THE UNAUDITED INTERIM REPORT
of the Abanka Group for the First Half of
2018

ABANKA
Your friendliest bank

CONTENTS

The Unaudited Interim Report of the Abanka Group for the First Half of 2018 is a translation of the original Unaudited Interim Report of the Abanka Group for the First Half of 2018 issued in Slovene. This translation is provided for reference purpose only.

BUSINESS REPORT

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2018	31 Dec. 2017
Total assets	**3,707,564**	3,654,177
Total amount of deposits of the non-banking sector	**2,877,358**	2,856,026
Total amount of loans to the non-banking sector	**1,944,186**	1,967,460
Total equity	**557,719**	580,283

INCOME STATEMENT (EUR thousand)	Jan.-June 2018	Jan.-June 2017
Net interest income	**29,899**	37,330
Net non-interest income	**33,854**	25,272
Labour costs, general and administration costs	**(30,868)**	(31,818)
Depreciation	**(3,948)**	(4,317)
Impairment and provisions (credit losses)	**14,358**	7,818
Profit or loss from ordinary operations before tax	**42,762**	36,062
Corporate income tax on ordinary operations	**(3,889)**	(3,513)
Profit after tax from ordinary operations	**38,873**	32,549

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2018	Jan.-June 2017
Other comprehensive income before tax	**(136)**	(8,468)
Income tax relating to components of other comprehensive income	**26**	1,609

INDICATORS	30 June 2018	31 Dec. 2017
Common Equity Tier 1 capital ratio	**23.1%**	24.6%
Tier 1 capital ratio	**23.1%**	24.6%
Total capital ratio	**23.1%**	24.6%
	Jan.-June 2018	Jan.-June 2017
Performance (in %)		
- return on assets after tax(1)	**2.10 ***	1.79 *
- return on equity after tax(2)	**13.52 ***	10.71 *
Operational costs (in %)		
- operating expenses in gross income (CIR)	**54.61**	57.72

Note: Financial highlights and performance indicators as at 30 June 2018 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 of calculating the tax on financial services, the comparative data in the income statement for 2017 were changed; see Note 1.1 of the Financial Report for further details.

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

Notes:

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

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

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

LIQUIDITY	31 Mar. 2018	30 June 2018
- Liquidity coverage ratio (in %)	418%	392%
- Liquidity buffer (EUR thousand)	1,359,284	1,283,553
- Net liquidity outflow (EUR thousand)	324,993	327,488

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2018	31 Dec. 2017
Total assets	**3,708,502**	3,655,984
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,880,203**	2,861,197
– from legal and other persons, who pursue a business activity[1]	**838,528**	879,572
– retail	**2,041,675**	1,981,625
Total amount of loans to the non-banking sector, measured at amortised cost	**1,955,226**	1,982,137
– to legal and other persons, who pursue a business activity[1]	**1,084,922**	1,132,563
– retail	**870,304**	849,574
Total equity	**558,094**	578,943
Value adjustments and provisions for credit losses[(6)]	**123,758**	176,075
Off-balance sheet items (B.1 to B.4)	**993,213**	913,098

INCOME STATEMENT (EUR thousand)	Jan.-June 2018	Jan.-June 2017
Net interest income	**29,466**	36,529
Net non-interest income	**35,078**	25,119
Labour costs, general and administration costs	**(30,049)**	(30,626)
Depreciation	**(3,563)**	(3,729)
Impairment and provisions (credit losses)	**14,374**	8,521
Profit or loss before tax from ordinary operations	**44,289**	35,899
Corporate income tax from ordinary operations	**(3,875)**	(3,444)
Profit after tax from ordinary operations	**40,414**	32,455

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2018	Jan.-June 2017
Other comprehensive income before tax	**(136)**	(8,468)
Income tax relating to components of other comprehensive income	**26**	1,609

NUMBER OF EMPLOYEES	30 June 2018	31 Dec. 2017
	1,035	1,047

SHARES	30 June 2018	31 Dec. 2017
Number of shareholders	**1**	1
Number of shares	**15,100,000**	15,100,000
Proportion of par-value shares in share capital (in EUR)	**10.00**	10.00
Book value per share (in EUR)	**36.96**	38.34

Note: Financial highlights and performance indicators as at 30 June 2018 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 of calculating the tax on financial services, the comparative data in the income statement for 2017 were changed; see Note 1.1 of the Financial Report for further details.

Note:

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

INDICATORS

	30 June 2018	31 Dec. 2017
Common Equity Tier 1 capital ratio	**23.1%**	**24.3%**
Tier 1 capital ratio	**23.1%**	**24.3%**
Total capital ratio	**23.1%**	**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)	**3.63**	5.24
Non-performing loans and other financial assets / classified loans and other financial assets(6)	**5.78**	8.63
Value adjustments and provisions for credit losses / non-performing exposures(6)	**49.45**	54.96
Received insurance / non-performing exposures(6)	**36.77**	41.53
	Jan.-June 2018	**Jan.-June 2017**
Performance (in %)		
– interest margin(1)	**1.60 ***	2.02 *
– financial intermediation margin(2)	**3.50 ***	3.40 *
– return on assets after tax(3)	**2.19 ***	1.79 *
– return on equity before tax(4)	**15.55 ***	11.78 *
– return on equity after tax(5)	**14.19 ***	10.65 *
Operational costs (in %)		
– operational costs/average assets	**1.82 ***	1.89 *
- operating expenses in gross income (CIR)	**52.08**	55.73

Note: Financial highlights and performance indicators as at 30 June 2018 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 of calculating the tax on financial services, the comparative data in the income statement for 2017 were changed; see Note 1.1 of the Financial Report for further details.
* Annualized figures are calculated linearly on the basis of the first 6 months.

Notes:

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

(1) The indicator equals the ratio **net interest income/average assets**. Average assets have been calculated as the average amount of assets over the last 7 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.
(2) The indicator equals the ratio **(net interest income+net non-interest income)/average assets**. Average assets have been calculated as the average amount of assets over the last 7 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.
(3) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets over the last 7 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.
(4) The indicator equals the ratio **profit or loss before tax/average equity**. Average equity has been calculated as the average amount of equity over the last 7 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.
(5) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity over the last 7 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.
(6) The indicator is calculated based on the data as at 1 January 2018 (under the IFRS 9 standard).

LIQUIDITY

	31 Mar. 2018	30 June 2018
- Liquidity coverage ratio (in %)	414%	390%
- Liquidity buffer (EUR thousand)	1,359,284	1,283,553
- Net liquidity outflow (EUR thousand)	328,092	328,956

PRESENTATION OF THE BANK AND THE ABANKA GROUP

ABOUT THE BANK

Abanka d.d. is a bank with a long tradition in the Slovene banking sector. The origins of Abanka date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was reorganised as a public limited company. On 31 December 2002, Banka Vipa merged with Abanka. Since then, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. The shares of Abanka were listed on the Ljubljana Stock Exchange from October 2008 to December 2013, when on the basis of the Decision of the Bank of Slovenia on Extraordinary Measures, all qualified liabilities of the Bank on 18 December 2013 ceased in full. On 18 December 2013, the Republic of Slovenia subscribed and fully paid in all 15,000,000 shares newly issued by Abanka, and thereby became the 100% owner of the Bank. On 8 October 2014, the Republic of Slovenia paid in another 100,000 new shares. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. Since that date, the merged bank has operated under the name Abanka d.d. As at 30 June 2018, Abanka's market share in terms of total assets was 9.6%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 56 branches across Slovenia, e-banking, advisory services and a personal approach, the Bank provides integrated financial services, ranging from traditional banking and bancassurance to investment banking. Moreover, Abanka has gained international reputation. In interbank operations, it uses a network of correspondent banks across the globe to provide quality customer services relating to international payment transactions.

The subsidiary Anepremičnine d.o.o. complements Abanka's offering by providing trading in own real property.

SERVICES OF THE BANK

As at 30 June 2018 Abanka was authorised to provide the following mutually recognised financial services under Article 5 of the Banking Act (ZBan-2):

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

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

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

BANK PROFILE

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

Registered office:	Slovenska cesta 58, 1517 Ljubljana
Transaction account:	SI56 0100 0000 0500 021
SWIFT:	ABANSI2X
Tax number:	68297530
VAT identification number:	SI68297530
Company registration number:	5026024
Share capital:	EUR 151,000,000.00
Telephone:	(+386 1) 47 18 100
Website:	http://www.abanka.si
E-mail:	info@abanka.si
Facebook Abanka:	https://www.facebook.com/abanka.vipa/
Facebook Akeš:	https://www.facebook.com/akes.abanka/
LinkedIn Abanka:	https://www.linkedin.com/company/87740/
YouTube Abanka:	https://www.youtube.com/user/abankavipa
YouTube Akeš:	https://www.youtube.com/user/abankaakes

ABOUT THE GROUP

As at 30 June 2018, in addition to Abanka as the parent company, the Abanka Group included the subsidiary Anepremičnine d.o.o. Abanka is a 100% owner of Anepremičnine d.o.o., which owns the subsidiary Anekretnine d.o.o. in Montenegro. As at the reporting date, the nominal value of Abanka's equity stake in Anepremičnine was EUR 8,278 thousand (the same as at the 2017 year-end), while investments in the first half of 2018 declined by EUR 1,170 thousand due to the sale of Aleasing.

On 18 July 2017, Abanka d.d. signed an agreement with Banka Sparkasse d.d., Ljubljana to sell its 100% stake in its subsidiary Aleasing d.o.o., Ljubljana. As at the end of March 2018, Abanka d.d. as seller and Banka Sparkasse d.d. as buyer of Aleasing d.o.o. confirmed, that all suspensive conditions, required for the conclusion of the sales procedure, were fulfilled. In accordance with the agreement on sale, as of 1 April 2018 the equity stake was held by the buyer who as of that date became the owner of Aleasing d.o.o., Ljubljana.

Activities of Subsidiaries

The Anepremičnine Group

Anepremičnine, trgovanje z lastnimi nepremičninami, d.o.o. (abbreviated company name: Anepremičnine d.o.o.), which was entered in the Companies Register on 31 May 2013, was established by assuming a portion of assets from Aleasing d.o.o. On the day the demerger was entered in the Companies Register, the new company assumed a portion of the assets of the transferring company, Aleasing d.o.o., and as its successor entered all legal relations concerning the demerged assets, previously held by Aleasing d.o.o. Its core business is trading in own real properties. Gregor Žvipelj was Director of Anepremičnine d.o.o. The Supervisory Board was composed of Davorin Leskovar as its Chairman, Maja Bogdanoski as its Vice-Chairman and Dejan Grum as its member.

Anepremičnine is headquartered in Ljubljana, and its operations are geographically limited to Slovenia and Montenegro, where the company's subsidiary Anekretnine d.o.o. is based in Podgorica. As at the reporting date, the subsidiary was managed by Director Slobodan Radović and had no Supervisory Board.

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

In the first half of 2018, Anepremičnine d.o.o. sold several real properties and performed the final activities related to the sale of flats in the Gorenjska region, where it acted as the investor. At the same time it was engaged in developing complex land into construction-ready housing sites and in finishing the construction of houses for the market.

The company actively participated in the sale of real property in its portfolio and was regularly involved in the decision-making procedures regarding the acquisition of real property or receivables in an auction in line with the strategy of both the company and the Abanka Group.

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

Aleasing d.o.o.

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

Until 31 March 2018, Aleasing d.o.o. was 100% owned by Abanka. In line with the commitments made to the European Commission, Abanka completed the sale of Aleasing. The sales agreement signed with Banka Sparkasse d.d., Ljubljana entered into force on 1 April 2018. As of that date, Aleasing d.o.o. is no longer a member of the Abanka Group.

Until the date of the sale, the company was represented and managed by Director Nikolaj Fišer. The three members of the Supervisory Board supervised and managed the company, until 31 March 2018 in the following composition: Davorin Leskovar as its Chairman, Jure Poljšak as its Vice Chairman and Maja Bogdanoski as its member.

MAJOR BUSINESS EVENTS IN THE FIRST HALF OF 2018 AND AFTER THE FIRST HALF OF 2018

Major Business Events in the First Half of 2018

Major business events in the first half of 2018 included:

- **Changes to the Supervisory Board:**
  - On 20 April 2018, the Supervisory Board took note of the resignation of the Supervisory Board Member Peter Merc, who resigned as a member of the Supervisory Board of Abanka d.d. as of 10 April 2018. He continued to serve as a member of the Supervisory Board until 9 July 2018.
  - At the 37th General Meeting of Shareholders held on 17 May 2018, Marko Garbajs was again appointed member of the Bank's Supervisory Board, starting his term of office on 5 October 2018.
  - On 22 May 2018, the Supervisory Board took note of the resignation of the Supervisory Board Member Bernarda Babič, resigning from the office as a member of the Supervisory Board as of 5 July 2018.

- **Changes to the Supervisory Board commissions:**
  - As at the reporting date, the **Audit Commission** consisted of: Dejan Kaisersberger as its Chair, and Melita Malgaj, Rok Pivk, Alenka Vrhovnik Težak and Bernerda Babič as its members. The composition of the Audit Commission changed early in 2018, because Bernarda Babič joined the Commission on 1 January 2018.
  - As at the reporting date, the **Risk Monitoring and Asset Liability Management Commission** had the following composition: Alenka Vrhovnik Težak as its Chair, and Marko Garbajs, Dejan Kaisersberger, Peter Merc and Bernarda Babič as its members. The composition of the Commission changed early in 2018, because Bernarda Babič joined the Commission on 1 January 2018.

- **Credit ratings by Fitch Ratings:**
  - On 26 April 2018, the rating agency Fitch Ratings affirmed Abanka's Long-Term Issuer Default Rating of "BB+" with a stable outlook. Furthermore, it affirmed the Bank's Short-Term Issuer Default Rating at "B", Viability Rating at "bb+", Support Rating at "5" and Support Rating Floor at "No Floor". The Long-Term Issuer Default Rating and Viability Rating are based on the Bank's strong capital base, high liquidity reserves, a solid structure of sources of funding, and a relatively conservative risk management policy and risk appetite. The good ratings were also affected by the improved economic situation in Slovenia, which was reflected in a high economic growth and further deleveraging of the corporate sector.

- **The activities related to the subsidiaries of the Abanka Group:**
  - On 18 July 2017, Abanka signed an agreement with Banka Sparkasse, Ljubljana to sell its 100% stake in its subsidiary Aleasing, Ljubljana. The agreement stipulated that the stake would be transferred to the buyer after the fulfilment of the suspensive conditions, which *inter alia* included obtaining the relevant approvals of the supervisory authorities. As at the end of March 2018, Abanka as the seller and Banka Sparkasse as the buyer of Aleasing confirmed that all suspensive conditions required for the conclusion of the sales procedure were fulfilled. In accordance with the agreement, the stake was transferred to the buyer on 1 April 2018, which became the owner of Aleasing, Ljubljana as of that date.

- **Activities relating to the sale of the NPL portfolio:**
  - On 21 March 2018, Abanka and DDM Group, a manager of distressed assets, signed an agreement on the sale of Abanka's NPL portfolio, containing diversified NPLs of various companies in Slovenia, Croatia, Bosnia and Herzegovina, and Montenegro.

Major Business Events After the First Half of 2018

The following business events occurred after the reporting period:

- **Activities relating to the sale of the Bank:**
  - On 4 July 2018, the Supervisory Board of Slovenski državni holding, d.d., gave its approval to the contract of mandate for the performance of financial services in the sale of Abanka with the selected financial adviser BNP Paribas from Paris.

- **Changes to the Supervisory Board:**
  - At the 38th General Meeting of Shareholders held on 30 July 2018, the shareholders took note of the resignation of two members of the Supervisory Board, i.e. Peter Merc as of 9 July 2018 and Bernarda Babič as of 5 July 2018. Varja Dolenc was appointed a new member of the Supervisory Board for the four-year term of office, starting on 31 July 2018.

- **Changes to the Supervisory Board commissions:**
  - **Audit Commission**: Due to her resignation as a Supervisory Board member, Bernarda Babič no longer serves on the Audit Commission as of 6 July 2018.
  - **Remuneration Commission:** Due to his resignation as a Supervisory Board member, Peter Merc is no longer a member of the Remuneration Commission as of 10 July 2018. Melita Malgaj has been a member of the Commission since 10 July 2018; as of 10 July 2018, Rok Pivk is its Chair, whilst Alenka Vrhovnik Težak, the former chair, serves as its member.
  - **Risk Monitoring and Asset Liability Management Commission:** Following the resignation of Bernarda Babič and Peter Merc as Supervisory Board members, they no longer serve on the Commission as of 6 July 2018 and 10 July 2018 respectively.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

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

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

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

The effects of the transition to IFRS 9 are presented in detail in Note 2 of the Financial Report of the Interim Report, while only some effects compared with the 2017 year-end are presented in the Business Report. Due to the changes in accounting policies of calculating the tax on financial services, the comparative data in the income statement for 2017 were changed; see Note 1.1 of the Financial Report for further details.

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

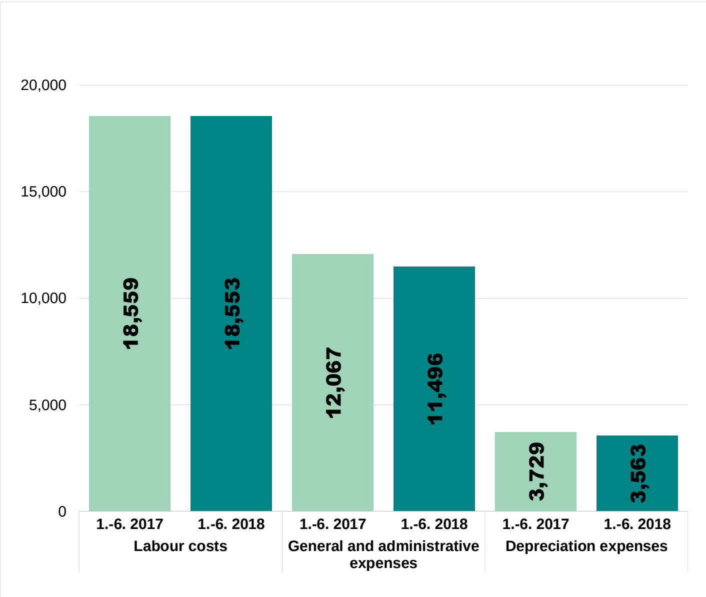
In the highly competitive and extremely low interest rate environment characterised by high liquidity, Abanka performed well within the framework of the set strategic objectives, aimed at accelerating the digital transformation, optimising the loan process and staff renewal.

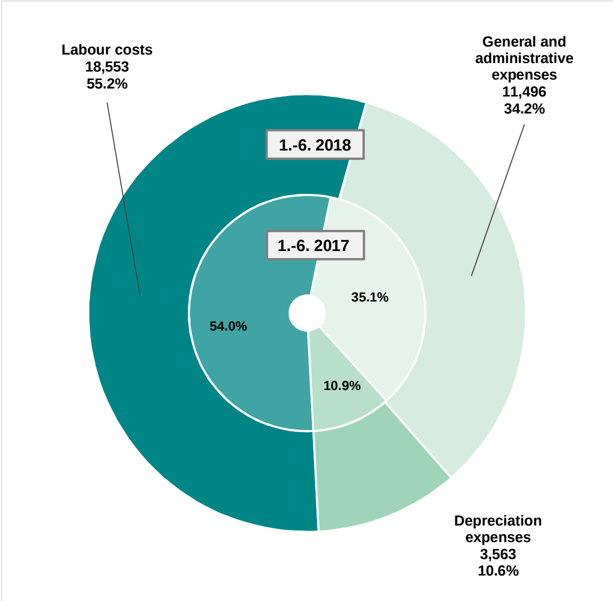
The **Abanka Group's interest income** earned in the first six months of 2018 totalled EUR 33,244 thousand, **interest expenses of the Group** amounted to EUR 3,345 and **net interest income** reached 29,899 thousand. **Abanka's interest income** totalled EUR 32,807 thousand and its **interest expenses** equalled EUR 3,341 thousand, whilst its **net interest income** amounted to EUR 29,466 thousand, down by 19.3% or EUR 7,063 thousand compared to the respective period last year. Lower net interest income primarily resulted from lower interest income, specifically due to lower average realised interest rates on loans to non-bank customers and investments in debt securities (maturity of the DUTB bond).

In the first six months of 2018, the **Abanka Group** posted EUR 18,488 thousand in **net fee and commission income**, while **Abanka** posted EUR 18,540 thousand in net fee and commission income, which is 3.7% less than in the same period last year. The bulk of net fee and commission income was generated by payment transactions and card and ATM operations.

In the first half of 2018, the **Abanka Group's operating expenses** amounted to EUR 34,816 thousand and those of **Abanka** totalled EUR 33,612 thousand. Compared to H1 2017, expenses decreased by 2.2% or EUR 743 thousand in nominal terms. Cost to income ratio of Abanka stood at 52.1%, whereas in the respective period of last year it was 55.7%. Operating expenses, excluding restructuring costs, amounted to EUR 33,021 thousand, having decreased by 2.4% or EUR 811 thousand compared to H1 2017.

OPERATING EXPENSES OF ABANKA IN H1 2018 AND H1 2017 (amounts in EUR thousand)

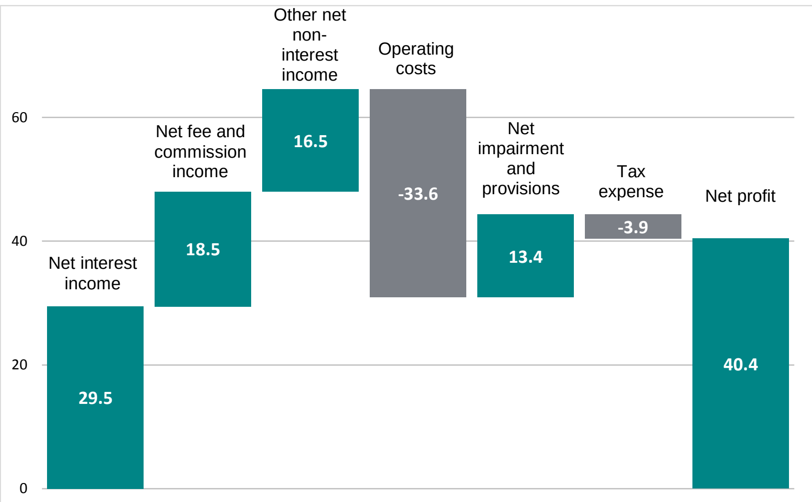




Other net non-interest income (excluding net fee and commission income) of the **Abanka Group** in the first six months of 2018 amounted to EUR 15,366 thousand and that of Abanka totalled EUR 16,538 thousand compared to EUR 5,864 thousand in the corresponding period last year. This increase mainly resulted from gains on the sale of the NPL package in March 2018. In the first half of 2017, the Bank sold a part of its DUTB bonds, thereby generating a profit of EUR 1,656 thousand.

In the first half of 2018, **the Abanka Group** recorded EUR 13,825 thousand in **net provisioning and impairment income**, of which EUR 1,123 thousand was accounted for by **net provisioning income** and EUR 12,702 thousand by **net impairment income**. **Abanka's net impairment and provisions cancelled** amounted to EUR 13,357 thousand (in the corresponding period of 2017: EUR 8,606 thousand). In the reporting period, the Bank cancelled impairment of financial assets in the amount of EUR 12,278 thousand, made impairment for non- financial assets in the amount of EUR 44 thousand and cancelled provisions in the amount of EUR 1,123 thousand. The reversal of impairment for loans to non-bank customers, measured at amortised cost in the first half of 2018, as in 2017, was primarily the result of an improved financial position of the companies, regular and early loan repayment and income from debt collection.

NET PROFIT OF ABANKA IN H1 2018 and H1 2017 (amounts in EUR million)

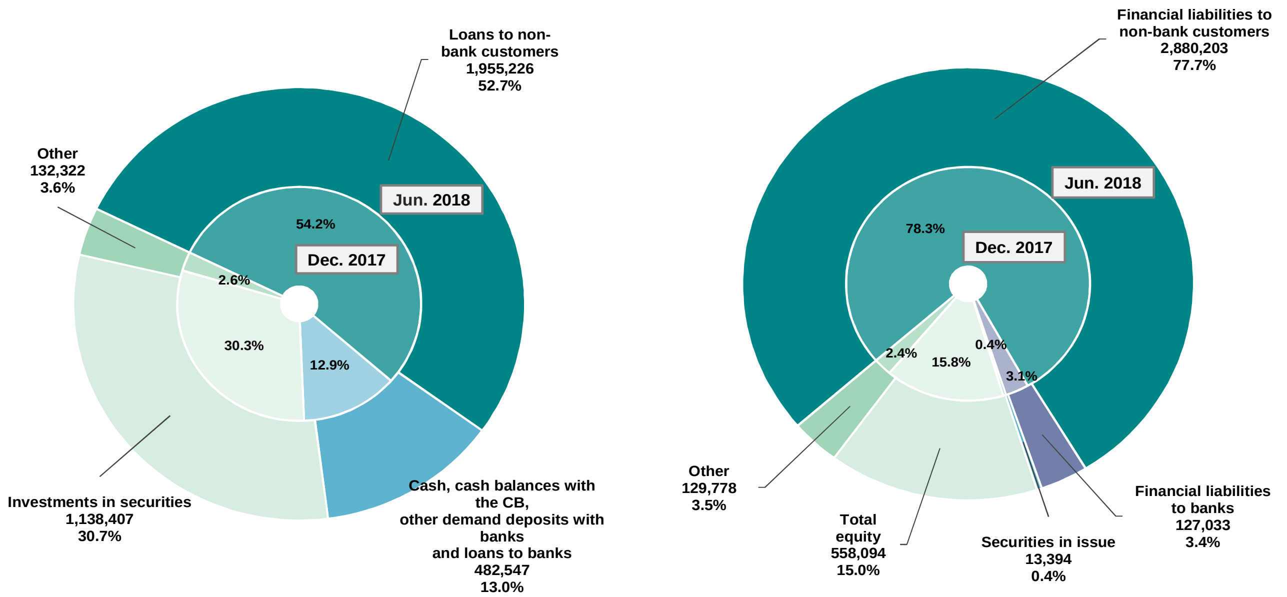


In the first half of 2018, **the Abanka Group** generated a **profit before tax** of EUR 42,762 thousand**,** whilst **consolidated profit after tax** equalled EUR 38,873 thousand. **Abanka** alone reported EUR 44,289 thousand in **profit before tax** and a 15.5% return on equity. In the first half of 2018, **Abanka** posted a **profit after tax** in the amount of EUR 40,414 thousand, taking into account the **corporate income tax** of EUR 3,875 thousand, which is EUR 7,959 more compared to the corresponding period of 2017 due to the abovementioned reasons. In the reporting period, **return on equity after tax** was 14.2%.

PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 30 June 2018 amounted to EUR 3,707,564 thousand, which was EUR 53,387 thousand or 1.5% above the level posted at the 2017 year-end. Total assets of the subsidiary amounted to EUR 25,237 thousand, accounting for 0.7% of consolidated total assets. After the elimination of inter-company transactions between Abanka and the subsidiary, the consolidated total assets of the Abanka Group were lower by EUR 938 thousand than the **total assets of Abanka**, which amounted to EUR 3,708,502 thousand as at the reporting date, up by 1.4% or EUR 52,518 thousand compared to the 2017 year-end. As at 30 June 2018, Abanka's market share stood at 9.6%.

ASSETS AND LIABILITIES OF ABANKA AS AT 30 JUNE 2018 AND 31 DECEMBER 2017 (amounts in EUR thousand)



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

In **total assets** as at 30 June 2018, **loans to non-bank customers** amounted to EUR 1,932,660 thousand and **loans** included in item A. 3.[1] in 2018 due to IFRS 9 amounted to EUR 22,566 thousand, which means that **loans to the non-banking sector** totalled EUR 1,955,226 thousand. Compared to the 2017 year-end, they dropped by EUR 26,911 thousand. If the additional impact of the transition to IFRS 9 in the amount of 4,759 thousand had been taken into account, loans would have decreased by EUR 22,152 thousand in the first half of 2018. This decrease is a result of lower loans to corporate customers by 4.5% or EUR 50,002 thousand nominally, whereas retail loans were up by 2.4% or EUR 20,730 thousand and loans to sole proprietors increased by 7.3% or EUR 2,361 thousand in nominal terms. In total loans to the non-banking sector as at the reporting date, retail loans accounted for the bulk with 44.5%, followed by loans to large companies with 23.8%, loans to SMEs with 17.7% and other loans with small shares. As at 30 June 2018, the **Abanka Group's loans to the non-banking sector** totalled EUR 1,944,186 thousand.

As at 30 June 2018, the **Abanka Group's cash, cash balances with the central bank, other demand deposits with banks and loans to banks** totalled EUR 482,639 thousand, accounting for 13.0% of consolidated balance sheet assets. The abovementioned **Abanka's** balance sheet items as at the reporting date stood at EUR 482,547 thousand and were higher by 2.1% or EUR 10,137 thousand nominally over the 2017 year-end. The increase resulted from higher cash balances with the central bank, whereas the remaining abovementioned balance sheet items declined.

As at the reporting date, the **Abanka Group's investments in securities** amounted to EUR 1,138,407 thousand and equalled **those of Abanka**, as the subsidiary did not disclose securities operations in its balance sheets. Compared to the

[1] Financial assets measured at fair value through profit or loss – not held for trading.

end of 2017, they rose by EUR 32,092 thousand or 2.9%. As at the reporting date, the equities portfolio of Abanka amounted to EUR 48,413 thousand, up by 4.8% or EUR 2,227 thousand compared to the 2017 year-end. The equities portfolio includes EUR 24,741 thousand paid into the Bank Resolution Fund. The debt securities portfolio of Abanka as at 30 June 2018 totalled EUR 1,089,994 thousand and accounted for 95.7% of total securities held by the Bank. Compared to 31 December 2017, debt securities rose by 2.8% or nominally by EUR 29,865 thousand (the decrease of EUR 26,892 thousand resulted from the impact of the transition to IFRS 9).

Abanka's equity investments in subsidiaries, accounting for 0.2%, totalled EUR 8,278 thousand as at the reporting date, which is EUR 1,170 thousand less than as at the 2017 year-end due to the sale of Aleasing.

As at the reporting date, **tangible and intangible assets of the Abanka Group** totalled EUR 51,241 thousand and **those of Abanka** equalled EUR 44,113 thousand, up by 1.0% or EUR 447 thousand compared to the 2017 year-end.

As at 30 June 2018, **consolidated balance sheet liabilities** were composed of EUR 3,149,845 thousand in total liabilities and EUR 557,719 thousand in total equity. In **Abanka's balance sheet liabilities**, which were higher by EUR 938 thousand than consolidated balance sheet liabilities, total liabilities amounted to EUR 3,150,408 thousand and total equity to EUR 558,094 thousand.

The Abanka Group's deposits from non-bank customers accounted for over 75% of **the Group's total liabilities** and reached EUR 2,876,885 thousand as at the reporting date. Together with **loans from customers** of EUR 473 thousand they amounted to EUR 2,877,358 thousand. **Deposits from non-bank customers in Abanka** amounted to EUR 2,879,730 thousand. Together with **loans from customers** of EUR 473 thousand they reached EUR 2,880,203 thousand. Compared to the 2017 year-end, retail deposits grew by 3.0% (or EUR 60,050 thousand nominally) and deposits of sole proprietors by 8.2% (or 5,880 thousand nominally), whereas corporate deposits declined by 5.8% (or EUR 46,897 thousand), which means that customer deposits rose by 0.7% or EUR 19,033 thousand in total; loans from customers decreased by EUR 27 thousand.

As at 30 June 2018, **the Abanka Group's financial liabilities to banks** were equal to **those of Abanka** and amounted to EUR 127,033 thousand, up by 12.2% or EUR 13,779 thousand compared to the 2017 year-end as the result of an increase in deposits from banks by 36.7% or EUR 8,898 thousand and a rise in loans from banks by 5.5% or EUR 4,881 thousand.

Securities in issue of the Abanka Group equalled **those of Abanka.** As at the reporting date, certificates of deposit amounted to EUR 13,394 thousand, accounting for the Bank's total securities in issue, which increased by EUR 373 thousand or 2.9% in the first half of 2018.

As at the reporting date, the total equity of the **Abanka Group** amounted to EUR 557,719 thousand and that of **Abanka** to EUR 558,094 thousand, down by 3.6% or EUR 20,849 thousand compared to the 2017 year-end. As the result of the transition to IFRS 9 retained profit increased by EUR 10,937 thousand, accumulated other comprehensive income on the other hand decreased by EUR 29,486 thousand. The decrease in total equity was also the result of the dividend payments in May 2018 in the amount of EUR 42,620 thousand and lower accumulated other comprehensive income of EUR 110 thousand, whilst the increase in total equity was affected by net profit of the year in the amount of EUR 40,414 thousand and by retained profit for other changes in the amount of EUR 16 thousand.

PERFORMANCE OF THE GROUP IN THE FIRST HALF OF 2018

Corporate Banking and Sole Proprietors

The period of low interest rates continued in the first half of 2018. Both debit and credit interest rates decreased. With respect to the latter, the levels at which banks charge transaction account balance fees to legal entities declined. Nevertheless, debit interest rates fell quicker than credit interest rates. Consequently, net interest margin also declined. By reducing the volume of monthly purchases of securities by the European Central Bank, which could be phased out entirely by the end of the year according to the ECB announcements, the ECB expects that the interest rates will remain at similarly low levels for a long period. However, in view of the current market expectations, the rise in the key interest rate by the ECB is not expected this year, which is reflected in the expectation that the 3-month EURIBOR will not yet reach a positive rate this year. The economic growth rates of EU Member States exceeded expectations in 2017. According to the forecasts of the European Commission, a similar level of economic growth in the euro area can be expected both in 2018 and 2019, which bodes well for the Slovene exporters as their exports to the euro area account for the bulk of their total exports. More stringent protectionist policy measures could have a negative impact on the current favourable economic situation.

Constant care is paid to the customers and to tailoring the services to their needs. In the first six months of 2018, the upward trend of demand for funding investments continued, both in hardware and expansion of production capacity. On account of the positive economic climate, exporters in particular raised the level of sale on their main markets, which requires the expansion of capacity. A higher investment activity was seen in the companies operating solely on the domestic market and which in recent years more often than not delayed regular investment cycles. Despite the higher investment demand, the bulk of lending continues to be accounted for by medium-term working capital financing, which is also the result of sales growth of companies and consequently the increased amount of working capital. In 2018, the demand for refinancing the existing loans has not been declining, which causes additional price pressure on the existing portfolio. The demand for loan refinancing originates from the refinancing of the companies that have been successfully restructured as well as from the companies expecting growth in interest rates in the coming periods. Such expectations are reflected in the growing willingness of companies to use interest rate hedging products, for which there was not much interest in the past.

Based on the existing and forecast economic growth as well as given the current situation of excess liquidity of banks, demand for funding new investments and working capital as well as demand for trade finance are both expected to continue in the second half of 2018. It is believed that this demand will also be reflected in different segments of the economy, the bulk of which will continue to be accounted for by exporting companies.

In trade finance, the volume of guarantees issued in the first half of 2018 was comparable to the volume of guarantees issued in the same period last year. In view of the higher economic activity and economic growth, it is estimated that the volume of guarantee operations will increase in the future, but it will depend not only on the volume of investment activity of the Government and local communities but also on the competitiveness of Slovene companies in the domestic and foreign markets. The business opportunities, which are sought by companies and successfully taken advantage of in both Slovenia and abroad, contributed to the increase in demand for other trade finance products. To a large extent, this was also the result of Abanka’s visibility in the provision of trade finance services. In addition to prompt and quality transactions, the Bank provides advice to its customers on choosing the appropriate trade finance product based on customer needs, as well as ensures flexibility and employee engagement in obtaining and executing complex and specific high-value transactions.

In the first half of 2018, the Bank continued to effectively market its digital solutions, especially those relating to transaction accounts and payment services. As a result, a growing number of customers uses modern solutions – the Abanet com online bank and the Abamobi com mobile bank, which are constantly upgraded, and the exchange of information for conducting business with import letters of credit via the Abanet com online bank. In the reporting period, the Bank prepared a range of improvements based on customer feedback and began developing mobile and online banking services. For the purpose of cashless operations, the Bank offers its customers a range of card services. An upward trend in cashless payments and the substitution of cash payments with payments using business cards was observed. In relation to the latter, increasingly more customers use the Bank’s security measures, particularly the SMS notification service – Abasms. Despite the high level of competition in card operations (acceptance of cards by merchants), the Bank managed to retain all the key customers and attract new customers by applying an appropriate marketing approach and expertise. It is believed that the trend of cashless payments will further strengthen due to the implementation of the PSD2 directive, instant payments and the launch of new products, such as the Abadenarnica mobile wallet, which stores virtual cards on a mobile phone and uses them for payment.

With the use of a growing range of the Bank's digital services, customers may to a large extent already experience the integration and advantages of new technologies in their day-to-day business with the Bank. In addition to the continuous development and implementation of new digital services, Abanka is also the first bank to provide its customers with the possibility of using new technologies in an accessible manner in its innovative branch Abasvet. This year at each presentation held in Abasvet as well as for any previous successful presentations of trade finance, participants were offered the possibility of entering into the virtual world, in addition to targeted and current professional topics.

In 2018, the Bank continues to focus on sales process optimisation. Through the digitalisation of business, the Bank aims to provide faster solutions, with additional customer benefits. By being committed to implementing the strategic values of kindness, excellence, partnership, innovation and implementation, the Bank follows the goal of ensuring customer satisfaction with its products and services.

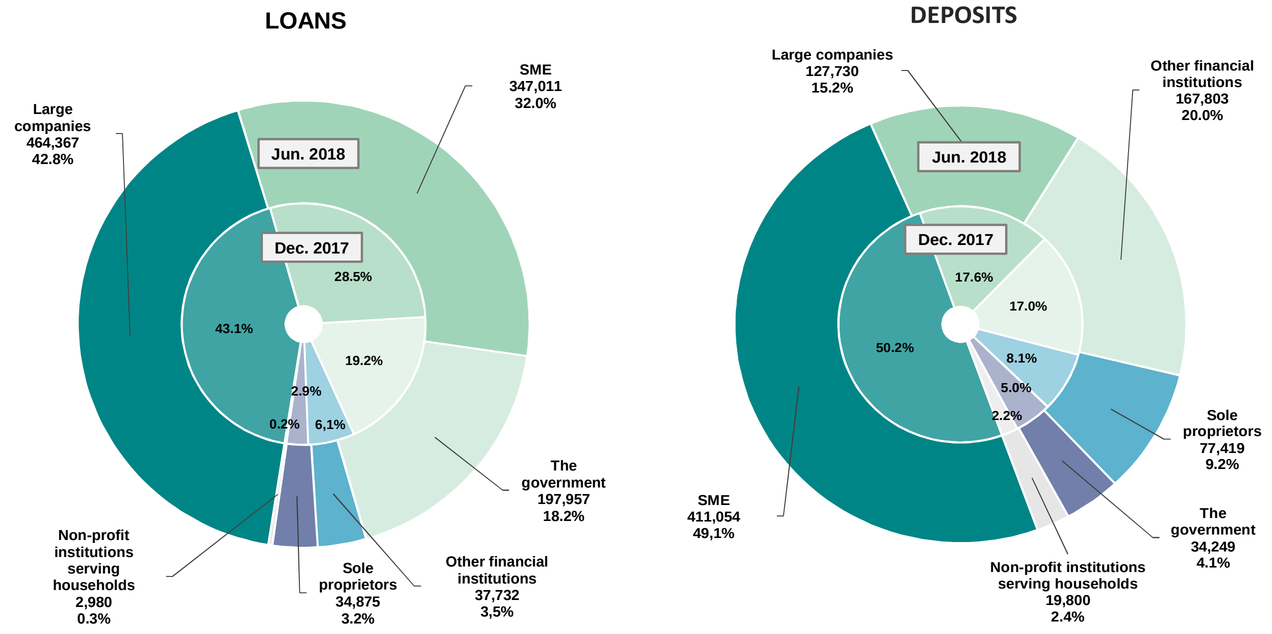
The Bank continued to create special offerings. For micro- and small enterprises, special conditions for short-term and long-term financing were designed by using own funds. The Bank continues to strengthen cooperation with municipalities, SID Bank and the Slovene Enterprise Fund by together offering loans for businesses at favourable interest rates. For new customers, a welcome package was designed, which includes price-adjusted services needed by businesses in their day-to-day operations.

Micro-enterprises and sole proprietors were specifically addressed through cooperation with selected regional chambers of craft and small business and business events held at a regional level in May 2018. The Bank also participated in business events organised by other partners, such as the Family Business Conference, which potential customers were invited to attend or participate in it in cooperation with Abanka. A major annual business meeting for corporates was organised to discuss the art of technological balance. The Bank's range of advanced digital banking services for corporate customers, such as Abamobi com, Abanet com and Abasms com, was presented in various business magazines and special editions of the publications issued by the Chamber of Commerce and Industry of Slovenia.

The SME segment continues to remain the strategic segment of the Bank. To this end, special attention will continue to be paid to this segment, to which marketing and communications activities will also be adapted by the end of the year. At the same time, the goal will be that both the existing and new customers will use as many products and services provided by the Bank as possible.

With the aim to improve user experience and with an emphasis on quality cooperation, the Bank will continue to increase the number of both the existing and new products used by its customers. Targeted marketing is directed at increasing the volume of payment transactions, trade finance and the number of points of sale equipped with Abanka's POS terminals (ACQ), the number of issued business cards and the number of users of Abasms com and Abamobi com mobile services.

LOANS AND DEPOSITS OF ABANKA BY SEGMENT AS AT 30 JUNE 2018 AND 31 DECEMBER 2017 (amounts in EUR thousand)



As at the reporting date, **Abanka's loans to corporate customers and sole proprietors** totalled EUR 1,084,922 thousand, down by 4.2% or nominally EUR 47,641 thousand compared to the 2017 year-end (the bulk of the decrease resulted from the repayment of loans of the subsidiary Aleasing d.o.o. at the time of its sale). They accounted for 29.3% in total balance sheet assets (vs. 31.0% as at the 2017 year-end), while their 9% market share as at the 2017 year-end decreased to 8.6% as at 30 June 2018.

Deposits from corporate customers and sole proprietors in Abanka reached EUR 838,055 thousand as at the reporting date, having decreasing by 4.7% or EUR 41,017 thousand nominally compared to the 2017 year-end. Government deposits were down by 21.6%, deposits from large companies decreased by 17.2% and deposits from SMEs fell by 6.8%, whilst deposits in other segments were up. The market share of deposits from corporate customers and sole proprietors stood at 8.6% as at 30 June 2018 (vs. 8.9% as at the 2017 year-end).

Retail Banking

In 2018, the Bank has put customers first, thereby following its slogan of the bank of friendly people. At the beginning of the year, the activities to improve the sale, product range and user experience were launched. The Bank not only develops banking services that ensure a better anticipation of customer needs but also designs customer-tailored and easy-to-use services, accessible anytime and anywhere.

Furthermore, customer relationship management (CRM) software was introduced, private and personal banking was strengthened and additional training was provided for the employees in the branch network. The CRM application assists employees in dealing with customers, while at the same time provides the customer relationship manager with an overall overview of the activities between the Bank and the customer in both directions (bank to customer and customer to bank). Uniform customer management helps to enhance user experience and consequently customer satisfaction.

Abanka also had to tackle the challenges of the new European directive GDPR[2]. New forms of consent were prepared for the customers, while carrying out the relevant procedures and references to all applications. The main role in obtaining consent was taken on by the employees in branch offices, who provide a technical explanation of the directive and obtain the relevant customer consent, in addition to maintaining a business relationship with the customer. It is vital that all employees are involved in this project, because only a credible explanation by a bank employee and an understandable form enable the customer to appropriately understand the directive and thus agree with the notification and the processing of their personal data. Data are invaluable for the Bank because they not only allow a personalised customer approach and therefore the best offering for the customer but also enable continuous progress and the development of services and personnel.

In order to get closer to its customers, the Bank upgrades its products and improves user experience. Using the Contact Centre and branch offices, customer responses and their initiatives are monitored.

The private bankers in Abanka are in charge of the mass affluent and high-net-worth individuals to enable them to make the right decisions for accumulating their assets. The employees of the Private Banking Department are spread across entire Slovenia so that they are even closer to their customers and readily available. With their vision and professionalism, their reputation among customers is on the rise, thereby constantly increasing the market share in this segment in Slovenia. Their professionalism is complemented by Abanka's modern products, which enhance customer satisfaction with good user experience. Private banking is a segment where personal contact, trust and technologically advanced products are key for customer loyalty and recommendation to new customers.

In the reporting period, the Contact Centre answered to 40% more calls and replied to 32% more e-mails compared to the same period last year. The visitors of Abanka's website may contact the Bank also via chat, while a knowledge base will be set up for website visitors in the second half of 2018, where they will be able to find answers to the questions about Abanka's products and their features.

A branch office remains the key access point to the Bank for the largest share of customers, where skilled employees provide them advice depending on the current personal situation and experience. The branch network extends across entire Slovenia, which further increases the visibility of the Bank, enables the representation of customers from all over Slovenia and ensures a high market share in all regions of Slovenia. A branch office together with technology (Abamobi and Abanet) completes the modern and quality range of services provided to the customers so as to meet their requirements regarding the role of the Bank in managing their personal finances.

The development of digital channels and new forms of payment remains in the foreground. Thus, the upgrading of the Abamobi mobile bank continued, and in May 2018 a new version of the Abanet online bank with a new design was launched. For the purpose of cashless operations, the Bank offers its customers a range of card services. In early 2018, the Abadenarnica mobile wallet was developed, which was made available to the customers in July 2018. The Abadenarnica mobile wallet enables contactless payment with Abanka payment cards. It is intended for all users of smart mobile devices and Abanka Maestro and Mastercard payment cards.

Apart from that, alternative forms of saving were offered to savers. For several years, Abanka has been selling insurance products and services of Zavarovalnica Triglav d.d., with whom the Bank jointly provides high quality and competitive insurance services to its customers, while in cooperation with Triglav Skladi d.o.o. it sells mutual funds. A special bundled

[2] General Data Protection Regulation

product continued to be provided in the reporting period, further strengthening cooperation with Triglav Skladi in the sale of mutual funds. Customers were offered the possibility of diversifying their investment either by choosing a non-purpose deposit and investing in a selected mutual fund or by choosing a deposit with guaranteed interest payment and single premium unit-linked life insurance Fleks.

To maintain customer loyalty and increase the number of users of the Abaklub loyalty programme, this service was upgraded with the possibility of inviting a friend. A welcome package was prepared for new customers, enabling them banking services at affordable prices. The range of housing and consumer loans at affordable rates was maintained.

A great deal of energy is being channelled towards simplifying the main processes, as well as into a number of minor improvements, which also have an impact on service quality. The introduction of e-pen in the processes of product approval for retail customers continued.

In marketing communication, numerous marketing activities implemented in the first half of 2018 were targeted at the segments of the working-age population, young people and children.

The majority of marketing activities was directed to the segment of the working-age population. For this purpose, numerous marketing activities were carried out to promote the sale and use of payment cards, as well as to take out consumer and housing loans at affordable rates and promote the use of the Abamobi mobile bank application. An online marketing campaign was launched to promote the opening of personal accounts and switching banks online. Furthermore, before the May Day holiday and the summer holiday period, the focus was on promoting those Abanka's services that are wise to choose before going on holidays (payment cards, Abamobi, card insurance, travel insurance). Particular attention was devoted to Abanka’s existing customers using the Abaklub loyalty programme, for which a major marketing campaign was launched on all sales channels at the end of spring. Promotional activities aimed at promoting retail lending were also organised by participating in trade fairs and directly at the points of sale, for which a special offering of consumer loans was prepared.

Pre-school children were addressed with the hedgehog mascot “Abanka ježek”, elementary school pupils with the Akeš junior brand and high school and university students with the Akeš brand. The youngest savers and their parents were addressed through promotional activities in the context of Cici Vesela šola sponsorship, via current topics published on Abanka’s website and at the events held for children, e.g. the Magic Day and the puppet shows “Ježek na obisku” (“Hedgehog Visiting”) in the Abasvet branch office. A new service launched in June 2018 was the Ježek application, a free information and entertainment mobile application for children. The activities for the elementary school children were implemented in the context of Vesela šola sponsorship and via the content published on Abanka’s website. In April and May, the Bank launched a marketing campaign for the Akeš brand, which targeted high school and university students, and participated in the May Games project. In this segment, the leading Facebook banking profile and the subpage continue to be actively managed.

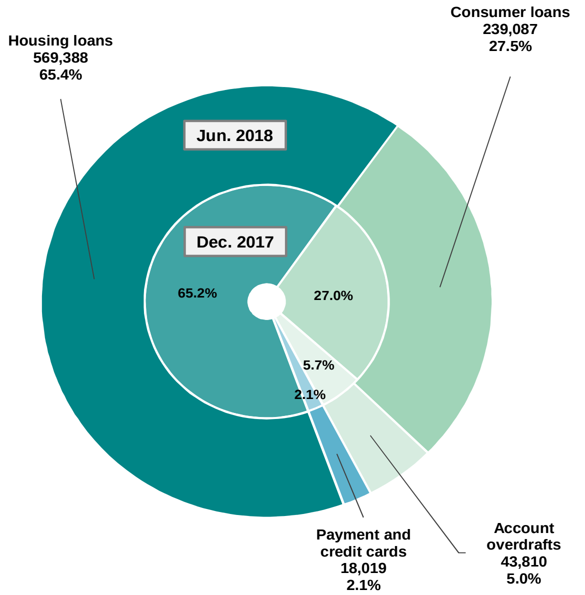
In the segments of young people and young employed people, Abanka maintained the highest net promoter score.

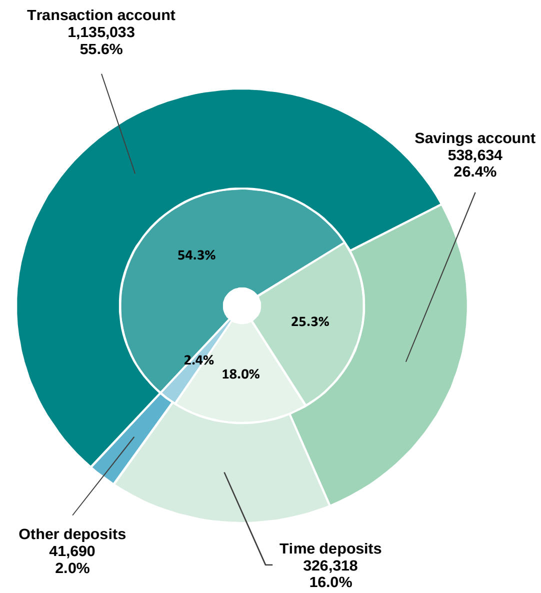
Marketing communication activities were mostly implemented at a national level, while some focused on the regional or local specificities at the level of individual selected branch offices, where potential was identified, i.e. when closing down branches of competitive banks and similar.

Marketing communication activities are also carried out on the key social networks and other internal communication channels of Abanka.

A number of activities continue to be devoted to continuing education of employees, as the technical knowledge and skills are of key importance given the increasing complexity of products, processes, customers and legislation. The Bank maintains good business relationships with its customers by remaining in regular contact with them and providing them information about the range of banking products and services provided by the Bank, expert advice and technical assistance. Moreover, the Bank strives to improve and optimise the business processes, which is primarily reflected in reducing the time spent on delivering customer service and increasing the time spent on maintaining contact with customers.

RETAIL LOANS AND DEPOSITS OF ABANKA AS AT 30 JUNE 2018 AND 31 DECEMBER 2017 (amounts in EUR thousand)





As at the reporting date, **Abanka's retail loans** amounted to EUR 870,304 thousand, up by 2.4% or EUR 20,730 thousand nominally compared to the 2017 year-end, whilst their share in balance sheet assets rose by 0.3 percentage point to 23.5%. The market share of retail loans remained unchanged, accounting for 9.5% both as at 30 June 2018 and as at the 2017 year-end.

In the reporting period, **Abanka's retail deposits** amounted to EUR 2,041,675 thousand, having increased by 3.0% or EUR 60,050 thousand nominally compared to the 2017 year-end, whilst their share in balance sheet liabilities rose from 54.2% as at the 2017 year-end to 55.1% as at 30 June 2018. The market share of retail deposits stood at 11.5% as at the reporting date, which equals the figure of the 2017 year-end.

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

At the beginning of the year, the substantial growth of economic activity in the euro area continued, but then it gradually cooled down, resulting in slightly more prudent forecasts. The number of persons in employment in Slovenia is continuing to rise, accompanied by increased growth in salaries. Favourable conditions in the labour market are reflected in the rapid growth of the number of persons in employment, which is at the mid-2008 level. Salary growth is also influenced by the favourable business results of companies and a high economic activity rate. In the public sector, salary growth is the result of the implementation of the agreements made with trade unions and regular promotions.

In the first half of 2018, Slovenia continued with the borrowing on international markets without difficulty. In January, Slovenia issued a new 10-year bond at a coupon rate of 1% in the total amount of EUR 1.5 billion. In February, Slovenia made a partial purchase of US bonds with maturity in 2022, 2023 and 2024 at a total value of USD 460 million, thereby decreasing its US dollar debt. In addition, it replaced the US dollar bonds 2022, 2023 in 2024 in the total amount of USD 113 million. In parallel, the Public Treasury increased the existing issues with maturity in 2028, 2035 and 2045 at a total value of EUR 1.25 billion, thereby financing the purchase of US bonds.

The macroeconomic situation in the euro area is stable; the pressing problem remains the uncertain geopolitical situation, which has a major impact on the euro. For now, the European Central Bank (ECB) continues to implement its government bond-buying programme, at least by September 2018, or beyond that date if necessary. Should the target inflation rate in the euro area be achieved, the ECB intends to end the said programme and gradually introduce a more restrictive monetary policy at the year-end and then in the second half of the next year.

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

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

In February 2018, together with other renowned foreign banking groups, Abanka was selected as a co-lead manager in charge of increasing the issue of 10-year, 17-year and 27-year bonds in the total amount of EUR 1.25 billion. In cooperation with other banks from the syndicate, the issuance was successful on both the international and the local market.

Payment transactions

As regards domestic and cross-border payment transactions in the first six months of 2018, Abanka processed 8.9 million orders through the Target payment systems, the small-value payment system (SIMP) and the correspondence network in the total value of EUR 11,177.9 million. In terms of the number of orders, domestic and cross-border payments remained on the same levels compared to the corresponding period last year. Moreover, the Bank internally processed 4.8 million credit payment transactions worth EUR 5,339.7 million in H1 2018. In the domestic payment system, the Bank maintained a high, 16.1% market share.

Abanka is an important operator in the direct debit scheme (SEPA DD). In the reporting period, Abanka processed 3.5 million transactions worth EUR 175.1 million through this payment system, accounting for a 24.0% market share.

Card and ATM Operations

As at the reporting date, 466,279 payment cards were issued, with which 16.0 million transactions (9.6% more than in H1 2017) were executed in the total amount of EUR 769.6 million, up by 7.4% compared to the same period last year.

Abanka has an extensive network of points of sale for all types of card products, which enable transactions via Abanka-held POS terminals or through terminals of other banks. In the reporting period, 15.4 million transactions (12.4% more than in the respective period of the previous year) in the total amount of EUR 637.4 million were recorded, up by 11.0% compared to the same period last year.

One of Abanka's modern distribution channels is its extensive ATM network. As at the reporting date, Abanka operated 267 ATMs. Its ATM network was ranked the third largest with a 16.3% market share despite the fact that the number of bank-owned ATMs fell by 21 compared to the 2017 year-end. At Abanka's ATMs, 4.6 million transactions involving cash withdrawal were recorded, down by 2.1% compared to the same period last year. This nominally amounted to EUR 492.7 million or 1.7% less than in the first half of 2017.

Investment Brokerage

In the first half of 2018, Abanka contributed on average 2.91% to the total volume of trading on the Ljubljana Stock Exchange, and enabled its customers access to the most important global stock exchanges via its contractual partners.

Custody and Administrative Services

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

In 2017, the Bank adapted its custody services for investment funds to the new regulatory requirements of the Commission Delegated Regulation (EU) 2016/438 and the Investment Funds and Management Companies Act (ZISDU-3B). In the first half of 2018, the new standards in custody services were implemented in the services provided for pension funds and internal funds of insurance companies.

In Slovenia, Abanka has the longest tradition in the provision of administrative services.

Custody and administrative services are also provided to alternative investment funds, which are a novelty in Slovenia.

Total equity and ownership structure

As at 30 June 2018, the total equity of the Abanka Group amounted to EUR 557,719 thousand, whilst that of Abanka equalled EUR 558,094 thousand.

The unaudited share book value was EUR 36.96 as at the reporting date, based on 15,100,000 shares (31 December 2017: EUR 38.34). It was calculated as the ratio of all capital components, including net profit for the reporting period, to the number of shares subscribed as at the reporting date.

At the 37th regular General Meeting of Shareholders held on 17 May 2018, the shareholders were informed that the accumulated profit for 2017 totalled EUR 60,456,785.06 consisting of the remaining net profit for 2017 of EUR 38,357,934.65 and profit brought forward in the amount of EUR 22,098,850.41 as at the 2017 year-end. The General Meeting of Shareholder decided that a part of accumulated profit for 2017 in the amount of EUR 42,619,927.39 shall be allocated for dividend payments, whereas the remaining part of the profit amounting to EUR 17,836,857.67 shall be allocated to profit brought forward.

The Bank's share capital amounted to EUR 151,000 thousand as at 30 June 2018. On 18 December 2013, the Republic of Slovenia subscribed and fully paid up all 15,000,000 shares (ABKS) newly issued by Abanka, and thereby became its 100% owner, holding 15,000,000 ordinary registered no-par value shares with voting rights attached. On 8 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand. The share capital increase of EUR 1,000,000.00 was entered in the Companies Register on 10 October 2014. The share capital of Abanka amounts to EUR 151,000,000.00 and is divided into 15,100,000 ABKS shares, wholly owned by the Republic of Slovenia. In accordance with the commitment made to the European Commission, Banka Celje d.d. was merged with Abanka Vipa d.d. on 5 October 2015. After the merger 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 2017 year-end and remained unchanged in the first six months of 2018.

As at the reporting date, Abanka's **accumulated other comprehensive income** amounted to EUR 3,721 thousand (a decrease of EUR 29,596 thousand in the first half of 2018, of which EUR 29,486 thousand resulted from the transition to IFRS 9), **reserves from profit** equalled EUR 51,710 thousand (the same as at the 2017 year-end) and **retained profit** totalled EUR 69,204 thousand (an increase of EUR 10,937 due to the transition to IFRS 9, a rise in net profit of EUR 40,414 thousand, an increase of EUR 16 thousand for other changes and a decrease of EUR 42,620 thousand for the dividend payment).

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

RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

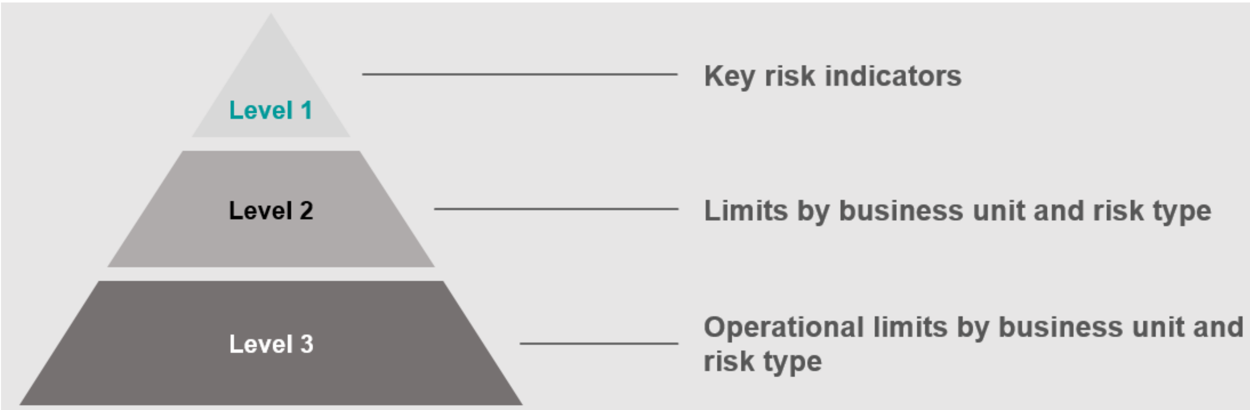
The Bank sharpened its view on risks in the revised risk appetite framework, which represents the substantive, process and organisational aspects of risk management of the Bank and ensures that its risk taking complies with its risk appetite at all times. The key elements of Abanka's risk appetite framework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

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

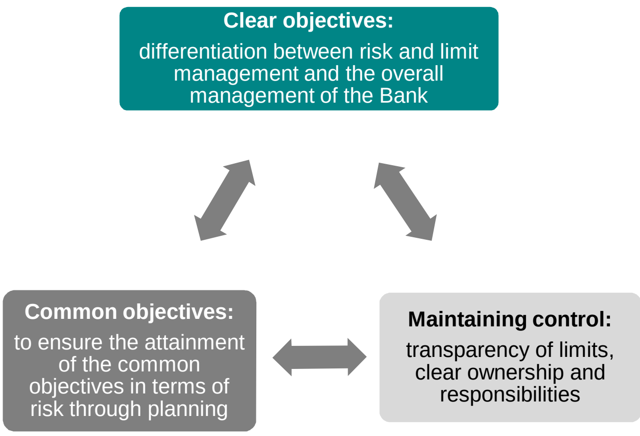
The risk appetite framework and the business strategy are interconnected through:

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

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



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



RISK MANAGEMENT IN THE FIRST HALF OF 2018

Despite the high economic activity at the beginning of the year and the favourable outlook, the economic growth in the euro area slowed down in the first quarter. Among the most important trading partners, growth slowed down more strongly in Germany and France, whereas in Austria and Italy it remained similar to the level achieved in previous quarters. Domestic consumption remained the main factor of economic growth, as the volume of exports in the euro area decreased compared to the previous quarter. The decline in the sentiment indicators in the economy was the result of the increase in uncertainty in the international environment, mainly because of the announced and even implemented several new trade measures by the USA.

In Slovenia, the favourable economic trends continued in the first quarter, however the data on exports and imports point to a slowdown in the international environment. Following the high growth recorded last year, real exports and imports of goods slightly fell over the recent months, while remaining at a high level year-on-year. The high level of exports was primarily the result of export of vehicles, which accounted for approximately one fifth of the Slovene exports of goods. The stagnation of manufacturing had an impact on the reduced volume of imports for intermediate consumption.

The annual growth of loans to the domestic non-banking sector in the first six months of 2018 remained low. Deleveraging of enterprises once again slightly increased, while the relatively high growth in loans to households slowed down. The risks associated with excessive growth in lending remain low, while the countercyclical capital buffer continues to remain at 0% of the total risk exposure amount.

The deposits of domestic non-banking sectors are increasing, but their maturity structure continues to shorten due to low deposit interest rates. Overnight deposits thus account for almost 70% of total deposits of the non-banking sector. The growing maturity mismatch of investments and sources of funds of banks poses a risk to the stability of their funding.

Deleveraging of banks abroad came to a halt this year, while the share of liabilities to foreign banks stabilised at slightly less than 5%. The gradual reduction in the volume of non-performing loans continued in the first six months of 2018. Non-performing loans more than 90 days overdue account only for EUR 1.1 billion or 3.2% of the total exposure of the banking system.

In the first half of 2018, the Bank made significant upgrades to its risk appetite framework (hereinafter: RAF), thereby making important steps towards improving risk management, both at a strategic level and at the level of individual (sub)systems and methodologies. In the revised RAF, the Bank specified a clear risk appetite and a measurable risk management strategy. A clear risk appetite is defined through the selection of key indicators and their calibration manner, which is connected with regulatory requirements. A measurable strategy is enabled by the limit system established in levels, which defines risk tolerance levels for all key aspects of risks by business unit of the Bank. The limit system set up in levels allows the integration of the risk appetite with the capital adequacy assessment process, thereby enabling comprehensive risk management in the Bank. The RAF revision also included changes in the capital adequacy assessment process. In the reporting period, the Bank also updated risk reporting and monitoring as well as revised other limit subsystems in accordance with the upgraded RAF.

In the first six months of 2018, the Bank also continued with the development activities in other risk management areas. The methods/models for the assessment of credit parameters were evaluated, and the results of the evaluation will allow further upgrades of the said methodologies. The Bank began to update the recovery plan with a view to ensuring a more robust recovery framework. Because of the increased demands for quantity, quality and automatic processes of data collection, the Bank paid special attention to implementing the relevant upgrades, which will continue in 2018. Furthermore, the Bank is focused on operational risk by, in addition to the regulatory requirements, dedicating its development to the management of loss events and business continuity, improving its supervision over contractors and upgrading its methodological approaches to risk assessment, where new threats such as cyber risk pose a special challenge.

In relation to collateral, the Methodology for the Valuation of Real Property Pledged as Collateral for Exposures of Abanka d.d. (hereinafter: the Methodology) was updated. In accordance with the revised Methodology, collaterals are monitored and their current value is set based on appropriate records by applying different valuation techniques depending on the type of real property, the type of previous valuation, the value of the real property and the value of the investment. For this purpose, the Bank made a list of suitable appraisers carrying out the valuation of real property pledged as collateral. The Bank also devoted considerable emphasis on upgrading application support on the basis of user and regulatory requirements (new requirements relating to collateral, integration with other application support), while taking into account the need to ensure an adequate data basis for reporting to institutions. Additional activities were also carried out in connection with the preparation of reports on collateral.

In the first half of 2018, Abanka continued with an active approach to reducing the share of non-performing loans (NPLs), which was reflected in the sale of the first NPL package. By doing so, the Bank complied with its main goal set in Abanka d.d.'s NPL Management Strategy for 2018–2020, which is to reduce the share of its NPLs to below 5%.

The table below shows the amount of NPLs, the share of NPLs in total loans, and the coverage ratio of NPLs with impairments of NPLs under the EBA methodology[3] as at 30 June 2018 and as at 31 December 2017 (data on consolidated basis).

The calculation in accordance with the EBA methodology (based on the FINREP report-Table F-18)	30 June 2018	31 Dec. 2017
Non-performing loans (in EUR thousand)	140,730	269,359
Share of NPLs in total loans (in %)	5.5	10.2
NPL coverage ratio (in %)	79.9	80.8

In the reporting period, the amount of NPLs decreased by EUR 128.6 million, the share of NPLs in total loans by 4.7 percentage points, the coverage ratio of NPLs with impairments by 0.9 percentage points.

The said ratios primarily decreased due to the effect of the purchased or issued financial assets with a deteriorated credit quality[4] of EUR 53.3 million at the transition to IFRS 9 and the sale of the NPL package in March 2018 in the amount of EUR 55.2 million.

Temporary write-offs of Abanka's NPLs in the first half of 2018 went down by EUR 148,5 million, mostly as the result of the sale of the NPL package. As at 30 June 2018, temporary write-offs totalled EUR 81,2 million.

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

In the reporting period, the European Central Bank maintained the interest rate on the main refinancing operations at 0% and the deposit facility rate at –0.40%. The European Central Bank further decided to maintain the monthly purchases in the framework of the asset purchase programme at EUR 30 billion per month until the end of September 2018, whereas from October to December 2018 the purchases will continue at the monthly pace of EUR 15 billion, aimed at reaching the inflation trend close to the medium-term objective defined as the inflation rate of nearly 2.0%. Thereafter, such non-standard measures are supposed to end, as the European Central Bank expects that the interest rates will remain at similarly low levels for an even longer period. The reduction of Euribor interest rates came to a halt during the said period.

In the reporting period, the Bank made significant upgrades to its liquidity risk identification and measurement methodology, thus making important steps towards ensuring adequate liquidity. In the context of the internal liquidity adequacy assessment process (ILAAP), the Bank ensures ongoing updates of methodologies and individual models for ensuring an adequate liquidity position.

Therefore, the Bank continuously adapted its interest rate policy to market developments. With respect to the interest rate risk, Abanka adjusted its interest rate positions by individual time bucket. The Bank managed foreign exchange risk by

[3] As of 30 June 2017, the Bank started using the methodology applied by the EBA in the Risk Dashboard report in order to calculate the proportion of non-performing loans and the coverage ratio of non-performing loans. The reports are available on the following website: https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard.
Under the EBA definition, the following items are included in total loans in addition to loans: "cash and balances with the central bank", "demand deposits with banks" and "other financial assets". Impairments also include the item "impairments – other financial assets".

[4] As of 1 January 2018, IFRS 9 became effective, which had a significant impact on the gross value of non-performing loans and their impairments. In accordance with the Instructions for the implementation of the Decision on Reporting of Monetary and Financial Institutions, resulting from IFRS 9 and Annex V of the amended Commission Implementing Regulation (EU) No. 680/2014, the purchased or issued financial assets with a deteriorated credit quality (POCI loans) are disclosed at net value or the difference to the fair value is taken into account in the gross value of loans. The difference to the fair value of POCI loans therefore reduces the gross value of non-performing loans and impairments.

carefully monitoring the changes in foreign exchange rates and closing positions according to a particular currency or currency group. The foreign exchange risk is low due to a relatively low share of foreign currencies in total assets.

In the first six months of 2018, Abanka continued its policy of limited trading in financial instruments. Trading in equity financial instruments was banned, whilst trading in debt instruments was carried out primarily for the purpose of actively maintaining the market of domestic government securities, where Abanka acts as a primary dealer and official liquidity provider, and to a limited extent with the aim of generating short-term profit. Trading in derivatives was limited to foreign exchange and interest rate financial instruments requested by customers (mostly corporates) for the purpose of hedging against interest rate and currency risks. The Bank closes such positions with back-to-back transactions so as to limit its market risk exposures. The Bank does not trade in more complex financial instruments.

In the reporting period, the trading portfolio of debt financial instruments totalled EUR 0.5 million on average. The banking book equity portfolio includes only the strategic investments of the Bank and investments obtained from collateral foreclosure or debt-to-equity swaps. The size of the debt securities portfolio of the banking book, serving as an asset and liability management tool, increased in the first six months of 2018 by 2.8%, amounting to EUR 1,090 million as at 30 June 2018.

The implementation of IFRS 9 affected both the division of the portfolio of debt securities in the banking book into two business models with respect to the basic purpose of acquisition, as well as the modified method of forming impairments. As at 30 June 2018, impairments totalled EUR 209 thousand.

Compared to the corresponding period of 2017, the debt securities portfolio of the banking book significantly changed in the first half of 2018 due to maturity of the BAMC bonds, which also affected the return on the portfolio. As at the reporting date, the share of debt securities, issued in the Republic of Slovenia stood at 38.6%, while at the end of June 2017 it reached 66.6%. The debt securities portfolio of the banking book consisted of mainly domestic and foreign government debt instruments, the bonds of European banks and corporates suitable to be pledged as collateral to the European Central Bank.

In the first half of 2018, the value at risk (VaR) of the banking book of debt financial instruments at the 95% confidence level decreased to EUR 2.5 million as at the reporting date. The value of the securities portfolio was the most susceptible to the lowering of the Slovene government's sovereign debt rating and a consequently higher required rate of return.

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

In the context of RAF revision, the Bank also revised its internal capital adequacy assessment process (hereinafter: ICAAP). The Bank identified the risks encountered in its operations and among them identified material risks; 20 of 38 assessed risks were identified as material risks, of which 9 were identified as significantly material risks. For each material risk, one of the four treatment methods within the RAF was set, while for all significantly material risks support was provided for via the capital, capital buffers or liquidity buffers. In the reporting period, the Bank also verified its risk-bearing capacity in terms of capital, i.e. the minimum levels of key risk indicators which the Bank is required to continuously maintain in accordance with external and/or internal requirements. Because the external (regulatory) requirements for total capital are higher than the internal requirements, the Bank assessed its risk-bearing capacity on the basis of regulatory requirements.

As at the reporting date, the Bank disclosed higher consolidated total capital ratio and consolidated Common Equity Tier 1 capital ratio than required by the supervisor. For details see Note 21 – Capital, capital adequacy and leverage ratio in the Financial Report of the Abanka Group for the First Half of 2018. Despite high capital ratios, the Bank continues to implement its prudent capital management policy.

SIGNIFICANT TYPES OF RISKS AND UNCERTAINTIES IN THE SECOND HALF OF 2018

In the second half of 2018, the Bank will focus on further development of credit parameter assessment methodologies and continue to ensure the quality of the data for the assessment of the said parameters based on the evaluation results. The Bank will upgrade the technological support for the calculation of expected credit loss by implementing the modules that will allow for greater integration, better quality control of calculations and simulations. Furthermore, the monitoring of strategic and other operational limits will be upgraded in accordance with the revised RAF and various risk management policies will be re-examined. By doing this, the comprehensive revision of the RAF will be completed in the second half of 2018. An important part of the tasks will be updating the recovery plan. In the second half of the year, the Bank will continue with the activities of reducing the NPE portfolio in line with the NPE strategy despite the significant fall in the share of NPEs resulting from the package sale. A significant part of the activities will be the upgrade of the technological support in the credit ratings assignment process, which will take place in the second half of 2018, with a view to incorporate the new requirements introduced by IFRS 9.

The Bank plans to maintain a low appetite for market risk in the future. However, the realisation of collaterals in lending operations or potential debt-to-equity swaps may lead to a temporary growth of the equity and debt securities portfolio, increasing the Bank's market risk exposure. A potential increased exposure to market risk can also be caused by a counterparty's failure to meet its obligations from transactions in derivatives, which the Group is closing with high-street European banks.

It is foreseen that the good liquidity conditions will continue in the second half of 2018. Irrespective of the above, the Bank will further upgrade the liquidity management processes or the ILAAP. Furthermore, in the second half of 2018, it will continue not only to actively manage interest rate risk but also to upgrade interest rate risk measurement and management. The relevant software in this area is also being upgraded.

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

Apart from that, the Bank will upgrade the revised system of the ICAAP in line with the plan of activities for the current year.

CHANGES TO THE SUPERVISORY BOARD AND TO THE MANAGEMENT BOARD

CHANGES TO THE SUPERVISORY BOARD

As at the reporting date, the Supervisory Board was composed of Marko Garbajs as the Chairman of the Supervisory Board, Melita Malgaj Vice-Chairman and Alenka Vrhovnik Težak, Rok Pivk, Dejan Kaisersberger, Peter Merc, Bernarda Babič its members.

In the first half of 2018, the composition of the Supervisory Board changed. As at the 2017 year-end, the Supervisory Board was composed of Marko Garbajs as its Chairman, Melita Malgaj Vice-Chairman and Alenka Vrhovnik Težak, Rok Pivk, Dejan Kaisersberger, Peter Merc, Blaž Šterk its members. On 1 January 2018, Bernarda Babič started serving on the Board, whilst Blaž Šterk was the Supervisory Board member until 31 December 2017.

On 20 April 2018, the Supervisory Board took note of the resignation of the Supervisory Board Member Peter Merc, who resigned as a member of the Supervisory Board of Abanka d.d. as of 10 April 2018. He continued to serve as a member of the Supervisory Board until 9 July 2018.

On 22 May 2018, the Supervisory Board took note of the resignation Bernarda Babič, a member of the Supervisory Board whose term of office ended on 5 July 2018.

CHANGES TO THE MANAGEMENT BOARD

As at 30 June 2018, Abanka was governed by a three-member Management Board, composed of Jože Lenič as President and Matevž Slapničar and Matej Golob Matzele as members, which was the same composition as at the 2017 year-end.

FINANCIAL REPORT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of Abanka d.d. and the consolidated financial statements of the Abanka Group for the half-year ended 30 June 2018 (pages 34 to 47 of the Interim Report), the applied accounting policies, and the notes to the financial statements (pages 48 to 90 of the Interim Report).

The Management Board is responsible for preparing the financial statements for the half-year 2018 and 2017, which gives a true and fair representation of the financial position of the Bank and the Group as at 30 June 2018, and the results of their operations for the period then ended.

The Management Board confirms that accepted accounting policies adopted for the half year ended 30 June 2018 are consistent with those of the annual financial statements for the year ended 31 December 2017, with the exception of a change in the accounting policy regarding the recognition of tax on financial services and accounting standards and other amendments in force from 1 January 2018 onwards and endorsed by the EU. The Management Board also confirms that the condensed interim financial statements with the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group and in compliance with the relevant legislation and International Accounting Standard 34.

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

In the period ended 30 June 2018, Abanka d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 23 August 2018

Management Board

Matevž SLAPNIČAR
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Jože LENIČ
President of the Management Board

CONTENT

NOTE PAGE

(All amounts in EUR thousand unless otherwise stated)

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

UNAUDITED INCOME STATEMENT OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Period ended 30 June 2018	AMOUNT Period ended 30 June 2017 adjusted
1	2		3	4
1	Interest income	4	32,807	40,010
2	Interest expenses	4	(3,341)	(3,481)
3	**Net interest income (1+2)**		**29,466**	**36,529**
4	Dividend income		898	1,469
5	Fee and commission income	5	25,617	25,460
6	Fee and commission expenses	5	(7,077)	(6,205)
7	**Net fee and commission income (5+6)**		**18,540**	**19,255**
8	Net gains on financial assets and liabilities not measured at fair value through profit or loss	6	13,650	4,391
9	Net gains on financial assets and liabilities held for trading		1,804	1,040
10	Net gains on non-trading financial assets mandatorily at fair value through profit or loss	7	2,975	/
11	Net losses on financial assets and liabilities designated at fair value through profit or loss		(538)	(12)
12	Exchange differences		(489)	417
13	Net gains/(losses) on derecognition of non-financial assets		6	(10)
14	Net other operating expenses		(2,029)	(1,434)
15	Administrative expenses	8	(30,049)	(30,626)
16	Depreciation and amortisation	8	(3,563)	(3,729)
17	Net losses on modification of financial assets		(46)	/
18	Provisions	9	1,123	1,660
19	Impairment	10	12,234	6,946
20	Total profit from non-current assets held for sale	17	307	3
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7 to 20)		44,289	35,899
22	Tax expense related to profit from continuing operations		(3,875)	(3,444)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)		40,414	32,455
24	**NET PROFIT for the financial year (23)**		**40,414**	**32,455**

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

Management Board

Matevž SLAPNIČAR
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 48 to 90 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2018	AMOUNT Period ended 30 June 2017
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**40,414**	**32,455**
2	**OTHER COMPREHENSIVE LOSS AFTER TAX (3+4)**	**(110)**	**(6,859)**
3	**ITEMS THAT WILL NOT BE RECLASSIFIEDTO PROFIT OR LOSS (3.1 + 3.2)**	**400**	**-**
3.1	Fair value changes of equity instruments measured at fair value through other comprehensive income	494	-
3.2	Income tax relating to items that will not be reclassified to profit or loss	(94)	-
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1 + 4.2)**	**(510)**	**(6,859)**
4.1	Debt instruments at fair value through other comprehensive income (4.1.1 + 4.1.2)	(630)	(8,468)
4.1.1	Net valuation losses taken to equity	(650)	(5,296)
4.1.2	Net losses/(gains) transferred to profit or loss	20	(3,172)
4.2	Income tax relating to items that may be reclassified to profit or loss	120	1,609
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**40,304**	**25,596**

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

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Member of the Management Board

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Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 48 to 90 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF FINANCIAL POSITION OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 30 June 2018	As at 1 January 2018	As at 31 December 2017
1	2		3	4	5
1	Cash, cash balances with the central bank and other demand deposits with banks		439,953	411,665	411,665
2	Financial assets held for trading		3,244	3,048	3,048
3	Non-trading financial assets mandatorily at fair value through profit or loss	11	39,486	41,580	/
4	Available-for-sale financial assets (IAS 39)	12	/	/	1,090,690
5	Financial assets at fair value through other comprehensive income	13	172,847	173,619	/
6	Financial assets at amortised cost	14	2,987,710	2,925,826	/
	- debt securities		948,423	890,409	/
	- loans to banks		42,594	60,732	/
	- loans to non-bank customers		1,932,660	1,950,975	/
	- other financial assets		64,033	23,710	/
7	Loans and receivables (IAS 39)	15	/	/	2,066,543
	- loans to banks		/	/	60,745
	- loans to non-bank customers		/	/	1,982,137
	- other financial assets		/	/	23,661
8	Held-to-maturity investments (IAS 39)		/	/	15,408
9	Investments in subsidiaries	17	8,278	9,448	9,448
10	Tangible assets		35,238	36,412	36,412
	- property and equipment		35,026	36,228	36,228
	- investment property		212	184	184
11	Intangible assets		8,875	7,254	7,254
12	Tax assets		9,085	12,436	12,408
	- current tax assets		-	3,323	3,323
	- deferred tax assets		9,085	9,113	9,085
13	Other assets		2,980	2,303	2,302
14	Non-current assets held for sale		806	806	806
15	**TOTAL ASSETS (from 1 to 14)**		**3,708,502**	**3,624,397**	**3,655,984**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 30 June 2018	As at 1 January 2018	As at 31 December 2017
1	2		3	4	5
16	Financial liabilities held for trading		2,662	2,492	2,492
17	Financial liabilities designated at fair value through profit or loss		2,409	1,871	/
18	Financial liabilities at amortised cost		3,092,712	3,013,637	3,013,637
	- deposits from banks and the central bank		33,141	24,243	24,243
	- deposits from non-bank customers		2,879,730	2,860,697	2,860,697
	- loans from banks and the central bank		93,892	89,011	89,011
	- loans from non-bank customers		473	500	500
	- debt securities issued	18	13,394	13,021	13,021
	- other financial liabilities		72,082	26,165	26,165
19	Provisions	19	47,688	43,374	53,676
20	Tax liabilities		3,417	1,263	5,960
	- current tax liabilities		2,483	304	-
	- deferred tax liabilities		934	959	5,960
21	Other liabilities		1,520	1,366	1,276
22	TOTAL LIABILITIES (from 16 to 21)		3,150,408	3,064,003	3,077,041
23	Share capital		151,000	151,000	151,000
24	Share premium		282,459	282,459	282,459
25	Accumulated other comprehensive income		3,721	3,831	33,317
26	Reserves from profit		51,710	51,710	51,710
27	Retained earnings (including income from the current year)		69,204	71,394	60,457
28	TOTAL EQUITY (from 23 to 27)		558,094	560,394	578,943
29	**TOTAL LIABILITIES AND EQUITY (22+28)**		**3,708,502**	**3,624,397**	**3,655,984**

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

Management Board

Matevž SLAPNIČAR
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 48 to 90 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 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 transition)	**151,000**	**282,459**	**33,317**	**51,710**	**60,457**	**578,943**
2	Transition to IFRS 9 (Note 2)	-	-	(29,486)	-	10,937	**(18,549)**
3	**OPENING BALANCE FOR THE REPORTING PERIOD (1+2)**	**151,000**	**282,459**	**3,831**	**51,710**	**71,394**	**560,394**
4	**Comprehensive income for the financial year after tax**	**-**	**-**	**(110)**	**-**	**40,414**	**40,304**
5	Dividends (Note 20)	-	-	-	-	(42,620)	**(42,620)**
6	Other	-	-	-	-	16	**16**
7	**CLOSING BALANCE FOR THE REPORTING PERIOD (3+4+5+6)**	**151,000**	**282,459**	**3,721**	**51,710**	**69,204**	**558,094**

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

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

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

Management Board

Matevž SLAPNIČAR
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 48 to 90 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CASH FLOW STATEMENT OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Period ended 30 June 2018	Period ended 30 June 2017
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit before tax		44,289	35,899
	Depreciation and amortisation		3,563	3,729
	Impairments of investments in debt securities measured at fair value through other comprehensive income	10	18	-
	(Reversal of impairments) of loans and other financial assets measured at amortised cost	10	(12,330)	(6,946)
	Impairments of other assets	10	44	-
	Net losses/(gains) from exchange differences		489	(417)
	Net (gains)/losses from sale of tangible assets		(6)	6
	Net losses from sale of intangible assets		-	1
	Other (gains) from investing activities	22	(4,485)	(464)
	Net (gains) from sale of investment in a subsidiary	17	(307)	-
	Other adjustments to total profit or loss before tax	22	(1,122)	(1,656)
	Cash flows from operating activities before changes in operating assets and liabilities		**30,153**	**30,152**
b)	**Decreases/(increases) in operating assets (excluding cash & cash equivalents)**		**181**	**(1,137)**
	Net (increase)/decrease in financial assets held for trading		(192)	1,705
	Net decrease in non-trading financial assets mandatorily at fair value through profit or loss		2,094	11,365
	Net decrease in financial assets measured at fair value through other comprehensive income		1,103	-
	Net (increase) in loans and other financial assets measured at amortised cost		(2,102)	(13,431)
	Net (increase) in other assets		(722)	(776)
c)	**Increases in operating liabilities**		**75,845**	**51,423**
	Net increase/(decrease) in financial liabilities held for trading		170	(1,951)
	Net increase in financial liabilities designated at fair value through profit or loss		538	-
	Net increase in received deposits and loans measured at amortised cost		74,610	62,024
	Net increase/(decrease) in debt securities issued measured at amortised cost		373	(8,257)
	Net increase/(decrease) in other liabilities		154	(393)
d)	**Cash flows from operating activities (a+b+c)**		**106,179**	**80,438**
e)	**Income taxes refunded/(paid)**		**1,664**	**(7,078)**
f)	**Net cash flows from operating activities (d+e)**		**107,843**	**73,360**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Period ended 30 June 2018	AMOUNT Period ended 30 June 2017
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**123,417**	**17,511**
	Receipts from the sale of tangible assets		67	86
	Receipts from the disposal of a subsidiary		831	-
	Receipts from the disposal and maturity of investments in debt securities measured at amortised cost		122,519	17,422
	Receipts from non-current assets held for sale		-	3
b)	**Cash payments on investing activities**		**(179,250)**	**(1,604)**
	(Cash payments to acquire tangible assets)		(787)	(524)
	(Cash payments to acquire intangible assets)		(3,287)	(1,080)
	(Cash payments to acquire debt securities measured at amortised cost)		(175,176)	-
c)	**Net cash flows from investing activities (a+b)**		**(55,833)**	**15,907**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**-**	**-**
b)	**Cash payments on financing activities**		**(42,620)**	**(68,991)**
	(Dividends paid)	20	(42,620)	(68,991)
c)	**Net cash flows from financing activities (a+b)**		**(42,620)**	**(68,991)**
D	Effects of change in exchange rates on cash and cash equivalents		2,220	(5,755)
E	**Net increase in cash and cash equivalents (Af+Bc+Cc)**		**9,390**	**20,276**
F	**Opening balance of cash and cash equivalents**		**459,907**	**385,760**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**22**	**471,517**	**400,281**

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

Management Board

Matevž SLAPNIČAR
Member of the Management Board

Matej GOLOB MATZELE
Member of the Management Board

Jože LENIČ
President of the Management Board



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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED INCOME STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Period ended 30 June 2018	Period ended 30 June 2017 adjusted
1	2		3	4
1	Interest income	4	33,244	40,817
2	Interest expenses	4	(3,345)	(3,487)
3	**Net interest income (1+2)**		**29,899**	**37,330**
4	Dividend income		898	1,469
5	Fee and commission income	5	25,608	25,453
6	Fee and commission expenses	5	(7,120)	(6,236)
7	**Net fee and commission income (5+6)**		**18,488**	**19,217**
8	Net gains on financial assets and liabilities not measured at fair value through profit or loss	6	13,650	4,391
9	Net gains on financial assets and liabilities held for trading		1,804	1,040
10	Net gains on non-trading financial assets mandatorily at fair value through profit or loss	7	2,975	/
11	Net losses on financial assets and liabilities designated at fair value through profit or loss		(538)	(12)
12	Exchange differences		(489)	417
13	Net gains/(losses) on derecognition of non-financial assets		28	(5)
14	Net other operating expenses		(1,801)	(1,248)
15	Administrative expenses	8	(30,868)	(31,818)
16	Depreciation and amortisation	8	(3,948)	(4,317)
17	Net losses on modification of financial assets		(46)	/
18	Provisions	9	1,123	1,656
19	Impairment	10	12,702	7,939
20	Total (loss)/profit from non-current assets held for sale	17	(1,115)	3
21	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7 to 20)		42,762	36,062
22	Tax expense related to profit from continuing operations		(3,889)	(3,513)
23	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (21+22)		38,873	32,549
24	**NET PROFIT for the financial year (23)**		**38,873**	**32,549**

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2018	Period ended 30 June 2017
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**38,873**	**32,549**
2	**OTHER COMPREHENSIVE LOSS AFTER TAX (3+4)**	**(110)**	**(6,859)**
3	**ITEMS THAT WILL NOT BE RECLASSIFIEDTO PROFIT OR LOSS (3.1 + 3.2)**	**400**	**-**
3.1	Fair value changes of equity instruments measured at fair value through other comprehensive income	494	-
3.2	Income tax relating to items that will not be reclassified to profit or loss	(94)	-
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS (4.1 + 4.2)**	**(510)**	**(6,859)**
4.1	Debt instruments at fair value through other comprehensive income (4.1.1 + 4.1.2)	(630)	(8,468)
4.1.1	Net valuation losses taken to equity	(650)	(5,296)
4.1.2	Net losses/(gains) transferred to profit or loss	20	(3,172)
4.2	Income tax relating to items that may be reclassified to profit or loss	120	1,609
5	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**38,763**	**25,690**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 30 June 2018	As at 1 January 2018	As at 31 December 2017
1	2		3	4	5
1	Cash, cash balances with the central bank and other demand deposits with banks		440,045	412,168	412,168
2	Financial assets held for trading		3,244	3,048	3,048
3	Non-trading financial assets mandatorily at fair value through profit or loss	11	39,486	41,580	/
4	Available-for-sale financial assets (IAS 39)	12	/	/	1,090,690
5	Financial assets at fair value through other comprehensive income	13	172,847	173,619	/
6	Financial assets at amortised cost	14	2,976,935	2,911,237	/
	- debt securities		948,423	890,409	/
	- loans to banks		42,594	60,732	/
	- loans to non-bank customers		1,921,620	1,936,130	/
	- other financial assets		64,298	23,966	/
7	Loans and receivables (IAS 39)	15	/	/	2,052,122
	- loans to banks		/	/	60,745
	- loans to non-bank customers		/	/	1,967,460
	- other financial assets		/	/	23,917
8	Held-to-maturity investments (IAS 39)		/	/	15,408
9	Tangible assets		42,212	45,985	45,985
	- property and equipment		35,275	38,963	38,963
	- investment property		6,937	7,022	7,022
10	Intangible assets		9,029	7,427	7,427
11	Tax assets		9,085	12,324	12,296
	- current tax assets		-	3,164	3,164
	- deferred tax assets		9,085	9,160	9,132
12	Other assets		13,610	13,963	13,962
13	Non-current assets held for sale		1,071	1,071	1,071
14	**TOTAL ASSETS (from 1 to 13)**		**3,707,564**	**3,622,422**	**3,654,177**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 30 June 2018	As at 1 January 2018	As at 31 December 2017
1	2		3	4	5
15	Financial liabilities held for trading		2,662	2,492	2,492
16	Financial liabilities designated at fair value through profit or loss		2,409	1,871	/
17	Financial liabilities at amortised cost		3,090,435	3,008,973	3,008,973
	- deposits from banks and the central bank		33,141	24,243	24,243
	- deposits from non-bank customers		2,876,885	2,855,544	2,855,544
	- loans from banks and the central bank		93,892	89,011	89,011
	- loans from non-bank customers		473	482	482
	- debt securities issued	18	13,394	13,021	13,021
	- other financial liabilities		72,650	26,672	26,672
18	Provisions	19	47,739	43,500	53,796
19	Tax liabilities		3,316	1,263	5,960
	- current tax liabilities		2,382	304	-
	- deferred tax liabilities		934	959	5,960
20	Other liabilities		3,284	2,763	2,673
21	TOTAL LIABILITIES (from 15 to 20)		3,149,845	3,060,862	3,073,894
22	Share capital		151,000	151,000	151,000
23	Share premium		282,459	282,459	282,459
24	Accumulated other comprehensive income		3,718	3,798	33,284
25	Reserves from profit		51,717	51,760	51,760
26	Retained earnings (including income from the current year)		68,825	72,543	61,780
27	TOTAL EQUITY (from 22 to 26)		557,719	561,560	580,283
28	**TOTAL LIABILITIES AND EQUITY (21+27)**		**3,707,564**	**3,622,422**	**3,654,177**

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Management Board

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Jože LENIČ
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 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 transition)	**151,000**	**282,459**	**33,284**	**51,760**	**61,780**	**580,283**
2	Transition to IFRS 9 (Note 2)	-	-	(29,486)	-	10,763	**(18,723)**
3	**OPENING BALANCE FOR THE REPORTING PERIOD (1+2)**	**151,000**	**282,459**	**3,798**	**51,760**	**72,543**	**561,560**
4	**Comprehensive income for the financial year after tax**	**-**	**-**	**(110)**	**-**	**38,873**	**38,763**
5	Dividends (Note 20)	-	-	-	-	(42,620)	**(42,620)**
6	Other	-	-	30	(43)	29	**16**
7	**CLOSING BALANCE FOR THE REPORTING PERIOD (3+4+5+6)**	**151,000**	**282,459**	**3,718**	**51,717**	**68,825**	**557,719**

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

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

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

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Jože LENIČ
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Period ended 30 June 2018	Period ended 30 June 2017
1	2		3	4
A	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit before tax		42,762	36,062
	Depreciation and amortisation		3,948	4,317
	Impairments of investments in debt securities measured at fair value through other comprehensive income	10	18	-
	(Reversal of impairments) of loans and other financial assets measured at amortised cost	10	(12,314)	(6,247)
	(Reversal of impairments) of other assets	10	(440)	(1,692)
	Net losses/(gains) from exchange differences		489	(417)
	Net (gains)/losses from sale of tangible assets		(28)	1
	Net losses from sale of intangible assets		-	1
	Other (gains) from investing activities	22	(4,485)	(464)
	Net loss from sale of investment in a subsidiary	17	1,115	-
	Other adjustments to total profit or loss before tax	22	(1,122)	(1,652)
	Cash flows from operating activities before changes in operating assets and liabilities		**29,943**	**29,909**
b)	**(Increases) in operating assets (excluding cash & cash equivalents)**		**(2,074)**	**(14)**
	Net (increase)/decrease in financial assets held for trading		(192)	1,705
	Net decrease in non-trading financial assets mandatorily at fair value through profit or loss		2,094	11,365
	Net decrease in financial assets measured at fair value through other comprehensive income		1,103	-
	Net (increase) in loans and other financial assets measured at amortised cost		(5,712)	(14,732)
	Net decrease in non-current assets held for sale		-	167
	Net decrease in other assets		633	1,481
c)	**Increases in operating liabilities**		**78,599**	**50,518**
	Net increase/(decrease) in financial liabilities held for trading		170	(1,951)
	Net increase in financial liabilities designated at fair value through profit or loss		538	-
	Net increase in received deposits and loans measured at amortised cost		76,997	60,412
	Net increase/(decrease) in debt securities issued measured at amortised cost		373	(8,257)
	Net increase in other liabilities		521	314
d)	**Cash flows from operating activities (a+b+c)**		**106,468**	**80,413**
e)	**Income taxes refunded/(paid)**		**1,366**	**(7,120)**
f)	**Net cash flows from operating activities (d+e)**		**107,834**	**73,293**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Period ended 30 June 2018	 Period ended 30 June 2017
1	2		3	4
B	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**123,731**	**18,623**
	Receipts from the sale of tangible assets		381	1,198
	Receipts from the disposal of a subsidiary		831	-
	Receipts from the disposal and maturity of investments in debt securities measured at amortised cost		122,519	17,422
	Receipts from non-current assets held for sale		-	3
b)	**Cash payments on investing activities**		**(179,966)**	**(2,112)**
	(Cash payments to acquire tangible assets)		(1,480)	(1,024)
	(Cash payments to acquire intangible assets)		(3,310)	(1,088)
	(Cash payments to acquire debt securities measured at amortised cost)		(175,176)	-
c)	**Net cash flows from investing activities (a+b)**		**(56,235)**	**16,511**
C	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**-**	**-**
b)	**Cash payments on financing activities**		**(42,620)**	**(68,991)**
	(Dividends paid)	20	(42,620)	(68,991)
c)	**Net cash flows from financing activities (a+b)**		**(42,620)**	**(68,991)**
D	Effects of change in exchange rates on cash and cash equivalents		2,220	(5,755)
E	**Net increase in cash and cash equivalents (Af+Bc+Cc)**		**8,979**	**20,813**
F	**Opening balance of cash and cash equivalents**		**460,410**	**385,778**
G	**Closing balance of cash and cash equivalents (D+E+F)**	**22**	**471,609**	**400,836**

These interim financial statements were approved for issue by the Management Board on 23 August 2018.

Management Board

Matevž SLAPNIČAR
Member of the Management Board

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Member of the Management Board

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President of the Management Board

The notes on pages 48 to 90 are an integral part of these interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity
Abanka d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the half year ended 30 June 2018 comprise the Bank and its subsidiary (together referred to as the "Group" and individually as "Group entity"). The Group is primarily involved in corporate, retail and investment banking.

1.1 Basis of preparation

a) Basis of preparation
Accepted accounting policies, applied in the preparation of the financial statements for the half year ended 30 June 2018, are consistent with those used for the preparation of the annual report for the year ended 31 December 2017, except for the change in the accounting policy for the recognition of tax on financial services (Note 1.1 h Comparative data), and accounting standards and other amendments applicable from 1 January 2018 onwards and endorsed by the EU. Accepted accounted policies have been used on a consistent basis, and the accounting estimates have been made in compliance with the principles of prudence and good management. The Management Board confirms that the condensed interim financial statements and the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group for the period of assessment, being twelve months from the date of approval of these interim financial statements and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

b) Statement of compliance
The condensed interim financial statements of the Bank and the consolidated financial statements for the half-year ended 30 June 2018 have been compiled in accordance with IAS 34 "Interim Financial Reporting". Annual financial statements of the Bank and of the Group have been compiled in accordance with the International Financial Reporting Standards as adopted by the European Union. The interim half-yearly financial statements contain less comprehensive explanatory notes and disclosures than the financial statements that form part of the Annual Report. The half-yearly financial statements have been compiled in condensed form, and must therefore be read in conjunction with the annual financial statements for the 2017 financial year.

c) Functional and presentation currency
The condensed interim financial statements of the Bank and the consolidated financial statements are presented in euros, which is the Bank's functional currency. All financial information presented in euros has been rounded to the nearest thousand unless otherwise stated. Due to rounding, minor differences may occur.

d) Standards, interpretations and amendments effective for the financial year beginning on 1 January 2018
Among the standards effective on 1 January 2018, IFRS 9 – Financial Instruments is the most significant for the Group in terms of financial statements. More about the standard itself and the transition impact is presented in Note 2 IFRS 9 – Financial Instruments (including the transition impact).

Other standards, interpretations and amendments effective for the financial year beginning on 1 January 2018 are as follows:

- IFRS 15 "Revenue from Contracts with Customers" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);

- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 Financial Instruments is applied first time);
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions - adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 “Investment Property” – Transfers of Investment Property - adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” - adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

e) Standards, interpretations and amendments not yet effective for the financial year beginning on 1 January 2018

The Group decided not to early apply the following published standards and interpretations approved by the EU but not yet effective for the financial year beginning on 1 January 2018:

- IFRS 16 “Leases” - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- 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).

The Group estimates that the introduction of IFRS 16 and amendments to IFRS 9 will not have a material impact on the Group's financial statements.

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

- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021);
- IFRIC 23 “Uncertainty over Income Tax Treatments” (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 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019);
- Amendments to “References to the Conceptual Framework in IFRS Standards” (effective for annual periods beginning on or after 1 January 2020).

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

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

g) Information in the selected notes to the financial statements

Disclosures in the notes to the financial statements are presented for the Bank and for the Group separately. In the cases of completely identical information for the Bank and the Group, only information for the Group is presented. Notes 3 and 26 are prepared on a consolidated basis, as there are no significant differences between the Bank and the Group.

h) Comparative data

- IFRS 9

In comparison with the presentation of the financial statements for the year ended 31 December 2017, the presentation of the income statement, the statement of financial position and the cash flow statement changed due to the adjustments following the implementation of IFRS 9 and the changes prescribed by the Bank of Slovenia. In accordance with the provisions of the transition to IFRS 9, the Bank has chosen the option of not restating comparative data in the financial statements for 2018, therefore these condensed interim statements for 2017 are presented in accordance with IAS 39 and for 2018 in accordance with IFRS 9.

- Tax on financial services (TFS)

In 2018 the Group began to recognise tax on financial services as income reduction (under the net principle), which was recognised as other operating expense until then. Consequently, the comparative data in the income statement for 2017 changed for the following items: interest income, fee and commission income and net other operating income/(expenses). Interest income (from loans to non-bank customers) decreased by EUR 126 thousand and fee and commission income by EUR 1,716 thousand, whilst net other operating expenses fell by EUR 1,842 thousand. The net operating profit remains unchanged.

2 IFRS 9 – FINANCIAL INSTRUMENTS (INCLUDING THE TRANSITION IMPACT)

On 24 July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial instruments, which was adopted in the EU on 22 November 2016 by means of Commission Regulation (EU) 2016/2067. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and fully replaces IAS 39 Financial Instruments: Recognition and Measurement.

In October 2017, the IASB issued Prepayment Features With Negative Compensation, an amendment to IFRS 9. The amendment is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted.

The Group first used IFRS 9 as at 1 January 2018 and did not use the possibility of earlier application of the above amendments to IFRS 9.

1. <u>Classification and measurement</u>

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

1. the model whose objective is to hold the financial asset to collect the contractual cash flows (measurement at amortised cost),
2. the model whose objective is achieved by collecting contractual cash flows and selling financial assets (measurement at fair value through other comprehensive income – FVTOCI),
3. other models (measurement at fair value through profit or loss – FVTPL 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 the management. In defining a business model, the Group takes into account the following information:

- the 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 management of the Bank;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and particularly the way those risks are managed;
- 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 intended to regulate operational, current 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, which are intended to regulate operational, current liquidity and are, as a rule, 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 strategic nature for the Bank) and
- equity securities that support the principal activity of the Bank (of infrastructure nature for the Bank) and were in accordance with IAS 39 classified as available-for-sale financial assets.

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 hedging of other positions;
- structured products;
- securities held for trading;

- equity securities for which the option of irrevocable election of measurement at fair value through other comprehensive income was 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.

The assessment whether the contractual cash flows meet the solely payments of principal and interest (SPPI) criterion (the SPPI test)
The Group performs the SPPI test for the debt instruments in a hold-to-collect or hold-to-collect or sell business model. For this purpose, the principal is the fair value of the financial asset on initial recognition. Interest is consideration for the time value of money, credit risk relating to the outstanding principal, other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows meet the solely payments of principal and interest criterion, the Group assesses the contractual features of a financial instrument. This includes the judgement whether a financial asset contains the 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 is 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 in respect of the cash flows of certain assets (e.g. the subordination of payments);
- the features that change the perception of the time value of money (e.g. interest rates are periodically reset).

Following the introduction of IFRS 9, the Group identified a few cases of financial assets where the contractual cash flows were not solely payments of principal and interest.

2. <u>Impairment of financial assets and provisions</u>
Compared to IAS 39, IFRS 9 introduces the forward-looking expected loss model instead of the incurred loss model. This requires significant judgements about how the changes in economic factors affect the expected credit losses, which are set based on the probability-weighted average.

The new impairment model applies to the following financial instruments not measured at fair value through profit or loss:
- debt-type financial assets,
- lease receivables and
- off-balance sheet assets arising from potential loan commitments and financial guarantee contracts (before IFRS 9, these assets were impaired in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

In accordance with IFRS 9, an impairment loss is not recognised in the case of equity securities.

In general, IFRS 9 makes a distinction in the recognition of loss between 12-month expected credit losses and full lifetime expected credit losses. In view of the above, the Group classifies the financial assets subject to impairment in accordance with IFRS 9 into the following groups:
- **Stage 1** – a financial asset is classified into Stage 1 upon initial recognition and remains there until a significant increase in credit risk has been identified. Impairment is calculated on the basis of 12-month expected credit losses. Interest income is calculated on the gross carrying value of the asset;
- **Stage 2** – a financial asset is reclassified into Stage 2 once an increased credit risk has been identified and remains there until the occurrence of a default event. Any payment more than 30 days past due shall be considered an increased credit risk. Impairment is calculated on the basis of full lifetime expected credit losses. Interest income is calculated on the gross carrying value of the asset;
- **Stage 3** – a financial asset is reclassified into Stage 3 when there is objective evidence of impairment or when a default event has occurred (i.e. non-performing exposures pursuant to Article 178 of the CRR); stage 3 also includes purchased or originated credit-impaired (POCI) financial assets. Impairment is calculated on the basis of full lifetime expected credit losses. Interest income is calculated on the net carrying value of the asset.

The IFRS 9 requirements regarding impairments are complex and require significant judgements of the management as well as estimates and assumptions, particularly in the following areas that are presented in more detail below:
- assessment of a significant increase in credit risk since initial recognition;
- inclusion of forward-looking information in the measurement of expected credit losses.

Measuring expected credit loss
An expected credit loss is a probability-weighted estimate of credit losses and is 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 the contractual cash flows if the loan is drawn down and the expected cash flows;
- financial guarantees: the present value of expected payments to the guarantee holder less any amounts that the Group expects to replace.

Definition of default
In accordance with IFRS 9, the Group defined that a financial asset is in default when the following applies:
- unlikely to pay,
- 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 the debtor is in default, the Group takes into account the following factors:
- qualitative: e.g. breach of loan commitments;
- quantitative: e.g. the status of past-due and defaulted other obligations of the same debtor;
- on the basis of the data obtained from internal and external sources.

Significant increase in credit risk
The Group classifies financial assets based on the following criteria reflecting a significant increase in credit risk:
- the credit rating or changes in the credit rating as a result of early identification of an increased credit risk (the Early Warning System);
- the debtor has been added to the watch list;
- change in the repayment terms of the financial asset because of the debtor’s failure to pay the debt under the initially agreed terms and conditions (restructuring of the financial asset);
- a significant loan obligation is over 30 days past due.

Inputs in the calculation of expected credit losses
The inputs used in the calculation of expected credit losses are as follows:
- probability of default (PD),
- loss given default (LGD),
- exposure at default (EAD), including 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 the characteristics relating to the segments of exposure to corporate entities, the retail customers and the state. They are adjusted to forward-looking information as described below.
<u>Probability of default estimation</u> is an estimate on a given day, which will be 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 (e.g. in the case of debt securities). In the event that the exposure or customer moves between different rating grades, this will lead to a change in the estimated PD. The estimated PD is adjusted to various macroeconomic scenarios.
<u>Size of loss at default:</u> 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.
<u>Exposure at default</u> is the expected exposure upon the occurrence of an event of default. The Group estimates EAD for each future month. The starting point is the current exposure of the Group, which is monitored based on the estimated changes in exposure. In the case of transactions with a contractual amortisation schedule, the exposure is estimated on the

basis of the amortisation plan adjusted for any advance payments and potential late payments (hereinafter: the late payment scenario). In the case of transactions without a predefined amortisation schedule, EAD of the drawn portion of the exposure is equal to the drawn amount up to 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 up to 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 set conversion factor when the Group does not have enough available historical data on actual drawn amounts.

Forward-looking information

In accordance with IFRS 9, the Group incorporated forward-looking information in the calculation of expected credit losses. For this purpose, the baseline scenario of future developments in macroeconomic variables and the set of other possible scenarios were designed. This process includes the development of two additional macroeconomic scenarios and an assessment of the relative likelihood of their result. External sources of information used for this purpose include publicly available economic data and forecasts of governmental and monetary organisations as well as selected expert assessments.

The baseline scenario represents the most likely outcome and is in line with the information used by the Group for planning purposes. The other two scenarios include the optimistic scenario, which assumes a more favourable economic environment in the future than that forecast in the baseline scenario, and the pessimistic scenario, which assumes a deteriorating economic environment compared to the one used in the baseline scenario.

The Group defined and documented the credit risk key factors and related losses and assessed the connection between macroeconomic variables and the credit risk and related losses by using historical data. The key factors primarily include the unemployment rate and GDP forecasts.

3. Hedge accounting

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

2.1 Transition to IFRS 9

Changes in accounting policies were mostly applied retrospectively, except in the following cases:

- The Group used the exception that allows comparative information from prior periods not to be restated in accordance with IAS 8 due to the effects of classification and measurement (including impairments). The differences in the carrying amount of financial assets resulting from the introduction of IFRS 9 are recognised in retained earnings as at 1 January 2018 (Notes 2.1.1 and 2.1.2).
- In view of the facts and circumstances existing at the date of the first application, the following assessments were made:
  - The definition of the business model, within which a financial asset is held;
  - Determining that equity securities not held for trading will be measured at fair value through other comprehensive income.
- As the starting point in the classification of loans into stages, the Group took into account the balance of loans as at 31 December 2015. This is the first date of the end of the year after Abanka and Banka Celje were merged and the date as of which data are harmonised and comparable. From that date onwards, the Group has checked whether a significant risk occurred for the customers who have been classified into the highest (Stage 1) rating grades as at 31 December 2015.
- For the purpose of transition to IFRS 9, material financial assets (without taking into account guarantees) granted to certain debtors classified into D or E credit rating categories as at 31 December 2015 were classified as purchased or originated credit-impaired (POCI) financial assets. The Group assessed that it was not necessary to calculate the effect of contract modification as at 1 January 2018, as the latter would have been immaterial.

Impacts of transition to IFRS 9

The total impact of the implementation of IFRS 9 on the Group's retained earnings from the transition to IFRS 9 as at 1 January 2018 is EUR 10,763 thousand (Note 2.1.2), while the impact on retained earnings of the Bank amounts to EUR 10,937 thousand (Note 2.1.1). The impact of the Bank is accounted for by:

- an increase of EUR 4,614 thousand resulting from the impact of classification and measurement (an increase of EUR 7,750 thousand from equity securities valued at fair value through profit or loss and a decrease of EUR 3,136 thousand from loans mandatorily measured at fair value through profit or loss),
- an increase of EUR 6,627 thousand resulting from the impact of impairments and provisions (an increase of EUR 10,302 thousand from provisions and a decrease of EUR 3,675 thousand from impairments),
- a decrease of EUR 304 thousand resulting from the impact of current and deferred taxes.

Regulatory capital (taking into account all the effects as if they were audited) is increased by EUR 1,722 thousand. Changes in classification and measurement led to a decrease in regulatory capital by EUR 4,269 thousand, and changes in impairments and provisions to its increase by EUR 5,991 thousand. The impact on regulatory capital is presented in Note 2.1.3.

In the period up to the completion of the preparation of the first annual financial statements, which include the date of first application, the Bank may change the tax treatment of deferred tax on impairment of equity securities reclassified into the category at fair value through profit or loss and the new accounting policies, assumptions, judgments and assessment techniques currently in place.

2.1.1 The breakdown of the impact of transition to IFRS 9 as at 1 January 2018 – Abanka

The implementation of IFRS 9 impacted the classification and measurement of financial assets as at 1 January 2018 as described below.

- Assets held for trading and derivatives designated as a hedging instrument, which were classified as financial assets held for trading and measured at fair value through profit or loss in accordance with IAS 39, continue to be measured at fair value through profit or loss even in accordance with IFRS 9.
- Loans classified as loans and receivables and measured at amortised cost in accordance with IAS 39 continue to be, for the most part, measured at amortised cost in accordance with IFRS 9; however, a few are measured at fair value because they failed the SPPI test.
- Securities classified as held-to-maturity investments and measured at amortised cost in accordance with IAS 39 continue to be measured at amortised cost in accordance with IFRS 9.
- In accordance with IFRS 9, debt securities classified as available-for-sale financial assets in accordance with IAS 39 are to a greater extent measured at amortised cost and to a lesser extent at fair value through other comprehensive income. Due to the reversal of revaluation of debt securities measured at amortised cost in accordance with IFRS 9, the regulatory capital of the Group decreased by EUR 3,830 thousand.
- The majority of equity securities classified as available-for-sale financial assets in accordance with IAS 39 are measured at fair value through profit or loss in accordance with IFRS 9. In relation to equity securities held for long-term strategic purposes and which are of infrastructure nature for the Group and not held for trading, as at 1 January 2018 the Group chose the irrevocable option of valuation at fair value through other comprehensive income.

(All amounts in EUR thousand unless otherwise stated)

a) Financial assets

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
At amortised cost				
Cash, cash balances with the central bank and other demand deposits with banks	411,665			411,665
Debt securities measured at amortised cost				
Opening balance	–			
Reclassification from the category held to maturity (IAS 39)		15,408		
Reclassification from the category available for sale (IAS 39)		901,893		
Remeasurement - from fair value to amortised cost			(26,744)	
Remeasurement - formed impairments			(148)	
Closing balance				890,409
Loans to banks measured at amortised cost				
Opening balance	60,745			
Remeasurement - formed impairments			(13)	
Closing balance				60,732
Loans to non-bank customers measured at amortised cost				
Opening balance	1,982,137			
Reclassification to the category non-trading financial assets mandatorily at fair value through profit or loss		(29,538)		
Transfer of unamortised fees for approval to liabilities		89		
Remeasurement - impairments (additionally formed or canceled)			(1,713)	
Closing balance				1,950,975
Other financial assets measured at amortised cost				
Opening balance	23,661			
Remeasurement - canceled impairments			49	
Closing balance				23,710
Held-to-maturity investments				
Opening balance	15,408			
Reclassification to the category debt securities measured at amortised cost		(15,408)		
Closing balance				–
Other assets				
Opening balance	2,302			
Remeasurement - canceled impairments			1	
Closing balance				2,303
Total financial assets measured at amortised cost	**2,495,918**	**872,444**	**(28,568)**	**3,339,794**
At fair value through profit or loss				
Financial assets held for trading	3,048			3,048
Non-trading financial assets mandatorily at fair value through profit or loss				
Opening balance	–			
Reclassification from the category loans to non-bank customers (amortised cost)		29,538		
Reclassification of debt securities from the category available for sale (IAS 39)		15,178		
Remeasurement of loans - from amortised cost to fair value			(3,136)	
Closing balance				41,580
Total financial assets measured at fair value through profit or loss	**3,048**	**44,716**	**(3,136)**	**44,628**

(All amounts in EUR thousand unless otherwise stated)

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
At fair value through other comprehensive income				
Available-for-sale financial assets				
Opening balance	1,090,690			
Reclassification to the category at amortised cost (securities)		(901,893)		
Reclassification to the category non-trading financial assets mandatorily at fair value through profit or loss		(15,178)		
Reclassification to the category at fair value through other comprehensive income (debt instruments)		(142,828)		
Reclassification to the category at fair value through other comprehensive income (equity instruments)		(30,791)		
Closing balance				–
Financial assets measured at fair value through other comprehensive income (debt instruments)				
Opening balance	–			
Reclassification from the category available for sale (IAS 39)		142,828		
Closing balance				142,828
Financial assets measured at fair value through other comprehensive income (equity instruments)				
Opening balance	–			
Reclassification from the category available for sale (IAS 39)		30,791		
Closing balance				30,791
Total financial assets measured at fair value through other comprehensive income	**1,090,690**	**(917,071)**	**–**	**173,619**

b) Financial liabilities

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
At fair value through profit or loss				
Financial liabilities designated at fair value through profit or loss				
Opening balance	–			
Effects of measurement of undrawn loan commitments mandatorily measured at fair value through profit or loss			1,871	
Closing balance				1,871

(All amounts in EUR thousand unless otherwise stated)

c) Income tax assets and liabilities

	IAS 39 carrying amount 31 December 2017	Increase or (decrease)	IFRS 9 carrying amount 1 January 2018
Income tax assets			
Opening balance	12,408		
Deferred income tax assets for impairment of debt securities measured at amortised cost		28	
Closing balance			12,436
Income tax liabilities			
Opening balance	5,960		
Corporate income tax liability - transition to IFRS 9		304	
Reversal of deferred income tax liability on valuation of debt securities available for sale under IAS 39, reclassified to the category at amortised cost at transition to IFRS 9		(5,081)	
Deferred income tax liability on valuation of equity securities available for sale under IAS 39, reclassified to the category non-trading financial assets mandatorily at fair value through profit or loss at transition to IFRS 9		80	
Closing balance			1,263

d) Impairments and provisions

	31 December 2017 impairments in accordance with IAS 39 / provisions in accordance with IAS 37	Interest impairments 31 December 2017	Reclassification	Remeasurement	1 January 2018 impairments in accordance with IFRS 9
Loans and receivables in accordance with IAS 39 / Financial assets at amortised cost in accordance with IFRS 9	(182,384)	(12,479)	69,467	(1,199)	(126,595)
Loans and receivables - to banks	–	–	–	(13)	(13)
Loans and receivables - to non-bank customers	(182,030)	(11,714)	69,467	(1,713)	(125,990)
Loans and receivables - other financial assets	(354)	(765)	–	527	(592)
Held-to-maturity investments in accordance with IAS 39 / Financial assets at amortised cost in accordance with IFRS 9	–	–	–	(1)	(1)
Loans and receivables in accordance with IAS 39 / Financial assets at fair value through profit or loss in accordance with IFRS 9	(26,556)	(1,333)	27,889	–	–
Debt securities available for sale in accordance with IAS 39 / Financial assets at amortised cost in accordance with IFRS 9	–	–	–	(148)	(148)
Debt securities available for sale in accordance with IAS 39 / Debt instruments at FVOCI in accordance with IFRS 9	–	–	–	(8)	(8)
Total impairments	**(208,940)**	**(13,812)**	**97,356**	**(1,356)**	**(126,752)**
Provisions for guarantees and commitments	(29,644)	–	–	10,302	(19,342)
Total impairments and provisions	**(238,584)**	**(13,812)**	**97,356**	**8,946**	**(146,094)**

(All amounts in EUR thousand unless otherwise stated)

e) Other comprehensive income

	IAS 39 carrying amount 31 December 2017	Transition effects	IFRS 9 carrying amount 1 January 2018
Opening balance	33,317		
Reversal of valuation due to the transfer of debt securities to the amortised cost category		(26,744)	
Transfer of valuation due to the transfer of equity securities from the category available for sale to the category mandatorily measured at fair value through profit or loss		(9,667)	
Reversal of deferred taxes (debt and equity securities) due to transfer between categories		6,917	
Additional impairments of debt securities measured at fair value through other comprehensive income		8	
Closing balance			3,831

f) Retained earnings

	IAS 39 carrying amount 31 December 2017	Transition effects	IFRS 9 carrying amount 1 January 2018
Opening balance	60,457		
Transfer of valuation and deferred taxes due to the transfer of equity securities to the category mandatorily measured at fair value through profit or loss		7,750	
Remeasurement of loans due to transfer from amortised cost to fair value		(3,136)	
Remeasurement of loans – additional impairments (loans to non-bank customers)		(1,713)	
Remeasurement of loans – additional impairments (loans to banks)		(13)	
Remeasurement of debt securities – additional impairments		(148)	
Impairments of debt securities measured at fair value through other comprehensive income		(8)	
Deferred tax receivables from debt securities measured at amortised cost		28	
Remeasurement of other financial assets and other assets		50	
Effects of measurement of financial liabilities		(1,871)	
Remeasurement of provisions for guarantees and commitments		10,302	
Corporate income tax liability - transition to IFRS 9		(304)	
Closing balance			71,394

(All amounts in EUR thousand unless otherwise stated)

2.1.2 The breakdown of the impact of transition to IFRS 9 as at 1 January 2018 – Group

The total impact of the implementation of IFRS 9 on the Group's retained earnings as at 1 January 2018 is EUR 10,763 thousand. The impact of the Group is accounted for by:

- an increase of EUR 4,614 thousand resulting from the impact of classification and measurement (an increase of EUR 7,750 thousand from equity securities valued at fair value through profit or loss and a decrease of EUR 3,136 thousand from loans mandatorily measured at fair value through profit or loss),
- an increase of EUR 6,453 thousand resulting from the impact of impairments and provisions (an increase of EUR 10,295 thousand from provisions and a decrease of EUR 3,842 thousand from impairments),
- a decrease of EUR 304 thousand resulting from the impact of current and deferred taxes.

The impact on the Group slightly differs from the transition to IFRS 9 at the bank level, due to consolidation entries. The table below shows only those items whose transition differs from the effects shown for the bank in note 2.1.1.

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Loans to non-bank customers measured at amortised cost				
Opening balance	1,967,460			
Reclassification to the category non-trading financial assets mandatorily at fair value through profit or loss		(29,538)		
Transfer of unamortised fees for approval to liabilities		89		
Remeasurement - impairments (additionally formed or canceled)			(1,881)	
Closing balance				1,936,130
Provisions for guarantees and and commitments	(29,637)	–	10,295	(19,342)

2.1.3 Impact on (regulatory) capital

In the calculation of regulatory capital as at 1 January 2018, the impact of the transition to IFRS 9 resulting from other comprehensive income (both on a solo and consolidated basis in the amount of EUR -10,089 thousand) and prudential filters – requirements for prudential valuation (both on a solo and consolidated basis in the amount of EUR 874 thousand) was recognised, whereas due to the transition to IFRS 9 retained earnings will be included after the audit of the financial statements for 2018 (on a solo basis in the amount of EUR 10,937 thousand and on a consolidated basis in the amount of EUR 10,763 thousand). Following the implementation of the expected credit loss model, the Group will not use the option of a progressive phase-in regime to mitigate the impact on regulatory capital as provided for by Regulation (EU) 2017/2395.

The total risk exposure amount of the Bank as at 1 January 2018 was EUR 2,087,575 thousand, up by EUR 22,057 thousand compared to the 2017 year-end. If retained earnings had already been included due to the transition, the regulatory capital of the Bank as at 1 January 2018 would have amounted to EUR 503,151 thousand, up by EUR 1,722 thousand compared to the 2017 year-end. Furthermore, as at 1 January 2018, total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Bank would have stood at 24.10%, down by 17 basis points compared to the 2017 year-end.

The total risk exposure amount of the Group as at 1 January 2018 was EUR 2,072,461 thousand, up by EUR 21,921 thousand compared to the 2017 year-end. If retained earnings had already been included due to the transition, the regulatory capital of the Group as at 1 January 2018 would have amounted to EUR 505,176 thousand, up by EUR 1,548 thousand compared to the 2017 year-end. Furthermore, as at 1 January 2018, total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Group would have stood at 24.38%, down by 19 basis points compared to the 2017 year-end.

(All amounts in EUR thousand unless otherwise stated)

IMPACT ON REGULATORY CAPITAL AND TOTAL RISK EXPOSURE AMOUNT – ABANKA D.D.

The impact of IFRS 9 resulting from retained earnings has already been taken into account in CET 1 for information purposes in the tables below, while it will be included in the actual CET 1 calculation only after the audit of the financial statements for 2018.

Abanka	Equity from the statement of financial position	Common Equity Tier 1 capital (transitional period)	Common Equity Tier 1 capital (fully loaded)
Balance as at 31 December 2017	**578,943**	**501,429**	**520,918**
IFRS 9 impact on retained earnings (before taxes), of which:	11,241	11,241	11,241
Classification and measurement	4,614	4,614	4,614
Impairments and provisions	6,627	6,627	6,627
Taxes	(304)	(304)	(304)
IFRS 9 impact on retained earnings, net of tax	10,937	10,937	10,937
IFRS 9 impact on accumulated other comprehensive income	(29,486)	(29,486)	(29,486)
IFRS 9 impact due to regulatory deductions or prudential filters	–	20,271	874
Balance as at 1 January 2018	**560,394**	**503,151**	**503,243**

	Total risk exposure amount (transitional period)	Total risk exposure amount (fully loaded)
Balance as at 31 December 2017	**2,065,518**	**2,052,629**
IFRS 9 impact on total risk exposure amount	22,057	22,057
Balance as at 1 January 2018	**2,087,575**	**2,074,686**
Common Equity Tier 1 capital ratio as at 31 December 2017	24.28%	25.38%
Common Equity Tier 1 capital ratio as at 1 January 2018	24.10%	24.26%
Change in base points	(17)	(112)

(All amounts in EUR thousand unless otherwise stated)

IMPACT ON REGULATORY CAPITAL AND TOTAL RISK EXPOSURE AMOUNT – GROUP

The impact of IFRS 9 resulting from retained earnings has already been taken into account in CET 1 for information purposes in the tables below, while it will be included in the actual CET 1 calculation only after the audit of the financial statements for 2018.

Group	Equity from the statement of financial position	Common Equity Tier 1 capital (transitional period)	Common Equity Tier 1 capital (fully loaded)
Balance as at 31 December 2017	**580,283**	**503,628**	**523,111**
IFRS 9 impact on retained earnings (before taxes), of which:	11,067	11,067	11,067
Classification and measurement	4,614	4,614	4,614
Impairments and provisions	6,453	6,453	6,453
Taxes	(304)	(304)	(304)
IFRS 9 impact on retained earnings, net of tax	10,763	10,763	10,763
IFRS 9 impact on accumulated other comprehensive income	(29,486)	(29,486)	(29,486)
IFRS 9 impact due to regulatory deductions or prudential filters	–	20,271	874
Balance as at 1 January 2018	**561,560**	**505,176**	**505,262**

	Total risk exposure amount (transitional period)	Total risk exposure amount (fully loaded)
Balance as at 31 December 2017	**2,050,540**	**2,047,052**
IFRS 9 impact on total risk exposure amount	21,921	21,921
Balance as at 1 January 2018	**2,072,461**	**2,068,973**
Common Equity Tier 1 capital ratio as at 31 December 2017	24.56%	25.55%
Common Equity Tier 1 capital ratio as at 1 January 2018	24.38%	24.42%
Change in base points	(19)	(113)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Impairment losses on loans and receivables
The Group constantly monitors the quality of its credit portfolio, assesses credit risk losses and measures the impact of the deterioration of the credit portfolio on the amount of credit risk loss, on profit or loss, as well as on regulatory capital and the capital adequacy ratio of the Group. It employs sensitivity analyses to provide additional information on potential credit risk losses and necessary impairment of financial assets. Two of the analyses used to determine the impact of credit portfolio deterioration on the amount of credit risk loss are presented below.

The first sensitivity analysis assumes that 2% of A, B, C and D loans are downgraded by one credit rating category. Based on data at the end of the half year ended 30 June 2018, credit risk losses would increase by 5% (30 June 2017: 2.1%) or EUR 6.1 million (30 June 2017: EUR 5.2 million). The second sensitivity analysis was conducted in accordance with the assumption that 1% of A, B and C loans are downgraded by one credit rating category, 1% of these loans are downgraded by two credit rating categories and 2% of D-rated loans are downgraded by one credit rating category. The result of this sensitivity analysis has shown that, based on data at the end of the half year ended 30 June 2018, credit risk losses would rise by 10.7% (30 June 2017: 3.9%) or EUR 13 million (30 June 2017: EUR 9.9 million).

(All amounts in EUR thousand unless otherwise stated)

(b) Fair value of financial assets and liabilities

Financial instruments carried at fair value

The accepted accounting policies used at measuring fair value in the half year ended 30 June 2018 are consistent with those of the annual financial statements for the year ended 31 December 2017. In line with IFRS 13, the Group categorises financial instruments into three fair value levels based on the nature of inputs used to determine fair value.

Valuation techniques and fair value hierarchy are more detailed presented in Annual Report 2017.

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

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 June 2018	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	–	3,027	217	**3,244**
– shares	–	–	217	**217**
– derivatives	–	3,015	–	**3,015**
– other	–	12	–	**12**
Non-trading financial assets mandatorily at fair value through profit or loss	16,680	2	22,804	**39,486**
– shares and equity holdings	16,680	2	238	**16,920**
– loans and other financial assets	–	–	22,566	**22,566**
Financial assets at fair value through other comprehensive income	104,933	61,379	6,535	**172,847**
– shares and equity holdings	–	–	6,535	**6,535**
– debt securities	104,933	36,638	–	**141,571**
– Bank Resolution Fund	–	24,741	–	**24,741**
– other	–	–	–	**–**
Total financial assets	**121,613**	**64,408**	**29,556**	**215,577**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	2,662	–	**2,662**
– derivatives	–	2,647	–	**2,647**
– spot transactions	–	15	–	**15**
Financial liabilities designated at fair value through profit or loss	–	–	2,409	**2,409**
Total financial liabilities	**–**	**2,662**	**2,409**	**5,071**

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2017	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	–	2,831	217	**3,048**
– shares	–	–	217	**217**
– derivatives	–	2,815	–	**2,815**
– other	–	16	–	**16**
Financial assets designated at fair value through profit or loss	–	**–**	–	**–**
– unit linked investments	–	–	–	**–**
Available-for-sale financial assets	316,628	767,766	6,296	**1,090,690**
– debt securities	301,691	743,030	–	**1,044,721**
– shares	14,937	2	2,837	**17,776**
– equity holdings	–	–	3,459	**3,459**
– Bank Resolution Fund	–	24,734	–	**24,734**
Total financial assets	**316,628**	**770,597**	**6,513**	**1,093,738**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	2,492	–	**2,492**
– derivatives	–	2,469	–	**2,469**
– spot transactions	–	23	–	**23**
Total financial liabilities	**–**	**2,492**	**–**	**2,492**

In the first half of 2018 there were no transfers between levels.

(All amounts in EUR thousand unless otherwise stated)

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

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

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

	Financial assets held for trading	Available-for-sale financial assets	Total
	Shares	Equity holdings	
As at 1 January 2017	**170**	**5,397**	**5,567**
Total gains – other comprehensive income	–	223	**223**
Sales, redemptions, settlements	–	(526)	**(526)**
As at 30 June 2017	**170**	**5,094**	**5,264**
Gains/(losses) in profit or loss for financial instruments held as at 30 June 2017	**–**	**–**	**–**

(All amounts in EUR thousand unless otherwise stated)

Financial instruments not measured at fair value

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

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

As at 30 June 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	440,045	440,045	–	–	440,045
Financial assets at amortised cost	2,976,935	88,819	989,824	2,017,652	3,096,295
– debt securities	948,423	88,819	883,054	–	971,873
– loans to banks	42,594	–	42,472	–	42,472
– loans to non-bank customers	1,921,620	–	–	2,017,652	2,017,652
– corporate entities	1,051,272	–	–	1,080,577	1,080,577
– retail customers	870,348	–	–	937,075	937,075
– other financial assets	64,298	–	64,298	–	64,298
Financial liabilities					
Financial liabilities at amortised cost	3,090,435	–	3,048,930	–	3,048,930
– deposits from banks and the central bank	33,141	–	33,148	–	33,148
– deposits from non-bank customers	2,876,885	–	2,832,334	–	2,832,334
– corporate entities	838,055	–	822,275	–	822,275
– retail customers	2,038,830	–	2,010,059	–	2,010,059
– loans from banks and the central bank	93,892	–	96,931	–	96,931
– loans from non-bank customers	473	–	473	–	473
– debt securities issued	13,394	–	13,394	–	13,394
– other financial liabilities	72,650	–	72,650	–	72,650

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2017	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	412,168	412,168	–	–	412,168
Loans and receivables	2,052,122	–	84,557	2,090,605	2,175,162
– loans to banks	60,745	–	60,640	–	60,640
– loans to non-bank customers	1,967,460	–	–	2,090,605	2,090,605
– corporate entities	1,098,015	–	–	1,137,003	1,137,003
– retail customers	869,445	–	–	953,602	953,602
– other financial assets	23,917	–	23,917	–	23,917
Held-to-maturity investments	15,408	16,562	–	–	16,562

Financial liabilities					
Financial liabilities at amortised cost	3,008,973	–	2,971,869	–	2,971,869
– deposits from banks and the central bank	24,243	–	24,244	–	24,244
– deposits from non-bank customers	2,855,544	–	2,815,709	–	2,815,709
– corporate entities	873,919	–	862,357	–	862,357
– retail customers	1,981,625	–	1,953,352	–	1,953,352
– loans from banks and the central bank	89,011	–	91,741	–	91,741
– loans from non-bank customers	482	–	482	–	482
– debt securities issued	13,021	–	13,021	–	13,021
– other financial liabilities	26,672	–	26,672	–	26,672

The major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements were presented in Annual Report 2017.

(All amounts in EUR thousand unless otherwise stated)

4 NET INTEREST INCOME

	Abanka		Group	
	1 January – 30 June 2018	1 January – 30 June 2017 (adjusted)	1 January – 30 June 2018	1 January – 30 June 2017 (adjusted)
Interest income				
Financial assets at amortised cost (IFRS 9)	31,556	/	31,993	/
– debt securities	4,733	/	4,733	/
– loans to banks	225	/	225	/
– loans to non-bank customers	26,598	/	27,035	/
Loans and receivables (IAS 39)	/	29,868	/	30,675
– to banks	/	254	/	254
– to non-bank customers	/	29,614	/	30,421
Financial assets held for trading	201	154	201	154
Non-trading financial assets mandatorily at fair value through profit or loss (IFRS 9)	309	/	309	/
Financial assets at fair value through other comprehensive income (IFRS 9)	491	/	491	/
Available-for-sale securities (IAS 39)	/	9,406	/	9,406
Held-to-maturity investments (IAS 39)	/	461	/	461
Other assets	250	121	250	121
	32,807	**40,010**	**33,244**	**40,817**
Interest expenses				
Deposits	1,429	2,044	1,429	2,044
– from banks	111	58	111	58
– from non-bank customers	1,318	1,986	1,318	1,986
Debt securities issued	373	390	373	390
Financial liabilities held for trading	155	137	155	137
Loans from banks and the central bank	376	380	380	380
Other liabilities	1,008	530	1,008	536
	3,341	**3,481**	**3,345**	**3,487**
Net interest income	**29,466**	**36,529**	**29,899**	**37,330**

Net interest income in the first half of 2018 is lower due to lower average realised interest rates on loans to non-bank customers and investments in debt securities.

Comparative data for 2017 was adjusted (decreased) in the item loans to non-bank customers for EUR 126 thousand due to the changed accounting policy for the recognition of tax on financial services (Note 1.1. Comparative data).

(All amounts in EUR thousand unless otherwise stated)

5 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	Abanka		Group	
	1 January – 30 June 2018	1 January – 30 June 2017 (adjusted)	1 January – 30 June 2018	1 January – 30 June 2017 (adjusted)
Fee and commission income				
Payment transactions	9,056	8,989	9,056	8,989
Transaction account management	3,246	3,034	3,240	3,029
Card and ATM operations	9,341	9,014	9,341	9,014
Lending operations and guarantees granted	1,874	2,035	1,871	2,032
Other services	2,100	2,388	2,100	2,389
	25,617	**25,460**	**25,608**	**25,453**
Fee and commission expenses				
Payment transactions	968	996	973	996
Card and ATM operations	5,722	4,872	5,722	4,872
Other services	387	337	425	368
	7,077	**6,205**	**7,120**	**6,236**
Net fee and commission income	**18,540**	**19,255**	**18,488**	**19,217**

Comparative data for 2017 were adjusted (decreased) due to the changed accounting policy for the recognition of tax on financial services in the following items of fee and commission income: payment transactions (EUR 662 thousand), transaction account management (EUR 235 thousand), card and ATM transactions (EUR 628 thousand), lending operations and guarantees granted (EUR 163 thousand) and other services (EUR 28 thousand) (Note 1.1. Comparative data).

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

	Group	
	1 January – 30 June 2018	1 January – 30 June 2017
Net gains from financial assets and liabilities at amortised cost (IFRS 9)	13,653	/
Net losses from financial assets and liabilities at amortised cost (IFRS 9)	(3)	/
Realised losses from loans and other financial assets and liabilities (IAS 39)	/	(1)
Realised gains from loans and other financial assets and liabilities (IAS 39)	/	2,265
Net realised gains from available-for-sale financial assets (IAS 39)	/	2,127
	13,650	**4,391**

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

In the first half of 2017, the Bank sold a part of its DUTB bonds, thereby generating a profit of EUR 1,656 thousand within the item net gains from available-for-sale financial assets.

(All amounts in EUR thousand unless otherwise stated)

7 NET GAINS/LOSSES ON NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group
	1 January – 30 June 2018
Net gains from shares and equity holdings	1,965
Net gains from loans	1,010
	2,975

8 ADMINISTRATIVE EXPENSES

	Abanka		Group	
	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017
Staff costs	18,553	18,559	18,976	19,094
– gross salaries	15,749	15,811	16,105	16,268
– social security costs	990	1,012	1,012	1,041
– pension costs	1,814	1,736	1,859	1,785
Professional services	7,279	7,098	7,547	7,527
Advertising and marketing	677	760	687	789
Other administrative expenses	874	1,183	903	1,225
IT and software costs	1,987	2,249	1,987	2,249
Rent payable	528	474	553	519
Other costs	151	303	215	415
	30,049	**30,626**	**30,868**	**31,818**

Within the administrative expenses in the first half of 2018, EUR 271 thousand referred to costs of restructuring (first half of 2017: EUR 156 thousand). The residual restructuring cost in the amount of EUR 320 thousand are included in depreciation and amortisation cost (first half of 2017: 367 thousand).

9 PROVISIONS

	Abanka		Group	
	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017
Provisions for legal proceedings	973	(72)	973	(72)
Other provisions	–	(13)	–	(13)
Provisions for guarantees and commitments	(2,096)	(1,575)	(2,096)	(1,571)
Net (release) of provisions	**(1,123)**	**(1,660)**	**(1,123)**	**(1,656)**

A significant part of the income from the cancelled provisions for guarantees and commitments in the first half of 2018 refers to service guarantees that had been either called or expired in the first half of 2018.

(All amounts in EUR thousand unless otherwise stated)

10 IMPAIRMENT

	Abanka		Group	
	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017
Impairment/(reversal of impairment) of financial assets:				
– debt securities at fair value through other comprehensive income (IFRS 9)	18	/	18	/
– loans and receivables at amortised cost (IFRS 9)	(12,330)	/	(12,314)	/
– loans to non-bank customers	(12,550)	/	(12,534)	/
– other financial assets	220	/	220	/
– debt securities at amortised cost	34	/	34	/
– loans to non-bank customers (IAS 39)	/	(7,131)	/	(6,433)
– other financial assets (IAS 39)	/	185	/	186
Impairment/(reversal of impairment) of non-financial assets:				
– investment property	–	–	–	(477)
– other non-financial assets	44	–	(440)	(1,215)
	(12,234)	**(6,946)**	**(12,702)**	**(7,939)**

The reversal of impairment for loans at amortised cost in the first half of 2018, as in 2017, was primarily the result of an improved financial position of the companies, regular and early loan repayment and income from debt collection.

11 NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS (IFRS 9)

	Group
	30 June 2018
Shares and equity holdings	16,920
Loans	22,566
	39,486

Fair value is disclosed in note 3(b).

12 AVAILABLE-FOR-SALE FINANCIAL ASSETS (IAS 39)

	Group
	31 December 2017
Debt securities	1,044,721
Shares and equity holdings	21,235
Bank Resolution Fund	24,734
	1,090,690

(All amounts in EUR thousand unless otherwise stated)

13 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (IFRS 9)

	Group
	30 June 2018
Debt securities	141,571
Shares and equity holdings	6,535
Bank Resolution Fund	24,741
	172,847

Fair value is disclosed in note 3(b).

	Group			
30 June 2018	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
Gross debt securities	141,598	–	–	141,598
Provision for impairment	(27)	–	–	(27)
Net debt securities	**141,571**	**–**	**–**	**141,571**

14 FINANCIAL ASSETS AT AMORTISED COST (IFRS 9)

	Abanka	Group
	30 June 2018	30 June 2018
Debt securities (14 a.)	948,423	948,423
Loans to banks (14 b.)	42,594	42,594
Loans to non-bank customers (14 c.)	1,932,660	1,921,620
Other financial assets (14 d.)	64,033	64,298
	2,987,710	**2,976,935**

Fair value is disclosed in note 3(b).

a. DEBT SECURITIES

	Group			
30 June 2018	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
Gross debt securities	948,606	–	–	948,606
Provision for impairment	(183)	–	–	(183)
Net debt securities	**948,423**	**–**	**–**	**948,423**

[i] Allowances for financial assets without increase in credit risk since initial recognition
[ii] Allowances for debt instruments with significant increase in credit risk since initial recognition but not credit-impaired
[iii] Allowances for credit-impaired debt instruments

(All amounts in EUR thousand unless otherwise stated)

b. LOANS TO BANKS

	Group			
30 June 2018	**Stage 1[i]**	**Stage 2[ii]**	**Stage 3[iii]**	**Total**
Gross loans to banks	42,607	–	–	42,607
Provision for impairment	(13)	–	–	(13)
Net loans to banks	**42,594**	**–**	**–**	**42,594**

c. LOANS TO NON-BANK CUSTOMERS

	Abanka			
30 June 2018	**Stage 1[i]**	**Stage 2[ii]**	**Stage 3[iii]**	**Total**
Loans to corporate entities	965,396	99,269	63,548	1,128,213
Loans to retail customers	842,360	26,032	15,322	883,714
Gross loans to non-bank customers	**1,807,756**	**125,301**	**78,870**	**2,011,927**
Provision for impairment	(18,087)	(25,529)	(35,651)	(79,267)
Net loans to non-bank customers	**1,789,669**	**99,772**	**43,219**	**1,932,660**

	Group			
30 June 2018	**Stage 1[i]**	**Stage 2[ii]**	**Stage 3[iii]**	**Total**
Loans to corporate entities	951,572	100,613	70,876	1,123,061
Loans to retail customers	842,360	26,032	17,736	886,128
Gross loans to non-bank customers	**1,793,932**	**126,645**	**88,612**	**2,009,189**
Provision for impairment	(18,059)	(25,529)	(43,981)	(87,569)
Net loans to non-bank customers	**1,775,873**	**101,116**	**44,631**	**1,921,620**

MOVEMENTS IN LOANS TEMPORARILY WRITTEN OFF AND HELD IN OFF-BALANCE-SHEET RECORDS

	Group		
	Corporate entities	**Retail customers**	**Total**
As at 1 January 2018	**222,128**	**7,570**	**229,698**
Increase	298	16	314
Decrease due to final write-offs – completion of the collection process	(2,461)	(362)	(2,823)
Decrease due to repayments, sale, debt to equity	(145,818)	(184)	(146,002)
As at 30 June 2018	**74,147**	**7,040**	**81,187**

In the first half of 2018, temporarily written-off loans held in off-balance-sheet records decreased by EUR 141,028 thousand due to the sale of the NPL portfolio.

(All amounts in EUR thousand unless otherwise stated)

d. OTHER FINANCIAL ASSETS

	Abanka			
30 June 2018	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
Gross other financial assets	63,683	350	394	64,427
Provision for impairment	(123)	(3)	(268)	(394)
Net other financial assets	**63,560**	**347**	**126**	**64,033**

	Group			
30 June 2018	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
Gross other financial assets	63,679	426	782	64,887
Provision for impairment	(123)	(3)	(463)	(589)
Net other financial assets	**63,556**	**423**	**319**	**64,298**

15 LOANS (IAS 39)

	Abanka	Group
	31 December 2017	31 December 2017
Loans to banks	60,745	60,745
Loans to non-bank customers (15 a.)	1,982,137	1,967,460
Other financial assets	23,661	23,917
	2,066,543	**2,052,122**

a. LOANS TO NON-BANK CUSTOMERS

	Abanka	Group
	31 December 2017	31 December 2017
Loans to corporate entities	1,327,572	1,298,765
Loans to retail customers	863,151	885,658
Gross loans to non-bank customers	**2,190,723**	**2,184,423**
Provision for impairment	(208,586)	(216,963)
Net loans to non-bank customers	**1,982,137**	**1,967,460**

MOVEMENTS IN LOANS TEMPORARILY WRITTEN OFF AND HELD IN OFF-BALANCE-SHEET RECORDS

	Group		
	Corporate entities	Retail customers	Total
As at 1 January 2017	**244,850**	**10,855**	**255,705**
Increase	13,152	445	13,597
Decrease due to final write-offs – completion of the collection process	(16,013)	(505)	(16,518)
Decrease due to repayments, sale, debt to equity	(2,807)	(174)	(2,981)
As at 30 June 2017	**239,182**	**10,621**	**249,803**

(All amounts in EUR thousand unless otherwise stated)

16 MOVEMENTS IN PROVISIONS FOR IMPAIRMENT

A) MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF LOANS AND RECEIVABLES, MEASURED AT AMORTISED COST (IFRS 9)

a. Loans to banks

	Group			
	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
As at 1 January 2018	(13)	–	–	(13)
As at 30 June 2018	(13)	–	–	(13)

b. Loans to non-bank customers

	Abanka						
	Corporate entities			Retail customers			Total
	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	
As at 1 January 2018	**(11,126)**	**(30,436)**	**(70,034)**	**(944)**	**(4,465)**	**(8,985)**	**(125,990)**
Increase due to origination and acquisition	(6,954)	(5)	(311)	(121)	(91)	–	(7,482)
Decrease due to derecognition	198	3,001	40,327	59	28	603	44,216
– of which write-offs (sale)	–	–	33,376	–	–	61	33,437
Changes due to modifications without derecognition	65	(6)	4	–	(72)	–	(9)
Other changes due to change in credit risk and exchange differences	1,681	5,212	2,527	(945)	1,305	218	9,998
As at 30 June 2018	**(16,136)**	**(22,234)**	**(27,487)**	**(1,951)**	**(3,295)**	**(8,164)**	**(79,267)**

	Group						
	Corporate entities			Retail customers			Total
	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	
As at 1 January 2018	**(11,055)**	**(30,478)**	**(77,032)**	**(944)**	**(4,479)**	**(10,548)**	**(134,536)**
Increase due to origination and acquisition	(6,933)	(5)	(311)	(121)	(91)	–	(7,461)
Decrease due to derecognition	158	3,001	40,327	59	28	603	44,176
– of which write-offs (sale)	–	–	33,376	–	–	61	33,437
Changes due to modifications without derecognition	65	(6)	4	–	(72)	–	(9)
Other changes due to change in credit risk and exchange differences	1,657	5,254	2,635	(945)	1,319	341	10,261
As at 30 June 2018	**(16,108)**	**(22,234)**	**(34,377)**	**(1,951)**	**(3,295)**	**(9,604)**	**(87,569)**

(All amounts in EUR thousand unless otherwise stated)

B) MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF DEBT SECURITIES (measured at amortised cost) (IFRS 9)

	Group			
	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
As at 1 January 2018	**(149)**	**–**	**–**	**(149)**
Other changes due to change in credit risk and exchange differences	(34)	–	–	(34)
As at 30 June 2018	**(183)**	**–**	**–**	**(183)**

C) MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF DEBT SECURITIES (measured at fair value through other comprehensive income) (IFRS 9)

	Group			
	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
As at 1 January 2018	**(8)**	**–**	**–**	**(8)**
Increase due to origination and acquisition	(5)	–	–	(5)
Other changes due to change in credit risk and exchange differences	(14)	–	–	(14)
As at 30 June 2018	**(27)**	**–**	**–**	**(27)**

D) MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF OTHER FINANCIAL ASSETS (measured at amortised cost) (IFRS 9)

	Abanka			
	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
As at 1 January 2018	**(67)**	**(2)**	**(523)**	**(592)**
Increase due to origination and acquisition	(2)	(10)	(303)	(315)
Decrease due to derecognition	–	2	281	283
– of which write-offs (sale)	–	–	266	266
Other changes due to change in credit risk and exchange differences	(54)	7	277	230
As at 30 June 2018	**(123)**	**(3)**	**(268)**	**(394)**

	Group			
	Stage 1[i]	Stage 2[ii]	Stage 3[iii]	Total
As at 1 January 2018	**(67)**	**(214)**	**(555)**	**(836)**
Increase due to origination and acquisition	(2)	(10)	(303)	(315)
Decrease due to derecognition	–	2	281	283
– of which write-offs (sale)	–	–	266	266
Other changes due to change in credit risk and exchange differences	(54)	219	114	279
As at 30 June 2018	**(123)**	**(3)**	**(463)**	**(589)**

(All amounts in EUR thousand unless otherwise stated)

E) MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF LOANS AND RECEIVABLES (IAS 39)

	Abanka			Group		
	Corporate entities	Retail customers	Total	Corporate entities	Retail customers	Total
As at 1 January 2017	**219,398**	**18,590**	**237,988**	**225,160**	**22,918**	**248,078**
Provision for impairment	(5,773)	(1,358)	(7,131)	(5,022)	(1,411)	(6,433)
Transfer to off-balance sheet records, write-offs, sales, debt to equity	(8,809)	(122)	(8,931)	(8,850)	(290)	(9,140)
Exchange differences	(15)	(70)	(85)	(15)	(70)	(85)
As at 30 June 2017	**204,801**	**17,040**	**221,841**	**211,273**	**21,147**	**232,420**

17 INVESTMENTS IN SUBSIDIARIES

	Abanka		Group	
	2018	2017	2018	2017
Subsidiaries				
As at 1 January	**9,448**	**4,483**	**–**	**–**
Additions	–	4,436	–	–
Disposals	(1,170)	–	–	–
Impairment	–	529	–	–
Closing balance (30 June or 31 December)	**8,278**	**9,448**	**–**	**–**

On 18 July 2017, Abanka d.d. signed an agreement with Banka Sparkasse d.d., Ljubljana to sell its 100% stake in its subsidiary Aleasing d.o.o., Ljubljana. The Agreement stipulated that the stake will be transferred to the buyer after the fulfilment of the suspensive conditions, which inter alia included obtaining the relevant approvals of the supervisory authorities. As at the end of March 2018, Abanka d.d. as seller and Banka Sparkasse d.d. as buyer of Aleasing d.o.o. confirmed, that all suspensive conditions, required for the conclusion of the sales procedure, were fulfilled. In accordance with the agreement on sale, as of 1 April 2018 the equity stake was held by the buyer who as of that date became the owner of Aleasing d.o.o., Ljubljana.

Due to the immateriality in the financial statements, the subsidiary Aleasing was not re-classified into non-current assets held for sale category. In the consolidated statement of financial position, the assets of the subsidiary Aleasing as at 31 March 2018 amounted to EUR 38,984 thousand, which accounted for 1.04% of consolidated assets, and its liabilities totalled EUR 36,392 thousand, which accounted for 1.14% of consolidated liabilities. In the consolidated income statement, the net profit of Aleasing equalled EUR 115 thousand, accounting for 0.46% of consolidated net profit, its income totalled EUR 1,021 thousand (1.29% of total consolidated income) and its expenses amounted to EUR 906 thousand (1.70% of total consolidated expenses).

(All amounts in EUR thousand unless otherwise stated)

ANALYSIS OF ASSETS AND LIABILITIES OVER WHICH CONTROL WAS LOST

	Aleasing d.o.o.
Demand deposits with banks	1,360
Financial assets at amortised cost	34,381
– loans to banks	13
– loans to non-bank customers	34,211
– other financial assets	157
Property and equipment	2,792
Intangible assets	26
Tax assets	85
Other assets	340
Total assets	**38,984**
Financial liabilities measured at amortised cost	35,406
– loans from banks	35,048
– other financial liabilities	358
Provisions	75
Tax liabilities	15
Other liabilities	896
Total liabilities	**36,392**
Net assets disposed of	**2,592**

GAIN/(LOSS) ON DISPOSAL OF A SUBSIDIARY

	Abanka	Group
Consideration received	1,477	1,477
Carrying amount of the investment in subsidiary	1,170	–
Net assets disposed of	–	(2,592)
Gain/(loss) on disposal	**307**	**(1,115)**

NET CASH INFLOW ON DISPOSAL OF A SUBSIDIARY

	Group
Consideration received in cash and cash equivalents	1,477
Less: cash and cash equivalent balances disposed of	(1,360)
Net cash inflow on disposal	**117**

18 DEBT SECURITIES ISSUED

	Interest rate on	Group	
	30 June	30 June 2018	31 December 2017
Certificates of deposit (falling due: 2018 to 2020)	5.95%	13,394	13,021
Total debt securities issued		**13,394**	**13,021**

Fair value is disclosed in Note 3(b).

(All amounts in EUR thousand unless otherwise stated)

19 PROVISIONS

	Abanka		Group	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Restructuring provisions	6,083	6,240	6,083	6,240
Provisions for legal proceedings	13,223	12,371	13,223	12,371
Provisions for employee benefits	5,372	5,421	5,423	5,548
Provisions for guarantees and commitments (Notes 2 and 24)	17,244	29,644	17,244	29,637
– Stage 1	1,626	/	1,626	/
– Stage 2	959	/	959	/
– Stage 3	14,659	/	14,659	/
Other provisions	5,766	–	5,766	–
	47,688	**53,676**	**47,739**	**53,796**

In the first half of 2018, the Bank sold the NPL portfolio and formed provisions for certain guarantees given to the buyer in the amount of EUR 5,766 thousand (other provisions).

20 DIVIDEND PAYMENT

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

Based on the resolution adopted by the General Meeting of Shareholders, a part of the accumulated profit for 2017 in the amount of EUR 42,620 thousand was used for the payment of dividends, the remaining part of the profit for 2017 in the amount EUR 17,837 thousand is allocated to retained earnings. The dividends were paid out to the sole shareholder, i.e. the Republic of Slovenia, on 29 May 2018.

21 CAPITAL, CAPITAL ADEQUACY AND LEVERAGE RATIO

The impact of the transition to IFRS 9 was only partially included in the regulatory capital as at 30 June 2018, as the impact arising from other comprehensive income was fully included, whereas the impact of the transition on retained earnings was not included.

As at 30 June 2018 the regulatory capital of the Abanka totalled EUR 489,900 thousand, which is EUR 11,528 thousand less than at the end of 2017. The stated effect includes EUR 10,937 thousand resulting from not yet included impact of the transition to IFRS 9. After the capital is confirmed by the audit (the audit of the financial statements for 2018) and the full impact of the transition to IFRS 9 is taken into account, the regulatory capital will be lower by only EUR 591 thousand compared to 31 December 2017. As at 30 June 2018 the total risk exposure amount of the Abanka totalled EUR 2,125,304 thousand, which is EUR 59,786 thousand more than at the end of 2017. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Abanka were 23.05% or 123 basis points less than at the end of 2017.

As at 30 June 2018 the regulatory capital of the Group totalled EUR 491,087 thousand, which is EUR 12,541 thousand less than at the end of 2017. The stated effect includes EUR 10,763 thousand resulting from not yet included impact of the transition to IFRS 9. After the capital is confirmed by the audit (the audit of the financial statements for 2018) and the full impact of the transition to IFRS 9 is taken into account, the regulatory capital will be lower by EUR 1,778 thousand compared to 31 December 2017. As at 30 June 2018 the total risk exposure amount of the Group totalled EUR 2,123,354 thousand, which is EUR 72,815 thousand more than at the end of 2017. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Group were 23.13% or 143 basis points less than at the end of 2017.

(All amounts in EUR thousand unless otherwise stated)

In accordance with Regulation (EU) No 575/2013 credit institutions shall apply the following own funds requirements from 1 January 2015 further: a Common Equity Tier 1 capital ratio at 4.5% or higher; a Tier 1 capital ratio at 6% or higher; and a total capital ratio at 8% or higher. As at 30 June 2018, the Group's capital adequacy ratios were above the legally required levels. By including the simulation of the stress scenarios performed by the European Central Bank (ECB), the ECB prepared the resolution on the determination of prudential requirements. In 2018, the Group is required to maintain the total SREP capital requirement of 13.63% and the Common Equity Tier 1 capital ratio of 11.78%. As at 30 June 2018, the Group exceeded the ECB's prudential requirements.

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

As at 30 June 2018 the Tier 1 capital measure of the Abanka totalled EUR 489,900 thousand, which is EUR 11,528 thousand less than at the end of 2017. As at 30 June 2018 the total exposure measure of the Abanka totalled EUR 3,994,281 thousand, which is EUR 74,820 thousand more than at the end of 2017. At the same date, the leverage ratio of the Abanka was 12.27% or 53 basis points less than at the end of 2017.

As at 30 June 2018 the Tier 1 capital measure of the Group totalled EUR 491,087 thousand, which is EUR 12,541 thousand less than at the end of 2017. As at 30 June 2018 the total exposure measure of the Group totalled EUR 3,992,812 thousand, which is EUR 75,816 thousand more than at the end of 2017. At the same date, the leverage ratio of the Group was 12.30% or 56 basis points less than at the end of 2017.

22 CASH FLOW STATEMENT

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

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
Cash, cash balances with the central bank and other demand deposits with banks	439,953	348,639	440,045	349,194
Loans to banks	31,564	51,642	31,564	51,642
	471,517	**400,281**	**471,609**	**400,836**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017
Interest paid	2,425	4,115	2,425	4,115
Interest received	50,322	51,843	51,013	53,188
Dividends received	898	1,469	898	1,469

OTHER ITEMS IN THE CASH FLOW STATEMENT

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

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

23 INCOME TAX

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the period of five years subsequent to the reported tax year and may impose additional tax assessments and penalties. In 2015, a tax inspection was initiated. The subject of the inspection was the corporate income tax for the period 1 January 2009 to 31 December 2014. The procedure was completed in 2018.

By completing this procedure, the Bank excluded the tax risk of the uncertain result of tax disputes with the tax authority, as it has no open tax audits.

The total unused tax loss of the Bank as at 30 June amounts to EUR 801,236 thousand and for the Group EUR 812,846 thousand. The tax loss can be carried forward indefinitely.

24 COMMITMENTS AND CONTINGENCIES

a) Capital expenditure commitments

As at 30 June 2018 the Bank or the Group had no significant capital expenditure commitments. In the first half of 2018 there were no significant additions or disposals of property and equipment.

b) Legal proceedings

As at 30 June 2018, the Group and the Bank are involved as defendants in several judicial proceedings and other disputes. The total amount of pecuniary claims filed against the Bank on the reporting date stands at EUR 22,783 thousand excluding default interest (as at 31 December 2017: EUR 23,227 thousand). Based on the assessment of the likely outcome of disputes, respective provisions were made.

In the field of intellectual property rights, the Bank is involved in several disputes brought against it by ABANCA CORPORACION BANCARIA S.A. from Spain, who is seeking the annulment of two international brands ABANKA no. 860 632 and no. 860 561. Proceedings have been initiated in Spain, Austria, France, the United Kingdom, Germany, Switzerland, Croatia, Portugal and Hungary, 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 have been concluded, with the court ruling in favour of Abanca Corporacion Bancaria S.A.

c) Credit-related commitments

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

(All amounts in EUR thousand unless otherwise stated)

GUARANTEES AND COMMITMENTS

	Abanka		Group	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Service guarantees	216,938	203,380	216,508	202,938
Financial guarantees	63,675	55,393	63,675	55,393
Avals	3	6	3	6
Letters of credit	92	40	92	40
Loan commitments	412,083	374,909	411,278	373,601
Derivatives	3,014	2,815	3,014	2,815
Other	865	236	865	236
	696,670	**636,779**	**695,435**	**635,029**
Provisions:				
– provisions for guarantees and commitments (Notes 2 and 19)	(17,244)	(29,644)	(17,244)	(29,637)
	679,426	**607,135**	**678,191**	**605,392**

(All amounts in EUR thousand unless otherwise stated)

25 RELATED-PARTY TRANSACTIONS

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

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

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

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

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

	Subsidiaries		Key management personnel		Other related companies	
Type of related party	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017**	**30 June 2018**	**31 December 2017**
Financial assets						
Loans	13,829	50,940	225	237	–	–
Equity securities						
– investments in subsidiaries	8,278	9,448	–	–	–	–
Financial liabilities						
Deposits	2,845	5,153	1,000	817	2	–
Loans from non-bank customers	–	18	–	–	–	–
Other financial liabilities	15	59	–	–	–	–
Off-balance sheet records						
Nominal amount of loan commitments and financial guarantees issued	1,235	1,750	47	41	–	–
Allowances for impairment losses on financial assets	–	239	–	–	–	–
Provisions for guarantees and commitments	1	6	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

Type of related party	Subsidiaries		Key management personnel		Other related companies	
	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017
Interest income	337	669	2	3	–	–
Interest expenses	–	–	1	2	–	–
Fee and commission income	3	3	1	1	–	–
Net other operating income	56	51	–	–	–	–
Administrative expenses	192	182	–	–	–	–
Reversal of impairment of financial assets	43	13	–	–	–	–
Income on provisions for guarantees and commitments	–	4	–	–	–	–

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Key management personnel		Other related companies	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Financial assets				
Loans	227	240	–	–
Financial liabilities				
Deposits	1,080	956	2	–
Off-balance sheet records				
Nominal amount of loan commitments and financial guarantees issued	50	44	–	–

Type of related party	Associates		Key management personnel		Other related companies	
	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017	1 January – 30 June 2018	1 January – 30 June 2017
Interest income	–	–	2	3	–	–
Interest expenses	–	–	1	2	–	–
Fee and commission income	–	–	1	1	–	–

As at 30 June 2018, the Bank's financial assets at amortised cost included debt securities of the Republic of Slovenia in the amount of EUR 360,264 thousand and other financial assets in the amount of EUR 6 thousand, while the Bank's financial assets at fair value through other comprehensive income included debt securities of the Republic of Slovenia in the amount of EUR 37,180 thousand.

As at 31 December 2017, the Bank's available-for-sale financial assets included debt securities of the Republic of Slovenia in the amount of EUR 318,189 thousand, while the Bank's held-to-maturity investments included debt securities of the Republic of Slovenia in the amount of EUR 15,562 thousand. As at 31 December 2017, purchased receivables from the state amounted to EUR 470 thousand.

Interest income from the above transactions totalled EUR 3,649 thousand in the first half of 2018 (first half of 2017: EUR 4,280 thousand), while fee and commission income totalled EUR 40 thousand in the same period (first half of 2017: EUR 0 thousand). In the first half of 2018, net gains from trading with debt securities reached EUR 331 thousand (first half of 2017: EUR 101 thousand). As at 30 June 2018, the Bank did not have deposits from the Ministry of Finance (31 December 2017:

EUR 10,009 thousand). Interest expenses from these deposits totalled EUR 82 thousand in the first half of 2018 (first half of 2017: EUR 27 thousand).

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

Individually significant transactions with state-related companies include given and received long-term loans and deposits. As at 30 June 2018, individually significant given long-term loans totalled EUR 223,831 thousand (3 contracts), received long-term loans EUR 56,005 thousand (4 contracts), received deposits EUR 40,096 thousand (1 contract) and given deposits EUR 10,296 thousand (1 contract).

As at 30 June 2018, the remaining (individually insignificant) given long-term loans totalled EUR 29,560 thousand, received long-term loans EUR 35,822 thousand and received deposits EUR 23,551 thousand.

As at 31 December 2017, individually significant transactions with state-related companies include given and received long-term loans and deposits. As at 31 December 2017, there was no individually significant debt securities available for sale, individually significant given long-term loans totalled EUR 248,600 thousand (4 contracts), received long-term loans EUR 58,261 thousand (4 contracts), received deposits EUR 40,026 thousand (1 contract) and given deposits EUR 10,264 thousand (1 contract).

As at 31 December 2017, the remaining (individually insignificant) debt securities available for sale totalled EUR 23,293 thousand, given loans EUR 55,598 thousand, received long-term loans EUR 43,480 thousand, received deposits EUR 38,719 thousand and given deposits EUR 6,348 thousand.

In the first half of 2018, interest income from transactions with state-related companies amounted to EUR 1,269 thousand (first half of 2017: EUR 5,285 thousand), while interest expenses totalled EUR 815 thousand (first half of 2017: EUR 738 thousand).

26 SEGMENT ANALYSES

(a) By business segment

The Group provides services in three business segments:

- Retail banking – incorporating personal accounts (of residents and non-residents), savings accounts, domestic and foreign currency fixed-term deposits, annuity and dedicated savings, online banking, mobile banking, AbaSMS mobile service, loans, account overdrafts, insurance services, funds, payment cards, Abacent, gold bullion, safe deposit boxes, MoneyGram, “design your own card” (Oblikuj si kartico!), payment transactions and payment instruments, e-account;
- Corporate banking – incorporating transaction accounts, account overdrafts, loans and deposits with different terms, payment cards, certificates of deposit, documentary operations, guarantees, letters of credit, payment transactions and payment instruments, Abatočka, cash management, Abakredit, e-account, online banking, mobile banking, on-line payment service, AbaSMS mobile service; and
- Financial markets – incorporating trading with financial instruments, liquidity management, investment banking and inter-bank operations.

The “Other” segment includes the activities of the Group that relate to custody and administrative services, activities of subsidiaries (leasing and other activities) and the impact of inter-company transactions.

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

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF THE GROUP

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

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 30 June 2017	**Retail banking** (retail customers and sole proprietors)	**Corporate banking**	**Financial markets**	**Other**	**Total**
External net income[1]	23,730	21,832	10,820	1,634	58,016
Revenues from other segments	–	–	–	–	–
Segment result	2,144	15,924	5,208	12,786	36,062
Operating profit					36,062
Profit before tax					36,062
Income tax					(3,513)
Net profit for the period					**32,549**
Segment assets	884,458	1,013,726	1,661,541	46,615	3,606,340
Investments in subsidiaries	–	–	4,483	(4,483)	–
Total assets					**3,606,340**
Segment liabilities	2,032,173	749,007	227,917	23,716	3,032,813
Total liabilities					**3,032,813**
Other segment items					
Capital expenditure	550	8	3	1,551	2,112
Depreciation and amortisation	1,059	178	27	3,053	4,317
Net release of impairments and provisions	1,629	6,908	–	1,058	9,595
[1]**Including:**					
– interest income	14,628	15,020	10,362	807	40,817
– interest expenses	(1,624)	(260)	(1,587)	(16)	(3,487)
– dividend income	–	–	1,469	–	1,469
– fee and commission income	13,891	9,812	875	875	25,453
– fee and commission expenses	(3,165)	(2,740)	(299)	(32)	(6,236)

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

27 SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

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

28 THE NATURE AND AMOUNT OF UNUSUAL ITEMS

In the first half of 2018 there were no unusual items that, in terms of their nature, scope or occurrence, could have an impact on assets, debts, capital, net profit or loss or cash flow.

29 EVENTS AFTER THE REPORTING DATE

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