Annual report 2016

Deželna Banka Slovenije

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DEŽELNA BANKA SLOVENIJE

Always near you

DEŽELNA BANKA SLOVENIJE GROUP 2016 ANNUAL REPORT

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Sonja Anadolli

DEŽELNA BANKA SLOVENIJE d.d. LJUBLJANA 1

Ljubljana, February 2017

BUSINESS REPORT

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	Deželna banka Slovenije Group	2016	2015	2014
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	876,240	923,160	928,256
	Total deposits by non-banking sector measured at amortised cost	767,666	780,890	702,154
	- Corporates	132,046	170,678	111,294
	- Individuals	635,620	610,212	590,860
	Total loans to non-banking sector measured at amortised cost	599,627	620,211	623,725
	- Corporates	456,210	484,302	497,181
	- Individuals	143,417	135,909	126,544
	Total equity	56,503	53,570	46,748
	Impairments of financial assets and provisions	(45,590)	(50,391)	(103,063)
	Off-balance sheet operations (B.1. to B.4.)	60,852	77,593	86,377
2.	**Income statement** (in EUR thousand)			
	Net interest income	16,009	19,066	21,038
	Net non-interest income	14,891	14,998	17,018
	Employee benefits cost, overhead and administrative expenses	22,533	22,226	21,956
	Depreciation and amortisation	2,074	2,308	2,607
	Impairments and provisions	3,124	6,141	12,600
	Profit/loss from continuous and discontinued operations before tax	3,242	3,507	1,695
	Income tax	(495)	(426)	(296)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	2,444	2,434	1,401
4.	**No. of employees** (at end of period)			
	No. of employees	583	603	621
5.	**Shares**			
	No. of shareholders (at end of period)	318	322	261
	No. of shares (at end of period)*	4,228,995	4,228,995	3,742,583
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	12.932528	12.424950	12.490859
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	12.03	11.02	10.43
	Tier I capital ratio	12.03	11.02	10.43
	Total capital ratio	14.23	13.38	12.18
b)	**Quality of assets and commitments** (in %)			
	- Impairments of financial assets measured at amortised cost and provisions for commitments/Classified active balance sheet items and classified off-balance sheet items	4.01	4.39	9.46
c)	**Profitability** (in %)			
	Interest margin	1.75	2.03	2.34
	Financial intermediation margin	3.37	3.63	4.23
	Return on assets (ROA) after tax	0.30	0.33	0.16
	Return on equity (ROE) before tax	5.82	6.68	3.62
	Return on equity (ROE) after tax	4.93	5.87	2.99
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	2.68	2.61	2.73

Note: The indicators have been calculated in compliance with the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks.
* The number of shares is according to the records of the Slovene Central Securities Clearing Corporation KDD, less treasury shares. Subscriptions of shares issued in the capital increase at the end of 2014 are not recognised in equity as at 31 December 2014, as they had not yet been recorded in the KDD central register then.

I.2. KEY FINANCIAL DATA FOR DEŽELNA BANKA SLOVENIJE d. d.

	Deželna banka Slovenije d. d.	2016	2015	2014
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	845,862	892,393	890,061
	Total deposits by non-banking sector measured at amortised cost	767,963	781,946	702,697
	- Corporates	132,343	171,734	111,804
	- Individuals	635,620	610,212	590,893
	Total loans to non-banking sector measured at amortised cost	598,785	621,036	621,942
	- Corporates	458,015	487,791	498,325
	- Individuals	140,770	133,245	123,617
	Total equity	54,692	52,545	46,817
	Impairments of financial assets and provisions	(30,896)	(35,926)	(88,752)
	Off-balance sheet operations (B.1. to B.4.)	61,794	78,367	86,444
2.	**Income statement** (in EUR thousand)			
	Net interest income	16,552	19,671	22,240
	Net non-interest income	6,915	6,457	8,258
	Employee benefits cost, overhead and administrative expenses	15,988	15,534	14,811
	Depreciation and amortisation	1,237	1,396	1,499
	Impairments of financial assets measured at amortised cost, and provisions	3,300	6,780	12,567
	Profit/loss from continuous and discontinued operations before tax	2,942	2,418	1,621
	Income tax	(486)	(404)	(278)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	2,147	1,350	1,410
4.	**No. of employees** (at end of period)			
	No. of employees	348	354	355
5.	**Shares**			
	No. of shareholders (at end of period)	318	322	261
	No. of shares (at end of period)*	4,229,680	4,229,680	3,743,268
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	12.930433	12.422937	12.506898
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	11.99	10.87	10.30
	Tier I capital ratio	11.99	10.87	10.30
	Total capital ratio	14.19	13.22	12.03
b)	**Quality of assets and commitments** (in %)			
	- Impairments of financial assets measured at amortised cost and provisions for commitments/Classified active balance sheet items and classified off-balance sheet items	3.45	3.76	8.96
c)	**Profitability** (in %)			
	Interest margin	1.88	2.15	2.55
	Financial intermediation margin	2.67	2.86	3.49
	Return on assets (ROA) after tax	0.28	0.22	0.15
	Return on equity (ROE) before tax	5.48	4.68	3.42
	Return on equity (ROE) after tax	4.57	3.90	2.84
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	1.95	1.85	1.86
e)	**Liquidity** (in %)			
	Average liquidity assets/Average short-term deposits by non-banking sector measured at amortised cost	28.32	27.90	32.19
	Average liquidity assets/Average assets	18.56	16.15	17.91

Note: The indicators have been calculated in compliance with the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks.
* The number of shares is according to the records of the Slovene Central Securities Clearing Corporation KDD, less treasury shares. Subscriptions of shares issued in the capital increase at the end of 2014 are not recognised in equity as at 31 December 2014, as they had not yet been recorded in the KDD central register then.

II. REPORT OF THE MANAGEMENT BOARD

Over the course of decades, Deželna banka Slovenije d. d. has become one of the pillars of the Slovene agriculture and countryside, a bank with the third largest business network in Slovenia. We are a universal bank, gaining increasing recognition in urban areas as well, with around six thousand new customers joining us every year, which is a good result for a bank with a 2.4% market share.

Cooperative ownership proved, like elsewhere in Europe, a successful business model in times of crisis, a stable source of funds focused on financing the local environment. We have traditionally been linked to local communities, SMEs, cooperatives, associations, farmers as members of cooperatives, and food processing companies. It is this very cooperation that has resulted in positive synergies and has enabled the Bank and the Group to successfully achieve their objectives.

Our performance results improved from the year before in 2016, as we reported EUR 2,942 thousand of profit before tax. Decreasing interest income in the banking system resulted in lower net interest income, which we offset with active asset and liability management and by continually monitoring market conditions and investment opportunities. The negative effect of low interest rates is being neutralised with a rise in the number of customers and a substantial increase in non-interest income. Attention was devoted to improving business processes, streamlining operations and reorganising the Bank.

Total assets were stabilised at EUR 846 million, chiefly with the objective of reaching a more optimum balance sheet structure. We recorded an interest margin of 1.88%, which has ranked us among the better-performing Slovene banks for several years.

We diligently monitor and control all financial risks the Bank is exposed to, and continually upgrade risk management methodologies and approaches. Active and in-depth credit portfolio management has notably improved the portfolio's quality, substantially decreased the amount of non-performing exposures, and minimised impairment charges against current transactions. The Bank's capital adequacy – both in terms of structure and amount of capital – has improved considerably after the 2014 capital increase, the 2015 issue of subordinated debt and the transfer of total distributable profit to reserves. It now suffices to counterbalance all potential risks arising out of the Bank's operations. At the end of 2016 our capital adequacy ratios were above those imposed for the DBS Group by the Bank of Slovenia.

Funds collected from households – the most important and stable source of financing – were up 5% and loans to households increased by 7%. We continue to maintain an optimum amount of current liquidity and a large amount of secondary liquidity in the form of top rated government bonds and borrowings. The main source of funds is customer deposits, with exposure to interbank sources negligible.

As to crediting individuals, the economy and the public sector we retained our reserved approach in considering investments. In order to control all types of risk as efficiently as possible, we focused on diligent and in-depth analyses of customers' creditworthiness and getting to know their business. Additional attention was invested in obtaining adequate collateral for credit transactions, both when entering into new credit arrangements and for existing ones. This approach rendered positive results, and we will maintain it in the future.

As a bank we are one of the links in the chain of sustainable development for the Slovene countryside, being involved in several projects of national importance with our products. We are striving for a higher quality of life and improved population rate in the countryside, new jobs, use of renewable energy sources, green tourism and locally produced food.

As to sales results, we continued implementing one of the key goals of our business network, as we were again successful in 2016 in opening new accounts for households and corporates. The majority were the so-called full-functionality accounts, and good results were also recorded for the cross sales of banking products, and marketing of service packages. We have witnessed increases in the numbers of E-bank users, issued contactless payment cards and pre-pay cards, and individual and corporate users of the mDBS mobile bank. The scope of insurance deals brokered for partner insurers was up substantially, with life insurance at the forefront. Customers could again, as in previous years, make payments via UPN forms not only in the Bank's branches but at selected cooperative and other stores. We targeted the youth by collaborating with the Slovene Rural Youth Association, and by marketing our offer via a student employment agency. We are among the top three most affordable banks for the youth. Certain media and institutional analyses again ranked us as one of the most affordable banks for individuals and companies. Maintaining the number of our branches unchanged gave us an advantage over the competition which as a rule continued closing their branches.

As to numismatics, we preserved our traditional function of the authorised reseller of commemorative and collector coins issued by the state and the Bank of Slovenia.

The sale of properties owned by the Bank also progressed successively, with conditions in the real estate market having improved.

Our DBS Leasing witnessed substantially increased demand for leasing as a manner of financing. Many farms, particularly those with young farmers, are opting for major investments into new technologies and equipment as a means of keeping up with new trends in agriculture and farming. Financial leases of farming and forestry vehicles are therefore increasing.

As a socially responsible financial institution we are involved in numerous projects at both local and national levels. With donations and sponsorships we support various projects in arts and culture, sports and the humanitarian field.

Our plans include, for sure, healthy growth. Users of banking services rapidly change habits, which is why we are staying abreast of new trends and products in banking, effectively integrating modern banking into our operations. A good knowledge of customer needs, accessibility, and being locally based and adaptable, are the solid foundation on which we are building the long-term success of our business.

The Bank’s Management Board thanks the Bank’s customers, business partners and owners, with which we have created good collaboration and built trust. Thanks are also due to members of the Supervisory Board, who – by monitoring the Bank’s operations, making proposals and giving ideas – have contributed to making the Bank strong, and to our employees, who have implemented the set objectives.

BANK MANAGEMENT BOARD:

Ljubljana, 13 February 2017

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Sonja Anadolli

DEŽELNA BANKA SLOVENIJE LJUBLJANA 1

III. REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Deželna banka Slovenije d. d. monitors and oversees the Bank's management and its operations. The framework for its work and its terms of reference is set by the legislation, the Bank's internal acts and other legal norms applicable to the operations of banks.

The Supervisory Board of Deželna banka Slovenije d. d. – chaired by Peter Vrisk, with the members Marjan Janžekovič, Bernarda Babič, Nikolaj Maver and Ivan Lenart – was appointed at the General Meeting of 21 March 2016 for a five-year term starting on 1 July 2016. The term of Peter Vrisk as Chair, and the terms of Marjan Janžekovič, Nikolaj Maver and Ivan Lenart as members of the Supervisory Board, expired on 30 June 2016.

In discharging their function, members of the Board act in line with the standards of professional diligence and ethical standards. The Board consists of members who are independent, professional, fair and seamless in discharging their function and their decision-making, which serves the best interests of the Bank. In deciding on individual matters at Supervisory Board meetings, members abode by regulations and the Bank's internal acts regarding conflicts of interest. In the event of such a conflict, the relevant member removed themselves from the discussion and voting on the matter.

In 2016 the Board met at 12 regular and one extraordinary meeting, and additionally convened one correspondence meeting. Regular reports and other pressing matters as well as major issues related to the Bank's operations were discussed. Decisions were made regarding transactions within the Board's competence.

The Board's work is diligent and of good value. A quorum was reached at all meetings.

Here are the main topics that the Supervisory Board discussed and made decisions on in 2016:

The Bank's financial operations

The Board regularly reviewed and discussed the Bank's financial operations, and reviewed periodic operations reports of the Bank and its subsidiaries in 2016. It approved the 2015 Deželna banka Slovenije d. d. Annual Report, and adopted the Operations Plan for 2017 and the Bank Development Strategy for the period 2017–2021. It kept a close watch on the Management Board's activities aimed at cutting operations costs, and monitored the profitability of the Bank's branches. It analysed the Bank's performance indicators against the Slovene banking average and against peers.

Risk

The Board reviewed and approved the Bank's risk profile and the internal capital adequacy assessment process (ICAAP), and on a quarterly basis it discussed a detailed risk analysis. It reviewed Management Board's reports on activities associated with non-performing assets, and reports on reprogrammed loans and the restructuring of corporate customers. It monitored the Bank's activities with heavily indebted yet promising companies, reviewed stress test outcomes, and devoted special attention to the process of decreasing the Bank's past due defaulting receivables. It promptly monitored capital adequacy projections and capital management activities. It also reviewed the annual report of the Operations Compliance Department.

Management of the Bank

Together with the Management Board, the Supervisory Board convened for 19 February 2016 the Bank's 32nd Annual General Meeting, which reviewed the 2015 Annual Report and all its constituent parts. The Supervisory Board reviewed and approved the annual report, and offered a positive opinion with respect to the certified auditor's report. The General Meeting passed all the proposed resolutions on the agenda, and discharged the Management Board and Supervisory Board from liability in respect of their work for 2015.

The Supervisory Board appointed Mrs Sonja Anadolli for a new term as President of the Management Board, and proposed the General Meeting appoint the Supervisory Board with new membership.

Internal audit of the Bank

The Board reviewed the Internal Audit Department half-year reports for 2015 and 2016, and its 2015 full-year report. It approved the Internal Audit Department annual work plan for 2017.

Operations of subsidiaries

The Supervisory Board approved and endorsed the Management Board's report on subsidiaries in prudential consolidation being eligible for exemption from large exposures. The Board consented to increasing the capital of DBS Leasing, and approved the write-down of unrecoverable receivables within its competence.

The Bank's internal acts

The Board reviewed and gave its consent to numerous updated internal acts of the Bank, including the strategy and policies of risk management and the Deželna banka Slovenije d. d. Code of Conduct.

Other relevant activities

The Board reviewed letters from the auditor Deloitte revizija d. o. o., Ljubljana, and oversight measures imposed by the Bank of Slovenia and other regulators. It noted the materially relevant judicial proceedings involving the Bank, decided on giving its consent to the decisions of the Management Board when so stipulated by the legislation and the Statutes, and discharged other required tasks. It confirmed the proposed education plan for Supervisory Board members.

Internal organisation of the Supervisory Board

The Board received expert support from the Audit Committee, Risk Committee and Nomination Committee. The tasks and competences of each committee are laid down in the Bank's Statutes and in the terms of reference and rules of procedure of each committee. Members of committees are Supervisory Board members.

The internal organisation of the Supervisory Board is described in Chapter IV.3. Corporate Governance.

The Board considers that it received, throughout 2016, adequate and timely reports and information as well as additional clarifications and explanations at the meetings themselves. Due to all of the stated, and because it collaborated well and constructively with the Management Board, the appointed auditor and the Bank's expert departments, the Board was able to promptly, completely, diligently and responsibly oversee the Bank's management and operations.

As at 21 February 2017, the Management Board provided the Supervisory Board with the Deželna banka Slovenije Group Annual Report, which consists of the business report and financial report, the latter containing audited standalone financial statements of the Bank and consolidated statements of the Group, along with the auditor's report. The auditor believes the financial statements with notes give a true and fair view of the financial position of the Bank and the Group as at 31 December 2016 in accordance with the International Financial Reporting Standards.

The Supervisory Board confirmed the Deželna banka Slovenije Group 2016 Annual Report.

The Supervisory Board's resolution on reviewing and confirming the Annual Report

Pursuant to the provisions of the Companies Act and Article 41 of the Deželna banka Slovenije d. d. Statutes, the DEŽELNA BANKA SLOVENIJE d. d. Supervisory Board adopted, at its 7th regular meeting held on 21 February 2017, the following

RESOLUTION

Based on its review, the Deželna banka Slovenije d. d. Supervisory Board hereby confirms the DEŽELNA BANKA SLOVENIJE GROUP 2016 Annual Report, and expresses its positive opinion of the Auditor's Report by Deloitte revizija d. o. o., Ljubljana, for financial year 2016.

Ljubljana, 21 February 2017

President of the Supervisory Board:
Peter Vrisk

IV. GENERAL INFORMATION ON THE BANK

IV.1. HISTORY SINCE INCORPORATION

The roots of *Deželna banka Slovenije d. d.* go back to the 19th century, the era of the early agricultural credit unions and savings and loan undertakings. After the incorporation of the Bank's predecessor, the agricultural cooperative bank *Slovenska zadružna kmetijska banka d. d. Ljubljana*, the most important role was played by the association of savings and loan undertakings *Zveza hranilno-kreditnih služb Slovenije, p. o.* It directed the operations of savings and loan undertakings established after WW2, which operated in the framework of cooperatives, the successors of pre-war and even older cooperatives. When *Slovenska zadružna kmetijska banka d. d. Ljubljana* changed its name to *Deželna banka Slovenije d. d.*, the association *Zveza hranilno-kreditnih služb Slovenije, p. o.* transferred the majority of its assets and liabilities as well as its employees to the then *Slovenska zadružna kmetijska banka d. d. Ljubljana* bank, today's *Deželna banka Slovenije d. d.*

The Slovene cooperative, savings and banking system has witnessed 145 years of development since the incorporation of the first credit union in Ljutomer, during which time it provided financial support to the Slovene agriculture and rural areas. An important post-war landmark in the development of cooperative banking was the incorporation of the association of savings and loan undertakings *Zveza hranilno-kreditnih služb Slovenije, p. o.* (ZHKS) in 1971, the underlying for which was the Savings-and-Loan Undertakings Act passed two years earlier. It enabled the former savings-and-loan segments of agricultural cooperatives to reorganise into independent savings and loan undertakings.

The agricultural cooperative bank *Slovenska zadružna kmetijska banka d. d. Ljubljana* (SZKB) was incorporated on 18 January 1990 in the Celje Narodni dom, and started operations four months later. Its purpose was to supplement the financial system servicing agriculture, cooperatives and the food processing industry with services that existing credit institutions could not render due to the legislation at the time. It is therefore not surprising that the one initiating its incorporation was the ZHKS association. The SZKB bank was a universal bank from the start, providing services to customers from all industries.

The then new Banking Act had imposed on the ZHKS association to adjust to the new banking requirements by the beginning of 2004. As this was not possible, its founders decided at their meeting in December 2003 to transform the association into a cooperative, and to transfer its banking operations and a proportionate segment of assets to the SZKB bank while simultaneously increasing their ownership in the bank that had previously issued guarantees for savings deposits collected by savings and loan institutions. At the same time, the SZKB bank changed its name to *Deželna banka Slovenije d. d.*

Deželna banka Slovenije d. d. was entered in the court register of companies on 22 June 2004. The name was changed in order to boost the Bank's identity and to better reflect its universal character (in English literally: *Slovenia's Countryside Bank*). DBS has since operated as a mid-size Slovene bank focused on individuals and SMEs, while a relevant segment of its operations is traditionally linked to the agro-food segment. It has additionally obtained the Bank of Slovenia's licence to provide banking and other financial services and products. In 2005 the Bank incorporated the leasing company *DBS Leasing d. o. o.*, in 2013 the real estate company *DBS Nepremičnine d. o. o.*, and a year later the Croatia-based real estate company *DBS Adria d. o. o.* The *Deželna banka Slovenije Group* has another member, seed-producer *Semenarna Ljubljana, proizvodnja in trgovina, d. o. o.*, whose ownership the Bank acquired in 2014. By acquiring Semenarna, the Bank came to the aid of the company.

Ever since incorporation, DBS has been strengthening its capital by means of capital increases and appropriation of profits. Capital was increased twice in 2007, with two share issues placed on the market, in the total amount of EUR 35,981 thousand. The year-end 2014 capital increase saw 485,248 new shares paid in, in the total issue value of EUR 4,367,232.00; the increase of share capital to EUR 17,811,083.54 was recorded in the court register of companies on 16 January 2015. The Bank further strengthened its capital by issuing subordinated debt – the last issue, in 2015, amounted to EUR 5.5 million.

IV.2. BANK'S SERVICES

Deželna banka Slovenije d. d. is licensed to provide banking services, which include accepting deposits and other repayable funds from the public, and lending for the banks' own account. It is also licensed to provide mutually recognised and ancillary financial services.

In 2016 the Bank was licensed to provide the following mutually recognised financial services under Article 5 of the Slovene Banking Act (ZBan-2):

Services

1. Accepting deposits and other repayable funds,
2. Lending, which includes:
   - Consumer credits,
   - Mortgage credits,
   - Factoring, with or without recourse,
   - Financing of commercial transactions, including forfeiting,
4. Payment transactions,
5. Issuing and managing other payment instruments (such as travellers cheques and bank bills) that do not fall under the services of item 4 hereunder,
6. Issuing of guarantees and other commitments,
7. Trading for own account or for accounts of customers in:
   - Money market instruments,
   - Foreign exchange, including currency exchange transactions,
   - Financial futures and options,
   - Foreign exchange and interest-rate instruments,
   - Transferable securities,
8. Participation in securities issues and the provision of services related to such issues,
9. Counselling and services relating to mergers and the purchase of undertakings,
11. Portfolio management and counselling,
12. Safekeeping of securities and other services relating to safekeeping,
13. Credit rating services: collection, analysis and transmission of information on creditworthiness,
15. Investment services and operations, and ancillary investment services from Article 10 (1) of the Slovene Markets in Financial Instruments Act (ZTFI).

It was also licensed to provide the following ancillary financial services under Article 6 of the Slovene Banking Act (ZBan-2):

Services

1. Insurance brokerage pursuant to the act governing the insurance business,
6. Leasing.

IV.3. CORPORATE GOVERNANCE

As the parent undertaking in the Group, Deželna banka Slovenije d. d. is implementing internal governance and organisational structure pursuant to the legislation in force in the Republic of Slovenia. In designing its corporate governance arrangements the Bank also follows regulations issued by the European Banking Authority and the European Central Bank, the regulations and other acts of the Bank of Slovenia, and best practice standards in corporate governance.

Deželna banka Slovenije d. d. operates under a two-tier system of governance, with the Management Board running the Bank and their work being overseen by the Supervisory Board. The operations of both boards are laid down in the Deželna banka Slovenije d. d. Statutes and Rules of Procedure.

All members of the Bank's Management Board and Supervisory Board must at all times during their term meet the criteria for appointment, exercise due diligence and in this respect particularly make sure that the Management Board acts in line with the law, be candid, honest and independent in their actions, act in line with the highest ethical standards of governance – including measures to prevent conflicts of interest –, and devote sufficient time to their role on the board.

To obtain an independent and objective assessment of the efficiency and compliance of internal governance arrangements, the Bank has set up internal control functions (risk management, operations compliance, internal audit).

General Meeting of Shareholders

The General Meeting of Shareholders (GM) is convened by the Management Board at least once a year and additionally when this is urgent for the Bank's best interest. The GM may also be convened by the Supervisory Board, especially when the Management Board had not done so in due time or when this is necessary to ensure the Bank's smooth operations.

Pursuant to the Deželna banka Slovenije d. d. Statutes, the GM adopts decisions on:
- The appropriation of distributable profit as proposed by the Management Board and Supervisory Board,
- Endorsing the annual report in case it was not approved by the Supervisory Board or if the Management Board and Supervisory Board leave this decision to the GM,
- The Internal Audit Department annual report and the related Supervisory Board opinion,
- Discharging the Management Board and Supervisory Board from liability,
- Nominating and recalling Supervisory Board members,
- Capital increases and decreases, except in cases when the Statutes stipulate the decision to be in the competence of the Management Board,
- Adopting amendments and supplements to the Statutes,
- The dissolution of the Bank and changes of its status,
- Appointing auditors,
- The General Meeting Rules of Procedure,
- Other matters as provided for by the Statutes and the law.

The GM adopts decisions on issues related to managing the Bank's business if so requested by the Management Board after the Supervisory Board had refused its consent. The GM adopts decisions with a majority of the votes cast, except in cases where the law or the Statutes stipulate a three-quarters majority of the votes cast. Each ordinary share carries one vote at the GM, except when the law or the Statutes prevent the shareholder's right of governance.

Pursuant to the Statues and the law, shareholders may propose that additional items be added to the GM agenda or file counterproposals to individual items of the agenda.

Supervisory Board

In 2016 the Board was composed of the following members:

Until 30 June 2016:
- Peter Vrisk, Chair,
- Marjan Janžekovič, Deputy Chair,
- Ivan Lenart, member,
- Nikolaj Maver, member.

From 1 July 2016:
- Peter Vrisk, Chair,
- Marjan Janžekovič, Deputy Chair,
- Ivan Lenart, member,
- Nikolaj Maver, member,
- Bernarda Babič, member.

The Supervisory Board supervises how the Bank's business is run. Members of the Supervisory Board, who represent shareholders, are elected by the GM. The GM may recall members of the Supervisory Board it had elected prior to their term expiring. The Supervisory Board, particularly, oversees the implementation of the Bank's strategic goals, it designs, adopts and regularly revises the strategies of risk-taking and risk management, and it contributes to setting up and coming to life of a stable internal governance arrangement in the Bank by taking into account the policies and measures aimed at preventing the occurrence of conflicts of interest.

Supervisory Board committees

The Supervisory Board has appointed the following committees: Audit Committee, Risk Committee and Nomination Committee. Supervisory Board committees are advisory bodies. They have three members each, who are also members of the Supervisory Board and who act in line with the relevant Rules of Procedure.

The Audit Committee provides the Supervisory Board with expertise related to operations compliance, internal audit and the system of internal controls, and it offers professional support in assessing the composition of annual reports. It monitors the financial reporting process and oversees the accuracy of financial information, helps determine areas of audit and undertakes other related tasks. In 2016 the Committee met at eight regular meetings.

In 2016 the Audit Committee was composed of:
- Peter Vrisk, Chair (until 14 November; member from 15 November),
- Marjan Janžekovič, member (until 14 November; Chair from 15 November),
- Bernarda Babič, member (from 5 August),
- Damijan Korošec, external expert (until 4 August),
- Nikolaj Maver, member (until 4 August),
- Ivan Lenart, member (until 4 August).

The Risk Committee (from 6 August 2015) attends to efficient and prudent risk management at all levels of the Bank's operations, monitors the efficiency of risk management systems, and advises the Supervisory Board on current and future acceptable risks for the Bank. In 2016 the Committee met at three meetings.

In 2016 the Risk Committee was composed of:
- Peter Vrisk, Chair (until 4 August; member from 5 August),
- Nikolaj Maver, member (until 4 August; Chair from 5 August),
- Marjan Janžekovič, member (until 13 December),
- Ivan Lenart, member,
- Bernarda Babič, member (from 5 August to 13 December).

The Nomination Committee is the Supervisory Board's expert working body charged with appointing members of the management body, determining the tasks and conditions to be met in order to win an appointment, assessing the suitability of individual members and the management body as a whole, and with different advisory HR tasks and other related assignments. In 2016 the Committee met at six meetings.

In 2016 the Nomination Committee was composed of:
- Marjan Janžekovič, Chair,
- Peter Vrisk, member,
- Ivan Lenart, member,
- Nikolaj Maver, member (until 4 August).

Management Board

In 2016 the Bank Management Board was composed of:
- Sonja Anadolli, President,
- Barbara Cerovšek Zupančič MSc, member.

The Management Board runs and manages the Bank autonomously and at its own responsibility. Pursuant to the Slovene Banking Act, the two members of the Management Board represent the Bank jointly. The member and President of the Management Board are appointed by the Supervisory Board. The Management Board has two members, who hold meetings once a week. The function of member of the Bank's Management Board may only be performed by a person who has obtained the requisite licence. The Supervisory Board must make a decision regarding the appointment of an individual as member of the Bank's Management Board – and obtain, to that end, the Nomination Committee's estimate on the suitability of this person to act as member of the Management Board – prior to this person filing for the licence for acting as member of the board.

The Management Board is fully responsible for the Bank's operations and its risk management, including for approving the Bank's strategic goals and overseeing their implementation, for defining, adopting and regularly revising the strategy of risk-taking and risk management, for internal governance arrangements, for ensuring the integrality of accounting and financial reporting systems, and for overseeing information disclosure procedures and reporting to the competent authorities. The Management Board is also responsible for providing efficient supervision of senior management.

Important roles are also assigned to different boards and committees in the Bank, which make decisions in line with their respective powers and competences: Credit Board, Asset Liability Management Board (ALM Board), Non-performing Loans Board, Liquidity Committee, Investment Committee, Property Board, Crisis Team.

Number of directorships held by members of the Management Board and Supervisory Board

The limitation regarding the number of directorships a member of the management body may hold simultaneously is stipulated by the Banking Act (ZBan-2). Deželna banka Slovenije d. d. may not have the status of a significant bank, but it nevertheless meets the requirements laid down in Article 36 (3) of the ZBan-2.

Consistent with the provisions of the ZBan-2, members of the Bank's Management Board hold a total of five directorships outside the Bank, and members of the Supervisory Board 12 directorships.

Employment policy in selecting members of the management body, and policy on diversity

In selecting members for the management body, Deželna banka Slovenije d. d. acts in compliance with the legislation in force in the Republic of Slovenia, regulations issued by the Bank of Slovenia and European Banking Authority, and the Bank's internal acts.

The Bank's internal Recruitment Policy for the Selection of Members of the Management Body lays down the criteria for the selection and appointment of members of the management body, a body which consists of the Bank's Management Board and Supervisory Board. The overall composition must ensure that members of the management body have the requisite expertise, skills and experience needed for an in-depth understanding of the Bank's operations and risks it is exposed to. At the same time, the body's composition must ensure diversity in terms of its members' professional experience and know-how, age, education, expertise and personal characteristics. The appointment process is handled, in accordance with the Bank's internal acts and the relevant legislation, by the Nomination Committee, which assesses once a year the expertise, skills and experience of individual members of the Management Board and Supervisory Board, and the structure, size, composition, and efficacy of both boards. The Nomination Committee assessed the composition of the Bank's management body as appropriate, as both – individual members and the management body as a whole – comply with all conditions imposed by the law and internal acts.

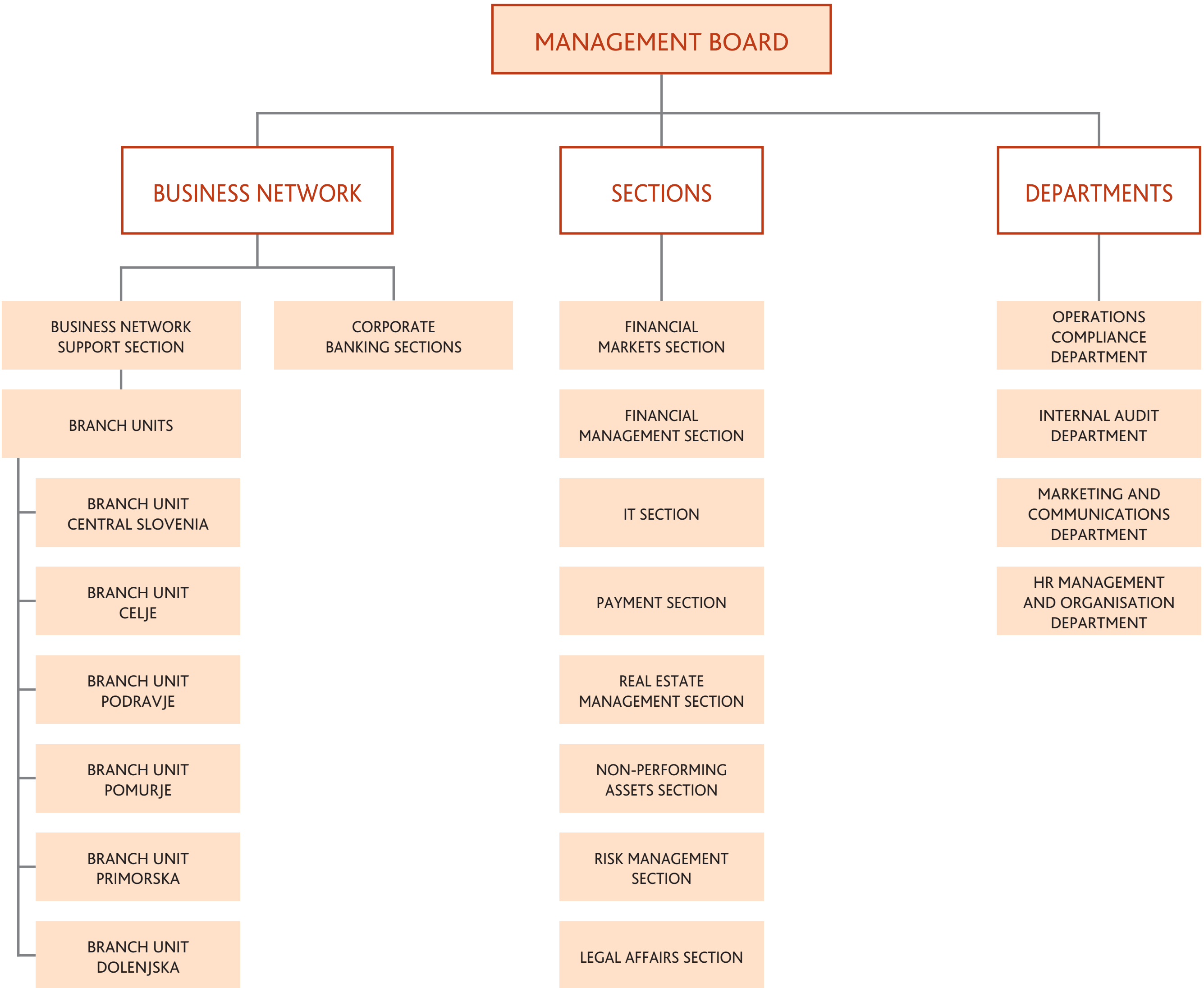
IV.4. ORGANISATION CHART

In 2016 the Bank again continued optimising its organisational structure. The new structure was tailored to the planned volume of business and to the optimisation of goals. The new organisation has created the conditions for realising the Bank's strategy, additionally improving cost efficiency, easier risks management, and for streamlining business processes and HR management.

The Bank's business processes are managed and conducted within coherent areas of business. In terms of functions, the Bank is divided into the following internal organisational units: the Management Board, business divisions, sections, departments and bureaus.

In terms of its territorial presence, the Bank's head office is in Ljubljana while its external organisational units are spread across the country, where it operates through branch units, branches I and branches II. External organisational units constitute the Bank's business network. Branch units are run, directed and supervised by directors of branch units.

Organisation chart as at 31 December 2016



V. DEŽELNA BANKA SLOVENIJE BANKING GROUP

Deželna banka Slovenije d. d. is the controlling company in the Deželna banka Slovenije Group (hereafter Group). As at 31 December 2016 the Group included four subsidiaries: the leasing company DBS Leasing d. o. o. (hereafter DBS Leasing), the real estate company DBS Nepremičnine d. o. o., which trades in the Group's property (hereafter DBS Nepremičnine), the seed-producer Semenarna Ljubljana, proizvodnja in trgovina, d. o. o. (hereafter Semenarna), and the Croatia-based real estate company DBS Adria d. o. o., družba za poslovanje z nepremičninami (hereafter DBS Adria).

Deželna banka Slovenije d. d. draws up consolidated financial statements for the entire Group.

Group companies as at 31 December 2016:

	Status	DBS's stake in %
DBS d. d.	Controlling company	-
DBS Leasing d. o. o.	Subsidiary	100
DBS Nepremičnine d. o. o.	Subsidiary	100
Semenarna Ljubljana, d. o. o.	Subsidiary	100
DBS Adria d. o. o.	Subsidiary	100

DBS Group organisation chart as at 31 December 2016

Performance indicators for the Group's subsidiaries for 2016:

Company	DBS Leasing d. o. o.		DBS Nepremičnine d. o. o.		Semenarna Ljubljana, d. o. o.		DBS Adria d. o. o.	
	2016	2015	2016	2015	2016	2015	2016	2015
Total assets (in EUR thousand)	9,889	9,674	1,465	7,700	29,895	30,177	171	156
Equity (in EUR thousand)	2,686	749	1,464	1,492	870	958	7	(4)
Profit/loss before tax (in EUR thousand)	(66)	(233)	(28)	60	15	120	(5)	(5)
Income tax (in EUR thousand)	-	(7)	-	(5)	(2)	(2)	1	1
Profit/loss after tax (in EUR thousand)	(66)	(240)	(28)	55	13	118	(4)	(4)
Return on assets (ROA) before tax (in %)	(0.66)	(2.19)	(0.48)	0.77	0.05	0.37	(3.13)	(3.25)
Return on equity (ROE) before tax (in %)	(7.53)	(24.30)	(1.89)	0.89	0.83	6.56	-	-
No. of employees (at end of period)	6	7	0	0	229	243	0	0
Total assets/No. of employees (at end of period) (in EUR thousand)	1,648	1,382	-	-	131	124	-	-

DBS Leasing d. o. o.

Registered address: Kolodvorska ulica 9, 1000 Ljubljana, Slovenia
Registration number: 2160854
Business: 64.910 Financial leasing
Initial capital: EUR 3,484 thousand
CEO: Srečko Korber

DBS Leasing is a universal leasing company offering mainly movable property leases (for cars, machines, equipment and utility vehicles). It complements the range of the Bank's and Group's financial services especially by financing agricultural machinery and equipment. A gradual phasing-out of immovable property leases continued in 2016, with operations being increasingly focused on movable property leases.

A loss of EUR 66 thousand was reported for financial year 2016, mainly attributable to write-offs of investments and high litigation costs. The company's total assets were up 2.2% in 2016, to EUR 9,889 thousand. The majority of investments are finance lease receivables. The main sources of assets are equity and borrowings.

The company actively manages financial risk, and credit risk is controlled by checking customers' creditworthiness before approving each transaction. Interest rate risk is controlled through a balanced application of the variable rate in the remuneration of assets and liabilities, and liquidity risk is controlled by balancing the maturity periods of liabilities and assets. The company devotes extensive efforts to decreasing delinquency in lessees, and has reduced the volume of bad receivables, especially in the area of vehicle and equipment leases, by undertaking vigilant monitoring of missing payments. With major and more problematic customers, legal procedures for recovery have also continued.

The Regulation on the Implementation of Options and Discretionary Rights Arising from EU Law was adopted in April 2016, which provides, subject to certain conditions, that exposures to subsidiaries are not limited to 25% of a bank's capital, as was the case before. The Bank thus examined, together with DBS Leasing, whether these terms are met and implemented the relevant changes, thus ensuring that lease transactions can be performed by DBS Leasing. The Resolution of Confirming the Exemption from Bank's Exposure to the Group took effect as at 1 October 2016. DBS Leasing has thus started with different activities for which funding will now be available at the parent bank, mainly aimed at increasing its sales volume.

DBS Nepremičnine d. o. o.

Registered address: Kolodvorska ulica 9, 1000 Ljubljana, Slovenia
Registration number: 6290540
Business: 68.100 Buying and selling of own real estate
Initial capital: EUR 2,000 thousand
CEO: Mojca Štajner

DBS Nepremičnine was founded in January 2013 and is wholly-owned by DBS d. d. The company's core businesses include selling the Group's property, renting, developing real estate projects, and other production of electricity. All properties were fully transferred to the Bank in 2014 and 2015.

A major part of balance sheet assets is a short-term loan to a subsidiary, and among sources of assets it is equity.

A loss of EUR 28 thousand was reported for financial year 2016, mainly attributable to impairments of investments arising out of the common methodology of assessing credit risk losses.

Semenarna Ljubljana, d. o. o.

Registered address: Dolenjska cesta 242, 1000 Ljubljana, Slovenia
Registration number: 5005574
Business: 46.210 Wholesale of grain, unmanufactured tobacco, seeds and animal feeds
Initial capital: EUR 5,710 thousand
President of the Management Board: Aleš Šabeder
President of the Supervisory Board: Peter Vrisk

The company's core business includes retailing, wholesale and growing of grain, seeds and animal feeds; retail trade in specialized gardening equipment and pet stores; growing vegetable crops, melons and root crops, producing the seeds of vegetables, seasonal herbs and green vegetables, growing flowers and other ornamental plants; production of seeds, seedling vegetables, fruit tree nursery plants, vine grafts and ornamental plants.

Semenarna is the largest seed-producer, seed-wholesaler and retailer, and seed exports company in Slovenia and the region, with a 110-year tradition. After streamlining operations and adjusting to the needs of various market segments, the company managed to report a profit for 2016. Total net sales revenue for 2016 amounted to EUR 29.3 million, up 4% compared to the year before. Total assets were EUR 29,895 thousand at the end of 2016.

Semenarna's positive result for 2016 testifies to the fact that the company's further corporate restructuring has been successful. In 2016 the company faced an additional strengthening of market competition, with the number of providers increasing across key product groups both in the retail and wholesale segments. Due to the competition's pressures to reduce prices, the company was forced to further adjust it competitive market position.

All Semenarna's liabilities arising out of compulsory composition were settled as of 1 February. In accordance with the financial restructuring agreement, the Bank will convert in 2017 a proportion of extended loans to equity in Semenarna. The restructuring agreement provides Semenarna will settle all its liabilities to creditor banks.

DBS Adria d. o. o.

Registered address: Cvjetno naselje 26, Samobor, Croatia
Registration number: 0103191000 (court ID number: 080906254)
Business: Management of real estate on a fee or contract basis
Initial capital: EUR 17 thousand
CEO: Jožef Berdnik

The company was incorporated in March 2014 and is wholly-owned by the DBS d. d. bank. The company's core business is selling the Group's property, renting and developing real estate projects.

In 2016 the company reported EUR 4 thousand of loss for the year. Total assets were EUR 171 thousand at the end of 2016. The majority of investments were inventories of property abroad, while the majority of liabilities were borrowings from banks.

VI. THE BANK'S PERFORMANCE IN 2016

VI.1. GENERAL ECONOMIC ENVIRONMENT[1]

Favourable economic trends were forecast for the final quarter of 2016 and the two years to follow. Real GDP growth of 2.3% is expected for full-year 2016 (2015: 2.3%). Exports will remain the key driver of economic activity. Economic growth is becoming broad-based as the contribution of domestic consumption gradually rises. Household consumption is expected to increase significantly in 2016, with a considerable improvement in labour market conditions and a high level of consumer confidence. The consumption of durables continues to rise, having surpassed the pre-crisis level after two years of rapid growth. Consumer prices rose in 2016 due to higher prices of raw materials in global markets, which pushed energy and food prices higher and stimulated demand. This drove inflation to 0.5% at the year-end of 2016 (2015: –0.5%).

Economic activity and sentiment indicators for the euro area show a continuation of GDP growth rates recorded in the final quarter of 2016. Economic growth will continue to rely mainly on growth in private consumption, boosted by a further improvement in labour market conditions. Recovery of investment is expected to continue, reflecting higher profits of enterprises, the need to replace equipment and better financing conditions. Restrictions preventing future economic growth continue to arise out of internal political factors and geopolitical risks, chiefly the uncertain economic consequences of Brexit and the election of the new president of the United States of America.

At the beginning of the last quarter of 2016, short-term indicators of economic activity continued climbing, with negative trends visible only in construction and financial services. An increase in foreign demand and a further improvement in competitiveness boosted value added in manufacturing. Exports remain the main driver of economic recovery. Growth of household spending drove sales revenues in retail trade up considerably since the beginning of 2016. Growth continued in the sale of non-food products, which, alongside growth in the sale of motor vehicles, suggests a further recovery of private consumption in the segment of durable goods. Confidence in the economy remained high in the last three months of 2016.

Improvements in labour market conditions also continued at the year-end of 2016. The active working population continues to increase mainly as a result of stronger hiring in manufacturing, accommodation and food services, trade industry, and in professional, scientific and technical activities. Having increased in most private sector activities, employment growth in the nine months of 2016 was significantly stronger than in the same period of 2015.

Despite a persistent drop in interest rates on loans, deleveraging of non-banking sectors from banks continues. Although the conditions for an increase in bank loans will improve as the banking system continues to remain stable, non-banking and internal sources of funding will play an increasingly important role in financing the economy. New lending to enterprises has stopped falling in recent months, but significant growth has yet to materialise. The interest rates at domestic banks have dropped considerably, but remain above the euro area average, particularly for larger loans. Despite favourable lending conditions, the stock of households' borrowings in Slovenia has remained unchanged for two years. Loans to households are gradually increasing, mainly owing to more housing and, since April, also consumer loans. Housing loans are increasing on account of low interest rates, the low level of household indebtedness and favourable property prices, while favourable economic conditions have also fuelled a gradual recovery in consumer loans.

[1] Source: Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD).

The situation in the banking system has improved and IMAD expects a rebound in bank lending to the corporate sector. The share of non-performing claims is rapidly falling[2], which is a consequence of the liquidation of two smaller banks and, in addition, of restructuring and sale of non-performing receivables. Despite the contraction in the net interest margin, the performance of Slovenia's banking system has improved significantly this year, primarily owing to the lower provisions and impairments created. The capital adequacy of Slovenia's banking system is increasing and is among the highest in the EU. In terms of sources of finance, deposits by the domestic non-banking sector continue to rise; however, since only overnight deposits are increasing, their maturity structure is not particularly favourable. Amidst low interest rates the maturity structure will continue to change in favour of sight deposits, which is decreasing the stability of banks' financial resources and is highlighting the importance of efficient liquidity management in the future. Banks will also have less and less leeway for additionally decreasing interest expenses, which could drastically impact their profitability if lending were to continue to decline.

VI.2. THE BANK'S BUSINESS OPERATING POLICY

The Deželna banka Slovenije d. d. business policy pursues objectives that bring the Bank closer to its key strategic objectives. The Bank's priorities remain strengthening its capital base and ensuring capital adequacy, preserving liquidity and stability of operations, increasing all types of revenue, and efficient risk management.

As a matter of priority market focus, the Bank is targeting households and young customers, the agro-food sector and SMEs. The Bank is boosting the utilisation of its business network and thereby strengthening marketing activities – customers are treated holistically, both individuals and corporates. The marketing of other financial services is also being accelerated, including insurance and leases of farming machines and equipment, with emphasis placed on increasing interest and all types of non-interest income, including by utilising synergies within the cooperative system. The Bank plans to develop banking products to service the financing of cooperatives, organic food production, renewable energy sources, green economy, increased food chain self-sufficiency, and social entrepreneurship. Insurance services will be marketed together with Slovene insurers. In rendering services the Bank is striving for excellent responsiveness both in terms of quality and time. The Bank is devoted to preserving stability and an adequate maturity of our financial resources, and with respect to investments it intends to increase the quality of its portfolio, placing a major focus on ensuring adequate collateral covers for its receivables, the safety of investments and limiting risks in lending. The Bank will undertake an active recovery of non-performing loans, and improve the risk management and lending functions. The Bank will attend to the efficient management and accelerated marketing of properties not required for its operations. The streamlining of business processes and departments will continue, and operating efficiency will be enhanced across all segments of business. The Bank is developing and rationalising its information system and technological equipment, with a view to be more efficient and effective, and continuing with cost rationalisation measures across all areas. The Bank is leading a wise human resources policy and ensuring life-long education and training of employees.

By reaching its objectives, DBS d. d. will preserve its market share in Slovenia's banking system at the year-end of 2017, and reaffirm its place among the top three banks according to stage of development and branching. DBS d. d. will remain Slovenia's leading bank provider of banking and other financial services to the agro-food sector and rural areas, and the leading distributor of EU and state financial aid. It will also remain the leader in servicing the manufacturing sector, hi-tech industries, tourism, ecology-related disciplines, and energetics.

[2] The share of non-performing exposures of the banking system as at 30 September 2016 totalled 9.07% (source: Bank of Slovenia, http://www.bsi.si).

VI.3. THE BANK'S PERFORMANCE

VI.3.1. CORPORATE BANKING

Corporate lending

Corporate deleveraging continued in Slovenia in 2016, reflected in the banking sector as a decrease in lending, especially as a decline in loans granted to the non-banking sector. Decreasing non-performing exposure and restructuring the corporate sector remain among the top priorities and challenges of banks in Slovenia. Corporate deleveraging and reduction of non-performing exposures are relevant factors conditioning the growth of corporate lending and thus the recovery of the (private) investment cycle.

Prior to signing with new customers the Bank will, as a matter of principle, obtain a good knowledge of the company and its operations as well as the risks it is exposed to in its operations, and it will identify the company's needs for financing and other banking products. We cross-market all our services for corporate customers, including treasury, securities trading, payment transactions, modern banking solutions and insurance products.

The Bank pursued a conservative investment policy in 2016, dispersing exposure among family-owned companies, SMEs and cooperatives operating in the manufacturing industry, high-tech industries, ecology-related industries, the energy sector, the tourism industry and the agro-food sector. Sales efforts were spread selectively, with the Bank allowing exposure to corporates and cooperatives with adequate credit ratings and operations that generate enough cash-flow to repay loans. Attention was devoted to acquiring adequate collateral for loans. Lower interest income was offset against higher non-interest income and income from accompanying services, which are becoming increasingly important for the Bank's performance.

Financial holdings were not financed. With customers identified as posing increased risk, action for recovery was intensified or additional collateral demanded.

The Bank's investments into loans to non-financial companies, the state and other financial companies totalled EUR 355,835 thousand at the end of 2016. This is down EUR 38,397 thousand year-on-year, the majority due to a decrease in non-performing exposures.

As to managing non-performing loans, the Bank continued renegotiating receivables from customers with adequate business models and market potential for further operations. Where it was estimated that repayment would be higher if seizing the collateral rather than upon renegotiation, it stepped up action for recovery. Consistent with the Slovene principles of renegotiation adopted by the Bank Association of Slovenia, and the recommendations of the Bank of Slovenia, the Bank was actively engaged in interbank agreements on renegotiating loans to customers exposed to several creditor banks.

Running accounts, and electronic banking for corporate customers – DBS PRONET

The number of active corporate transactional accounts increased by 4.2% in 2016. This increase was followed by a favourable trend in E-banking, with almost 96% of our corporate customers that have an active transactional account with us using DBS PRONET at the end of 2016.

Payment transactions

In 2016 the Bank followed trends in state-of-the-art developments in payment transactions and complied with legal requirements. In addition to individual credit transfers, we offer our customers SEPA mass payments, SEPA direct debit, payment cards, and the issuing and paying of e-invoices. We are integrated into modern payment systems due to extensive maintenance and upgrades of our information support, which we undertake in order to offer our customers high-quality services. The majority of payments transacted for our corporate customers in the past year were internal and domestic transactions via the SEPA IKP payment scheme and via TARGET2, and international and cross-border transactions via the SEPA EKP system.

With respect to international operations, we offer our customers guarantees, letters of credit, collection and cheques, and maintain good business relations with other banks by adequately servicing our current account and correspondent banking network as well as by offering services to other banks.

Corporate deposits

Corporate deposits, including deposits by the state, amounted to EUR 95,527 thousand as at 31 December 2016, down 34% compared to the previous year. Deposits were down due to decreased deposits by the state. The Bank adjusted its activity aimed at collecting corporate deposits to the liquidity situation, thereby monitoring markets and investment opportunities.

VI.3.2. RETAIL BANKING AND BUSINESS NETWORK

The Bank's operations with households in 2016 benefited from the positive impact of the economic situation and public optimism, which boosted economic activities of households – the general public, farmers and private entrepreneurs.

Collected funds

The balance of collected funds from households, including foreign entities and non-profit institutions serving households, amounted to EUR 672,436 thousand at the end of 2016. This was up EUR 34,668 thousand, or 5%, compared to the end of 2015. An increase in collected assets was reported despite a continuing reduction in interest rates. Funds collected from households total EUR 635,620 thousand.

The Bank managed to preserve a favourable maturity structure of assets, keep sight deposits stable, and retain a satisfactory volume of long-term deposits.

Lending

The balance of loans and advances to household amounted to EUR 242,950 thousand at the end of 2016, an increase by EUR 16,146 thousand, or 7%, compared to the year-end of 2015.

Despite difficult conditions and increased competition in the lending market, the Bank managed to preserve the quality of its credit portfolio in the segment of households. Safety and limitation or risks were again at the forefront in 2016. Expedient and intensified daily debtor treatment have helped the Bank keep the volume of overdue defaulting receivables from our retail customers at a manageable level. The Bank partially adapted to the trend of long-term fixed-rate borrowing with a supplemented offer of housing loans.

Transactional accounts

In 2016 the Bank continued implementing one of its key goals related to the operations of the business network, set in previous years. A continual increase in the number of household customer's transactional accounts, predominantly full-functionality accounts, is a priority that has been materialising fully. The opening of transactional accounts is closely related to the cross-marketing of products, which come in packages that enable customers to expand their cooperation with the Bank to several areas and banking services. In an effort to increase the number of transactional accounts, the Bank continued marketing special offers, such as Sowing Package, Harvest Package, Secondary On-farm Activity Package, Transferee of a Farm Package, and Package for private entrepreneurs, associations and other legal persons governed by private law. The Bank's primary focus is with customers that ask for full-functionality accounts, and young customers. The growth trend and net increase in the number of transactional accounts continued in 2016.

Administering payment transactions via the business network

The total number of processed payment orders remained on a similar level year-on-year, with the contribution of E-banking on the rise, which is in line with the Bank's strategy. The share of payment orders processed via E-banking has increased and now represents 45%. Fee and commission income was up in 2016. The market still hosts public cash registers and non-banking providers of payment transactions, which offer payment services at low prices. Some of them have accounts at and conduct payment transactions via the Bank.

DBS branch units' supply of cash

Total costs of transportation and purchase of cash from depository bank NLB, and costs of related security services, decreased in 2016 by 3.9% year-on-year.

Numismatics

The Bank decided to continue selling numismatic coins – collector and commemorative coins – as numismatics represents an important contribution to maintaining the Bank's visibility in its environment. We witnessed two issues of collector and commemorative coins in 2016, and two are also expected for 2017.

Marketing mutual funds

The Bank maintained in 2016 its cooperation with the portfolio manager KD Skladi, družba za upravljanje, d. o. o. The volume of transactions has remained on a similar level throughout the years.

Electronic banking for individuals – DBS NET

In 2016 the Bank again witnessed increases in both the number of transactional accounts with the E-banking functionality, and the number of E-bank users. This is the result of a larger number of younger customers joining us, and of our actively redirecting existing customers to process payment transactions via the E-bank.

The number of the mDBS mobile bank users was also up in 2016. This is an expected development, with the service being relatively new.

Insurance brokerage

The Bank maintained cooperation with the business partners – insurance companies – for which it provides insurance brokerage. The volume of insurance business was up 24% year-on-year, both with respect to the number of insurance policies sold and commissions collected.

The Bank's ATM network

As at the year-end of 2016 the Bank's ATM network consisted of 38 machines, there being 39 the year before.

Payment cards

The Bank's active marketing of a wide range of services related to transactional accounts resulted in an increase in the number of issued bank cards. Both the number of issued Activa Maestro debit cards and Activa MasterCard credit cards were up. We also witnessed rising interest in the pre-pay bank card.

Marketing UPN forms via outsourcers

In 2016 the Bank outsourced the marketing of standard payment order forms (so-called UPN forms) to eight providers, two of whom were cooperative stores. The number of contractors did not change in 2016, but the volume of transactions was up compared to 2015.

VI.3.3. OPERATIONS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Operations with domestic and foreign banks in 2016 comprised borrowings, deposits received, deposits placed, conversions and operations in foreign exchange derivatives. A proportion of these operations included transactions with which the Bank managed net open foreign exchange positions.

The Bank's borrowings in the interbank money market were down EUR 1,993 thousand, attributable to an overall decrease in borrowings. As to investments, exposure to the banking sector was negligible. Short-term excess liquidity was kept on the settlement account.

The Bank repaid in 2016 its matured subordinated debt instruments in the total nominal value of EUR 2,500 thousand.

VI.3.4. SECURITIES TRANSACTIONS

Debt securities

The Bank's portfolio of debt securities as at 31 December 2016 was worth EUR 145,302 thousand. In line with the adopted strategy, the Bank partly replaced matured debt securities with new ones in the past year, focusing mainly on high-rated securities that meet the criteria for eligible underlying assets of the Eurosystem.

The Bank participated in the Republic of Slovenia treasury bills auctions, both for its house account and for the clients' account. In purchasing new debt securities, the Bank's decisions were based on its needs, which depended on the maturity periods of its liabilities, the liquidity ratio, the capital adequacy ratio, and the safety and return on investment. The Bank's investment policy was highly conservative in general.

Equities

As at 31 December 2016 the Bank did not have any investments in domestic equities in its trading book.

Equity investments

The total value of equity investments as at 31 December 2016 amounted to EUR 11,816 thousand, of which investments in subsidiaries represented a 66% share. Equity investments were down in 2016 mainly due to the disposal of a share in Merkur nepremičnine, d. d., and they were up on account of the capital increase in DBS Leasing d. o. o.

VI.4. FINANCIAL RESULT AND FINANCIAL POSITION

VI.4.1. FINANCIAL RESULT

DEŽELNA BANKA SLOVENIJE GROUP

In 2016 the Group reported EUR 2,747 thousand of profit from continuous operations after tax (2015: EUR 3,081 thousand), attributable to the reported profit of the Bank and, to a lesser degree, of the subsidiary Semenarna. Subsidiaries DBS Leasing, DBS Nepremičnine and DBS Adria ended the year with loss.

Group net interest income amounted to EUR 16,009 thousand, a decrease by EUR 3,057 thousand year-on-year. The majority of interest income results from the Bank's operations, including loans, borrowings, deposits and securities. The consolidation of subsidiaries into Group statements has increased financing expenses and decreased net interest income by EUR 543 thousand.

Net fee and commission income amounted to EUR 6,735 thousand, up EUR 1,093 thousand from a year earlier. The majority of fees and commissions refer to the operations of the Bank. The consolidation of Semenarna has upped fee and commission expense by EUR 836 thousand, arising mainly out of financial services and payment transaction services.

Net gains on the derecognition of assets totalled EUR 8,996 thousand (2015: EUR 8,758 thousand). Due to consolidation, this item includes both Semenarna's revenues from the sale of goods, products and services, as well as non-financial income and costs of material.

Net impairment charges against loans and other assets amounted to EUR 3,160 thousand, of which impairment losses on loans totalled EUR 2,544 thousand, down EUR 1,560 thousand from the year before. Net provision income totalled EUR 36 thousand, an increase by EUR 336 thousand compared to 2015.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank's performance results improved from the year before, as it reported EUR 2,942 thousand of profit before tax, profit after tax amounting to EUR 2,456 thousand (2015: EUR 2,014 thousand). Comprehensive income was positive and totalled EUR 2,147 thousand. Operating profit before impairments and provisions, and before tax, was EUR 6,242 thousand (2015: EUR 9,198 thousand).

Net interest income amounted to EUR 16,552 thousand, a decrease by EUR 3,119 thousand year-on-year (2015: EUR 19,671 thousand). Interest income was down EUR 6,439 thousand particularly due to lower interest income from long-term and short-term loans, available-for-sale securities and securities held for trading, and held-to-maturity securities of other issuers and banks. Interest income on held-to-maturity securities issued by the state was up. Interest expense was down EUR 3,320 thousand year-on-year, attributable to lower interest on long-term and short-term deposits and on bonds.

Net fee and commission income totalled EUR 7,475 thousand, up EUR 1,007 thousand year-on-year (2015: EUR 6,468 thousand). Fee and commission income was up EUR 745 thousand. Income increased for payment transactions, securities trading for clients, credit operations, agency transactions and commissionaire arrangements. Income decreased for issued guarantees and administrative services (interbank settlements in the Activa processing system, and bank card blocking). Fee and commission paid was down EUR 262 thousand year-on-year.

Impairment charges on investments decreased from the previous year. Net impairments amounted to EUR 3,282 thousand (2015: EUR 6,482 thousand), with loan impairments representing EUR 2,562 thousand of the total amount, down EUR 1,272 thousand from 2015. Impairment charges against equity investments totalled EUR 108 thousand. The impairment of the investment in DBS Leasing d. o. o. totalled EUR 72 thousand, the impairment of DBS Nepremičnine d. o. o. EUR 28 thousand, and the impairment of DBS Adria d. o. o. EUR 8 thousand. Net impairment losses on other assets totalled EUR 612 thousand, down EUR 989 thousand year-on-year; impairments of investment property were EUR 238 thousand, and impairments of property inventories EUR 374 thousand.

There were EUR 18 thousand of net expenses for provisions formed in 2016 (2015: EUR 298 thousand of net expenses). Provisions for off-balance sheet liabilities totalled EUR 63 thousand of net income, and other provisions amounted to EUR 81 thousand of net expenses. Among other provisions, EUR 81 thousand was provision expenses associated with long-service awards and severance pays to employees.

Other net operating losses totalled EUR 1,356 thousand (2015: EUR 480 thousand). Gains included EUR 214 thousand of lease income. Losses included EUR 839 thousand paid into the deposit guarantee scheme, EUR 819 thousand of financial transaction tax (2015: EUR 774 thousand), EUR 30 thousand of reimbursed guaranteed claims under Article 464 of the Markets in Financial Instruments Act (ZTFI), EUR 20 thousand paid into the common Bank Resolution Fund, and EUR 15 thousand of expenses for judicial/out-of-court settlements.

In 2016 the Bank reported EUR 243 thousand of net denationalisation income (2015: EUR 88 thousand).

The Bank's operating expenses in 2016 amounted to EUR 17,225 thousand (2015: EUR 16,930 thousand). Employee benefits cost totalled EUR 10,939 thousand, up EUR 352 thousand from 2015. Costs of material and services totalled EUR 5,049 thousand, up EUR 102 thousand from 2015. The costs that increased were especially those associated with property. Amortisation and depreciation expenses amounted to EUR 1,237 thousand, down EUR 159 thousand compared to 2015.

VI.4.2. FINANCIAL POSITION

DEŽELNA BANKA SLOVENIJE GROUP

The Group's total assets amounted to EUR 876,240 thousand at the end of 2016, down EUR 46,920 thousand from the beginning of the year. The total assets of subsidiaries amounted to EUR 41,516 thousand, representing 5% of the Group's total assets (31 December 2015: 5%). After the elimination of inter-company relationships, the Group's total assets exceeded the Bank's total assets by EUR 30,378 thousand, i.e. 4%. According to the balance as at 31 December 2016, the consolidation of Semenarna increased Group assets by EUR 29,431 thousand.

Loans and advances at Group level amounted to EUR 607,481 thousand at the end of December 2016, down EUR 20,614 thousand. Loans and advances to banks were down EUR 521 thousand to EUR 5,100 thousand, with loans and advances to customers (including the state) down EUR 20,584 thousand to EUR 599,627 thousand.

The consolidation of Semenarna increased loans and advances at Group level by EUR 142 thousand, mainly attributable to trade receivables.

The carrying amount of property, plant and equipment totalled EUR 34,538 thousand as at 31 December 2016, up EUR 116 thousand year-on-year. Depreciation costs decreased by EUR 234 thousand.

Long-term investments in the capital of subsidiaries were deduced from equity investments in the consolidation process in the total amount of EUR 7,829 thousand.

Consolidation increased the item Other assets, which totalled EUR 26,578 thousand at the year-end. The main increase is attributable to Semenarna's inventory of materials in the amount of EUR 8,395 thousand.

Financial liabilities measured at amortised cost (including deposits, loans, subordinated liabilities and other financial liabilities) totalled EUR 815,298 thousand at the end of December 2016, down EUR 49,489 thousand. The consolidation of Semenarna increased liabilities measured at amortised cost by EUR 25,991 thousand, which includes financing sources outside the Group – borrowings from banks and trade payables. Deposits and borrowings from banks and the central bank were down EUR 33,562 thousand year-on-year, to EUR 26,140 thousand, while deposits from customers, including deposits from the state (but excluding subordinated liabilities), decreased by EUR 13,224 thousand to EUR 767,666 thousand. Borrowings from customers totalled EUR 1,394 thousand at the end of December, an increase by EUR 479 thousand.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank's total assets amounted to EUR 845,862 thousand at the end of December 2016. This is a year-on-year decrease by EUR 46,531 thousand, attributable mainly to a decrease in deposits by the state, with deposits by households up.

Corporate deposits, including deposits by the state, were down EUR 48,651 thousand by the end of December. Deposits by the state decreased by EUR 48,301 thousand, and corporate deposits by EUR 350 thousand. Under investments, loans and advances in this segment were down EUR 38,397 thousand, with loans to the state down EUR 9,326 thousand and corporate loans down EUR 29,071 thousand.

Household deposits increased by EUR 34,668 thousand in 2016, with loans and advances to households up EUR 16,146 thousand.

On the equity and liabilities side of the balance sheet, the Bank decreased deposits by and long-term borrowings from banks by EUR 1,993 thousand, and cut its borrowing from the central bank by EUR 30,448 thousand. Under investments, deposits with the central bank and banks were down EUR 9,706 thousand.

Equity investments in subsidiaries totalled EUR 7,829 thousand at the end of 2016, up EUR 1,907 thousand from the beginning of the year. In December the Bank injected EUR 2,000 thousand of capital into the subsidiary DBS Leasing d. o. o. so that the equity investment totalled EUR 2,678 thousand at the end of 2016. Equity investments in DBS Nepremičnine and Semenarna totalled EUR 1,463 thousand and EUR 3,681 thousand, respectively. After EUR 15 thousand of additional capital was injected in DBS Adria d. o. o., the Bank's equity investment in this subsidiary totalled EUR 7 thousand.

In 2016 the Bank's inventories of property and investment property were up EUR 1,279 thousand, to EUR 38,794 thousand at the end of the year, with inventories of property down EUR 9,488 thousand during the year, and investment property down EUR 10,767 thousand.

VI.5. SHAREHOLDERS' EQUITY

The Group's equity as at 31 December 2016 amounted to EUR 56,503 thousand, up EUR 2,933 thousand year-on-year.

The Bank's equity as at 31 December 2016 amounted to EUR 54,692 thousand, up EUR 2,147 thousand year-on-year. Profit for the year upped capital by EUR 2,456 thousand.

Unaudited share book value as at 31 December 2016 was EUR 12.930433. It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central securities register of the Slovene Central Securities Clearing Corporation (KDD) less treasury shares.

The Bank's 10 largest shareholders as entered in the KDD central securities register as at 31 December 2016:

Shareholder	Number of shares	Stake in %, considering all shares in KDD
Kapitalska zadruga, z. b. o.	2,023,671	47.532
KD Kapital d. o. o.	377,181	8.859
KD Group d. d.	255,941	6.012
Banca Popolare di Cividale S.C.p.A.	228,289	5.362
ČZD Kmečki glas, d. o. o.	200,000	4.698
SRC d. o. o.	188,022	4.416
Credito Valtellinese - fiduciary account	185,110	4.348
Zadružna zveza Slovenije, z. o. o.	171,848	4.036
Raiffeisen Bank International AG (RBI) - fiduciary account	106,118	2.493
Adriatic Slovenica d. d. Koper, Kritno premoženje	88,050	2.068
Total	**3,824,230**	**89.824**

The Bank's share capital amounts to EUR 17,811,083.54 and is divided into 4,268,248 ordinary no par value shares of the same class. The KDD central securities register has on record 4,257,483 no par value shares. The difference of 10,765 shares is due to the fact that certain shareholders have not yet changed their paper stock into dematerialised securities. As at 31 December 2016 the Bank held 27,803 repurchased treasury shares, which is 0.65% of all issued shares.

VI.6. MARKETING AND COMMUNICATION

Consistent with its strategic orientation, the Bank devoted the majority of its marketing and sales activities, and public relations efforts, in 2016 to attracting new customers, particularly targeting the agro-food sector and the countryside, which it had been traditionally devoted to. At the same time it strengthened its profile of a universal bank, particularly in major urban areas where it is present with branch offices.

The revamped website met with a warm welcome from users, mainly owing to its transparency and simplicity of organisation, and due to its constantly being updated with novelties, promotions and news, which are posted by the Marketing and Communications Department. Between 10 and 20 customers use the website to communicate with the Bank on a daily basis, mainly posting queries about the Bank's products.

Publications and analyses of individual media and institutions again ranked the Bank among the lowest-cost banking providers in Slovenia, which we advertised across all promotional channels. The research conducted by the financial weekly „Moje finance" is also worth highlighting – it ranked our Bank among the top three most affordable providers of banking services for the youth.

The mobile bank mDBS also received positive feedback. The number of the Bank's customers that use it is increasing, and it was continually updated to accommodate their needs and to keep up with the trends in banking of both individuals and corporates. All modern payment methods that we recently presented to the public have met with an excellent response from customers, particularly contactless technology, the pre-pay card and mDBS.

All year long the Bank was present at major and minor local events and fairs throughout Slovenia. We were an active participant at the spring cooperative consultation, and at the central agricultural and agro-food event in Slovenia, the International Agricultural and Food Fair Agra in Gornja Radgona. We kept up collaboration with the online and print media „S Podeželja.si" and „Kmečki glas", through which the Bank reaches out to its primary target audience with advertisements and news. The decision to join the Agrobiznis (*Agro-business*) project, an undertaking taken up by the Slovene financial daily Finance, which encourages entrepreneurship in agriculture and the countryside, proved to have been a good one.

In spring the Bank launched a complete overhaul of its promotional materials and prints for the business network and for promotions at events. We analysed the Bank's general public profile and found a considerable upward trend in positive media coverage from the year before. The Bank continued pursuing its strategy of modest media appearances in 2016.

The Bank also targeted the general public, with its offer of fixed-rate housing loans. A revised offer of fast loans for farmers and an alternative option to save on fees paid for ATM cash withdrawals were launched, both with ample communication support. A spring promotional action was carried out with Semenarna Ljubljana, offering loans to members of the Kalia club. We were also successful in marketing the Bank's properties and insurance deals brokered for different insurers. The promotion and sale of commemorative and collector coins in the Bank's selected branches continued.

With sponsorships and donations the Bank supported individuals and local organisations, remaining loyal to its mission of a socially responsible entity.

VI.7. DEVELOPMENT OF THE BANK

VI.7.1. INVESTMENTS

For several years now we have been devoting a lot of attention to refurbishing our branches or moving them to technically and spatially more appropriate locations, as well as to making them compliant with security and other banking standards. In addition to relocating two branches, the most investment funds in 2016 were dedicated to IT. The replacement of dated computer equipment continued. Licence software agreements were renewed with Microsoft and Oracle.

Security was on the level stipulated by the security standards of the Bank Association of Slovenia.

VI.7.2. INFORMATICS AND BANKING TECHNOLOGY

Application software developed in-house was upgraded in 2016 with the APEX web architecture, modernising front ends of applications and supporting responsive web design. New web technologies enable business applications to run on multiple channels and be adjusted to the newest development trends. Information infrastructure was partially renovated, replacing a few servers and the Hitachi central disk system with a newer version that runs independently at two locations. Infrastructure renovations have increased the reliability and availability of the Bank's information and communication system.

As to technology and application software development, the Bank developed and upgraded reporting system support in compliance with the requirements of regulatory reporting. Two new projects were supported, MOJ BA and „Osnovni račun". By automating certain internal procedures, application improvements were made to boost efficiency. The renovation of the credit granting process included a simple internal optimisation of the credit application, aimed at increasing the efficiency of work with the application. Activities related to the implementation of the CRM and online loans were initialised. An Internet telephone service was implemented on the Microsoft Skype software, enabling calling and conferencing with Skype voice-over-IP (VoIP). We also staged a major test drill to check the Bank's operations compliance in the event of a major IT system failure, which involved the IT and other business sectors, including the business network.

VI.7.3. HUMAN RESOURCE MANAGEMENT

The optimisation of operations dictated the Bank maintain a restrictive HR policy in 2016. In all organisational units that required additional hiring, we strove to solve the staffing deficit by means of internal resources, or by reorganising and optimising work processes. Hiring new staff from the market was limited and only happened when the Bank did not have suitable existing employees that could be reassigned to other posts, either because this option did not exist or because the relevant posts that needed filling were at a remote location. Most new hirings were realised at the level of the business network. As at 31 December 2016 the Bank had 348 employees (31 December 2015: 354).

Employees by education profile:

31 December 2016	Less than or level IV	Level V	Level VI or higher	Total
No. of staff	10	149	189	348
Share of staff (in %)	3	43	54	100
Average number of staff	10	157	185	352

31 December 2015	Less than or level IV	Level V	Level VI or higher	Total
No. of staff	10	163	181	354
Share of staff (in %)	3	46	51	100
Average number of staff	11	166	177	354

Employees by gender:

31 December 2016	Women	Men	Total
No. of staff	277	71	348
Share of staff (in %)	80	20	100

31 December 2015	Women	Men	Total
No. of staff	282	72	354
Share of staff (in %)	80	20	100

The average age of employees as at 31 December 2016 was 46.7, whereby 4% of staff had limited capability for work.

In 2016 the Bank continued to implement our active and rational policy of staff education and training.

VI.8. INTERNAL AUDIT DEPARTMENT

The Department's operations are based on the Rules of Operation of the Deželna banka Slovenije d. d. Internal Audit Department, which stipulate its powers, responsibilities and operations, and on the relevant legislation. The Department is a standalone independent organisational unit, directly subordinated to the Management Board, which ensures it can act independently and through which it reports to the Supervisory Board and Audit Committee.

The Supervisory Board and Audit Committee reviewed the Internal Audit Department report for the second half of 2015, for the full year 2015, and for the first half of 2016, and gave their consent to the prepared Internal Audit Department operations plan for 2017.

VII. RISK MANAGEMENT

VII.1. DECLARATION APPROVED BY THE MANAGEMENT BODY ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

Declaration approved by the management body on the adequacy of risk management arrangements

Pursuant to Article 435 (e) of Regulation (EU) No 575/2013 of the European Parliament and of the Council on Prudential Requirements for Credit Institutions and Investment Firms (CRR), the DBS d. d. management body, which consists of the Management Board:

Sonja Anadolli, President, and Barbara Cerovšek Zupančič MSc, member,

and the Supervisory Board:

Peter Vrisk, President,

confirms, by signing this declaration, that the Bank's risk management arrangements are adequate. The Bank has set up a risk management function, which is independent in terms of organisation and functionality from the Bank's other functions, ensuring that risk management arrangements reflect the Bank's risk profile and its strategy of risk-taking and risk management.

Management Board:

Sonja Anadolli
President of the Management Board

BANKA SLOVENIJE d.d. LJUBLJANA 1

Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board:

Peter Vrisk
President of the Supervisory Board

Ljubljana, 21 February 2017

VII.2. CONCISE RISK STATEMENT APPROVED BY THE MANAGEMENT BODY

Risk management

The Bank's Management Board and Supervisory Board have adopted a Concise Risk Statement Approved by the Management Body, describing the overall risk profile, including individual risk levels that Deželna banka Slovenije d. d. (hereafter: Bank) and the Deželna banka Slovenije Group (hereafter: Group) are exposed to and are ready to take with a view to realising their strategic objectives given their risk tolerance.

The Bank and the Group go about meeting their strategic objectives within the framework of predefined levels of acceptable risk. The acceptable risk level is defined as moderate (i.e. low to medium), meaning that the Bank pursues a conservative approach in its operations. The predefined common level of acceptable risk represents an important element of the decision-making process and is intended to ensure that the Bank and Group perform with sufficient profitability even in exceptional situations.

The main risk categories connected with the Bank's operations are credit risk, market risk, operational risk, interest rate risk, liquidity risk, capital risk, strategic risk, profitability risk, reputation risk and the risk of high leverage. The purpose of risk management is to ensure that the Bank's and Group's operations are stable and safe, that the standards for risk management are met, and that the quality of investments is suitable.

The Bank monitors its risk profile on the basis of quantitative and/or qualitative assessments of measurable and immeasurable risks that it takes on in its operations. The key parameters along which the Bank's risk profile is monitored are the total capital ratio, the common equity tier 1 ratio, the quality of assets and loan commitments given, and return on assets before tax.

Systems of limits provide clear limits of acceptable risk-taking. Efficient risk management –which includes the regular monitoring and reporting of risks – enables timely responses upon predetermined levels of risk acceptability, even before the top limit value is reached. Risks are promptly presented to the management body, senior management, the Internal Audit Department and the Operations Compliance Department.

Within a prudent credit granting process, the Bank runs a conservative policy of risk-taking and management of credit risk. To this end it:
- increases the diversification of its credit portfolio so that the total exposure towards an individual customer does not, unless by way of exception, exceed 5% of the Bank's regulatory capital,
- adjusts its credit portfolio so that capital requirements and needs for credit risk as well as the expected losses are as low as possible, i.e. chiefly with the intention to:
  - increase exposure to individuals, farmers and SMEs, where exposure does not exceed EUR 1.5 million,
  - increase the quality of collateral and its adequacy for reducing capital requirements, whereby the Bank counts on loans to be repaid and therefore primarily examines the customers' liquidity – collected collateral only represents a secondary means of repayment,
  - increase the proportion of customers with credit ratings A and B,
- directs its commercial activity into transactions, groups of businesses and regions that have turned out to feature a relatively lower credit risk and where the expected non-interest income is also relatively higher,
- continually makes improvements to the implemented early warning system for increased credit risk,
- has intensified action for the recovery of past due defaulting receivables and/or the restructuring of non-performing exposures,
- monitors the ratio between the loan amount and the market value of collateral as well as the independence of collateral valuation during the entire duration of the business relationship with a customer.

As a rule the Bank will avoid:
- financing acquisitions and new purchases of securities, business stakes and mutual fund shares,
- new financing of heavily indebted customers, customers with bad credit ratings and customers that do not display adequate creditworthiness,
- granting loans when the only or predominant collateral is such with a strong correlation between the customer's creditworthiness and the value of collateral.

In risk-taking and managing market risks, the Bank:
- is intensifying activities to solicit transactions that have a considerable impact on the Bank's non-interest income with minimum impact on capital requirements and needs,
- maintains the volume of its proprietary securities portfolio at a level that makes it acceptable from the perspective of capital requirements.

The Bank will not:
- increase its volume of equities above those stipulated in the Deželna banka Slovenije Group System of Limits,
- place liquidity surpluses into debt securities that require in the calculation of capital requirements a risk weight for credit risk of more than 20% and that increase the capital requirement for credit risk.

In risk-taking and managing operational risks, the Bank:
- consistently records and intensely monitors operational risk events,
- implements activities to reduce the frequency and impact of similar loss events arising out of operational risk,
- maintains the aggregate volume of evaluated loss events from operational risk at a level as low as possible and definitely under the amount of the capital requirement for operational risk,
- regularly examines and updates its business continuity plan for potential force majeure events and stress events.

The Bank will not:
- engage in new transactions or spread its operations if that were to cause a considerable increase in the possibility of operational risk events.

In risk-taking and managing interest rate risks, the Bank:
- maintains such a structure of its portfolio that demands as low a capital requirement for interest rate risk as possible, and certainly such that in the event of a sudden and unexpected parallel movement of the yield curve by 200 basis points, the effect of the changed interest rate would never exceed 10% of regulatory capital.

In risk-taking and managing liquidity risk, the Bank:
- maintains such a liquidity position and volume of liquidity reserves so as to meet the criteria of stress test survival for all stress test scenarios as stipulated by the Bank's internal methodology,
- defines adequate measures for the prevention and elimination of causes of potential liquidity shortages,
- adapts its Liquidity Risk Strategy to the business areas and types of transactions it conducts,
- maintains a diversified pool of liquidity reserves in the form of cash and other highly liquid assets that are free from encumbrances and at the Bank's disposal at any time.

In risk-taking and managing profitability risk, the Bank:
- makes sure income and expenses are structured and diversified so as to ensure the Bank's adequate profitability and consequently its capital adequacy,
- intensely monitors all internal and external factors influencing the Bank's profitability, and promptly responds if their movements are less than favourable and could reduce profitability or even cause negative profitability,
- consistently abides by the tax legislation provisions and implements them in all areas of business. By having set up adequate internal control mechanisms and by correctly and timely filling-in returns and paying due levies, it is making sure it is exposed to as low tax risks as possible.

In risk-taking and managing capital risk, the Bank:
- is maintaining such a volume of regulatory capital with which it can cover all potential risks it is exposed to according to the internal assessment as created using the Deželna banka Slovenije d. d. Methodology for Calculating Internal Capital Requirements,
- will maintain the volume of regulatory capital as required by the regulator.

In risk-taking and managing strategic risk, the Bank:
- is implementing a business strategy that involves as little exposure to strategic risk as possible,

- is intensely monitoring its business environment and promptly responding to changes in it in order to decrease the Bank's exposure to strategic risk.

In risk-taking and managing reputation risk, the Bank:
- operates so as to reduce reputation risk and the probability of losing its good name to the minimum. This means it acts ethically and follows good business customs and practice, taking into account to the greatest extent possible the needs and expectations of the environment in which it operates.

In risk-taking and managing leverage risk, the Bank:
- maintains such a structure of financing that its leverage ratio will remain above 3% even in stress scenarios, or above the regulatory limit if/when it is set.

The Bank has put in place a system of internal controls to control and limit the mentioned risks, which includes:
- internal controls: for this purpose it has adopted rules and procedures defined by the relevant instructions, rulebooks and other internal acts, and internal controls over the implementation of the Bank's organisational, business procedures and work procedures; it has also set up a system of reporting with internal controls in the area of reporting, and a system of limits including measures in case of breaches, and
- internal control functions: they include the Risk Management Section, the Internal Audit Department, and the Operations Compliance Department.

VIII. CORPORATE GOVERNANCE STATEMENT OF DEŽELNA BANKA SLOVENIJE d. d. FOR THE YEAR ENDED 31 DECEMBER 2016

Pursuing a high level of transparency in corporate governance, Deželna banka Slovenije d. d., as the controlling company in the Deželna banka Slovenije Group, is hereby making a corporate governance statement pursuant to the provision of Article 70 (5) of the Companies Act.

VIII.1. STATEMENT OF INTERNAL GOVERNANCE ARRANGEMENTS

Based on the exemption from Article 70 (5), item 2, of the Companies Act, Deželna banka Slovenije d. d. is hereby, as part of the Business Report inside its Annual Report, making the following

Statement of internal governance arrangements

Deželna banka Slovenije d. d. pursues an internal governance arrangement – including corporate governance – pursuant to the legislation valid in the Republic of Slovenia, while also abiding by its internal acts.

Deželna banka Slovenije d. d. thereby fully complies with the acts listed in Article 9 (2) of the Banking Act[3].

With a view to strengthening our internal governance arrangement, in conducting our operations we abide by, in particular:

1) the provisions of the valid Banking Act on internal governance arrangements, especially the provisions of Chapters 3.4 (Governance System of a Bank) and 6 (Internal Governance Arrangements and Internal Capital Adequacy) referring to banks and members of the management body,
2) Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks[4], and
3) EBA guidelines on internal governance, the assessment of the suitability of members of the management body and key function holders, and remuneration policies and practices, all on the basis of the relevant Bank of Slovenia resolutions on the application of these guidelines[5].

By signing this declaration we also undertake to continue acting pro-actively towards strengthening and promoting an adequate internal governance arrangement and corporate integrity in the professional public, financial and economic sector, and the general public.

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Sonja Anadolli

Ljubljana, 13 February 2017

[3] Banking Act (ZBan-2), Official Gazette RS 25/15 and 44/16.
[4] Bank of Slovenia Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks (Official Gazette of the RS No 73/15 and 49/16).
[5] Regulations on Application of European Supervisory Authority Guidelines, http://www.bsi.si/.

VIII.2. OUTLINE OF THE MAIN CHARACTERISTICS OF INTERNAL CONTROLS AND RISK MANAGEMENT RELATED TO FINANCIAL REPORTING

Deželna banka Slovenije d. d. has an efficient system of internal controls and risk management functioning at all levels of its organisational structure: at the level of business, control and support functions and at the level of each financial service. To this end the Bank strives to pursue a sturdy and reliable governance system which entails:

- a clear organisation structure with precisely defined, transparent and consistent internal relationships as to responsibility,
- efficient processes for detecting, measuring and assessing, controlling and monitoring risk,
- an adequate internal control system that includes the relevant administrative and accounting procedures (work procedures to ensure and preserve timely, comprehensive and reliable data, reporting, limits restricting exposure to risk, and physical and automatic controls).

The Bank's objective is to ensure that its business objectives, strategies and policies are adequately balanced with its Risk-taking and Risk Management Strategy and with its policies of risk-taking and risk management for different types of risks that it is or could be exposed to in its operations.

To obtain an independent and objective assessment of the efficiency and compliance with internal controls, the Bank has set up internal control functions (risk management, operations compliance, internal audit activity).

Risk management in relation to the financial reporting process includes processes for ensuring the authenticity, accuracy, integrality and completeness of accounting information, and processes for ensuring that financial disclosures are timely and fair in both internal and external reports.

The Bank has set up an efficient system of risk management also in relation to the prevention of money laundering and terrorist financing, which includes the function of the prevention of money laundering and terrorist financing.

Books of account, business documentation and other administrative records are kept in a manner so as to reveal systematically and at any time whether the Bank's operations comply with risk management regulations.

The compliance of our internal control system and risk management with banking rules is subject to internal audit reviews, and it is also inspected annually by external auditors who examine the Bank's annual report.

VIII.3. DESCRIPTION OF INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY

The description of the information flow on risk to the management body is disclosed in the annual report pursuant to Article 435 (2e) of the Regulation. The Risk-taking and Risk Management Strategy defines, among other things, the responsibilities of the Supervisory Board, the Management Board and senior management regarding risk management. The Group's Risk Management Plan, which is an annex of the said Strategy, defines for each type of risk the types of reports to be made, the bodies that review them, the persons in charge, and the frequency of reporting. Efficient risk management that includes the regular monitoring and reporting of risks, enables timely responses upon predetermined levels of risk acceptability, thus even before the top limit value is reached. Risks are promptly presented to the management body, senior management, the Internal Audit Department and the Operations Compliance Department.

The Group estimates that credit risk is the most important risk it is exposed to. It therefore devotes special attention to this type of risk. To this end it regularly monitors its customers on the basis of numerous reports, among them reports on overdrafts, the early warning system for increased credit risk, black lists, reports on activities related to customers with non-performing loans, on highly indebted high-potential customers, on restructuring claims to debtors, on meeting commitments from restructuring plans for business entities. Some of these reports are presented to the Credit Committee and Non-performing Loans Committee – the members of which are also both Management Board members – on a weekly basis, and others at least quarterly.

In its operations the Group is also exposed to other risks, including market, operational, interest rate, liquidity, capital, strategic, profitability, reputation and leverage risk. Some of these risks are monitored on a regular monthly basis in the context of the Bank's operations analysis, which is prepared by the Financial Management Section, Risk Management Section and Financial Markets Section and is discussed at the ALM Board (the Management Board is part of the ALM Board). In addition, there is a series of other reports the purpose of which is to inform the management body of different types of risk. The Risk Management Section therefore prepares a comprehensive risk analysis, which includes an analysis of the current credit portfolio and inherent credit risk, but which also includes analyses of market risk, liquidity risk, interest rate risk and exchange rate risk, and an analysis of regulatory capital and capital adequacy. The risk analysis is prepared on a quarterly basis, and is reviewed by the Management Board, the Supervisory Board Risk Committee, and the Supervisory Board. The Risk Management Section also prepares quarterly reports on overdrafts and on operational risk events, which are presented to the Management Board. Proposed limits of large exposure and exposure to persons (and their groups) in a special relationship with the Group are prepared as required but at least once a year, and are reviewed by the Management Board and Supervisory Board. The capital adequacy report (ICAAP) and the risk profile report are reviewed by the Management Board, the Supervisory Board Risk Committee and the Supervisory Board at least once a year or as required.

VIII.4. OPERATIONS AND KEY COMPETENCES OF THE GENERAL MEETING, AND A DESCRIPTION OF SHAREHOLDERS' RIGHTS AND HOW THEY CAN BE EXERCISED

The operations and key competences of the Bank's General Meeting and shareholders' rights are given in Chapter IV.3. Corporate Governance, on pages 10 and 11.

VIII.5. COMPOSITION AND OPERATIONS OF MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

The composition and operations of management and supervisory bodies and their committees are given in Chapter IV.3. Corporate Governance, on pages 11 to 13, and information on the remuneration of management and supervisory bodies is given in the Notes to Financial Statements under Related Party Transactions (Note 4.30.), on pages 161 to 162.

VIII.6. INFORMATION UNDER ITEMS 3, 4, 6, 8, 9 OF ARTICLE 70 (6) OF THE COMPANIES ACT

Major direct and indirect shareholdings

As at 31 December 2016 the Bank had three shareholders on qualified stakes (above 5%):

1. Kapitalska zadruga, z. b. o.	2,023,671 shares (47.532%)
2. KD Kapital d. o. o.	377,181 shares (8.859%)
3. KD Group d. d.	255,941 shares (6.012%)
4. Banca Popolare di Cividale S.C.p.A.	228,289 shares (5.362%)

Special control rights

All Bank's issued shares are of the same class and carry the same rights. None of the shareholders have special control rights.

Restrictions related to voting rights

Pursuant to Article 8 of the Bank's Statutes, the shares of Deželna banka Slovenije d. d. have limited transferability. Any person acquiring shares needs a prior approval from the Bank's Management Board if their purchase is resulting in a holding of up to 5%, and the prior approval of the Supervisory Board if their purchase is resulting in a holding of over 5%. Details on how and when voting rights can be exercised, are given in Chapter IV.3. Corporate Governance, on pages 11 and 12.

The Bank's rules on appointments and replacements of members of management and supervisory bodies, and on amendments of the Statutes

The Bank's Management Board has at least two and not more than three members. The President of the Management Board is appointed by the Supervisory Board, for a maximum five-year renewable term. Members of the Management Board are appointed by the Supervisory Board at the recommendation of the President of the Management Board and the Nomination Committee, for a maximum five-year renewable term. The Supervisory Board may recall a member of the Management Board or cancel the appointment of the President in case the relevant person has seriously breeched their obligations or are unable to lead the Bank, as well as for other statutory reasons. Management Board members may also be removed without justification. When a Management Board member resigns their post they must do so on a six-month's notice. In case of such a removal or resignation from office the Supervisory Board shall appoint a new member into the Management Board without delay. Such a temporary appointment overlaps with the remaining term of the member that was removed or had resigned.

Members of the Supervisory Board are elected by the Bank's General Meeting at the recommendation of the Supervisory Board, with a simple majority of the votes cast, for a four-year re-electable term. The GM recalls members of the Supervisory Board with a three-quarters majority of the votes cast.

Amendments and supplements of the Statutes are adopted by the GM with a three-quarters majority of the votes cast.

Authorisation of members of the management regarding issue or purchase of treasury shares

The Management Board is not authorised to issue or purchase treasury shares or issue authorised capital.

IX. EVENTS AFTER THE 2016 FINANCIAL YEAR

In accordance with the financial restructuring agreement, the Bank will convert in 2017 a proportion of loans extended to Semenarna, to equity in this company.

FINANCIAL STATEMENTS

CONTENTS

Deželna banka Slovenije Group

Consolidated financial statements under International Financial Reporting Standards
for the year ended 31 December 2016

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management Board hereby approves the financial statements of the Deželna banka Slovenije Group for the financial year ended 31 December 2016 (pages 51 to 54 of the Annual Report), along with the accounting policies used and notes to the financial statements (pages 55 to 115 of the Annual Report).

We hereby reaffirm our responsibility for the Annual Report, which is a true and fair presentation of the Group's financial standing as at 31 December 2016, and for the results of its operations for the year ended on the same day.

The Management Board confirms that suitable accounting policies were consistently adhered to, and that accounting estimates were conducted in accordance with fair value. The financial statements were drawn up on the assumption of going concern and pursuant to the legislation and stipulations of International Financial Reporting Standards as adopted by the European Union.

The Management Board is responsible for the appropriate management of accounts, for the adoption of the measures required to safeguard company assets, and for the detection and prevention of fraud and other irregularities and illegal activities.

The Tax Authority may conduct a tax inspection of the current reporting period at any time within the following five years, and in this connection impose additional tax assessments and penalties. The Management Board knows of no circumstances that could give rise to a potential material liability in this regard.

BANK MANAGEMENT BOARD:

Member of the Management Board Barbara Cerovšek Zupančič MSc	President of the Management Board Sonja Anadolli

Ljubljana, 13 February 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the owners of DEŽELNA BANKA SLOVENIJE d.d.

Opinion

We have audited the accompanying consolidated financial statements of the company DEŽELNA BANKA SLOVENIJE d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. The Business Report was also reviewed.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Information

The other information comprises the Business Report, which is an integral part of the Annual Report of the Group, and disclosures Risk and Capital Management in line with Regulation (EU) No 575/2013, which are an Appendix to the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Some other information which is a part of the Business Report has not been approved by the Supervisory Board by the date of this auditor's report and will be approved later; this information refers to the Supervisory Board Report, Risk Management Statement, and Corporate Governance Statement.

Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process. The Supervisory Board is responsible for overseeing the preparation of financial statements and for approving the audited Annual Report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. . Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Anja Gorenc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 13 February 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

I. Consolidated financial statements as at 31 December 2016

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	Note	1-12 2016	1-12 2015
1	Interest income		19,888	26,387
2	Interest expense		3,879	7,321
3	**Net interest income** (1 - 2)	3.1.	**16,009**	**19,066**
4	Dividends	3.2.	9	6
5	Fee (commission) income		9,113	8,305
6	Fee (commission) expense		2,378	2,663
7	**Net fee (commission) income** (5 - 6)	3.3.	**6,735**	**5,642**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3.4.	16	217
9	Net gains/losses from financial assets and liabilities held for trading	3.5.	143	215
10	Foreign exchange translation	3.6.	42	221
11	Net gains/losses on derecognition of assets	3.7.	8,996	8,758
12	Other net operating gains/losses	3.8.	(1,050)	(61)
13	Administrative expenses	3.9.	22,533	22,226
14	Depreciation and amortisation	3.10.	2,074	2,308
15	Provisions	3.11.	(36)	300
16	Impairment charge	3.12.	3,160	5,841
17	Net gains/losses from non-current assets held for sale and related liabilities	3.13.	73	118
18	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16 + 17)		**3,242**	**3,507**
19	Income tax	3.14.	495	426
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (18 - 19)		**2,747**	**3,081**
21	**PROFIT/LOSS FOR THE YEAR** (20)		**2,747**	**3,081**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	Note	1-12 2016	1-12 2015
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**2,747**	**3,081**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(303)**	**(647)**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1. + 3.2)		**(161)**	**8**
3.1	Actuarial gains/losses on defined benefit pension plans	4.25.	(176)	7
3.2	Income tax relating to components of items not be reclassified to profit or loss		15	1
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**(142)**	**(655)**
4.1	Gains/losses related to available-for-sale financial assets (4.1.1 + 4.1.2)	4.3. b	(166)	(780)
4.1.1	Valuation gains/losses taken to equity		(166)	(450)
4.1.2	Transferred to profit/loss		0	(330)
4.2	Income tax relating to components of items that may be reclassified to profit or loss	4.21. c	24	125
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**2,444**	**2,434**
	a) Attributable to owners of the parent		2,444	2,434

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

in EUR thousand

Code	Items	Note	2016	2015
1	Cash, balances at central banks, and sight deposits at banks	4.1.	24,687	33,408
2	Financial assets held for trading	4.2.	0	258
3	Available-for-sale financial assets	4.3.	8,348	9,926
4	Loans and advances		607,481	628,095
	- Loans and advances to banks	4.4.	5,100	5,621
	- Loans and advances to customers	4.5.	599,627	620,211
	- Other financial assets	4.6.	2,754	2,263
5	Held-to-maturity investments	4.7.	140,941	157,090
6	Non-current assets held for sale, and discontinued operations	4.8.	179	1,641
7	Property, plant and equipment	4.9.	34,538	34,422
8	Investment property	4.10.	26,442	15,675
9	Intangible assets	4.11.	970	1,112
10	Income tax assets	4.12.	6,076	6,709
	- Current tax assets		50	398
	- Deferred tax assets		6,026	6,311
11	Other assets	4.13.	26,578	34,824
12	**TOTAL ASSETS** (from 1 to 11)		**876,240**	**923,160**
13	Financial liabilities measured at amortised cost		815,298	864,787
	- Deposits by banks and central banks	4.14.	448	344
	- Deposits by customers	4.15.	767,666	780,890
	- Borrowings from banks and central banks	4.16.	25,692	59,358
	- Borrowings from customers	4.17.	1,394	915
	- Subordinated liabilities	4.18.	11,615	14,083
	- Other financial liabilities	4.19.	8,483	9,197
14	Provisions	4.20.	2,336	2,690
15	Income tax liabilities	4.21.	1,218	1,304
	- Current tax liabilities		21	67
	- Deferred tax liabilities		1,197	1,237
16	Other liabilities	4.22.	885	809
17	**TOTAL LIABILITIES** (from 13 to 16)		**819,737**	**869,590**
18	Share capital	4.23.	17,811	17,811
19	Share premium	4.24.	31,257	31,257
20	Accumulated other comprehensive income	4.25.	(242)	61
21	Revenue reserves	4.26.	4,504	2,401
22	Treasury shares	4.27.	(657)	(656)
23	Retained earnings (including profit/loss for the year)	4.28.	3,830	2,696
24	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 18 to 23)		**56,503**	**53,570**
25	TOTAL EQUITY (24)		56,503	53,570
26	**TOTAL EQUITY AND LIABILITIES** (17 + 25)		**876,240**	**923,160**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	**Equity attributable to owners of the parent (from 3 to 8)**	**Total equity (9)**
1	2	3	4	5	6	7	8	9	10
1	**OPENING BALANCE FOR THE PERIOD**	**17,811**	**31,257**	**61**	**2,401**	**2,696**	**(656)**	**53,570**	**53,570**
2	**Comprehensive income for the year (net of tax)**	**0**	**0**	**(303)**	**0**	**2,747**	**0**	**2,444**	**2,444**
3	Allocation of net profit to revenue reserves	0	0	0	2,103	(2,103)	0	0	**0**
4	Other	0	0	0	0	490	(1)	489	**489**
5	**CLOSING BALANCE FOR THE PERIOD** (1 + 2 + 3 + 4)	**17,811**	**31,257**	**(242)**	**4,504**	**3,830**	**(657)**	**56,503**	**56,503**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	**Equity attributable to owners of the parent (from 3 to 8)**	**Total equity (9)**
1	2	3	4	5	6	7	8	9	10
1	**OPENING BALANCE FOR THE PERIOD**	**15,786**	**28,915**	**708**	**940**	**1,081**	**(682)**	**46,748**	**46,748**
2	**Comprehensive income for the year (net of tax)**	**0**	**0**	**(647)**	**0**	**3,081**	**0**	**2,434**	**2,434**
3	Fresh capital subscribed (or paid)	2,025	2,342	0	0	0	0	4,367	**4,367**
4	Net purchase/sale of own shares	0	0	0	(15)	0	26	11	**11**
5	Allocation of net profit to revenue reserves	0	0	0	1,476	(1,476)	0	0	**0**
6	Other	0	0	0	0	10	0	10	**10**
7	**CLOSING BALANCE FOR THE PERIOD** (1 + 2 + 3 + 4 + 5 + 6)	**17,811**	**31,257**	**61**	**2,401**	**2,696**	**(656)**	**53,570**	**53,570**

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	2016	2015
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Interest received**	**22,204**	**30,828**
	Interest paid	(4,956)	(8,656)
	Dividends received	9	6
	Fee and commission received	9,083	8,366
	Fee and commission paid	(2,378)	(2,663)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	167	498
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	(38)	(20)
	Net trading income	143	161
	Cash payments to employees and suppliers	(22,409)	(23,468)
	Other income	1,123	1,383
	Other expenses	(2,157)	(1,474)
	Cash flows from operating activities before changes in operating assets and liabilities	**791**	**4,961**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**19,152**	**6,884**
	Net (increase)/decrease in financial assets held for trading	271	280
	Net (increase)/decrease in available-for-sale financial assets	1,328	11,200
	Net (increase)/decrease in loans and advances	1,413	(5,766)
	Net (increase)/decrease in non-current assets held for sale	1,461	(3)
	Net (increase)/decrease in other assets	14,679	1,173
c)	**Increases/(decreases) in operating liabilities**	**(43,532)**	**(8,760)**
	Net increase/(decrease) in liabilities with central bank	(30,400)	0
	Net increase/(decrease) in trading liabilities	3	(24)
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	(16,847)	68,370
	Net increase/(decrease) in issued debt securities measured at amortised cost	0	(72,351)
	Net increase/(decrease) in other liabilities	3,712	(4,755)
č)	**Cash flows from operating activities** (a + b + c)	**(23,589)**	**3,085**
d)	**Income taxes (paid)/received**	**(348)**	**(1,257)**
e)	**Net cash from operating activities** (č + d)	**(23,937)**	**1,828**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Investing inflows**	**80,391**	**34,257**
	Proceeds from sale of property, plant and equipment, and investment property	8,673	808
	Proceeds from sale of held-to-maturity investments	71,718	33,449
b)	**Investing outflows**	**(64,293)**	**(83,260)**
	(Purchase of property, plant and equipment, and investment property)	(822)	744
	(Purchase of intangible long-term assets)	(111)	(63)
	(Purchase of held-to-maturity investments)	(63,360)	(83,941)
c)	**Net cash from investing activities** (a - b)	**16,098**	**(49,003)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Inflows from financing activities**	**500**	**9,105**
	Issue of subordinated liabilities	500	5,450
	Issue of equity and other instruments	0	3,629
	Disposal of treasury shares	0	26
b)	**Outflows from financing activities**	**(2,000)**	**(6,670)**
	(Repayment of subordinated liabilities)	(2,000)	(6,670)
c)	**Net cash from financing activities** (a - b)	**(1,500)**	**2,435**
D.	**Effects of exchange rates on cash and cash equivalents**	**98**	**174**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**(9,339)**	**(44,740)**
F.	**Opening balance of cash and cash equivalents** (Note 4.1. b)	**38,822**	**83,388**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 4.1. b)	**29,581**	**38,822**

The accompanying notes form an integral part of the consolidated financial statements.

The Management Board of Deželna banka Slovenije d. d. hereby approves the consolidated financial statements and the notes to the statements.

BANK MANAGEMENT BOARD:

Ljubljana, 13 February 2017

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Sonja Anadolli

II. Notes to the consolidated financial statements for 2016

1. GENERAL INFORMATION

The Deželna banka Slovenije Group (hereafter: Group) consists of Deželna banka Slovenije d. d. (the Bank) and four subsidiaries: DBS Leasing d. o. o. (hereafter: DBS Leasing), real estate company DBS Nepremičnine d. o. o. (hereafter: DBS Nepremičnine), seed-producer Semenarna Ljubljana, proizvodnja in trgovina, d. o. o. (hereafter: Semenarna), and real estate company DBS Adria d. o. o. (hereafter: DBS Adria).

Deželna banka Slovenije d. d. is a Slovenian private company limited by shares, with its business address Deželna banka Slovenije d. d., Kolodvorska 9, Ljubljana, Slovenia.

Deželna banka Slovenije d. d. is no longer a public company under Article 99 of the Slovene Markets in Financial Instruments Act after its entire bond issue, which used to trade on the regulated market, matured in 2015. Its shares are not traded on any regulated market.

DBS Leasing is a universal leasing company engaged in financial leases of vehicles, equipment and real estate. DBS Nepremičnine is a company engaged in selling the Group's real estate, renting it out, and developing real estate projects. DBS Adria is a company engaged in real estate activities.

At the beginning of 2014 Deželna banka Slovenije d. d. injected additional capital into Semenarna, gaining control over it and recognising it as a subsidiary.

Semenarna is the largest seed-producer, seed-wholesaler and seed-retailer, and seed exports company in Slovenia and the region. Semenarna entered compulsory composition on 9 July 2012. The Ljubljana District Court issued a resolution confirming the compulsory composition on 14 January 2013, which became final on 6 February 2013. After the Bank increased the capital of Semenarna with cash contributions during its compulsory composition in 2013 and 2014, the Bank became in July 2014 Semenarna's 100% owner. In June 2015 the company transformed from a public limited company to a limited liability company.

The first consolidation process recognised negative goodwill as the excess of the controlling company's (DBS d. d.) interest in the net fair value of identifiable assets, liabilities and contingent liabilities above the cost of the merger.

The Group prepares disclosures subject to prudential consolidation (Chapter 5 and Section on Risk and Capital Management). In addition to the controlling company DBS d. d., subsidiaries DBS Leasing and DBS Nepremičnine have been included in prudential consolidation under Directive 2013/36/EU (CRD IV) and Regulation 575/2013/EU (CRR).

In 2016 the consumer price index was up 0.5% (2015: –0.5%). From 1 January 2007 Slovenia's national currency has been the euro, which has thus also become the functional and presentation currency of the Bank's financial statements. All amounts in the financial statements and related notes are given in euro thousands, unless specified otherwise.

2. CRITICAL ACCOUNTING POLICIES

2.1. Basis for the presentation of financial statements

Financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). Consolidated financial statements record the subsidiaries as fully consolidated.

In order to obtain a comprehensive view of the financial position of the Group as a whole, users of these financial statements should read individual statements together with consolidated financial statements.

The policies set out below have been consistently applied in the financial statements for all the years presented.

The preparation of financial statements under IFRS as adopted by the EU requires the use of certain critical accounting estimates, which influence the value of reported assets and liabilities, the disclosure of potential assets and liabilities on the reporting date, and the amount of income and expenditure in the reported period. It also requires the management to select accounting policies of the Group according to its own judgement.

Changes in accounting policies

In financial year 2016 the Group did not adopt or apply accounting policies different from those applied in previous periods, such as would have a material effect on the financial statements of the current year.

Amendments of standards and interpretations effective for the current reporting period

The following standards, amendments of the valid standards, and interpretations, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, apply to the current reporting period:

- *Amendments to IAS 1 „Presentation of Financial Statements"* – Disclosure Initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- *Amendments to IAS 16 „Property, Plant and Equipment" and IAS 41 „Agriculture"* – Agriculture: Bearer Plants, adopted by the EU on 23 November 2015 (effective for annual periods starting on or after 1 January 2016);
- *Amendments to different standards „Improvements of IFRS (2010–2012 cycle)",* issued under the annual improvements of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), mainly eliminating inconsistencies and interpreting the text, adopted by the EU on 17 December 2014 (amendments are mandatory for annual periods starting on or after 1 February 2015);
- *Amendments to different standards „Improvements of IFRS (2012–2014 cycle)"*, issued under the annual improvements of IFRS (IFRS 5, IFRS 7, IFRS 19 and IAS 34), mainly eliminating inconsistencies and interpreting the text, adopted by the EU on 15 December 2015 (amendments are mandatory for annual periods starting on or after 1 January 2016).

Our adoption of these amendments of the valid standards did not cause major changes in the Group's financial statements.

Amendments of standards issued by the IASB and adopted by the EU; not yet effective

The following new standards and amendments of the valid standards, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, had already been issued but have not yet taken effect as at the date of these financial statements:

- *IFRS 9 „Financial Instruments"*, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- *IFRS 15 „Revenue from Contracts with Customers"* and amendments to IFRS 15 „Effective Date of IFRS 15", adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments of the valid standards, issued by the IASB but not yet adopted by the EU

IFRS, as adopted by the EU, do currently not differ in any major respect from the regulations adopted by the IASB, except for the following new standards, amendments of existing standards, and new interpretations that had as at 31 December 2016 not yet been approved for use in the EU (the effective dates listed below refer to the entire IFRS):

- IFRS 16 „Leases" (effective for annual periods starting on or after 1 January 2019);
- Amendments to *IFRS 15 „Revenue from Contracts with Customers"* – Notes to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to IAS 12 „Income Taxes"* – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods starting on or after 1 January 2017);
- *Amendments to IAS 40* „Investment Property" – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to different standards „Improvements of IFRS (2014–2016 cycle)"*, issued under the annual improvements of IFRS (IFRS 1, IFRS 12 and IAS 28), mainly eliminating inconsistencies and interpreting the text (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018);
- *IFRIC 22 „Foreign Currency Transactions and Advance Consideration"* (effective for annual periods beginning on or after 1 January 2018).

The Group assumes that its adoption of the new standards and amendments of existing ones will not have a major impact on its financial statements over the initial period of use, except the adoption of IFRS 9, which is described below under Additional Details on Individual Standards, Their Amendments and Interpretations Which Could Have a Major Impact on Financial Statements in the Future.

Additional details on individual standards, their amendments and interpretations which could have a major impact on financial statements in the future

- *IFRS 9 „Financial Instruments"*, issued by the IASB on 24 July 2014, replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

  Classification and Measurement – IFRS 9 is introducing a new approach to the classification and measurement requirements for financial assets, depending on cash flow characteristics and the business model for managing a financial instrument. This new principle-based approach has replaced the existing rule-based requirements under the IAS 39. The new model also introduces a new expected loss impairment model for all financial instruments.

  Impairment – IFRS 9 brings a new method of impairment which requires an earlier recognition of expected credit losses. The new standard requires companies to recognise expected credit losses upon the financial instruments' first recognition, and to recognise expected losses earlier on for the entire period.

  Hedge Accounting – IFRS 9 introduces a significantly changed hedge accounting model that includes more specific disclosures of risk management activities. The new model represents a significant revamp of hedge accounting and aligns it more closely with risk management.

  Own Credit Risk – IFRS 9 eliminates the profit and loss instability caused by changes in credit risk associated with liabilities at fair value. The new accounting method prevents an impact on earnings by not permitting changes (decrease) in own credit risk on financial liabilities designated at fair value, to be subsequently reclassified to profit or loss.

Applying the new standard IFRS 9 „Financial Instruments"

The application of IFRS 9 will become mandatory for annual periods beginning on or after 1 January 2018. Application before this date is allowed. The Bank has not decided to apply this standard before the said date.

Estimated impact of the initial use of IFRS 9 on financial statements

The implementation of IFRS 9 will have a major impact on different areas of the Bank's operations. It will affect models, processes, systems, data, product assortment, customer segmentation and other. On account of the dimensions of IFRS 9 requirements and its impact on overall operations, the standard is being implemented step-by-step. Representatives of all the Bank's relevant business lines are included in the step-by-step project implementation, including accounting, risk management, process support, business section, technology and IT. An implementation plan has been set for IFRS 9, with the progress of implementation being monitored.

The most significant changes caused by IFRS 9 will affect impairments of financial assets. The current impairment requirements are based on the IAS 39 incurred loss model, which will be replaced by the expected credit loss model as introduced by IFRS 9. Impairments are also expected under IFRS 9 for debt instruments, which the current IAS 39 classifies as held-to-maturity investments. The Bank is intensely working to implement IFRS 9, and it is our estimate that the impairments introduced as a result of the application of IFRS 9 will be somewhat higher as of 1 January 2018. How much impairments will in fact increase at the beginning of 2018 depends on the then credit portfolio quality and expected trends of macroeconomic indicators.

As at the date of the financial position of 31 December 2016, no sensible estimate of the impact of IFRS 9 can be made.

- *IFRS 15 „Revenue from Contracts with Customers"*, published by the IASB on 28 May 2014 (on 11 September 2015, the IASB changed the effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 it issued interpretations). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. It replaces IAS 18 „Revenues" and IAS 11 „Construction Contracts" and numerous other revenue-related interpretations. The standard is mandatory for all IFRS reporters and applies to all contracts with customers except for lease, financial instrument and insurance contracts. The core principle of the new standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is also improving disclosure of revenue and instructions for transactions that have not been fully dealt with so far (such as: revenue from services and changes to contracts), and better guidance for the recognition of multiple-element agreements. The standard will affect customers and may thus indirectly affect the Group.

- *IFRS 16 „Leases"*, published by the IASB on 13 January 2016. Under IFRS 16, the lessee recognises the right to use an asset and liabilities under the lease. The right to use an asset is treated in a similar way to other non-financial assets and is, consequently, subject to amortisation. A lease obligation is initially measured at the current value of the lease paid during the lease period, discounted at the implicit interest rate if it can be determined immediately. If it cannot be determined immediately, the lessee must use the assumed lease interest rate. The same as with IAS 17, which was replaced by IFRS 16, the lessor shall classify each lease as an operating or finance lease, depending on its nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. The Group will make the necessary adjustments in adopting the new standard.

2.2. Consolidation

Subsidiaries have been fully consolidated from the day the Bank gained control over them. The Groups' consolidated statements do not include intra-group transactions and unrealised gains and losses. In order to ensure compliance with the Bank's guidelines, the accounting policies of the two subsidiaries have been adjusted as appropriate.

2.3. Critical accounting estimates

Certain assumptions and estimates are needed in preparing financial statements, which affect the amounts of assets and liabilities reported for the financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and receivables

The Group's credit risk management includes monthly assessments of whether there is any objective evidence of impairment for each individually significant loan. If so, a detailed impairment is calculated to determine whether an impairment loss should be recognised in the income statement.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of a group of borrowers, or deteriorated economic conditions and circumstances. Future cash flows of a group of financial assets are estimated based on historical loss experience for assets with credit risk characteristics similar to those in that group. Individual estimates are based on the projected future cash flows, using all relevant information on the borrower's financial position and liquidity.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between loss estimates and actual loss experience.

Loans that were individually assessed for impairment and for which no signs of impairment exist are then grouped together with loans with similar credit risk characteristics, based on historical loss experience.

(b) Impairment of available-for-sale equity instruments

Available-for-sale equity instruments are impaired when their fair value has dropped substantially or over a prolonged period below their cost. The decision of what constitutes a substantial and prolonged drop is based on estimates. In making these estimates, the Group takes into account, among other things, the normal share price volatility (fluctuations). Further signs of impairment also include evidence of the issuer's deteriorated financial position, deteriorated industry performance, changes in technology and in operations.

(c) Held-to-maturity investments

Pursuant to the guidelines of IAS 39, the Group classifies into held-to-maturity investments its financial assets with fixed or determinable payments and fixed maturity. In making this classification, the Group relies on its judgement, evaluating its intention and ability to hold such investments to maturity. Should the Group fail to keep these investments to maturity (except in the case of specific circumstances, such as if its sells an insignificant stake close to maturity), it will be required to reclassify the entire class as available-for-sale assets. In such an event, the investments would therefore have to be revalued to fair value.

(d) Fair value of investment property

The fair value of investment property reflects market conditions as at the date of the statement of financial position. The estimated value of investment property is based on mean value calculated using the comparable sales method, and on the income valuation approach.

(e) Tax

The Group is subject to income taxes only in Slovenia. To determine the amount of income tax payable, some estimates are required. The Group recognises income tax and deferred tax liabilities based on estimates of whether it will have to settle them. Should the final tax outcome be different from the amounts recognised by the Group, such differences will impact the income tax and deferred tax provisions in the respective period.

2.4. Segment reporting

As at 31 December 2016 the Group has no issued securities traded on a regulated capital market, therefore it does not prepare segment reporting.

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank and its subsidiaries operate. The financial statements are presented in euros, which is the functional and presentation currency of the Bank and its subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates effective at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences in available-for-sale equities are recognised with valuation gains/losses in revaluation surplus in equity.

Income and expenses in foreign currency are translated into their euro-equivalent applying the exchange rates effective at the date of the transaction.

Gains and losses resulting from purchases and sales of foreign exchange are recognised in the income statement under foreign exchange translation.

2.6. Interest income and expense

Interest income and expense is recognised in the income statement for all instruments measured at amortised cost, using the effective rate method.

The effective rate method is a method of calculating financial assets' or liabilities' amortised cost and a method of allocating interest income and expense over a requisite period.

The effective interest rate is the interest rate used to precisely discount the estimated future cash flows for the entire period of the expected useful life of a financial instrument or for a shorter period when needed, up to the net current value of a financial asset or liability.

In calculating the effective interest rate the Group must estimate cash flows taking into account all contractual conditions of the transaction in the relevant financial instrument, but cannot consider future credit losses. The calculation of the effective interest rate includes all paid amounts: instalments, fees, costs.

Once a financial asset or a group of similar financial assets has decreased as a result of impairment loss, interest income is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss and eliminated from interest income referring to the impaired financial asset. The Bank will halt the accrual of contractual interest and interest on arrears as well as costs of running non-performing loans and guarantees for non-performing assets if given the expected cash flow it no longer expects payment.

2.7. Fee and commission income and expense

Fee and commission is generally recognised when the service has been provided. Fee and commission for agency services in a transaction or for participation in the agency of a transaction for a third person is recognised when the transaction has been concluded. Fee and commission for portfolio management and other consultancy services is recognised on the basis of requisite service agreements when the services have been provided. Fee and commission for international and domestic payment transactions is recognised when the respective service has been provided.

Fee and commission included into the calculation of the effective interest rate is recognised under interest income or expense.

2.8. Financial assets

The Group classifies its financial assets into the following groups: financial instruments at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The management determines the classification of investments upon initial recognition.

(a) Financial instruments at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial instruments designated at fair value through profit or loss.

The Group only holds financial assets held for trading.

(b) Loans and receivables

Loans and receivables are financial instruments with fixed or determinable payments that are not traded in an active market, other than: (a) those that are intended for sale in the short term, which are classified as held-for-trading, and those that are designated at fair value through profit or loss upon initial recognition; (b) those that are designated as available-for-sale upon initial recognition; or (c) those for which the holder may not recover the majority of its initial investment, for reasons other than credit deterioration.

(c) Held-to-maturity investments

Held-to-maturity investments are financial instruments with fixed or determinable payments and fixed maturity, which the Group has the positive intention of holding to maturity. Should the Group sell more than a negligible amount of held-to-maturity investments, the entire category would be re-classified under available-for-sale financial assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those the Group intends to hold for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices of financial instruments.

(e) Measurement and recognition

Purchases and sales of financial instruments at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised as at the date the transaction was concluded – the date on which the Group committed to carry out the purchase or sale of the respective instrument. Derivatives are recognised on the trade date.

Financial assets, apart from financial instruments at fair value through profit or loss, are initially measured at fair value plus transaction costs. Financial assets carried at fair value through profit and loss are initially recognised at fair value, while the transaction costs are expensed in the income statement. A financial asset is derecognised when the contractual rights to cash flows have expired, or if all risks and benefits of the ownership of a financial asset are transferred. A financial liability is derecognised solely when the contractual obligation has been met, revoked or has lapsed.

Financial assets available-for-sale and financial assets at fair value through profit or loss are measured at fair value. Loans and receivables as well as held-to-maturity investments are measured at amortised cost applying the effective interest rate. Gains and losses from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is sold or impaired, at which time they are recognised in the income statement. Any cumulative gains or losses previously included in equity are recognised in the income statement.

Interest from the effective interest rate and exchange differences in monetary assets available-for-sale are recognised in the income statement. Dividends from available-for-sale financial assets are recognised in the income statement, upon the establishment of the holder's right to payment.

Fair values of financial instruments traded in an active market are based on market prices.

If a financial instrument is not traded in an active market, the Group determines its fair value by using valuation models.

2.9. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there exists a legal right to offset the amounts and the intention to either settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10. Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events (or „loss events") that occurred after the initial recognition of the asset(s) and that event has had an impact on the estimated future cash flows of the financial asset or group of financial assets, which can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
- delinquency in contractual payments of principal or interest,
- cash flow difficulties experienced by the borrower,
- breach of loan covenants or clauses,
- initiation of bankruptcy proceedings or compulsory composition,
- deterioration of a borrower's competitive position.

The Group first assesses whether objective evidence of impairment exists for financial assets that are significant individually (the customer's total exposure exceeds 0.5% of the Bank's capital), and individually or collectively for financial assets that are not significant individually. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristic and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included into the collective assessment of impairment.

Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the loss amount is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the cash flow discount rate and measurement of impairment losses are determined with the current effective interest rate, contractually stipulated.

The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the anticipated cash flows that may result from foreclosure, decreased by the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective assessment of impairment, financial assets are classified into groups from A to E, on the basis of similar credit risk characteristics, especially on the basis of estimates of the future financial standing of the borrower, its capacity to ensure adequate cash inflows to promptly meet its future liabilities towards the Group, the type and scope of collateral or off-balance sheet engagements towards a borrower, and the borrower's meeting its liabilities towards the Group in past periods.

The requisite impairments for a group of financial assets that are evaluated collectively are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Actual losses are adjusted according to current data, which reflect the effects that had no influence on the period in which actual losses were incurred, and according to detached effects of past periods, which no longer exist. The Group regularly reviews the adequacy of the methodology and estimates used for determining future cash flows.

Companies are classified into sub-groups according to the credit rating of each borrower. The Group calculates the anticipated loss from credit risk for different sub-groups on the basis of an aggregate migration matrix and average rate of default for different sub-classes. The annual migration matrix shows the probability of the migration of customers between internal rating classes within one year. In estimating losses, both historical loss experience and factors reflecting the current situation are considered.

The Group divides retail customers into two groups: households, and private entrepreneurs and farmers without a personal identification number. It further distributes both groups into sub-classes according to the credit rating of the financial asset or off-balance sheet commitment. The anticipated loss from credit risk for an individual sub-class is determined on the basis of the regularity of settling liabilities with the Group.

The Group does not impair or form provisions for sovereign exposure, central bank exposure, bank exposure and exposure with high-class collateral.

The Group calculates the percentages of expected impairment losses from credit risk in the collective assessment of companies annually, or in case of substantially changed circumstances in the Group and/or in the market, during the year as well.

The Group regularly reviews the methodology and assumptions in assessing impairments. Impairment estimates must be adjusted to any changed circumstances in the Group and/or the market and legislation.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the loss amount has been determined.

If the impairment amount decreases in the following period and this decrease is objectively related to an event that occurred after the impairment was recognised (such an event is for instance a borrower's improved credit rating), the initially recognised impairment losses are reversed through loan impairments, and the reversal is recognised in the income statement as income from the reversal of impairment.

(b) Available-for-sale financial assets

The Group assesses at each date of the statement of financial position whether there is objective evidence that financial assets or a group of financial assets available-for-sale are impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the assets are impaired. If any such evidence of impairment exists for available-for-sale financial assets, the cumulative loss, which is recognised in equity – measured as the difference between estimated costs and current fair value, decreased by impairment losses recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement of available-for-sale equity instruments cannot be reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, impairment losses are reversed through the income statement.

2.11. Property, plant and equipment, and intangible assets

All property, plant and equipment as well as intangible assets are initially stated at cost. The cost of property, plant and equipment is composed of its purchasing price and all the costs that can be directly attributed to the asset.

Assessments are made each year whether there are indications that property, plant and equipment may be impaired. If any such indication exists, the Group estimates the recoverable amount. If value in use exceeds the carrying value, assets are not impaired. If the assets carrying amount is higher than its estimated recoverable amount, the carrying amount is decreased to its recoverable amount. The recoverable amount is fair value less the cost of selling, or value in use, whichever is higher. After initial recognition, property, plant and equipment is measured at the cost model less depreciation.

The following are the annual depreciation and amortisation rates used:

	2016	2015
	%	%
Buildings	2.0-4.0	2.0-4.0
Computer equipment	20.0-30.0	20.0-30.0
Software	10.0-20.0	10.0-20.0
Motor vehicles	12.5-20.0	12.5-20.0
Other equipment	4.0-30.0	4.0-30.0

Intangible assets, which mainly include software, are stated in the statement of financial position at cost less depreciation and accumulated impairment losses.

Depreciation of intangible assets is provided on a straight-line basis. General software is amortised over five years, with dedicated software being amortised over ten.

Assets in the course of transfer or manufacture/implementation are not depreciated until they are available for use.

The Group assesses the remaining value of assets upon each reporting period as well as their useful lives, and adjusts their values as appropriate.

Gains and losses incurred upon disposal of property, plant and equipment are determined by reference to the difference between their carrying amount and net profit upon disposal, and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Should these assets increase the Group's future economic benefits, their carrying amount shall also recognise subsequent costs.

2.12. Investment property

Upon acquisition the Group recognised investment property at cost, which includes the purchase price and all related costs.

After initial recognition, investment property was restated at fair value.

In determining the fair value of investment property, we used the discounted future gains method.

Fair value is based on market prices as at the date of the statement of financial position.

Investment property is assets not used directly by the Group for its operations but held with the purpose of giving it into operating lease or selling at a later date. Any gain or loss arising from a change in fair value is recognised in the income statement. If there is a change in use due to the commencement of owner occupation, investment property is transferred to owner occupied property.

Assets received for repayment of claims are initially measured at fair value. After initial recognition the Group measures assets received for repayment of claims at fair value, using the fair value method.

2.13. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets are classified as held for sale if the owner is committed to the sale and this commitment is stated in writing, whereupon the sale must be completed within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

2.14. Inventories

Inventories are classified under Other assets and consist of moveable and immovable property held for sale. They are recognised either at cost amounts or net realisable value, whichever is lower. An inventory unit is measured at cost, which comprises the purchase price, import duties and direct costs of purchase. The purchase price is reduced by trade discounts. The first-in, first-out method is used for inventories.

2.15. Leases

A lease is a finance lease if the risks and rewards incidental to ownership of a leased asset are transferred. A lease is an operating lease if the risks and rewards incidental to ownership of a leased asset are not transferred.

(a) The Group is the lessee

All leases where the Group is the lessee are operating leases. The Group leases certain business premises and ATM venues. Payments made under operating leases are charged to the income statement proportionately over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor is recognised as an expense in the period of termination.

(b) The Group is the lessor

The Group gives business premises and motor vehicles into operating lease. In case of assets given into operating lease, all payments made under operating leases constitute income generated from investment property, and are recognised in the income statement proportionate to the period of the lease agreement. Costs incurred in obtaining lease payments are recognised as costs. Initial direct costs incurred by the lessor in negotiating and agreeing an operating lease are added to the leased asset's book value and recognised as costs in the period of the lease on the same basis as lease income.

When assets are leased out under a finance lease, the present value of lease payments is recognised as a receivable from a finance lease. The difference between the gross receivable and the present value of the receivable is recognised as long-term deferred costs. Finance lease income is recognised systematically over the entire term of the lease and reflects a constant periodic rate of return. It is only the subsidiary DBS Leasing d. o. o. that gives assets into finance lease in the Group.

2.16. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise: cash and balances at central bank, loans to banks with less than three months' maturity from the date of acquisition, treasury bills and debt securities available-for-sale with less than three months' maturity from the date of acquisition.

2.17. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow will be required to settle it, and a reliable estimate of the amount of the obligation can be made. Risks arising out of contingent liabilities and commitments are assessed similarly to risks arising out of loans. All increases in liabilities arising out of estimated expenses required to settle the liabilities under contractual terms, are included into provisions.

2.18. Provisions for severance pays and long-service awards

Pursuant to the Slovenian legislation, employees retire upon meeting certain predetermined criteria, whereupon they are entitled to severance pay, which is paid out in a single amount. Employees are likewise entitled to long-service awards upon every 10 years of employment.

Provisions have been made for long-service awards, severance pays upon retirement and other long-term benefits.

Provisions are measured as the current value of future cash flows. Gains and losses are recognised in the income statement, apart from actuarial gains and losses, which are included in the accumulated other comprehensive income.

2.19. Income tax

Taxation has been provided for in the income statement pursuant to the Slovenian legislation in force from time to time. The tax item in the income statement comprises current tax and deferred tax. Current tax is calculated on the basis of taxable profit for the year, applying the tax rates enacted at the date of the statement of financial position.

Corporate income tax is levied on taxable profits at the rate of 17%.

Pursuant to the Slovenian Corporate Income Tax Act, current corporate income tax is charged at the rate of 17% off the established tax base (in 2015: 17%).

Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are reliably expected to be effective in the financial year in which deferred tax assets will be received and deferred tax liabilities settled, and are based on tax rates (and tax regulations) enacted at the date of the statement of financial position.

The most important temporary differences arise from tax loss, impairment of investments in subsidiaries, valuation of available-for-sale financial assets, and provisions.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary deductible differences can be utilised. An estimation of the amount of taxable profit for the future period is made at least once a year.

Deferred tax related to the revaluation of available-for-sale investments to fair value is recognised directly in equity and subsequently transferred to the income statement together with the deferred revaluation profit or loss.

Deferred tax liabilities are recognised on account of a revaluation of available-for-sale financial assets.

2.20. Borrowings

Borrowings are initially recognised in the statement of financial position at the value of their issue proceeds net of transaction cost incurred. Borrowings are subsequently stated at amortised cost.

2.21. Capital

(a) Share issue costs

Additional costs that the Group can directly attribute to the issue of new shares or options or a concluded transaction are shown in equity in their net amount as a direct deduction from equity (without the related amount of income tax).

(b) Dividends on ordinary shares

Dividends on ordinary shares are charged to equity in the period in which they are approved by the Bank's owners.

Dividends for the year past are declared at the AGM after the date of the statement of financial position.

(c) Treasury shares

If the Group purchases treasury shares, the consideration paid is deducted from total shareholders' equity. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

2.22. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make agreed payments to reimburse the contract holder for a loss it incurs due to a borrower's defaulting. The Group issues such financial guarantees to other banks, financial institutions and other customers to secure loans, limits and other banking facilities.

Financial guarantee contracts are initially recognised at fair value plus the fee received. Fee income is recognised in the income statement on a straight-line basis, over the entire term of the financial guarantee contract. The Group subsequently recognises them at the higher of the initial measurements less fee income received, on a straight-line basis over the entire term of the financial guarantee contract and less the best estimate of the expenditure required to settle the obligation under the financial guarantee as at the reporting date. These estimates are based on the historical cost convention and experience in similar business, as well as the management's judgement.

2.23. Fiduciary activities

The Group offers its customers, corporate as well as retail, the services of asset management and the services of lending under authorisation. For these services, customers are charged a fee. Details are explained in Note 4.30. a. These assets are not included into the Group's statement of financial position.

3. NOTES TO THE INCOME STATEMENT

3.1. Interest income and expense

	2016	2015
Interest income		
Financial assets held for trading	1	6
Available-for-sale financial assets	190	606
Loans to banks	29	13
Loans to the central bank	1	3
Loans to customers	16,262	22,425
Held-to-maturity investments	3,079	3,046
Financial leasing	285	247
Other assets	41	41
TOTAL	**19,888**	**26,387**
Interest expense		
Deposits by banks and borrowings from banks	735	998
Borrowings from central bank	24	50
Deposits by customers	2,315	4,868
Borrowings from customers	43	20
Bonds	0	522
Certificates of deposit	128	202
Subordinated liabilities	244	296
Subordinated deposits and loans	336	291
Other liabilities	54	38
TOTAL	**3,879**	**7,321**
NET INTEREST INCOME	**16,009**	**19,066**

3.2. Dividends

	2016	2015
Dividends on available-for-sale financial assets	9	6
TOTAL	**9**	**6**

3.3. Fee and commission income and expense

	2016	2015
Fee and commission income		
Payment transactions	4,433	3,693
Agency services	169	156
Administrative services	3,556	3,528
Guarantees issued	369	492
Securities trading	237	123
Credit operations	349	313
TOTAL	**9,113**	**8,305**
Fee and commission expense		
Banking services	760	780
Securities trading	120	93
Payment transactions	784	717
Republic of Slovenia guarantee for issued bonds	0	352
Commissions from Semenarna franchisors	438	431
Commissions from Semenarna commercial agents	268	273
Other services	8	17
TOTAL	**2,378**	**2,663**
NET FEE AND COMMISSION INCOME	**6,735**	**5,642**

3.4. Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss

	2016	2015
Realised gains	**48**	**331**
Gains from available-for-sale financial assets	48	331
Realised net gains/losses on loans	**5**	**(95)**
Gains on loans (financial lease and other financial assets included)	118	166
Losses on loans (financial lease and other financial assets included)	113	261
Realised net gains/losses from financial liabilities measured at cost	**(37)**	**(19)**
Gains from financial liabilities measured at amortised cost	1	1
Losses from financial liabilities measured at amortised cost	38	20
REALISED GAINS/LOSSES	**16**	**217**

Gains from available-for-sale financial assets were realised in 2016 in the amount of EUR 48 thousand, a result of sold equities (2015: EUR 0 from the sale of equities).

3.5. Net gains/losses from financial assets and liabilities held for trading

	2016	2015
Net gains/losses from trading in equity instruments	2	7
Net gains/losses from trading in debt securities	0	(3)
Net gains/losses from foreign exchange trading	149	153
Net gains/losses from derivatives held for trading	(8)	58
TOTAL	**143**	**215**

3.6. Foreign exchange translation

	2016	2015
Positive translation differences	1,166	1,928
Negative translation differences	1,124	1,707
TOTAL	**42**	**221**

3.7. Net gains/losses on derecognition of assets

	2016	2015
Gains		
- Derecognition of property, plant and equipment	35	104
- Derecognition of investment property	296	0
- Sales revenue and other	30,109	28,537
TOTAL	**30,440**	**28,641**
Losses		
- Cost of goods sold	21,370	19,741
- Derecognition of investment property	0	18
- Derecognition of other assets, apart from assets held for sale	74	124
TOTAL	**21,444**	**19,883**
TOTAL NET GAINS/LOSSES	**8,996**	**8,758**

Gains and losses on derecognition of other assets mainly refer to Semenarna's sales revenues and its costs of goods and material.

3.8. Other net operating gains/losses

	2016	2015
Gains		
Income from non-banking services	134	127
Leases and rents (Note 4.10. b)	148	104
Denationalisation income	261	256
Other	564	926
TOTAL	**1,107**	**1,413**
Losses		
Taxes	20	24
Contributions	249	241
Membership fees and similar	108	97
Financial services tax	819	777
Deposit guarantee scheme	839	0
Bank resolution fund	20	0
Other operating expenses	102	335
TOTAL	**2,157**	**1,474**
OTHER NET OPERATING GAINS/LOSSES	**(1,050)**	**(61)**

Denationalisation income refers to assets received from denationalisation procedures. Other operating expenses include expenses from financial transaction tax.

Denationalisation acquisitions by asset type

			2016			2015
	Income	Expense	**Total**	Income	Expense	**Total**
Buildings						
- Acquisitions - restitution in kind	208	0	**208**	0	0	**0**
- Damages, settlements	0	0	**0**	58	0	**58**
- Leases and rents	53	0	**53**	198	0	**198**
- Revaluation of investment property	0	7	**(7)**	0	159	**(159)**
- Legal and consulting services, and duties	0	11	**(11)**	0	9	**(9)**
TOTAL	**261**	**18**	**243**	**256**	**168**	**88**

The direct and indirect net denationalisation income in 2016 amounted to a total of EUR 243 thousand (2015: EUR 88 thousand of net income).

3.9. Administrative expenses

	2016	2015
Employee benefits cost		
Gross wages	11,811	11,571
Social security contributions	856	846
Pension insurance contributions	1,055	1,032
Other contributions depending on gross wages	10	(3)
Severance pays and compensations	73	212
Other labour costs	2,176	2,197
TOTAL	**15,981**	**15,855**
Overhead and administrative expenses		
Costs of material	583	570
Costs of services	5,969	5,801
TOTAL	**6,552**	**6,371**
TOTAL	**22,533**	**22,226**

Costs of services for 2016 also include EUR 66 thousand for auditing services.

3.10. Depreciation and amortisation

	2016	2015
Property, plant and equipment (Note 4.9.)	1,822	2,027
Intangible assets (Note 4.11.)	252	281
TOTAL	**2,074**	**2,308**

3.11. Provisions

	2016	2015
Net provisions for off-balance sheet liabilities	**(141)**	**212**
Expenses for created provisions (Note 4.20. d)	2,859	3,830
Income from released provisions (Note 4.20. d)	3,000	3,618
Net other provisions		
Net provisions for pensions and other employee benefits	**111**	**97**
Expenses for created provisions	111	98
Income from released provisions	0	1
Net provisions for tax suits and other pending legal cases	**0**	**(10)**
Income from released provisions	0	10
Net provisions for other provisions	**(6)**	**1**
Expenses for created provisions	0	1
Income from released provisions	6	0
NET PROVISIONS	**(36)**	**300**

3.12. Impairment charge

	2016	2015
Net impairments of financial assets not measured at fair value through profit or loss	**2,544**	**4,104**
Net impairments of loans	**2,540**	**4,064**
Impairments of loans	11,692	15,998
Reversal of loan impairments	9,152	11,934
Net impairments of other financial assets	**4**	**40**
Impairments of other financial assets	165	112
Reversal of impairments of other financial assets	161	72
Net impairments of other assets	**616**	**1,737**
Net impairments of investment property	**238**	**216**
Impairment of investment property (Note 4.10. b)	772	365
Reversal of investment property impairments (Note 4.10. b)	534	149
Net impairments of other assets	**378**	**1,521**
Impairments of property inventories	378	1,521
NET IMPAIRMENTS	**3,160**	**5,841**

3.13. Net gains/losses from non-current assets held for sale and related liabilities

	2016	2015
Gains on non-current assets held for sale	73	118
TOTAL	**73**	**118**

3.14. Income tax

	2016	2015
Income tax	220	271
Deferred tax (Note 4.21. d)	275	155
TOTAL	**495**	**426**
Profit/loss before tax	3,242	3,507
Tax under the 17% tax rate	551	596
Non-taxable income	(16)	(43)
Non-deductible expense	327	316
Tax reliefs	(367)	(443)
TOTAL	**495**	**426**
Effective tax rate (in %)	15	12

The last tax inspection was in 2005 for financial year 2004.

The competent Tax Office may conduct a tax inspection of the current accounting period any time within the following five years after the reported tax year, and in this connection impose additional taxation and penalties. The Group's management knows of no circumstances that could give rise to additional liabilities in this regard.

3.15. Earnings per share (EPS)

Basic EPS is calculated by dividing net profit and the weighted average number of issued ordinary shares:

	2016	2015
Net profit (in EUR thousand)	2,747	3,081
Weighted average number of ordinary shares	4,228,995	4,228,055
Basic and diluted earnings/loss per share (in EUR per share)	0.649563	0.728704

Basic EPS in 2016 amounts to EUR 0.649563 (2015: EUR 0.728704). The weighted average number of issued ordinary shares recorded in the KDD central securities register for 2016, with treasury shares and the shares held by Semenarna deducted, was 4,228,995 (2015: 4,228,055).

The Group's share book value as at 31 December 2016 was EUR 12.932528 (31 December 2015: EUR 12.424950). It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central registry of the Central Securities Clearing Corporation (KDD) less treasury shares.

The Group has not issued any financial instruments convertible into shares.

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

4.1. Cash, balances at central banks, and sight deposits at banks

a) Breakdown

	2016	2015
Cash		
Cash	7,605	7,657
Bank balances at central bank	12,753	15,668
Sight deposits at banks	4,329	10,083
TOTAL (Note 4.1. b)	**24,687**	**33,408**

The Group has met its obligation regarding the minimum reserve on the settlement account at the central bank. The amount of minimum reserves is adjusted to the system of the European Central Bank (ECB). Its amount is calculated pursuant to regulations – 0% for: time deposits with agreed maturity of over 2 years, sight deposits with maturity of over 2 years, repurchase agreements and debt securities with agreed maturity of over 2 years; and 1% for: overnight deposits, deposits with agreed maturity of up to 2 years, sight deposits with maturity of up to 2 years and debt securities with agreed maturity of up to 2 years.

The Bank must ensure that the settlement account is credited on a daily basis with a specific amount calculated for each period. Minimum reserves for compliance period from 1 January to 31 December 2016 amounted to EUR 4,801 thousand on average per month, with excess reserves totalling a monthly EUR 9,145 thousand on average.

The annual interest rate for assets deposited on the minimum reserves account was 0.05% from 1 January to 15 March 2016, and 0.00% from 16 March to 31 December 2016. For excess assets deposited on the minimum reserves account, the annual interest rate was –0.30% from 1 January to 15 March 2016, and –0.40% from 16 March to 31 December 2016.

b) Movements

	As at 1 January 2016	Foreign exchange differences	Net increase/ (decrease)	As at 31 December 2016
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	33,408	26	(8,747)	24,687
Loans and advances to banks (Note 4.4. b)	5,414	72	(592)	4,894
TOTAL	**38,822**	**98**	**(9,339)**	**29,581**

4.2. Financial assets held for trading

a) Breakdown

	2016	2015
Equities		
- Listed	0	216
Bonds		
- Listed	0	42
TOTAL	**0**	**258**

b) Movements

	2016	2015
Equities		
As at 1 January	216	340
- Acquisition	0	205
- Revaluation	0	10
- Reclassification	(216)	(339)
As at 31 December	**0**	**216**
Debt securities		
As at 1 January	42	124
- Acquisition	0	9
- Sale/maturity	(42)	(88)
- Revaluation	0	(3)
As at 31 December	**0**	**42**
Loans*		
As at 1 January	0	19
- Increase	0	0
- Sale	0	(19)
As at 31 December	**0**	**0**
TOTAL	**0**	**258**

* Loans include receivables from the purchase and sale of foreign exchange.

4.3. Available-for-sale financial assets

a) Breakdown

	2016	2015
Equities		
- Unlisted	3,987	4,073
Bonds		
- Listed	4,361	5,853
TOTAL	**8,348**	**9,926**

The Group decreased the balance of available-for-sale securities in 2016 by EUR 1,578 thousand, of which debt instruments were down EUR 1,492 thousand, shares and stakes in non-financial institutions at cost were down EUR 89 thousand, and the balance in the Bank Resolution Fund increased by EUR 3 thousand (2015: EUR 2,699 thousand).

b) Movements

	2016	2015
As at 1 January	9,926	22,409
Purchases	102	5,279
Debt-to-equity swap	608	0
Sale	(744)	(16,982)
Maturities	(1,426)	0
Margin	48	(330)
Fair value adjustment (Note 4.25.)	(166)	(450)
As at 31 December	**8,348**	**9,926**

4.4. Loans and advances to banks

a) Breakdown according to type

	2016	2015
Loans to the central bank	2,086	1,963
Loans to domestic banks	3,014	3,158
Loans to foreign banks	0	500
TOTAL	**5,100**	**5,621**

b) Breakdown according to maturity

	2016	2015
Short-term loans	4,894	5,416
Long-term loans	206	205
TOTAL	**5,100**	**5,621**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 4,894 thousand (2015: EUR 5,414 thousand) are recognised in the cash flow statement as cash equivalents (Note 4.1. b).

4.5. Loans and advances to customers

a) Breakdown according to type

	2016	2015
Loans and advances	608,494	635,433
Financial lease	10,798	10,482
Working capital loans	18,153	18,802
Revaluation allowance	(37,818)	(44,506)
TOTAL	**599,627**	**620,211**

b) Movements in revaluation allowance

	2016	2015
As at 1 January	44,506	97,009
Enhancements (through impairments)	11,692	15,998
Repayments (through impairments)	(8,457)	(11,934)
Transferred off the balance sheet (no write-downs)	(4,146)	(43,647)
Write-downs	(3,149)	(12,296)
Suspended interest (balance sheet receivables)	(2,628)	122
Debt-to-equity swap	0	(746)
As at 31 December	**37,818**	**44,506**

In 2016, EUR 4,146 thousand worth of 100%-impaired provisions were transferred off the balance sheet (2015: EUR 43,647 thousand).

c) Loans and advances to customers include financial lease receivables

	2016	2015
Gross financial lease receivables		
Past due up to 1 year	5,319	5,675
Past due from 1 to 5 years	3,173	1,958
Past due over 5 years	2,306	2,849
TOTAL	**10,798**	**10,482**
Revaluation allowances	(3,562)	(4,326)
Net financial lease receivables	**7,236**	**6,156**

4.6. Other financial assets

a) Breakdown

	2016	2015
Trade receivables	4,473	4,545
Interest receivable	2	2
Fee and commission due	134	135
Other receivables	747	702
Other prepayments and deferred income	298	74
Other financial assets revaluation allowance	(2,900)	(3,195)
TOTAL	**2,754**	**2,263**

b) Movements in revaluation allowance

	2016	2015
As at 1 January	3,195	3,543
Enhancements (through impairments)	165	112
Repayments (through impairments)	(161)	(72)
Transferred to loans	0	(332)
Transferred off the balance sheet	(57)	(11)
Write-downs	(242)	(45)
As at 31 December	**2,900**	**3,195**

4.7. Held-to-maturity investments

a) Breakdown

	2016	2015
Held-to-maturity debt securities		
Long-term government securities	140,941	157,090
TOTAL	**140,941**	**157,090**

b) Movements

	2016	2015
As at 1 January	157,090	107,133
Purchases	68,495	83,263
Maturities	(84,644)	(33,306)
As at 31 December	**140,941**	**157,090**

4.8. Non-current assets held for sale, and discontinued operations

	2016	2015
Property, plant and equipment held for sale	179	1,641
TOTAL	**179**	**1,641**

4.9. Property, plant and equipment

2016	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	40,799	3,991	17,064	1,415	0	63,269
Increases	1,817	0	0	0	981	2,798
Transfer from PPE under construction	0	228	263	490	(981)	0
Decreases	(136)	(157)	(139)	(789)	0	(1,221)
As at 31 December	42,480	4,062	17,188	1,116	0	64,846
Revaluation allowance						
As at 1 January	9,963	3,664	14,644	576	0	28,847
Increases	295	0	0	0	0	295
Decreases	(18)	(155)	(60)	(423)	0	(656)
Depreciation and amortisation	779	156	682	205	0	1,822
As at 31 December	11,019	3,665	15,266	358	0	30,308
Net carrying value						
As at 1 January	30,836	327	2,420	839	0	34,422
As at 31 December	31,461	397	1,922	758	0	34,538

The net carrying value of property held as collateral for loans is EUR 14,445 thousand.

2015	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	41,606	5,468	17,051	2,164	0	66,289
Increases	4	0	0	393	559	956
Transfer from PPE under construction	0	212	369	34	(559)	56
Decreases	(811)	(1,689)	(356)	(1,176)	0	(4,032)
As at 31 December	40,799	3,991	17,064	1,415	0	63,269
Revaluation allowance						
As at 1 January	9,489	5,177	14,162	990	0	29,818
Decreases	(238)	(1,686)	(380)	(694)	0	(2,998)
Depreciation and amortisation	712	173	862	280	0	2,027
As at 31 December	9,963	3,664	14,644	576	0	28,847
Net carrying value						
As at 1 January	32,117	291	2,889	1,174	0	36,471
As at 31 December	30,836	327	2,420	839	0	34,422

4.10. Investment property

a) Breakdown

	2016	2015
Long-term investments into investment property		
- Land	12,460	6,693
- Buildings	13,982	8,982
TOTAL	**26,442**	**15,675**

b) Movements

	2016	2015
As at 1 January	15,675	5,152
Increase	1,568	36
Transferred from inventories	12,741	10,733
Decrease	(3,304)	(30)
Enhancements (Note 3.12.)	534	149
Revaluation allowance (Note 3.12.)	(772)	(365)
As at 31 December	**26,442**	**15,675**

Operating lease contracts may be terminated during the lease period. A transfer of EUR 12,741 thousand was made from inventories to investment property in respect of property not sold quickly.

Investment property is categorised into Level 3 of the fair value hierarchy. In determining fair value, the comparable sales method is used. Fair value is determined on the basis of market prices data.

4.11. Intangible assets

			2016			2015
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	4,274	78	4,352	4,196	32	4,228
Increases	236	31	267	0	131	131
Decreases	(49)	(109)	(158)	(7)	0	(7)
Transfer from intangible assets under construction	0	0	0	85	(85)	0
As at 31 December	4,461	0	4,461	4,274	78	4,352
Revaluation allowance						
As at 1 January	3,240	0	3,240	2,966	0	2,966
Depreciation and amortisation	252	0	252	281	0	281
Decreases	(1)	0	(1)	(7)	0	(7)
As at 31 December	3,491	0	3,491	3,240	0	3,240
As at 1 January	**1,034**	**78**	**1,112**	**1,230**	**32**	**1,262**
As at 31 December	**970**	**0**	**970**	**1,034**	**78**	**1,112**

The Group holds no intangible assets received as guarantee for liabilities, and holds no assets with limited ownership rights.

4.12. Income tax assets

	2016	2015
Tax assets	50	398
Deferred tax assets (Note 4.21. b)	6,026	6,311
TOTAL	**6,076**	**6,709**

Outstanding tax loss amounts to a total of EUR 35,757 thousand. Deferred tax assets were formed in the amount of EUR 8,376 thousand, impairments of deferred tax assets totalling EUR 2,350 thousand.

4.13. Other assets

	2016	2015
VAT refund receivables for the tax period	44	14
Accrued and short-term deferred costs	710	664
Long-term deferred operating costs	76	20
Materials inventory	8,060	7,680
Real estate inventory	13,566	23,655
Equipment inventory	93	0
Stock of coins held for sale	151	149
Prepayments - construction works	0	225
Prepayments to suppliers for current assets	208	311
Other prepayments	40	62
Other tax refund receivables	28	14
Advance suretyship, security receivables	4	133
Consideration receivable	3,594	1,896
Other	4	1
TOTAL	**26,578**	**34,824**

The net carrying value of inventories of property pledged as collateral for loans is EUR 0 thousand (2015: EUR 1,460 thousand). Impairment charges against inventories of property amounted to EUR 378 thousand in 2016 (2015: EUR 1,521 thousand) (Note 3.12.).

4.14. Deposits by banks and central banks

	2016	2015
Sight deposits by banks	448	344
TOTAL	**448**	**344**

4.15. Deposits by customers

	2016	2015
Sight deposits	486,241	391,227
Short-term deposits	95,152	164,849
Long-term deposits	186,273	224,814
TOTAL	**767,666**	**780,890**

4.16. Borrowings from banks and central banks

	2016	2015
Short-term borrowings from banks	19,934	20,173
Long-term borrowings from banks	5,758	8,737
Long-term borrowings from central bank	0	30,448
TOTAL	**25,692**	**59,358**

4.17. Borrowings from customers

	2016	2015
Long-term borrowings from customers	1,394	915
TOTAL	**1,394**	**915**

4.18. Subordinated liabilities

a) Breakdown

	2016	2015
Subordinated liabilities		
- To banks	4,117	4,631
- To non-financial institutions	2,866	2,862
- To other financial institutions	4,102	6,082
- To households	530	508
TOTAL	**11,615**	**14,083**

	Date subscribed	Amount	Currency	Interest rate (%)	Maturity date
Subordinated liabilities					
	20. 12. 2012	2,058	EUR	6m Euribor + 6.00	20. 12. 2019
	20. 12. 2012	184	EUR	8.20	20. 12. 2019
	20. 12. 2012	162	EUR	8.20	20. 12. 2019
	20. 12. 2012	460	EUR	8.20	20. 12. 2019
	20. 12. 2012	276	EUR	8.20	20. 12. 2019
	23. 10. 2013	531	EUR	6.20	3. 11. 2020
	23. 10. 2013	53	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	96	EUR	6.20	3. 11. 2020
	23. 10. 2013	32	EUR	6.20	3. 11. 2020
	23. 10. 2013	106	EUR	6.20	3. 11. 2020
	30. 10. 2013	106	EUR	6.20	10. 11. 2020
	30. 10. 2013	711	EUR	6.20	10. 11. 2020
	30. 10. 2013	531	EUR	6.20	10. 11. 2020
	30. 10. 2013	32	EUR	6.20	10. 11. 2020
	30. 10. 2013	319	EUR	6.20	10. 11. 2020
	30. 10. 2013	74	EUR	6.20	10. 11. 2020
	29. 5. 2015	2,059	EUR	6m Euribor + 6.00	31. 5. 2022
	29. 9. 2015	105	EUR	4.70	30. 9. 2021
	29. 9. 2015	52	EUR	4.70	30. 9. 2021
	29. 9. 2015	742	EUR	6.00	30. 9. 2022
	29. 9. 2015	106	EUR	6.00	30. 9. 2022
	30. 9. 2015	530	EUR	6.00	30. 9. 2022
	9. 10. 2015	159	EUR	6.00	10. 10. 2025
	9. 10. 2015	530	EUR	6.00	10. 10. 2025
	9. 10. 2015	848	EUR	6.00	10. 10. 2025
	9. 10. 2015	583	EUR	6.00	10. 10. 2025
TOTAL		11,615			

Subordinated liabilities include subordinated deposits, loans and certificates of deposit eligible for inclusion into tier II capital consistent with the CRR (Note in Chapter 5 and in Section Risk and Capital Management). Subordinated debt was issued over the years in order to maintain the required capital adequacy.

Eight agreements with characteristics of subordinated debt matured in 2016, in the total value of EUR 2,500 thousand. The Bank did not enter into new agreements.

4.19. Other financial liabilities

	2016	2015
Profit sharing - dividend payments	6	6
Wages and salaries	771	772
Taxes and contributions	372	410
Suppliers	2,092	1,912
Other liabilities	4,343	881
Charges being collected	177	40
Accrued costs	539	526
Accrued expenses	91	107
Other accruals and income collected in advance	10	8
Long-term liabilities associated with Semenarna's compulsory composition	0	4,526
Other	82	9
TOTAL	**8,483**	**9,197**

4.20. Provisions

a) Breakdown

	2016	2015
Provisions for pensions and similar payables to employees (Note 4.20. b and c)	1,936	1,713
Provisions for off-balance sheet liabilities (Note 4.20. d)	400	540
Provisions for pending legal cases (Note 4.20. e)	0	44
Other provisions (Note 4.20. f)	0	393
TOTAL	**2,336**	**2,690**

b) Provisions for pensions and similar payables to employees

	2016	2015
Provisions for severance pays	1,722	1,504
Provisions for long-service awards	214	209
TOTAL	**1,936**	**1,713**

The actuarial calculation of provisions for severance pays and long-service awards to employees included the following assumptions: average earnings growth in the Republic of Slovenia is expected to total an annual 2.2% in 2016 and 2017 and an annual 2.5% in subsequent years; the calculation of liabilities for severance pays takes into account an employee's period of employment; the selected discount factor is 1.02% annually. Assumptions on employment fluctuations and the company's related payables: it is assumed that employment fluctuation depends primarily on the employees age; the mortality rates used are from the Slovenian reference population mortality table for 2007; it is assumed that employees will exercise their right to retire upon reaching their full retirement age, and therefore the employer will not incur liabilities for long-service awards projected to fall due at a later date.

c) Movements in provisions for pensions and similar payables to employees

	2016	2015
As at 1 January	1,713	1,711
Provisions made during the year	288	101
Provisions released	(2)	(10)
Provisions utilised during the year	(63)	(89)
As at 31 December	**1,936**	**1,713**

Recalculated payables to employees total EUR 1,936 thousand, for which we had to form as at 31 December 2016 additional provisions of EUR 288 thousand. Higher provisions for severance pays, which represent costs for the period and an increase in provisions for long-service awards in the total amount of EUR 63 thousand, were charged to the income statement. The actuarial deficit for severance pays was formed in comprehensive income in the amount of EUR 176 thousand (Note 4.25.).

d) Movements in provisions for off-balance sheet liabilities

	2016	2015
As at 1 January	540	328
Provisions made during the year (Note 3.11.)	2,859	3,830
Provisions released during the year (Note 3.11.)	(2,999)	(3,618)
As at 31 December	**400**	**540**

e) Movements in provisions for pending legal cases

	2016	2015
As at 1 January	44	54
Provisions utilised during the year	(44)	0
Provisions released during the year	0	(10)
As at 31 December	**0**	**44**

f) Movements in other provisions

	2016	2015
As at 1 January	393	418
Transferred to short-term liabilities	(393)	0
Provisions made during the year	0	1
Provisions released during the year	0	(26)
As at 31 December	**0**	**393**

4.21. Tax liabilities

a) Breakdown

	2016	2015
Current tax liabilities	21	67
Deferred tax liabilities	1,197	1,237
TOTAL	**1,218**	**1,304**

b) Deferred tax liabilities and assets according to statement of financial position items

	2016	2015
1. Deferred tax liabilities		
Available-for-sale financial assets	44	78
Land valuation	1,138	1,151
Depreciation and amortisation	15	8
TOTAL	**1,197**	**1,237**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	207	193
Available-for-sale financial assets	17	27
Impairment of securities	190	190
Impairment of equity participation	2,752	2,733
Tax loss	2,467	2,751
Valuation of buildings	393	417
TOTAL (Note 4.12.)	**6,026**	**6,311**
NET DEFERRED TAX (2 - 1)	**4,829**	**5,074**

Deferred tax assets arising from the impaired equity investment, assets, loans, financial leasing, unspent allowances and tax losses, were collectively impaired and the impairment charge totals EUR 5,016 thousand.

c) Movements in deferred taxes

	2016	2015
As at 1 January	5,074	5,102
Available-for-sale financial assets - fair value valuation (Note 4.25.)	24	125
Valuation of buildings	(24)	0
Land valuation	13	(9)
Depreciation and amortisation	(7)	1
Impairment of equity participation	19	178
Provisions for severance pays and long-service awards	14	(5)
Tax loss	(284)	(318)
As at 31 December	**4,829**	**5,074**

d) Deferred taxes in the income statement contain the following temporary differences

	2016	2015
Provisions for employee benefits	(1)	(7)
Tax loss	(284)	(318)
Depreciation and amortisation	(9)	(8)
Impairments	19	178
TOTAL (Note 3.14.)	**(275)**	**(155)**

Deferred tax assets and liabilities for 2016 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 19% (2016: 17%).

4.22. Other liabilities

a) Breakdown

	2016	2015
Payments received in advance	238	265
Taxes payable	365	247
Outstanding taxes payable	0	4
Accruals	282	293
TOTAL	**885**	**809**

4.23. Share capital

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 31 December 2015/1 January 2016	4,268,248	17,811
As at 31 December 2016	**4,268,248**	**17,811**

The Bank's share capital is divided into 4,268,248 ordinary no par value shares of class A, of which 4,257,483 are recorded in the central registry of dematerialised securities held by the Slovenian Central Securities Clearing Corporation – KDD. At the year-end of 2016 the Bank's share capital totals EUR 17,811,083.54.

b) Shareholders with over 5% of share capital

		2016
Shareholder	No. of shares	Stake in shareholders' equity in KDD
Kapitalska zadruga, z. b. o., Ljubljana	2,023,671	47.532
KD Kapital d. o. o., Ljubljana	377,181	8.859
KD Group d. d., Ljubljana	255,941	6.012
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2016, 318 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2015: 322), of which 102 were domestic corporate entities, 211 were domestic individuals, and five were foreign entities. The number of the Bank's shareholders decreased by four in 2016.

4.24. Share premium

	2016	2015
As at 1 January	31,257	28,915
Subscription (or payment) of new capital	0	2,342
As at 31 December	**31,257**	**31,257**

4.25. Accumulated other comprehensive income

	2016	2015
As at 1 January	61	708
Items not to be reclassified to profit or loss	**(161)**	**8**
Actuarial gains/losses on defined benefit pension plans	(176)	7
Income tax relating to components of items not be reclassified to profit or loss	15	1
Items that may be reclassified to profit or loss	**(142)**	**(655)**
Available-for-sale financial assets	(166)	(780)
Gains/losses due to changes in fair value of available-for-sale financial assets (Note 4.3. b)	(166)	(450)
Gains/losses transferred to profit or loss	0	(330)
Deferred taxes (Note 4.21. c)	24	125
As at 31 December	**(242)**	**61**

Items not restated in the income statements refer to the actuarial deficit for severance pays (Note 4.20. c).

4.26. Revenue reserves

a) Breakdown

	2016	2015
Reserves for treasury shares	645	645
Reserves under Statutes	1,163	671
Other revenue reserves	2,696	1,085
TOTAL	**4,504**	**2,401**

Pursuant to its Statutes, the Bank allocated 20% of profit for the year, which amounted to EUR 492 thousand, to reserves under Statutes.

Share premium and statutory reserves can only be used up under the following terms:

1. if the total amount of share premium and statutory reserves is less than 10% of share capital, they can only be used to:
   - cover net loss for the financial year, if it cannot be covered from retained earnings or other revenue reserves;
   - cover retained loss, if it cannot be covered from net profit for the financial year or other revenue reserves;
2. if the total amount of these reserves is at least 10% of share capital, the surplus amounts of these reserves can be used to:
   - increase share capital;
   - cover net loss for the financial year, if it cannot be covered from retained earnings and if at the same time revenue reserves are not used for dividend payments to shareholders;
   - cover retained loss, if it cannot be covered from net profit for the financial year and if at the same time revenue reserves are not used for dividend payments to shareholders.

Other revenue reserves cannot be used for dividend payments to shareholders or other entities.

b) Reserves for treasury shares

	2016	2015
As at 1 January	645	671
Reversals	0	(26)
As at 31 December	**645**	**645**

c) Reserves under Statutes

	2016	2015
As at 1 January	671	269
Transferred from net profit	492	402
As at 31 December	**1,163**	**671**

d) Other revenue reserves

	2016	2015
As at 1 January	1,085	0
Transferred from net profit	1,611	1,074
Positive effect from sale of treasury shares	0	11
As at 31 December	**2,696**	**1,085**

4.27. Treasury shares

	2016	2015
Repurchase of treasury shares - ordinary	(657)	(656)
TOTAL	**(657)**	**(656)**

4.28. Retained earnings (including net profit/loss for financial year)

	2016	2015
Net profit/loss for the year	2,148	1,571
Retained earnings	1,682	1,125
TOTAL	**3,830**	**2,696**

Profit for the year amounts to EUR 2,747 thousand. The Bank's distributable profit as at 31 December 2016 amounts to EUR 1,965 thousand; it consists of residual net profit for the year 2016 after the formation of statutory reserves totalling 20% of net profit. The appropriation of distributable profit will be decided by the General Meeting. The Management Board and Supervisory Board recommend that it be appropriated to other revenue reserves.

4.29. Off-balance sheet liabilities

a) Breakdown by type of contingent liabilities and commitments

	2016	2015
Guarantees	24,907	43,922
Commitments to extend credit	35,945	33,671
TOTAL	**60,852**	**77,593**
Provisions (Note 4.20. a and d)	(400)	(540)

4.30. Fiduciary activities

The Group manages assets in the total amount of EUR 88,258 thousand (2015: EUR 96,809 thousand) in the name and for the accounts of third parties. Assets under management are accounted for separately from the Group's assets. Income and expenses from operations in the name of third parties and for the accounts of third parties are credited or charged to the originator, therefore no liabilities arise for the Bank from these operations. The Group charges the related service fees to the originator. In 2016 these fees amounted to EUR 146 thousand (2015: EUR 123 thousand). For acting as agent in the sale of numismatic values, the Group charged fees in the amount of EUR 17 thousand in 2016 (2015: EUR 24 thousand).

a) Investment and ancillary investment services for customers

	2016	2015
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**237**	**123**
Reception, transmission and execution of orders	231	111
Managing dematerialised securities accounts for clients	6	12
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**92**	**63**
Fees associated with KDD and similar organisations	76	54
Fees associated with the stock exchange and similar organisations	16	9

	2016	2015
ASSETS	**86,269**	**93,756**
Claims on settlement account and current accounts for clients' assets	85,933	93,330
- From financial instruments	85,365	93,142
- From the KDD or the Bank's settlement account for sold financial instruments	152	9
- From other settlement systems and institutions for sold financial instruments	416	179
Clients' cash	336	426
- On the settlement account for clients' assets	335	426
- On banks' current accounts	1	0
LIABILITIES	**86,269**	**93,756**
Liabilities of settlement account and of current accounts for clients' assets	86,269	93,756
- With clients from cash and financial instruments	85,746	93,553
- With KDD or the Bank's settlement account for purchased financial instruments	77	16
- With other settlement systems and institutions for purchased financial instruments	417	179
- With the Bank and the Bank's settlement account for fees, expenses, etc	29	8

b) Other agency services

Other agency services include EUR 1,989 thousand from other transactions for the clients' account (2015: EUR 3,037 thousand), and EUR 76 thousand from settlement transactions with the KDD (2015: EUR 16 thousand).

4.31. Related party transactions

Continuous operations include numerous banking transactions with related parties. These transactions are carried out on commercial terms and conditions, and at market rates.

a) Volume of banking transactions among related parties

	Management Board/ CEO/Holder of Procuration		Senior management		Close family members of Management Board/CEO/Holder of Procuration, members of Supervisory Board		Companies related to members of Management Board/CEO/ Procurator, members of Supervisory Board and close family members		Bank's shareholders* (holders of qualifying stake in the Bank)		Supervisory Board members	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Loans and deposits												
As at 1 January	164	469	468	425	45	37	6,507	7,340	677	875	17	55
Increase	85	88	317	636	64	55	14,840	17,638	76	63	201	31
Decrease	(68)	(393)	(412)	(593)	(57)	(47)	(15,059)	(18,471)	(753)	(261)	(112)	(69)
As at 31 December	181	164	373	468	52	45	6,288	6,507	0	677	106	17
Interest income	4	4	12	10	1	1	259	285	0	39	0	1
Revaluation allowance	0	0	0	1	0	0	87	80	0	1	0	0
Deposits and borrowings												
As at 1 January	35	41	218	168	82	41	383	342	8,384	10,432	122	119
Increase	557	667	1,571	2,373	274	432	17,120	13,209	60,152	67,281	477	534
Decrease	(528)	(673)	(1,575)	(2,323)	(280)	(391)	(15,465)	(13,168)	(68,410)	(69,329)	(388)	(531)
As at 31 December	64	35	214	218	76	82	2,038	383	126	8,384	211	122
Interest expense	0	0	2	9	1	1	76	5	306	479	0	1
Guarantees issued	0	0	0	0	0	0	0	0	0	1,549	0	0
Fee and commission received	1	1	3	3	1	0	66	60	6	86	1	1
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	0	0	0	7	0	0
Increase	0	0	1	0	0	0	0	0	0	52	0	0
Decrease	0	0	(1)	0	0	0	0	0	0	(57)	0	0
As at 31 December	0	0	0	0	0	0	0	0	0	2	0	0
Lease income	0	0	1	0	0	0	0	0	0	45	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	177	4	0	0	0	0
Increase	0	0	0	0	0	0	36	49	165	27	0	0
Decrease	0	0	0	0	0	0	(69)	(52)	(165)	(27)	0	0
As at 31 December	0	0	0	0	0	0	144	1	0	0	0	0
Lease expense	0	0	0	0	0	0	69	49	165	21	0	0
Other receivables	0	0	0	0	0	0	0	6	0	1	0	0
Other income	0	1	1	1	0	0	1	339	0	13	0	0
Other liabilities	0	0	0	0	0	0	52	74	3	48	0	0
Other expenses	0	0	0	0	0	0	398	1,032	59	297	0	0

* Only the Bank's qualified shareholders are included for 2016.

b) Remuneration of senior management

	2016	2015
Wages and other short-term benefits	1,452	1,864
Severance pays	1	60
TOTAL	**1,453**	**1,924**

The remuneration of the Management Board and others on management contracts includes gross wages, pay for annual leave, fringe benefits, cost reimbursement and supplementary pension insurance.

The Management Board and others on management contracts held 1,872 shares (0.04% of share capital) as at 31 December 2016. As at 31 December 2015 they held 1,947 shares (0.05% of share capital).

c) Remuneration of Supervisory Board members and members of its committees

	2016	2015
Wages and other short-term benefits	121	113
TOTAL	**121**	**113**

The amount includes the earnings of Supervisory Board members and those of the members of the Supervisory Board Remuneration, Audit and Risk Committee.

d) Remuneration of members of management and supervisory bodies in 2016

Position/Remuneration type	Fixed remuneration	Variable remuneration	Cost reimbursement	Supplem. pension insurance	Other payments
Management Board of the Bank	**291**	**0**	**2**	**6**	**11**
- Sonja Anadolli, President	165	0	1	4	6
- Barbara Cerovšek Zupančič MSc, member	126	0	1	2	5
Supervisory Board of the Bank	**42**	**50**	**3**	**0**	**0**
- Peter Vrisk, President	14	13	0	0	0
- Marjan Janžekovič, Deputy President	8	13	1	0	0
- Ivan Lenart, member	8	10	1	0	0
- Nikolaj Maver, member	8	10	1	0	0
- Bernarda Babič, member (from 1 July 2016)	4	4	0	0	0
Supervisory Board/Board of Directors of subsidiaries	**0**	**24**	**0**	**0**	**0**
- Peter Vrisk, President	0	12	0	0	0
- Sonja Anadolli, Deputy President	0	12	0	0	0
Senior management in subsidiaries	**133**	**0**	**2**	**0**	**3**
- Srečko Korber, CEO	17	0	0	0	0
- Mojca Štajner, CEO	3	0	0	0	0
- Aleš Šabeder, CEO	113	0	2	0	3
TOTAL	**466**	**74**	**7**	**6**	**14**

The table shows the earnings of Management Board members of the Bank and subsidiaries, and of Supervisory Board members, pursuant to the requirement of Article 294 of the Slovenian Companies Act.

e) Remuneration of staff whose professional activities have a material impact on the risk profile, in 2016

Position/Remuneration type	Number of beneficiaries	Fixed earnings	Cost reimbursement	Insurance premiums	Other payments	Total
TOTAL REMUNERATION	**27**	**1,334**	**50**	**24**	**4**	**1,412**

4.32. Remuneration system and important business contacts

Remuneration system

The system of remuneration in the Group is based on the Remuneration Policy for Staff whose Professional Activities have a Material Impact on the Group's Risk Profile (hereafter: Remuneration Policy), which lays down the system of remuneration and performance bonuses for the categories of staff having a material impact on the Group's risk profile by virtue of performing their work tasks and assignments: either by being risk takers, or by cooperating in risk control, or by having control and supervision functions.

The necessary preconditions for variable pay are the Group's reporting a profit for the assessment period and its reaching and exceeding all basic objectives.

Important business contacts

A significant indirect business contact exists if a member of the Management Board or Supervisory Board, or their close family member, is a business partner, holder of a qualifying stake in Group companies, CEO or member of the senior management in a company or organisation that is in a business relationship with the Group. In this respect the Group promotes the culture of avoiding significant direct and indirect business contacts.
Pursuant to Article 88 of the Zban-2 and Section 8 of the Regulation (EU) No 575/2013, disclosures for 2016 are published on the Bank's website www.dbs.si.

4.33. Events after the statement of financial position date

In accordance with the financial restructuring agreement, the Bank will convert in 2017 a proportion of loans extended to Semenarna, to equity in this company.

5. CONTROLLING RISK IN THE GROUP

To the risks it is or could be exposed to in its line of business, the Group devotes special attention. For this purpose it has set up an independent risk management function, whose effectiveness is guaranteed by a transparent organisation structure and delimitation of competences. Risk is monitored by the Risk Management Section, which is in charge of, among other things, designing and updating individual strategies and policies of risk-taking and risk management, overseeing their implementation, continually improving the system of monitoring and controlling all major types of risk, and preparing in-house reports and reports for regulators. The Group has also set up an Asset and Liability Management Board (ALM Board) and a Supervisory Board Risk Committee, which – together with the Supervisory Board and senior management – promptly monitor the Group's exposure to risk, its risk profile and its risk appetite.

The common objective of risk-taking and risk-management strategies and policies is to prevent and limit losses due to individual risks. The risk-management strategy includes objectives and general guidelines for risk-taking and risk management for individual risks, and the responsibilities of the Supervisory Board, Management Board and senior management in the area of risk management. To measure exposure to different types of risk, the Group uses internal methodologies and approaches in addition to regulatory ones, which facilitates a close monitoring of risks and their management. The Group pursues the policy of taking on moderate risk.

The risks that the Group is exposed to are identified at the level of the Group, and the manner and intensity of their management depend on the risk profile of the Group and its environment. The Group's risk profile involves assessments of credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk, reputation risk, capital risk, profitability risk and elements of the control environment. For those risk and control environment elements that receive lower ratings, senior management has to propose actions to be taken with a view to improving the Group's risk profile, and implement them. The Group's risk profile is reviewed and updated once a year at a minimum, being discussed by the Management Board and the Supervisory Board.

In 2016 the Bank complied with the requirements of the capital accord and other requirements of the regulatory framework for banks. Risk management was additionally upgraded, especially the management of credit risk. The Group continued with the upgrade of its early warning system for increased credit risk for all customers, and carried out activities related to the implementation of IFRS 9. The Supervisory Board noted the Group risk profile and its risk-taking capacity, and promptly monitored its exposure to risks. All critical risk management internal acts were revised in 2016.

Under Directive 2013/36/EU (CRD IV) and Regulation 575/2013/EU (CRR), the controlling company DBS d. d. and the two subsidiaries DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. are included in prudential consolidation. Both subsidiaries had also been included in prudential consolidation under the previous legislation in force. Consistent with the provisions of Article 4 (1) and 4 (18) of the Regulation, DBS Nepremičnine d. o. o. is considered an ancillary services undertaking and therefore one of the financial sector entities under Article 4 (1) and 4 (27c) of the Regulation.

In addition to DBS d. d. and the two subsidiaries, DBS Leasing d. o. o. and DBS Nepremičnine d. o. o., regulatory consolidation also includes the subsidiaries DBS Adria d. o. o. and Semenarna Ljubljana, d. o. o., which are excluded from prudential consolidation per Article 19 of the Regulation. Notwithstanding their exclusion, the impact of their share of interest rate, liquidity and foreign exchange risk on the Group is estimated as negligible or, in any event, not greater than any similar exposure. Chapter 5 of this Annual Report was prepared using prudential consolidation data.

Group statement of financial position – comparison of regulatory and prudential consolidation as at 31 December 2016

in EUR thousand

Code	Items	Accounting consolidation 2016	Prudential consolidation 2016	Difference
1	Cash, balances at central banks, and sight deposits at banks	24,687	24,115	572
2	Available-for-sale financial assets	8,348	8,348	0
3	Loans and advances	607,481	607,506	(25)
	- Loans and advances to banks	5,100	5,100	0
	- Loans and advances to customers	599,627	601,485	(1,858)
	- Other financial assets	2,754	921	1,833
4	Held-to-maturity investments	140,941	140,941	0
5	Non-current assets held for sale, and discontinued operations	179	26	153
6	Property, plant and equipment	34,538	11,244	23,294
7	Investment property	26,442	26,442	0
8	Intangible assets	970	695	275
	Long-term equity participation in subsidiaries, associates and joint ventures	0	3,688	(3,688)
9	Income tax assets	6,076	5,625	451
	- Current tax assets	50	50	0
	- Deferred tax assets	6,026	5,575	451
10	Other assets	26,578	18,182	8,396
11	**TOTAL ASSETS** (from 1 to 10)	**876,240**	**846,812**	**29,428**
12	Financial liabilities measured at amortised cost	815,298	789,313	25,985
	- Deposits by banks and central banks	448	420	28
	- Deposits by customers	767,666	767,864	(198)
	- Borrowings from banks and central banks	25,692	5,758	19,934
	- Borrowings from customers	1,394	625	769
	- Subordinated liabilities	11,615	11,615	0
	- Other financial liabilities	8,483	3,031	5,452
13	Provisions	2,336	1,947	389
14	Income tax liabilities	1,218	66	1,152
	- Current tax liabilities	21	44	(23)
	- Deferred tax liabilities	1,197	629	568
15	Other liabilities	885	629	256
16	**TOTAL LIABILITIES** (from 12 to 15)	**819,737**	**791,955**	**27,782**
17	Share capital	17,811	17,811	0
18	Share premium	31,257	31,257	0
19	Accumulated other comprehensive income	(242)	(192)	(50)
20	Revenue reserves	4,504	4,504	0
21	Treasury shares	(657)	(645)	(12)
22	Retained earnings (including profit/loss for the year)	3,830	2,122	1,708
23	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 17 to 22)	**56,503**	**54,857**	**1,646**
24	TOTAL EQUITY (23)	56,503	54,857	1,646
25	**TOTAL EQUITY AND LIABILITIES** (16 + 24)	**876,240**	**846,812**	**29,428**

The Group is most exposed to credit risk in its operations, and additionally to market risk, interest rate risk, liquidity risk, operational risk and capital risk.

Credit risk

Credit risk is the risk that a borrower will cause a financial loss to the Group by failing to fully discharge an obligation when due without calling on collateral, for whatever reason, whether this obligation be of a financial nature or another contractual obligation. In line with its portfolio and its risk-taking and risk-management strategy, the Group takes into account that credit risk can potentially arise out of the Group's increased concentration of exposure. Credit risk management involves the timely and adequate detection, measurement, assessment, control, monitoring and reporting of credit risk. The objective is to ensure an adequate mechanism of risk-taking and managing credit risk across the Group. Such a mechanism has to reflect the Group's readiness and capacity to take on credit risk in compliance with regulatory demands, the regulatory framework for banks and regulatory capital requirements. The objectives and general guidelines on risk-taking and managing credit risk are laid down in the Group's Strategy of Risk-taking and Risk Management. The process of credit risk control involves looking at all the Group's risky on-balance sheet and off-balance sheet assets.

In order to control credit risk, the Group is dispersing its credit portfolio by increasing exposure to the retail sector, farmers and SMEs, and it is also improving the quality of collateral and its adequacy. Operations of debtors are regularly monitored; an aid in this is the early warning system for increased credit risk. Past due defaulting receivables are actively being collected, and in case of debtors who are capable of continuing their business operations if suitable mitigating measures are taken to help them, exposure is restructured.

Market risk

Market risk is the risk of decreased asset value or profitability due to adverse changes in market variables (prices, interest rates, foreign exchange rates). Market risk appears when the Group acts as market maker, if it trades or takes positions in bonds, shares, foreign currencies, commodities and derivatives. The Group has in place a proprietary methodology and policy for determining, measuring and managing market risk, and for determining the level of exposure. The Group's risk management policy for market risk is based on the current and expected market conditions, realised and planned financial data, valid regulations and existing risk management systems. With its methodology for measuring and managing market risk for trading positions in equities the Group operates its system of limits, the calculation of opportunity loss for a particular trading position as a basis for position stop-loss limits, and the calculation of value at risk (VaR) as a basis of the capital requirement for market risk. The Group has in place a system of limits to limit market risk, and the relevant committees, board and organisational units participate in discharging the function of market risk management as laid down in the Rules of Organisation.

Foreign exchange risk

Foreign exchange risk is present when the Group is directly or indirectly exposed to changes in currency exchange rates in global markets. In case of adverse global FX changes, the Group may witness losses in its domestic currency. Exposure to foreign exchange risk arises out of a mismatch between assets and liabilities in different currencies. It involves mainly the risk of an instrument's potential decreased value due to changes in one or several currencies. The Group pursues the policy of closed currency positions. Accordingly, individual currency positions are monitored daily and potential overruns are reported to decision makers in line with instructions.

Interest rate risk

Interest rate risk is the risk of loss (i.e. lower interest income, higher interest expenses, decreased value of investments, opportunity loss…) on interest-sensitive on-balance sheet and off-balance sheet positions due to a change in the level of market interest rates. Interest rate changes affect the Group's revenues and expenses as well as the value of individual items and thus the economic value of equity. The Group measures, manages, oversees and monitors interest rate risk in line with its Risk Assessment Methodology and its Policy of Risk-taking and Risk Management for Interest Rate Risk. For measuring the risk of interest rates changing, the Group uses a gap analysis to calculate the potential impacts of interest rate shock scenarios on net interest income and the sensitivity of the banking book's economic value. Interest rate risk is measured for the entire banking book, separately for different currencies and applied reference interest rates. The analysis also looks as the distribution of sight deposits consistent with an internal model.

Liquidity risk

Liquidity risk is the risk of providing sources of liquidity in cases of potential loss when the Group is unable to discharge all its matured liabilities or when, due to its inability to provide sufficient funds to settle its matured liabilities, the Group is forced to obtain liquidity at significantly higher costs. Liquidity management is a critical component of the Group's safe and prudent operations. A careful management of liquidity includes a prudent management and matching of assets and liabilities, both with respect to financing and cash flows, and with respect to their concentration. For this purpose, the Group has in place a Policy of Risk-taking and Risk Management for Liquidity Risk, which defines the methods and procedures for determining, measuring, controlling and monitoring liquidity risk, the objective of which is for the Group to be able to settle its due obligations in time. The policy is tailored to the Group's size, the nature, scope and complexity of its business, and the extent of acceptable risk levels.

Adequate cash inflows must be ensured to account for the expected (and potential) cash outflows. To this end the Group tests the adequacy of its disaster plan and regularly implements four liquidity stress scenarios every three months. The scenarios are detailed in the Methodology for Liquidity Stress Scenarios and Calculation of Liquidity Ratios. Based on the stress scenarios the Group calculates the maximum liquidity shortage for up to one month, which serves to determine the minimum level of unencumbered liquid assets. With a view to determining its structural liquidity position the Group also calculates certain liquidity ratios and monitors trends in selected structural liquidity ratios.

Operational risk

Operational risk is the risk of loss due to an inappropriate or unsuccessful implementation of internal processes, the human factor, system operations or external factors. It also includes IT risk and legal risk. The Group manages operational risk by recording and closely monitoring (loss) events associated with operational risk, by decreasing the frequency and impact of such loss events, by keeping the total amount of evaluated loss events at a minimum, and by regularly checking and updating its disaster recovery and business continuity plan. For this purpose, the Group has in place a Policy of Risk-taking and Risk Management for Operational Risk, which defines, among other things, the methods and procedures for determining, measuring, controlling, monitoring, reporting and mitigating exposure to operational risk. The policy is tailored to the Group's size, the nature, scope and complexity of its business, and the method for the calculation of capital requirements. Integrated into the reporting system for events associated with operational risk are measures to resolve such events and prevent repeat events. Reports of events associated with operational risk and of measures to resolve them are promptly submitted to the Management Board and Internal Audit, and quarterly also to the Operational Risk Committee. Operational risk control is also subject to an annual review by the Internal Audit Department.

Capital risk

A bank's capital risk is the risk that its capital may not be adequate and sufficient. The Group must always have at its disposal sufficient and adequate capital in terms of the services it provides and in terms of the risks it is, or could be, exposed to. Capital risk is associated with insufficient capital, with inadequate capital structure in relation to the volume and type of operations, or with difficulties in obtaining fresh capital. Capital risk is monitored on a monthly basis when the Group calculates the amount of capital, capital requirements and capital adequacy ratios. These calculations are regularly communicated to members of the ALM Board, and the Bank's Management Board and Supervisory Board are informed at least quarterly in the context of a comprehensive risk analysis. One of their tasks is to monitor the implementation of measures for ensuring the Group meets the capital adequacy ratios imposed by the legislation and the Bank of Slovenia. The Group uses several internal acts in the process of managing, controlling and mitigating capital risk, including the Strategy of Risk-taking and Risk Management, and the Policy of Risk-taking and Risk Management for Capital Risk.

5.1. Credit risk

The Group estimates its largest exposure to be associated with credit risk. Credit risk is determined and measured by analysing data on exposures causing credit risk. Factors taken into account are the classification of on-balance sheet and off-balance sheet assets, the amount of impairments against individual receivables, migrations among credit rating grades, operations and the financial standing of customers to which the Group has large exposure, late payments and non-performing exposures, the proportion of hedged receivables, diversification or concentration of the credit portfolio, concentration of received collateral and other important facts associated with credit risk. Risk reporting is based on regular and exceptional reports as laid down in the Risk Management Plan. The Group has in place processes fostering the production of a structured report on credit risk for various management levels. Results of these analyses are taken into account when forming the Strategy and Policy of Risk-taking and Risk Management for Credit Risk.

With a view to protecting itself from potential losses, the Group forms provisions and impairments. However, significant changes in the economy or in the health of a particular industry segment that represents a concentration in the credit portfolio can result in losses that are different from those determined on the date of the statement of financial position. The management therefore pursue a prudent credit risk management strategy.

The Group manages the level of credit risk it is willing to undertake by capping the amount of risk it is willing to take in relation to one borrower or group of borrowers, and by capping the amount of risk it is willing to take in relation to individual geographical and industry segments. These risks are regularly monitored and reviewed.

The portfolio exposed to credit risk includes on-balance sheet receivables (loans, debt securities, equity investment, interest, fee and commission, etc.) and off-balance sheet liabilities (guarantees, letters of credits, working capital loans, etc.) with companies, banks, financial institutions, the public sector, individuals and other customers.

Depending on the risk category of a borrower, as expressed by their credit rating, and the risk of a particular business, which is also influenced by the guarantees provided, the Group forms appropriate impairment provisions for credit risk. In order to reduce capital requirements for credit risk, the Group only accepted first-class and appropriate guarantees in 2016, consistent with regulations.

5.1.1. Measuring credit risk

(a) Loans and receivables

In 2016 the Group determined credit risk pursuant to the valid regulations. To this end it drew up its credit portfolio quality analyses, into which it included data on:

- migration of customers among credit rating classes,
- movements of relevant impairments,
- provisioning of impairments for individual types of credit exposure, and
- past due defaulting receivables and non-performing exposures.

More on forming provisions and impairments in Chapter 5.1.3.

(b) Debt securities

In assuming exposure to credit risk when buying debt securities in 2016, the Group used the classification into credit rating classes according to issuing states and other issuers, the kind used by i.e. Moody's or credit rating agencies of their level, whereby it specified the minimum acceptable credit rating limit for the respective securities.

5.1.2. Control over limiting credit risk, and guidelines on mitigating credit risk

The Group manages, limits and controls credit risk concentration wherever it is detected, especially in relation to individual customers and groups of customers, economy sectors, businesses and geographical regions.

Exposure to credit risk is managed with a system of limits, which stipulates the maximum acceptable credit risk limit. This risk is regularly monitored and examined. Limits of exposure are set for individual debtors, sectors, businesses and regions. The maximum possible total exposure of the Group towards a corporate customer is defined by the Risk Management Section. When the threshold of large exposure is greatly exceeded and in case of customers in a special relationship with the Bank, the proposed level of permissible exposure must also be approved by the Bank's Management Board and Supervisory Board. Limits of exposure are determined by considering the basic principles of banking, especially safety and liquidity.

(a) Collateral

The Group employs a variety of ways to mitigate credit risk pursuant to its Internal Policy on Collateral, which stipulates the acceptability of different types of collateral.

Internal rules on collateral define:
- types and extent of collateral accepted by the Group,
- minimum eligibility criteria that collateral must normally meet,
- methodology for determining the type and amount of, and the order of calling on collateral,
- methodology for verifying and monitoring collateral, and
- detecting and preventing risks associated with accepted collateral.

As a rule the Group will never fail to investigate a debtor's creditworthiness, even if exposure is collateralised. In agreeing on the type of collateral for an exposure, both the principles on credit risk reduction techniques and the principles on capital requirements should be adhered to, to the greatest extent possible.

The main types of collateral used by the Group are property as collateral and insurance covers, guarantees, bank deposits and assignments of claims. Personal collateral issuers are assessed for eligibility on the basis of their credit ratings, obtained using an internal methodology.

As a rule, the Group collateralises all loans. To reduce credit risk losses to the greatest extent possible, customers are asked to provide additional collateral as soon as signs of deterioration in their creditworthiness appear. Most collateral is property, evaluated according to appraisals by certified appraisers in compliance with the International Valuation Standards (IVS) or an internal methodology. We consider the value of such collateral to be evaluated adequately.

(b) Off-balance sheet commitments

Guarantees and letters of credit as well as unused loans granted represent the same credit risk for the Group as loans. The Group regularly monitors maturity dates of loan commitments, since especially long-term commitments represent a higher credit risk than short-term commitments.

5.1.3. Guidelines on forming impairments and provisions

Pursuant to the regulatory framework for banks and the provisions of the IFRS (particularly IAS 37 and IAS 39), the Group classifies financial assets and off-balance sheet commitments (hereafter: exposures) into groups according to their risk profile, and assesses the amount of expected losses associated with these exposures where necessary.

Exposures are classified as i) credit risk-free in which case expected losses are not assessed, and ii) credit risk-prone, in which case expected losses are assessed. Expected losses are normally assessed using i) the method of collective assessment for non-defaulted obligors, or ii) the method of individual assessment for defaulted obligors. On the basis of assessed expected losses the Group forms adequate impairments and provisions (hereafter: impairments). Exposures with high-quality collateral are not impaired and provisions are not formed for them.

Groups of exposures assigned into collective assessments of expected losses and required impairments are formed on the basis of similar credit risk characteristics. Expected losses are assessed according to groups of debtors and collateral, using an analysis of credit risk associated with the related exposures.

Loss given default (LGD) is calculated for at least one (the most representative) group of collateral, and for receivables without collateral (this group also includes receivables with types of collateral that are not taken into account in the calculation of LGD for the collateralised portion of the receivable).

The Group regularly examines the methodology for assessing credit risk losses, and the assumptions used in assessing losses.

Customers are grouped using an internal methodology, which is derived from the stipulations of the valid regulatory framework for assessing credit risk in banks. The set of criteria to be applied and the method for determining the credit rating will depend on the type of customer, the type and amount of the Group's exposure to the customer, and the available information on the customer's operations. A major factor affecting a credit rating is late payment of obligations to the Group. An exposure is past due if any of the amounts – whether the principal, interest or fees – are not paid on the due date, and it is past due with a threshold if past due days commence not later than on the first day when the past due exposure exceeds 2% of the drawn exposure to the debtor or EUR 50 thousand, but always amounts to more than EUR 200. Past due exposure is the past due portion of exposure.

The table below shows the shares of the Group's receivables for classification according to credit rating grades, and the shares of those for which impairments and provisions have been formed under IFRS:

		2016		2015
Credit rating grade	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)
1. A	75.3	0.0	72.3	0.1
2. B	10.2	1.5	9.7	1.4
3. C	1.7	6.4	1.1	6.9
4. D	0.0	69.8	0.0	66.2
5. E	0.0	98.8	0.0	99.6
6. P	12.8	28.7	16.8	23.7
	100.0	4.0	100.0	4.3

Total receivables for classification were down 8.3% in 2016 compared to 2015, and total impairments and provisions decreased by 15.2% as a result of successfully completed cases of restructuring, repayments received for non-performing exposures, and also due to the transfer of 100%-impaired receivables off the balance sheet and the write-off of unrecoverable receivables. At the year-end of 2016, the majority, i.e. 75.3%, of the Group's receivables for classification were given an A credit rating. The second largest group were individually impaired receivables from customers in category P, which represented 12.8% of all receivables for classification. Impairments and provisions were formed for the latter under IFRS on the basis of the amounts of collateral and expected future cash flows.

5.1.4. Loans and receivables

Consistent with its strategy, the Group focused on banking with the retail segment, farmers and SMEs, and groups with good credit ratings in 2016. Those customers were prioritised which, in addition to exhibiting creditworthiness, provided adequate collateral, so as to minimise the possible increase in the Group's exposure to credit risk.

(a) Loans and receivables non past due and not impaired, and impaired loans and receivables

		2016		2015
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	178,360	5,100	178,244	5,621
Impaired	422,439	0	482,374	0
Gross amounts	**632,412**	**5,100**	**660,646**	**5,621**
Less impairment allowance	(30,927)	0	(39,451)	0
Net amounts	**601,485**	**5,100**	**621,195**	**5,621**

The total value of loans and receivables in financial year 2016 decreased by 4.3% from 2015, with loans to banks and loans to customers both down. The reported loan loss provisions totalled EUR 30,927 thousand (2015: EUR 39,451 thousand). Changes in the group of individually impaired receivables are mainly the result of successfully completed cases of restructuring, repayments of non-performing exposures, and the transfer of receivables off the balance sheet or their being written off.

(b) Loans and receivables individually assessed as impaired

Loans and advances to customers (loans and receivables)

Individually impaired loans to customers and receivables from customers, without individually impaired loans to banks and before considering cash flows from collateral held by the Group, amount to EUR 103,459 thousand (2015: EUR 137,266 thousand). As opposed to 2015, exposure to micro, small and medium corporate customers decreased the most in 2016, by 26.2%, and exposure to large corporate customers was down 22.6%. Exposure to the retail segment decreased by 19.1% year-on-year, a result of the already mentioned repayments of non-performing exposures as well as the transfer of receivables off the balance sheet and their being written off.

The total amount of individually impaired loans and receivables according to categories, together with the fair value of their collateral that the Group holds as a guarantee, breaks down into:

2016	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	10,453	26,062	66,944	7,632	111,091
- Past due up to 15 days	4,252	20,323	14,199	0	38,774
- Past due 16 to 30 days	0	0	0	0	0
- Past due 31 to 90 days	169	0	328	0	497
- Past due over 90 days	6,032	5,739	52,417	0	64,188
Impairment charge	3,548	10,206	17,969	0	31,723
Fair value of collateral	16,005	13,144	72,745	0	101,894

* Micro, small and medium enterprises.

2015	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	12,916	33,687	90,663	13,999	151,265
Impairment charge	4,943	10,524	22,327	0	37,794
Fair value of collateral	16,732	19,133	92,453	0	128,318

* Micro, small and medium enterprises.

Loans and advances to banks (loans and receivables)

The total gross amount of loans to and receivables from banks as at 31 December 2016 totalled EUR 7,632 thousand (2015: EUR 13,999 thousand), whereby no individually impaired loans were reported.

(c) Restructured loans and receivables

Consistent with the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks and its stipulations on restructured receivables, the Group treats restructured financial assets as financial assets received – due to the debtor's inability to pay their debt under the initially agreed terms of the original loan agreement – under amended terms (by means of an additional agreement) or under a new loan agreement that stipulates a partial or full repayment of the original debt. Agreements with a restructuring clause also fall into this category. The criteria for identifying performing and non-performing exposures, and restructured and non-restructured exposures, the treatment and management of restructured exposures, restructuring measures for debtors and the reporting system in the Group are all governed by the internal Rules on Managing Non-performing and Restructured Exposures to Debtors.

The gross value of exposure for which a new agreement on repayment conditions was reached and which could otherwise have fallen due, amounted to a total of EUR 78,557 thousand as at 31 December 2016 (2015: EUR 91,563 thousand).

	2016	2015
Retail loans and receivables		
– Loans and advances	78,557	91,563
Total	**78,557**	**91,563**

5.1.5. Debt securities and bills

To assess the risk associated with debts the Group uses either its internal credit ratings for issuers or the credit ratings of Standard & Poor's, Moody's and Fitch. Owing to the system of limits, investments are made into debts with good ratings.

The table below shows the Group's exposure associated with its debt securities according to Standard & Poor's ratings, as at 31 December 2016 and 31 December 2015:

2016	Debt securities held to maturity	Debt securities held for trading	Debt securities available for sale	Total
A-	0	0	2,201	2,201
A	140,941	0	2,159	143,100
Total	**140,941**	**0**	**4,360**	**145,301**

2015	Debt securities held to maturity	Debt securities held for trading	Debt securities available for sale	Total
A-	157,090	42	5,853	162,985
Unlisted	0	0	4	4
Total	**157,090**	**42**	**5,857**	**162,989**

Both in 2016 and 2015 the largest proportion of our debts portfolio were Slovene state bonds, which totalled EUR 143 million (the year-end of 2015: EUR 159 million). The Group classified Republic of Slovenia bonds under held-to-maturity investments. The proportion of debt securities with higher ratings decreased in 2016, mainly the result of Republic of Slovenia treasury bills reaching maturity. The Group's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

5.1.6. Collateral acquired by prescription

In 2016 the Group acquired assets by calling on the collateral held as guarantee, namely:

	Carrying amount	
	2016	2015
Property	8,601	10,843
Total	**8,601**	**10,843**

Assets acquired by calling on the collateral held as guarantee is sold as soon as possible.

5.1.7. Breakdown of all exposure categories according to remaining maturity: up to 1 year and over 1 year

The table below gives the remaining maturities according to categories of exposure.

		Remaining maturity as at 31 December 2016			Remaining maturity as at 31 December 2015		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	46,856	298,037	344,893	155,823	208,322	364,145
02	Regional and local government	531	8,355	8,886	1,581	15,309	16,890
03	Public sector entities	3,731	7,421	11,152	21,213	8,602	29,815
06	Institutions	46,666	216	46,882	29,603	223	29,826
07	Corporate	21,642	14,903	36,545	22,343	17,978	40,321
08	Retail exposures	59,616	104,776	164,392	54,061	99,738	153,799
09	Secured by mortgages of immovable property	23,317	200,326	223,643	28,435	181,874	210,309
10	Exposures in default	28,661	8,656	37,317	37,950	25,293	63,243
11	Regulatory high risk categories	6,756	58	6,814	7,604	34	7,638
14	Investments in investment funds	2,702	0	2,702	2,699	0	2,699
15	Other exposure	19,290	386	19,676	41,078	323	41,401
16	Equity exposure	7,097	0	7,097	7,789	0	7,789
	As at 31 December	266,865	643,134	909,999	410,179	557,696	967,875

At the year-end of 2016, over 29.3% of the Group's exposure would mature within one year, and almost 70.7% in over one year. In terms of value, exposure decreased the most in terms of defaulting items, while it increased the most towards institutions and in terms of exposure secured with mortgages on residential property.

5.1.8. Capital requirements according to exposure categories

The Group calculates the capital requirement for credit risk according to the standardised approach. The ratings of an external credit rating agency are used to determine exposure towards the central government and central banks.

		2016		2015	
	Exposure category	Net exposure	Capital requirement	Net exposure	Capital requirement
01	Central government and central banks	344,893	622	364,145	617
02	Regional and local government	8,886	141	16,890	262
03	Public sector entities	11,152	740	29,815	2,269
06	Institutions	46,882	3,227	29,826	477
07	Corporate	36,545	2,199	40,321	2,481
08	Retail exposures	164,392	8,024	153,799	7,545
09	Secured by mortgages of immovable property	223,643	8,250	210,309	7,576
10	Exposures in default	37,317	3,809	63,243	6,130
11	Regulatory high risk categories	6,814	803	7,638	848
14	Investments in investment funds	2,702	28	2,699	12
15	Other exposure	19,676	963	41,401	2,696
16	Equity exposure	7,097	569	7,789	623
	As at 31 December	909,999	29,375	967,875	31,536

The capital requirement dynamics for credit risk followed the change in the structure of net exposure by category.

5.2. Market risk

The Group's exposure to market risk is low. Market risk exposure in 2016 primarily included exposure to interest rate risk due to Euribor changes and, to a lesser degree, foreign exchange risk. In any case, the Group pursues a policy of portfolio diversification and invests in highly liquid assets from countries with a high credit rating, avoiding investments with speculative-grade ratings.

The Group calculates the capital requirement for market risk under the standardised approach, pursuant to the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council. The table below shows that the Group had no market risk exposure at the year-end of 2016 and consequently did not have capital requirements for market risk.

	2016	2015
Equity instruments	0	35
Debt instruments	0	4
SUM OF CAPITAL REQUIREMENTS FOR MARKET RISK	**0**	**39**

Even though the Group had no market risk exposure as at 31 December 2016, a description of how such exposure is monitored, is presented below. The Group monitors market risk by means of:
- prompt data on trading positions, spending of limits and overdrafts, and exposure to different risks,
- prompt data on currency positions,
- daily reporting on securities trading,
- end-of day reporting on overdrafts, and
- monthly reporting on capital requirements for market risk.

Market risk management is based on a diversified system of limits (limits on equity and debt security positions, limits on exposure to individual types of issuers, limits of maximum possible loss, limits according to individual authorised persons, etc.), which the Group regularly reviews and adjusts, if necessary.

Due to the increased volatility of capital markets (compared to bond markets and money markets), the Group devotes special attention to its equity positions. To this end it has in place the additional „stop-loss" limit system for each position on both the domestic and foreign markets, which daily examines the set limits. Value-at-Risk is calculated over a time horizon (on a monthly basis in the reports to the ALM Board) for each position as well as for both sub-portfolios (domestic and foreign equities) and the joint portfolio, in order to detect any potential increased risk due to exposure to increased volatility.

With respect to the bond portfolio on the trading book, the Group calculates the time profile for each position and the related extent of exposure to loss in economic value in the event of an interest rate shock (so-called „basis point value"). The value of the average-duration bond portfolio on the trading book over a time horizon is also monitored. All these calculations are conducted once per month, and their results are included into the report to the ALM Board.

The rigorous system of limits, which requires that the securities portfolio be diversified and highly liquid as well as that issuers have good credit ratings, keeps the Group's appetite for assuming market risk at a low level.

The Group's exposure to market risk might potentially increase in the event of calling on collateral in credit deals and due to debt-to-equity swaps in case of non-performing debts.

5.2.1. Methods for measuring risk related to trading in trading portfolio equities

To measure and control market risk, the Group applies the Value-at-Risk method (VaR) for its equity trading portfolio. VaR measures the risk of loss on a specific portfolio of financial assets for a 10-day time horizon, with a 99% level of confidence. As at 31 December 2016 the Group had no equities in its equity trading portfolio.

5.2.2. Methods for measuring risk related to trading in trading portfolio debt securities

The Group measures these risks using Basis Point Value (BPV), which denotes the change in the market value of a trading book position, attributable to the parallel movement in the yield curve. BPV tells us how much value financial instruments will gain or lose depending on the market interest rate, i.e. change in yield. As at 31 December 2016 the Group had no debts in its bond trading portfolio.

5.2.3. Foreign exchange risk

Foreign exchange risk is monitored and managed on a daily basis. Limits of maximum acceptable exposures to foreign exchange risk are clearly defined and monitored daily.

The Financial Markets Section balances currency positions and exposure to foreign exchange risk by taking the following measures:
- spot and forward purchases and sales of foreign exchange in the interbank market,
- setting daily mean rates and exchange rates,
- entering into purchases and sales of foreign exchange with legal entities and individuals.

In 2016 the Group promptly balanced the differences between purchases and sales of foreign exchange, which were mainly the result of payment and foreign exchange transactions. Exposure towards financial instruments denominated in foreign currencies was very low and consistent with the set limits.

The tables below show assets and liabilities as at 31 December 2016 and 31 December 2015 according to currency:

FOREIGN EXCHANGE RISK as at 31 December 2016					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Cash, balances at central banks, and sight deposits at banks	21,199	192	2,140	584	24,115
Available-for-sale financial assets	8,348	0	0	0	8,348
Loans	603,067	2,278	1,631	530	607,506
- Loans to banks	2,292	2,278	0	530	5,100
- Loans to customers	599,969	0	1,516	0	601,485
- Other financial assets	921	0	0	0	921
Held-to-maturity investments	140,941	0	0	0	140,941
Non-current assets held for sale, and discontinued operations	26	0	0	0	26
Property, plant and equipment	11,244	0	0	0	11,244
Investment property	26,442	0	0	0	26,442
Intangible assets	695	0	0	0	695
Long-term equity participation in subsidiaries, associates and joint ventures	3,681	0	0	7	3,688
Income tax assets	5,625	0	0	0	5,625
- Current tax assets	39	0	0	0	39
- Deferred tax assets	5,575	0	0	0	5,575
Other assets	18,182	0	0	0	18,182
TOTAL ASSETS (1)	**839,450**	**2,470**	**3,771**	**1,121**	**846,812**
Financial liabilities measured at amortised cost	782,073	2,469	3,746	1,025	789,313
- Deposits by banks and central banks	420	0	0	0	420
- Deposits by customers	760,630	2,467	3,746	1,021	767,864
- Borrowings from banks and central banks	5,758	0	0	0	5,758
- Borrowings from customers	625	0	0	0	625
- Subordinated liabilities	11,615	0	0	0	11,615
- Other financial liabilities	3,025	2	0	4	3,031
Provisions	1,946	0	0	1	1,947
Income tax liabilities	66	0	0	0	66
- Current tax liabilities	22	0	0	0	22
- Deferred tax liabilities	44	0	0	0	44
Other liabilities	629	0	0	0	629
TOTAL LIABILITIES (2)	**784,714**	**2,469**	**3,746**	**1,026**	**791,955**
MISMATCH (1) less (2)	**54,736**	**1**	**25**	**95**	**54,857**
Off-balance sheet liabilities	**61,335**	**0**	**0**	**40**	**61,375**

FOREIGN EXCHANGE RISK as at 31 December 2015					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	886,621	2,405	3,098	1,042	893,166
Total liabilities	834,077	2,417	3,152	941	840,587
MISMATCH (1) less (2)	**52,544**	**(12)**	**(54)**	**101**	**52,579**
Off-balance sheet liabilities	**77,867**	**0**	**0**	**0**	**77,867**

As at 31 December 2016 the Group did not have capital requirements for foreign exchange risk, as its net currency position did not exceed 2% of the Group's capital.

5.2.4. Interest rate risk

The Group additionally monitors exposure to interest rate risk with reference to items in the banking book. It does this by using the methodology of interest rate sensitivity gap reports according to type of maturity and time periods relative to the following setting of interest rates (gap analysis). Interest rate gaps show the difference between the cash flows of interest-sensitive assets and interest-sensitive liabilities according to time periods. Reports on exposure to interest rate risk are reviewed by the Bank's ALM Board on a monthly basis, and quarterly by the Management Board and Supervisory Board in the context of a risk management analysis.

Measuring, monitoring and examining interest rate risk in the Group is kept separate from adopting decisions on banking positions, which prevents conflicts of interest. This is conducted by the Risk Management Section, which regularly monitors all activities in this area.

With the gap analysis the Group performs sensitivity tests to determine the effect of changes in market interest rates on the amount of net interest income in the following 12 months, as well as the exposure of the banking book economic value in the event of a standard parallel 200-basis-point interest rate shock. The latter result is used as the basis for computing the Group's additional capital requirement for interest rate risk under Pillar II; it is computed as the 6-month mean exposure of the banking book economic value assuming a standard interest rate shock.

For the purposes of managing interest rate risk on the banking book, the Group has in place a two-stage system of limits for each interest rate gap. The first stage is a position limit for each established gap, calculated using a proprietary methodology, while the second is a limit for the total exposure of the banking book economic value with the final risk limit set at 10% of the Group's capital.

According to the balance as at 31 December 2016 the Group had at its disposal an adequate amount of capital to offset the potential losses from interest rate risk. In the event of a sudden and unexpected parallel movement of the yield curve by 200 basis points, the effect of the changed interest rate never exceeded 10% of the value of capital.

The impact of the 200 basis points change in interest rates on the total exposure of the banking book economic value amounted to EUR 2,371 thousand as at 31 December 2016, which is 3.98% of regulatory capital (2015: EUR 4,685 thousand).

Interest income sensitivity to interest rate movements as at 31 December 2016:

Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	16,691		
One-time curve shift (+2%) - immediate shock	20,337	3,646	21.84%
One-time curve shift (-2%) - immediate shock	7,770	(8,921)	(53.45%)
Curve shift (+2%) - gradually over 12 months	18,552	1,861	11.15%
Curve shift (-2%) - gradually over 12 months	12,300	(4,391)	(26.31%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	25,515	8,824	52.87%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	9,021	(7,670)	(45.95%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	21,142	4,451	26.67%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	12,773	(3,918)	(23.47%)

* The scenario presupposes that the interest rate cannot be negative.

Assuming that the Group's investments and liabilities as at 31 December 2016 remained unchanged and held-to-maturity, and that the Group did not actively influence the structure of investments and liabilities in order to modify exposure to interest rate risk, a 2 percentage point drop in market interest rates (immediate shock) would cause an almost EUR 9 million decrease in net interest income over a one-year period (2015: just over EUR 10 million).

The following tables outline exposure to interest rate risk as at 31 December 2016 and 31 December 2015. Financial instruments are recorded at carrying amounts and categorised into time periods according to the subsequent change in interest rate or maturity.

INTEREST RATE RISK as at 31 December 2016									
Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash, balances at central banks, and sight deposits at banks	24,115	2	24,113	24,113	0	0	0	0	0
Available-for-sale financial assets	8,348	4,131	4,217	0	0	2,102	0	2,115	0
Loans	607,506	3,881	603,625	266,849	18,015	99,447	159,733	54,988	4,593
- Loans to banks	5,100	7	5,093	1,000	2,807	1,286	0	0	0
- Loans to customers	601,485	2,953	598,532	265,849	15,208	98,161	159,733	54,988	4,593
- Other financial assets	921	921	0	0	0	0	0	0	0
Held-to-maturity investments	140,941	2,915	138,026	0	0	0	20,981	34,979	82,066
Long-term equity participation in subsidiaries, associates and joint ventures	3,688	3,688	0	0	0	0	0	0	0
Other assets	18,182	18,182	0	0	0	0	0	0	0
TOTAL ASSETS	**802,780**	**32,799**	**769,981**	**290,962**	**18,015**	**101,549**	**180,714**	**92,082**	**86,659**
Financial liabilities measured at amortized cost	789,313	5,239	784,074	453,614	103,306	63,208	126,838	32,320	4,788
- Deposits by banks and central banks	420	0	420	420	0	0	0	0	0
- Deposits by customers	767,864	1,629	766,235	445,825	103,306	63,008	126,638	26,970	488
- Borrowings from banks and central banks	5,758	14	5,744	2,744	0	200	200	1,600	1,000
- Borrowings from customers	625	0	625	625	0	0	0	0	0
- Subordinated liabilities	11,615	565	11,050	4,000	0	0	0	3,750	3,300
- Other financial liabilities	3,031	3,031	0	0	0	0	0	0	0
Other liabilities	629	629	0	0	0	0	0	0	0
TOTAL LIABILITIES	**789,942**	**5,868**	**784,074**	**453,614**	**103,306**	**63,208**	**126,838**	**32,320**	**4,788**
Net exposure to interest rate risk	**12,838**	**26,931**	**(14,093)**	**(162,652)**	**(85,291)**	**38,341**	**53,876**	**59,762**	**81,871**

INTEREST RATE RISK as at 31 December 2015									
Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	858,531	46,089	812,442	367,357	73,879	111,980	167,567	64,120	27,539
Total liabilities	838,654	6,780	831,874	367,912	111,227	76,901	205,190	66,714	3,930
Net exposure to interest rate risk	**19,877**	**39,309**	**(19,432)**	**(555)**	**(37,348)**	**35,079**	**(37,623)**	**(2,594)**	**23,609**

The largest exposure as at 31 December 2016 was in euro, with exposures in other currencies negligible and immaterial. Interest rate risk in 2016 arose mainly out of the imbalance between the maturities of interest-rate-sensitive investments and liabilities, and out of the subsequent determination of interest rates. In 2017 the Group plans to continue matching interest rate gaps and maintain a low exposure to interest rate risk.

5.2.5. Average interest rates as at 31 December

		2016		2015
	EUR	USD	EUR	USD
Assets		%		%
Cash, balances at central banks, and sight deposits at banks	0.01	0.04	0.03	0.04
Loans to banks	0.53	0.30	0.99	0.55
Loans to customers	2.35	0.00	2.91	0.00
Investment securities - debt	2.99	0.00	2.76	0.00
Liabilities				
Deposits by banks and central banks	0.00	0.00	0.01	0.00
Borrowings from banks and central banks	0.76	0.00	0.15	0.00
Deposits by customers	0.20	0.01	0.44	0.01
Subordinated liabilities	6.19	0.00	6.14	0.00

5.3. Liquidity risk

The Group's liquidity situation depends on the set of activities for meeting required cash flows, and on the availability of liquid assets that at all times ensure that outstanding financial obligations can immediately be discharged. For this purpose the Group holds on its portfolio adequate amounts of cash and highly liquid securities that can be liquidated immediately and without loss in carrying value.

The Group maintains a diversified pool of liquidity reserves in the form of cash and other highly liquid assets that are free from encumbrances and available at any time. To this end the Group continually monitors the amount and composition of its liquidity reserves, preparing a list of all liquid assets, including what proportions can be collected and are encumbered or free from encumbrances.

The Group has in place a set of stress scenarios, which are applied to the current liquidity gaps on a monthly basis, as stipulated by future cash flows ordered according to contractual maturity. All stress test scenario outcomes have designated limits, with the critical limit being defined at one-month's survival. A critical outcome represents the minimum amount of the Group's liquidity reserves and spans the period from the first day of the analysis to the moment the cumulative liquidity gap turns negative and exceeds the Group's total unencumbered liquidity assets.

If a critical outcome is confirmed, the Risk Management Section informs the Treasury Division, which must present liquidity balancing measures and report them to the Liquidity Committee. The Bank Management Board, the Internal Audit Department and the Risk Management Section need to be informed of the recovery plan and its planned implementation.

Further, the Group monitors a wide array of interim liquidity trends and structural liquidity ratios. It has requisite limits designated for all values of the monitored ratios, and regularly examines them.

At least once a year the Group also stress tests the liquidity contingency plan using the liquidity shock scenario prepared by the Risk Management Section. On the basis of this scenario the Treasury Division prepares the Group's response, and diligently notes the duration and implementation of the simulated post-shock recovery process, including an estimate of potential financial consequences. The harmonised report on stress testing of the liquidity contingency plan is presented to the Liquidity Committee.

In 2016 the Group had at its disposal an adequate pool of liquidity reserves, which can be utilised to settle any liabilities as well as off-balance sheet liabilities. In addition, it has at its disposal adequate secondary liquidity (liquid debt securities, domestic loans eligible as collateral with the European Central Bank, etc.) which it could easily and efficiently liquidate and use in case of a liquidity stress event that compromised the daily system of liquidity management, such as e.g. an unexpected large-scale withdrawal of deposits.

All results of monitoring liquidity risk are reported to the Bank's ALM Board on a monthly basis, while the Management Board and Supervisory Board are presented with reports on exposure to liquidity risk each quarter in the context of a risk management analysis.

The following tables summarise the Group's exposure to liquidity risk as at 31 December 2016 and 31 December 2015. Financial instruments are recorded at undiscounted amounts according to remaining contractual maturity as at 31 December 2016, which in addition to the asset's carrying value includes expected future cash flows from interest.

LIQUIDITY RISK as at 31 December 2016							
Balance sheet item	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash, balances at central banks, and sight deposits at banks	24,115	0	0	0	0	0	24,115
Available-for-sale financial assets	0	0	0	2,400	0	6,085	8,485
Loans	43,668	9,806	26,075	89,900	209,784	299,299	678,532
- Loans to banks	1,000	2,809	1,293	0	0	0	5,102
- Loans to customers	41,922	6,997	24,782	89,900	209,784	299,299	672,684
- Other financial assets	746	0	0	0	0	0	746
Held-to-maturity investments	0	631	2,334	22,218	47,574	83,356	156,113
Long-term equity participation in subsidiaries, associates and joint ventures	0	0	0	0	0	3,688	3,688
Other assets	18,182	0	0	0	0	0	18,182
TOTAL ASSETS	**85,965**	**10,437**	**28,409**	**114,518**	**257,358**	**392,428**	**889,115**
Financial liabilities measured at amortized cost	448,768	104,032	64,814	128,928	39,424	7,932	793,898
- Deposits by banks and central banks	420	0	0	0	0	0	420
- Deposits by customers	445,724	103,657	63,432	127,378	28,124	560	768,875
- Borrowings from banks and central banks	14	43	1,267	1,220	2,669	1,233	6,446
- Borrowings from customers	0	0	71	208	392	0	671
- Subordinated liabilities	0	0	0	119	8,217	6,119	14,455
- Other financial liabilities	2,610	332	44	3	22	20	3,031
Other liabilities	480	16	78	13	35	7	629
TOTAL LIABILITIES	**449,248**	**104,048**	**64,892**	**128,941**	**39,459**	**7,939**	**794,527**
Net exposure to liquidity risk	**(363,283)**	**(93,611)**	**(36,483)**	**(14,423)**	**217,899**	**384,489**	**94,588**

LIQUIDITY RISK as at 31 December 2015							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	85,610	61,685	19,717	179,099	266,726	331,047	943,884
Total liabilities	352,724	112,413	81,997	209,705	80,215	8,667	845,721
Net exposure to liquidity risk	**(267,114)**	**(50,728)**	**(62,280)**	**(30,606)**	**186,511**	**322,380**	**98,163**

The liquidity gap for the demand bracket is indeed deeply in the negative, however, financial liabilities in this group include total sight deposits, and this despite the fact that central bank regulations stipulating the calculation of liquidity positions allow for a 60% stability of deposits. In simulating liquidity stress tests, the Group categorises sight deposits and demand deposits in the Sight time period according to their stability/instability calculated using an in-house model. Additionally, the simulation of liquidity stress tests also takes into account the actual and potential future cash flows based on an analysis of funds drawn from off-balance sheet arrangements, the actual share of repayments from loans, and the share of renewed deposits.

Based on the conducted analyses, the Group estimates that its off-balance sheet positions do not contribute particularly to its exposure to liquidity risk, which is why they were not included into the above table.

As at 31 December 2016 the Group had EUR 302 million of unencumbered liquidity reserves, i.e. of eligible assets available for use in ECB credit operations, which substantially exceeds liquidity shortages in case of shock scenarios.

In the future the Group will maintain the minimum required amount of liquid assets as estimated using stress scenarios, in the form of top-rated debt securities. In addition, attention will be devoted to the new banking liquidity regulation, especially to monitoring the LCR and NSFR and to meeting their required values.

5.4. Fair value of financial assets and liabilities

5.4.1. Financial assets not measured at fair value

					2016					2015
	Carrying amount				Fair value	Carrying amount				Fair value
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Assets										
Loans and advances to banks	5,100	0	0	5,100	5,100	5,621	0	0	5,621	5,621
Loans and advances to customers	599,627	0	0	602,187	602,187	620,211	0	0	620,211	620,211
Held-to-maturity debt securities	140,941	153,655	0	0	153,655	157,090	167,589	0	0	167,589
Total assets	**745,668**	**153,655**	**0**	**607,287**	**760,942**	**782,922**	**167,589**	**0**	**625,832**	**793,421**
Liabilities										
Deposits by banks	448	0	0	448	448	344	0	0	344	344
Deposits by customers	767,666	0	0	767,666	767,666	780,890	0	0	780,890	780,890
Borrowings from banks and central banks	25,692	0	0	25,692	25,692	59,358	0	0	59,358	59,358
Borrowings from customers	1,394	0	0	1,394	1,394	915	0	0	915	915
Subordinated liabilities	11,615	0	0	11,615	11,615	14,083	0	0	14,083	14,083
Total liabilities	**806,815**	**0**	**0**	**806,815**	**806,815**	**855,590**	**0**	**0**	**855,590**	**855,590**

(a) Loans and advances to banks

The estimated fair value of loans and advances to banks is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and remaining maturity. The fair value of loans to commercial banks is estimated to closely resemble their carrying amount. Fixed-rate credit operations are short-term, meaning the contractual interest rates do not differ considerably from end-of-year market interest rates, while the Group does not have any long-term loans to banks. This is why the fair value of loans to commercial banks is the same as their carrying amount.

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The fair value of loans to customers is estimated to closely resemble their carrying amount. Fixed-rate loans are mostly short-term, meaning the contractual interest rates do not differ considerably from end-of-year market interest rates, while long-term fixed-rate loans represent only a negligible share of total loans to customers.

(c) Held-to-maturity debt securities

Held-to-maturity debt securities are stated at amortised cost. Their fair value as at 31 December 2016 was calculated using market prices formed in the markets where they are listed.

(d) Deposits and borrowings

The Group's long-term debt has no market value. Fair value is estimated as the discounted amount of future cash flows, taking into account market interest rates that the Group would currently have to pay for new deposits with similar characteristics and the same remaining maturity. Since most borrowings are linked to changing market interest rates, the fair value of deposits does not substantially differ from their carrying amounts.

The fair value of sight deposits to the depository institution depends on the expectations of the timing and amounts of withdrawals of the existing balance, the level of prevailing interest rates with similar terms, the costs of servicing these deposits and the depository institution's – thus the Group's – own credit risk. This is especially important for sight deposits.

The estimated fair value of other deposits is based on discounted contractual cash flows using market interest rates that the Group would currently have to pay for new deposits with similar remaining maturity.

For deposits from banks and deposits from other customers there are no differences between carrying amount and fair value.

(e) Bonds

The Group's issued bonds are recognised at fair value. Fair value is calculated using the market price on the market where the bonds are listed on the balance sheet date.

5.4.2. Financial and non-financial assets measured at fair value

Financial instruments measured at fair value in the financial statements:

2016	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	0	**0**
Available-for-sale financial assets (Note 4.3. a)	0	0	8,348	**8,348**
Non-financial assets				
Investment property (Note 4.10. a)	0	0	26,442	**26,442**
Financial liabilities				
Financial liabilities held for trading	0	0	0	**0**

2015	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets held for trading (Note 4.2. a)	258	0	0	**258**
Available-for-sale financial assets (Note 4.3. a)	292	0	9,634	**9,926**
Non-financial assets				
Investment property (Note 4.10. a)	0	0	15,675	**15,675**
Financial liabilities				
Financial liabilities held for trading	0	0	0	**0**

The fair value of investments is measured at three levels:
Level 1: Level 1 includes investments into listed equity and debt securities whose fair value equals their market price, i.e. the last official closing price.

Level 2: Level 2 includes investments in unlisted debt securities and derivatives. Fair value for Level 2 investments is determined through an internal methodology. The value of unlisted debt securities for which fair value cannot be calculated even from external data sources is determined using the discounted value method. Unlisted mutual fund shares are measured at their net asset value, which is published daily. If a transaction is concluded in the market and thereafter a market price forms for a security previously measured according to the Bank's internal methodology, the security is restated at the market price.

Level 3: Level 3 includes unlisted equities (of the EUR 4 million of unlisted equities, EUR 2.7 million is the investment into the Bank Resolution Fund), bonds, receivables and payables associated with the purchase and sale of foreign exchange, and investment property at fair value. The valuation of equities that do not have quoted prices is based on market observables. Key parameters are compared with those of similar assets and liabilities traded in an active market, with the data coming from Bloomberg or another reliable source. In determining their fair value the Group applies the same internal methodologies as for Level 2 instruments. The fair value of investment property is determined on the basis of appraisal reports prepared by independent appraisers working in compliance with International Valuation Standards (IVS).

Level 3 – Available-for-sale financial assets – breakdown

	2016	2015
Equities		
Bank resolution fund	2,702	2,699
Equity investments at cost	1,285	1,374
Bonds		
Lithuania	2,202	3,330
NLB d. d., Ljubljana	0	4
Republic of Slovenia	2,159	2,227
TOTAL	**8,348**	**9,634**

Pursuant to the Bank Resolution Authority and Fund Act, the Group paid EUR 2.7 million into the Bank Resolution Fund in 2016. These assets are managed by the Bank of Slovenia consistent with the Regulation on the Investment Policy and Management Fees of the Bank Resolution Fund. The Bank of Slovenia sends regular monthly reports on the value of the investment, which serves as the basis for its valuation and which is why the Group categorises it into Level 3. The Group additionally categorises into Level 3 capital assets worth EUR 1.3 million for which market value does not exist and which are valued at cost, and EUR 4.4 million worth of bonds categorised as available-for-sale financial assets measured at fair value.

There were no transfer between different valuation levels in 2015 and 2016.

5.5. Managing operational risk

Regular reporting on (loss) events associated with operational risk has been in place since 1 April 2007. The Group has proprietary application support for systematic monitoring of loss events arising out of operational risk, which is regularly updated and upgraded. The new Resolution on Internal Governance, Management Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks allows each employee of the Group to report a (loss) event into the loss events database. 229 (loss) events associated with operational risk were reported in this manner in 2016, which is more than in 2015 when there were 149, and the realised net loss was also lower than in 2015. It totalled EUR 37.6 thousand in 2016 (2015: EUR 203.3 thousand), testifying to the fact that the Group's awareness of operational risk is increasing, pushing the related loss down. The total reported net loss was relatively low considering the capital requirements for operational risk.

Integrated into this system are measures to resolve operational risk events and prevent repeat events. Since the final quarter of 2010 operational risk (loss) events have been additionally monitored according to key risk indicators. Reports on operational risk (loss) events are promptly presented to the Bank's Management Board and Internal Audit Department, and the Operational Risk Committee is briefed on a quarterly basis.

The Group calculates and reports capital requirements for operational risk using the simple approach. The capital requirement for operational risk is calculated as the average over three years of the sum of net interest income and net non-interest income, minus extraordinary income, the result then multiplied with the weight of 15%. Using the said simple approach, the 2016 capital requirement for operational risk totalled EUR 4,137 thousand.

The Group also calculated the capital requirement for operational risk using the standardised approach in 2016. The calculation method is stipulated in Articles 317 and 318 of Regulation (EU) No 575/2013. For this purpose the Group divided its activities into eight business lines as follows: corporate finance (β factor is 18%), trading and sales (β factor is 18%), retail brokerage (β factor is 12%), commercial banking (β factor is 15%), retail banking (β factor is 12%), payment and settlement (β factor is 18%), agency services (β factor is 15%) and asset management (β factor is 12%).

The capital requirement for operational risk was calculated as the average over three years of the sum of annual capital requirements across all business lines. The annual capital requirement of each business line is equal to the product of the corresponding beta factor and the relevant indicator mapped to the respective business line. Using this approach, the Group's capital requirement for operational risk was lower by EUR 112.8 thousand from the one calculated under the simple approach.

5.6. Capital management

Capital management is a continuous process of determining and maintaining the sufficient scope and quality of capital. The Group must always have at its disposal an adequate amount of capital and capital adequacy, which is stipulated by law and depends on the scope and type of services performed by the Group as well as on the risks these services expose the Group to. In determining the amount and categories of capital, the Group abides by statutory provisions related to capital as stipulated since 1 January 2014 by the Regulation (CRR), the Directive (CRD), EBA guidelines and requirements of the Bank of Slovenia.

The Group's regulatory capital consists of tier I and tier II capital. Under the Regulation, tier I capital consists of common equity tier I and additional tier I capital. Common equity tier I includes: paid capital instruments meeting conditions for inclusion into common equity tier I, share premium, revenue reserves, retained earnings/loss, accumulated other comprehensive income, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences, as well as a special credit risk adjustment[1] and an adjustment for prudent valuation of financial assets measured at fair value in the banking and trading book[2]. The following constitute deductions from common equity tier 1 capital: loss, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences[3], special credit risk adjustment and adjustment for prudent valuation of financial assets measured at fair value in the banking and trading book.

The Group did not have additional tier I capital neither according to the balance as at 31 December 2016 nor as at 31 December 2015.

The Group's tier II capital consists of subordinated debt (subordinated liabilities with contractual maturities of 5 years and 1 day, or longer). The amount of subordinated debt included into tier II capital decreases on a straight-line basis over the final five years prior to maturity (i.e. prior to repayment).

Capital may never drop below the amount stipulated by the Slovenian Banking Act ZBan-1 and must always equal minimally the sum of minimum capital requirements.

[1] As required by the Bank of Slovenia, the Bank had to subsequently calculate special credit risk adjustments as early as for the financial year 2015, and include them in the calculation of regulatory capital for that year.
[2] It has been a capital deduction item since 2016.
[3] A transitional period applies to this deduction item, with 60% deduced in 2016, 40% in 2015, and 80% of the balance deduced in 2017.

The table below shows the calculation of the Group's capital and capital adequacy ratios.

		2016	2015
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES			
1	Capital instruments and the related share premium	17,811	17,811
	of which: instrument type 1	17,811	17,811
2	Retained earnings and revenue reserves	4,630	2,645
3	Accumulated other comprehensive income and other reserves	31,080	31,203
4	**Common equity tier I capital before regulatory adjustments**	**53,521**	**51,659**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS			
5	Additional fair value and credit risk adjustments	(320)	0
6	Intangible assets (deductions for associated tax liabilities)	(695)	(779)
7	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(1,479)	(1,100)
8	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(645)
9	Total regulatory adjustments to common equity tier I capital	(3,138)	(2,523)
10	Common equity tier I capital	50,382	49,135
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**50,382**	**49,135**
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS			
12	Capital instruments and the related share premium account	9,229	10,563
13	Tier II capital before regulatory adjustments	9,229	10,563
14	**TIER II CAPITAL**	**9,229**	**10,563**
15	**TOTAL CAPITAL (tier I + tier II)**	**59,611**	**59,699**
16	Total risk-weighted assets	418,898	446,037
CAPITAL RATIOS AND CAPITAL BUFFERS			
17	**Common equity tier I capital** (in %)	**12.03**	**11.02**
18	**Tier I capital** (in %)	**12.03**	**11.02**
19	**Total capital** (in %)	**14.23**	**13.38**
20	Common equity tier I capital that qualifies as capital buffer (in %)	12.03	11.02

The Group's regulatory capital as at 31 December 2016 amounted to EUR 59,611 thousand, a year-on-year decrease by EUR 88 thousand. The quality of capital structure improved at the year-end of 2016, the share of tier I capital having increased to 84.5% from 82.3% in 2015. Total capital requirements at Group level totalled EUR 33,512 thousand at the year-end of 2016, down EUR 2,172 thousand year-on-year. Capital requirements for credit risk decreased due to a smaller credit portfolio. In addition, the Group continued in 2016 with activities aimed at reducing capital requirements (sorting mortgages as to eligibility in order to reduce capital requirements, minding non-performing exposures, etc.). Exposure decreased the most in 2016 in terms of defaulting items. Because the reduction in capital requirements (especially for credit risk) was greater than the reduction in capital, the Group's capital adequacy ratio improved. The total capital ratio as at 31 December 2016 thus stood at 14.23%, up 0.85 of a percentage point year-on-year. Tier 1 capital ratio and common equity tier 1 capital ratio as at 31 December 2016 were 12.03%, up 1.01 of a percentage point year-on-year.

Given the Group's internal capital adequacy assessment, we estimate the reported capital adequacy ratio as appropriate for controlling the risk of potential losses. The Bank and the Group will continue to operate an adequate amount of capital to sustain their normal operations in the future. For 2016 the Bank of Slovenia imposed minimum capital adequacy ratios for the Group on the basis of the ICAAP/SREP process: the capital adequacy ratio of 13.1% (the same as in 2015) and the tier I capital adequacy ratio of 10.5% (in 2015 the target was 10.4%). At the year-end of 2016 the Group thus met all the capital adequacy ratios imposed by the Bank of Slovenia.

For 2017 the Bank of Slovenia imposed new minimum capital adequacy ratios for the Group and the Bank on the basis of the ICAAP/SREP process: the capital adequacy ratio of 12.75% and the tier I capital adequacy ratio of 11.5%.

The table below shows the reconciliation of the Group's regulatory capital to its balance sheet.

Code	Items	Prudential consolidation 2016	Inclusion into calculation of capital for the purpose of CA as at 31 December 2016	Full inclusion (without considering transitional provisions)	Note
1	Cash, balances at central banks, and sight deposits at banks	24,115			
2	Financial assets held for trading	0			
3	Available-for-sale financial assets	8,348	(8)	(8)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
4	Loans and advances	607,506			
	- Loans and advances to banks	5,100			
	- Loans and advances to customers	601,485			
	- Other financial assets	921			
5	Held-to-maturity investments	140,941			
6	Non-current assets held for sale, and discontinued operations	26			
7	Property, plant and equipment	11,244			
8	Investment property	26,442			
9	Intangible assets	695	(695)	(695)	deduction item Article 36 b - fully
	Long-term equity participation in subsidiaries, associates and joint ventures	3,688			
10	Income tax assets	5,625			
	- Current tax assets	50			
	- Deferred tax assets	5,575			
	Depending on future profitability and not arising out of temporary differences	2,464	(1,478)	(2,464)	deduction item Article 36 c - 60% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,111			
11	Other assets	18,182			
12	**TOTAL ASSETS** (from 1 to 11)	**846,812**			
13	Trading liabilities	0			
14	Financial liabilities measured at amortised cost	789,313			
	- Deposits by banks and central banks	420			
	- Deposits by customers	767,864			
	- Borrowings from banks and central banks	5,758			
	- Borrowings from customers	625			
	- Subordinated liabilities	11,615	9,229	9,229	included on the basis of Articles 62 and 63
	- Other financial liabilities	3,031			
15	Provisions	1,947			
16	Income tax liabilities	66			
	- Current tax liabilities	22			
	- Deferred tax liabilities	44			
17	Other liabilities	629			
18	**TOTAL LIABILITIES** (from 13 to 17)	**791,955**			
19	Share capital	17,811	17,811	17,811	fully included; Article 26
20	Share premium	31,257	31,257	31,257	fully included; Article 26
21	Accumulated other comprehensive income	(192)			
	From government debt securities	104	0	104	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	2	(1)	(2)	only 60% of unrealised losses included in 2016, Article 467 (transitional period)
	Other revaluation surpluses	(298)	(179)	(298)	only 60% of unrealised losses included in 2016, Article 467 (transitional period)
22	Revenue reserves	4,504	4,504	4,504	fully included; Article 26
23	Treasury shares	(645)	(645)	(645)	deduction item, Article 36 f - fully
24	Retained earnings (including profit/loss for the year)	1,996			
	Retained earnings	126	126	126	fully included; Article 26
	Profit for the period	1,996	1,996	1,996	conditions for inclusion not yet met
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**54,731**			
26	TOTAL EQUITY (25)	54,731			
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**846,686**			
			59,922		**Regulatory capital (sum of capital from SFP)**
			(311)	(311)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			59,611	**58,611**	**Regulatory capital**

5.7. Asset encumbrance

(a) Assets

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
				2016
	010	040	060	090
010 Assets of the reporting institution	**0**	**-**	**846,812**	**-**
030 Equities	0	0	3,987	3,787
040 Debt securities	0	0	145,302	158,015
120 Other assets	0	-	73,479	-

(b) Collateral received

	Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance
		2016
	010	040
130 Collateral received by the reporting institution	**0**	**0**
150 Equity instruments	0	0
160 Debt securities	0	0
230 Other collateral received	0	0
240 Own debt securities issued other than own covered bonds or ABSs	**0**	**0**

(c) Encumbered assets/collateral received and related liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		2016
	010	030
010 Carrying amount of selected financial liabilities	**0**	**0**

(d) Information on the importance of encumbrance

The Group’s encumbered assets include investments in debt securities available for sale or held to maturity, and non-marketable assets (loans to the state).

There are no encumbered assets in the pool of assets, because the Group has repaid all its liabilities.

Deželna banka Slovenije d. d.

Financial statements under International Financial Reporting Standards
for the year ended 31 December 2016

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management Board hereby approves the financial statements of Deželna banka Slovenije d. d. for the financial year ended 31 December 2016 (pages 122 to 125 of the Annual Report), along with the accounting principles used and notes to the financial statements (pages 126 to 185 of the Annual Report).

We hereby reaffirm our responsibility for the Annual Report, which is a true and fair presentation of the Bank's financial standing as at 31 December 2016, and for the results of its operations for the year ended on the same day.

The Bank's Management Board confirms that suitable accounting policies were consistently adhered to, and that accounting estimates were conducted in accordance with fair value. The financial statements were drawn up on the assumption of going concern and pursuant to the legislation and stipulations of International Financial Reporting Standards as adopted by the European Union.

The Management Board is responsible for the appropriate management of accounts, for the adoption of the measures required to safeguard company assets, and for the detection and prevention of fraud and other irregularities and illegal activities.

The Tax Authority may conduct a tax inspection of the current reporting period at any time within the following five years, and in this connection impose additional tax assessments and penalties. The Management Board knows of no circumstances that could give rise to a potential material liability in this regard.

BANK MANAGEMENT BOARD:

Member of the
Management Board
Barbara Cerovšek Zupančič MSc

President of the
Management Board
Sonja Anadolli

Ljubljana, 13 February 2017

INDEPENDENT AUDITOR'S REPORT

Deloitte Revizija d.o.o.
Dunajska cesta 165
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Slovenija

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INDEPENDENT AUDITOR'S REPORT
to the owners of DEŽELNA BANKA SLOVENIJE d.d.

Opinion

We have audited the accompanying financial statements of the company DEŽELNA BANKA SLOVENIJE d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. The Business Report was also reviewed.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the company DEŽELNA BANKA SLOVENIJE d.d. as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Information

The other information comprises the Business Report, which is an integral part of the Annual Report of the Company, and disclosures Risk and Capital Management in line with Regulation (EU) No 575/2013, which are an Appendix to the Annual Report, but does not include the financial statements and our auditor's report thereon Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Some other information which is a part of the Business Report has not been approved by the Supervisory Board by the date of this auditor's report and will be approved later; this information refers to the Supervisory Board Report, Risk Management Statement, and Corporate Governance Statement.

Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process. The Supervisory Board is responsible for overseeing the preparation of financial statements and for approving the audited Annual Report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. . Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organisation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With those charged with governance we communicate the planned scope and timing of the audit and significant findings from the audit, including significant deficiencies in internal control we have identified during our audit.

DELOITTE REVIZIJA d.o.o.

Anja Gorenc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 13 February 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

III. Financial statements as at 31 December 2016

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	Note	1-12 2016	1-12 2015
1	Interest income		19,704	26,143
2	Interest expense		3,152	6,472
3	**Net interest income** (1 - 2)	3.1.	**16,552**	**19,671**
4	Dividends	3.2.	9	6
5	Fee (commission) income		9,013	8,268
6	Fee (commission) expense		1,538	1,800
7	**Net fee (commission) income** (5 - 6)	3.3.	**7,475**	**6,468**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3.4.	35	208
9	Net gains/losses from financial assets and liabilities held for trading	3.5.	143	215
10	Foreign exchange translation	3.6.	15	155
11	Net gains/losses on derecognition of assets	3.7.	594	(115)
12	Other net operating gains/losses	3.8.	(1,356)	(480)
13	Administrative expenses	3.9.	15,988	15,534
14	Depreciation and amortisation	3.10.	1,237	1,396
15	Provisions	3.11.	18	298
16	Impairment charge	3.12.	3,282	6,482
17	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16)		**2,942**	**2,418**
18	Income tax	3.13.	486	404
19	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (17 - 18)		**2,456**	**2,014**
20	**PROFIT/LOSS FOR THE YEAR** (19)		**2,456**	**2,014**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	Note	1-12 2016	1-12 2015
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**2,456**	**2,014**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(309)**	**(664)**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1. + 3.2)	4.24.	**(167)**	**(9)**
3.1	Actuarial gains/losses on defined benefit pension plans		(182)	(10)
3.2	Income tax relating to components of items not be reclassified to profit or loss		15	1
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**(142)**	**(655)**
4.1	Gains/losses associated with available-for-sale financial assets (4.1.1 + 4.1.2)	4.3. b	(166)	(780)
4.1.1	Valuation gains/losses taken to equity		(166)	(450)
4.1.2	Transferred to profit/loss		0	(330)
4.2	Income tax relating to components of items that may be reclassified to profit or loss	4.20. c	24	125
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**2,147**	**1,350**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

in EUR thousand

Code	Items	Note	2016	2015
1	Cash, balances at central banks, and sight deposits at banks	4.1.	24,115	33,367
2	Financial assets held for trading	4.2.	0	258
3	Available-for-sale financial assets	4.3.	8,348	9,926
4	Loans and advances		604,631	627,052
	- Loans and advances to banks	4.4.	5,100	5,621
	- Loans and advances to customers	4.5.	598,785	621,036
	- Other financial assets	4.6.	746	395
5	Held-to-maturity investments	4.7.	140,941	157,090
6	Property, plant and equipment	4.8.	10,440	11,146
7	Investment property	4.9.	26,442	15,675
8	Intangible assets	4.10.	678	755
9	Long-term equity participation in subsidiaries, associates and joint ventures	4.11.	7,829	5,922
10	Income tax assets	4.12.	5,614	6,230
	- Current tax assets		39	395
	- Deferred tax assets		5,575	5,835
11	Other assets	4.13.	16,824	24,972
12	**TOTAL ASSETS** (from 1 to 11)		**845,862**	**892,393**
13	Financial liabilities measured at amortised cost		788,709	837,594
	- Deposits by banks and central banks	4.14.	420	309
	- Deposits by customers	4.15.	767,963	781,946
	- Borrowings from banks and central banks	4.16.	5,758	38,310
	- Subordinated liabilities	4.17.	11,615	14,083
	- Other financial liabilities	4.18.	2,953	2,946
14	Provisions	4.19.	1,941	1,776
15	Income tax liabilities	4.20.	66	133
	- Current tax liabilities		22	55
	- Deferred tax liabilities		44	78
16	Other liabilities	4.21.	454	345
17	**TOTAL LIABILITIES** (from 13 to 16)		**791,170**	**839,848**
18	Share capital	4.22.	17,811	17,811
19	Share premium	4.23.	31,257	31,257
20	Accumulated other comprehensive income	4.24.	(200)	109
21	Revenue reserves	4.25.	4,504	2,401
22	Treasury shares	4.26.	(645)	(645)
23	Retained earnings (including profit/loss for the year)	4.27.	1,965	1,612
24	**TOTAL EQUITY** (from 18 to 23)		**54,692**	**52,545**
25	**TOTAL EQUITY AND LIABILITIES** (17 + 24)		**845,862**	**892,393**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	**Total equity (from 3 to 8)**
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE PERIOD**	**17,811**	**31,257**	**109**	**2,401**	**1,612**	**(645)**	**52,545**
2	Comprehensive income for the year (net of tax)	0	0	(309)	0	2,456	0	**2,147**
3	Allocation of net profit to revenue reserves	0	0	0	2,103	(2,103)	0	**0**
4	**CLOSING BALANCE FOR THE PERIOD** (1 + 2 + 3)	**17,811**	**31,257**	**(200)**	**4,504**	**1,965**	**(645)**	**54,692**
5	**ACCUMULATED PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**1,965**	**0**	**1,965**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	**Total equity (from 3 to 8)**
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE PERIOD**	**15,786**	**28,915**	**773**	**940**	**1,074**	**(671)**	**46,817**
2	Comprehensive income for the year (net of tax)	0	0	(664)	0	2,014	0	**1,350**
3	Fresh capital subscribed (or paid)	2,025	2,342	0	0	0	0	**4,367**
4	Net repurchase/sale of treasury shares	0	0	0	(15)	0	26	**11**
5	Allocation of net profit to revenue reserves	0	0	0	1,476	(1,476)	0	**0**
6	**CLOSING BALANCE FOR THE PERIOD** (1 + 2 + 3 + 4 + 5)	**17,811**	**31,257**	**109**	**2,401**	**1,612**	**(645)**	**52,545**
7	**DISTRIBUTABLE PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**1,612**	**0**	**1,612**

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

in EUR thousand

Code	Items	2016	2015
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Interest received**	**22,010**	**30,608**
	Interest paid	(4,229)	(7,727)
	Dividends received	9	6
	Fee and commission received	8,929	8,330
	Fee and commission paid	(1,538)	(1,800)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	101	445
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	(38)	(20)
	Net trading income	138	161
	Cash payments to employees and suppliers	(16,275)	(16,673)
	Other income	391	513
	Other expenses	(1,956)	(1,082)
	Cash flows from operating activities before changes in operating assets and liabilities	**7,542**	**12,761**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**12,182**	**(4,178)**
	Net (increase)/decrease in financial assets held for trading	271	280
	Net (increase)/decrease in available-for-sale financial assets	1,376	11,200
	Net (increase)/decrease in loans and advances	3,074	(6,639)
	Net (increase)/decrease in other assets	7,461	(9,019)
c)	**Increases/(decreases) in operating liabilities**	**(42,467)**	**(3,770)**
	Net increase/(decrease) in liabilities with central bank	(30,400)	0
	Net increase/(decrease) in trading liabilities	3	(24)
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	(12,400)	72,687
	Net increase/(decrease) in issued debt securities measured at amortised cost	0	(72,351)
	Net increase/(decrease) in other liabilities	330	(4,082)
č)	**Cash flows from operating activities** (a + b + c)	**(22,743)**	**4,813**
d)	**Income taxes (paid)/received**	**(336)**	**(1,253)**
e)	**Net cash from operating activities** (č + d)	**(23,079)**	**3,560**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Investing inflows**	**80,588**	**33,462**
	Proceeds from sale of property, plant and equipment, and investment property	8,125	13
	Disposal of associates, joint ventures and subsidiaries	745	0
	Proceeds from sale of held-to-maturity investments	71,718	33,449
b)	**Investing outflows**	**(65,881)**	**(84,316)**
	(Purchase of property, plant and equipment, and investment property)	(376)	(343)
	(Purchase of intangible long-term assets)	(109)	(32)
	(Investments into associates, joint ventures and subsidiaries)	(2,036)	0
	(Purchase of held-to-maturity investments)	(63,360)	(83,941)
c)	**Net cash from investing activities** (a - b)	**14,707**	**(50,854)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Inflows from financing activities**	**500**	**9,843**
	Issue of subordinated liabilities	500	5,450
	Issue of shares and other equity instruments	0	4,367
	Disposal of treasury shares	0	26
b)	**Outflows from financing activities**	**(2,000)**	**(6,670)**
	(Repayment of subordinated liabilities)	(2,000)	(6,670)
c)	**Net cash from financing activities** (a - b)	**(1,500)**	**3,173**
D.	**Effects of exchange rates on cash and cash equivalents**	**98**	**174**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**(9,872)**	**(44,121)**
F.	**Opening balance of cash and cash equivalents** (Note 4.1. b)	**38,783**	**82,730**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 4.1. b)	**29,009**	**38,783**

The accompanying notes form an integral part of these financial statements.

The Management Board of Deželna banka Slovenije d. d. hereby approves the financial statements and the notes to the statements.

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Sonja Anadolli

Ljubljana, 13 February 2017

IV. Notes to the financial statements for 2016

1. GENERAL INFORMATION

Deželna banka Slovenije d. d. (hereafter: Bank) is a Slovene private limited company, with its business address Deželna banka Slovenije d. d., Kolodvorska 9, Ljubljana, Slovenia.

Deželna banka Slovenije d. d. owns four subsidiaries: DBS Leasing d. o. o. (hereafter: DBS Leasing), real estate company DBS Nepremičnine d. o. o. (hereafter: DBS Nepremičnine), seed-producer Semenarna Ljubljana, proizvodnja in trgovina, d. o. o. (hereafter: Semenarna), and real estate company DBS Adria d. o. o. (hereafter: DBS Adria). Consolidated financial statements are presented on pages 51–54 of the Annual Report.

Deželna banka Slovenije d. d. is no longer a public company under Article 99 of the Slovene Markets in Financial Instruments Act after its entire bond issue, which used to trade on the regulated market, matured in 2015. Its shares are not traded in any regulated market.

DBS Leasing is a universal leasing company engaged in financial leases of vehicles, equipment and real estate. DBS Nepremičnine is a company engaged in selling the Group's real estate, renting it out, and developing real estate projects. The core business of Semenarna is retail sale, wholesale and processing. DBS Adria is a company engaged in real estate activities.

In 2016 the consumer price index was up 0.5% (2015: –0.5%). From 1 January 2007 Slovenia's national currency has been the euro, which has thus also become the functional and presentation currency of the Bank's financial statements. All amounts in the financial statements and related notes are given in euro thousands, unless specified otherwise.

2. CRITICAL ACCOUNTING POLICIES

2.1. Basis for the presentation of financial statements

Financial statements have been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The Bank also prepared consolidated financial statements pursuant to the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), for the parent company and subsidiaries (Group).

The policies set out below have been consistently applied in the financial statements for all the years presented.

The preparation of financial statements under IFRS as adopted by the EU requires the use of certain critical accounting estimates, which influence the value of reported assets and liabilities, the disclosure of potential assets and liabilities on the reporting date, and the amount of income and expenditure in the reported period. It also requires the management to select accounting policies of the Bank according to its own judgement.

Changes in accounting policies

In financial year 2016 the Bank did not adopt or apply accounting policies different from those applied in previous periods which would have a material effect on the financial statements of the current year.

Amendments of standards and interpretations effective for the current reporting period

The following standards, amendments of the valid standards, and interpretations, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, apply to the current reporting period:

- *Amendments to IAS 1 „Presentation of Financial Statements"* – Disclosure Initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- *Amendments to IAS 16 „Property, Plant and Equipment" and IAS 41 „Agriculture"* – Agriculture: Bearer Plants, adopted by the EU on 23 November 2015 (effective for annual periods starting on or after 1 January 2016);
- *Amendments to different standards „Improvements of IFRS (2010–2012 cycle)"*, issued under the annual improvements of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), mainly eliminating inconsistencies and interpreting the text, adopted by the EU on 17 December 2014 (amendments are mandatory for annual periods starting on or after 1 February 2015);
- *Amendments to different standards „Improvements of IFRS (2012–2014 cycle)"*, issued under the annual improvements of IFRS (IFRS 5, IFRS 7, IFRS 19 and IAS 34), mainly eliminating inconsistencies and interpreting the text, adopted by the EU on 15 December 2015 (amendments are mandatory for annual periods starting on or after 1 January 2016).

Our adoption of these amendments and interpretations of the valid standards did not cause major changes in the Bank's financial statements.

Amendments of standards issued by the IASB and adopted by the EU; not yet effective

The following new standards and amendments of the valid standards, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, had already been issued but have not yet taken effect as at the date of these financial statements:

- *IFRS 9 „Financial Instruments"*, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- *IFRS 15 „Revenue from Contracts with Customers"* and amendments to IFRS 15 „Effective Date of IFRS 15', adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

New standards and amendments of the existing standards, issued by the IASB but not yet adopted by the EU

IFRS as adopted by the EU do currently not differ in any major respect from the regulations adopted by the IASB, with the exception of the following new standards and amendments of valid standards which on 31 December 2016 (the effective dates given below apply to the entire IFRS) were not yet approved for use in the EU:

- *IFRS 16 „Leases"* (effective for annual periods starting on or after 1 January 2019);
- *Amendments to IFRS 15 „Revenue from Contracts with Customers"* – Notes to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to IAS 12 „Income Taxes"* – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods starting on or after 1 January 2017);
- *Amendments to IAS 40 „Investment Property"* – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to different standards „Improvements of IFRS (2014–2016 cycle)"*, issued under the annual improvements of IFRS (IFRS 1, IFRS 12 and IAS 28), mainly eliminating inconsistencies and interpreting the text (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018);
- *IFRIC 22 „Foreign Currency Transactions and Advance Consideration"* (effective for annual periods beginning on or after 1 January 2018).

The Bank assumes that its adoption of the new standards and amendments of existing ones will not have a major impact on its financial statements over the initial period of use, except the adoption of IFRS 9, which is described below under Additional Details on Individual Standards, Their Amendments and Interpretations Which Could Have a Major Impact on Financial Statements in the Future.

Additional details on individual standards, their amendments and interpretations which could have a major impact on financial statements in the future

- *IFRS 9 „Financial Instruments"*, issued by the IASB on 24 July 2014, replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

  Classification and Measurement – IFRS 9 is introducing a new approach to the classification and measurement requirements for financial assets, depending on cash flow characteristics and the business model for managing a financial instrument. This new principle-based approach has replaced the existing rule-based requirements under the IAS 39. The new model also introduces a new expected loss impairment model for all financial instruments.

  Impairment – IFRS 9 brings a new method of impairment which requires an earlier recognition of expected credit losses. The new standard requires companies to recognise expected credit losses upon the financial instruments' first recognition, and to recognise expected losses earlier on for the entire period.

  Hedge Accounting – IFRS 9 introduces a significantly changed hedge accounting model that includes more specific disclosures of risk management activities. The new model represents a significant revamp of hedge accounting and aligns it more closely with risk management.

  Own Credit Risk – IFRS 9 eliminates the profit and loss instability caused by changes in credit risk associated with liabilities at fair value. The new accounting method prevents an impact on earnings by not permitting changes (decrease) in own credit risk on financial liabilities designated at fair value, to be subsequently reclassified to profit or loss.

Applying the new standard IFRS 9 „Financial Instruments"

The application of IFRS 9 will become mandatory for annual periods beginning on or after 1 January 2018. Application before this date is allowed. The Bank has not decided to apply this standard before the said date.

Estimated impact of the initial use of IFRS 9 on financial statements

The implementation of IFRS 9 will have a major impact on different areas of the Bank's operations. It will affect models, processes, systems, data, product assortment, customer segmentation and other. On account of the dimensions of IFRS 9 requirements and its impact on overall operations, the standard is being implemented step-by-step. Representatives of all relevant business lines are included in the step-by-step project implementation, including accounting, risk management, process support, business section, technology and IT. An implementation plan has been set for IFRS 9, with the progress of implementation being monitored.

The most significant changes caused by IFRS 9 will affect impairments of financial assets. The current impairment requirements are based on the IAS 39 incurred loss model, which will be replaced by the expected credit loss model as introduced by IFRS 9. Impairments are also expected under IFRS 9 for debt instruments, which the current IAS 39 classifies as held-to-maturity investments. The Bank is intensely working to implement IFRS 9, and it is our estimate that the impairments introduced as a result of the application of IFRS 9 will be somewhat higher as of 1 January 2018. How much impairments will in fact increase at the beginning of 2018 depends on the then credit portfolio quality and expected trends of macroeconomic indicators.

As at the date of the financial position of 31 December 2016, no sensible estimate of the impact of IFRS 9 can be made.

- *IFRS 15 „Revenue from Contracts with Customers"*, published by the IASB on 28 May 2014 (on 11 September 2015, the IASB changed the effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 it issued interpretations). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. It replaces IAS 18 „Revenues" and IAS 11 „Construction Contracts" and numerous other revenue-related interpretations. The standard is mandatory for all IFRS reporters and applies to all contracts with customers except for lease, financial instrument and insurance contracts. The core principle of the new standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is also improving disclosure of revenue and instructions for transactions that have not been fully dealt with so far (such as: revenue from services and changes to contracts), and better guidance for the recognition of multiple-element agreements. The standard will affect customers and may thus indirectly affect the Bank.
- *IFRS 16 „Leases"*, published by the IASB on 13 January 2016. Under IFRS 16, the lessee recognises the right to use an asset and liabilities under the lease. The right to use an asset is treated in a similar way to other non-financial assets and is, consequently, subject to amortisation. A lease obligation is initially measured at the current value of the lease paid during the lease period, discounted at the implicit interest rate if it can be determined immediately. If it cannot be determined immediately, the lessee must use the assumed lease interest rate. The same as with IAS 17, which was replaced by IFRS 16, the lessor shall classify each lease as an operating or finance lease, depending on its nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. The Bank will make the necessary adjustments in adopting the new standard.

2.2. Investments in subsidiaries

Subsidiaries

The Group has four subsidiaries. In November 2005 the Bank incorporated a subsidiary, DBS Leasing, in which it holds a 100% ownership stake. At the beginning of 2013 DBS Leasing incorporated a real estate company, DBS Nepremičnine, which in April 2013 the Bank purchased and became its 100% owner.

Following a debt-to-equity conversion in January 2014, the Bank acquired Semenarna and became its majority owner. After purchasing all its shares in June 2014, the Bank became its 100% owner. DBS Adria was incorporated in April 2014 and is 100%-owned by the Bank.

Investments in subsidiaries are measured at cost.

2.3. Critical accounting estimates

Certain assumptions and estimates are needed in preparing financial statements, which affect the amounts of assets and liabilities reported for the financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and receivables

The Bank's credit risk management includes monthly assessments of whether there is any objective evidence of impairment for each individually significant loan. If so, a detailed impairment is calculated to determine whether an impairment loss should be recognised in the income statement.

In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows of a portfolio of loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of a group of borrowers, or deteriorated economic conditions and circumstances. Future cash flows of a group of financial assets are estimated based on historical loss experience for assets with credit risk characteristics similar to those in the group. Individual estimates are based on the projected future cash flows, using all relevant information on the borrower's financial position and liquidity.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between loss estimates and actual loss experience.

Loans that were individually assessed for impairment and for which no signs of impairment exist are then grouped together with loans with similar credit risk characteristics, based on historical loss experience.

(b) Impairment of available-for-sale equity instruments

Available-for-sale equity instruments are impaired when their fair value has dropped substantially or over a prolonged period below their cost. The decision of what constitutes a substantial and prolonged drop is based on estimates. In making these estimates, the Bank takes into account, among other things, the normal share price volatility (fluctuations). Further signs of impairment also include evidence of the issuer's deteriorated financial position, deteriorated industry performance, changes in technology and in operations.

(c) Held-to-maturity investments

Pursuant to the guidelines of IAS 39, the Bank classifies into held-to-maturity investments its financial assets with fixed or determinable payments and fixed maturity. In making this classification, the Bank relies on its judgement, evaluating its intention and ability to hold such investments to maturity. Should the Bank fail to keep these investments to maturity (except in case of specific circumstances, such as if its sells an insignificant stake close to maturity), it will be required to reclassify the entire class as available-for-sale assets. In such an event, the investments would therefore have to be revalued to fair value.

(d) Fair value of investment property

The fair value of investment property reflects market conditions as at the date of the statement of financial position. The estimated value of investment property is based on mean value calculated using the comparable sales method, and on the income valuation approach.

(e) Impairment charge on investments in subsidiaries

In assessing impairments against its investments the Bank considers objective evidence of impairment and indications that an investment may be impaired. If any such indication exists, the Bank determines the impairment charge as the difference between the investments' carrying value and its recoverable amount. The recoverable amount is fair value less the cost of disposal, or value in use, whichever is higher, whereby value in use is the present value of the future cash flows expected to be derived from the respective investment, discounted at current market returns for similar financial assets. If future cash flows cannot be estimated, the impairment charge is calculated using the subsidiary net asset value method (asset accumulation method) or as the difference between the asset's carrying amount and the carrying amount of the subsidiary's equity, proportionate to participation in equity.

(f) Tax

The Bank is subject to income taxes only in Slovenia. To determine the amount of income tax payable, some estimates are required. The Bank recognises income tax and deferred tax liabilities based on estimates of whether it will have to settle them. Should the final tax outcome be different from the amounts recognised by the Bank, such differences will impact the income tax and deferred tax provisions in the respective period.

2.4. Segment reporting

As at 31 December 2016 the Bank has no issued securities traded on a regulated capital market, therefore it does not prepare segment reporting.

2.5. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank and its subsidiaries operate. The financial statements are presented in euros, which is the functional and presentation currency of the Bank and its subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates effective at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences in available-for-sale equities are recognised with valuation gains/losses in revaluation surplus in equity.

Income and expenses in foreign currency are translated into their euro-equivalent applying the exchange rates effective at the date of the transaction.

Gains and losses resulting from purchases and sales of foreign exchange are recognised in the income statement under foreign exchange translation.

2.6. Interest income and expense

Interest income and expense is recognised in the income statement for all instruments measured at amortised cost, using the effective rate method.

The effective rate method is a method of calculating financial assets' or liabilities' amortised cost and a method of allocating interest income and expense over a requisite period.

The effective interest rate is the interest rate used to precisely discount the estimated future cash flows for the entire period of the expected useful life of a financial instrument or for a shorter period when needed, up to the net current value of a financial asset or liability.

In calculating the effective interest rate the Bank must estimate cash flows taking into account all contractual conditions of the transaction in the relevant financial instrument, but cannot consider future credit losses. The calculation of the effective interest rate includes all paid amounts: instalments, fees, costs.

Once a financial asset or a group of similar financial assets has decreased as a result of impairment loss, interest income is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss and eliminated from interest income referring to the impaired financial asset. The Bank will halt the accrual of contractual interest and interest on arrears as well as costs of running non-performing loans and guarantees for non-performing assets if given the expected cash flow it no longer expects payment.

2.7. Fee and commission income and expense

Fee and commission is generally recognised when the service has been provided. Fee and commission for agency services in a transaction or for participation in the agency of a transaction for a third person is recognised when the transaction has been concluded. Fee and commission for portfolio management and other consultancy services is recognised on the basis of requisite service agreements when the services have been provided. Fee and commission for international and domestic payment transactions is recognised when the respective service has been provided. Fee and commission included into the calculation of the effective interest rate is recognised under interest income or expense.

2.8. Financial assets

The Bank classifies its financial assets into the following groups: financial instruments at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The management determines the classification of investments upon initial recognition.

(a) Financial instruments at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial instruments designated at fair value through profit or loss.

The Bank only holds financial assets held for trading.

(b) Loans and receivables

Loans and receivables are financial instruments with fixed or determinable payments that are not traded in an active market, other than: (a) those that are intended for sale in the short term, which are classified as held-for-trading, and those that are designated at fair value through profit or loss upon initial recognition; (b) those that are designated as available-for-sale upon initial recognition; or (c) those for which the holder may not recover the majority of its initial investment, for reasons other than credit deterioration.

(c) Held-to-maturity investments

Held-to-maturity investments are financial instruments with fixed or determinable payments and fixed maturity, which the Bank has the positive intention of holding to maturity. Should the Bank sell more than a negligible amount of held-to-maturity investments, the entire category would be re-classified under available-for-sale financial assets.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those the Bank intends to hold for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices of financial instruments.

(e) Measurement and recognition

Purchases and sales of financial instruments at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognised as at the date the transaction was concluded – the date on which the Bank committed to carry out the purchase or sale of the respective instrument. Derivatives are recognised on the trade date.

Financial assets, apart from financial instruments at fair value through profit or loss, are initially measured at fair value plus transaction costs. Financial assets carried at fair value through profit and loss are initially recognised at fair value, while the transaction costs are expensed in the income statement. A financial asset is derecognised when the contractual rights to cash flows have expired, or if all risks and benefits of the ownership of a financial asset are transferred. A financial liability is derecognised solely when the contractual obligation has been met, revoked or has lapsed.

Financial assets available-for-sale and financial assets at fair value through profit or loss are measured at fair value. Loans and receivables as well as held-to-maturity investments are measured at amortised cost applying the effective interest rate. Gains and losses from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is sold or impaired, at which time they are recognised in the income statement. Any cumulative gains or losses previously included in equity are recognised in the income statement.

Interest from the effective interest rate and exchange differences in monetary assets available-for-sale are recognised in the income statement. Dividends from available-for-sale financial assets are recognised in the income statement, upon the establishment of the holder's right to payment.

Fair values of financial instruments traded in an active market are based on market prices.

If a financial instrument is not traded in an active market, the Bank determines its fair value by using valuation models.

2.9. Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there exists a legal right to offset the amounts and the intention to either settle on a net basis or to realise the asset and settle the liability simultaneously.

2.10. Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events (or „loss events") that occurred after the initial recognition of the asset(s) and that event has had an impact on the estimated future cash flows of the financial asset or group of financial assets, which can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:
– delinquency in contractual payments of principal or interest,
– cash flow difficulties experienced by the borrower,
– breach of loan covenants or clauses,
– initiation of bankruptcy proceedings or compulsory composition,
– deterioration of a borrower's competitive position.

The Bank first assesses whether objective evidence of impairment exists for financial assets that are significant individually (the customer's total exposure exceeds 0.5% of the Bank's capital), and individually or collectively for financial assets that are not significant individually. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristic and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included into the collective assessment of impairment.

Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the loss amount is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the cash flow discount rate and measurement of impairment losses are determined with the current effective interest rate, contractually stipulated.

The calculation of the present value of the estimated future cash flows of collateralised financial assets reflects the anticipated cash flows that may result from foreclosure, decreased by the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective assessment of impairment, financial assets are classified into groups from A to E, on the basis of similar credit risk characteristics, especially on the basis of estimates of the future financial standing of the borrower, its capacity to ensure adequate cash inflows to promptly meet its future liabilities towards the Bank, the type and scope of collateral or off-balance sheet engagements towards a borrower, and the borrower's meeting its liabilities towards the Bank in past periods.

The requisite impairments for a group of financial assets that are evaluated collectively are estimated on the basis of historical loss experience for assets with similar credit risk characteristics. Actual losses are adjusted according to current data, which reflect the effects that had no influence on the period in which actual losses were incurred, and according to detached effects of past periods, which no longer exist. The Bank regularly reviews the adequacy of the methodology and estimates used for determining future cash flows.

Companies are classified into sub-groups according to the credit rating of each borrower. The Bank calculates the anticipated loss from credit risk for different sub-groups on the basis of an aggregate migration matrix and average rate of default for different sub-classes. The annual migration matrix shows the probability of the migration of customers between internal rating classes within one year. In estimating losses, both historical loss experience as well as factors reflecting the current situation are considered.

The Bank divides retail customers into two groups: households and private entrepreneurs, and farmers without a personal identification number. It further distributes both groups into sub-classes according to the credit rating of the financial asset or off-balance sheet commitment. The anticipated loss from credit risk for an individual sub-class is determined on the basis of the regularity of settling liabilities with the Bank.

The Bank does not impair or form provisions for sovereign exposure, central bank exposure, bank exposure and exposure with high-class collateral.

The Bank calculates the percentages of expected impairment losses from credit risk in the collective assessment of companies annually, or in case of substantially changed circumstances in the Bank and/or in the market, during the year as well.

The Bank regularly reviews the methodology and assumptions in assessing impairments. Impairment estimates must be adjusted to any changed circumstances in the Bank and/or the market and legislation.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the loss amount has been determined.

If the impairment amount decreases in the following period and this decrease is objectively related to an event that occurred after the impairment was recognised (such an event is for instance a borrower's improved credit rating), the initially recognised impairment losses are reversed through loan impairments, and the reversal is recognised in the income statement as income from the reversal of impairment.

(b) Available-for-sale financial assets

The Bank assesses at each date of the statement of financial position whether there is objective evidence that financial assets or a group of financial assets available-for-sale are impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the assets are impaired. If any such evidence of impairment exists for available-for-sale financial assets, the cumulative loss, which is recognised in equity – measured as the difference between estimated costs and current fair value, decreased by impairment losses recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement of available-for-sale equity instruments cannot be reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, impairment losses are reversed through the income statement.

2.11. Property, plant and equipment, and intangible assets

All property, plant and equipment as well as intangible assets are initially stated at cost. The cost of property, plant and equipment is composed of its purchasing price and all the costs that can be directly attributed to the asset.

Assessments are made each year whether there are indications that property, plant and equipment may be impaired. If any such indication exists, the Bank estimates the recoverable amount. If value in use exceeds the carrying value, assets are not impaired. If the assets carrying amount is higher than its estimated recoverable amount, the carrying amount is decreased to its recoverable amount. The recoverable amount is fair value less the cost of selling, or value in use, whichever is higher. After initial recognition, property, plant and equipment is measured at the cost model less depreciation.

The following are the annual depreciation and amortisation rates used:

	2016	2015
	%	%
Buildings	2.0-4.0	2.0-4.0
Computer equipment	20.0-30.0	20.0-30.0
Software	10.0-20.0	10.0-20.0
Motor vehicles	12.5-20.0	12.5-20.0
Other equipment	4.0-30.0	4.0-30.0

Intangible assets, which mainly include software, are stated in the statement of financial position at cost less depreciation and accumulated impairment losses.

Depreciation of intangible assets is provided on a straight-line basis. General software is amortised over five years, with dedicated software being amortised over ten.

Assets in the course of transfer or manufacture/implementation are not depreciated until they are available for use.

The Bank assesses the remaining value of assets upon each reporting period as well as their useful lives, and adjusts their values as appropriate.

Gains and losses incurred upon disposal of property, plant and equipment are determined by reference to the difference between their carrying amount and net profit upon disposal, and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred. Should these assets increase the Bank's future economic benefits, their carrying amount shall also recognise subsequent costs.

2.12. Investment property

Upon acquisition the Bank recognised investment property at cost, which includes the purchase price and all related costs.

After initial recognition, investment property was restated at fair value.

In determining the fair value of investment property, we used the discounted future gains method.

Fair value is based on market prices as at the date of the statement of financial position.

Investment property is assets not used directly by the Bank for its operations but held with the purpose of giving it into operating lease or selling at a later date. Any gain or loss arising from a change in fair value is recognised in the income statement. If there is a change in use due to the commencement of owner occupation, investment property is transferred to owner occupied property.

Assets received for repayment of claims are initially measured at fair value. After initial recognition the Bank measures assets received for repayment of claims at fair value, using the fair value method.

2.13. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is deemed to be met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets are classified as held for sale if the owner is committed to the sale and this commitment is stated in writing, whereupon the sale must be completed within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

2.14. Inventories

Inventories are classified under Other assets and consist of moveable and immovable property held for sale. They are recognised either at cost amounts or net realisable value, whichever is lower. An inventory unit is measured at cost, which comprises the purchase price, import duties and direct costs of purchase. The purchase price is reduced by trade discounts. The first-in, first-out method is used for inventories.

2.15. Leases

(a) The Bank is the lessee

All leases where the Bank is the lessee are operating leases. The Bank leases certain business premises and ATM venues. Payments made under operating leases are charged to the income statement proportionately over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor is recognised as an expense in the period of termination.

(b) The Bank is the lessor

The Bank gives business premises into operating lease. In case of assets given into operating lease, all payments made under operating leases constitute income generated from investment property, and are recognised in the income statement proportionate to the period of the lease agreement. Costs incurred in obtaining lease payments are recognised as costs. Initial direct costs incurred by the lessor in negotiating and agreeing an operating lease are added to the leased asset's book value and recognised as costs in the period of the lease on the same basis as lease income.

2.16. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise: cash and balances at central bank, loans to banks with less than three months' maturity from the date of acquisition, treasury bills and debt securities available-for-sale with less than three months' maturity from the date of acquisition.

2.17. Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow will be required to settle it, and a reliable estimate of the amount of the obligation can be made. Risks arising out of contingent liabilities and commitments are assessed similarly to risks arising out of loans. All increases in liabilities arising out of estimated expenses required to settle the liabilities under contractual terms, are included into provisions.

2.18. Provisions for severance pays and long-service awards

Pursuant to the Slovenian legislation, employees retire upon meeting certain predetermined criteria, whereupon they are entitled to severance pay, which is paid out in a single amount. Employees are likewise entitled to long-service awards upon every 10 years of employment.

Provisions have been made for long-service awards, severance pays upon retirement and other long-term benefits.

Provisions are measured as the current value of future cash flows. All gains and losses are recognised in the income statement, apart from actuarial gains and losses, which are included in the accumulated other comprehensive income.

2.19. Income tax

Taxation has been provided for in the income statement pursuant to the Slovenian legislation in force from time to time. The tax item in the income statement comprises current tax and deferred tax. Current tax is calculated on the basis of taxable profit for the year, applying the tax rates enacted at the date of the statement of financial position.

Corporate income tax is levied on taxable profits at the rate of 17%.

Pursuant to the Slovenian Corporate Income Tax Act, current corporate income tax is charged at the rate of 17% off the established tax base (in 2015: 17%).

Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets and deferred tax liabilities are measured at the tax rates that are reliably expected to be effective in the financial year in which deferred tax assets will be received and deferred tax liabilities settled, and are based on tax rates (and tax regulations) enacted at the date of the statement of financial position.

The most important temporary differences arise from tax loss, impairment of investments in subsidiaries, valuation of available-for-sale financial assets, and provisions. An estimation of the amount of taxable profit for the future period is made at least once a year.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary deductible differences can be utilised.

Deferred tax related to the revaluation of available-for-sale investments to fair value is recognised directly in equity and subsequently transferred to the income statement together with the deferred revaluation profit or loss.

Deferred tax liabilities are recognised on account of a revaluation of available-for-sale financial assets.

The competent tax office may conduct a tax inspection of the current accounting period any time within the following five years, and in this connection impose additional taxes and penalties. The Bank management knows of no circumstances that could give rise to additional liabilities in this regard.

2.20. Borrowings

Borrowings are initially recognised in the statement of financial position at the value of their issue proceeds net of transaction cost incurred. Borrowings are subsequently stated at amortised cost.

2.21. Capital

(a) Share issue costs

Additional costs that the Bank can directly attribute to the issue of new shares or options or a concluded transaction are shown in equity in their net amount as a direct deduction from equity (without the related amount of income tax).

(b) Dividends on ordinary shares

Dividends on ordinary shares are charged to equity in the period in which they are approved by the Bank’s owners.

Dividends for the year past are declared at the AGM after the date of the statement of financial position.

(c) Treasury shares

If the Bank purchases treasury shares, the consideration paid is deducted from total shareholders’ equity. Where such shares are subsequently sold, any consideration received is included in shareholders’ equity.

2.22. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make agreed payments to reimburse the contract holder for a loss it incurs due to a borrower's defaulting. The Bank issues such financial guarantees to other banks, financial institutions and other customers to secure loans, limits and other banking facilities.

Financial guarantee contracts are initially recognised at fair value plus the fee received. Fee income is recognised in the income statement on a straight-line basis, over the entire term of the financial guarantee contract. The Bank subsequently recognises them at the higher of the initial measurements less fee income received, on a straight-line basis over the entire term of the financial guarantee contract and less the best estimate of the expenditure required to settle the obligation under the financial guarantee as at the reporting date. These estimates are based on the historical cost convention and experience in similar business, as well as the management's judgement.

2.23. Fiduciary activities

The Bank offers its customers, corporate as well as retail, the services of asset management and the services of lending under authorisation. For these services, customers are charged a fee. Details are explained in Note 4.29 a. These assets are not included into the Bank's statement of financial position.

3. NOTES TO THE INCOME STATEMENT

3.1. Interest income and expense

	2016	2015
Interest income		
Financial assets held for trading	1	6
Available-for-sale financial assets	190	606
Loans to banks	29	13
Loans to the central bank	1	3
Loans to customers	16,400	22,461
Held-to-maturity investments	3,079	3,046
Other financial assets	4	8
TOTAL	**19,704**	**26,143**
Interest expense		
Deposits by banks and borrowings from banks	66	166
Borrowings from banks and central bank	24	50
Deposits by customers	2,300	4,907
Bonds	0	522
Certificates of deposit	128	202
Subordinated liabilities	244	296
Subordinated deposits and loans	336	291
Other liabilities	54	38
TOTAL	**3,152**	**6,472**
NET INTEREST INCOME	**16,552**	**19,671**

3.2. Dividends

	2016	2015
Dividends on available-for-sale financial assets	9	6
TOTAL	**9**	**6**

3.3. Fee and commission income and expense

	2016	2015
Fee and commission income		
Payment transactions	4,449	3,708
Agency services	163	147
Administrative services	3,434	3,477
Guarantees issued	369	492
Securities trading	237	123
Services to subsidiaries	12	8
Credit operations	349	313
TOTAL	**9,013**	**8,268**
Fee and commission expense		
Banking services	756	744
Securities trading	120	93
Payment transactions	656	597
Republic of Slovenia guarantee for issued bonds	0	352
Other services	6	14
TOTAL	**1,538**	**1,800**
NET FEE AND COMMISSION INCOME	**7,475**	**6,468**

3.4. Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss

	2016	2015
Realised gains/losses from available-for-sale financial assets	**48**	**331**
Gains from available-for-sale financial assets	48	331
Realised net gains/losses on loans	24	(104)
Gains on loans (financial lease and other financial assets included)	52	113
Losses on loans (financial lease and other financial assets included)	28	217
Realised net gains/losses from financial liabilities measured at cost	(37)	(19)
Gains from financial liabilities measured at amortised cost	1	1
Losses from financial liabilities measured at amortised cost	38	20
REALISED GAINS/LOSSES	**35**	**208**

Gains from available-for-sale financial assets were realised in 2016 in the amount of EUR 48 thousand, a result of sold equities (2015: EUR 0 from the sale of equities).

3.5. Net gains/losses from financial assets and liabilities held for trading

	2016	2015
Net gains/losses from trading in equity instruments	2	7
Net gains/losses from trading in debt securities	0	(3)
Net gains/losses from foreign exchange trading	149	153
Net gains/losses from derivatives held for trading	(8)	58
TOTAL	**143**	**215**

3.6. Foreign exchange translation

	2016	2015
Positive translation differences	1,141	1,783
Negative translation differences	1,126	1,628
TOTAL	**15**	**155**

3.7. Net gains/losses on derecognition of assets

	2016	2015
Gains		
- Derecognition of property, plant and equipment	2	55
- Derecognition of investment property	296	0
- Derecognition of other assets, apart from assets held for sale	370	0
TOTAL	**668**	**55**
Losses		
- Derecognition of property, plant and equipment	0	28
- Derecognition of investment property	0	18
- Derecognition of other assets, apart from assets held for sale	74	124
TOTAL	**74**	**170**
TOTAL GAINS/LOSSES	**594**	**(115)**

3.8. Other net operating gains/losses

	2016	2015
Gains		
Income from non-banking services	31	25
Leases and rents (Note 4.9. b)	161	120
Denationalisation income	261	256
Other	147	201
TOTAL	**600**	**602**
Losses		
Taxes	11	7
Contributions	115	103
Membership fees and similar	98	87
Financial services tax	819	774
Deposit guarantee scheme	839	0
Bank resolution fund	20	50
Other operating expenses	54	61
TOTAL	**1,956**	**1,082**
OTHER NET OPERATING GAINS/LOSSES	**(1,356)**	**(480)**

Denationalisation income refers to assets received from denationalisation procedures. Initially these assets are recognised at fair value.

Denationalisation acquisitions by asset type

			2016			2015
	Income	Expense	**Total**	Income	Expense	**Total**
Buildings						
- Acquisitions - restitution in kind	208	0	**208**	0	0	**0**
- Damages, settlements	0	0	**0**	58	0	**58**
- Leases and rents	53	0	**53**	198	0	**198**
- Revaluation of investment property	0	7	**(7)**	0	159	**(159)**
- Legal and consulting services, and duties	0	11	**(11)**	0	9	**(9)**
TOTAL	**261**	**18**	**243**	**256**	**168**	**88**

The direct and indirect net denationalisation income in 2016 amounted to a total of EUR 243 thousand (2015: EUR 88 thousand of net income).

3.9. Administrative expenses

	2016	2015
Employee benefits cost		
Gross wages	8,138	7,787
Social security contributions	591	569
Pension insurance contributions	727	693
Other contributions depending on gross wages	7	(6)
Severance pays and compensations	22	85
Other employee benefits cost	1,454	1,459
TOTAL	**10,939**	**10,587**
Overhead and administrative expenses		
Costs of material	467	416
Costs of services	4,582	4,531
TOTAL	**5,049**	**4,947**
TOTAL	**15,988**	**15,534**

Costs of services for 2016 also include EUR 50 thousand for auditing services.

3.10. Depreciation and amortisation

	2016	2015
Property, plant and equipment (Note 4.8.)	1,051	1,183
Intangible assets (Note 4.10.)	186	213
TOTAL	**1,237**	**1,396**

3.11. Provisions

	2016	2015
Net provisions for off-balance sheet liabilities	**(63)**	**240**
Expenses for created provisions (Note 4.19. d)	3,105	4,185
Income from released provisions (Note 4.19. d)	3,168	3,945
Net other provisions	**81**	**58**
Net provisions for pensions and other employee benefits	**81**	**67**
Expenses for created provisions	81	67
Net provisions for tax suits and other pending legal cases	**0**	**(10)**
Income from released provisions	0	10
Net provisions for other provisions	**0**	**1**
Expenses for created provisions	0	1
NET PROVISIONS	**18**	**298**

3.12. Impairment charge

	2016	2015
Net impairments of financial assets not measured at fair value through profit or loss	**2,562**	**3,834**
Net impairments of loans	**2,565**	**3,804**
Impairments of loans	11,956	15,830
Reversal of loan impairments	9,391	12,026
Net impairments of other financial assets	**(3)**	**30**
Impairments of other financial assets	153	100
Reversal of impairments of other financial assets	156	70
Net impairments of equity investments in subsidiaries	**108**	**1,047**
Impairment of equity investments in subsidiaries (Note 4.11.)	108	1,176
Reversal of impairment of equity investments in subsidiaries (Note 4.11.)	0	129
Net impairments of other assets	**612**	**1,601**
Net impairments of investment property	**238**	**216**
Impairment of investment property (Note 4.9. b)	772	365
Reversal of investment property impairments (Note 4.9. b)	534	149
Net impairments of other assets	**374**	**1,385**
Impairments of property inventories (Note 4.13. b)	374	1,385
NET IMPAIRMENTS	**3,282**	**6,482**

3.13. Income tax

	2016	2015
Income tax	220	259
Deferred tax (Note 4.20. d)	266	145
TOTAL	**486**	**404**
Profit/loss before tax	2,942	2,418
Tax under the 17% tax rate	500	411
Non-taxable income	(2)	(23)
Non-deductible expense	338	395
Tax reliefs	(350)	(379)
TOTAL	**486**	**404**
Effective tax rate (in %)	17	17

The last tax inspection was in 2005 for financial year 2004.

The competent Tax Office may conduct a tax inspection of the current accounting period any time within the following five years after the reported tax year, and in this connection impose additional taxation and penalties. The Bank management knows of no circumstances that could give rise to additional liabilities in this regard.

3.14. Earnings per share (EPS)

Basic EPS is calculated by dividing net profit and the weighted average number of issued ordinary shares:

	2016	2015
Net profit (in EUR thousand)	2,456	2,014
Weighted average number of ordinary shares	4,229,680	4,228,740
Basic and diluted earnings/loss per share (in EUR per share)	0.580659	0.476265

Basic EPS in 2016 amounts to EUR 0.580659 (2015: EUR 0.476265). The weighted average number of issued ordinary shares recorded in the central registry of the Central Securities Clearing Corporation (KDD) was 4,229,680 in 2016 (2015: 4,228,740).

The Bank's share book value as at 31 December 2016 was EUR 12.930433 (31 December 2015: EUR 12.422937). It is calculated as follows: share capital less treasury shares, divided by the number of shares in the KDD securities register, less treasury shares.

The Bank has not issued any financial instruments convertible into shares.

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

4.1. Cash, balances at central banks, and sight deposits at banks

a) Breakdown

	2016	2015
Cash		
Cash	7,577	7,644
Bank balances at central bank	12,209	15,640
Sight deposits at banks	4,329	10,083
TOTAL (Note 4.1. b)	**24,115**	**33,367**

The Bank has met its obligation regarding the minimum reserve on the settlement account at the central bank. The amount of minimum reserves is adjusted to the system of the European Central Bank (ECB). Its amount is calculated pursuant to regulations – 0% for: time deposits with agreed maturity of over 2 years, sight deposits with maturity of over 2 years, repurchase agreements and debt securities with agreed maturity of over 2 years; and 1% for: overnight deposits, deposits with agreed maturity of up to 2 years, sight deposits with maturity of up to 2 years and debt securities with agreed maturity of up to 2 years.

The Bank must ensure that the settlement account is credited on a daily basis with a specific amount calculated for each period. Minimum reserves for compliance period from 1 January to 31 December 2016 amounted to EUR 4,801 thousand on average per month, with excess reserves totalling a monthly EUR 9,145 thousand on average.

The annual interest rate for assets deposited on the minimum reserves account was 0.05% from 1 January to 15 March 2016, and 0.00% from 16 March to 31 December 2016. For excess assets deposited on the minimum reserves account, the annual interest rate was –0.30% from 1 January to 15 March 2016, and –0.40% from 16 March to 31 December 2016.

b) Movements

	As at 1 January 2016	Foreign exchange differences	Net increase/ (decrease)	As at 31 December 2016
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	33,367	26	(9,278)	24,115
Loans and advances to banks (Note 4.4. b)	5,416	72	(594)	4,894
TOTAL	**38,783**	**98**	**(9,872)**	**29,009**

4.2. Financial assets held for trading

a) Breakdown

	2016	2015
Equities		
- Listed	0	216
Bonds		
- Listed	0	42
TOTAL	**0**	**258**

b) Movements

	2016	2015
Equities		
As at 1 January	216	340
- Acquisition	0	205
- Revaluation	0	10
- Reclassification	(216)	(339)
As at 31 December	**0**	**216**
Debt securities		
As at 1 January	42	124
- Acquisition	0	9
- Sale/maturity	(42)	(88)
- Revaluation	0	(3)
As at 31 December	**0**	**42**
Loans*		
As at 1 January	0	19
- Increase	0	0
- Sale	0	(19)
As at 31 December	**0**	**0**
TOTAL	**0**	**258**

* Loans include receivables from the purchase and sale of foreign exchange.

4.3. Available-for-sale financial assets

a) Breakdown

	2016	2015
Equities		
- Unlisted	3,987	4,073
Bonds		
- Listed	4,361	5,853
TOTAL	**8,348**	**9,926**

The balance of available-for-sale securities decreased in 2016 by EUR 1,578 thousand, of which debt instruments were down EUR 1,492 thousand, shares and stakes in non-financial institutions at cost were down EUR 89 thousand, and the balance in the Bank Resolution Fund increased by EUR 3 thousand (2015: EUR 2,699 thousand).

b) Movements

	2016	2015
As at 1 January	9,926	22,409
Purchases	102	5,279
Debt-to-equity swap	608	0
Sale	(744)	(16,982)
Maturities	(1,426)	0
Margin	48	(330)
Fair value adjustment (Note 4.24.)	(166)	(450)
As at 31 December	**8,348**	**9,926**

4.4. Loans and advances to banks

a) Breakdown according to type

	2016	2015
Loans to the central bank	2,086	1,963
Loans to domestic banks	3,014	3,158
Loans to foreign banks	0	500
TOTAL	**5,100**	**5,621**

b) Breakdown according to maturity

	2016	2015
Short-term loans	4,894	5,416
Long-term loans	206	205
TOTAL	**5,100**	**5,621**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 4,894 thousand (2015: EUR 5,416 thousand) are recognised in the cash flow statement as cash equivalents (Note 4.1. b).

4.5. Loans and advances to customers

a) Breakdown according to type

	2016	2015
Loans and advances	608,892	636,201
Working capital loans	18,735	18,802
Revaluation allowance	(28,842)	(33,967)
TOTAL	**598,785**	**621,036**

b) Movements in revaluation allowance

	2016	2015
As at 1 January	33,967	87,043
Enhancements (through impairments)	11,956	15,830
Repayments (through impairments)	(9,391)	(12,026)
Reversed off-balance sheet impairments	695	0
Transferred off the balance sheet (no write-downs)	(4,146)	(43,647)
Write-downs	(2,255)	(12,296)
Suspended interest (balance sheet receivables)	(1,984)	(191)
Debt-to-equity swap	0	(746)
As at 31 December	**28,842**	**33,967**

In 2016, 100%-impaired provisions in the amount of EUR 4,146 thousand were transferred off the balance sheet (2015: EUR 43,647 thousand).

4.6. Other financial assets

a) Breakdown

	2016	2015
Trade receivables	50	55
Interest receivable	2	2
Fee and commission due	134	135
Other receivables	387	326
Retail receivables in the course of collection	286	0
Other prepayments and deferred income	0	60
Other financial assets revaluation allowance	(113)	(183)
TOTAL	**746**	**395**

b) Movements in revaluation allowance

	2016	2015
As at 1 January	183	156
Increases (through impairments)	153	100
Decreases (through impairments)	(156)	(70)
Transferred off the balance sheet	(57)	(11)
Write-downs	(10)	8
As at 31 December	**113**	**183**

4.7. Held-to-maturity investments

a) Breakdown

	2016	2015
Held-to-maturity debt securities		
Long-term government securities	140,941	157,090
TOTAL	**140,941**	**157,090**

b) Movements

	2016	2015
As at 1 January	157,090	107,133
Purchases	68,495	83,263
Maturities	(84,644)	(33,306)
As at 31 December	**140,941**	**157,090**

4.8. Property, plant and equipment

2016	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	12,542	3,204	11,314	34	0	27,094
Increases	0	0	0	0	377	377
Transfer from PPE under construction	0	225	53	99	(377)	0
Decreases	0	(146)	(8)	(36)	0	(190)
As at 31 December	12,542	3,283	11,359	97	0	27,281
Revaluation allowance						
As at 1 January	3,554	2,947	9,443	4	0	15,948
Decreases	0	(144)	(8)	(6)	0	(158)
Depreciation and amortisation	333	124	585	9	0	1,051
As at 31 December	3,887	2,927	10,020	7	0	16,841
Net carrying value						
As at 1 January	8,988	257	1,871	30	0	11,146
As at 31 December	8,655	356	1,339	90	0	10,440

The Bank holds no property, plant or equipment received as guarantee for liabilities or such with limited ownership rights.

2015	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	12,542	4,618	11,468	19	0	28,647
Increases	0	0	0	0	343	343
Transfer from PPE under construction	0	153	174	16	(343)	0
Decreases	0	(1,567)	(328)	(1)	0	(1,896)
As at 31 December	12,542	3,204	11,314	34	0	27,094
Revaluation allowance						
As at 1 January	3,220	4,362	9,049	2	0	16,633
Decreases	0	(1,564)	(303)	(1)	0	(1,868)
Depreciation and amortisation	334	149	697	3	0	1,183
As at 31 December	3,554	2,947	9,443	4	0	15,948
Net carrying value						
As at 1 January	9,322	256	2,419	17	0	12,014
As at 31 December	8,988	257	1,871	30	0	11,146

4.9. Investment property

a) Breakdown

	2016	2015
Long-term investments into investment property		
- Land	12,460	6,693
- Buildings	13,982	8,982
TOTAL	**26,442**	**15,675**

b) Movements

	2016	2015
As at 1 January	15,675	5,152
Increase	1,568	36
Transferred from inventories	12,741	10,733
Decrease	(3,304)	(30)
Enhancements (Note 3.12.)	534	149
Revaluation allowance (Note 3.12.)	(772)	(365)
As at 31 December	**26,442**	**15,675**

Operating lease contracts may be terminated during the lease period. A transfer of EUR 12,741 thousand was made from inventories to investment property in respect of property not sold quickly.

Investment property is categorised into Level 3 of the fair value hierarchy. In determining fair value, the comparable sales method is used. Fair value is determined on the basis of market prices data.

4.10. Intangible assets

			2016			2015
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	3,173	0	3,173	3,146	0	3,146
Increases	109	0	109	0	32	32
Decreases	0	0	0	(5)	0	(5)
Transfer from intangible assets under construction	0	0	0	32	(32)	0
As at 31 December	3,282	0	3,282	3,173	0	3,173
Revaluation allowance						
As at 1 January	2,418	0	2,418	2,210	0	2,210
Depreciation and amortisation	186	0	186	213	0	213
Decreases	0	0	0	(5)	0	(5)
As at 31 December	2,604	0	2,604	2,418	0	2,418
As at 1 January	**755**	**0**	**755**	**936**	**0**	**936**
As at 31 December	**678**	**0**	**678**	**755**	**0**	**755**

The Bank holds no intangible assets received as guarantee for liabilities, and holds no assets with limited ownership rights. Intangible assets do not include licences under lease.

4.11. Long-term equity investments in subsidiaries, associates and joint ventures

	2016	2015
Long-term equity investments in other domestic financial institutions		
As at 1 January	749	1,923
Capital increase	2,000	0
Impairments	(71)	(1,174)
As at 31 December	**2,678**	**749**
Long-term equity investments in domestic non-financial institutions		
As at 1 January	5,173	11,348
Increase	0	129
Impairments	(29)	0
Reduction in share capital	0	(6,304)
As at 31 December	**5,144**	**5,173**
Long-term equity investments in foreign non-financial institutions		
As at 1 January	0	3
Capital increase	15	0
Impairments	(8)	(3)
As at 31 December	**7**	**0**
TOTAL	**7,829**	**5,922**

Equity investments in subsidiaries totalled EUR 7,829 thousand at the end of 2016, up EUR 1,907 thousand from the beginning of the year. In December the Bank injected EUR 2,000 thousand of capital into the subsidiary DBS Leasing d. o. o. The investment was impaired at the year-end by EUR 72 thousand so that it totalled EUR 2,678 thousand at the end of 2016. Equity investment in DBS Nepremičnine d. o. o. was impaired by EUR 28 thousand, so that it totalled EUR 1,463 thousand at the year-end of 2016. Additional capital, of EUR 15 thousand, was also injected in DBS Adria d. o. o. The investment was impaired at the year-end by EUR 8 thousand so that it totalled EUR 7 thousand at the end of 2016. The equity investment in Semenarna Ljubljana, d. o. o., totalled EUR 3,681 thousand at the end of 2016.

4.12. Income tax assets

	2016	2015
Tax assets	39	395
Deferred tax assets (Note 4.20. b)	5,575	5,835
TOTAL	**5,614**	**6,230**

The Bank made EUR 22 thousand of monthly advance payments for income tax in 2016 due to the positive tax base for 2015. Outstanding tax loss amounts to EUR 22,785 thousand. Deferred tax assets were formed in the amount of EUR 7,925 thousand, impairments of deferred tax assets totalling EUR 2,350 thousand.

4.13. Other assets

a) Breakdown

	2016	2015
Accrued and short-term deferred costs	660	639
Long-term deferred operating costs	23	20
Property inventory (Note 4.13. b)	12,259	21,840
Equipment inventory	93	0
Stock of coins held for sale	151	149
Prepayments - construction work	0	225
Other prepayments	41	62
Other tax refund receivables	0	8
Advance suretyship, security receivables	2	131
Consideration receivable	3,594	1,896
Other	1	2
TOTAL	**16,824**	**24,972**

b) Movements in property inventories

	2016	2015
As at 1 January	21,840	14,230
Increase	9,399	21,585
Transferred to investment property	(12,733)	(10,482)
Decrease	(5,873)	(2,108)
Revaluation	(374)	(1,385)
As at 31 December	**12,259**	**21,840**

Impairment charges against property inventories amounted to EUR 374 thousand in 2016 (2015: EUR 1,385 thousand) (Note 3.12.).

4.14. Deposits by banks and central banks

	2016	2015
Sight deposits by banks	420	309
TOTAL	**420**	**309**

4.15. Deposits by customers

	2016	2015
Sight deposits	486,497	391,623
Short-term deposits	95,152	165,479
Long-term deposits	186,314	224,844
TOTAL	**767,963**	**781,946**

4.16. Borrowings from banks and central banks

	2016	2015
Long-term borrowings from banks	5,758	7,862
Long-term borrowings from central banks	0	30,448
TOTAL	**5,758**	**38,310**

4.17. Subordinated liabilities

a) Breakdown

	2016	2015
Subordinated liabilities		
- To banks	4,117	4,631
- To non-financial institutions	2,866	2,862
- To other financial institutions	4,102	6,082
- To households	530	508
TOTAL	**11,615**	**14,083**

	Date subscribed	Amount	Currency	Interest rate (%)	Maturity date
Subordinated liabilities					
	20. 12. 2012	2,058	EUR	6m Euribor + 6.00	20. 12. 2019
	20. 12. 2012	184	EUR	8.20	20. 12. 2019
	20. 12. 2012	162	EUR	8.20	20. 12. 2019
	20. 12. 2012	460	EUR	8.20	20. 12. 2019
	20. 12. 2012	276	EUR	8.20	20. 12. 2019
	23. 10. 2013	531	EUR	6.20	3. 11. 2020
	23. 10. 2013	53	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	96	EUR	6.20	3. 11. 2020
	23. 10. 2013	32	EUR	6.20	3. 11. 2020
	23. 10. 2013	106	EUR	6.20	3. 11. 2020
	30. 10. 2013	106	EUR	6.20	10. 11. 2020
	30. 10. 2013	711	EUR	6.20	10. 11. 2020
	30. 10. 2013	531	EUR	6.20	10. 11. 2020
	30. 10. 2013	32	EUR	6.20	10. 11. 2020
	30. 10. 2013	319	EUR	6.20	10. 11. 2020
	30. 10. 2013	74	EUR	6.20	10. 11. 2020
	29. 5. 2015	2,059	EUR	6m Euribor + 6.00	31. 5. 2022
	29. 9. 2015	105	EUR	4.70	30. 9. 2021
	29. 9. 2015	52	EUR	4.70	30. 9. 2021
	29. 9. 2015	742	EUR	6.00	30. 9. 2022
	29. 9. 2015	106	EUR	6.00	30. 9. 2022
	30. 9. 2015	530	EUR	6.00	30. 9. 2022
	9. 10. 2015	159	EUR	6.00	10. 10. 2025
	9. 10. 2015	530	EUR	6.00	10. 10. 2025
	9. 10. 2015	848	EUR	6.00	10. 10. 2025
	9. 10. 2015	583	EUR	6.00	10. 10. 2025
TOTAL		**11,615**			

Subordinated liabilities include subordinated deposits, loans and certificates of deposit eligible for inclusion into tier II capital consistent with the CRR (Note in Chapter 5 and in Section Risk and Capital Management). Subordinated debt was issued over the years in order to maintain the required capital adequacy.

Eight agreements with characteristics of subordinated debt matured in 2016, in the total value of EUR 2,500 thousand. The Bank did not enter into new agreements.

4.18. Other financial liabilities

	2016	2015
Profit sharing - dividend payments	6	6
Wages and salaries	512	525
Taxes and contributions	275	303
Suppliers	376	621
Other liabilities	924	848
Charges being collected	177	40
Accrued costs	511	487
Accrued expenses	91	107
Other	81	9
TOTAL	**2,953**	**2,946**

4.19. Provisions

a) Breakdown

	2016	2015
Provisions for pensions and similar payables to employees (Note 4.19. b and c)	1,428	1,199
Provisions for off-balance sheet liabilities (Note 4.19. d)	513	577
TOTAL	**1,941**	**1,776**

b) Provisions for pensions and similar payables to employees

	2016	2015
Provisions for severance pays	1,217	993
Provisions for long-service awards	211	206
TOTAL	**1,428**	**1,199**

The actuarial calculation of provisions for severance pays and long-service awards to employees included the following assumptions: average earnings growth in the Republic of Slovenia is expected to total an annual 2.2% in 2016 and 2017 and an annual 2.5% in subsequent years; the calculation of liabilities for severance pays takes into account an employee's period of employment; the selected discount factor is 1.02% annually. Assumptions on employment fluctuations and the company's related payables: it is assumed that employment fluctuation depends primarily on the employees age; the mortality rates used are from the Slovenian reference population mortality table for 2007; it is assumed that employees will exercise their right to retire upon reaching their full retirement age, and therefore the employer will not incur liabilities for long-service awards projected to fall due at a later date.

c) Movements in provisions for pensions and similar payables to employees

	2016	2015
As at 1 January	1,199	1,182
Provisions made during the year	264	75
Provisions utilised during the year	(35)	(58)
As at 31 December	**1,428**	**1,199**

Recalculated payables to employees total EUR 1,428 thousand, for which we had to form as at 31 December 2016 additional provisions of EUR 264 thousand. The increase in payables for severance pays comprising EUR 60 thousand of costs for the period and EUR 21 thousand of long-service awards, was charged to profit and loss, while the proportion associated with the actuarial deficit for severance pays, totalling EUR 167 thousand, was charged to comprehensive income (Note 4.24.).

d) Movements in provisions for off-balance sheet liabilities

	2016	2015
As at 1 January	577	336
Provisions made during the year (Note 3.11.)	3,105	4,185
Provisions released during the year (Note 3.11.)	(3,169)	(3,944)
As at 31 December	**513**	**577**

e) Movements in provisions for pending legal cases

	2016	2015
As at 1 January	0	10
Provisions released during the year	0	(10)
As at 31 December	**0**	**0**

f) Movements in other provisions

	2016	2015
As at 1 January	0	25
Provisions released during the year	0	(25)
As at 31 December	**0**	**0**

4.20. Tax liabilities

a) Breakdown

	2016	2015
Current tax liabilities	22	55
Deferred tax liabilities	44	78
TOTAL	**66**	**133**

Pursuant to the Corporate Income Tax Act (ZDDPO-2), the income tax payable for 2016, applying the 17% tax rate, amounts to EUR 66 thousand.

b) Deferred tax liabilities and assets according to statement of financial position items

	2016	2015
1. Deferred tax liabilities		
Available-for-sale financial assets	44	78
TOTAL	**44**	**78**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	152	136
Available-for-sale financial assets	16	26
Impairment of securities	190	190
Impairment of equity participation	2,753	2,734
Tax loss	2,464	2,749
TOTAL (Note 4.12.)	**5,575**	**5,835**
NET DEFERRED TAX (2 - 1)	**5,531**	**5,757**

Impairments of deferred tax assets in 2016 totalled EUR 830 thousand and refer to impairments of the equity investment, tax loss, employees and securities.

c) Movements in deferred taxes

	2016	2015
As at 1 January	5,757	5,776
Available-for-sale financial assets - fair value valuation (Note 4.24.)	24	125
Impairment of equity participation	19	178
Provisions for severance pays and long-service awards	16	(3)
Tax loss	(285)	(319)
As at 31 December	**5,531**	**5,757**

d) Deferred taxes in the income statement contain the following temporary differences

	2016	2015
Provisions for employee benefits	0	(4)
Tax loss	(285)	(319)
Impairment of equity participation	19	178
TOTAL (Note 3.13.)	**(266)**	**(145)**

Deferred tax assets and liabilities for 2016 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 19% (2016: 17%).

4.21. Other liabilities

a) Breakdown

	2016	2015
Payments received in advance	107	79
Taxes payable	290	193
Accruals	57	73
TOTAL	**454**	**345**

4.22. Share capital

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 31 December 2015/1 January 2016	4,268,248	17,811
As at 31 December 2016	**4,268,248**	**17,811**

The Bank's share capital is divided into 4,268,248 ordinary no par value shares of class A, of which 4,257,483 are recorded in the KDD central securities register. At the year-end of 2016 the Bank's share capital totals EUR 17,811,083.54.

b) Shareholders with over 5% of share capital

		2016
Shareholder	No. of shares	Stake in shareholders' equity in KDD
Kapitalska zadruga, z. b. o., Ljubljana	2,023,671	47.532
KD Kapital d. o. o., Ljubljana	377,181	8.859
KD Group d. d., Ljubljana	255,941	6.012
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2016, 318 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2015: 322), of which 102 were domestic companies, 211 were domestic individuals, and five were foreign entities. The number of the Bank's shareholders decreased by four in 2016.

4.23. Share premium

	2016	2015
As at 1 January	31,257	28,915
Share premium account	0	2,342
As at 31 December	**31,257**	**31,257**

4.24. Accumulated other comprehensive income

	2016	2015
As at 1 January	109	773
Items not to be reclassified to profit or loss	**(167)**	**(9)**
Actuarial gains/losses on defined benefit pension plans	(182)	(10)
Income tax relating to components of items not be reclassified to profit or loss	15	1
Items that may be reclassified to profit or loss	**(142)**	**(655)**
Available-for-sale financial assets	(166)	(780)
Valuation gains/losses taken to equity (Note 4.3. b)	(166)	(450)
Transferred to profit/loss	0	(330)
Deferred taxes (Note 4.20. c)	24	125
As at 31 December	**(200)**	**109**

Items not restated in the income statements refer to the actuarial deficit for severance pays (Note 4.19. c).

4.25. Revenue reserves

a) Breakdown

	2016	2015
Reserves for treasury shares	645	645
Reserves under Statutes	1,163	671
Other revenue reserves	2,696	1,085
TOTAL	**4,504**	**2,401**

Pursuant to its Statutes, the Bank allocated 20% of the profit for the year, which amounts to EUR 492 thousand, to reserves under Statutes. Statutory and other revenue reserves can only be formed from profits for the year and retained earnings.

Share premium and statutory reserves can only be used up under the following terms:
1. if the total amount of share premium and statutory reserves is less than 10% of share capital, they can only be used to:
– cover net loss for the financial year, if it cannot be covered from retained earnings or other revenue reserves;
– cover retained loss, if it cannot be covered from net profit for the financial year or other revenue reserves;
2. if the total amount of these reserves is at least 10% of share capital, the surplus amounts of these reserves can be used to:
– increase share capital;
– cover net loss for the financial year, if it cannot be covered from retained earnings and if at the same time revenue reserves are not used for dividend payments to shareholders;
– cover retained loss, if it cannot be covered from net profit for the financial year and if at the same time revenue reserves are not used for dividend payments to shareholders.

Other revenue reserves cannot be used for dividend payments to shareholders or other entities.

b) Reserves for treasury shares

	2016	2015
As at 1 January	645	671
Reversals	0	(26)
As at 31 December	**645**	**645**

c) Reserves under Statutes

	2016	2015
As at 1 January	671	269
Transferred from net profit	492	402
As at 31 December	**1,163**	**671**

d) Other revenue reserves

	2016	2015
As at 1 January	1,085	0
Transferred from net profit	1,611	1,074
Positive effect from sale of treasury shares	0	11
As at 31 December	**2,696**	**1,085**

4.26. Treasury shares

	2016	2015
Repurchase of treasury shares - ordinary	(645)	(645)
TOTAL	**(645)**	**(645)**

Treasury shares were bought back due to: employee share remuneration, protection from hostile takeovers, and reasons from indents 1 and 2 of Article 247 (1) of the Companies Act.

4.27. Retained earnings (including net profit/loss for financial year)

	2016	2015
Net profit for the year	1,965	1,612
TOTAL	**1,965**	**1,612**

Profit for the year amounts to EUR 2,456 thousand. The Bank's distributable profit as at 31 December 2016 amounts to EUR 1,965 thousand; it consists of residual net profit for the year 2016 after the formation of statutory reserves totalling 20% of net profit. The appropriation of distributable profit will be decided by the General Meeting. The Management Board and Supervisory Board recommend that it be appropriated to other revenue reserves.

4.28. Off-balance sheet liabilities

a) Breakdown by type of contingent liabilities and commitments

	2016	2015
Guarantees	25,388	44,153
Commitments to extend credit	36,406	34,214
TOTAL	**61,794**	**78,367**
Provisions (Note 4.19. a and d)	(513)	(577)

4.29. Fiduciary activities

The Bank manages assets in the total amount of EUR 88,258 thousand (2015: EUR 96,809 thousand) in the name and for the accounts of third parties. Assets under management are accounted for separately from the Bank's assets. Income and expenses from operations in the name of third parties and for the accounts of third parties are credited or charged to the originator, therefore no liabilities arise for the Bank from these operations. For performing their services, the Bank charges fees to the originator. In 2016 these fees amounted to EUR 237 thousand (2015: EUR 123 thousand). For acting as agent in the sale of numismatic values, the Bank charged fees in the amount of EUR 17 thousand in 2016 (2015: EUR 24 thousand).

a) Investment and ancillary investment services for customers

	2016	2015
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**237**	**123**
Reception, transmission and execution of orders	231	111
Managing dematerialised securities accounts for clients	6	12
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**92**	**63**
Fees associated with KDD and similar organisations	76	54
Fees associated with the stock exchange and similar organisations	16	9

	2016	2015
ASSETS	**86,269**	**93,756**
Claims on settlement account and current accounts for clients' assets	85,933	93,330
- From financial instruments	85,365	93,142
- From the KDD or the Bank's settlement account for sold financial instruments	152	9
- From other settlement systems and institutions for sold financial instruments	416	179
Clients' cash	336	426
- On the settlement account for clients' assets	335	426
- On banks' current accounts	1	0
LIABILITIES	**86,269**	**93,756**
Liabilities of settlement account and of current accounts for clients' assets	86,269	93,756
- With clients from cash and financial instruments	85,746	93,553
- With KDD or the Bank's settlement account for purchased financial instruments	77	16
- With other settlement systems and institutions for purchased financial instruments	417	179
- With the Bank and the Bank's settlement account for fees, expenses, etc	29	8

b) Other agency services

Other agency services include EUR 1,989 thousand from other transactions for the clients' account (2015: EUR 3,037 thousand), and EUR 76 thousand from settlement transactions with the KDD (2015: EUR 16 thousand).

4.30. Related party transactions

Continuous operations include numerous banking transactions with related parties. These transactions are carried out on commercial terms and conditions, and at market rates.

a) Volume of banking transactions among related parties

	Management Board		Senior management		Close family members of members of the Management Board, Supervisory Board		Companies associated with members of the Management Board, Supervisory Board, and their close family members		Bank's shareholders* (holders of qualifying stake)		Supervisory Board members	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Loans and deposits placed												
As at 1 January	61	7	457	385	45	15	6,507	7,340	677	875	17	55
Increase	6	79	328	663	64	77	14,840	17,638	76	63	201	31
Decrease	(19)	(25)	(412)	(591)	(57)	(47)	(15,059)	(18,471)	(753)	(261)	(112)	(69)
As at 31 December	48	61	373	457	52	45	6,288	6,507	0	677	106	17
Interest income	1	1	12	9	1	1	259	285	0	39	0	1
Revaluation allowance	0	0	0	0	0	0	87	80	0	1	0	0
Deposits and borrowings												
As at 1 January	35	41	218	168	82	41	364	342	8,384	10,432	122	111
Increase	459	600	1,572	2,374	274	432	17,121	13,188	60,152	67,281	477	542
Decrease	(431)	(606)	(1,576)	(2,324)	(280)	(391)	(15,447)	(13,166)	(68,410)	(69,329)	(388)	(531)
As at 31 December	63	35	214	218	76	82	2,038	364	126	8,384	211	122
Interest expense	0	0	2	9	1	1	76	5	306	479	0	1
Guarantees issued	0	0	0	0	0	0	0	0	0	1,549	0	0
Fee and commission received	0	0	3	3	1	0	66	60	6	86	1	1
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	0	0	0	0	0	0
Increase	0	0	1	0	0	0	0	0	0	12	0	0
Decrease	0	0	(1)	0	0	0	0	0	0	(12)	0	0
As at 31 December	0	0	0	0	0	0	0	0	0	0	0	0
Lease income	0	0	1	0	0	0	0	0	0	12	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	1	4	0	0	0	0
Increase	0	0	0	0	0	0	212	49	165	27	0	0
Decrease	0	0	0	0	0	0	(69)	(52)	(165)	(27)	0	0
As at 31 December	0	0	0	0	0	0	144	1	0	0	0	0
Lease expense	0	0	0	0	0	0	69	49	165	21	0	0
Other income	0	1	1	1	0	0	1	1	0	5	0	0
Other liabilities	0	0	0	0	0	0	52	0	3	41	0	0
Other expenses	0	0	0	0	0	0	398	72	59	210	0	0

* Only the Bank's qualified shareholders are included for 2016.

b) Subsidiaries DBS Leasing, DBS Nepremičnine, Semenarna and DBS Adria

	Subsidiaries - DBS Leasing, DBS Nepremičnine, Semenarna, DBS Adria		Subsidiaries - related parties - Management Board/CEO/ Holder of Procuration		Subsidiaries - related parties - Companies related to members of the Management or Supervisory Board/CEO/Holder of Procuration, or their close family members	
	2016	2015	2016	2015	2016	2015
Loans and deposits placed						
As at 1 January	8,048	808	103	135	0	0
Increase	23,242	21,473	79	8	0	0
Decrease	(23,349)	(14,233)	(50)	(40)	0	0
As at 31 December	7,941	8,048	132	103	0	0
Interest income	164	70	3	3	0	0
Revaluation allowance	664	141	0	0	0	0
Deposits and borrowings						
As at 1 January	1,058	608	0	0	19	0
Increase	6,562	21,350	99	67	0	21
Decrease	(7,321)	(20,900)	(98)	(67)	(19)	(2)
As at 31 December	299	1,058	1	0	0	19
Interest expense	1	1	0	0	0	0
Guarantees issued	481	231	0	0	0	0
Fee and commission received	34	29	0	0	0	0
Full operational lease granted						
As at 1 January	0	0	0	0	0	0
Increase	12	15	0	0	0	0
Decrease	(12)	(15)	0	0	0	0
As at 31 December	0	0	0	0	0	0
Lease income	12	15	0	0	0	0
Full operational lease received						
As at 1 January	3	6	0	0	0	0
Increase	20	79	0	0	0	0
Decrease	(23)	(82)	0	0	0	0
As at 31 December	0	3	0	0	0	0
Lease expense	0	78	0	0	0	0
Other income	3	3	0	0	0	0
Other liabilities	13	0	0	0	0	0
Other expenses	23	20	0	0	0	5

c) Remuneration of senior management

	2016	2015
Wages and other short-term benefits	1,314	1,531
Severance pays	1	60
TOTAL	**1,315**	**1,591**

The remuneration of the Management Board and others on management contracts includes gross wages, pay for annual leave, fringe benefits, cost reimbursement and supplementary pension insurance.

The Management Board and others on management contracts held 1,872 shares (0.04% of share capital) as at 31 December 2016. As at 31 December 2015 they held 1,947 shares (0.05% of share capital).

d) Remuneration of Supervisory Board members and members of its committees

	2016	2015
Wages and other short-term benefits	97	89
TOTAL	**97**	**89**

The amount includes the earnings of Supervisory Board members and those of the members of the Supervisory Board Remuneration, Audit and Risk Committee.

e) Remuneration of members of managerial and supervisory bodies in 2016

Position/Remuneration type	Fixed remuneration	Variable remuneration	Cost reimbursement	Supplem. pension insurance	Other payments
Management Board of the Bank	**291**	**0**	**2**	**6**	**11**
- Sonja Anadolli, President	165	0	1	4	6
- Barbara Cerovšek Zupančič MSc, member	126	0	1	2	5
Supervisory Board of the Bank	**42**	**50**	**3**	**0**	**0**
- Peter Vrisk, President	14	13	0	0	0
- Marjan Janžekovič, Deputy President	8	13	1	0	0
- Ivan Lenart, member	8	10	1	0	0
- Nikolaj Maver, member	8	10	1	0	0
- Bernarda Babič, member (from 1 July 2016)	4	4	0	0	0
TOTAL	**333**	**50**	**5**	**6**	**11**

The table shows the earnings of members of the Management Board and Supervisory Board, pursuant to the requirement of Article 294 of the Companies Act.

f) Remuneration of staff whose professional activities have a material impact on the risk profile, in 2016

Position/Remuneration type	Number of beneficiaries	Fixed earnings	Cost reimbursements	Insurance premiums	Other payments	Total
TOTAL REMUNERATION	**25**	**1,314**	**49**	**24**	**4**	**1,391**

4.31. Remuneration system and important business contacts

Remuneration system

The system of remuneration in the Bank is based on the Remuneration Policy for Staff whose Professional Activities have a Material Impact on the Bank's Risk Profile (hereafter: Remuneration Policy), which lays down the system of remuneration and performance bonuses for the staff having a material impact on the Bank's risk profile by virtue of performing their work tasks and assignments: either by being risk takers, cooperating in risk control, or by having control and supervision functions. The necessary preconditions for variable pay are the Bank's reporting a profit for the assessment period and its reaching and exceeding all basic objectives. No funds have been allocated in 2014 for variable pay to employees whose work is of a specific nature.

Important business contacts

A significant indirect business contact exists if a member of the Management Board or Supervisory Board or their close family member is a business partner, holder of a qualifying stake, managing director or member of the senior management in a company or organisation that is in a business relationship with the Bank. In this respect the Bank promotes the culture of avoiding significant direct and indirect business contacts.

4.32. Events after the statement of financial position date

In accordance with the financial restructuring agreement, the Bank will convert in 2017 a proportion of loans extended to Semenarna, to equity in this company.

5. RISK CONTROL

To the risks it is or could be exposed to in its line of business, the Bank devotes special attention. For this purpose it has set up an independent risk management function, whose effectiveness is guaranteed by a transparent organisation structure and delimitation of competences. Risk is monitored by the Risk Management Section, which is in charge of, among other things, designing and updating individual strategies and policies of risk-taking and risk management, overseeing their implementation, continually improving the system of monitoring and controlling all major types of risk, and preparing in-house reports and reports for regulators. The Bank has also set up an Asset and Liability Management Board (ALM Board) and a Supervisory Board Risk Committee, which – together with the Supervisory Board and senior management – promptly monitor the Bank's exposure to risk, its risk profile and its risk appetite.

The common objective of risk-taking and risk-management strategies and policies is to prevent and limit losses due to individual risks. The risk-management strategy includes objectives and general guidelines for risk-taking and risk management for individual risks, and the responsibilities of the Supervisory Board, Management Board and senior management in the area of risk management. To measure exposure to different types of risk, the Bank uses internal methodologies and approaches in addition to regulatory ones, which facilitates a close monitoring of risks and their management. The Bank pursues the policy of taking on moderate risk.

The risks that the Bank is exposed to are identified at the level of the Bank, and the manner and intensity of their management depend on the risk profile of the Bank and its environment. The Bank's risk profile involves assessments of credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk, reputation risk, capital risk, profitability risk and elements of the control environment. For those risk and control environment elements that receive lower ratings, senior management has to propose actions to be taken with a view to improving the Bank's risk profile, and implement them. The Bank's risk profile is reviewed and updated once a year at a minimum, being discussed by the Management Board and the Supervisory Board.

In 2016 the Bank complied with the requirements of the capital accord and other requirements of the regulatory framework for banks. Risk management was additionally upgraded, especially the management of credit risk. The Bank continued with the upgrade of its early warning system for increased credit risk for all customers, and carried out activities related to the implementation of IFRS 9. The Supervisory Board noted the Bank risk profile and its risk-taking capacity, and promptly monitored its exposure to risks. All critical risk management internal acts have been revised in 2016.

The Bank is most exposed to credit risk in its operations, and additionally to market risk, interest rate risk, liquidity risk, operational risk and capital risk.

Credit risk

Credit risk is the risk that a borrower will cause a financial loss to the Bank by failing to fully discharge an obligation when due without calling on collateral, for whatever reason, whether this obligation be of a financial nature or another contractual obligation. In line with its portfolio and its risk-taking and risk-management strategy, the Bank takes into account that credit risk can potentially arise out of the Bank's increased concentration of exposure. Credit risk management involves the timely and adequate detection, measurement, assessment, control, monitoring and reporting of credit risk. The objective is to ensure an adequate mechanism of risk-taking and managing credit risk across the Bank. Such a mechanism has to reflect the Bank's readiness and capacity to take on credit risk in compliance with regulatory demands, the regulatory framework for banks and regulatory capital requirements. The objectives and general guidelines on risk-taking and managing credit risk are laid down in the Bank's Strategy of Risk-taking and Risk Management. The process of credit risk control involves looking at all the Bank's risky on-balance sheet and off-balance sheet assets.

In order to control credit risk, the Bank is dispersing its credit portfolio by increasing exposure to the retail sector, farmers and SMEs, and it is also improving the quality of collateral and its adequacy. Operations of debtors are regularly monitored; an aid in this is the early warning system for increased credit risk. Past due defaulting receivables are actively being collected, and in case of debtors who are capable of continuing their business operations if suitable mitigating measures are taken to help them, exposure is restructured.

Market risk

Market risk is the risk of decreased asset value or profitability due to adverse changes in market variables (prices, interest rates, foreign exchange rates). Market risk appears when the Bank acts as market maker, if it trades or takes positions in bonds, shares, foreign currencies, commodities and derivatives. The Bank has in place a proprietary methodology and policy for determining, measuring and managing market risk, and for determining the level of exposure. The Bank's risk management policy for market risk is based on the current and expected market conditions, realised and planned financial data, valid regulations and existing risk management systems. With its methodology for measuring and managing market risk for trading positions in equities the Bank operates its system of limits, the calculation of opportunity loss for a particular trading position as a basis for position stop-loss limits, and the calculation of value at risk (VaR) as a basis of the capital requirement for market risk. The Bank has in place a system of limits to limit market risk, and the relevant committees, board and organisational units participate in discharging the function of market risk management as laid down in the Rules of Organisation.

Foreign exchange risk

Foreign exchange risk is present when the Bank is directly or indirectly exposed to changes in currency exchange rates in global markets. In case of adverse global FX changes, the Bank may witness losses in its domestic currency. Exposure to foreign exchange risk arises out of a mismatch between assets and liabilities in different currencies. It involves mainly the risk of an instrument's potential decreased value due to changes in one or several currencies. The Bank pursues the policy of closed currency positions. Accordingly, individual currency positions are monitored daily and potential overruns are reported to decision makers in line with instructions.

Interest rate risk

Interest rate risk is the risk of loss (i.e. lower interest income, higher interest expenses, decreased value of investments, opportunity loss…) on interest-sensitive on-balance sheet and off-balance sheet positions due to a change in the level of market interest rates. Interest rate changes affect the Bank's revenues and expenses as well as the value of individual items and thus the economic value of equity. The Bank measures, manages, oversees and monitors interest rate risk in line with its Risk Assessment Methodology and its Policy of Risk-taking and Risk Management for Interest Rate Risk. For measuring the risk of interest rates changing, the Bank uses a gap analysis to calculate the potential impacts of interest rate shock scenarios on net interest income and the sensitivity of the banking book's economic value. Interest rate risk is measured for the entire banking book, separately for different currencies and applied reference interest rates. The analysis also looks as the distribution of sight deposits consistent with an internal model.

Liquidity risk

Liquidity risk is the risk of providing sources of liquidity in cases of potential loss when the Bank is unable to discharge all its matured liabilities or when, due to its inability to provide sufficient funds to settle its matured liabilities, the Bank is forced to obtain liquidity at significantly higher costs. Liquidity management is a critical component of the Bank's safe and prudent operations. A careful management of liquidity includes a prudent management and matching of assets and liabilities, both with respect to financing and cash flows, and with respect to their concentration. For this purpose, the Bank has in place a Policy of Risk-taking and Risk Management for Liquidity Risk, which defines the methods and procedures for determining, measuring, controlling and monitoring liquidity risk, the objective of which is for the Bank to be able to settle its due obligations in time. The policy is tailored to the Bank's size, the nature, scope and complexity of its business, and the extent of acceptable risk levels.

Adequate cash inflows must be ensured to account for the expected (and potential) cash outflows. To this end the Bank tests the adequacy of its disaster plan and regularly implements four liquidity stress scenarios every three months. The scenarios are detailed in the Methodology for Liquidity Stress Scenarios and Calculation of Liquidity Ratios. Based on the stress scenarios the Bank calculates the maximum liquidity shortage for up to one month, which serves to determine the minimum level of unencumbered liquid assets. With a view to determining its structural liquidity position the Bank also calculates certain liquidity ratios and monitors trends in selected structural liquidity ratios.

Operational risk

Operational risk is the risk of loss due to an inappropriate or unsuccessful implementation of internal processes, the human factor, system operations or external factors. It also includes IT risk and legal risk. The Bank manages operational risk by recording and closely monitoring (loss) events associated with operational risk, by decreasing the frequency and impact of such loss events, by keeping the total amount of evaluated loss events at a minimum, and by regularly checking and updating its disaster recovery and business continuity plan. For this purpose, the Bank has in place a Policy of Risk-taking and Risk Management for Operational Risk, which defines, among other things, the methods and procedures for determining, measuring, controlling, monitoring, reporting and mitigating exposure to operational risk. The policy is tailored to the Bank's size, the nature, scope and complexity of its business, and the method for the calculation of capital requirements. Integrated into the reporting system for events associated with operational risk are measures to resolve such events and prevent repeat events. Reports of events associated with operational risk and of measures to resolve them are promptly submitted to the Management Board and Internal Audit, and quarterly also to the Operational Risk Committee. Operational risk control is also subject to an annual review by the Internal Audit Department.

Capital risk

A bank's capital risk is the risk that its capital may not be adequate and sufficient. The Bank must always have at its disposal sufficient and adequate capital in terms of the services it provides and in terms of the risks it is, or could be, exposed to. Capital risk is associated with insufficient capital, with inadequate capital structure in relation to the volume and type of operations, or with difficulties in obtaining fresh capital. Capital risk is monitored on a monthly basis when the Bank calculates the amount of capital, capital requirements and capital adequacy ratios. These calculations are regularly communicated to members of the ALM Board, and the Bank's Management Board and Supervisory Board are informed at least quarterly in the context of a comprehensive risk analysis. One of their tasks is to monitor the implementation of measures for ensuring the Bank meets the capital adequacy ratios imposed by the legislation and the Bank of Slovenia. The Bank uses several internal acts in the process of managing, controlling and mitigating capital risk, including the Strategy of Risk-taking and Risk Management, and the Policy of Risk-taking and Risk Management for Capital Risk.

5.1. Credit risk

The Bank estimates its largest exposure to be associated with credit risk. Credit risk is determined and measured by analysing data on exposures causing credit risk. Factors taken into account are the classification of on-balance sheet and off-balance sheet assets, the amount of impairments against individual receivables, migrations among credit rating grades, operations and the financial standing of customers to which the Bank has large exposure, late payments and non-performing exposures, the proportion of hedged receivables, diversification or concentration of the credit portfolio, concentration of received collateral and other important facts associated with credit risk. Risk reporting is based on regular and exceptional reports as laid down in the Risk Management Plan. The Bank has in place processes fostering the production of a structured report on credit risk for various management levels. Results of these analyses are taken into account when forming the Strategy and Policy of Risk-taking and Risk Management for Credit Risk.

With a view to protecting itself from potential losses, the Bank forms provisions and impairments. However, significant changes in the economy or in the health of a particular industry segment that represents a concentration in the credit portfolio can result in losses that are different from those determined on date of the statement of financial position. The management therefore pursue a prudent credit risk management strategy.

The Bank manages the level of credit risk it is willing to undertake by capping the amount of risk it is willing to take in relation to one borrower or group of borrowers, and by capping the amount of risk it is willing to take in relation to individual geographical and industry segments. These risks are regularly monitored and reviewed.

The portfolio exposed to credit risk includes on-balance sheet receivables (loans, debt securities, equity investment, interest, fee and commission, etc.) and off-balance sheet liabilities (guarantees, letters of credits, working capital loans, etc.) with companies, banks, financial institutions, the public sector, individuals and other customers.

Depending on the risk category of a customer, as expressed by their credit rating, and the risk of a particular business, which is also influenced by the guarantees provided, appropriate impairment provisions are formed for credit risk. In order to reduce capital requirements for credit risk, the Bank only considered first-class and appropriate guarantees in 2016, consistent with regulations.

5.1.1. Measuring credit risk

(a) Loans and receivables

In 2016 the Bank determined credit risk pursuant to the valid regulations. To this end it drew up its credit portfolio quality analyses, into which it included data on:

- migration of customers among credit rating classes,
- movements of relevant impairments,
- provisioning of impairments for individual types of credit exposure, and
- past due defaulting receivables and non-performing exposures.

More on forming provisions and impairments in Chapter 5.1.3.

(b) Debt securities

In assuming exposure to credit risk when buying debt securities in 2016 the Bank used the classification into credit rating classes according to issuing states and other issuers, the kind used by i.e. Moody's or credit rating agencies of their level, whereby it specified the minimum acceptable credit rating limit for the respective securities.

5.1.2. Control over limiting credit risk, and guidelines on mitigating credit risk

The Bank manages, limits and controls credit risk concentration wherever it is detected, especially in relation to individual customers and groups of customers, economy sectors, businesses and geographical regions.

Exposure to credit risk is managed with a system of limits, which stipulates the maximum acceptable credit risk limit. This risk is regularly monitored and examined. Limits of exposure are set for individual debtors, sectors, businesses and regions. The maximum possible total exposure of the Bank towards a corporate customer is defined by the Risk Management Section. When the threshold of large exposure is greatly exceeded and in case of customers in a special relationship with the Bank, the proposed level of permissible exposure must also be approved by the Bank's Management Board and Supervisory Board. Limits of exposure are determined by considering the basic principles of banking, especially safety and liquidity.

(a) Collateral

The Bank employs a variety of ways to mitigate credit risk, pursuant to its Internal Policy on Collateral, which stipulates the acceptability of different types of collateral.

Internal rules on collateral define:
- types and extent of collateral accepted by the Bank,
- minimum eligibility criteria that collateral must normally meet,
- methodology for determining the type and amount of, and the order of calling on collateral,
- methodology for verifying and monitoring collateral, and
- detecting and preventing risks associated with accepted collateral.

As a rule the Bank will never fail to investigate a debtor's creditworthiness, even if exposure is collateralised. In agreeing on the type of collateral for an exposure, both the principles on credit risk reduction techniques and the principles on capital requirements should be adhered to, to the greatest extent possible.

The main types of collateral used by the Bank are property as collateral and insurance covers, guarantees, bank deposits and assignments of claims. Personal collateral issuers are assessed for eligibility on the basis of their credit ratings, obtained using an internal methodology.

As a rule, the Bank collateralises all loans. To reduce credit risk losses to the greatest extent possible, customers are asked to provide additional collateral as soon as signs of deterioration in their creditworthiness appear. Most collateral is property, evaluated according to appraisals by certified appraisers in compliance with the International Valuation Standards (IVS) or an internal methodology. We consider the value of such collateral to be evaluated adequately.

(b) Off-balance sheet commitments

Guarantees and letters of credit as well as unused loans granted represent the same credit risk for the Bank as loans. The Bank regularly monitors maturity dates of loan commitments, since especially long-term commitments represent a higher credit risk than short-term commitments.

5.1.3. Guidelines on forming impairments and provisions

Pursuant to the regulatory framework for banks and the provisions of the IFRS (particularly IAS 37 and IAS 39), the Bank classifies financial assets and off-balance sheet commitments (hereafter: exposures) into groups according to their risk profile, and assesses the amount of expected losses associated with these exposures where necessary.

Exposures are classified as i) credit risk-free in which case expected losses are not assessed, and ii) credit risk-prone, in which case expected losses are assessed. Expected losses are normally assessed using i) the method of collective assessment for non-defaulted obligors, or ii) the method of individual assessment for defaulted obligors. On the basis of assessed expected losses the Bank forms adequate impairments and provisions (hereafter: impairments). Exposures with high-quality collateral are not impaired and provisions are not formed for them.

Groups of exposures assigned into collective assessments of expected losses and required impairments are formed on the basis of similar credit risk characteristics. Expected losses are assessed according to groups of debtors and collateral, using an analysis of credit risk associated with the related exposures.

Loss given default (LGD) is calculated for at least one (the most representative) group of collateral, and for receivables without collateral (this group also includes receivables with types of collateral that are not taken into account in the calculation of LGD for the collateralised portion of the receivable).

The Bank regularly examines the methodology of assessing credit risk losses and assumptions used in assessing losses.

Customers are grouped using an internal methodology, which is derived from the stipulations of the valid regulatory framework for assessing credit risk in banks. The set of criteria to be applied and the method for determining the credit rating will depend on the type of customer, the type and amount of the Bank's exposure to the customer, and the available information on the customer's operations. A major factor affecting a credit rating is late payment of obligations to the Bank. An exposure is past due if any of the amounts – whether the principal, interest or fees – are not paid on the due date, and it is past due with a threshold if past due days commence not later than on the first day when the past due exposure exceeds 2% of the drawn exposure to the debtor or EUR 50 thousand, but always more than EUR 200. Past due exposure is the past due portion of exposure.

The table below shows the shares of the Bank's receivables for classification according to credit rating grades, and the shares of those for which impairments and provisions have been formed under IFRS:

		2016		2015
Credit rating grade	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)
1. A	75.5	0.0	73.7	0.1
2. B	10.8	1.5	9.8	1.4
3. C	1.7	6.3	1.0	6.9
4. D	0.0	69.9	0.0	66.2
5. E	0.0	98.3	0.0	99.5
6. P	12.0	25.8	15.4	22.3
	100.0	3.4	100.0	3.8

At the year-end of 2016 individually impaired receivables for classification were considerably down compared to 2015, both in terms of volume and share, a result of successfully completed cases of restructuring, repayments received for non-performing exposures, and also due to the transfer of 100%-impaired receivables off the balance sheet and the write-off of unrecoverable receivables. At the year-end of 2016, the majority, i.e. 75.5%, of the Bank's receivables for classification were given an A credit rating. The second largest group were individually impaired receivables from customers in category P, which represented 12.0% of all receivables for classification.

Impairments and provisions were formed for the latter under IFRS on the basis of the amounts of collateral and expected future cash flows.

5.1.4. Loans and receivables

Consistent with its adopted strategy, the Bank focused on banking with the retail segment, farmers and SMEs, and groups with good credit ratings in 2016. Those customers were prioritised which, in addition to exhibiting creditworthiness, provided adequate collateral, so as to minimise the possible increase in the Bank's exposure to credit risk.

(a) Loans and receivables non past due and not impaired, and impaired loans and receivables

		2016		2015
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	178,360	5,100	178,225	5,621
Impaired	420,347	0	476,697	0
Gross amounts	**627,627**	**5,100**	**655,003**	**5,621**
Less impairment allowance	(28,842)	0	(33,967)	0
Net amounts	**598,785**	**5,100**	**621,036**	**5,621**

The total value of loans and receivables in financial year 2016 decreased by 4.2% from 2015, with loans to banks and loans to customers both down. The reported loan loss provisions totalled EUR 28,842 thousand (2015: EUR 33,967 thousand). Changes in the group of individually impaired receivables, as already mentioned, are mainly the result of successfully completed cases of restructuring, repayments of non-performing exposures, and the transfer of receivables off the balance sheet or their being written off.

(b) Loans and receivables individually assessed as impaired

Loans and advances to customers (loans and receivables)

Individually impaired loans to customers and receivables from customers, without individually impaired loans to banks and before considering cash flows from collateral held by the Bank, amount to EUR 96,168 thousand (2015: EUR 129,415 thousand). As opposed to 2015, exposure to micro, small and medium corporate customers decreased the most in 2016, by 27.6%, and exposure to large corporate customers was down 22.6%. Exposure to the retail segment decreased by 20.6% year-on-year, a result of the already mentioned repayments of non-performing exposures as well as the transfer of receivables off the balance sheet and their being written off.

The total amount of individually impaired loans and receivables according to categories, together with the fair value of their collateral that the Bank holds as a guarantee, breaks down into:

2016	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	9,186	26,055	60,927	7,632	103,800
- Past due up to 15 days	4,220	20,316	14,057	0	38,593
- Past due 16 to 30 days	0	0	0	0	0
- Past due 31 to 90 days	86	0	318	0	404
- Past due over 90 days	4,880	5,739	46,552	0	57,171
Impairment charge	2,998	10,204	13,458	0	26,660
Fair value of collateral	14,726	13,144	67,222	0	95,092

* Micro, small and medium enterprises.

2015	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	11,566	33,649	84,200	13,999	143,414
Impairment charge	4,394	10,508	16,961	0	31,863
Fair value of collateral	15,438	19,133	90,722	0	125,293

* Micro, small and medium enterprises.

Loans and advances to banks (loans and receivables)

The total gross amount of loans to and receivables from banks as at 31 December 2016 totalled EUR 7,632 thousand (2015: EUR 13,999 thousand), whereby no individually impaired loans were reported.

(c) Restructured loans and receivables

Consistent with the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks and its stipulations on restructured receivables, the Bank treats restructured financial assets as financial assets received – due to the debtor's inability to pay their debt under the initially agreed terms of the original loan agreement – under amended terms (by means of an additional agreement) or under a new loan agreement that stipulates a partial or full repayment of the original debt. Agreements with a restructuring clause also fall into this category. The criteria for identifying performing and non-performing exposures, and restructured and non-restructured exposures, the treatment and management of restructured exposures, restructuring measures for debtors and the reporting system in the Bank are all governed by the Rules on Managing Non-performing and Restructured Exposures to Debtors.

The gross value of exposure for which a new agreement on repayment conditions was reached and which could otherwise fall due, amounted to EUR 78,557 thousand as at 31 December 2016 (2015: EUR 91,563 thousand).

	2016	2015
Retail loans and receivables		
– Loans and advances	78,557	91,563
Total	**78,557**	**91,563**

5.1.5. Debt securities and bills

To assess the risk associated with debts the Bank uses either its internal credit ratings for issuers or the credit ratings of Standard & Poor's, Moody's and Fitch. Owing to the system of limits, investments are made into debts with good ratings.

The table below shows the Bank's exposure with respect to its debt securities according to Standard & Poor's ratings, as at 31 December 2016 and 31 December 2015:

2016	Debt securities held to maturity	Debt securities held for trading	Debt securities available for sale	Total
A-	0	0	2,201	2,201
A	140,941	0	2,159	143,100
Total debt securities	**140,941**	**0**	**4,360**	**145,301**

2015	Debt securities held to maturity	Debt securities held for trading	Debt securities available for sale	Total
A-	157,090	42	5,853	162,985
Unlisted	0	0	4	4
Total debt securities	**157,090**	**42**	**5,857**	**162,989**

Both in 2016 and 2015 the largest proportion of our debts portfolio were Slovene state bonds, which totalled EUR 143 million (the year-end of 2015: EUR 159 million). The Bank classified Republic of Slovenia bonds under held-to-maturity investments. The proportion of debt securities with higher ratings decreased in 2016, mainly the result of Republic of Slovenia treasury bills reaching maturity. The Bank's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

5.1.6. Collateral acquired by prescription

In 2016 the Bank acquired assets by calling on the collateral held as guarantee, namely:

	Carrying amount	
	2016	2015
Property	8,601	10,843
Total	**8,601**	**10,843**

Assets acquired by calling on the collateral held as guarantee is sold as soon as possible.

5.1.7. Breakdown of all exposure categories according to remaining maturity: up to 1 year and over 1 year

The table below gives the remaining maturities according to categories of exposure.

		Remaining maturity as at 31 December 2016			Remaining maturity as at 31 December 2015		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	46,801	298,037	344,838	155,819	208,323	364,142
02	Regional and local government	531	8,355	8,886	1,577	15,309	16,886
03	Public sector entities	3,730	7,418	11,148	21,214	8,596	29,810
06	Institutions	46,667	216	46,883	29,603	223	29,826
07	Corporate	20,615	18,153	38,768	28,387	17,407	45,794
08	Retail exposures	59,145	100,934	160,079	53,679	97,225	150,904
09	Secured by mortgages of immovable property	23,424	199,180	222,604	28,734	179,728	208,462
10	Exposures in default	28,660	8,656	37,316	37,624	25,292	62,916
11	Regulatory high risk categories	6,150	0	6,150	7,335	34	7,369
14	Investments in investment funds	2,702	0	2,702	2,699	0	2,699
15	Other exposure	18,486	381	18,867	41,080	312	41,392
16	Equity exposure	11,238	0	11,238	10,030	0	10,030
	As at 31 December	268,149	641,330	909,479	417,781	552,449	970,229

At the year-end of 2016, 29.5% of the Bank's exposure would reach maturity within one year and 70.5% in over one year. In terms of value, exposure decreased the most in terms of defaulting items, while it increased the most towards institutions and in terms of exposure secured with mortgages on residential property.

5.1.8. Capital requirements according to exposure categories

The Bank calculates the capital requirement for credit risk according to the standardised approach. The ratings of an external credit rating agency are used to determine exposure towards the central government and central banks.

		2016		2015	
	Exposure category	Net exposure	Average exposure	Net exposure	Average exposure
01	Central government and central banks	344,838	372,306	364,141	364,424
02	Regional and local government	8,886	12,505	16,886	19,866
03	Public sector entities	11,148	12,177	29,810	35,499
06	Institutions	46,883	36,670	29,826	20,813
07	Corporate	38,768	42,099	45,794	52,080
08	Retail exposures	160,079	159,526	150,904	161,436
09	Secured by mortgages of immovable property	222,604	214,089	208,462	197,160
10	Exposures in default	37,316	48,086	62,916	65,770
11	Regulatory high risk categories	6,150	6,681	7,369	9,408
14	Investments in investment funds	2,702	2,703	2,699	2,699
15	Other exposure	18,867	31,332	41,392	46,118
16	Equity exposure	11,238	10,031	10,030	15,194
	As at 31 December	909,479	948,205	970,229	990,467

The dynamics of capital requirement levels for credit risk followed the change in the structure of net exposure by category.

5.2. Market risk

The Bank's exposure to market risk is low. The Bank was primarily exposed to interest rate risk due to Euribor changes in 2016, as well as, to a lesser degree, foreign exchange risk. In any case, the Bank pursues a policy of portfolio diversification and invests in highly liquid assets from countries with a high credit rating, avoiding investments with speculative-grade ratings.

The Bank calculates the capital requirement for market risk under the standardised approach, pursuant to the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council. The table below shows that the Bank had no market risk exposure at the year-end of 2016 and consequently did not have capital requirements for market risk.

	2016	2015
Equity instruments	0	35
Debt instruments	0	4
SUM OF CAPITAL REQUIREMENTS FOR MARKET RISK	**0**	**39**

Even though the Bank had no market risk exposure as at 31 December 2016, a description of how such exposure is monitored, is presented below. The Bank monitors market risk by means of:

– prompt data on trading positions, spending of limits and overdrafts, and exposure to different risks,
– prompt data on currency positions,
– daily reporting on securities trading,
– end-of day reporting on overdrafts, and
– monthly reporting on capital requirements for market risk.

Market risk management is based on a diversified system of limits (limits on equity and debt security positions, limits on exposure to individual types of issuers, limits of maximum possible loss, limits according to individual authorised persons, etc.), which the Bank regularly reviews and adjusts, if necessary.

Due to the increased volatility of capital markets (compared to bond markets and money markets), the Bank devotes special attention to its equity positions. To this end it has in place the additional „stop-loss" limit system for each position on both the domestic and foreign markets, which daily examines the set limits. Value-at-Risk (VaR) is calculated over a time horizon (on a monthly basis in the reports to the ALM Board) for each position as well as for both sub-portfolios (domestic and foreign equities) and the joint portfolio, in order to detect any potential increased risk due to exposure to increased volatility.

With respect to the bond portfolio on the trading book, the Bank calculates the time profile for each position and the related extent of exposure to loss in economic value in the event of an interest rate shock (so-called „basis point value"). The value of the average-duration bond portfolio on the trading book over a time horizon is also monitored. All these calculations are conducted once per month, and their results are included into the report to the ALM Board.

The rigorous system of limits, which requires that the securities portfolio be diversified and highly liquid as well as that issuers have good credit ratings, keeps the Bank's appetite for assuming market risk at a low level.

The Bank's exposure to market risk might potentially increase in the event of calling on collateral in credit deals and due to debt-to-equity swaps in case of non-performing debts.

5.2.1. Methods for measuring risk related to trading in trading portfolio equities

To measure and control market risk, the Bank applies the Value-at-Risk method (VaR) for its equity trading portfolio. VaR measures the risk of loss on a specific portfolio of financial assets for a 10-day time horizon, with a 99% level of confidence. As at 31 December 2016 the Bank had no equities in its equity trading portfolio.

5.2.2. Methods for measuring risk related to trading in trading portfolio debt securities

The Bank measures these risks using Basis Point Value (BPV), which denotes the change in the market value of a trading book position, attributable to the parallel movement in the yield curve. BPV tells us how much value financial instruments will gain or lose depending on the market interest rate, i.e. change in yield. As at 31 December 2016 the Bank had no debts in its bond trading portfolio.

5.2.3. Foreign exchange risk

Foreign exchange risk is monitored and managed on a daily basis. Limits of maximum acceptable exposures to foreign exchange risk are clearly defined and monitored daily.

The Financial Markets Section balances currency positions and exposure to foreign exchange risk by taking the following measures:
- spot and forward purchases and sales of foreign exchange in the interbank market,
- setting daily mean rates and exchange rates,
- entering into purchases and sales of foreign exchange with legal entities and individuals.

In 2016 the Bank promptly balanced the differences between purchases and sales of foreign exchange, which were mainly the result of payment and foreign exchange transactions. Exposure towards financial instruments denominated in foreign currencies was very low and consistent with the set limits.

The tables below show assets and liabilities as at 31 December 2016 and 31 December 2015 according to currency:

FOREIGN EXCHANGE RISK as at 31 December 2016					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Cash, balances at central banks, and sight deposits at banks	21,199	192	2,140	584	24,115
Financial assets held for trading	0	0	0	0	0
Available-for-sale financial assets	8,348	0	0	0	8,348
Loans	600,192	2,278	1,631	530	604,631
- Loans to banks	2,292	2,278	0	530	5,100
- Loans to customers	597,154	0	1,631	0	598,785
- Other financial assets	746	0	0	0	746
Held-to-maturity investments	140,941	0	0	0	140,941
Property, plant and equipment	10,440	0	0	0	10,440
Investment property	26,442	0	0	0	26,442
Intangible assets	678	0	0	0	678
Long-term equity participation in subsidiaries, associates and joint ventures	7,822	0	0	7	7,829
Income tax assets	5,614	0	0	0	5,614
- Current tax assets	39	0	0	0	39
- Deferred tax assets	5,575	0	0	0	5,575
Other assets	16,824	0	0	0	16,824
TOTAL ASSETS (1)	**838,500**	**2,470**	**3,771**	**1,121**	**845,862**
Financial liabilities measured at amortised cost	781,469	2,469	3,746	1,025	788,709
- Deposits by banks and central banks	420	0	0	0	420
- Deposits by customers	760,729	2,467	3,746	1,021	767,963
- Borrowings from banks and central banks	5,758	0	0	0	5,758
- Subordinated liabilities	11,615	0	0	0	11,615
- Other financial liabilities	2,947	2	0	4	2,953
Provisions	1,940	0	0	1	1,941
Income tax liabilities	66	0	0	0	66
- Current tax liabilities	22	0	0	0	22
- Deferred tax liabilities	44	0	0	0	44
Other liabilities	454	0	0	0	454
TOTAL LIABILITIES (2)	**783,929**	**2,469**	**3,746**	**1,026**	**791,170**
MISMATCH (1) less (2)	**54,571**	**1**	**25**	**95**	**54,692**
Off-balance sheet liabilities	**61,754**	**0**	**0**	**0**	**61,754**

FOREIGN EXCHANGE RISK as at 31 December 2015					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	885,794	2,405	3,152	1,042	892,393
Total liabilities	833,338	2,417	3,152	941	839,848
Mismatch (1) less (2)	**52,456**	**(12)**	**0**	**101**	**52,545**
Off-balance sheet liabilities	**78,367**	**0**	**0**	**0**	**78,367**

As at 31 December 2016 the Bank did not report capital requirements for foreign exchange risk, as its net currency position did not exceed 2% of the Bank's capital.

5.2.4. Interest rate risk

The Bank additionally monitors exposure to interest rate risk with reference to items in the banking book. It does this by using the methodology of interest rate sensitivity gap reports according to type of maturity and time periods relative to the following setting of interest rates (gap analysis). Interest rate gaps show the difference between the cash flows of interest-sensitive assets and interest-sensitive liabilities according to time periods. Reports on exposure to interest rate risk are reviewed by the Bank's ALM Board on a monthly basis, and quarterly by the Management Board and Supervisory Board in the context of a risk management analysis.

Measuring, monitoring and examining interest rate risk in the Bank is kept separate from adopting decisions on banking positions, which prevents conflicts of interest. This is conducted by the Risk Management Section, which regularly monitors all activities in this area.

With the gap analysis the Bank performs sensitivity tests to determine the effect of changes in market interest rates on the amount of net interest income in the following 12 months, as well as the exposure of the banking book economic value in the event of a standard parallel 200-basis-point interest rate shock. The latter result is used as the basis for computing the Bank's additional capital requirement for interest rate risk under Pillar II; it is computed as the 6-month mean exposure of the banking book economic value assuming a standard interest rate shock.

For the purposes of managing interest rate risk on the banking book, the Bank has in place a two-stage system of limits for each interest rate gap. The first stage is a position limit for each established gap, calculated using a proprietary methodology, while the second is a limit for the total exposure of the banking book economic value with the final risk limit set at 10% of the Bank's capital.

According to the balance as at 31 December 2016 the Bank had at its disposal an adequate amount of capital to offset the potential losses from interest rate risk. In the event of a sudden and unexpected parallel movement of the yield curve by 200 basis points, the effect of the changed interest rate never exceeded 10% of the value of capital.

The impact of the 200 basis points change in interest rates on the total exposure of the banking book economic value amounted to EUR 2,367 thousand as at 31 December 2016, which is 3.98% of the Bank's regulatory capital (2015: EUR 4,656 thousand).

Interest income sensitivity to interest rate movements as at 31 December 2016:

Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	16,552		
One-time curve shift (+2%) - immediate shock	20,164	3,612	21.82%
One-time curve shift (-2%) - immediate shock	7,675	(8,877)	(53.63%)
Curve shift (+2%) - gradually over 12 months	18,393	1,841	11.13%
Curve shift (-2%) - gradually over 12 months	12,185	(4,367)	(26.38%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	25,271	8,719	52.68%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	8,987	(7,565)	(45.71%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	20,946	4,394	26.55%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	12,691	(3,861)	(23.33%)

* The scenario presupposes that the interest rate cannot be negative.

Assuming that the Bank's investments and liabilities as at 31 December 2016 remained unchanged and held-to-maturity, and that the Bank did not actively influence the structure of investments and liabilities in order to modify exposure to interest rate risk, a 2 percentage point drop in market interest rates (immediate shock) would cause an almost EUR 9 million decrease in net interest income over a one-year period (2015: just over EUR 10 million).

The following tables outline exposure to interest rate risk as at 31 December 2016 and 31 December 2015. Financial instruments are recorded at carrying amounts and categorised into time periods according to the subsequent change in interest rate or maturity.

INTEREST RATE RISK as at 31 December 2016									
Balance sheet items	**TOTAL**	**Non-interest bearing**	**Total accrued interest**	**Sight**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**
Cash, balances at central banks, and sight deposits at banks	24,115	2	24,113	24,113	0	0	0	0	0
Available-for-sale financial assets	8,348	4,131	4,217	0	0	2,102	0	2,115	0
Loans	604,631	3,686	600,945	259,136	19,127	99,447	160,040	56,515	6,680
- Loans to banks	5,100	7	5,093	1,000	2,807	1,286	0	0	0
- Loans to customers	598,785	2,933	595,852	258,136	16,320	98,161	160,040	56,515	6,680
- Other financial assets	746	746	0	0	0	0	0	0	0
Held-to-maturity investments	140,941	2,915	138,026	0	0	0	20,981	34,979	82,066
Long-term equity investments in subsidiaries, associates and joint ventures	7,829	7,829	0	0	0	0	0	0	0
Other assets	16,824	16,824	0	0	0	0	0	0	0
TOTAL ASSETS	**802,688**	**35,387**	**767,301**	**283,249**	**19,127**	**101,549**	**181,021**	**93,609**	**88,746**
Financial liabilities measured at amortised cost	788,709	5,161	783,548	453,088	103,306	63,208	126,838	32,320	4,788
- Deposits by banks and central banks	420	0	420	420	0	0	0	0	0
- Deposits by customers	767,963	1,629	766,334	445,924	103,306	63,008	126,638	26,970	488
- Borrowings from banks and central banks	5,758	14	5,744	2,744	0	200	200	1,600	1,000
- Subordinated liabilities	11,615	565	11,050	4,000	0	0	0	3,750	3,300
- Other financial liabilities	2,953	2,953	0	0	0	0	0	0	0
Other liabilities	454	454	0	0	0	0	0	0	0
TOTAL LIABILITIES	**789,163**	**5,615**	**783,548**	**453,088**	**103,306**	**63,208**	**126,838**	**32,320**	**4,788**
Net exposure to interest rate risk	**13,525**	**29,772**	**(16,247)**	**(169,839)**	**(84,179)**	**38,341**	**54,183**	**61,289**	**83,958**

INTEREST RATE RISK as at 31 December 2015									
Balance sheet items	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	858,587	46,275	812,312	361,701	73,237	111,987	173,728	64,120	27,539
Total liabilities	837,939	6,595	831,344	366,874	111,735	76,901	205,190	66,714	3,930
Net exposure to interest rate risk	**20,648**	**39,680**	**(19,032)**	**(5,173)**	**(38,498)**	**35,086**	**(31,462)**	**(2,594)**	**23,609**

The largest exposure as at 31 December 2016 was in euro, with exposures in other currencies negligible and immaterial. Interest rate risk in 2016 arose mainly out of the imbalance between the maturities of interest sensitive investments and liabilities, and out of the subsequent determination of interest rates. In 2017 the Bank plans to continue matching interest rate gaps and maintain a low exposure to interest rate risk.

5.2.5. Average interest rates as at 31 December

		2016		2015
	EUR	USD	EUR	USD
Assets		%		%
Cash, balances at central banks, and sight deposits at banks	0.01	0.04	0.03	0.04
Loans to banks	0.53	0.30	0.99	0.55
Loans to customers	2.35	0.00	2.91	0.00
Investment securities - debt	2.99	0.00	2.76	0.00
Liabilities				
Deposits by banks and central banks	0.00	0.00	0.01	0.00
Borrowings from banks and central banks	0.76	0.00	0.15	0.00
Deposits by customers	0.20	0.01	0.44	0.01
Subordinated liabilities	6.19	0.00	6.14	0.00

5.3. Liquidity risk

The Bank's liquidity situation depends on the set of activities for meeting required cash flows, and on the availability of liquid assets that at all times ensure that outstanding financial obligations can immediately be discharged. For this purpose the Bank holds on its portfolio adequate amounts of cash and highly liquid securities that can be liquidated immediately and without loss in carrying value.

The Bank maintains a diversified pool of liquidity reserves in the form of cash and other highly liquid assets that are free from encumbrances and at the Bank's disposal at any time. To this end the Bank continually monitors the amount and composition of its liquidity reserves, preparing a list of all liquid assets, the proportion of their collectability and of their encumbrances or their being free from encumbrances.

The Bank has in place a set of stress scenarios, which are applied to the current liquidity gaps on a monthly basis, as stipulated by future cash flows ordered according to contractual maturity. All stress test scenario outcomes have designated limits, with the critical limit being defined at one-month's survival. A critical outcome represents the minimum amount of the Bank's liquidity reserves and spans the period from the first day of the analysis to the moment the cumulative liquidity gap turns negative and exceeds the Bank's total unencumbered liquidity assets.

If a critical outcome is confirmed, the Risk Management Section informs the Treasury Division, which must present liquidity balancing measures and report them to the Liquidity Committee. The Bank Management Board, the Internal Audit Department and the Risk Management Section need to be informed of the recovery plan and its planned implementation.

Further, the Bank monitors a wide array of interim liquidity trends and structural liquidity ratios. It has requisite limits designated for all values of the monitored ratios, and regularly examines them.

At least once a year the Bank also stress-tests the liquidity contingency plan using the liquidity shock scenario prepared by the Risk Management Section. On the basis of this scenario the Treasury Division prepares the Bank's response, and diligently notes the duration and implementation of the simulated post-shock recovery process, including an estimate of potential financial consequences. The harmonised report on the stress testing of the liquidity contingency plan is presented to the Bank's Liquidity Committee.

In 2016 the Bank had at its disposal an adequate pool of liquidity reserves, which can be utilised to settle any liabilities as well as off-balance sheet liabilities. In addition, it has at its disposal adequate secondary liquidity (liquid debt securities, domestic loans eligible as collateral with the European Central Bank, etc.) which it could easily and efficiently liquidate and use in case of a liquidity stress event that compromised the daily system of liquidity management, such as e.g. an unexpected large-scale withdrawal of deposits.

All results of monitoring liquidity risk are reported to the Bank's ALM Board on a monthly basis, while the Management Board and Supervisory Board are presented with reports on exposure to liquidity risk each quarter in the context of a risk management analysis.

The following tables summarise the Bank's exposure to liquidity risk as at 31 December 2016 and 31 December 2015. Financial instruments are recorded at undiscounted amounts according to remaining contractual maturity as at 31 December 2016, which in addition to the asset's carrying value includes expected future cash flows from interest.

LIQUIDITY RISK as at 31 December 2016

Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash, balances at central banks, and sight deposits at banks	24,115	0	0	0	0	0	24,115
Available-for-sale financial assets	0	0	0	2,400	0	6,085	8,485
Loans	43,367	8,665	25,895	89,101	207,771	300,430	675,229
- Loans to banks	1,000	2,809	1,293	0	0	0	5,102
- Loans to customers	41,621	5,856	24,602	89,101	207,771	300,430	669,381
- Other financial assets	746	0	0	0	0	0	746
Held-to-maturity investments	0	631	2,334	22,218	47,574	83,356	156,113
Long-term equity investments in subsidiaries, associates and joint ventures	0	0	0	0	0	7,829	7,829
Other assets	16,824	0	0	0	0	0	16,824
TOTAL ASSETS	**84,306**	**9,296**	**28,229**	**113,719**	**255,345**	**397,700**	**888,595**
Financial liabilities measured at amortised cost	448,789	103,989	64,643	128,690	38,879	7,722	792,712
- Deposits by banks and central banks	420	0	0	0	0	0	420
- Deposits by customers	445,823	103,657	63,432	127,378	28,124	560	768,974
- Borrowings from banks and central banks	14	0	1,167	1,190	2,516	1,023	5,910
- Subordinated liabilities	0	0	0	119	8,217	6,119	14,455
- Other financial liabilities	2,532	332	44	3	22	20	2,953
Other liabilities	305	16	78	13	35	7	454
TOTAL LIABILITIES	**449,094**	**104,005**	**64,721**	**128,703**	**38,914**	**7,729**	**793,166**
Net exposure to liquidity risk	**(364,788)**	**(94,709)**	**(36,492)**	**(14,984)**	**216,431**	**389,971**	**95,429**

LIQUIDITY RISK as at 31 December 2015

Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	83,564	62,145	19,457	184,466	261,520	332,115	943,267
Total liabilities	352,477	112,407	81,755	209,486	79,521	8,667	844,313
Net exposure to liquidity risk	**(268,913)**	**(50,262)**	**(62,298)**	**(25,020)**	**181,999**	**323,448**	**98,954**

The liquidity gap for the demand bracket is indeed deeply in the negative, however, financial liabilities in this group include total sight deposits, and this despite the fact that central bank regulations stipulating the calculation of liquidity positions allow for a 60% stability of deposits. In simulating liquidity stress tests, the Bank categorises sight deposits and demand deposits in the Sight time period according to their stability/instability calculated using an in-house model. Additionally, the simulation of liquidity stress tests also takes into account the actual and potential future cash flows based on an analysis of funds drawn from off-balance sheet arrangements, the actual share of repayments from loans, and the share of renewed deposits.

Based on the conducted analyses, the Bank estimates that its off-balance sheet positions do not contribute particularly to its exposure to liquidity risk, which is why they were not included into the above table.

As at 31 December 2016 the Bank had EUR 302 million of unencumbered liquidity reserves, i.e. of eligible assets available for use in ECB credit operations, which substantially exceeds liquidity shortages in case of shock scenarios.

In the future the Bank will maintain the minimum required amount of liquid assets as estimated using stress scenarios, in the form of top-rated debt securities. In addition, attention will be devoted to the banking liquidity regulation, especially to monitoring the LCR and NSFR and to meeting their required values.

5.4. Fair value of financial assets and liabilities

5.4.1. Financial assets not measured at fair value

	2016					2015				
	Carrying amount	Fair value				Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Assets										
Loans and advances to banks	5,100	0	0	5,100	5,100	5,621	0	0	5,621	5,621
Loans and advances to customers	598,785	0	0	601,344	601,344	621,036	0	0	621,036	621,036
Held-to-maturity debt securities	140,941	153,655	0	0	153,655	157,090	167,589	0	0	167,589
Total assets	**744,826**	**153,655**	**0**	**606,444**	**760,099**	**783,747**	**167,589**	**0**	**626,657**	**794,246**
Liabilities										
Deposits by banks	420	0	0	420	420	309	0	0	309	309
Deposits by customers	767,963	0	0	767,963	767,963	781,946	0	0	781,946	781,946
Borrowings from banks and central banks	5,758	0	0	5,758	5,758	38,310	0	0	38,310	38,310
Subordinated liabilities	11,615	0	0	11,615	11,615	14,083	0	0	14,083	14,083
Total liabilities	**785,756**	**0**	**0**	**785,756**	**785,756**	**834,648**	**0**	**0**	**834,648**	**834,648**

(a) Loans and advances to banks

The estimated fair value of loans and advances to banks is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and remaining maturity. The fair value of loans to commercial banks is estimated to closely resemble their carrying amount. Fixed-rate credit operations are short-term, meaning the contractual interest rates do not differ considerably from end-of-year market interest rates, while the Bank has not granted any long-term loans to banks. This is why the fair value of loans to commercial banks is the same as their carrying amount.

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The fair value of loans to customers is estimated to closely resemble their carrying amount. Fixed-rate loans are mostly short-term, meaning the contractual interest rates do not differ considerably from end-of-year market interest rates, while long-term fixed-rate loans represent only a negligible share of total loans to customers.

(c) Held-to-maturity debt securities

Held-to-maturity debt securities are stated at amortised cost. Their fair value as at 31 December 2016 was calculated using market prices formed in the markets where they are listed.

(d) Deposits and borrowings

The Bank's long-term debt has no market value. Fair value is estimated as the discounted amount of future cash flows, taking into account market interest rates that the Bank would currently have to pay for new deposits with similar characteristics and the same remaining maturity. Since most borrowings are linked to changing market interest rates, the fair value of deposits does not substantially differ from their carrying amounts.

The fair value of demand deposits to the depository institution depends on the expectations of the timing and amounts of withdrawals of the existing balance, the level of prevailing interest rates with similar terms, the costs of servicing these deposits and the depository institution's – thus the Bank's – own credit risk. This is especially important for sight deposits.

The estimated fair value of other deposits is based on discounted contractual cash flows using market interest rates that the Bank would currently have to pay for new deposits with similar remaining maturity.

For deposits from banks and deposits from other customers there are no differences between carrying amount and fair value.

(e) Bonds

The Bank's issued bonds are recognised at fair value. Fair value is calculated using the market price on the market where the bonds are listed on the balance sheet date.

5.4.2. Financial and non-financial assets measured at fair value

Financial instruments measured at fair value in the financial statements:

2016	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	0	**0**
Available-for-sale financial assets (Note 4.3. a)	0	0	8,348	**8,348**
Non-financial assets				
Investment property (Note 4.9. a)	0	0	26,442	**26,442**
Financial liabilities				
Financial liabilities held for trading	0	0	0	**0**

2015	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets held for trading (Note 4.2. a)	258	0	0	**258**
Available-for-sale financial assets (Note 4.3. a)	292	0	9,634	**9,926**
Non-financial assets				
Investment property (Note 4.9. a)	0	0	15,675	**15,675**
Financial liabilities				
Financial liabilities held for trading	0	0	0	**0**

The fair value of investments is measured at three levels:
Level 1: Level 1 includes investments into listed equity and debt securities whose fair value equals their market price, i.e. the last official closing price.

Level 2: Level 2 includes investments in unlisted debt securities and derivatives. Fair value for Level 2 investments is determined through an internal methodology. The value of unlisted debt securities for which fair value cannot be calculated even from external data sources is determined using the discounted value method. Unlisted mutual fund shares are measured at their net asset value, which is published daily. If a transaction is concluded in the market and thereafter a market price forms for a security previously measured according to the Bank's internal methodology, the security is restated at the market price.

Level 3: Level 3 includes unlisted equities (of the EUR 4 million of unlisted equities, EUR 2.7 million is the investment into the Bank Resolution Fund), bonds, receivables and payables associated with the purchase and sale of foreign exchange, and investment property at fair value. The valuation of equities that do not have quoted prices is based on market observables. Key parameters are compared with those of similar assets and liabilities traded in an active market, with the data coming from Bloomberg or another reliable source. In determining their fair value the Bank applies the same internal methodologies as for Level 2 instruments. The fair value of investment property is determined on the basis of appraisal reports prepared by independent appraisers working in compliance with International Valuation Standards (IVS).

Level 3: Available-for-sale financial assets – breakdown

	2016	2015
Equities		
Bank resolution fund	2,702	2,699
Equity investments at cost	1,285	1,374
Bonds		
Lithuania	2,202	3,330
NLB d. d., Ljubljana	0	4
Republic of Slovenia	2,159	2,227
TOTAL	**8,348**	**9,634**

Pursuant to the Bank Resolution Authority and Fund Act, the Bank paid EUR 2.7 million into the Bank Resolution Fund in 2016. These assets are managed by the Bank of Slovenia consistent with the Regulation on the Investment Policy and Management Fees of the Bank Resolution Fund. The Bank of Slovenia sends regular monthly reports on the value of the investment, which serves as the basis for its valuation and which is why the Bank categorises it into Level 3. The Bank additionally categorises into Level 3 capital assets worth EUR 1.3 million for which market value does not exist and which are valued at cost, and EUR 4.4 million worth of bonds categorised as available-for-sale financial assets measured at fair value.

There were no transfer between different valuation levels in 2015 and 2016.

5.5. Managing operational risk

Regular reporting on (loss) events associated with operational risk has been in place since 1 April 2007. The Bank has proprietary application support for systematic monitoring of loss events arising out of operational risk, which is regularly updated and upgraded. The new Resolution on Internal Governance, Management Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks allows each employee of the Bank to report a (loss) event into the loss events database. 229 (loss) events associated with operational risk were reported in this manner in 2016, which is more than in 2015 when there were 149, and the realised net loss was also lower than in 2015. It totalled EUR 37.6 thousand in 2016 (2015: EUR 203.3 thousand), testifying to the fact that the Bank's awareness of operational risk is increasing, pushing the related loss down. The total reported net loss was relatively low considering the capital requirements for operational risk.

Integrated into this system are measures to resolve operational risk events and prevent repeat events. Since the final quarter of 2010 operational risk (loss) events have been additionally monitored according to key risk indicators. Reports on operational risk (loss) events are promptly presented to the Bank's Management Board and Internal Audit Department, while the Operational Risk Committee receives them on a quarterly basis.

In 2016 the Bank regularly updated its business continuity plan BCP I (alternative provision of services in case of shorter or longer interruptions of regular operations), BCP II (Bank's operations in case of natural disasters, break-ins, burglaries, earthquakes, communication failures and blackouts, min. twice a year) and BCP III (operations of a back-up computer centre and data restoration). The BCP I, BCP II and BCP III are being tested regularly, with test reports being presented to the Operational Risk Board and the Bank Management Board once a year. In 2016 the Bank staged 18 BCP I tests, 13 BCP II tests and five BCP III tests.

The Bank calculates and reports capital requirements for operational risk using the simple approach. The capital requirement for operational risk is calculated as the average over three years of the sum of net interest income and net non-interest income, minus extraordinary income, the result then multiplied with the weight of 15%. Using the said simple approach, the Bank's 2016 capital requirement for operational risk totalled EUR 4,079 thousand.

The Bank also calculated the capital requirement for operational risk using the standardised approach in 2016. The calculation method is stipulated in Articles 317 and 318 of Regulation (EU) No 575/2013. For this purpose the Bank divided its activities into eight business lines as follows: corporate finance (β factor is 18%), trading and sales (β factor is 18%), retail brokerage (β factor is 12%), commercial banking (β factor is 15%), retail banking (β factor is 12%), payment and settlement (β factor is 18%), agency services (β factor is 15%) and asset management (β factor is 12%).

The capital requirement for operational risk was calculated as the average over three years of the sum of annual capital requirements across all business lines. The annual capital requirement of each business line is equal to the product of the corresponding beta factor and the relevant indicator mapped to the respective business line. Using this approach, the Bank's capital requirement for operational risk was lower by EUR 80 thousand from the one calculated under the simple approach.

5.6. Capital management

Capital management is a continuous process of determining and maintaining the sufficient scope and quality of capital. The Bank must always have at its disposal an adequate amount of capital and capital adequacy, which is stipulated by law and depends on the scope and type of services performed by the Bank as well as on the risks these services expose it to. In determining the amount and categories of capital, the Bank abides by statutory provisions related to capital as stipulated since 1 January 2014 by the Regulation (CRR), the Directive (CRD), EBA guidelines and requirements of the Bank of Slovenia.

The Bank's regulatory capital consists of tier I and tier II capital. Under the Regulation, tier I capital consists of common equity tier I and additional tier I capital. Common equity tier I includes: paid capital instruments meeting conditions for inclusion into common equity tier I, share premium, revenue reserves, retained earnings/loss, accumulated other comprehensive income, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences, as well as a special credit risk adjustment[4] and an adjustment for prudent valuation of financial assets measured at fair value in the banking and trading book[5]. The following constitute deductions from common equity tier 1 capital: loss, treasury shares, intangible assets, deferred tax assets associated with future profits and not arising out of temporary differences[6], special credit risk adjustment and adjustment for prudent valuation of financial assets measured at fair value in the banking and trading book.

The Bank did not have additional tier I capital neither according to the balance as at 31 December 2016 nor as at 31 December 2015.

The Bank's tier II capital consists of subordinated debt (subordinated liabilities with contractual maturities of 5 years and 1 day, or longer). The amount of subordinated debt included into tier II capital decreases on a straight-line basis over the final five years prior to maturity (i.e. prior to repayment).

4 As required by the Bank of Slovenia, the Bank had to subsequently calculate special credit risk adjustments as early as for the financial year 2015, and include them in the calculation of regulatory capital for that year.
5 It has been a capital deduction item since 2016.
6 A transitional period applies to this deduction item, with 60% deduced in 2016, 40% in 2015, and 80% of the balance deduced in 2017.

Capital may never drop below the amount stipulated by the Slovenian Banking Act ZBan-1 and must always equal minimally the sum of minimum capital requirements.

The table below shows the calculation of the Bank's capital and capital adequacy ratios.

		2016	2015
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES			
1	Capital instruments and the related share premium	17,811	17,811
	of which: instrument type 1	17,811	17,811
2	Retained earnings and revenue reserves	4,504	2,401
3	Accumulated other comprehensive income and other reserves	31,075	31,201
4	**Common equity tier I capital before regulatory adjustments**	**53,390**	**51,413**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS			
5	Additional fair value and credit risk adjustments	(318)	0
6	Intangible assets (deductions for associated tax liabilities)	(678)	(755)
7	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(1,479)	(1,100)
8	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(645)
9	Total regulatory adjustments to common equity tier I capital	(3,119)	(2,500)
10	Common equity tier I capital	50,270	48,913
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**50,270**	**48,913**
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS			
12	Capital instruments and the related share premium account	9,229	10,563
13	Tier II capital before regulatory adjustments	9,229	10,563
14	**TIER II CAPITAL**	**9,229**	**10,563**
15	**TOTAL CAPITAL (tier I + tier II)**	**59,499**	**59,476**
16	Total risk-weighted assets	419,427	450,024
CAPITAL RATIOS AND CAPITAL BUFFERS			
17	**Common equity tier I capital** (in %)	**11.99**	**10.87**
18	**Tier I capital** (in %)	**11.99**	**10.87**
19	**Total capital** (in %)	**14.19**	**13.22**
20	Common equity tier I capital that qualifies as capital buffer (in %)	11.99	10.87
21	Direct and indirect equity holdings in financial sector entities where the institution does not have a significant investment (amount below 10% threshold, reduced by permitted short positions)	2,998	3,195
22	Direct and indirect equity holdings in common equity tier I capital instruments of financial sector entities where the institution has a significant investment (amount below 10% threshold, reduced by permitted short positions)	4,141	2,241
23	Deferred tax assets arising out of temporary differences (amount under 10% threshold, reduced by associated tax liabilities if conditions from Article 38(3) are met)	3,153	3,086

The Bank's regulatory capital as at 31 December 2016 amounted to EUR 59,499 thousand, a year-on-year increase by EUR 23 thousand. The quality of capital structure improved at the year-end of 2016, the share of tier I capital having increased to 84.5% (from 82.2% in 2015). Total capital requirements at the level of the Bank totalled EUR 33,554 thousand at the year-end of 2016, down EUR 2,418 thousand year-on-year. Capital requirements for credit risk decreased due to a smaller credit portfolio. In addition, the Bank continued in 2016 with activities aimed at reducing capital requirements (arranging mortgages as to eligibility in order to reduce capital requirements, minding non-performing exposures, etc.). Exposure decreased the most in 2016 in terms of defaulting items. On account of the capital increase and reduction in capital requirements (especially for credit risk), the Bank's capital adequacy ratio improved. The total capital ratio as at 31 December 2016 thus stood at 14.19%, up 0.97 of a percentage point year-on-year. Tier 1 capital ratio and common equity tier 1 capital ratio as at 31 December 2016 were 11.99%, up 1.12 of a percentage point year-on-year.

As at 31 December 2016 the Bank's equity holdings in financial sector entities where it had a significant investment (100% of capital), were DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. The equity investment in DBS Leasing d. o. o. totalled EUR 2,678 thousand as at 31 December 2016; consistent with Article 49 (2) of the Regulation it was not deduced from capital, but was included in the calculation of the capital requirement for credit risk. The investment in DBS Nepremičnine d. o. o. totalled EUR 1,464 thousand as at 31 December 2016. Consistent with the provisions of Article 4 (1) (18) of the Regulation, DBS Nepremičnine d. o. o. is considered an ancillary services undertaking and therefore one of the financial sector entities under Article 4 (1) (27c) of the same. In the calculation of capital and capital requirements for credit risk, Article 49 (2) of the Regulation applies to DBS Nepremičnine d. o. o. the same as to DBS Leasing d. o. o.

Under Regulation (EU) No 575/2013, the Bank also had 100% investments in a qualified holding outside the financial sector: in DBS Adria d. o. o. with EUR 7 thousand and in Semenarna Ljubljana d. o. o. with EUR 3,681 thousand. These investments were not included in prudential consolidation and were not deduced from capital per Article 89 of the Regulation. They were therefore included in the calculation of the capital requirement for credit risk.

Given the Bank's internal capital adequacy assessment, we estimate the reported capital adequacy ratio as appropriate for controlling the risk of potential losses. The Bank and the Group will continue to operate an adequate amount of capital to sustain their normal operations in the future. For 2016 the Bank of Slovenia imposed minimum capital adequacy ratios for the Group on the basis of the ICAAP/SREP process: the capital adequacy ratio of 13.1% (the same as in 2015) and the tier I capital adequacy ratio of 10.5% (in 2015 the target for the Group was 10.4%). At the year-end of 2016 the Bank thus met all the capital adequacy ratios imposed by the Bank of Slovenia.

For 2017 the Bank of Slovenia imposed new minimum capital adequacy ratios for the Group and the Bank on the basis of the ICAAP/SREP process: the capital adequacy ratio of 12.75% and the tier I capital adequacy ratio of 11.5%.

The table below shows the balancing of the Bank's items of capital with its financial statements.

Code	Items	2016	Inclusion into calculation of capital for the purpose of CA as at 31 December 2016	Full inclusion (without considering transitional provisions)	Explanation from Regulation 575/2013
1	Cash, balances at central banks, and sight deposits at banks	24,115			
2	Available-for-sale financial assets	8,348	(8)	(8)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Loans and advances	604,631			
	- Loans and advances to banks	5,100			
	- Loans and advances to customers	598,784			
	- Other financial assets	746			
4	Held-to-maturity investments	140,941			
5	Property, plant and equipment	10,440			
6	Investment property	26,442			
7	Intangible assets	678	(678)	(678)	deduction item Article 36 b - fully
8	Long-term equity participation in subsidiaries, associates and joint ventures	7,829			
9	Income tax assets	5,614			
	- Current tax assets	39			
	- Deferred tax assets	5,575			
	Depending on future profitability and not arising out of temporary differences	2,464	(1,478)	(2,464)	deduction item Article 36 c - 60% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,111			
10	Other assets	16,824			
11	**TOTAL ASSETS** (from 1 to 10)	**845,862**			
12	Trading liabilities	0			
13	Financial liabilities measured at amortised cost	788,709			
	- Deposits by banks and central banks	420			
	- Deposits by customers	767,963			
	- Borrowings from banks and central banks	5,758			
	- Subordinated liabilities	11,615	9,229	9,229	included on the basis of Articles 62 and 63
	- Other financial liabilities	2,953			
14	Provisions	1,941			
15	Income tax liabilities	66			
	- Current tax liabilities	22			
	- Deferred tax liabilities	44			
16	Other liabilities	455			
17	**TOTAL LIABILITIES** (from 12 to 16)	**791,170**			
18	Share capital	17,811	17,811	17,811	fully included; Article 26
19	Share premium	31,257	31,257	31,257	fully included; Article 26
20	Accumulated other comprehensive income	(200)			
	From government debt securities	104	0	104	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	2	(1)	(2)	only 60% of unrealised losses included in 2016, Article 467 (transitional period)
	Other revaluation surpluses	(306)	(183)	(306)	only 60% of unrealised losses included in 2016, Article 467 (transitional period)
21	Revenue reserves	4,504	4,504	4,504	fully included; Article 26
22	Treasury shares	(645)	(645)	(645)	deduction item, Article 36 f - fully
23	Retained earnings (including profit/loss for the year)	1,965			
	Retained earnings	0	0	0	fully included; Article 26
	Profit for the period	1,965	1,965	1,965	conditions for inclusion not yet met
24	**TOTAL EQUITY** (from 18 to 23)	**54,692**			
25	**TOTAL EQUITY AND LIABILITIES** (17 + 24)	**845,862**			
			59,808	**58,804**	**Regulatory capital (sum of capital from SFP)**
			(309)	(309)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			59,499	**58,495**	**Regulatory capital**

5.7. Asset encumbrance

(a) Assets

					2016
		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**0**	**-**	**845,862**	**-**
030	Equities	0	0	3,987	3,787
040	Debt securities	0	0	145,302	158,015
120	Other assets	0	-	75,405	-

(b) Collateral received

			2016
		Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**0**	**0**
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	0
240	**Own debt securities issued other than own covered bonds or ABSs**	**0**	**0**

(c) Encumbered assets/collateral received and related liabilities

			2016
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**0**	**0**

(d) Information on the importance of encumbrance

The Bank’s encumbered assets include investments in debt securities available for sale or held to maturity, and non-marketable assets (loans to the state).

There are no encumbered assets in the pool of assets, because the Bank has repaid all its liabilities.

RISK AND CAPITAL MANAGEMENT
(Disclosures under Pillar 3 of the Basel Accord)

CONTENTS

1. INTRODUCTION

European banks have to disclose many types of information to enable stakeholders a more precise estimate of the risks the banks are exposed to in their operations. Part 8 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (Regulation EU 575/2013) provides minimum disclosure requirements for information concerning risk management and capital adequacy, and it is directly binding for all members states. Some disclosure requirements do not apply to the Group – because they refer to different approaches to calculating capital requirements or because they refer to lines of business not conducted by the Group – and therefore they are not included in this report.

In calculating its regulatory capital requirements, the Group uses the following approaches:
- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – simple approach.

2. SCOPE OF APPLICATION

Pursuant to the capital requirements legislation, the Group has to disclose information about its risk management and capital management on a consolidated basis. Calculations at Group level are based on prudential consolidation, which includes DBS d. d. and the subsidiaries DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. Subsidiaries are included in prudential consolidation using the full consolidation method.

Regulatory consolidation includes DBS d. d., DBS Leasing d. o. o., DBS Nepremičnine d. o. o., DBS Adria d. o. o. and Semenarna Ljubljana, d. o. o.

The table below shows all Group companies, their main features and the method of consolidation. More on individual companies is available in the Business Report of the Annual Report under section V.

Subsidiaries	Business activity	Group's share of voting rights	Registered office	Consolidation method for financial reporting	Prudential consolidation method
DBS Leasing d. o. o.	Finance	100%	Republic of Slovenia	Full	Full
DBS Nepremičnine d. o. o.	Buying and selling of own real estate	100%	Republic of Slovenia	Full	Full
Semenarna Ljubljana d. o. o.	Wholesale trade	100%	Republic of Slovenia	Full	-
DBS Adria d. o. o.	Management of real estate	100%	Republic of Croatia	Full	-

Group statement of financial position as at 31 December 2016 – comparison of regulatory consolidation and prudential consolidation

in EUR thousand

		Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
Code	Items	2016	2015	2016	2015	2016	2015
1	Cash, balances at central banks, and sight deposits at banks	24,687	33,408	24,115	33,367	572	41
2	Financial assets held for trading	0	258	0	258	0	0
3	Available-for-sale financial assets	8,348	9,926	8,348	9,926	0	0
4	Loans and advances	607,481	628,095	607,506	627,412	(25)	683
	- Loans and advances to banks	5,100	5,621	5,100	5,621	0	0
	- Loans and advances to customers	599,627	620,211	601,485	621,195	(1,858)	(984)
	- Other financial assets	2,754	2,263	921	596	1,833	1,667
5	Held-to-maturity investments	140,941	157,090	140,941	157,090	0	0
6	Non-current assets held for sale, and discontinued operations	179	1,641	26	21	153	1,620
7	Property, plant and equipment	34,538	34,422	11,244	11,930	23,294	22,492
8	Investment property	26,442	15,675	26,442	15,675	0	0
9	Intangible assets	970	1,112	695	779	275	333
	Long-term equity participation in subsidiaries, associates and joint ventures	0	0	3,688	3,681	(3,688)	(3,681)
10	Income tax assets	6,076	6,709	5,625	6,230	451	479
	- Current tax assets	50	398	50	395	0	3
	- Deferred tax assets	6,026	6,311	5,575	5,835	451	476
11	Other assets	26,578	34,824	18,182	26,797	8,396	8,027
12	**TOTAL ASSETS** (from 1 to 11)	**876,240**	**923,160**	**846,812**	**893,166**	**29,428**	**29,994**
13	Financial liabilities measured at amortised cost	815,298	864,787	789,313	838,185	25,985	26,602
	- Deposits by banks and central banks	448	344	420	309	28	35
	- Deposits by customers	767,666	780,890	767,864	781,609	(198)	(719)
	- Borrowings from banks and central banks	25,692	59,358	5,758	39,185	19,934	20,173
	- Borrowings from customers	1,394	915	625	0	769	915
	- Subordinated liabilities	11,615	14,083	11,615	14,083	0	0
	- Other financial liabilities	8,483	9,197	3,031	2,999	5,452	6,198
14	Provisions	2,336	2,690	1,947	1,788	389	902
15	Income tax liabilities	1,218	1,304	66	145	1,152	1,159
	- Current tax liabilities	21	67	22	67	(1)	0
	- Deferred tax liabilities	1,197	1,237	44	78	1,153	1,159
16	Other liabilities	885	809	629	469	256	340
17	**TOTAL LIABILITIES** (from 13 to 16)	**819,737**	**869,590**	**791,955**	**840,587**	**27,782**	**29,003**
18	Share capital	17,811	17,811	17,811	17,811	0	0
19	Share premium	31,257	31,257	31,257	31,257	0	0
20	Accumulated other comprehensive income	(242)	61	(192)	114	(50)	(53)
21	Revenue reserves	4,504	2,401	4,504	2,401	0	0
22	Treasury shares	(657)	(656)	(645)	(645)	(12)	(11)
23	Retained earnings (including profit/loss for the year)	3,830	2,696	2,122	1,641	1,708	1,055
24	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 18 to 23)	**56,503**	**53,570**	**54,857**	**52,579**	**1,646**	**991**
25	TOTAL EQUITY (24)	56,503	53,570	54,857	52,579	1,646	991
26	**TOTAL EQUITY AND LIABILITIES** (17 + 25)	**876,240**	**923,160**	**846,812**	**893,166**	**29,428**	**29,994**

Group income statement as at 31 December 2016 – comparison of regulatory consolidation and prudential consolidation

in EUR thousand

		Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
Code	**Items**	**1-12 2016**	**1-12 2015**	**1-12 2016**	**1-12 2015**	**1-12 2016**	**1-12 2015**
1	Interest income	19,888	26,387	19,886	26,397	2	(10)
2	Interest expense	3,879	7,321	3,195	6,587	684	734
3	**Net interest income** (1 - 2)	**16,009**	**19,066**	**16,691**	**19,810**	**(682)**	**(744)**
4	Dividends	9	6	9	6	0	0
5	Fee (commission) income	9,113	8,305	9,139	8,326	(26)	(21)
6	Fee (commission) expense	2,378	2,663	1,542	1,806	836	857
7	**Net fee (commission) income** (5 - 6)	**6,735**	**5,642**	**7,597**	**6,520**	**(862)**	**(878)**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	16	217	15	208	1	9
9	Net gains/losses from financial assets and liabilities held for trading	143	215	143	215	0	0
10	Foreign exchange translation	42	221	13	224	29	(3)
11	Net gains/losses on derecognition of assets	8,996	8,758	621	18	8,375	8,740
12	Other net operating gains/losses	(1,050)	(61)	(1,063)	27	13	(88)
13	Administrative expenses	22,533	22,226	16,369	15,997	6,164	6,229
14	Depreciation and amortisation	2,074	2,308	1,443	1,694	631	614
15	Provisions	(36)	300	15	296	(51)	4
16	Impairment charge	3,160	5,841	3,199	5,844	(39)	(3)
17	Net gains/losses from non-current assets held for sale and related liabilities	73	118	73	118	0	0
18	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16 + 17)	**3,242**	**3,507**	**3,073**	**3,315**	**169**	**192**
19	Tax	495	426	486	416	9	10
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (18 - 19)	**2,747**	**3,081**	**2,587**	**2,899**	**160**	**182**
21	**PROFIT/LOSS FOR THE YEAR** (20)	**2,747**	**3,081**	**2,587**	**2,899**	**160**	**182**

3. CAPITAL

3.1. The Group's capital adequacy

Pursuant to Regulation EU 575/2013 (Article 492.2) the Group has to disclose three different capital adequacy ratios, the minimum values[7] of which are the following:

- common equity tier 1 capital ratio: 4.5%, or 5.125% with the capital conservation buffer,
- tier 1 capital ratio: 6%, and
- total capital ratio: 8%.

Pursuant to Article 437 (d) (e) of the Regulation, elements of capital are presented in the form stipulated by the EBA Implementing Technical Standard, published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014, along with the realised capital adequacy ratios.

The Group calculates capital and capital adequacy ratios pursuant to the legislation. The capital adequacy ratio improved in 2016 year-on-year, and the Group met all requirements imposed by the Bank of Slovenia for 2016 in the context of the Supervisory Review and Evaluation Process (SREP).

[7] The supervisory authority has the discretionary power to impose, in the context of ICAAP–SREP, on a bank or banking group higher target values of capital adequacy ratios.

Elements of regulatory capital and capital adequacy:

		2016	2015	Reference to articles in Regulation (EU) 575/2013
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium account	17,811	17,811	26(1), 27, 28, 29, 26(3), EBA list
	of which: instrument type 1	17,811	17,811	26(3), EBA list
2	Retained earnings and revenue reserves	4,630	2,645	26(1)(c)
3	Accumulated other comprehensive income and other reserves	31,080	31,203	26(1)
4	**Common equity tier I capital before regulatory adjustments**	**53,521**	**51,659**	
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS				
	Additional fair value and credit risk adjustments	(320)	0	26(2), 34, 105, Delegated Regulation 183/2014
5	Intangible assets (deductions for associated tax liabilities)	(695)	(779)	36(1)(b), 37, 472(4)
6	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(1,479)	(1,100)	36(1)(c), 38, 472(5)
7	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(645)	36(1)(f), 42, 472(8)
8	Total regulatory adjustments to common equity tier I capital	(3,138)	(2,523)	
9	Common equity tier I capital	50,382	49,135	
10	**TIER I CAPITAL (common equity tier I + additional tier I)**	**50,382**	**49,135**	
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS				
11	Capital instruments and the related share premium account	9,229	10,563	62, 63
12	Tier II capital before regulatory adjustments	9,229	10,563	62, 63
13	**TIER II CAPITAL**	**9,229**	**10,563**	
14	**TOTAL CAPITAL (tier I + tier II)**	**59,611**	**59,699**	
15	Total risk-weighted assets	418,898	446,037	
CAPITAL RATIOS AND CAPITAL BUFFERS				
16	**Common equity tier I capital** (in %)	**12.03**	**11.02**	
17	**Tier I capital** (in %)	**12.03**	**11.02**	
18	**Total capital** (in %)	**14.23**	**13.38**	
19	Common equity tier I capital that qualifies as capital buffer (in %)	12.03	11.02	
	Institution-specific buffer requirement	0.625	0.000	440
	of which: capital conservation buffer requirement	0.625	0.000	440
	of which: countercyclical capital buffer requirement	0.000	0.000	440
20	Direct and indirect equity holdings in financial sector entities where the institution does not have a significant investment (amount below 10% threshold, reduced by permitted short positions)	2,998	3,195	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)
21	Direct and indirect equity holdings in common equity tier I capital instruments of financial sector entities where the institution has a significant investment (amount below 10% threshold, reduced by permitted short positions)	0	0	36(1)(i), 45, 48, 470, 472 (11)
22	Deferred tax assets arising out of temporary differences (amount under 10% threshold, reduced by associated tax liabilities if conditions from Article 38(3) are met)	3,153	3,086	36(1)(c), 38, 48, 470, 472(5)

3.2. Reconciliation of regulatory capital to financial statements

Regulatory capital and capital adequacy ratios are calculated using data from the Group's financial statements. Disclosure on the reconciliation of regulatory capital to the balance sheet was prepared according to Articles 437 (a) (f) and 447 (e) of the Regulation (EU) No 575/2013. The Group's capital consists of the majority of capital items from the statement of financial position, and subordinated debt, and it is additionally lowered by deduction items. The table below shows the proportions of individual items that are included in the calculation of regulatory capital. In addition to the amounts that were actually included in regulatory capital as at the year-end of 2016 (second column), the table shows the full amounts of these items, i.e. the amounts that would be taken into account in the calculation of capital were it not for allowances from the transitional period (third column).

Due to the gradual implementation of certain provisions, the amount of the Group's capital that is presently considered in the calculation of capital adequacy, is higher by EUR 1,000 thousand than it would be if all requirements had already been fully implemented. The difference is mainly due to two deduction items: deferred tax, of which only 60% is deducted in 2016 but upon full implementation it will be deduced completely, and accumulated comprehensive income, which now includes 60% of other revaluation gains but will include their full amount upon full implementation.

Reconciliation of statement of financial position items with regulatory capital for the purpose of the Group's capital adequacy as at 31 December 2016

Code	Items	Prudential consolidation	Inclusion into calculation of capital for the purpose of CA as at 31 December 2016	Full inclusion (without considering transitional provisions)	Note
		2016			
1	Cash, balances at central banks, and sight deposits at banks	24,115			
2	Available-for-sale financial assets	8,348	(8)	(8)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Loans and advances	607,506			
	- Loans and advances to banks	5,100			
	- Loans and advances to customers	601,485			
	- Other financial assets	921			
4	Held-to-maturity investments	140,941			
5	Non-current assets held for sale, and discontinued operations	26			
6	Property, plant and equipment	11,244			
7	Investment property	26,442			
8	Intangible assets	695	(695)	(695)	deduction item Article 36 b - fully
	Long-term equity participation in subsidiaries, associates and joint ventures	3,688			
9	Income tax assets	5,625			
	- Current tax assets	50			
	- Deferred tax assets	5,575			
	Depending on future profitability and not arising out of temporary differences	2,464	(1,478)	(2,464)	deduction item Article 36 c - 60% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,111			
10	Other assets	18,182			
11	**TOTAL ASSETS** (from 1 to 10)	**846,812**			
12	Financial liabilities measured at amortised cost	789,313			
	- Deposits by banks and central banks	420			
	- Deposits by customers	767,864			
	- Borrowings from banks and central banks	5,758			
	- Borrowings from customers	625			
	- Subordinated liabilities	11,615	9,229	9,229	included on the basis of Articles 62 and 63
	- Other financial liabilities	3,031			
13	Provisions	1,947			
14	Income tax liabilities	66			
	- Current tax liabilities	22			
	- Deferred tax liabilities	44			
15	Other liabilities	629			
16	**TOTAL LIABILITIES** (from 12 to 15)	**791,955**			
17	Share capital	17,811	17,811	17,811	fully included; Article 26
18	Share premium	31,257	31,257	31,257	fully included; Article 26
19	Accumulated other comprehensive income	(192)			
	From government debt securities	104	0	104	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	2	(1)	(2)	only 60% of unrealised losses included in 2016, Article 467 (transitional period)
	Other revaluation surpluses	(298)	(179)	(298)	only 60% of unrealised losses included in 2016, Article 467 (transitional period)
20	Revenue reserves	4,504	4,504	4,504	fully included; Article 26
21	Treasury shares	(645)	(645)	(645)	deduction item, Article 36 f - fully
22	Retained earnings (including profit/loss for the year)	1,996			
	Retained earnings	126	126	126	fully included; Article 26
	Profit for the period	1,996	1,996	1,996	conditions for inclusion not yet met
23	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 17 to 22)	**54,731**			
24	TOTAL EQUITY (23)	54,731			
25	**TOTAL EQUITY AND LIABILITIES** (16 + 24)	**846,686**			
			59,922		**Regulatory capital (sum of capital from SFP)**
			(311)	(311)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			59,611	**58,611**	**Regulatory capital**

3.3. Detailed presentation of items of regulatory capital

Pursuant to Article 437 (d) (e) of Regulation (EU) No 575/2013, this is a detailed presentation of regulatory capital items. The form of presentation is stipulated by the EBA Implementing Technical Standard published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014 (Annex VI – Transitional own funds disclosure template).

Differences between capital for accounting purposes, and capital in the calculation of the Group's capital adequacy as at 31 December 2016

Item in statement of financial position		Item in calculation of regulatory capital	
Share capital	17,811	17,811	Paid capital instruments
Share premium	31,257	31,257	Share premium
Accumulated other comprehensive income	(192)	(178)	Accumulated other comprehensive income
Revenue reserves, including retained earning	4,630	4,630	Reserves and retained earnings
Treasury shares	(645)	(645)	Treasury shares
Net profit for the year	1,996	0	Net profit for the year
		(1,479)	Deferred tax assets associated with future profits and not arising out of temporary differences
		(695)	Intangible assets
		(311)	Special credit risk adjustments
		(8)	Prudent valuation of financial assets in the banking and trading book
		50,382	**Common equity tier I (CET 1)**
		0	Additinal tier I (AT 1)
		50,382	**Total tier I**
		9,229	Tier II (T2)
Total capital for accounting purposes	**54,857**	**59,611**	**Total regulatory capital**

3.4. Capital instruments included in capital

In 2016 the Bank's regulatory capital consisted of common equity tier I capital and capital instruments that met the criteria for inclusion into tier II capital, for which the Bank obtained the relevant decisions from the Bank of Slovenia. As at 31 December 2016 the Bank did not have capital instruments meeting the criteria for inclusion into additional tier I capital. Tables below show the main features of capital instruments included into tier I and tier II capital, in accordance with Article 437 (b) (c) of Regulation (EU) No 575/2013.

The table below shows the main features of the Group's ordinary shares:

Main features of tier I capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	SZBR; ISIN SI0021110083
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Common equity tier I
Post-transitional CRR rules	Common equity tier I
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	Ordinary shares
Amount recognised in regulatory capital (as at the last reporting date)	Paid capital: EUR 17,811 thousand
Nominal amount of instrument	Par value shares; no.: 4,268,248
Issue price	NA
Redemption price	NA
Accounting classification	Shareholders' equity
Original date of issuance	16 April 1990 (Bank's entry in court register)
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	Dividend
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	Yes
Noncumulative or cumulative	NA
Convertible or non-convertible	NA
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First instrument to cover loss subordinated to all other instruments
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

The main features of the Group's tier II capital are presented in the following six tables. It is included in the calculation of regulatory capital as at the maturity date stipulated in the contracts.

Tier II capital paid in 2012 with maturity date 20 December 2019

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand / EUR 1,000 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	20 December 2012
Perpetual or dated	Dated
Original maturity date	20 December 2019
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6-month Euribor + 6% / 8.20%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

Tier II capital paid in 2013 with maturity date 3 November 2020

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 930 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	23 October 2013
Perpetual or dated	Dated
Original maturity date	3 November 2020
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6.20%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

Tier II capital paid in 2013 with maturity date 10 November 2020

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 1,670 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	30 October 2013
Perpetual or dated	Dated
Original maturity date	10 November 2020
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6.20%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

Tier II capital paid in 2015 with maturity date 30 September 2021

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 150 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	29 September 2015
Perpetual or dated	Dated
Original maturity date	30 September 2021
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	4.70%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

Tier II capital paid in 2015 with maturity date 30 September 2022

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand / EUR 1,300 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	29 May 2015
Perpetual or dated	Dated
Original maturity date	30 September 2022
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6-month Euribor + 6% / 6.00%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

Tier II capital paid in 2015 with maturity date 10 October 2025

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	9 October 2015
Perpetual or dated	Dated
Original maturity date	10 October 2025
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6.00%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

4. CAPITAL BUFFERS

Disclosure details for capital buffers are laid down in Article 440 (a) (b) of Regulation (EU) No 575/2013. EU capital requirements legislation introduced in 2016 a system of capital buffers, which represent and additional requirement in determining the amount of regulatory capital. In addition to the requirements imposed to mitigate the risks of Pillars I and II of the Basel Accord, banks' top quality capital – common equity tier I – must now also meet the capital buffer requirements.

(a) Capital conservation buffer

The capital conservation buffer rate imposed on the Group in 2016 was 0.625%, which the Group had to provide, as required by the Bank of Slovenia, in the form of common equity tier I capital.

(b) Countercyclical capital buffer

The Bank of Slovenia also introduced the countercyclical capital buffer in 2016. Commission Delegated Regulation (EU) No 2015/155 of 28 May 2015 stipulates the form of templates for disclosures in the annual report. The objective of the countercyclical capital buffer is to provide a buffer of capital to banks in periods of excess aggregate credit growth, which they can use in stress periods and periods of unfavourable lending conditions. When the defined buffer rate is higher than 0%, or when the set rate is raised, the new buffer rate enters into use 12 months after the announcement. Buffer rate values can range between 0% and 2.5% of the total amount of risk exposure. The value of the buffer for exposures in Slovenia, effective since 1 January 2016, is 0%. In defining the buffer rate, the Bank of Slovenia followed the methodology of the Basel Committee on Banking Supervision (BCBS) and the European Systemic Risk Board (ESRB), and used an assessment of the credit cycle status in Slovenia. Buffer rates for exposures in other countries of the European Economic Area are listed on the ESRB website, where they are updated quarterly. Buffer rates for credit exposures in countries not listed on the ESRB website and not defined by the Bank of Slovenia or a competent authority in the relevant country, are 0%.

Regulatory disclosures on the geographical distribution of credit exposures subject to the countercyclical buffer, capital requirements and rates of the bank-specific countercyclical buffer, have to be made on a quarterly basis. The information has to be publicly disclosed at least once a year in the annual report, the obligation effective from 1 January 2016.

The calculation of the bank-specific countercyclical buffer requirement is done on a standalone and consolidated basis: the bank geographically distributes credit exposures subject to the calculation of capital requirements for credit risk according to the standardised approach, and determines specific risk or default risk, and migrations of exposure from the trading book and capital requirements for securitisation.

The bank-specific countercyclical capital buffer rate consists of the weighted average countercyclical capital buffer rates used in countries in which the institution has the relevant credit exposure.

The table below shows the geographical distribution of credit exposures used in the computation of the countercyclical buffer for the Group.

	General credit exposures		Trading book exposure		Securitisation exposure		Capital requirements					
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Capital requirements weights	Countercyclical capital buffer rate
Breakdown by country	010	020	030	040	050	060	070	080	090	100	110	120
ARGENTINA	0	0	0	0	0	0	0	0	0	0	0,00	0.0
AUSTRIA	2	0	0	0	0	0	0	0	0	0	0,00	0.0
BELGIUM	6	0	0	0	0	0	0	0	0	0	0,00	0.0
BOSNIA AND HERZEGOVINA	0	0	0	0	0	0	0	0	0	0	0,00	0.0
BULGARIA	0	0	0	0	0	0	0	0	0	0	0,00	0.0
CHINA	0	0	0	0	0	0	0	0	0	0	0,00	0.0
CROATIA	180	0	0	0	0	0	14	0	0	14	0,06	0.0
CYPRUS	0	0	0	0	0	0	0	0	0	0	0,00	0.0
DENMARK	0	0	0	0	0	0	0	0	0	0	0,00	0.0
FRANCE	0	0	0	0	0	0	0	0	0	0	0,00	0.0
GERMANY	1	0	0	0	0	0	0	0	0	0	0,00	0.0
HUNGARY	6	0	0	0	0	0	0	0	0	0	0,00	0.0
ITALY	216	0	0	0	0	0	17	0	0	17	0,07	0.0
LITHUANIA	0	0	0	0	0	0	0	0	0	0	0,00	0.0
THE NETHERLANDS	26	0	0	0	0	0	2	0	0	2	0,01	0.0
SAINT KITTS AND NEVIS	26	0	0	0	0	0	2	0	0	2	0,01	0.0
SERBIA	0	0	0	0	0	0	0	0	0	0	0,00	0.0
SLOVAKIA	0	0	0	0	0	0	0	0	0	0	0,00	0.0
SLOVENIA	307.107	0	0	0	0	0	24.569	0	0	24.569	99,70	0.0
SPAIN	0	0	0	0	0	0	0	0	0	0	0,00	0.0
UNITED ARAB EMIRATES	489	0	0	0	0	0	39	0	0	39	0,16	0.0
MACEDONIA, FORM. YUGOSL. REP.	0	0	0	0	0	0	0	0	0	0	0,00	0.0
UNIT. KINGD. OF GREAT BRIT. AND NORTH. IRELAND	2	0	0	0	0	0	0	0	0	0	0,00	0.0
UNITED STATES OF AMERICA	4	0	0	0	0	0	0	0	0	0	0,00	0.0
KOSOVO	0	0	0	0	0	0	0	0	0	0	0,00	0.0

The table below shows the amount of the institution-specific countercyclical buffer; the Group-specific countercyclical buffer for 2016 was EUR 0.

	2016
Total risk exposure amount	418,898
Institution specific countercyclical buffer rate	0
Institution specific countercyclical buffer requirement	0

5. CAPITAL REQUIREMENTS

5.1. Summary of the Group's approach to assessing the adequacy of its internal capital to support current and future activities

Article 438 (a) of Regulation (EU) No 575/2013 requires that institutions disclose their approach to assessing the adequacy of their internal capital to support current and future activities. In determining its level of adequate internal capital (internal capital adequacy assessment process – ICAAP), the Group abides by the requirements of the Capital Requirements Regulation (CRR), recommendations of the Bank of Slovenia, and best banking practices.

For making an internal assessment of its risk-based capital requirements and internal capital adequacy, the Group employs an in-house methodology based on requisite internal instructions for implementing stress tests. These are used to assess the Group's risk-based capital requirements under Pillar II of the Basel Capital Accord, and are included in a collective risk assessment. The Group thereby takes into account the capital requirement for credit risk, which is not included in the calculation of the capital requirement for credit risk under Pillar I (portfolio downgrade risk due to changed economic conditions, concentration risk and remaining risk from hedging), and its requirement for interest rate risk, liquidity risk, market liquidity risk, equity risk, capital risk, reputation risk, profitability risk (this includes the additional capital requirement related to the volatility of passive interest rates), strategic risk, Bank management risk, and the additional requirements related to compliance with the Bank of Slovenia regulations. Once a year the Group prepares stress test calculations according to the instructions of the Bank of Slovenia and EBA, and includes them into its calculation of internal capital requirements. Each calculation of capital adequacy includes an assessment of the impact of the planned volume of activities on the Group's future capital and capital ratios. On a monthly basis, the Group reports the internal capital adequacy assessment and capital adequacy ratios to the Asset Liability Management Board (ALM Board), and quarterly also to the Supervisory Board and the Supervisory Board's Risk Committee.

The Group maintains an adequate amount, type and allocation of requisite capital tailored to suit its risk profile, so it can discharge all its liabilities. Its risk profile is examined once a year and special attention is also devoted to the assessment of internal control areas.

Consistent with EBA guidelines, the Group also undertakes the internal liquidity adequacy assessment process (ILAAP), a comprehensive assessment of how well liquidity risk is controlled based on qualitative and quantitative criteria.

5.2. Result of the Bank's internal capital assessment process

Article 438 (b) of the Regulation requires that institutions disclose the result of their internal capital adequacy assessment process. The Bank of Slovenia imposed new minimum capital adequacy ratios for the Group on the basis of the ICAAP/SREP process for 2016: the capital adequacy ratio of 13.1% (the same as in 2015), while the common equity tier I capital adequacy ratio was raised to 10.5%[8] (it includes the capital conservation buffer of 0.625%). The target level in 2015 was 10.4% for the Group.

5.3. Capital requirements

The Group's capital requirements are disclosed pursuant to Articles 438 (c) (e) (f) and 445 of Regulation No 575/2013. In calculating its regulatory capital requirements, the Group uses the following approaches:
- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – simple approach.

The capital requirement for individual risks totals 8% of the total exposure to a particular type of risk. The table below shows the breakdown of the Group's individual capital requirements at the year-ends of 2016 and 2015.

[8] Common equity tier I capital and tier I capital are the same for the Group, because the Group does not have additional tier I capital.

Table: Group's capital requirements

	2016	2015
Capital requirement for credit risk	**29,375**	**31,535**
Exposure to central government and central banks	622	617
Exposure to regional and local government	141	262
Exposure to public sector	740	2,269
Exposure to institutions	3,227	477
Exposure to corporate customers	2,199	2,481
Exposure to retail customers	8,024	7,545
Exposure secured by mortgages on residential property	8,250	7,576
Outstanding items	3,809	6,130
Regulatory high risk categories	803	848
Collective investment undertakings	28	12
Equity exposure	569	623
Other exposure	963	2,696
Capital requirement for the risk of credit valuation adjustment (CVA)	**0**	**0**
Capital requirement for market risk	**0**	**39**
Capital requirement for debts	0	4
Capital requirement for equities	0	35
Capital requirement for commodities	0	0
Capital requirement for foreign exchange risk	**0**	**0**
Capital requirement for operational risk	**4,137**	**4,110**
Total capital requirements	**33,512**	**35,683**
Total risk-weighted assets (RWA)	**418,898**	**446,037**

6. CREDIT RISK ADJUSTMENTS

The Group's credit risk policy derives from the regulatory framework – which consists of requirements and recommendations regarding risk-taking, measuring and controlling credit risk in banks, including hedging with financial instruments and loan commitments given – and the Group's aspirations to manage and control credit risk efficiently and rationally. The policy is tailored to the Group's size, and the nature and complexity of its activities.

6.1. Total exposure to credit risk before collateral held or other credit enhancements

The table below illustrates total exposure, net exposure, and average exposure amounts for credit risk as at 31 December 2016 and 31 December 2015, whereby not considering any collateral held by the Group or any other enhancements of credit quality, and broken down according to different categories of exposure.

The exposure levels for on-balance sheet and off-balance sheet assets are given on the basis of net carrying amounts as reported in the statement of financial position, including off-balance sheet figures, and grouped into categories of exposure pursuant to CRR/CRD IV.

Table: Group's exposure to credit risk: total exposure, net exposure, and average exposure amounts as at 31 December 2016 and 31 December 2015

		2016			2015		
	Exposure category	Total exposure	Net exposure	Average exposure	Total exposure	Net exposure	Average exposure
01	Central government and central banks	344,893	344,893	372,399	364,145	364,145	364,489
02	Regional and local government	8,913	8,886	12,505	16,963	16,890	19,868
03	Public sector entities	11,263	11,152	12,182	29,978	29,815	35,506
06	Institutions	46,897	46,882	36,670	29,827	29,826	20,813
07	Corporate	42,348	36,545	37,789	47,488	40,321	50,529
08	Retail exposures	167,448	164,392	163,439	156,989	153,799	164,144
09	Secured by mortgages of immovable properties	226,664	223,643	215,498	211,931	210,309	199,674
10	Exposures in default	55,435	37,317	48,133	87,814	63,243	66,282
11	Regulatory high risk categories	11,234	6,814	7,321	11,604	7,638	9,677
14	Investments in investment funds	2,702	2,702	2,703	2,699	2,699	2,699
15	Other exposure	19,677	19,676	32,237	41,403	41,401	46,143
16	Equity exposure	7,097	7,097	7,315	7,789	7,789	7,515
	As at 31 December	944,571	909,999	948,191	1,008,630	967,875	987,339

The Group controls and will continue to maintain credit risk exposure consistent with the Bank's strategy and in line with capital restrictions.

6.2. Risk concentration of financial assets exposed to credit risk

(a) Geographical distribution of exposure

The table below shows the Group's exposures at the year-ends of 2016 and 2015, given at their carrying value and broken down according to categories of exposure and geographical areas. Counterparties are grouped according to domicile. The table also provides amounts of impaired and past due exposure. Information in the table clearly shows that the Group does business mainly in Slovenia and that exposure to other countries arises mainly in treasury transactions and investment banking.

Table: Geographical distribution of the Group's exposure broken down into major categories of exposure as at 31 December 2016 and 31 December 2015

		As at 31 December 2016				As at 31 December 2015			
	Exposure category	Slovenia	Other EU member states	Other countries	TOTAL	Slovenia	Other EU member states	Other countries	TOTAL
01	Central government and central banks	342,691	2,202	0	344,893	360,815	3,330	0	364,145
02	Regional and local government	8,886	0	0	8,886	16,890	0	0	16,890
03	Public sector entities	11,152	0	0	11,152	29,815	0	0	29,815
06	Institutions	44,929	1,952	1	46,882	23,325	6,500	1	29,826
07	Corporate	36,372	172	1	36,545	40,152	168	1	40,321
08	Retail exposures	164,198	187	7	164,392	153,422	139	238	153,799
09	Secured by mortgages of immovable properties	223,334	309	0	223,643	209,756	357	196	210,309
10	Exposures in default	36,894	1	422	37,317	63,088	1	154	63,243
11	Regulatory high risk categories	6,814	0	0	6,814	7,638	0	0	7,638
14	Investments in investment funds	2,702	0	0	2,702	2,699	0	0	2,699
15	Other exposure	19,676	0	0	19,676	41,401	0	0	41,401
16	Equity exposure	7,090	7	0	7,097	7,789	0	0	7,789
	As at 31 December	904,738	4,830	431	909,999	956,790	10,495	590	967,875
	Impaired exposure	34,434	1	135	34,570	40,692	47	15	40,754
	Past due exposure as at 31 December,	50,849	2	170	51,021	63,055	47	168	63,270
	of which impaired exposure as at 31 December.	17,782	0	143	17,925	20,727	46	15	20,788

At the year-end of 2016 the share of exposure to EU member states stood at 0.53%, down from 1.08% at the end of 2015. The share of exposure to other countries was even smaller, in both periods.

(b) Economy sectors – industries

The two tables below show the Group's exposures at the year-ends of 2016 and 2015, given at their carrying value and broken down according to categories of exposure and sectors of the economy. The tables also provide amounts of impaired and past due exposure.

Table: Group exposure according to economy sectors – industries, broken down into major exposure categories, as at 31 December 2016

Exposure category	Finances and insuran.	Trade indu-stry	Manufa-cturing	Con-structi-on	Expert, scient. & technical activities	Fo-reign per-sons	Real-estate services	Cater-ing	Public admin. & craft services	Agric. and hun-ting	Transp. and ware-hou-sing	Cuture, entert. &recreat. activi-ties	Other various busin. activities	Inform. & commu-nication activities	Other activi-ties	House-holds	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01 Central government and central banks	17,408	0	0	0	0	0	0	0	327,485	0	0	0	0	0	0	0	344,893
02 Regional and local government	0	0	0	0	0	0	0	0	8,886	0	0	0	0	0	0	0	8,886
03 Public sector entities	0	1,371	0	0	456	0	64	3	301	0	0	178	0	306	8,473	0	11,152
06 Institutions	46,882	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	46,882
07 Corporate	3,717	15,671	2,986	6,125	1,387	0	404	90	103	1,200	105	44	40	1,511	2,849	313	36,545
08 Retail exposures	714	12,568	8,006	3,711	3,156	187	499	1,327	25	1,298	1,803	193	1,233	2,060	1,601	126,011	164,392
09 Secured by mortgages of immovable properties	734	37,500	14,807	4,702	3,382	309	8,110	5,133	200	7,337	2,921	2,509	667	1,554	4,630	129,148	223,643
10 Exposures in default	2,455	7,053	7,791	6,004	4,126	0	2,702	3,827	0	719	5	0	5	0	1	2,629	37,317
11 Regulatory high risk categories	778	172	0	164	5,236	0	308	6	0	130	0	0	0	20	0	0	6,814
14 Investments in investment funds	2,702	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,702
15 Other exposure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	19,676	19,676
16 Equity exposure	259	3,681	0	0	278	0	7	0	2,753	0	0	0	0	37	82	0	7,097
As at 31 December 2016	75,650	78,018	33,593	20,710	18,026	502	12,101	10,394	339,762	10,694	4,845	2,936	1,958	5,502	17,651	277,793	909,999
Impaired exposure	4,287	7,016	2,771	5,985	6,308	0	1,943	863	30	466	221	16	129	452	169	3,914	34,570
Past due exposures,	4,334	6,447	8,348	5,302	13,536	0	2,274	3,678	400	1,107	210	10	35	19	8	5,313	51,021
of which impaired exposures	2,676	1,523	1,940	3,045	4,651	0	90	431	1	327	191	8	27	1	2	3,012	17,925

Table: Group exposure according to economy sectors – industries, broken down into major exposure categories, as at 31 December 2015

Exposure category	Finances and insuran.	Trade indu-stry	Manufa-cturing	Con-structi-on	Expert, scient. & technical activities	Fo-reign per-sons	Real-estate services	Cater-ing	Public admin. & craft services	Agric. and hun-ting	Transp. and ware-hou-sing	Cuture, entert. &recreat. activi-ties	Other various busin. activities	Inform. & commu-nication activities	Other activi-ties	House-holds	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01 Central government and central banks	20,691	0	0	0	0	0	0	0	343,454	0	0	0	0	0	0	0	364,145
02 Regional and local government	0	0	0	0	0	0	0	0	16,890	0	0	0	0	0	0	0	16,890
03 Public sector entities	293	1,711	0	0	692	0	1,221	3	1	0	45	3	0	0	25,846	0	29,815
06 Institutions	29,826	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29,826
07 Corporate	5,072	17,256	4,823	7,806	1,942		159	63	112	868	14	85	97	1,643	381	0	40,321
08 Retail exposures	461	11,502	6,242	2,609	3,495	144	515	1,233	25	2,425	1,879	260	998	1,963	2,827	117,221	153,799
09 Secured by mortgages of immovable properties	765	36,976	17,334	6,828	3,897	343	722	3,628	369	8,128	1,559	1,832	794	1,635	7,417	118,082	210,309
10 Exposures in default	3,925	13,693	12,303	7,887	5,344	0	10,367	3,995	0	836	0	0	55	0	1,046	3,792	63,243
11 Regulatory high risk categories	791	50	0	90	6,537	0	0	5	0	55	68	0	3	0	39	0	7,638
14 Investments in investment funds	2,699	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,699
15 Other exposure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	41,401	41,401
16 Equity exposure	259	3,808	0	0	278	0	571	0	2,734	0	0	0	0	57	82	0	7,789
As at 31 December 2015	64,782	84,996	40,702	25,220	22,185	487	13,555	8,927	363,585	12,312	3,565	2,180	1,947	5,298	37,638	280,496	967,875
Impaired exposure	5,341	7,082	3,178	7,506	6,317	46	2,537	1,233	85	141	530	30	30	465	271	5,387	40,179
Past due exposures,	7,049	10,010	9,858	7,108	14,876	46	3,364	2,127	0	1,147	281	15	19	32	152	7,188	63,272
of which impaired exposures	3,126	1,871	2,131	3,579	4,447	46	591	398	0	42	212	9	3	3	124	4,205	20,787

Exposure to the public administration and defence – compulsory social security decreased the most at the end of 2016 year-on-year, while exposure to financial and insurance services was up the most.

7. LEVERAGE

The disclosure requirement regarding leverage is stipulated in Article 451 of Regulation (EU) No 575/2013. It was calculated under the provisions of the Capital Requirements Regulation and Directive (CRR/CRD IV) since 1 January 2014, and since January 2015 it is being calculated under supplements regarding computation as published in Commission Delegated Regulation (EU) 2015/62; the disclosure requirement for the leverage ratio has been effective since 1 January 2015.

The leverage ratio equals the Group's capital measure divided by its total exposure measure, and it is given in per cents. The capital measure is tier 1 capital, and the total exposure measure is the sum of the exposure values of all on-balance sheet and off-balance sheet items not deducted when determining the capital measure. For the purposes of controlling and managing risks associated with financial leverage, the Group had adopted a Leverage Policy back in 2015. The Policy imposes a leverage ratio of above 3% at all times.

In compliance with transitional provisions, the Group has been and will be calculating the leverage ratio at the end of each quarter between 1 January 2014 and 31 December 2017. The objective of the leverage ratio is to limit the build-up of excessive on- and off-balance sheet leverage in the banking system, with a special emphasis on risk-weighted exposures not considered in the calculation of existing capital requirements.

The Group's leverage ratio at the year-end of 2016 totalled 5.75% (subject to transitional provisions) and 5.64% (full implementation – disregarding transitional provisions), and thus exceeded the 3% threshold set by the BCBS.

In the transitional period of 1 January 2013–1 January 2017 the BCBS is monitoring the leverage ratio, its components and its interaction, and starting 1 January 2018 the leverage ratio will become one of the binding minimum capital requirements.

Calculation of the leverage ratio:

	2016	2015
Leverage ratio - using the definition of tier I capital without transitional provisions (in %)	5.64	5.12
Leverage ratio - using the definition of tier I capital with transitional provisions (in %)	5.75	5.27

The leverage ratio is disclosed pursuant to Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016, and is displayed in tables LRSum, LRCom, LRSpl and LRQua.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

LRSum	Summary reconciliation of accounting assets and leverage ratio exposures	2016
1	Total assets as per published financial statements	846,811
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	29,042
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR")	0
4	Adjustments for derivatives	0
5	Adjustments for securities financing transactions "SFTs"	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	29,042
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	0
8	Total leverage ratio exposure	875,853

Template LRCom: Leverage ratio common disclosure

LRCom: Leverage ratio common disclosure	2016
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	846,802
(Asset amounts deducted in determining tier 1 capital)	(3,812)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	842,989
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	5,754
Counterparty credit risk exposure for SFT assets	1,335
Total securities financing transaction exposures	7,090
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	60,868
(Adjustments for conversion to credit equivalent amounts)	(35,094)
Other off-balance sheet exposures	25,774
Capital and total exposures	
Tier 1 capital	49,382
Total leverage ratio exposures	875,853
Leverage ratio	
Leverage ratio (in %)	5.64

Template LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs, and exempt exposures)

LRSpl:	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	
		2016
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	846,802
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	846,802
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	356,019
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	6,485
EU-7	Institutions	46,492
EU-8	Secured by mortgages of immovable properties	210,785
EU-9	Retail exposures	129,443
EU-10	Corporate	22,184
EU-11	Exposures in default	36,858
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	38,536

Explanation of LRQua

Processes used to manage the risk of excessive leverage

Pursuant to transitional provisions, the Group calculated its leverage ratio on a monthly basis in 2016, together with the calculation of capital, capital requirements and capital adequacy ratios. An improvement in tier I capital adequacy ratio will improve the leverage ratio. Movements in the leverage ratio are monitored monthly by the ALM Board, and by the Management Board and Supervisory Board on a quarterly basis. The minimum leverage ratio level for 2016 was set at 3%, which is the threshold set by the BCBS. If the Group's leverage ratio does not meet target levels, remedial measures are adopted first by the ALM Board and then also by the Management Board and Supervisory Board. The leverage ratio can improve by increasing tier I capital or by decreasing risk-weighted assets.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

In 2016, the monthly value of the leverage ratio ranged between 5.1% and 5.7%. As tier I capital increased and risk-weighted assets decreased, the value of the ratio went up.

8. REMUNERATION POLICY

DISCLOSURES PURSUANT TO THE PROVISIONS OF ARTICLE 88 OF THE BANKING ACT (ZBan-2)

Disclosures from Part 8 of Regulation (EU) No 575/2013

The disclosures of the Deželna banka Slovenije Group for 2016 are prepared pursuant to Part 8 of Regulation (EU) No 575/2013 and are published in its 2016 Annual Report.

Pursuant to the EU capital requirements legislation, Deželna banka Slovenije d. d. has the status of a parent bank and is thus bound to publish disclosures on a consolidated basis.

Additional disclosures under the Banking Act (ZBan-2)

Deželna banka Slovenije d. d. is in substance a cooperative bank, as it is majority owned by the cooperative system. Its priority focus is agriculture and the countryside, and working within the cooperative system. It operates in the territory of Slovenia, and it has licences to provide banking and other services.

Deželna banka Slovenije d. d. is the parent bank in the Deželna banka Slovenije Group, which also includes the subsidiaries DBS Leasing d. o. o., DBS Nepremičnine d. o. o., Semenarna Ljubljana d. o. o. and DBS Adria d. o. o. As all subsidiaries are wholly owned by Deželna banka Slovenije d. d., the Bank plays an active role in their management and supervision.

1. Internal governance and organisational structure in the Group

As the parent undertaking in the Group, Deželna banka Slovenije d. d. is implementing the internal governance and organisational structure pursuant to the legislation in force in the Republic of Slovenia. In designing its corporate governance arrangements, the Bank also follows regulations issued by the European Banking Authority and the European Central Bank, the regulations and other acts of the Bank of Slovenia, and corporate governance best practice principles.

Deželna banka Slovenije d. d. operates under a two-tier system of governance, with the Management Board running the Bank and their work being overseen by the Supervisory Board. The Bank Management Board and Supervisory Board have adopted the Deželna banka Slovenije d. d. Corporate Governance Policy, stipulating the direction in which governance is steered to reach long-term objectives. The operations of both boards are laid down in the Deželna banka Slovenije d. d. Statutes and Rules of Procedure.

The members and president of the Management Board are appointed by the Supervisory Board. The Management Board has two members, who hold meetings once a week. The function of member of the Bank's Management Board may only be performed by a person who has obtained the requisite licence. The Supervisory Board must make a decision regarding the appointment of an individual as member of the Bank's Management Board – and obtain, to that end, the Nomination Committee's estimate on the suitability of this person to act as member of the Management Board – prior to this person filing for the licence to act as member of the board.

The Management Board is fully responsible for the Bank's operations and its risk management, including for approving the Bank's strategic goals, for defining, adopting and regularly revising the strategy of risk-taking and risk management, for internal governance arrangements, for ensuring the integrality of accounting and financial reporting systems, and for overseeing information disclosure procedures and reporting to the competent authorities. The Management Board is also responsible for providing efficient supervision of senior management.

Members of the Supervisory Board, who represent shareholders, are elected by the General Meeting. The General Meeting may recall members of the Supervisory Board it had elected prior to their term expiring.

The Supervisory Board must, particularly, oversee the implementation of the Bank's strategic goals, it must adopt and regularly revise the strategies of risk-taking and risk management, and it must contribute to setting up and coming to life of a stable internal governance arrangement in the Bank, taking into account the policies and measures aimed at preventing the occurrence of conflicts of interest.

The Supervisory Board appointed three Supervisory Board committees: Audit Committee, Nomination Committee and Risk Committee. Supervisory Board committees are advisory bodies. They have three members each, who are also members of the Supervisory Board and who act in line with the relevant Rules of Procedure.

All members of the Bank's Management Board and Supervisory Board must at all times during their term meet the criteria for appointment, exercise due diligence and in this respect particularly make sure that the Management Board acts in line with the law, be candid, honest and independent in their actions, act in line with the highest ethical standards of governance – including measures to prevent conflicts of interest –, and devote sufficient time to their role on the board.

By exercising its powers and by supervising the work of the Management Board, the Supervisory Board shares with the Management Board the general responsibility for efficient and prudent governance of the Bank.

Important roles are also assigned to different boards and committees in the Bank, which make decisions in line with their respective powers and competences: Credit Board, Asset Liability Management Board, Non-performing Loans Board, Liquidity Committee, Investment Committee, Property Board, Crisis Team.

To obtain an independent and objective assessment of the efficiency and compliance of internal governance arrangements, the Bank has set up internal control functions (risk management, operations compliance, internal audit).

2. Policy for the selection of members of the management body

In selecting members for the management body, Deželna banka Slovenije d. d. acts in compliance with the legislation in force in the Republic of Slovenia, regulations issued by the Bank of Slovenia and European Banking Authority, and the Bank's internal acts.

The Bank's Recruitment Policy for the Selection of Members of the Management Body lays down the criteria for the selection and appointment of members of the management body, a body which consists of the Bank's Management Board and Supervisory Board. The overall composition must ensure that members of the management body have the requisite expertise, skills and experience needed for an in-depth understanding of the Bank's operations and the risks it is exposed to. The appointment process is handled, in accordance with the Bank's internal acts and the relevant legislation, by the Nomination Committee, which assesses once a year the structure, size, composition, and efficacy of the Management Board and Supervisory Board.

3. Remuneration policy

Information concerning the decision-making process used for determining the remuneration policy
(Article 450 (a) of Regulation (EU) No 575/2013)

The Bank has adopted a Remuneration Policy for Staff whose Professional Activities have a Material Impact on the Group's Risk Profile (hereafter: Remuneration Policy), which takes into account the Bank's business strategy, goals, organisational structure, long-term interests, and measures aimed at preventing conflicts of interest.

The Policy, which is applied at Group level, was designed on the basis of the Banking Act (ZBan-2), the Bank of Slovenia Resolution on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, Commission Delegated Regulation (EU) No 604/2014 and Delegated Regulation (EU) No 527/2014.

The Bank's remuneration policy reflects the Bank's position inside the Slovene banking sector, its internal organisation, the nature, volume and complexity of the Bank's business and the Bank's financial standing, and is based on the results of the Bank, an individual organisational unit and individual employees.

Its objective is to set up a remuneration framework defining remuneration types and the criteria and rules on the basis of which employees whose professional activities have a material impact on the group's risk profile (hereafter: staff with work of a special nature) receive payment.

The Supervisory Board has the authority to approve the Remuneration Policy once it is adopted by the Management Board, and it also has the competences that the Banking Act (ZBan-2) assigns to a remuneration committee. The Supervisory Board makes independent professional assessments of remuneration policies and practices. These assessments constitute a basis for its forming and adopting proposals for the management body to make decisions regarding the remuneration of employees with an impact on the risk profile, risk management, capital and liquidity. The Supervisory Board also oversees the remuneration of senior management who are risk managers and compliance officers.

Information on the link between pay and performance
(Article 450 (b) of Regulation (EU) No 575/2013)

Remuneration of staff with work of a special nature is defined in their contract of employment, and consists of a fixed and variable component. The variable component is not a major factor in the overall remuneration amount but it represents an efficient motivation pushing employees to reach or even exceed targets. Fixed remuneration is high enough for the Bank to be able to pursue a flexible variable pay policy, including the application of malus conditions or claw back provisions.

If the Bank's financial performance is poor, this will drive overall variable pay down considerably, and in case of red numbers, variable pay will be withheld altogether. Both applies to remuneration for the current period and amounts earned in past periods, including agreements on the malus condition or claw back provisions under the law governing employment relationships or the collective labour agreement.

The most important design characteristics of the remuneration system
(Article 450 (c) of Regulation (EU) No 575/2013)

In its Remuneration Policy, the Bank has defined the following categories of staff with work of a special nature:
- Management Board and senior management,
- internal control system management functions,
- employees whose competences include entering into transactions that have an impact on the Bank's risk profile,
- other employees whose remuneration amounts are equal to or higher than those received by senior management.

These are the fundamental principles of the Remuneration Policy:
- the remuneration policy is compatible with and encourages wise and efficient risk management; exposure to risk above the risk levels acceptable for the Bank is not stimulated;
- the remuneration policy complies with the Bank's business strategy, goals, values and long-term interests, and it includes measures to prevent conflicts of interest;
- employees with control functions are independent from the business units they oversee; they have the required competences and receive adequate remuneration proportionate to meeting targets associated with their functions, independent of the performance of the business units they oversee.

The Remuneration Policy provides for the deferral of a proportion of variable pay for a particular financial year subject to certain conditions. And it also provides that minimally 50% of the variable component may be paid in the form of the Bank's ordinary or preference shares or share-based instruments, or non-cash instruments of the same value if the Bank's shares are not listed on a regular market. The beneficiary may transfer such shares or instruments only subject to the Bank's permission, which may be issued not sooner than two years after acquisition. In case of all employees, the Bank must defer the payment of a substantial proportion, but not less than 40%, of the variable component for a period of three years. The deferral period, maturity method and method of payment are governed by laws and regulations.

The Bank has determined – taking into account its size, nature, volume and complexity of its operations – that the total variable pay amount for all staff with work of a special nature, if not exceeding EUR 50,000 annually, does not represent variable remuneration for the purposes from Article 170 (1), items 7 and 8, of the Banking Act (ZBan-2).

Variable remuneration, including deferred components, is paid and becomes payable only if this is financially sound considering the financial standing of the Bank as a whole, and if it is justified with the Bank's and each individual's performance.

The ratio between fixed and variable remuneration

(Article 450 (d) of Regulation (EU) No 575/2013)

The Remuneration Policy clearly differentiates between the criteria for determining:
- fixed remuneration, which should particularly reflect professional experience and level of the person's responsibility in the Bank, as laid down in the description of a person's duties, which constitute conditions of employment,
- variable remuneration, which must reflect sustainable and risk-weighted performance above the expected performance level, as laid down in the description of a person's duties, which constitute conditions of employment. What counts into the variable component is a combination of the performance review of an individual and their business and organisational unit, and the Bank's overall financial result.

The necessary preconditions for variable pay are the Bank's reporting a profit, and its reaching and exceeding all fundamental targets.

Variable remuneration of staff whose work is of a special nature may amount, in an assessment period, to a maximum of three average gross monthly salaries per employee. An individual's variable remuneration cannot exceed 100% of their fixed remuneration.

Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based

(Article 450 (e) of Regulation (EU) No 575/2013)

Performance criteria are laid down at the beginning of a financial year for the ongoing financial year. They are tailored to an individual's level of responsibility, and the Bank's risks and capital requirements. Performance criteria in respect of other forms of variable remuneration for staff with work of a special nature are determined subject to the conditions and rules for variable remuneration.

What counts into the variable component is a combination of the performance review of an individual and their business and organisational unit, and the Bank's overall financial result.

Variable remuneration is based on a combination of collective and individual performance criteria, with the following in the forefront:
a) the Bank's business performance in the past financial year,
b) each organisational unit's contribution to the Bank's overall business performance, and
c) each individual's performance level. In addition to financial performance, other, non-financial criteria are also relevant to the Bank's generation of long-term value and are therefore taken into account; they include compliance with the valid rules and ethical standards.

Unethical behaviour and behaviour incompatible with regulations and internal acts cannot be replaced by financial success.

The main parameters and rationale for any variable component scheme and any other non-cash benefits

(Article 450 (f) of Regulation (EU) No 575/2013)

The methodology for calculating pay under the collective labour agreement, the method of forming and distributing the aggregate volume of variable pay, and the system of promotions and remuneration for employees are governed by the Rules on Employee Performance, Promotions and Remuneration in Deželna banka Slovenije d. d.

Eligibility criteria for variable remuneration of staff with work of a special nature are stipulated in the Remuneration Policy. They are based on a combination of collective and individual performance criteria, taking into account the Bank's performance, the performance of an individual's organisational unit and the individual employee's performance. Criteria and their weight depend on whether an employee with work of a special nature has a commercial or control function.

	Bank's performance	Performance of individual's organisational unit	Individual's performance
Commercial function	40%	40%	20%
Control or oversight function	–	50%	50%

Aggregate quantitative information on remuneration, broken down by business area

(Article 450 (g) of Regulation (EU) No 575/2013)

	Supervisory Board	Management Board	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	Other
Members (number of employees)	5	2						
Number of identified staff in terms of FTE	-	-	1	7.80	-	3.69	3	6.33
Number of identified staff in senior management positions	-	-	1	9	-	4	4	9
Total fixed remuneration (in EUR)	96,956.66	310,348.50	70,101.74	503,176.12	0.00	210,317.25	198,509.85	429,766.11
Total fixed in cash	96,956.66	310,348.50	70,101.74	503,176.12	0.00	210,317.25	198,509.85	429,766.11
Total fixed in equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total fixed in other instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total variable remuneration (in EUR)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total variable in cash	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total variable in equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total variable in other instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total amount of variable remuneration deferred in year N (in EUR)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

The table shows remuneration amounts for 2016, aggregated according to business segments.

The Bank does not apply IFRS 8 (Operating Segments) to disclose information about its business segments; since the Bank does not trade in debts and equities in a public market, it does not disclose remuneration-related information according to business segments.

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the Bank's risk profile, and total remuneration for each member of the management body or senior management

(Article 450 (h) of Regulation (EU) No 575/2013)

The required information is disclosed in the Financial Report (Chapter 4.30. Related Party Transactions).

9. DISCLOSURE REQUIREMENTS AS PROVIDED BY SECTION 8 OF REGULATION (EU) NO 575/2013

Article	Requirement	Published in AR section	Article
435	**Risk management policies and objectives**		
1	**Risk management objectives and policies**		
	a. strategies and processes to manage risks	FS	5
	b. structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	FS	5
	c. scope and nature of risk reporting and measurement systems	FS	5
	d. policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	FS	5
	e. declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	BR	VII.1
	f. concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy. The statement includes key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body	BR	VII.2
2	**Information regarding governance arrangements**		
	a. number of directorships held by members of the management body	BR	IV.3
	b. recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BR	IV.3
	c. policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	BR	IV.3
	d. whether or not the institution has set up a separate risk committee, and the number of times the risk committee has met	BR	IV.3
	e. description of the information flow on risk to the management body	BR	VIII.3
436	**Scope of application**		
	a. name of the institution to which the requirements of the Regulation apply	RCM	2
	b. outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of entities therein, explaining whether they are: fully consolidated; proportionally consolidated; deducted from own funds; neither consolidated nor deducted	FS RCM	5 2
	c. any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	/	/
	d. aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	/	/
	e. if applicable, the circumstances of making use of the provisions laid down in Articles 7 (Derogation to the application of prudential requirements on an individual basis) and 9 (Individual consolidation method)	/	/
437	**Own funds**		
	a. full reconciliation of common equity tier 1 items, additional tier 1 items, tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution	FS RCM	5.6 3.2
	b. description of the main features of common equity tier 1 and additional tier 1 instruments and tier 2 instruments issued by the institution	RCM	3.4

	c. full terms and conditions of all common equity tier 1, additional tier 1 and tier 2 instruments	RCM	3.4
	d. separate disclosure of the nature and amounts of the following: 1. each prudential filter applied pursuant to Articles 32 to 35; 2. each deduction made pursuant to Articles 36, 56 and 66; 3. items not deducted in accordance with Articles 47, 48, 56, 66 and 79	FS RCM	5.6 3.2
	e. description of all restrictions applied to the calculation of own funds in accordance with the Regulation and the instruments, prudential filters and deductions to which those restrictions apply	FS RCM	5.6 3.2
	f. where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated	/	/
438	**Capital requirements**		
	a. summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	RCM	5.1
	b. upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU	RCM	5.2
	c. standardised approach: for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= standardised approach classes)	RCM	5.3
	d. internal rating-based (IRB) approach	/	/
	e. own funds requirements calculated in accordance with items (b) and (c) of Article 92(3), (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk	RCM	5.3
	f. own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately (operational risk)	FS	5.5
439	**Exposure to counterparty credit risk**	**/**	**/**
	Capital buffers		
440	**Countercyclical buffers:** a. geographical distribution of the institution's credit exposures relevant for the calculation of its countercyclical capital buffer	RCM	4
	b. amount of institution specific countercyclical capital buffer	RCM	4
441	**G-SII buffers:** 1. institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article	/	/
442	**Credit risk adjustments**		
	a. definitions for accounting purposes of „past due" and „impaired"	FS	5.1.3
	b. description of the approaches and methods adopted for determining specific and general credit risk adjustments	FS	5.1.3
	c. total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	RCM	6.1
	d. geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	RCM	6.2
	e. distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	RCM	6.2
	f. residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	FS	5.1.4

	g. by significant industry or counterparty type, the amount of: - impaired exposures and past due exposures, provided separately; - specific and general credit risk adjustments; - charges for specific and general credit risk adjustments during the reporting period	RCM	6.2
	h. amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	RCM	6.2
	i. reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately; the information comprises: - description of the type of specific and general credit risk adjustments; - opening balances; - amounts taken against the credit risk adjustments during the reporting period; - amounts set aside or reversed for estimated probable losses on exposures during the reporting period, together with any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; - closing balances	RCM	6.2
	Specific credit risk adjustments and recoveries recorded directly to the income statement are disclosed separately.	/	/
443	**Unencumbered assets**	FS	5.7
444	**Use of External Credit Assessment Institutions (ECAI)**	/	/
445	**Exposure to market risk**		
	separately for each risk; in addition, the own funds requirement for specific interest rate risk of securitisation positions is also disclosed separately	FS	5.2
446	**Operational risk**		
	institutions disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used	FS	5.5
447	**Exposures in equities not included in the trading book**		
	a. differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices	FS	4.3(a)(b), 2.3(b), 5.4.2
	b. balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value	FS	2.3(b), 5.4.2
	c. types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	FS	4.3(a)
	d. cumulative realised gains or losses arising from sales and liquidations in the period	FS	4.3(b)
	e. total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds	RCM	3.2
448	**Exposure to interest rate risk on positions not included in the trading book**		
	a. nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk	FS	5.2.4
	b. variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency	FS	5.2.4
449	**Securitisation**	/	/

450	**Remuneration policy**		
	for the categories of staff whose professional activities have a material impact on its risk profile: a. information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders	RCM	8.3
	b. information on the link between pay and performance	RCM	8.3
	c. the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	RCM	8.3
	d. ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU	RCM	8.3
	e. information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	RCM	8.3
	f. the main parameters and rationale for any variable component scheme and any other non-cash benefits	RCM	8.3
	g. aggregate quantitative information on remuneration, broken down by business area	RCM	8.3
	h. aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions; (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person	RCM	8.3
	i. number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	RCM	/
	j. upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	FS	4.31(d)(e)
451	**Leverage**		
	a. leverage ratio and how the institution applies Article 499(2) and (3)	RCM	7
	b. breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements	RCM	7
	c. where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11)	RCM	7
	d. description of the processes used to manage the risk of excessive leverage	RCM	7
	e. description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	RCM	7
452	**Use of the IRB approach to credit risk**	/	/

453	**Use of credit risk mitigation techniques**		
	a. policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	/	/
	b. policies and processes for collateral valuation and management	FS	5.1.2
	c. description of the main types of collateral taken by the institution	FS	5.1.2
	d. main types of guarantor and credit derivative counterparty and their creditworthiness	/	/
	e. information about market or credit risk concentrations within the credit mitigation taken	FS	5.1.2, 5.2
	f. for institutions calculating risk-weighted exposure amounts under the standardised approach or the IRB approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral	/	/
	g. for institutions calculating risk-weighted exposure amounts under the standardised approach or the IRB approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives; for the equity exposure class, this requirement applies to each of the approaches provided in Article 155	/	/
454	**Use of the advanced measurement approaches to operational risk**	/	/
455	**Use of internal market risk models**	/	/
492	**Transitional provisions for disclosure of own funds**		
3	During the period from 1 January 2014 to 31 December 2017, institutions shall disclose the following additional information about their own funds: a. the nature and effect on common equity tier 1 capital, additional tier 1 capital, tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479; b. the amounts of minority interests and additional tier 1 and tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated common equity tier 1 capital, additional tier 1 capital, tier 2 capital and own funds in accordance with Section 4 of Chapter 1; c. the effect on common equity tier 1 capital, additional tier 1 capital, tier 2 capital and own funds of the individual filters and deductions applied in accordance with Article 481; d. the nature and amount of items that qualify as common equity tier 1 items, tier 1 items and tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2.	RCM	3.2
4	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the amount of instruments that qualify as common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments by virtue of applying Article 484 (capital instruments not meeting the criteria for inclusion into own funds under the new legislation; their removal may be gradual).	RCM	3.4

Sections of the annual report (AR)

BR = Business Report

FS = Financial Statements of the Deželna banka Slovenije Group

RCM = Risk and Capital Management

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BANK’S BRANCH NETWORK

The Bank's branch network is spread all over Slovenia. In 2016 the Bank operated under six branch units with 85 branches.

Bank's Branch Units

Branch Unit Central Slovenia

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Branch Unit Podravje

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Bank's Branch Units

Branch Unit Central Slovenia

Branch I Ljubljana	**Kolodvorska 9**	**Ljubljana**
Branch II Dobrunje	C. II. grupe odredov 43	Ljubljana
Branch II Ljubljana center	Miklošičeva 4	Ljubljana
Branch II Domžale	Ljubljanska cesta 83	Domžale
Branch II Medvode	Cesta ob Sori 11	Medvode
Branch II Litija	Valvazorjev trg 3	Litija
Branch II Izlake	Izlake 40	Izlake
Branch II Zagorje ob Savi	Cesta zmage 33	Zagorje ob Savi
Branch I Vrhnika	**Cankarjev trg 5**	**Vrhnika**
Branch II Grosuplje	Cesta na Krko 1b	Grosuplje
Branch II Logatec	Cankarjeva c. 15	Logatec
Branch II Dobrova	Vladimirja Dolničarja 2	Dobrova
Branch II Stari trg	C. Notranjskega odreda 6	Stari trg
Branch II Cerknica	Čabranska 1	Cerknica
Branch II Barje	Ižanska c. 303	Ljubljana
Branch I Kranj	**Šuceva 27**	**Kranj**
Branch II Lesce	Rožna dolina 50	Lesce
Branch II Srednja vas v Bohinju	Srednja vas 73	Srednja vas v Bohinju
Branch II Cerklje	Slovenska c. 2	Cerklje
Branch II Šenčur	Gasilska c. 5	Šenčur
Branch II Kamnik	Trg talcev 1	Kamnik
Branch II Škofja Loka	Fužinska 3	Škofja Loka
Branch II Gorenja vas	Poljanska cesta 55	Gorenja vas
Branch II Trata	Kidričeva c. 63a	Škofja Loka
Branch II Češnjica	Češnjica 54	Železniki

Branch Unit Celje

Branch I Celje	**Kocbekova 5**	**Celje**
Branch II Laško	Valvasorjev trg 1	Laško
Branch II Slovenske Konjice	Oplotniška 1	Slovenske Konjice
Branch II Vojnik	Celjska cesta 24b	Vojnik
Branch II Žalec	Ul. heroja Staneta 8	Žalec
Branch II Vransko	Vransko 133	Vransko
Branch II Braslovče	Braslovče 23	Braslovče
Branch I Šentjur	**Ul. Dušana Kvedra 11**	**Šentjur**
Branch II Šmarje pri Jelšah	Obrtniška 2	Šmarje pri Jelšah
Branch II Imeno	Imeno 84	Podčetrtek
Branch I Šoštanj	**Metleče 7**	**Šoštanj**
Branch II Velenje	Šaleška 18	Velenje
Branch II Mozirje	Cesta na lepo njivo 4	Mozirje
Branch II Ljubno ob Savinji	Plac 3	Ljubno ob Savinji
Branch II Gornji Grad	Attemsov trg 3	Gornji Grad

Branch Unit Podravje

Branch I Maribor	**Ulica Eve Lovše 15**	**Maribor**
Branch II Rače	Cesta talcev 1	Rače
Branch II Slovenska Bistrica	Mariborska c. 1	Slovenska Bistrica
Branch I Lenart	**Industrijska ulica 24**	**Lenart**
Branch I Ptuj	**Miklošičeva 12**	**Ptuj**
Branch II Markovci	Markovci 33	Markovci
Branch II Ormož center	Kerenčičev trg 4	Ormož
Branch I Slovenj Gradec	**Ronkova 37**	**Slovenj Gradec**
Branch II Dravograd	Meža 27	Dravograd
Branch II Radlje	Koroška cesta 61a	Radlje ob Dravi
Branch II Prevalje	Trg 67	Prevalje

Branch Unit Pomurje

Branch I Murska Sobota	**Staneta Rozmana 11a**	**Murska Sobota**
Branch II Lendava	Mlinska ulica 5	Lendava
Branch II Cankova	Cankova 35	Cankova
Branch I Ljutomer	**Kolodvorska 18a**	**Ljutomer**
Branch II Križevci	Križevci pri Ljutomeru 11	Križevci
Branch I Gornja Radgona	**Partizanska c. 23**	**Gornja Radgona**
Branch II Apače	Apače 4B	Apače
Branch II Sv. Jurij ob Ščavnici	Ulica dr. Antona Korošca 19	Sv. Jurij ob Ščavnici

Branch Unit Primorska

Branch I Koper	**Zore Perello Godina 2**	**Koper**
Branch I Sežana	**Partizanska cesta 63**	**Sežana**
Branch II Dutovlje	Dutovlje 60a	Dutovlje
Branch II Komen	Komen 118c	Komen
Branch II Kozina	Mestni trg 8	Kozina
Branch II Ilirska Bistrica	Bazoviška cesta 4	Ilirska Bistrica
Branch I Nova Gorica	**Tolminskih puntarjev 2**	**Nova Gorica**
Branch II Dobrovo v Brdih	Zadružna cesta 13	Dobrovo v Brdih
Branch I Tolmin	**Rutarjeva 35**	**Tolmin**
Branch II Kobarid	Gregorčičeva 32	Kobarid
Branch I Idrija	**Lapajnetova 35**	**Idrija**
Branch II Cerkno	Pot na Zavrte 26	Cerkno
Branch I Postojna	**Novi trg 6**	**Postojna**
Branch II Pivka	Postojnska cesta 18a	Pivka

Branch Unit Dolenjska

Branch I Novo mesto	**Šentjernejska 6**	**Novo mesto**
Branch II Šentjernej	Trubarjeva 2a	Šentjernej
Branch II Škocjan	Škocjan 35	Škocjan
Branch II Črnomelj	Zadružna c. 33a	Črnomelj
Branch II Metlika	Cesta XV. brigade 2	Metlika
Branch II Ivančna Gorica	Ljubljanska 4	Ivančna Gorica
Branch I Brežice	**Pod obzidjem 39**	**Brežice**
Branch II Krško	Ul. mladinskih delovnih brigad 2a	Leskovec pri Krškem
Branch II Sevnica	Savska cesta 20c	Sevnica
Branch I Kočevje	**Roška 8**	**Kočevje**
Branch II Ribnica	Škrabčev trg 19	Ribnica
Branch II Velike Lašče	Na postajo 8	Velike Lašče