervisory Board until 31 December 2017
[6] Liability insurance and education

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 EVENTS AFTER THE REPORTING DATE

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

On 20 June 2019, an agreement was signed on the sale of the Republic of Slovenia's 100% participating interest in Abanka d.d. to Nova KBM d.d., which on 5 February 2020 became the holder of 100% of the shares of Abanka d.d. after obtaining all the required authorisations and approvals and completing the acquisition procedure. The merger of the two banks into a single legal entity is planned for 2020, until which time Abanka will operate as a subsidiary of the Nova KBM Group.

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of ABANKA d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the ABANKA d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2019 the Company presented gross loans to customers in the amount of EUR 2,009 million and total expected credit loss in the amount of EUR 55 million.

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Bank is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Bank's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Bank's Management. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '1.5 – Financial assets and financial liabilities', '22 – Financial assets measured at amortised costs', '16 – Impairments' and '2.1 – Credit risk'.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient and appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Assessing quality of historical data used in determination of risk parameters • Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default

	vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realization period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Bank and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Bank, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Supervisory Board and Audit Committee are responsible for overseeing the Bank's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated to Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 17 May 2018. Our total uninterrupted engagement has lasted 6 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 6 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

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Ljubljana, Slovenija 3

Ljubljana, 6 March 2020

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of ABANKA d.d.

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the company ABANKA d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans to non-bank customers (expected credit losses)

In its financial statements for the year ended 31 December 2019 the Group presented gross loans to customers in the amount of EUR 2,012 million and total expected credit loss in the amount of EUR 60 million.

Key audit matter	How the matter was addressed in our audit
Credit risk represents one of the most important types of financial risks to which the Group is exposed to. Determining appropriate methods and models by the Management to measure and manage credit risk is therefore one of the most important areas in safeguarding the Group's capital. As part of the credit risk management process, appropriate determination impairment allowances for expected credit losses on loans and receivables from customers represent key considerations for Group's Management. In determining both the timing and the amount of impairment allowances for expected credit losses on loans and receivables from customers, the Management exercises significant judgement in relation to the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '1.5 – Financial assets and financial liabilities', '22 – Financial assets measured at amortised costs', '16 – Impairments' and '2.1 – Credit risk'.	In order to address the risks associated with impairment allowances for expected credit losses on loans and receivables from customers, identified as key audit matter, we have designed audit procedures that allowed us to obtain sufficient and appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Group's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Assessing quality of historical data used in determination of risk parameters • Disaggregating loans account balance based on stage allocation for the purposes of sample selection - for Stage 3, individually assessed loans and receivables, the criteria for selection included, but was not limited to, client's credit risk assessment, industry risk, days past due, etc. • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation and transitions between stages ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default

	vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realization period as well as associated legal agreements and supporting documentation to assess the legal right to and existence of collateral iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Group.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the Group, management is responsible for assessing its ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Supervisory Board and Audit Committee are responsible for overseeing the Group's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing rules will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing rules, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

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Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

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Ljubljana, Slovenija 3

Ljubljana, 6 March 2020

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