Deželna Banka Slovenije

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2015 Annual Report

Deželna Banka Slovenije

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DEŽELNA BANKA SLOVENIJE 2015 ANNUAL REPORT

Management Board

Member of the Management Board
Barbara Cerovšek Zupančič, MSc

President of the Management Board
Sonja Anadolli

Ljubljana, February 2016

A) BUSINESS REPORT

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I. FINANCIAL HIGHLIGHTS AND INDICATORS

I.1. KEY FINANCIAL DATA FOR THE DEŽELNA BANKA SLOVENIJE GROUP

	Deželna banka Slovenije Group	2015	2014	2013
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	923,160	928,256	869,570
	Total deposits by non-banking sector measured at amortised cost	780,890	702,154	645,811
	- Corporates	170,678	111,294	125,672
	- Retail	610,212	590,860	520,139
	Total loans to non-banking sector measured at amortised cost	620,211	623,725	643,184
	- Corporates	484,302	497,181	522,947
	- Retail	135,909	126,544	120,237
	Total equity	53,570	46,748	45,434
	Impairments of financial assets measured at amortised cost, and provisions	(50,391)	(103,063)	(86,379)
	Off-balance sheet operations (B.1. to B.4.)	77,593	86,377	63,666
2.	**Income statement** (in EUR thousand)			
	Net interest income	19,066	21,038	20,739
	Net non-interest income	14,998	17,018	5,236
	Employee benefits cost, overhead and administrative expenses	22,226	21,956	15,705
	Depreciation and amortisation	2,308	2,607	2,369
	Impairments of financial assets measured at amortised cost, and provisions	6,141	12,600	26,318
	Profit/loss on ordinary activities before tax	3,507	1,695	(18,417)
	Income tax on ordinary activities	(426)	(296)	1,065
3.	**Comprehensive income after tax** (in EUR thousand)			
	Total comprehensive income for the year after tax	2,434	1,401	(17,102)
4.	**No. of employees** (at the end of period)			
	No. of employees	603	621	364
5.	**Shares**			
	No. of shareholders (at the end of period)	322	261	260
	No. of shares (at the end of period)*	4,228,995	3,742,583	3,743,268
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	12.424950	12.490859	12.130352
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	11.02	10.43	8.35
	Tier I capital ratio	11.02	10.43	8.35
	Total capital ratio	13.38	12.18	10.21
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	4.39	9.46	9.19
c)	**Profitability** (in %)			
	Interest margin	2.03	2.34	2.37
	Financial intermediation margin	3.63	4.23	2.96
	Return on assets (ROA) before tax	0.33	0.16	(1.98)
	Return on equity (ROE) before tax	6.68	3.62	(31.89)
	Return on equity (ROE) after tax	5.87	2.99	(30.04)
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	2.61	2.73	2.06

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.
Semenarna was not a member of the Group in 2013; the Bank acquired it in 2014.

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

	Deželna banka Slovenije d. d.	2015	2014	2013
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	892,393	890,061	855,994
	Total deposits by non-banking sector measured at amortised cost	781,946	702,697	645,810
	- Corporates	171,734	111,804	125,671
	- Retail	610,212	590,893	520,139
	Total loans to non-banking sector measured at amortised cost	621,036	621,942	646,727
	- Corporates	487,791	498,325	530,293
	- Retail	133,245	123,617	116,434
	Total equity	52,545	46,817	45,407
	Impairments of financial assets measured at amortised cost, and provisions	(35,926)	(88,752)	(83,974)
	Off-balance sheet operations (B.1. to B.4.)	78,367	86,444	65,678
2.	**Income statement** (in EUR thousand)			
	Net interest income	19,671	22,240	21,419
	Net non-interest income	6,457	8,258	5,196
	Employee benefits cost, overhead and administrative expenses	15,534	14,811	14,893
	Depreciation and amortisation	1,396	1,499	1,736
	Impairments of financial assets measured at amortised cost, and provisions	6,782	12,567	29,518
	Profit/loss on ordinary activities before tax	2,416	1,621	(19,532)
	Income tax on ordinary activities	(404)	(278)	2,211
3.	**Comprehensive income after tax** (in EUR thousand)			
	Total comprehensive income for the year after tax	1,350	1,410	(17,071)
4.	**No. of employees** (at the end of period)			
	No. of employees	354	355	355
5.	**Shares**			
	No. of shareholders (at the end of period)	322	261	260
	No. of shares (at the end of period)*	4,229,680	3,743,268	3,743,268
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	12.422937	12.506898	12.130352
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	10.87	10.30	8.20
	Tier I capital ratio	10.87	10.30	8.20
	Total capital ratio	13.22	12.03	10.04
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	3.76	8.96	8.91
c)	**Profitability** (in %)			
	Interest margin	2.15	2.55	2.49
	Financial intermediation margin	2.86	3.49	3.09
	Return on assets (ROA) before tax	0.22	0.15	(2.01)
	Return on equity (ROE) before tax	4.68	3.42	(32.03)
	Return on equity (ROE) after tax	3.89	2.84	(28.40)
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	1.85	1.86	1.93
e)	**Liquidity** (in %)			
	Average liquidity assets/Average short-term deposits by non-banking sector measured at amortised cost	27.90	32.19	26.59
	Average liquidity assets/Average assets	16.15	17.91	14.33

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. STATEMENT BY THE MANAGEMENT BOARD

As to its services and majority ownership, Deželna banka Slovenije d. d. is a cooperative bank. It has been preserving the tradition of cooperative savings banks that have operated in the Slovene territory since as far back as 1872, when the first credit union was founded in Ljutomer. The Bank has maintained its priority focus on rural customers and cooperation with the cooperative system to this day. This is testified not least by the fact that a half of all agricultural subsidies in Slovenia are awarded to our customers, and the Bank only holds 2.4 per cent of all deposits in the banking system.

Two of the more important achievements of the past year include the successful issue of subordinated debt in the amount of EUR 5.5 million in the second half of the year, and the entry of the EUR 4.4 million capital increase from the end of 2014 in the companies' register. At the end of the year our capital adequacy ratios were above those imposed for the DBS Group by the Bank of Slovenia.

Our performance results improved from the year before, as we reported EUR 2,418 thousand of profit before tax at the end of 2015. Fee and commission income increased considerably. Decreasing interest income in the banking system resulted in lower net interest rates, which we offset with active asset liability management and by continually monitoring market conditions and investment opportunities. Attention was also devoted to improving business processes, streamlining operations and reorganising the Bank.

Collected deposits, which represent the most important and stable source of financing, and household loans were both up 4%. 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.

Despite our bonds having matured, which caused the Bank to make payments of EUR 72.4 million, our total assets increased to EUR 892 million. The optimised balance sheet structure resulted in an interest margin of 2.15%, an indicator that has ranked our Bank among the leading Slovene banks for several years.

At Deželna banka Slovenije we diligently monitor and manage all relevant financial risks we are exposed to, and continually upgrade risk management methodologies and approaches. Active and in-depth credit portfolio management over the past years has notably improved the portfolio's quality, substantially decreased the amount of non-performing exposures and limited current impairments. The Bank's capital adequacy – both in terms of structure and amount of capital – has improved considerably after the 2014 capital increase and the 2015 issue of subordinated debt, and suffices to counterbalance all potential risks arising out of the Bank's operations. We believe current operations will yield a sufficient level of retained earnings for the Bank to maintain regulatory capital at a level required by its internal assessment of capital needs and the relevant regulatory framework.

As to crediting individuals, the economy and the public sector we retained our reserved approach in considering credit applications and proposals. In order to manage all types of risk as efficiently as possible, we focused on diligent and in-depth analyses of the customers' creditworthiness and getting to know their business. Additional attention was invested in obtaining adequate collateral for credit transactions, both when entering into new ones and for existing credit relationships. This approach gave positive results, which is why we will keep it in the future. We will continue to focus on customers with good credit ratings, especially those from industries with an orientation towards sustainability and development, such as agriculture and the agro-food sector, renewable energy resources, high-tech industries and, not least, social entrepreneurship.

As to sales results for 2015, we were successful in opening accounts for households and corporates, whereby the majority were the so-called full-functionality accounts, and good results were also recorded for the cross sales of banking products and the marketing of service packages. E-bank users were on the rise and the number of issued payment cards was also up; our payment cards were upgraded with the contactless technology in the past year. In the second half of the year we launched the prepaid debit card and the mDBS mobile bank for individuals and corporates. A comprehensive revamp of our website was completed, the new layout offering users a clearly organised selection of information on the Bank's offer and other areas of activity, and introducing a higher level of interactivity. The scope of insurance deals brokered for partner insurers was up substantially, with life insurance at the forefront. The sale of properties owned by the Bank also picked up considerably. 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 attended to the young by cooperating with the Slovene Rural Youth Association, and by launching the marketing of our offer via a student employment agency. Analyses of certain media and institutions again ranked us as one of the most affordable banks for individuals as well as companies. Opening two new branches and renovating the head office of our Dolenjska Branch Unit gave us a competitive advantage over the competition which as a rule continued closing their branches. As to numismatics, we preserved the function of the reseller of commemorative and collector coins issued by the state and the Bank of Slovenia. And, having preserved our sense of social corporate responsibility in 2015, we maintained our year-long devotion to our local environment.

We sincerely thank our year-long and new customers for the trust they have placed in us. We will continue striving to justify this trust again and again in the future, and to even exceed their expectations – with flexibility, professional attitude, sensitivity, personal approach, geographical closeness and affordability. In our operations we will focus on the Bank's stability of operations, maintaining capital adequacy, revenue growth, efficient risk management and close cooperation with the Slovene cooperative system.

Management Board

Member of the Management Board
Barbara Cerovšek Zupančič, MSc

President of the Management Board
Sonja Anadolli

Ljubljana, 1 February 2016

III. REPORT OF THE SUPERVISORY BOARD

The framework for the operations of the Supervisory Board as well as its powers and responsibilities is set by the legislation and the Bank's internal acts, and by other legal norms stipulating the operations of banks.

They are representatives of the Bank's shareholders, and have the required knowledge and experience to adopt decisions in the best interest of the Bank. They act and decide on the Board independently, professionally, honestly and comprehensively. There is no special division of tasks between them, and individual members also operate on three Supervisory Board committees.

In 2015 the Board met at 12 regular meetings and additionally convened two correspondence meetings. It monitored and supervised the Bank's operations throughout the year at these meetings, consistent with its legal and Statutes-based powers. It promptly adopted decisions with respect to all relevant current and development issues, provided opinions, initiatives and consents that the Bank's Management Board required to adopt specific business decisions, and all along monitored how the adopted decisions were being implemented.

A quorum was reached at all meetings, where the Board displayed diligence and a quality performance.

Here are the more important topics that the Supervisory Board dealt with at its periodic meetings:

The Bank's financial operations

At all its meetings in 2015 the Board monitored the Bank's financial operations and reviewed periodic operations reports. It approved the Bank's 2014 Annual Report and adopted the operations plan for 2016, keeping a close watch on the Management Board's activities aimed at cutting operations costs, and monitoring the profitability of the Bank's branches. It analysed the Bank's performance indicators against the Slovene banking average and against peers.

It adopted the DBS Group operations plan to 2019.

Risk

The Board reviewed the Bank's risk profile and the internal capital adequacy assessment process (ICAAP). On a quarterly basis it discussed a detailed written credit risk analysis and monitored the Bank's business with heavily indebted yet promising companies. It was briefed on the Early Warning System (EWS) upon the deterioration of clients' creditworthiness, and discussed the results of stress test scenarios. Special attention was devoted to the process of decreasing the amount of the Bank's past due defaulting receivables.

Capital

The Board promptly monitored the situation and plans for meeting capital adequacy in the period 2015–2019. In order to maintain an adequate amount of capital, the Bank successfully raised EUR 5,450,000.00 of additional capital by means of issuing subordinated debt.

Management of the Bank

Together with the Management Board, the Supervisory Board convened for 24 April 2015 the Bank's 31th AGM, which reviewed the 2014 Annual Report and all its constituent elements. The Annual Report was first reviewed and approved by the Board, who offered a positive opinion with respect to the certified auditor's report. The AGM adopted all the proposed agenda items and discharged the Board from liability in respect of its work for 2014.

On 16 June 2015 the Supervisory Board appointed Barbara Cerovšek Zupančič, MSc, as member of the Management Board for a five-year term.

Internal audit of the Bank

The Board reviewed the Internal Audit Department report for the second half of 2014, for the full year 2014, and for the first half of 2015. It gave its consent to the prepared Internal Audit Department operations plan for 2016.

Operations of subsidiaries

In 2015 the Board devoted special attention to preparing a plan for the future operations of the Bank's subsidiary DBS Leasing d. o. o., focusing on the development of its business with movable property.

The Bank's internal acts

The Board reviewed and gave its consent to numerous updated internal acts of the Bank. In addition, it gave its consent to the Concise Risk Statement Approved by the Management Body.

Other important activities

The Board reviewed letters from the auditor Deloitte revizija d. o. o., Ljubljana, and regulatory measures imposed by the Bank of Slovenia and other regulators. It approved the restoration plan for the Bank as imposed by the regulator for all banks, decided on giving its consent to the decisions of the Management Board when so stipulated by the legislation and the Statutes, and performed other required tasks.

Operations of Supervisory Board committees

Pursuant to Article 42 of the Statutes, the Board had appointed three committees:

- The Audit Committee, which operated in the following composition in 2015: Peter Vrisk, Chair, Marjan Janžekovič, member, Primož Žerjav, member (until 18 May 2015), Damijan Korošec, member (until 5 August 2015 and the Committee's external advisor from 6 August 2015), Ivan Lenart, member (from 6 August 2015) and Nikolaj Maver, member (from 6 August 2015). In 2015 the Committee met at six regular meetings, discussing issues related to the Bank's financial operations and giving its opinion on the other documents reviewed by the Supervisory Board;

- The Nomination Committee (Remuneration Committee until 6 August 2015), which operated in the following composition: Marjan Janžekovič, Chair, Peter Vrisk, Ivan Lenart and Nikolaj Maver, members. In 2015 the Committee met for five meetings. It monitored all important organisation- and human resource-related activities in the Bank, focusing on employee benefits cost rationalisation measures. It reviewed the Recruitment Policy for the Selection of Members of the Management Body, and assessed Barbara Cerovšek Zupančič, MSc, as suitable to act as member of the Management Board;

- The Risk Committee (from 6 August 2015), which operated in the following composition: Peter Vrisk, Chair, Marjan Janžekovič, Ivan Lenart and Nikolaj Maver, members. Damijan Korošec, external advisor of the Risk Committee and representative of the Bank's second largest shareholder, also takes part in the Committees' consultations. In 2015 the Committee met at three regular meetings, at which it reviewed the detailed risk analysis, monitored the Bank's business with heavily indebted yet promising companies, and discussed the amendments and supplements of internal acts governing the assumption and management of risk.

Given the above, the Supervisory Board has assessed its cooperation with the Management Board and the appointed auditor as well as the Bank's expert departments as good, of high quality and constructive. This cooperation facilitated, together with the relevant and timely reports, information briefs and explanations provided throughout 2015, the Supervisory Board's prompt, complete, diligent and accountable monitoring of how the Bank's business was run.

The Supervisory Board's resolution on reviewing and approving 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 46th regular meeting, held on 17 February 2016, the following

RESOLUTION

Based on our review, the Deželna banka Slovenije d. d. Supervisory Board hereby approves the DEŽELNA BANKA SLOVENIJE Annual Report for financial year 2015, and expresses its positive opinion of the Auditor's Report by Deloitte revizija d. o. o., Ljubljana, for financial year 2015.

Ljubljana, 17 February 2016

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, 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, today's Deželna banka Slovenije d. d.

Since the incorporation of the first credit union in Ljutomer, the Slovene cooperative, savings and banking system has witnessed 143 years of development, 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 agroindustry 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 its 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. (DBS) was entered into the 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. 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.

Ever since incorporation, DBS has been strengthening its capital by means of capital increases and appropriation of profits. Two capital increases were carried out in 2007, with two share issues placed on the market, in the total amount of EUR 35,981 thousand. 485,248 shares were paid in the year-end 2014 capital increase, 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 companies' register 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 from the public and lending for the banks' own account, and it is also licensed to provide mutually recognised and ancillary financial services.

In 2015 the Bank was licensed to provide the following mutually recognised financial services under Article 5 of the Slovene Banking Act (ZBan-2):

Service

1. Accepting deposits;
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 provision 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.

It was also licensed to provide the following ancillary financial services under Article 6 of ZBan-2:

Service

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

IV.3. GOVERNING BODIES

General Meeting of Shareholders

The Annual General Meeting (AGM) is convened by the Management Board at least once a year and additionally when this is urgent for the Bank's best interest. The AGM 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 Annual General Meeting 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 AGM;
- 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 Annual General Meeting Rules of Procedure;
- Issues related to managing the Bank's business if so requested by the Management Board after the Supervisory Board had refused its consent;
- Other matters as provided for by the law.

The AGM adopts decisions with a simple majority of the votes cast, except in cases where the law stipulates a three-quarters majority. Each no par value share with a voting right carries one vote. All shares belong to the same class.

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

Supervisory Board

The Supervisory Board supervises how the Bank's business is being run. In 2015 the Board was composed of the following members:

Until 18 May 2015:
- Peter Vrisk, Chair,
- Marjan Janžekovič, Deputy Chair,
- Ivan Lenart, member,
- Nikolaj Maver, member,
- Primož Žerjav, member.

From 19 May 2015:
- Peter Vrisk, Chair,
- Marjan Janžekovič, Deputy Chair,
- Ivan Lenart, member,
- Nikolaj Maver, member.

Supervisory Board committees

The Audit Committee provides the Supervisory Board with expertise related to operations compliance, risk management, internal audit and internal control system, assessment of the contents of annual reports. It also helps determine areas of audit and conducts other related tasks.

In 2015 the Committee was composed of:
- Peter Vrisk, Chair,
- Marjan Janžekovič, member,
- Primož Žerjav, member (until 18 May 2015),
- Damijan Korošec, member (until 5 August 2015, and the Committee's external advisor from 6 August 2015),
- Nikolaj Maver, member (from 6 August 2015),
- Ivan Lenart, member (from 6 August 2015).

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 raises the quality level of supervision over managerial staff and executive workers.

The Committee was composed of:
- Peter Vrisk, Chair,
- Marjan Janžekovič, member,
- Ivan Lenart, member,
- Nikolaj Maver, member.

Damijan Korošec, external advisor of the Risk Committee, also takes part in the Committee's consultations.

The Nomination Committee (Remuneration Committee until 6 August 2015) provides the Supervisory Board with expert support in appointing the Management Board and in stipulating their rights and obligations, as well provides advice with respect to various staffing and related issues.

In 2015 the Committee was composed of:
- Marjan Janžekovič, Chair,
- Peter Vrisk, member,
- Ivan Lenart, member,
- Nikolaj Maver, member.

Management Board

Until 31 July 2015 the Management Board had been composed of:
- Sonja Anadolli, President,
- Mojca Štajner, member.

From 1 August to 30 September 2015 the Management Board had three members:
- Sonja Anadolli, President,
- Mojca Štajner, member,
- Barbara Cerovšek Zupančič, MSc, member.

Since 1 October 2015 the Management Board has been 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 Management Board bears full responsibility with respect to the Bank, including the adoption and monitoring of its strategic objectives and their implementation, the strategy of assuming and managing risk, corporate governance and corporate values.

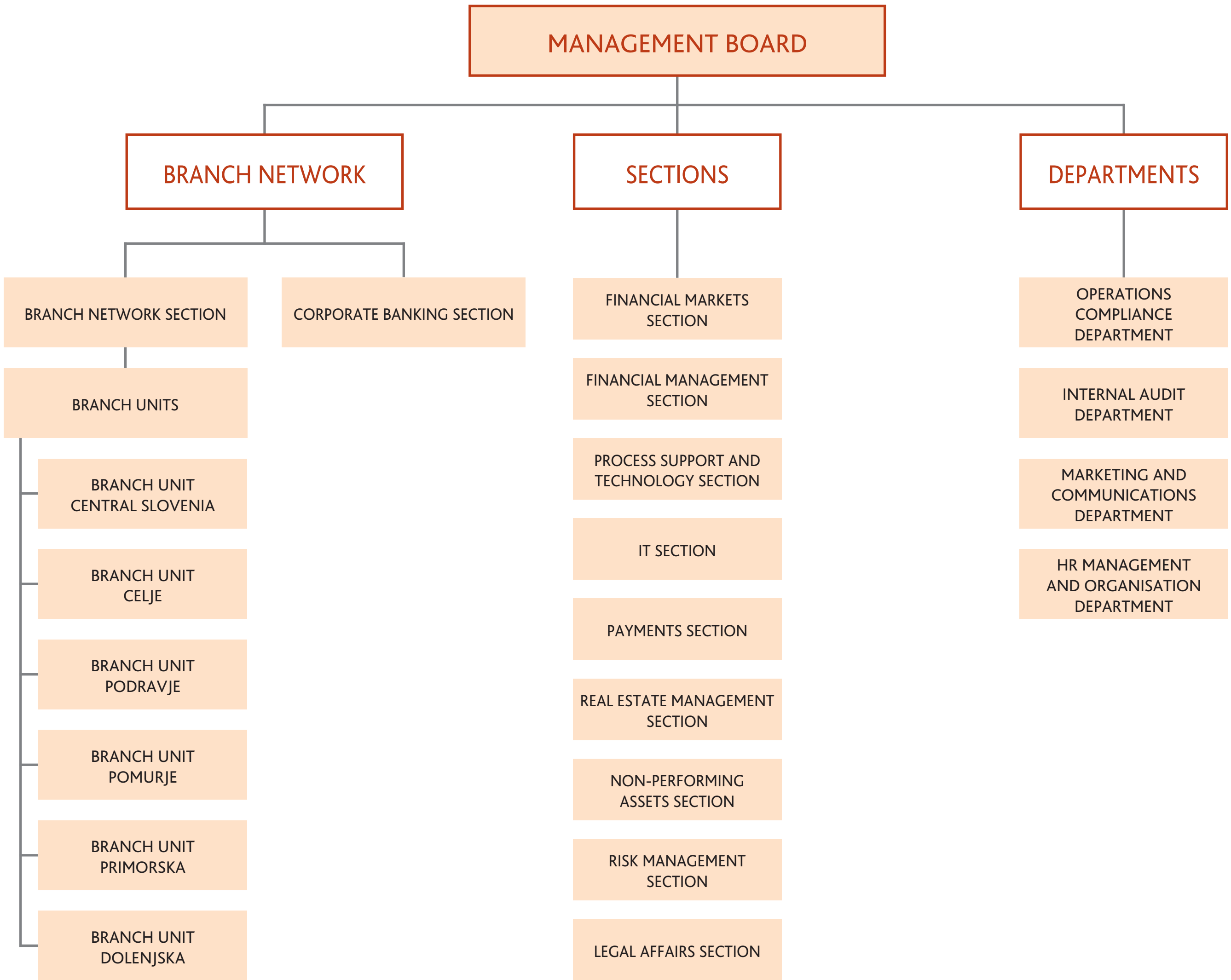
IV.4. THE BANK'S ORGANISATION CHART

In 2015 the Bank continued optimising its organisation structure. A new, efficient organisation structure was put in place, tailored to the planned scope of operations and to the optimisation of goals both at the management and back office levels. With the new organisation we have created the conditions for realising the Bank's vision and strategy. We are now ready to additionally improve cost efficiency, sales activities, the management of risks and non-performing loans, to further streamline business processes and for 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, 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 branch network. Branch units are run, directed and supervised by managing directors of branch units.

Organisation chart as at 31 December 2015



V. GROUP OF ASSOCIATED COMPANIES

Deželna banka Slovenije d. d. is the controlling company in the Deželna banka Slovenije Group (hereafter Group). As at 31 December 2015 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. (hereafter DBS Adria).

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

Group organisation chart as at 31 December 2015:

	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

Performance indicators of the Group's subsidiaries for 2015:

Company	DBS Leasing d. o. o.		DBS Nepremičnine d. o. o.		Semenarna Ljubljana, d. o. o.		DBS Adria d. o. o.	
	2015	2014	2015	2014	2015	2014	2015	2014
Total assets (in EUR thousand)	9,674	13,244	7,700	7,775	30,177	30,832	156	146
Equity (in EUR thousand)	749	980	1,492	7,741	958	824	(4)	0.4
Profit/loss before tax (in EUR thousand)	(233)	(2,897)	60	(1,489)	120	180	(5)	(3)
Income tax (in EUR thousand)	(7)	-	(5)	-	(2)	(10)	1	1
Profit/loss after tax (in EUR thousand)	(240)	(2,897)	55	(1,489)	118	170	(4)	(2)
Return on assets (ROA) before tax (in %)	(2.19)	(14.29)	0.77	(15.57)	0.37	0.55	(3.25)	(1.92)
Return on equity (ROE) before tax (in %)	(24.30)	(364.86)	0.89	(16.49)	6.56	13.14	-	(777.78)
No. of employees (at the end of period)	7	7	0	0	243	259	0	0
Total assets/No. of employees (at the end of period) (in EUR thousand)	1,382	1,892	-	-	124	119	-	-

Share capital reduction in DBS Nepremičnine due to the changed financing scheme.

DBS Leasing d. o. o.

Registered address: Kolodvorska ulica 9, 1000 Ljubljana, Slovenia
Company ID number: 2160854
Business: 64.910 Financial leasing
Initial capital: EUR 1,484 thousand
Managing Director: Srečko Korber

DBS Leasing is a universal leasing company offering the full range of leasing services, both for movable (cars, machines, equipment and utility vehicles) and immovable property (real estate). It complements the range of the Bank's and Group's financial services especially by financing agricultural machinery and equipment.

The company reported EUR 240 thousand of loss for the year in 2015, mainly attributable to impairments and write-offs of investments, and the revaluation of real estate. The company's assets were down 27% in 2015, to

EUR 9,674 thousand, the most due to the sale of real estate. The majority of investments are financial lease and loan receivables, and inventories of real estate. The largest item under equity and liabilities is borrowings.

The company actively manages financial risk, and manages credit risk by diligently assigning credit ratings to each potential client. Interest rate risk is managed by linking the majority of assets and liabilities to the six-month Euribor rate, and liquidity risk is managed with the help of the controlling Bank, which balances the maturity periods of its liabilities and assets. The company also devotes numerous efforts to decreasing late payments from lessees, and has decreased 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.

In 2015 the Group rehabilitated DBS Leasing and cut the Bank's exposure toward it by means of a gradual disposal of DBS Leasing's property. Some lines of business were transferred to the Bank.

DBS Nepremičnine d. o. o.

Registered address: Kolodvorska ulica 9, 1000 Ljubljana, Slovenia
Company ID number: 6290540
Business: 68.100 Buying and selling of own real estate
Initial capital: EUR 2,000 thousand
Managing Director:
- Tevž Korent (until 31 December 2015),
- Mojca Štajner (since 1 January 2016).

DBS Nepremičnine was founded in January 2013 and is 100%-owned by the Bank. The company's core business is selling the Group's property, renting and developing real estate projects. Properties were fully transferred to the Bank in 2014 and 2015.

The company reported EUR 55 thousand of operating profit in 2015.

In November the Bank reduced the initial capital of DBS Nepremičnine by EUR 6,304.6 thousand. When DBS Nepremičnine was first incorporated, the Bank planned to buy all property via this company. In order to cut costs, however, this activity was later transferred to a special unit inside the Bank. The company does therefore not need so much capital and will be financed with loans until it is closed down.

Semenarna Ljubljana, d. o. o.

Registered address: Dolenjska cesta 242, 1000 Ljubljana, Slovenia
Company ID number: 5005574
Business: 46.210 Wholesale of grain, seeds and animal feeds
Initial capital: EUR 5,710 thousand
President of the Management Board: Aleš Šabeder
President of the Supervisory Committee: 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, seed-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 2015. Total sales revenues for 2015 amounted to EUR 28 million, up 1% compared to the year before. Total assets were EUR 30,177 thousand at the end of 2015.

Semenarna's positive result for 2015 testifies to the fact that the company's further corporate restructuring was successful. In 2015 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 competition's pressures to reduce prices, the company was forced to further adjust its competitive market position.

DBS Adria d. o. o.

Registered address: Cvjetno naselje 26, Samobor, Croatia
Company ID number: 0103191000 (court ID number: 080906254)
Business: Management of real estate on a fee or contract basis
Initial capital: EUR 3 thousand
Managing Director: Jožef Berdnik

The company was incorporated in March 2014 and is 100%-owned by the Bank. The company's core business is selling the Group's property, renting and developing real estate projects.

In 2015 the company reported EUR 4 thousand of loss for the year. Total assets were EUR 156 thousand at the end of 2015. The majority of investments were inventories of real estate abroad, while the majority of liabilities were borrowings from banks.

VI. THE BANK'S PERFORMANCE IN 2015

VI.1. GENERAL ECONOMIC ENVIRONMENT[1]

At the turn into the last quarter of 2015, economic activity indicators in Slovenia mostly remained on the levels from previous months. Real GDP growth of 2.7% is expected for full-year 2015 (2014: 2.3%). The main driver of economic recovery remain exports. Private consumption in the segment of durable goods, which shrank the most during the crisis, is also on the path to further recovery. Lower energy prices and the decreasing prices of non-energy commodities had a decisive impact on inflation, which totalled 0.5% at the year-end of 2015 (2014: 0.2%).

Indicators of economic activity and confidence in the euro area indicate a continuation of modest GDP growth in the last quarter of 2015. At the turn into the last quarter, production volume in manufacturing and construction output remained almost the same as in previous months. Turnover growth in retail trade came to a halt in the last few months, but in the first ten months of 2015 as a whole, this indicator was up the most of all three indicators year-on-year. This is attributable to the strengthening of private consumption amid rising disposable income, owing to the recovery of the labour market and a positive impact of lower oil prices. A further improvement in confidence indicators at the end of the year suggests a continuation of favourable trends.

At the beginning of the last quarter of 2015, short-term indicators of economic activity in Slovenia maintained the levels achieved in previous months, except for construction. Merchandise exports and production volume in manufacturing maintained their levels after a longer period of growth; they were up year-on-year in the ten months of 2015. Exports thus remain the main driver of economic recovery. Total turnover in retail trade has also been more or less unchanged in recent months, further growth being recorded only 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. Meanwhile, activity declined further in construction, the only sector to lag behind the levels of the same period of 2014. Confidence in the economy remained high in the last three months.

The labour market continued to recover at the end of 2015. The further growth in the number of the active working population was mainly due to the pick-up in manufacturing. Having increased in most private sector activities, employment growth in the first ten months of 2015 was significantly stronger than in the same period last year.

The deleveraging of non-banking sectors with domestic banks increased in the eleven months of 2015. This was mainly the result of a much greater decline in corporate and NFI loans (excluding the transfers of claims to the BAMC) than in the same period of 2014, and the volume of loans to the state contracted too. Household loans expanded, on the other hand, owing to rising housing loans amid the recovery of the property market. As to their equity and liabilities, banks increased in the ten months of 2015 their repayments of liabilities with foreign creditors, while the increase in deposits by domestic non-banking sectors more than halved in the eleven months.

The gradual stabilisation will continue in the banking system. Banks have continued reducing their exposure to foreign creditors. Performance results in the banking system are improving, attributable to fewer formed provisions and impairments, however net interest income is down. Despite very low interest rates on deposits, this is estimated to be the result of the rapid adjustment of interest rates on loans in the past year – which nevertheless persist higher on average than in the euro area – and, at the same time, of the modest lending activity.

1 Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD).

Despite more stable conditions in the banking system, which are creating the environment for the recovery of lending, bank loans to the economy did not increase in 2015. Trends are expected to improve next year. Modest lending despite the reduction in corporate indebtedness reflected the bank's continuing prudence. However, this approach restricts not only struggling but creditworthy companies that face business opportunities but cannot take full advantage of them due to limited lending opportunities. An additional reason preventing banks from increasing lending is the imbalance between the maturities of their liabilities and investments, which further deteriorates as short-term deposits increase. Receivables from customers with poorer ratings remain on the banking balance sheet, and their number is rising also due to the more stringent conditions for classification into credit rating classes[2]. Lending to the corporate sector is expected to recover only in 2016, when further economic recovery and additional corporate deleveraging boost the banks' confidence in corporates. The improved overall economic climate will also encourage companies to seek financing for investments. The indebtedness of individuals is relatively low and banks are more inclined to provide credit in this segment, therefore retail lending is already increasing. Housing and consumer loans are especially on the rise. Retail indebtedness is expected to rise, which will spill over into a recovery of the real estate market and step up spending.

VI.2. THE BANK'S BUSINESS POLICY

The Deželna banka Slovenije d. d. business policy pursues objectives that bring the Bank closer to its key strategic objectives.

The Bank is directing a major segment of its activities into recovering non-performing loans. As a matter of priority market focus it is targeting retail customers, the agro-food sector, rural clients, and SMEs. Via our business network we are strengthening marketing activities by taking a holistic approach to treating customers, both individuals and corporates. We are accelerating the marketing of other financial services too, including the insurance and leasing of farming machines and equipment, with emphasis placed on increasing all interest and non-interest income, including by exploiting synergies within the cooperative system. We plan 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. We will market insurance services with Slovene insurers. In rendering our services we are striving for excellent responsiveness both in terms of quality and time. We are devoted to preserving stability and an adequate maturity of our financial resources, and with respect to investments we intend to increase the quality of our portfolio, placing a major focus on ensuring adequate collateral covers for our receivables, the safety of investments and limiting risks in lending. We will undertake an active recovery of non-performing loans and of past due default receivables. The risk management and lending functions will be improved. Changes in our system of limits will increase the responsibility of our employees. We will attend to the efficient management and accelerated marketing of properties not required for our operations. The streamlining of work processes and departments will continue, and operating efficiency will be enhanced across all segments of business. We are developing and rationalising the Bank's information system and technological equipment, with a view to be more efficient and effective, and continuing with cost rationalisation measures across all areas. We are leading a wise human resources policy and ensuring life-long education and training of employees.

To account for the persisting stringent economic situation, slow economic recovery and the related uncertainty, the Bank will operate in a highly conservative manner. Priorities are still to strengthen our capital base and ensure capital adequacy, preserve the stability of the Bank's operations, increase all types of revenue, and implement efficient risk management. By reaching our objectives DBS d. d. will maintain its position among Slovenia's top 14 banks according to total assets at the year-end of 2016, and reaffirm its place among the top three according to stage of development and wide-spread branch network. The Bank will remain the country's leading lender

2 The share of non-performing exposures of the banking system as at 30 June 2015 totalled 14.2% (source: Bank of Slovenija http://www.bsi.si).

providing banking and other financial services to the agro-foods sector, rural areas, manufacturing activities, high-tech and tourism activities, ecology-related activities and the energy sector, as well as the leader in distributing EU and government grants.

VI.3. THE BANK'S PERFORMANCE

VI.3.1. CORPORATE BANKING

Corporate lending

Corporate deleveraging continued in Slovenia in 2015, 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.

On account of the decreasing lending activity and falling active interest rates, corporate banking in 2015 was challenging. The Bank compensated for lower interest income with higher non-interest income and income from accompanying services, which are becoming increasingly important for the Bank's performance.

The Bank's lending policy focused on risk management, safety of investment and adequate returns. Commercial activity was subject to a selective approach, with the Bank applying a conservative investment policy and dispersing its exposure among SMEs and cooperatives with good credit ratings, operating in the manufacturing industry, high-tech industries, ecology-related industries, the energy sector, the tourism industry and the agro-food sector. In granting loans to customers, the Bank paid close attention to the expected cash-flow from operations. Reasons for borrowing and means for repayment were studied carefully. In addition to a sufficient cash flow, which is the necessary condition for granting a loan, the Bank demanded adequate collateral for its exposure toward a customer. As a rule, financial holdings and construction companies 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 institutions, the state and other financial institutions totalled EUR 394,232 thousand at the end of 2015, a decrease by EUR 10,612 thousand compared to the year-end of 2014. Exposure to the construction industry and financial leasing customers as well as large companies was reduced. The volume of guarantee transactions remained on the level from 2014. Fee and commission on issued guarantees increased by 3.4%.

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 7.6% in 2015. This increase was followed by a favourable trend in E-banking, with almost 92% of our corporate customers that have an active transactional account with us using DBS PRONET at the end of 2015.

In the second half of the year, the Bank launched the mDBS mobile bank for corporates.

Payment transactions

In 2015 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 to offer our clients high-quality services. The majority of payments transacted for our corporate clients 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 clients 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 and certificates of deposit, including deposits by the state, amounted to EUR 144,178 thousand as at 31 December 2015, up 59% compared to the previous year. Deposits were up due to 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 BRANCH NETWORK

Economic growth remained modest in 2015, however trends are different across regions, which demands a high level of flexibility and knowing your customers well. The more important tasks in the segment of retail banking and the branch network in such conditions were soliciting new customers and adjusting activities to the different segments according to their individual needs. In 2015 the Bank thus continued marketing special offers, which successfully followed our development strategy and resulted in the expected growth.

Collected funds

The balance of collected funds from retail customers, including foreign entities and non-profit institutions serving households, amounted to EUR 637,768 thousand at the end of 2015. This was up EUR 25,856 thousand, or 4%, compared to the end of 2014. An increase in collected assets was reported despite the fact that we were reducing interest rates during the entire period as a way of adjusting to the market on a monthly basis. As to the structure of total collected funds from retail customers, the largest share is sight deposits, which represent 55%.

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

Loans and advances

The balance of loans and advances to retail customers amounted to EUR 226,804 thousand at the end of 2015, an increase by EUR 9,706 thousand, or just over 4%, compared to the year-end of 2014.

The Bank continued on its set path of marketing package banking offers, and maintained a flexible tailor-made approach in reviewing credit applications. Again it focused on safety and on mitigating risks in lending, so that despite considerable competition it managed to maintain the quality of its credit portfolio. Expedient and intensified daily debtor treatment have helped the Bank keep the volume of overdue receivables from our retail customers at a manageable level.

Transactional accounts

One of the more important strategic tasks of the Bank's branch network was again to continually keep increasing the number of personal transactional accounts, especially the so-called full-functionality transactional accounts. 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 the Sowing Package, the Harvest Package, the Farmer Offer, the Entrepreneur Offer, and the novelty in 2015 – the Offer for Young Farmers Transferees. For several years now the Bank has consciously turned its focus on customers that ask for E-banking accounts. The growth trend continued in 2015, as we again recorded a net increase in transactional accounts.

Administering payment transactions through the branch network

The number of payment orders processed at teller lines was up 3% year-on-year, and the related fee and commission income was also up. The trend of an increasing volume of payment orders processed via E-banking has continued, with more than 43% of all payment orders processed via DBS NET. The number of the Bank's branches acting as public cash registers also increased.

DBS branch units' supply of cash

The Bank receives cash from the depository bank NLB d. d. The sales of cash in 2015 increased by 62% and the number of discharges by 12%.

Numismatics

The Bank continued dealing in numismatic – collector and commemorative – coins in 2015. Despite changes in the market where there are now two other providers of numismatic coins in addition to the Bank, this activity has an important contribution to maintaining the Bank's visibility.

Marketing mutual funds

In cooperation with portfolio manager KD Skladi, družba za upravljanje, d. o. o., the Bank remained active in the area of mutual fund marketing and retained the volume of operations on the same level as in previous years.

Electronic banking for individuals – DBS NET

In 2015 we recorded an increase in both the number of transactional accounts with the E-banking functionality, and the number of E-bank users. This is mainly the result of our actively redirecting customers to process payment transactions via the E-bank. Almost 37% of our retail customers that have an active transactional account with us used DBS NET at the end of 2015. In the second half of the year we launched the mDBS mobile bank.

Insurance brokerage

In 2015 the Bank maintained cooperation with the business partners – insurance companies – for which it provides insurance brokerage. The volume of insurance business was up, both with respect to the number of insurance policies sold and their value. The structure of insurances changed: while property insurance used to be the most common type in the past, life insurance was at the forefront in 2015.

ATM network

As at 31 December 2015 the Bank's ATM network consisted of 39 machines. The number of ATM transactions was up compared to the previous year, both by our customers and the customers of other banks.

Payment cards

The Bank's active marketing of a wide range of services related to transactional accounts in 2015 resulted in an increase in the number of issued Activa Maestro debit cards and Activa MasterCard credit cards. In the last quarter we launched the prepaid debit card.

Marketing UPN forms via outsourcers

In 2015 the Bank outsourced the marketing of standard payment order forms (so-called UPN forms) to eight providers, two of whom were cooperative stores. The volume of transactions increased more than twofold from the year before. The Bank will proceed to market the processing of UPN forms via all interested outsourcers that report a sufficient volume of payment transactions.

VI.3.3. OPERATIONS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Operations with domestic and foreign banks in 2015 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 4,012 thousand, attributable to an overall decrease in borrowings. At the end of 2015, the Bank's borrowings from the European Central Bank totalled EUR 30,448 thousand. As to investments, the Bank reduced exposure to the banking sector. Excess liquid assets were placed as short-term deposits.

In 2015 the Bank issued subordinated debt in the total nominal value of EUR 5,450 thousand, and at the same time repaid its matured subordinated debt in the total nominal value of EUR 6,000 thousand.

VI.3.4. SECURITIES TRANSACTIONS

Debt securities

The Bank's portfolio of debt securities as at 31 December 2015 was worth EUR 162,985 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 Euro system.

The Bank participated in the Republic of Slovenia treasury bills auctions, both for its house account and for the clients' account, and as for other debts securities, our portfolio during the year included commercial papers.

In purchasing new debt securities, decisions were based on the Bank's needs, which depended on the maturity periods of our liabilities, the liquidity ratio, the capital adequacy ratio, safety, and return on investment. In general, the Bank's investment policy was highly conservative.

In 2015 the Bank repaid its matured DEZEL Float 06/15 bonds with a government guarantee, in the total nominal value of EUR 72,387 thousand.

Equities

Investments into domestic equities that make up the Bank's trading portfolio of company shares and mutual funds, totalled EUR 216 thousand as at 31 December 2015.

Equity investments

Equity holdings in subsidiaries represent 59% of the Bank's total equity participation. At the end of 2015, they totalled EUR 5,922 thousand, down EUR 7,352 thousand from the beginning of the year, especially attributable to the reduction of initial capital in DBS Nepremičnine and impairment of the investment in DBS Leasing. Pursuant to Article 14 of the Bank Resolution Authority and Fund Act, the Bank paid into the Bank Resolution Fund in 2015. As at 31 December 2015 those funds were estimated at EUR 2,699 thousand.

VI.4. FINANCIAL RESULT AND FINANCIAL POSITION

VI.4.1. FINANCIAL RESULT

DEŽELNA BANKA SLOVENIJE GROUP

In 2015 the Group reported EUR 3,081 thousand of profit after tax (2014: EUR 1,399 thousand). This was attributable to the reported profit of the Bank and, to a lesser degree, of the subsidiaries Semenarna and DBS Nepremičnine. Subsidiaries DBS Leasing and DBS Nepremičnine, on the other hand, ended the period with a loss.

Group net interest income amounted to EUR 19,066 thousand, a decrease by EUR 1,972 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 605 thousand.

Net fee and commission income amounted to EUR 5,642 thousand, up EUR 611 thousand from a year earlier. The majority of fee and commission refer to the operations of the Bank. The consolidation of Semenarna has upped fee and commission expense by EUR 857 thousand, referring mainly to financial services and payment transaction services.

Net gains on the derecognition of assets totalled EUR 8,758 thousand (2014: EUR 9,165 thousand). The consolidation allocated to this item both Semenarna's revenues from the sale of goods, products and services, as well as non-financial income and costs of material.

Other net operating losses totalled EUR 61 thousand (2014: EUR 2,837 thousand of net operating gains).

Net impairment charges for loans and other assets amounted to EUR 5,841 thousand, of which impairment losses on loans totalled EUR 4,104 thousand, down EUR 4,404 thousand from the year before. Net provision expenses totalled EUR 300 thousand, an increase by EUR 99 thousand compared to 2014.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank's performance results improved from the year before, as it reported EUR 2,418 thousand of profit before tax, profit after tax amounting to EUR 2,014 thousand (2014: EUR 1,343 thousand). Comprehensive income was positive and totalled EUR 1,350 thousand. Operating profit before impairments and provisions, and before tax, was EUR 9,198 thousand (2014: EUR 14,188 thousand).

Net interest income amounted to EUR 19,671 thousand, a decrease by EUR 2,569 thousand year-on-year (2014: EUR 22,240 thousand). Interest income was down EUR 7,150 thousand particularly due to lower interest income on long-term and short-term loans, on securities held to maturity issued by banks, the state and other issuers, on available-for-sale securities and securities held for trading, and on deposits with the central bank. Interest expense was down EUR 4,581 thousand year-on-year, attributable to lower interest on short-term and long-term deposits and on issued bonds.

Net fee and commission income totalled EUR 6,468 thousand, up EUR 747 thousand year-on-year (2014: EUR 5,721 thousand). Fee and commission income was up EUR 456 thousand. Fee and commission income increased for running transactional accounts and granting overdrafts to customers in retail banking, for interbank settlements in the Activa processing system, for payment transactions, for issued guarantees, for agency transactions and commission sales. Fee income from securities trading for clients and from lending transactions was down. Fee and commission expense decreased by EUR 291 thousand from the same period last year.

Impairment charges on investments decreased considerably from the previous year. Net impairments amounted to EUR 6,482 thousand (2014: EUR 12,744 thousand), with loan impairments totalling EUR 3,834 thousand, down EUR 1,484 thousand from 2014. Impairment charges against equity investments totalled EUR 1,047 thousand; impairments in DBS Leasing and DBS Adria were EUR 1,176 thousand, while the derecognition of impairments in the equity investment DBS Nepremičnine contributed EUR 129 thousand of income. Net impairment losses on other assets totalled EUR 1,601 thousand, up EUR 204 thousand year-on-year; impairments of investment property were EUR 216 thousand, and impairments of inventories of real estate EUR 1,385 thousand.

EUR 298 thousand of net expenses for provisions were formed in 2015 (2014: EUR 177 thousand of net income from reversed provisions). Provisions for off-balance-sheet liabilities totalled EUR 240 thousand of net expenses, and other provisions amounted to EUR 58 thousand of net expenses. Among other provisions, EUR 67 thousand was provision expenses associated with employees' pensions.

Other net operating losses totalled EUR 480 thousand (2014: EUR 2,258 thousand of net operating gains). Gains included EUR 318 thousand of lease income. Losses included EUR 774 thousand of financial transaction tax (2014: EUR 571 thousand) and EUR 50 thousand paid into the common Bank Resolution Fund. Tax on total assets was eliminated as of 1 January 2015 (2014: EUR 573 thousand).

In 2015 the Bank reported EUR 88 thousand of net denationalisation income (2014: EUR 3,115 thousand of net income).

The Bank's operating expenses in 2015 amounted to EUR 16,930 thousand (2014: EUR 16,310 thousand). Employee benefits cost amounted to EUR 10,587 thousand, up EUR 464 thousand from 2014. Costs of material and services totalled EUR 4,947 thousand, up EUR 259 thousand. The costs that increased were especially those associated with real estate and IT. Amortisation and depreciation expenses amounted to EUR 1,396 thousand, down EUR 103 thousand compared to 2014.

VI.4.2. FINANCIAL POSITION

DEŽELNA BANKA SLOVENIJE GROUP

The Group's total assets amounted to EUR 923,160 thousand at the end of 2015, down EUR 5,096 thousand since the beginning of the year. The total assets of subsidiaries amounted to EUR 47,785 thousand, representing 5% of the Group's total assets (31 December 2014: 6%). After the elimination of inter-company relationships, the Group's total assets exceeded the Bank's total assets by EUR 30,767 thousand, i.e. by 3%. According to the balance as at 31 December 2015, the consolidation of Semenarna has increased Group assets by EUR 30,177 thousand.

Loans and advances at Group level amounted to EUR 628,095 thousand at the end of December, down EUR 3,174 thousand, with loans and advances to banks up EUR 823 thousand to EUR 5,621 thousand. Loans and advances to customers (including the state) were down EUR 3,514 thousand to EUR 620,211 thousand. The consolidation of Semenarna has increased loans and advances at Group level by EUR 789 thousand, mainly attributable to trade receivables.

The carrying amount of property, plant and equipment totalled EUR 34,422 thousand as at 31 December 2015, down EUR 2,049 thousand year-on-year. The decrease spilled over into lower depreciation and amortisation costs.

Long-term investments in the capital of subsidiaries were deduced from investments in the consolidation process, in the total amount of EUR 5,922 thousand.

The consolidation increased the item other assets, which totalled EUR 34,824 thousand at the year-end. The main reason for the increase is Semenarna's inventories of materials in the amount of EUR 8,028 thousand.

Financial liabilities measured at amortised cost (including deposits, loans, bonds, subordinated liabilities and other financial liabilities) totalled EUR 864,787 thousand at the end of December, down EUR 10,761 thousand. The consolidation of Semenarna increased liabilities measured at amortised cost by EUR 26,622 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 10,708 thousand to EUR 59,702 thousand year-on-year, while deposits from customers, including deposits from the state (but excluding bonds and subordinated liabilities), increased by EUR 78,736 thousand to EUR 780,890 thousand. Borrowings from customers totalled EUR 915 thousand at the end of December, a decrease by EUR 375 thousand.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank's total assets amounted to EUR 892,393 thousand at the end of December 2015. This is an increase by EUR 2,332 thousand year-on-year, attributable to an increase in the deposits by the state, individuals and corporates.

Corporate deposits, including state deposits, were up by EUR 53,393 thousand by the end of December. Deposits by the state increased by EUR 41,482 thousand, and corporate deposits by EUR 11,911 thousand. Under investments, loans and advances in this segment were down EUR 10,612 thousand, with loans to the state up EUR 20,084 thousand and corporate loans down EUR 30,696 thousand.

Retail deposits increased by EUR 25,856 thousand in 2015, with retail loans and advances up EUR 9,706 thousand.

On the liabilities side, the Bank decreased borrowings and deposits from banks by EUR 3,864 thousand, and upped borrowings from the central bank by EUR 46 thousand. On the investments side, deposits with the central bank and banks were down EUR 41,857 thousand.

Equity investments in subsidiaries totalled EUR 5,922 thousand at the end of 2015, down EUR 7,352 thousand from the beginning of the year. Equity investments in DBS Leasing, DBS Nepremičnine, and Semenarna totalled EUR 749 thousand, EUR 1,492 thousand, EUR 3,681 thousand, respectively, at the year-end of 2015. An impairment charge of EUR 3 thousand reduced the equity investment in DBS Adria d. o. o. so that it totalled EUR 0 thousand at the year-end of 2015.

In 2015 the Bank's inventories of real estate and investment property were up EUR 18,133 thousand to EUR 37,515 thousand at the end of the year, with inventories of real estate up EUR 7,610 thousand, and investment property up EUR 10,523 thousand.

VI.5. SHAREHOLDERS' EQUITY

Group shareholders' equity as at 31 December 2015 amounted to EUR 53,570 thousand, up EUR 6,822 thousand year-on-year.

Bank shareholders' equity as at 31 December 2015 amounted to EUR 52,545 thousand, up EUR 5,728 thousand year-on-year. The year-end 2014 capital increase upped capital by EUR 4,367 thousand. Subscriptions of shares issued in the capital increase were not recognised in equity as at 31 December 2014, as they had not yet been recorded in the KDD central register then. The capital increase was recorded in the companies' register on 16 January 2015. Capital was additionally boosted by EUR 2,014 thousand from the operating result for 2015.

Audited share book value as at 31 December 2015 was EUR 12.422937. It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central securities register of the Slovenian 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 2015:

Shareholder	Number of shares	Stake in %, considering all shares recorded in KDD
Kapitalska zadruga, z. b. o.	2,023,671	47.532
KD Kapital d. o. o.	377,181	8.859
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362
ČZD Kmečki glas, d. o. o., Ljubljana	200,000	4.698
SRC d. o. o.	188,022	4.416
Credito Valtellinese - fiduciarni račun	185,110	4.348
KD Group d. d.	179,441	4.215
Zadružna zveza Slovenije, z. o. o., Ljubljana	171,848	4.036
Zveza bank RZZOJ, Celovec	106,118	2.493
Adriatic Slovenica d. d. Koper, Kritno premoženje	88,050	2.068
Total	**3,747,730**	**88.027**

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 2015 the Bank held 27,803 repurchased treasury shares, which is 0.65% of all issued shares.

VI.6. MARKETING AND COMMUNICATION

Marketing and PR activities mainly focused on the agro-food sector and rural areas – the Bank's traditional primary area of operations –, as well as on opening personal accounts, on promoting new products and the website revamp. Analyses carried out by individual media and institutions again ranked the Bank among the lowest-cost banking providers in Slovenia.

The Bank intensified its presence in the agro-food sector with frequent appearances in the media covering this area and with activities at agro-food events – both smaller local ones and big events, such as the fairs in the towns of Komenda and Gornja Radgona. The successful cooperation with the Slovene Rural Youth Association continued. In 2015 the Bank joined the Agrobiznis project (Slo. for agro-business), an undertaking run by the Slovene financial daily Finance, which encourages entrepreneurship in agriculture and the countryside, and rewards the most entrepreneurial farmers.

Two new products were developed and presented to countryside customers: a loan for animal breeding and a package for young farmers (transferees). With both the Bank has reacted to the needs of farmers and enabled them to bank at even more affordable prices. In cooperation with seed-producer Semenarna Ljubljana, the Bank launched a campaign of opening new personal accounts and thus increased the number of its customers. The website www.dbs.si was revamped and now offers users a clearly organised selection of information on the Bank's offer and other areas of activity, and it is more interactive. The Bank also presented novelties related to contemporary payment methods to the public: the mDBS mobile bank and prepaid debit card, and the contactless technology of payment cards, all of which received ample communication support. Attention was called to the Bank's affordable housing loans in an all-Slovenian radio campaign.

The intense marketing of insurance, which the Bank brokers for different insurers, and of properties owned by the Bank, continued. It again promoted the sale of commemorative and collector coins issued each year by the Republic of Slovenia, which the Bank sells at its 25 selected branches.

As opposed to the competition, which typically shrank their business networks, Deželna banka Slovenije ceremoniously opened three branches in 2015: two new ones in the towns of Škocjan and Dobrovo in the Goriška brda region, and a renovated one in the town of Novo mesto, which has now become the head office of the Dolenjska Branch Unit. Both at openings and upon other occasions the Bank pursued the strategy of social corporate responsibility and came to the aid of individuals and local organisations.

VI.7. DEVELOPMENT OF THE BANK

VI.7.1. INVESTMENTS

For several years now we have devoted a lot of attention to refurbishing our branches or moving them to technically and spatially more appropriate locations, as well as into making them compliant with security and other banking standards. In addition to opening two new branches and relocating one, the most investment funds in 2015 were dedicated to IT.

The Bank fostered a level of security consistent with the security standards of the Bank Association of Slovenia.

VI.7.2. INFORMATICS AND BANKING TECHNOLOGY

Application software modernised in 2015 by having migrated to web technology which enables further modernisation and adjustment of applications to the newest trends and developments. Terminal services infrastructure has been upgraded; the new version of the terminal services environment has high availability and enables work on two data centres. A capital migration and upgrade of client operating systems and work stations to the new version of Windows was also implemented. The Bank optimised the operations of its backup data centre by migrating to one of the most contemporary data centres in Slovenia, which complies with the highest criteria, standards and regulations.

With respect to application software the Bank developed and upgraded software support for its operations. The most comprehensive project was the upgrade of software support to align it with the banking regulations and regulators' demands. Other important projects included mobile banking, the prepaid debit card, e-invoicing. Electronic data interchange continued.

VI.7.3. HUMAN RESOURCE MANAGEMENT

The Bank's recruiting and staffing policy in 2015 remained subject to demanding operating conditions, which meant that new employments were limited. Staffing deficits were compensated for with in-house staff, streamlining work processes and adjustments of organisational structure. Hiring new staff from the market was an option only when the Bank did not have suitable existing employees and when a replacement with in-house staff was not an option because the relevant posts that needed filling were either too specific or at a remote location, when new branches were opened. Awareness of the fact that the Bank's success depends not least on efficient HR management led to new recruitments in this area and the setting up of an independent HR Management and Organisation Department. As at 31 December 2015 the Bank had 354 employees.

Employees' education profile:

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

31 December 2014	Less than or level IV	Level V	Level VI or higher	Total
No. of staff	11	170	174	355
% of staff	3	48	49	100
Average number of staff	11	170	176	356

Employees by gender:

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

31 December 2014	Women	Men	Total
No. of staff	284	71	355
% of staff	80	20	100

The average age of our employees at the year-end of 2015 was 46.1, whereby 3.7% of our staff had limited capability for work.

In 2015 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. It is an 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 its Audit Committee.

The Supervisory Board and its Audit Committee reviewed the Internal Audit Department report for the second half of 2014, for the full year 2014, and for the first half of 2015, and gave their consent to the prepared Internal Audit Department operations plan for 2016.

VII. RISK MANAGEMENT

Risk management

The DBS d. d. Management Board and Supervisory Board adopted the Concise Risk Statement Approved by the Management Body, which stipulates the aggregate level of risk, including the levels of individuals risks, that DBS d. d. and the DBS Group are exposed to or are still willing to assume in order to meet their strategic goals while minding their risk tolerance.

DBS d. d. and the DBS Group go about meeting their strategic goals 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 stressful situations.

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

DBS d. d. monitors the Bank's risk profile on the basis of quantitative and/or qualitative assessments of measurable and immeasurable risks that the Bank assumes 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 capital ratio, the quality of assets and loan commitments given, and return on assets before tax.

The Bank's limit systems define clear limits up to which risk can be assumed. Efficient risk management that 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 process, DBS d. d. runs a conservative policy of assuming and managing credit risk. To this end it:

- is increasing 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;
- is adjusting 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;
- is directing 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;
- is continually making improvements to the implemented Early Warning System (EWS) of increased credit risk;
- has intensified action for the recovery of past due default claims and/or for 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.

DBS d. d. will avoid:
- financing acquisitions, 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 assuming and managing market risk DBS d. d.:
- is intensifying activities to solicit transactions that have a considerable impact on the Bank's non-interest income with a 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 and needs.

DBS d. d. will not:
- increase its volume of equities above those stipulated in the Deželna banka Slovenije d. d. 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 increase the capital requirement for credit risk.

In assuming and managing operational risk DBS d. d.:
- 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 as low a level as possible and definitely below 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.

DBS d. d. will not:
- take on new business or spread its operations were that to cause a considerable increase in the possibility of operational risk events.

In assuming and managing interest rate risk DBS d. d.:
- maintains the structure of the Bank's portfolio such that it requires 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 the value of regulatory capital.

In assuming and managing liquidity risk DBS d. d.:
- is maintaining 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;
- is maintaining 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 assuming and managing profitability risk DBS d. d.:
- 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 assuming and managing capital risk DBS d. d.:
- is maintaining such a volume of regulatory capital with which it could 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 Needs;
- will maintain the volume of regulatory capital as required by the regulator.

In assuming and managing strategic risk DBS d. d.:
- 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 assuming and managing reputation risk DBS d. d.:
- operates in a way 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.

DBS d. d. will not:
- pursue business practices and actions that could cause it to lose it reputation or good name.

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

DBS d. d. 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; internal controls over the implementation of the Bank's organisational, business procedures and work procedures; an operational system of reporting with internal controls in the area of reporting; a system of limits including measures in case of breaches, and
- internal control functions, which 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 2015

VIII.1. CORPORATE GOVERNANCE CODE USED, AND NON-COMPLIANCE

Not being a listed company, Deželna banka Slovenije d. d. does not abide by the Slovene Corporate Governance Code, as adopted by the Ljubljana Stock Exchange, Managers' Association of Slovenia and Slovenian Directors' Association on 8 December 2009. Instead it acts in accordance with its internal Deželna banka Slovenije d. d. Corporate Governance Policy (http://www.dbs.si).

Deželna banka Slovenije d. d. is predominantly in cooperative hands, therefore one of its core orientations – which it had also laid down in its Statutes – is providing financing for the cooperative system in Slovenia. Pursuant to Article 38 of the Statutes, the President of the Supervisory Board usually represents a Bank's cooperative shareholder. The General Meeting always appoints several people into the Supervisory Board who are active in the cooperative sector in one way or another.

VIII.2. OUTLINE OF 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 organisation structure, including 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 risk management processes for determining, measuring and assessing, controlling and monitoring risk;
- adequate internal control mechanisms that include 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).

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).

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.

The Bank can give assurances that its business goals, strategies and policies are aligned with the strategy and policies for determining, measuring and assessing, managing and monitoring the risks the Bank is or could be exposed to in the course of its operations. 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.

Compliance of our internal control system and risk management with banking rules is inspected annually by external auditors that examine the Bank's annual report.

VIII.3. 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 Company's General Meeting and shareholders' rights are given in Chapter IV.3. Governing Bodies on pages 10 to 11.

VIII.4. COMPOSITION AND OPERATIONS OF THE 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. Governing Bodies on pages 11 to 12. Information on the remuneration of management and supervisory bodies is given in the Notes under Related Party Transactions (Note 49) on pages 177 and 179.

VIII.5. 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 2015 the Bank had three shareholders on qualified stakes (above 5%):

1. Kapitalska zadruga, z. b. o., Ljubljana	2,023,671 shares (47.532%)
2. KD Kapital d. o. o., Ljubljana	377,181 shares (8.859%)
3. Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	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.

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 proposal 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 manage the Bank, as well as for 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 appoints 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 Annual General Meeting with a simple majority of the votes cast, for a four-year re-electable term. The AGM recalls members of the Supervisory Board with a three-quarter majority of the votes cast.

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

Powers of the management

In connection with the government guarantee for issued bonds, as at 11 June 2013 the Deželna banka Slovenije d. d. AGM authorised the Management Board to increase the Bank's share capital by maximally EUR 7,893,089.74, which represents a half of the Bank's share capital. The increase is subject to the prior approval of the Supervisory Board, and must be effected within five years of the related Amendment of the Statutes being entered into the companies' register (i.e. from 14 June 2013). The Bank repaid issued bonds in 2015, therefore the authorisation has been rendered irrelevant.

The Management Board runs the Bank autonomously and at its own responsibility, in the best interest of the Bank. Cases in which the Management Board needs the consent of the Supervisory Board to act are stipulated in Article 42 of the Bank's Statutes.

IX. EVENTS AFTER THE BALANCE SHEET DATE

No relevant events occurred between the end of the reporting period and the date of the financial statements, such as would have an impact on the Bank's operations.

B) FINANCIAL STATEMENTS

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Deželna banka Slovenije Group

Consolidated financial statements under International Financial Reporting Standards
for the year ended 31 December 2015

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 2015 (pages 45 to 48 of the Annual Report), along with the accounting principles used and notes to the financial statements (pages 49 to 111 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 2015, 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.

Management Board

Member of the Management Board
Barbara Cerovšek Zupančič, MSc

President of the Management Board
Sonja Anadolli

Ljubljana, 1 February 2016

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Deželna banka Slovenije d.d. and its subsidiaries (hereinafter: "the Group"), which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Deželna banka Slovenije Group as at 31 December 2015, 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.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited consolidated financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

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

For signature please refer to the original Slovenian version.

Ljubljana, 11 February 2016

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

I. Consolidated financial statements as at 31 December 2015

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	Note	1-12 2015	1-12 2014
1	Interest income		26,387	33,276
2	Interest expense		7,321	12,238
3	**Net interest income** (1 - 2)	4	**19,066**	**21,038**
4	Dividends	5	6	2
5	Fee (commission) income		8,305	7,865
6	Fee (commission) expense		2,663	2,834
7	**Net fee (commission) income** (5 - 6)	6	**5,642**	**5,031**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	7	217	(35)
9	Net gains/losses from financial assets and liabilities held for trading	8	215	108
10	Foreign exchange translation	9	221	(90)
11	Net gains/losses on derecognition of assets other than non-current assets held for sale	10	8,758	9,165
12	Other net operating gains/losses	11	(61)	2,837
13	Administrative expenses	12	22,226	21,956
14	Depreciation and amortisation	13	2,308	2,607
15	Provisions	14	300	201
16	Impairment charge	15	5,841	12,399
17	Negative goodwill	16	0	802
18	Net gains/losses from non-current assets held for sale	17	118	0
19	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16 + 17 + 18)		**3,507**	**1,695**
20	Tax	18	426	296
21	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (19 - 20)		**3,081**	**1,399**
22	**PROFIT/LOSS FOR THE YEAR** (21)		**3,081**	**1,399**

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	Note	1-12 2015	1-12 2014
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**3,081**	**1,399**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(647)**	**2**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1. + 3.2)		**8**	**(195)**
3.1	Actuarial gains/losses on defined benefit pension plans	46	7	(195)
3.2	Income tax relating to components of other comprehensive income		1	0
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**(655)**	**197**
4.1	Gains/losses related to available-for-sale financial assets (4.1.1 + 4.1.2)	22 b	(780)	229
4.1.1	Valuation gains/losses taken to equity		(450)	229
4.1.2	Transferred to profit or loss		(330)	0
4.2	Income tax relating to components of other comprehensive income	42 c	125	(32)
5	**TOTAL COMPREHENSIVE INCOME AFTER TAX** (1 + 2)		**2,434**	**1,401**
	a) Attributable to owners of the parent		2,434	1,401

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

in EUR thousand

Code	Items	Note	2015	2014
1	Cash, balances at central banks, and sight deposits at banks	20	33,408	78,710
2	Financial assets held for trading	21	258	483
3	Available-for-sale financial assets	22	9,926	22,409
4	Loans and advances		628,095	631,269
	- Loans and advances to banks	23	5,621	4,798
	- Loans and advances to customers	24	620,211	623,725
	- Other financial assets	25	2,263	2,746
5	Held-to-maturity investments	26	157,090	107,133
6	Non-current assets held for sale, and discontinued operations	27	1,641	1,614
7	Property, plant and equipment	28	34,422	36,471
8	Investment property	29	15,675	5,688
9	Intangible assets	30	1,112	1,262
10	Income tax assets	31	6,709	6,462
	- Current tax assets		398	0
	- Deferred tax assets		6,311	6,462
11	Other assets	32	34,824	36,755
12	**TOTAL ASSETS** (from 1 to 11)		**923,160**	**928,256**
13	Trading liabilities	33	0	19
14	Financial liabilities measured at amortised cost		864,787	875,548
	- Deposits by banks and central banks	34	344	212
	- Deposits by customers	35	780,890	702,154
	- Borrowings from banks and central banks	36	59,358	70,198
	- Borrowings from customers	37	915	1,290
	- Debt securities	38	0	72,387
	- Subordinated liabilities	39	14,083	14,671
	- Other financial liabilities	40	9,197	14,636
15	Provisions	41	2,690	2,511
16	Income tax liabilities	42	1,304	2,017
	- Current tax liabilities		67	657
	- Deferred tax liabilities		1,237	1,360
17	Other liabilities	43	809	1,413
18	**TOTAL LIABILITIES** (from 13 to 17)		**869,590**	**881,508**
19	Share capital	44	17,811	15,786
20	Share premium	45	31,257	28,915
21	Revaluation surplus	46	61	708
22	Revenue reserves	47	2,401	940
23	Treasury shares	48	(656)	(682)
24	Retained earnings (including profit/loss for the year)	49	2,696	1,081
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)		**53,570**	**46,748**
26	TOTAL EQUITY (25)		53,570	46,748
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)		**923,160**	**928,256**

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

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/loss (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 (before adjustment)**	**15,786**	**28,915**	**708**	**940**	**1,081**	**(682)**	**46,748**	**46,748**
2	**OPENING BALANCE FOR THE PERIOD** (1)	**15,786**	**28,915**	**708**	**940**	**1,081**	**(682)**	**46,748**	**46,748**
3	Comprehensive income for the year after tax	0	0	(647)	0	3,081	0	2,434	2,434
4	Fresh capital subscribed (or paid)	2,025	2,342	0	0	0	0	4,367	**4,367**
5	Net purchase/sale of treasury shares	0	0	0	(15)	0	26	11	**11**
6	Allocation of net profit to revenue reserves	0	0	0	1,476	(1,476)	0	0	**0**
7	Other	0	0	0	0	10	0	10	**10**
8	**CLOSING BALANCE FOR THE PERIOD** (2 + 3 + 4 + 5 + 6 + 7)	**17,811**	**31,257**	**61**	**2,401**	**2,696**	**(656)**	**53,570**	**53,570**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings/loss (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 (before adjustment)**	**15,786**	**28,915**	**706**	**671**	**27**	**(671)**	**45,434**	**45,434**
2	**OPENING BALANCE FOR THE PERIOD** (1)	**15,786**	**28,915**	**706**	**671**	**27**	**(671)**	**45,434**	**45,434**
3	Comprehensive income for the year after tax	0	0	2	0	1,399	0	1,401	**1,401**
4	Allocation of net profit to revenue reserves	0	0	0	269	(269)	0	0	**0**
5	Other	0	0	0	0	(76)	(11)	(87)	**(87)**
6	**CLOSING BALANCE FOR THE PERIOD** (2 + 3 + 4 + 5)	**15,786**	**28,915**	**708**	**940**	**1,081**	**(682)**	**46,748**	**46,748**

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	2015	2014
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Interest received**	**30,828**	**33,630**
	Interest paid	(8,656)	(13,263)
	Dividends received	6	2
	Fee and commission received	8,366	7,836
	Fee and commission paid	(2,663)	(2,834)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	498	185
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	(20)	(9)
	Net trading income	161	116
	Cash payments to employees and suppliers	(23,468)	(18,921)
	Other income	1,383	3,866
	Other expenses	(1,474)	(1,802)
	Cash flows from operating activities before changes in operating assets and liabilities	**4,961**	**8,806**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**6,884**	**(18,479)**
	Net (increase)/decrease in financial assets held for trading	280	55
	Net (increase)/decrease in available-for-sale financial assets	11,200	7,897
	Net (increase)/decrease in loans and advances	(5,766)	2,818
	Net (increase)/decrease in non-current assets held for sale	(3)	0
	Net (increase)/decrease in other assets	1,173	(29,249)
c)	**Increases/(decreases) in operating liabilities**	**(8,760)**	**54,142**
	Net increase/(decrease) in trading liabilities	(24)	6
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	68,370	51,779
	Net increase/(decrease) in issued debt securities measured at amortised cost	(72,351)	(2,850)
	Net increase/(decrease) in other liabilities	(4,755)	5,207
č)	**Cash flows from operating activities** (a + b + c)	**3,085**	**44,469**
d)	**Income taxes (paid)/received**	**(1,257)**	**0**
e)	**Net cash from operating activities** (č + d)	**1,828**	**44,469**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Investing inflows**	**34,257**	**56,118**
	Proceeds from sale of property, plant and equipment, and investment property	808	727
	Proceeds from sale of held-to-maturity investments	33,449	55,391
b)	**Investing outflows**	**(83,260)**	**(68,207)**
	(Purchase of property, plant and equipment, and investment property)	744	(574)
	(Purchase of intangible long-term assets)	(63)	(20)
	(Purchase of held-to-maturity investments)	(83,941)	(67,613)
c)	**Net cash from investing activities** (a - b)	**(49,003)**	**(12,089)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Inflows from financing activities**	**9,105**	**0**
	Issue of subordinated liabilities	5,450	0
	Issue of shares and other equity instruments	3,629	0
	Disposal of own shares	26	0
b)	**Outflows from financing activities**	**(6,670)**	**0**
	(Repayment of subordinated liabilities)	(6,670)	0
c)	**Net cash from financing activities** (a - b)	**2,435**	**0**
D.	**Effects of exchange rates on cash and cash equivalents**	**174**	**257**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**(44,740)**	**32,380**
F.	**Opening balance of cash and cash equivalents** (Note 20 b)	**83,388**	**50,751**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 20 b)	**38,822**	**83,388**

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.

Management Board

Member of the Management Board
Barbara Cerovšek Zupančič, MSc

President of the Management Board
Sonja Anadolli

Ljubljana, 1 February 2016

II. Notes to Consolidated Financial Statements for 2015

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 (Note 38). 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 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.

This capital increase made Semenarna solvent and represents a significant contribution toward its financial reconstruction. Being a majority shareholder enables the Bank to exercise direct control over the company's operations, and easier supervision of the financial reconstruction and corporate reorganisation. Wholesale operations engage Semenarna in transactions with agricultural cooperatives, who are the Bank's customers, which is why additional certain positive synergistic effects can be expected in this area.

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 (Note 16).

The Group prepares disclosures subject to prudential consolidation (Chapter 3). 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 2015 the consumer price index was up –0.5% (2014: 0.2%). 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 JUDGEMENTS IN APPLYING 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. A subsidiary is a company in which the Group holds – directly or indirectly – over 50% of voting rights or has substantial control over its operations.

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 2015 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.

Balance sheet structures have been prepared in compliance with the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks, as issued by the Bank of Slovenia. Under assets, sight deposits at banks are included in the item cash, balances at central banks and sight deposits at banks (Note 20 a). Under the new methodology this item continues to include sight deposits at the central bank, while other deposits with the central bank are given under the item loans and advances to banks (Note 23).

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 different standards „Improvements of IFRS (2011–2013 cycle)"*, issued under the annual improvements of IFRS (IFRS 3, IFRS 13 and IAS 40), mainly eliminating inconsistencies and interpretations in the text, adopted by the EU on 18 December 2014 (amendments are mandatory for annual periods starting on or after 1 January 2015);
- *IFRIC 21 „Levies",* adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

Our adoption of these amendments and interpretations 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

On the day of these financial statements being approved, the following standards, amendments of the valid standards and interpretations, as issued by the IASB and adopted by the EU, had been issued but were not yet effective:

- *Amendments to IFRS 11 „Joint Arrangements"* – Accounting for Acquisitions of Interests in Joint Operations, adopted by the EU on 24 November 2015 (effective for annual periods starting on or after 1 January 2016);
- *Amendments to IAS 1 „Presentation of Financial Statements"* – Disclosure Initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- *Amendments to IAS 16 „Property, Plant and Equipment" and IAS 38 „Intangible Assets"* – Clarification of Acceptable Methods of Depreciation and Amortisation, adopted by the EU on 2 December 2015 (effective for annual periods starting 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 IAS 19 „Employee Benefits"* – Defined Benefit Plans: Employee Contributions, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- *Amendments to IAS 27 „Separate Financial Statements"* – Equity Method in Separate Financial Statements, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- *Amendments to 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 interpretations in 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, IAS 19 and IAS 34), mainly eliminating inconsistencies and interpretations in the text, adopted by the EU on 15 December 2015 (amendments are mandatory for annual periods starting on or after 1 January 2016).

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

The IFRS as adopted by the EU do currently not differ in any major respect from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments of valid standards which on 31 December 2015 (the effective dates given below apply to the entire IFRS) were not yet approved for use in the EU:

- *IFRS 9 „Financial Instruments"* (effective for annual periods starting on or after 1 January 2018);
- *IFRS 14 „Regulatory Deferral Accounts"* (effective for annual periods starting on or after 1 January 2016) – the European Commission decided to not commence the endorsement procedure for this interim standard and rather wait for its final version;
- *IFRS 15 „Revenue from Contracts with Customers"* and subsequent amendments (effective for annual periods starting on or after 1 January 2018);
- *IFRS 16 „Leases"* (effective for annual periods starting on or after 1 January 2019);
- *Amendments to IFRS 10 „Consolidated Financial Statements", IFRS 12 „Disclosure of Interests in Other Entities"* and *IAS 28 „Investments in Associates and Joint Ventures"* – Investment Entities: Applying the Consolidation Exception (effective for annual periods starting on or after 1 January 2016);
- *Amendments to IFRS 10 „Consolidated Financial Statements"* and *IAS 28 „Investments in Associates and Joint Ventures"* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and subsequent amendments (the effective date has been deferred for an indefinite period until the equity method research project is completed);
- *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).

The Group is preparing an estimate of the effect that the MSRP 9 taking effect will have on its consolidated financial statements. As yet, the Group is unable to estimate the impact of the implementation of these new standards and of the amendments of the valid standards.

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

- *Classification and Measurement* – MSRP 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 valid rule-based requirements under the IAS 39. The new model also introduces a new expected loss impairment model for all financial instruments.

- *Impairment* – MSRP 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. The implementation of the new IFRS 9 is expected to impact the amount of expected credit losses, which the Group has, however, not yet measured.

- *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.

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 quarterly 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, *inter alia*, 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 2015 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 conditions,
- initiation of bankruptcy proceedings or compulsory composition,
- deterioration of the 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 as well as 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:

	2015	2014
	%	%
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. 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.

2.15. 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 90 days maturity from the date of acquisition, treasury bills and debt securities available-for-sale with less than 90 days maturity from the date of acquisition.

2.16. 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 in the item provisions.

2.17. 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.

2.18. 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 2014: 17%).

Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

2.19. 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.

2.20. 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.

2.21. 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.

2.22. 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 51. These assets are not included into the Group's balance sheet.

3. MANAGING FINANCIAL RISK AT GROUP LEVEL

To the risks it is or could be exposed to 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.

The common goal of the strategies and policies of taking and managing risk is to prevent and limit any losses due to individual risks. The Bank's Supervisory Board and the subsidiary's supervisory body as well as the senior management take an active part in the process of risk management. All critical risk management internal acts have been revised in 2015.

In relation to assuming and managing risk, the Group has adopted relevant strategies and policies for assuming and managing major banking risks. In 2015 the Group continued meeting the requirements of the capital accord and the new regulatory framework for banks. It additionally upgraded risk management, especially the management of credit risk. The largest changes in 2015 were the upgrade of the Early Warning System (EWS) for all the Bank's customers, and the upgrade of the system of collective impairments. A new Supervisory Board committee was appointed in August 2015, the Risk Committee, which promptly monitored – together with the Supervisory Board – the Group's exposure to risk, its risk profile and its risk appetite.

The Group is subject to prudential consolidation. 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), with subsidiaries DBS Leasing and DBS Nepremičnine already included under the previous legislation in force. Consistent with the provisions of Article 4(1) and 4(18) of the Regulation, DBS Nepremičnine is considered an ancillary services undertaking and therefore one of the financial sector entities under Article 4(1) and 4(27c) of the Regulation. Subsidiaries DBS Leasing and DBS Nepremičnine are included in prudential consolidation under Article 18 of the Regulation. Consistent with Article 19 of the Regulation subsidiaries DBS Adria and Semenarna are not included in prudential consolidation, hence their share of interest, liquidity and foreign exchange risk has been disregarded. Notwithstanding their exclusion from prudential consolidation, the impact of their share of interest, liquidity and foreign exchange risk on the Group is estimated as negligible (i.e. not greater than any similar exposure). Chapter 3 of this Annual Report was prepared using prudential consolidation data and not under the IFRS.

The Bank received at the beginning of 2015 from the Bank of Slovenia a new ICAAP/SREP minimum capital adequacy ratio (13.1% on a consolidated basis; in 2014 it was 11.4%). In 2015 the Bank thus focused on strengthening the capital adequacy of the Bank and the Group. The capital adequacy ratio as at 31 December 2015 on a consolidated basis exceeded the Bank of Slovenia's requirement.

Group statement of financial position – comparison of regulatory and prudential consolidation as at 31 December 2015

in EUR thousand

Code	Items	Regulatory consolidation 2015	Prudential consolidation 2015	Difference
1	Cash, balances at central banks, and sight deposits at banks	33,408	33,367	41
2	Financial assets held for trading	258	258	0
3	Available-for-sale financial assets	9,926	9,926	0
4	Loans and advances	628,095	627,412	683
	- Loans and advances to banks	5,621	5,621	0
	- Loans and advances to customers	620,211	621,195	(984)
	- Other financial assets	2,263	596	1,667
5	Held-to-maturity investments	157,090	157,090	0
6	Non-current assets held for sale, and discontinued operations	1,641	21	1,620
7	Property, plant and equipment	34,422	11,930	22,492
8	Investment property	15,675	15,675	0
9	Intangible assets	1,112	779	333
	Long-term equity participation in subsidiaries, associates and joint ventures, accounted for using the equity method	0	3,681	(3,681)
10	Income tax assets	6,709	6,230	479
	- Current tax assets	398	395	3
	- Deferred tax assets	6,311	5,835	476
11	Other assets	34,824	26,797	8,027
12	**TOTAL ASSETS** (from 1 to 11)	**923,160**	**893,166**	**29,994**
13	Trading liabilities	0	0	0
14	Financial liabilities measured at amortised cost	864,787	838,185	26,602
	- Deposits by banks and central banks	344	309	35
	- Deposits by customers	780,890	781,609	(719)
	- Borrowings from banks and central banks	59,358	39,185	20,173
	- Borrowings from customers	915	0	915
	- Debt securities	0	0	0
	- Subordinated liabilities	14,083	14,083	0
	- Other financial liabilities	9,197	2,999	6,198
15	Provisions	2,690	1,788	902
16	Income tax liabilities	1,304	145	1,159
	- Current tax liabilities	67	67	0
	- Deferred tax liabilities	1,237	78	1,159
17	Other liabilities	809	469	340
18	**TOTAL LIABILITIES** (from 13 to 17)	**869,590**	**840,587**	**29,003**
19	Share capital	17,811	17,811	0
20	Share premium	31,257	31,257	0
21	Revaluation surplus	61	114	(53)
22	Revenue reserves	2,401	2,401	0
23	Own interest	(656)	(645)	(11)
24	Retained earnings (including profit/loss for the year)	2,696	1,641	1,055
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**53,570**	**52,579**	**991**
26	TOTAL EQUITY (25)	53,570	52,579	991
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**923,160**	**893,166**	**29,994**

3.1. Credit risk

We estimate the Group to be most exposed to credit risk, which is the risk that a borrower will cause a financial loss to the Group by failing to discharge an obligation when due, for whatever reason. The Group forms impairments and provisions for potential losses, recognised as at the date of the statement of financial position. 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 provided for as at 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 subject to annual or more frequent reviews.

The portfolio exposed to credit risk includes balance sheet receivables (loans, debt securities, equity investment, interest, fee and commission, etc.) as well as 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 considered first-class and appropriate guarantees in 2015, consistent with regulations.

3.1.1. Measuring credit risk

(a) Loans and receivables

In 2015 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 clients among credit rating classes,
- movements of relevant impairments,
- provisioning of impairments for individual types of credit exposure.

More on forming provisions and impairments is given in Chapter 3.1.3.

(b) Debt securities

In assuming exposure to credit risk when buying debt securities in 2015 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.

3.1.2. 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, activities, industries 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. Credit risk limits of exposure are stipulated for individual customers, sectors, regions and industries.

The maximum possible total exposure of the Group towards a corporate customer is approved – at the proposal of the Risk Management Section – by the Credit Committee, and when the threshold of large exposure is greatly exceeded, also by the supervisory body of a Group member. Limits 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.

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 real estate, 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.

3.1.3. Guidelines on forming impairments and provisions

Pursuant to IAC 39 the Group establishes impairments and impairment losses for all financial assets measured at amortised cost, in compliance with the adopted internal methodology of assessing credit risk losses.

The Group assesses credit risk losses for loans and advances, other held-to-maturity investments and off-balance-sheet commitments.

The Group impairs financial assets and forms provisions for off-balance-sheet commitments, whether in case of a collective or individual assessment, when it has objective or impartial evidence that it will not be able to collect all due claims in compliance with contractual stipulations. Exposures with high-quality collateral are not impaired nor are there provisions formed for them.

The Group establishes impairment losses for financial assets and off-balance-sheet commitments individually or collectively. When it finds for an individual assessment of a financial asset or off-balance-sheet commitment classified into category P that the individual impairment or provision is no longer needed, it re-groups them into the relevant category A to C and re-assigns them into collective assessment.

The Group regularly examines the methodology of assessing credit risk losses and assumptions used in assessing losses. The methodology was upgraded in 2015 with hedge type included as an additional parameter for determining the percentage of collective impairments.

Impairments and provisions are based on each of the six credit rating categories, as evident from the below table:

		2015		2014
Credit rating grade	Total claims for classification (%)	Share of provisions and impairment charges (%)	Total claims for classification (%)	Share of provisions and impairment charges (%)
1. A	71.9	0.1	62.5	0.0
2. B	10.6	1.3	10.7	1.2
3. C	1.1	6.7	0.5	5.9
4. D	0.0	67.6	0.0	19.3
5. E	0.1	99.6	0.1	91.2
6. P	16.3	25.0	26.2	35.2
	100.0	4.4	100.0	9.5

In 2015, the share of impairment and provision charges on assets for classification decreased by 5.1 of a percentage point compared to 2014.

Changes in the group of individually impaired assets are primarily the result of the transfer of the high sum of 100%-impaired assets off the balance sheet. The Group intensely worked on this transfer in the second half of 2015.

3.1.4. Total exposure to credit risk before collateral held or other credit enhancements

The table below illustrates the net values of the Group's exposure to credit risk – whereby not considering any collateral held by the Group or any other enhancements of credit quality – and the average exposure amount in the reported period, for 31 December 2015 as compared to the balance at 31 December 2014.

The given exposure levels for 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, grouped into categories of exposure pursuant to CRR/CRD IV.

			2015		2014
	Exposure category	Net exposure	Average exposure	Net exposure	Average exposure
01	Central government and central banks	364,145	364,489	333,167	313,646
02	Regional and local government	16,890	19,868	19,361	15,525
03	Public sector	29,815	35,506	38,235	35,446
06	Institutions	29,826	20,813	34,728	26,684
07	Corporate customers	40,321	50,529	55,389	71,505
08	Retail customers	153,799	164,144	182,038	205,156
09	Secured by mortgages on residential property	210,309	199,674	176,955	151,620
10	Past due items	63,243	66,282	75,103	63,372
11	Regulatory high risk categories	7,638	9,677	11,758	27,293
14	Investments in investment funds	2,699	2,699	0	0
15	Other exposure	41,401	46,143	36,479	29,561
16	Equity exposure	7,789	7,515	6,577	5,034
	As at 31 December	967,875	987,339	969,790	944,842

The Group manages and will continue to maintain the lowest possible exposure toward credit risk, consistent with the Bank's strategy and capital restrictions.

3.1.5. Loans and receivables

To minimise exposure to credit risk, in 2015 the Group again focused its operations on companies and groups with a high credit rating and on transactions with clients that have both a good credit-worthiness and guarantee adequate collateral.

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

		2015		2014
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	178,244	5,621	157,931	4,784
Impaired	482,374	0	558,725	0
Gross amounts	**660,646**	**5,621**	**716,665**	**4,784**
Less impairment allowance	(39,451)	0	(92,292)	0
Net amounts	**621,195**	**5,621**	**624,373**	**4,784**

The total value of loans and receivables in financial year 2015 was down 7.65% from 2014, with loans to banks up and loans to customers down. The reported loan loss provisions totalled EUR 39,451 thousand (2014: EUR 92,292 thousand). Changes in the group of individually impaired assets are primarily the result of the mentioned transfer of the high sum of 100%-impaired assets off the balance sheet.

(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, before considering cash flows from collateral held by the Group, amounted to EUR 137,266 thousand at the year-end of 2015 (2014: EUR 228,672 thousand). Exposure to large corporates decreased by 43% year-on-year, attributable to the mentioned transfer of assets off the balance sheet. Exposure to the retail segment as well as to SME also decreased year-on-year. The fair value of collateral in the SME group increased by 5.48 of a percentage point from 2014.

This gross figure of individually impaired loans and receivables according to categories, together with the fair value of their collateral that the Groups holds as a guarantee, breaks down into:

2015	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	12,916	33,687	90,663	13,999	151,265
- Past due up to 15 days	3,471	19,745	18,859	0	42,075
- Past due 16 to 30 days	65	0	315	0	380
- Past due 31 to 90 days	32	0	4,095	0	4,127
- Past due over 90 days	9,348	13,942	67,394	0	90,684
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.

2014	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	14,823	59,405	154,444	29,425	258,097
Impairment charge	6,602	15,894	68,396	0	90,892
Fair value of collateral	15,439	37,226	109,168	0	161,833

* 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 2015 totalled EUR 13,999 thousand (2014: EUR 29,425 thousand), whereby no individually impaired loans were reported.

(c) Renegotiated loans and receivables

Consistent with the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks and its stipulations on renegotiated receivables, the Group treats renegotiated 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 renegotiation clause also fall into this category.

The gross value of exposure for which a new agreement on repayment conditions was reached and which would otherwise fall due amounted to a total of EUR 91,563 thousand as at 31 December 2015 (2014: EUR 91,893 thousand).

	2015	2014
Retail loans and receivables – Loans and advances	91,563	91,893
Total	**91,563**	**91,893**

3.1.6. 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, the Group invests in debts with good ratings.

The table below shows the Group's exposure with respect to its debt securities according to Standard & Poor's ratings, as at 31 December 2015 and 31 December 2014:

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

2014	Debt securities held to maturity	Debt securities held for trading	Available-for-sale debt securities	Total
A-	98,606	124	22,067	120,797
Unrated	8,527	0	0	8,527
Unlisted	0	0	4	4
Total debt securities	**107,133**	**124**	**22,071**	**129,328**

Both in 2015 and 2014 the largest proportion of our debt portfolio was Slovene government bonds, which totalled EUR 163 million (year-end of 2014: EUR 129 million). The Group classified Republic of Slovenia bonds under held-to-maturity investments. The proportion of debt securities with higher ratings increased in 2015, mainly the result of the purchase of Republic of Slovenia treasury bills. The share of unrated debt securities was down from the previous year, mainly the result of commercial papers and certificates of deposit issued by domestic entities reaching maturity. The Group's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

3.1.7. Collateral acquired by prescription

In 2015 the Group acquired assets by calling on the collateral held as guarantee, namely:

	Carrying amount	
Asset	2015	2014
Property	10,843	6,522

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

3.1.8. 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 2015			Remaining maturity as at 31 December 2014		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	155,823	208,322	364,145	175,057	158,111	333,168
02	Regional and local government	1,581	15,309	16,890	1,500	17,861	19,361
03	Public sector	21,213	8,602	29,815	20,140	18,095	38,235
06	Institutions	29,603	223	29,826	34,718	10	34,728
07	Corporate customers	22,343	17,978	40,321	29,977	25,412	55,389
08	Retail customers	54,061	99,738	153,799	62,786	119,252	182,038
09	Secured by mortgages on residential property	28,435	181,874	210,309	38,892	138,063	176,955
10	Past due items	37,950	25,293	63,243	43,258	31,845	75,103
11	Regulatory high risk categories	7,604	34	7,638	11,576	182	11,758
14	Investments in investment funds	2,699	0	2,699	0	0	0
15	Other exposure	41,078	323	41,401	36,332	146	36,478
16	Equity exposure	7,789	0	7,789	6,577	0	6,577
	As at 31 December	410,179	557,696	967,875	460,813	508,977	969,790

At the year-end of 2015, over 42.4% of the Group's exposure would mature within one year, and almost 57.6% in over one year. In terms of value, exposure decreased the most towards retail customers, while it increased the most towards exposure secured with mortgages on residential property.

3.1.9. Risk concentration of financial assets exposed to credit risk

(a) Regional (geographical) areas

The following table analyses the Group's exposures at their carrying amounts as classified into regions as at the year-end of 2015 and 2014. For the purpose of this table the Group categorised its exposures according to regions, on the basis of its counterparties' domicile.

The Group conducts its business primarily in Slovenia, while exposure to other countries arises mainly from treasury and investment banking services.

Exposure according to geographical segments, broken down into major exposure categories:

		As at 31 December 2015				As at 31 December 2014			
	Exposure category	Slovenija	Other EU member states	Other countries	TOTAL	Slovenija	Other EU member states	Other countries	TOTAL
01	Central government and central banks	360,815	3,330	0	364,145	329,741	3,426	0	333,167
02	Regional and local government	16,890	0	0	16,890	19,361	0	0	19,361
03	Public sector	29,815	0	0	29,815	38,235	0	0	38,235
06	Institutions	23,325	6,500	1	29,826	22,596	12,131	1	34,728
07	Corporate customers	40,152	168	1	40,321	55,239	149	1	55,389
08	Retail customers	153,422	139	238	153,799	181,609	176	253	182,038
09	Secured by mortgages on residential property	209,756	357	196	210,309	176,425	327	203	176,955
10	Past due items	63,088	1	154	63,243	74,955	0	148	75,103
11	Regulatory high risk categories	7,638	0	0	7,638	11,758	0	0	11,758
14	Investments in investment funds	2,699	0	0	2,699	5,398	0	0	0
15	Other exposure	41,401	0	0	41,401	36,479	0	0	36,479
16	Equity exposure	7,789	0	0	7,789	6,574	3	0	6,577
	As at 31 December	956,790	10,495	590	967,875	958,370	16,212	606	969,790
	Impaired exposure	40,692	47	15	40,754	92,901	44	15	92,960
	Past due exposure as at 31 December,	63,055	47	168	63,270	116,140	43	162	116,345
	of which impaired	20,727	46	15	20,788	67,993	43	14	68,050

Exposure to other EU members decreased from 2014 by 35.3 of a percentage point.

(b) Economy sectors – industries

The following table analyses exposures to credit risk by industry.

Exposure according to industry, broken down into major exposure categories, as at 31 December 2015:

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Public admin. & craft services	Agric. and hun-ting	Transp. and ware-housing	Cuture, entert. &recreat. activities	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	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 customers	5,072	17,256	4,823	7,806	1,942	0	159	63	112	868	14	85	97	1,643	381	0	40,321
08	Retail customers	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 on residential property	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	Past due items	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 according to industry, broken down into major exposure categories, as at 31 December 2014:

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Public admin. & craft services	Agric. and hun-ting	Transp. and ware-housing	Cuture, entert. &recreat. activities	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	55,217	0	0	0	0	0	0	0	277,950	0	0	0	0	0	0	0	333,167
02	Regional and local government	0	0	0	0	0	0	0	0	19,361	0	0	0	0	0	0	0	19,361
03	Public sector	863	1,923	0	2,633	1,024	0	0	0	4	0	0	14	0	0	31,774	0	38,235
06	Institutions	34,728	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	34,728
07	Corporate customers	3,117	19,725	16,667	5,313	1,595	0	271	24	161	589	56	333	2,783	2,101	2,471	183	55,389
08	Retail customers	1,476	16,927	7,401	3,562	4,416	181	377	1,829	0	2,530	2,065	78	1,104	1,720	4,144	134,228	182,038
09	Secured by mortgages on residential property	1,909	35,939	15,800	4,836	2,734	311	1,916	3,879	30	7,657	1,383	1,325	122	1,341	7,113	90,660	176,955
10	Past due items	2,399	13,805	10,366	19,407	6,770	0	10,379	4,544	0	856	121	5	154	264	182	5,851	75,103
11	Regulatory high risk categories	3,409	249	53	768	7,059	0	1	41	0	3	104	0	23	0	44	4	11,758
15	Other exposure	1	0	0	0	0	0	0	0	0	0	0	0	0	0	36,026	452	36,479
16	Equity exposure	259	3,681	0	0	21	0	3	0	2,556	0	0	0	0	57	0	0	6,577
	As at 31 December 2014	103,378	92,249	50,287	36,519	23,619	492	12,947	10,317	300,062	11,635	3,729	1,755	4,186	5,483	81,754	231,378	969,790
	Impaired exposure	7,419	14,165	8,039	23,125	24,099	43	3,172	2,034	139	710	1,892	67	131	431	159	7,335	92,960
	Past due exposures,	10,108	11,532	12,647	32,547	30,900	43	4,346	2,607	11	785	1,795	53	202	74	190	8,506	116,346
	of which impaired	5,273	5,653	6,139	19,306	20,975	43	1,749	1,056	10	521	1,581	46	68	23	57	5,551	68,051

Exposure to the culture, entertainment and recreational activities and to households decreased the most in 2015 year-on-year, while exposure to the other various business activities increased the most.

3.1.10. 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.

		2015		2014	
	Exposure category	Net exposure	Capital requirement	Net exposure	Capital requirement
01	Central government and central banks	364,145	617	333,167	583
02	Regional and local government	16,890	262	19,361	310
03	Public sector	29,815	2,269	38,235	578
06	Institutions	29,826	477	34,728	555
07	Corporate customers	40,321	2,481	55,389	3,502
08	Retail customers	153,799	7,545	182,038	8,901
09	Secured by mortgages on residential property	210,309	7,576	176,955	6,764
10	Past due items	63,243	6,130	75,103	7,295
11	Regulatory high risk categories	7,638	848	11,758	1,326
14	Investments in investment funds	2,699	12	0	0
15	Other exposure	41,401	2,696	36,479	2,144
16	Equity exposure	7,789	623	6,577	527
	As at 31 December	967,875	31,536	969,790	32,485

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

3.2. Market risk

The Group undertakes exposure to market risk, which is the risk of decreased asset value or profitability due to volatile market prices, foreign exchange rates or relevant interest rates; however, the Group's exposure in this respect is low. The Group was primarily exposed to interest rate risk due to Euribor changes in 2015, as well as, to a lesser degree, foreign exchange risk.

The Group's risk management policy is based on the current and expected market conditions, realised and planned financial data, valid regulations and existing risk management systems. The Group complies with the policy of dispersed portfolios and invests in high-quality assets from countries with a high credit rating, avoiding

investments with speculative-grade ratings. 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.

Deviations from the strategy's set framework and risk management policies are monitored through reports on following the guidelines and through the system of limits and indicators, which are discussed by the Group's committees and the Bank's Management Board.

The department responsible for stipulating the acceptable level of risk, for measuring and monitoring risk exposure, and for checking that exposure remains within the set limits, is organisationally separated from the departments that assume risk.

Pursuant to the Deželna banka Slovenije d. d. Rules on Organisation, the requisite two committees, a board and the Bank's business units participate in the Bank's risk management function.

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 capital requirements for market risk according to types of financial instruments.

	2015	2014
Equity instruments	35	54
Debt instruments	4	15
SUM OF CAPITAL REQUIREMENTS FOR MARKET RISK	**39**	**69**

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 Assets and Liabilities Management Committee) 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 Asset Liability Management Committee.

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.

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

To measure and manage 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.

The Group trades in equities in the domestic and foreign stock markets. The below table shows the VaR for the Slovenian sub-portfolio and the entire equity portfolio. All Slovenian equities on the trading book are unlisted securities whose fair value is therefore established applying the generally accepted valuation models based on market items. For illiquid securities, which include unlisted stock, the VaR used is 16%, corresponding to the capital requirement for market risk in these types of financial instruments. The Bank's equity trading portfolio totalled EUR 216 thousand at the end of 2015, and consisted entirely of PILR shares of the company Pivovarna Laško, d. d., Laško.

VaR value as at 31 December 2015:

Market	Portfolio value	VaR as % of portfolio value	VaR
Slovenia	216	16	35
Total	**216**	**16**	**35**

As at 31 December 2015 the equity portfolio had a VaR of EUR 35 thousand (2014: EUR 54 thousand).

3.2.2. 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 the required market yield. For a parallel movement in the yield curve by 200 basis points, BPV as at 31 December 2015 amounted to the negligible EUR 0.3 thousand (31 December 2014: EUR 2 thousand).

3.2.3. Foreign exchange risk

Foreign exchange risk represents the Group's potential loss due to the mismatch between assets and liabilities in different currencies. 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 2015 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.

Assets and liabilities as at 31 December 2015 and 31 December 2014 according to currency are given in the following tables:

FOREIGN EXCHANGE RISK as at 31 December 2015					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Cash, balances at central banks, and sight deposits at banks	31,821	208	1,050	288	33,367
Financial assets held for trading	258	0	0	0	258
Available-for-sale financial assets	9,926	0	0	0	9,926
Loans	622,413	2,197	2,048	754	627,412
- Loans to banks	2,670	2,197	0	754	5,621
- Loans to customers	619,147	0	2,048	0	621,195
- Other financial assets	596	0	0	0	596
Held-to-maturity investments	157,090	0	0	0	157,090
Non-current assets held for sale, and discontinued operations	21	0	0	0	21
Property, plant and equipment	11,930	0	0	0	11,930
Investment property	15,675	0	0	0	15,675
Intangible assets	779	0	0	0	779
Long-term equity participation in subsidiaries, associates and joint ventures, accounted for using the equity method	3,681	0	0	0	3,681
Income tax assets	6,230	0	0	0	6,230
- Current tax assets	395	0	0	0	395
- Deferred tax assets	5,835	0	0	0	5,835
Other assets	26,797	0	0	0	26,797
TOTAL ASSETS (1)	886,621	2,405	3,098	1,042	893,166
Financial liabilities measured at amortised cost	831,675	2,417	3,152	941	838,185
- Deposits by banks and central banks	309	0	0	0	309
- Deposits by customers	775,102	2,414	3,152	941	781,609
- Borrowings from banks and central banks	39,185	0	0	0	39,185
- Subordinated liabilities	14,083	0	0	0	14,083
- Other financial liabilities	2,996	3	0	0	2,999
Provisions	1,788	0	0	0	1,788
Income tax liabilities	145	0	0	0	145
- Current tax liabilities	67	0	0	0	67
- Deferred tax liabilities	78	0	0	0	78
Other liabilities	469	0	0	0	469
TOTAL LIABILITIES (2)	**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**

FOREIGN EXCHANGE RISK as at 31 December 2014					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	891,355	1,935	2,914	775	896,979
Total liabilities	845,974	1,935	2,407	716	851,032
Mismatch (1) less (2)	**45,381**	**0**	**507**	**59**	**45,947**
Off-balance sheet liabilities	**86,445**	**0**	**0**	**0**	**86,445**

As at 31 December 2015 the Group did not report capital requirements for foreign exchange risk, as its net currency position did not exceed 2% of the Group's capital.

3.2.4. 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 Asset Liability Management Board on a monthly basis, and by the Supervisory Board each quarter in the framework of its 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 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 balancing 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 2015 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 4,656 thousand as at 31 December 2015, which is 7.8% of capital.

Interest income sensitivity to interest rate movements as at 31 December 2015:

Scenario*	Expected net interest	Change in baseline scenario	Change in baseline scenario
Basic scenario	19,810		
One-time curve shift (+2%) - immediate shock	24,654	4,844	19.65%
One-time curve shift (-2%) - immediate shock	9,213	(10,597)	(115.01%)
Curve shift (+2%) - gradually over 12 months	22,477	2,667	11.86%
Curve shift (-2%) - gradually over 12 months	14,741	(5,069)	(34,39%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	29,717	9,907	33.34%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	20,088	279	1.39%
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	25,035	5,225	20.87%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	19,957	147	0.74%

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

The following tables outline exposure to interest rate risk as at 31 December 2015 and 31 December 2014. 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 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**
Cash, balances at central banks, and sight deposits at banks	33,367	0	33,367	33,367	0	0	0	0	0
Financial assets held for trading	258	216	42	0	0	0	42	0	0
Available-for-sale financial assets	9,926	4,252	5,674	0	0	1,004	294	4,376	0
Loans	627,412	8,970	618,442	333,990	73,879	110,976	88,296	8,685	2,616
- Loans to banks	5,621	2,470	3,151	0	2,951	0	0	200	0
- Loans to customers	621,195	5,904	615,291	333,990	70,928	110,976	88,296	8,485	2,616
- Other financial assets	596	596	0	0	0	0	0	0	0
Held-to-maturity investments	157,090	2,173	154,917	0	0	0	78,935	51,059	24,923
Long-term equity participation in subsidiaries, associates and joint ventures, accounted for using the equity method	3,681	3,681	0	0	0	0	0	0	0
Other assets	26,797	26,797	0	0	0	0	0	0	0
TOTAL ASSETS	**858,531**	**46,089**	**812,442**	**367,357**	**73,879**	**111,980**	**167,567**	**64,120**	**27,539**
Financial liabilities measured at amortized cost	838,185	6,311	831,874	367,912	111,227	76,901	205,190	66,714	3,930
- Deposits by banks and central banks	309	19	290	290	0	0	0	0	0
- Deposits by customers	781,609	2,693	778,916	353,904	111,227	76,901	203,690	32,714	480
- Borrowings from banks and central banks	39,185	67	39,118	8,718	0	0	0	30,400	0
- Subordinated liabilities	14,083	533	13,550	5,000	0	0	1,500	3,600	3,450
- Other financial liabilities	2,999	2,999	0	0	0	0	0	0	0
Other liabilities	469	469	0	0	0	0	0	0	0
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**

INTEREST RATE RISK as at 31 December 2014									
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	871,229	48,612	822,617	329,211	25,824	245,087	102,617	82,812	37,066
Total liabilities	848,592	13,975	834,617	307,454	102,238	174,186	181,064	66,439	3,236
Net exposure to interest rate risk	**22,637**	**34,637**	**(12,000)**	**21,757**	**(76,414)**	**70,901**	**(78,447)**	**16,373**	**33,830**

Interest rate risk in 2015 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 2016 the Group plans to continue matching interest rate gaps and maintain a low exposure to interest rate risk.

3.2.5. Average interest rates as at 31 December

		2015		2014
	EUR	USD	EUR	USD
Assets		%		%
Cash, balances at central banks, and sight deposits at banks	0.03	0.04	0.11	0.00
Loans to banks	0.99	0.55	0.01	0.10
Loans to customers	2.91	0.00	3.55	0.00
Investment securities - debt	2.76	0.00	2.99	0.00
Liabilities				
Deposits and borrowings from banks	0.01	0.00	1.66	0.00
Borrowings from banks and central banks	0.15	0.00	0.15	0.00
Deposits by customers	0.44	0.01	0.97	0.04
Subordinated liabilities	6.14	0.00	5.88	0.00
Liabilities for issued long-term securities	0.00	0.00	1.29	0.00

3.3. Liquidity risk

The Group's liquidity situation depends on the set of activities for meeting required cash flows as well as on the availability of liquidity assets that at all times ensure immediate fulfilment of matured financial obligations with customers. 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 at the Bank's disposal 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, the proportion of their collectability and of their encumbrances or their being 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 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 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 the stress testing of the liquidity contingency plan is presented to the Bank's Liquidity Commission.

In 2015 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 Asset Liability Management Board on a monthly basis, while the Supervisory Board is presented with the Exposure to Liquidity Risk Report each quarter in the framework of its risk management analysis.

The following tables summarise the Group's exposure to liquidity risk as at 31 December 2015 and 31 December 2014. Financial instruments are recorded at undiscounted amounts according to remaining contractual maturity as at 31 December 2015, which in addition to the asset's carrying value includes expected future cash flows from interest.

LIQUIDITY RISK as at 31 December 2015							
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	33,367	0	0	0	0	0	33,367
Financial assets held for trading	216	0	0	0	43	0	259
Available-for-sale financial assets	0	0	1,208	304	4,354	4,060	9,926
Loans	52,027	61,056	17,291	98,279	175,790	293,159	697,602
- Loans to banks	2,391	2,952	0	0	46	232	5,621
- Loans to customers	49,040	58,104	17,291	98,279	175,744	292,927	691,385
- Other financial assets	596	0	0	0	0	0	596
Held-to-maturity investments	0	629	1,218	80,516	59,742	30,147	172,252
Long-term equity participation in subsidiaries, associates and joint ventures, accounted for using the equity method	0	0	0	0	0	3,681	3,681
Other assets	0	0	0	0	26,797	0	26,797
TOTAL ASSETS	**85,610**	**61,685**	**19,717**	**179,099**	**266,726**	**331,047**	**943,884**
Financial liabilities measured at amortized cost	352,724	112,413	81,528	209,705	80,215	8,667	845,252
- Deposits by banks and central banks	309	0	0	0	0	0	309
- Deposits by customers	352,397	112,413	77,497	205,020	36,430	599	784,356
- Borrowings from banks and central banks	18	0	1,032	2,010	35,352	1,466	39,878
- Subordinated liabilities	0	0	0	2,675	8,433	6,602	17,710
- Other financial liabilities	0	0	2,999	0	0	0	2,999
Other liabilities	0	0	469	0	0	0	469
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**

LIQUIDITY RISK as at 31 December 2014							
Balance sheet item	**Sight**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Total assets	132,004	11,935	63,537	218,916	327,942	201,359	955,693
Total liabilities	287,895	111,358	98,799	264,032	86,919	7,042	856,045
Net exposure to liquidity risk	**(155,891)**	**(99,423)**	**(35,262)**	**(45,116)**	**241,023**	**194,317**	**99,648**

The liquidity gap for the Sight 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 in the Sight time period according to their stability/instability calculated using an in-house model.

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.

In 2016 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.

3.4. Fair value of financial assets and liabilities

3.4.1. Financial instruments not measured at fair value

	2015 Carrying amount	2015 Fair value Level 1	2015 Fair value Level 2	2015 Fair value Level 3	2015 Fair value Total	2014 Carrying amount	2014 Fair value Level 1	2014 Fair value Level 2	2014 Fair value Level 3	2014 Fair value Total
Assets										
Loans and advances to banks	5,621	0	0	5,621	5,621	4,798	0	0	4,798	4,798
Loans and advances to customers	620,211	0	0	620,211	620,211	623,725	0	0	623,725	623,725
Held-to-maturity debt securities	157,090	167,589	0	0	167,589	107,133	116,846	0	0	116,846
Total assets	**782,922**	**167,589**	**0**	**625,832**	**793,421**	**735,656**	**116,846**	**0**	**628,523**	**745,369**
Liabilities										
Deposits by banks	344	0	0	344	344	208	0	0	208	208
Deposits by customers	780,890	0	0	780,890	780,890	702,154	0	0	702,154	702,154
Borrowings from banks and central banks	59,358	0	0	59,358	59,358	70,202	0	0	70,202	70,202
Borrowings from customers	915	0	0	915	915	1,290	0	0	1,290	1,290
Debt securities - issued bonds	0	0	0	0	0	72,387	71,184	0	0	71,184
Subordinated liabilities	14,083	0	0	14,083	14,083	14,671	0	0	14,671	14,671
Total liabilities	**855,590**	**0**	**0**	**855,590**	**855,590**	**860,912**	**71,184**	**0**	**788,525**	**859,709**

(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 2015 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.

3.4.2. Financial instruments measured at fair value

Financial instruments measured at fair value in the financial statements:

2015	Level 1	Level 2	Level 3	Total
Financial assets held for trading (Note 21 a)	258	0	0	**258**
Available-for-sale financial assets (Note 22 a)	292	0	9,634	**9,926**
Investment property (Note 29)	0	0	15,675	**15,675**
Financial liabilities held for trading (Note 33)	0	0	0	**0**
2014	Level 1	Level 2	Level 3	**Total**
Financial assets held for trading (Note 21 a)	124	0	359	**483**
Available-for-sale financial assets (Note 22 a)	867	0	21,542	**22,409**
Investment property (Note 29)	0	0	5,688	**5,688**
Financial liabilities held for trading (Note 33)	0	0	19	**19**

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 in 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

	2015	2014
Equities		
Bank Resolution Fund	2,699	0
Equity investments at cost	1,374	338
Bonds		
Lithuania	3,330	3,426
NLB d. d., Ljubljana	4	0
Republic of Slovenia	2,227	17,778
TOTAL	**9,634**	**21,542**

Pursuant to the Bank Resolution Authority and Fund Act, the Group paid EUR 2.7 million into the Bank Resolution Fund in 2015. 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 as Level 3. The Group additionally categorises as Level 3 capital investments worth EUR 1.3 million for which market value does not exist and which are valued at cost, and EUR 5.6 million of bonds recognised under available-for-sale which are valued at fair value.

There were no transfers between different valuation levels in 2014 and 2015.

3.5. 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 CRR, the CRD and EBA guidelines. Consistent with these regulations, the Group must meet the minimum common equity tier 1 capital ratio of 4.5%, the minimum tier 1 capital ratio of 6% and the minimum total capital ratio of 8%.

In the process of managing, controlling and reducing capital risk, the Group uses its internal acts: Strategy of Assuming and Managing Risk, Capital Management Policy, Methodology for Calculating Internal Capital Requirements, Methodology for Establishing Risk Profile, and other internal acts and instructions. All acts are updated and supplemented at least once a year. At least once per quarter, management and supervisory bodies at Group level monitor capital levels, capital adequacy ratios and the implementation of measures for meeting the statutory capital adequacy ratios and those stipulated by 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 the conditions for inclusion into common equity tier I, share premium, revenue reserves, retained earnings/loss, accumulated other comprehensive income, treasury shares, intangible assets, and deferred tax assets associated with future returns and not arising out of temporary differences. Loss, treasury shares, intangible assets, and deferred tax assets associated with future returns and not arising out of temporary differences[1] constitute deductions from common equity tier 1 capital.

According to the balance as at 31 December 2014 and 31 December 2015, the Group did not have additional tier I capital.

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 A transitional period applies to this deduction item, with 20% being deduced in 2014 and 40% being deduced in 2015.

		2015	2014	Regulation (EU) 575/2013 article reference
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium	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	2,645	859	26(1)(c)
3	Accumulated other comprehensive income and other reserves	31,203	31,257	26(1)
4	Common equity tier I capital before regulatory adjustments	51,659	49,927	
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS				
5	Intangible assets (deductions for associated tax liabilities)	(779)	(968)	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)	(1,100)	(614)	36(1)(c), 38, 472(5)
7	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(671)	36(1)(f), 42, 472(8)
8	Regulatory adjustments applied to common equity tier I in respect of amounts subject to pre-CRR treatment	(2,523)	(2,252)	
9	Total regulatory adjustments to common equity tier I capital	(2,523)	(2,252)	
10	Common equity tier I capital	49,135	47,675	
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**49,135**	**47,675**	
TIER II CAPITAL: INSTRUMENTS AND RESERVES				
12	Capital instruments and the related share premium	10,563	8,019	62, 63
13	Tier II capital before regulatory adjustments	10,563	8,019	62, 63
14	**TIER II CAPITAL**	**10,563**	**8,019**	
15	**TOTAL CAPITAL (tier I + tier II)**	**59,699**	**55,695**	
16	Total risk-weighted assets	446,037	457,150	
CAPITAL RATIOS AND CAPITAL BUFFERS				
17	**Common equity tier I capital (in %)**	**11.02**	**10.43**	
18	**Tier I capital (in %)**	**11.02**	**10.43**	
19	**Total capital (in %)**	**13.38**	**12.18**	
20	Common equity tier I capital that qualifies as capital buffer (in %)	11.02	10.43	
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)	3,195	259	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)
22	Direct and indirect equity holdings on 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	3	36(1)(i), 45, 48, 470, 472 (11)
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)	3,086	2,917	36(1)(c), 38, 48, 470, 472(5)

The Group's regulatory capital as at 31 December 2015 amounted to EUR 59,699 thousand, up EUR 4,004 thousand year-on-year. The quality of capital structure improved at the year-end of 2015 as compared to 2014. After increasing common equity tier I in 2014, the Group continued in 2015 with activities to increase regulatory capital; it successfully converted EUR 2,000 thousand of existing subordinated debt and issued new subordinated debt worth EUR 3,450 thousand. In addition it continually implemented activities to lower its capital requirements. All this had a positive impact on capital adequacy ratios. Total capital requirements at Group level were EUR 35,683 thousand at the year-end of 2015, down EUR 1,212 thousand year-on-year. Group capital requirements for credit risk decreased primarily due to the 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 retail banking and past due items. On account of the capital increase and reduction of capital requirements (especially for credit risk), the Group's capital adequacy ratio improved. The total capital ratio as at 31 December 2015 was 13.38%, up 1.2 of a percentage point year-on-year. Tier 1 capital ratio and common equity tier 1 capital ratio as at 31 December 2015 were 11.02%, up 0.59 of a percentage point year-on-year.

The Group monitors capital and capital needs at the level of the Group. Given the Group's internal capital adequacy assessment, we estimate the reported capital adequacy ratio as appropriate for managing 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. In 2015 the Bank of Slovenia imposed new minimum capital adequacy ratios for the DBS Group on the basis of the ICAAP/SREP process: capital adequacy ratio of 13.1% (in 2014 the target was 11.4%) and tier I capital adequacy ratio of 10.5% (in 2014 the target was 9.1%). At the year-end of 2015 the Group exceeded the minimum capital adequacy ratios imposed by the Bank of Slovenia. At the year-end of 2014 the Group exceeded the minimum capital adequacy ratios imposed by the Bank of Slovenia due to an increase in share capital.

Balancing items with financial statements

Statement of financial position

Code	Items	Prudential consolidation 2015	Inclusion into calculation of capital for the purpose of CA as at 31 December 2015	Full inclusion (without considering transitional provisions)	Note
1	Cash, balances at central banks, and sight deposits at banks	33,367			
2	Financial assets held for trading	258			
3	Available-for-sale financial assets	9,926			
4	Loans and advances	627,412			
	- Loans and advances to banks	5,621			
	- Loans and advances to customers	621,195			
	- Other financial assets	596			
5	Held-to-maturity investments	157,090			
6	Non-current assets held for sale, and discontinued operations	21			
7	Property, plant and equipment	11,930			
8	Investment property	15,675			
9	Intangible assets	779	(779)	(779)	deduction item, Article 36 b - fully
	Long-term equity participation in subsidiaries, associates and joint ventures, accounted for using the equity method	3,681			
10	Income tax assets	6,230			
	- Current tax assets	395			
	- Deferred tax assets	5,835			
	Depending on future profitability and not arising out of temporary differences	2,749	(1,100)	(2,749)	deduction item, Article 36 c - 40% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,086			
11	Other assets	26,797			
12	**TOTAL ASSETS** (from 1 to 11)	**893,166**			
13	Trading liabilities	0			
14	Financial liabilities measured at amortised cost	838,185			
	- Deposits by banks and central banks	309			
	- Deposits by customers	781,609			
	- Borrowings from banks and central banks	39,185			
	- Subordinated liabilities	14,083	10,563	10,563	included on the basis of Articles 62 and 63
	- Other financial liabilities	2,999			
15	Provisions	1,788			
16	Income tax liabilities	145			
	- Current tax liabilities	67			
	- Deferred tax liabilities	78			
17	Other liabilities	469			
18	**TOTAL LIABILITIES** (from 13 to 17)	**840,587**			
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	115	(54)	115	
	From government debt securities	251	0	251	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	(2)	(1)	(2)	only 40% of unrealised losses included in 2015, Article 467 (transitional period)
	Other revaluation surplus	(134)	(54)	(134)	only 40% of unrealised losses included in 2015, Article 467 (transitional period)
22	Revenue reserves	2,401	2,401	2,401	fully included; Article 26
23	Own interest	(645)	(645)	(645)	deduction item, Article 36 f - fully
24	Retained earnings (including profit/loss for the year)	1,641	1,641	1,641	
	Retained earnings	245	245	245	fully included; Article 26
	Profit for the period	1,396	1,396	1,396	conditions for inclusion not yet met
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**52,579**			
26	TOTAL EQUITY (25)	52,579			
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**893,166**			
			59,699	**58,219**	Regulatory capital

3.5.1. Internal capital adequacy assessment

When calculating its internal capital requirements and internal capital adequacy, the Group employs its own methodology based on the requisite internal instructions for implementing stress tests, which it uses to assess capital requirements under the second pillar of the Basel Capital Accord, and include them into its collective risk assessment. It thereby takes into account the capital requirement for credit risk, which is not included into 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), as well as 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 deviations in passive interest rates), strategic risk, Group 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 internal capital requirements assessment. When calculating capital adequacy, to be discussed at a Management Board meeting or the Assets and Liabilities Management Committee meeting, the impact of the Group's planned future business is also estimated.

An adequate amount, type and allocation of requisite capital is maintained as dictated by the Group's risk profile, which facilitates our ability to settle all liabilities. Risk profile is examined once a year and special attention is devoted to the assessment of internal control areas.

3.5.2. Financial leverage

The leverage ratio is calculated as the Group's capital measure divided by its total exposure measure, and it is given in per cents. The capital measure is the tier 1 capital, and the total exposure measure is the sum of the exposure values of all items and off-balance-sheet items not deducted when determining the capital measure. For the purposes of mitigating and managing risks associated with financial leverage, the Group adopted its Financial Leverage Policy in 2015. The Policy imposes a leverage ratio of above 3% at all times.

	2015	2014
Leverage ratio - applying the definition of tier I capital without transitional provisions (in %)	5.12	5.05
Leverage ratio - applying the definition of tier I capital with transitional provisions (in %)	5.27	5.21

3.6. Managing 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. Operational risk also includes IT risk and legal risk.

The Group uses the Policy of Taking and Managing Operational Risk (the Policy defines the basic goals, competences and responsibilities, as well as the manner of identification, assessment, monitoring and management of operational risk), examining and supplementing it, if required, at least once a year.

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 supplemented. The new Resolution on Internal Governance, Governance 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. 147 (loss) events associated with operational risk were reported in 2015, which is fewer than in 2014 when there were 155, and the realised net loss was also lower. The total reported net loss in 2015 remained 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 management boards of the Bank and subsidiary and the Bank's Internal Audit Department, while the Operational Risk Committee receives them on a quarterly basis.

The Group calculates capital requirements for operational risk using the simple approach. The operational risk capital requirement is calculated as the three-year average of the sum of net interest income and net non-interest income, minus extraordinary income. The result is then multiplied by the weight of 15%.

3.7. Asset encumbrance

(a) Assets

					2015
		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**	**54,254**	**-**	**838,912**	**-**
030	Equity instruments	0	0	4,289	4,289
040	Debt securities	23,523	27,061	139,461	146,422
120	Other assets	0	-	72,757	-

(b) Collateral received

			2015
		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**	**2**
150	Equity instruments	0	0
160	Debt securities	0	2
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

			2015
		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**	**657,992**	**44,254**

(d) Information on the importance of encumbrance

The Group's encumbered assets include investments in debt securities available for sale or held to maturity.

A proportion of the Group's investments in top rated debt securities are reserved for investors' guaranteed deposits.

A major segment of encumbered assets constitutes investments pledged into the pool of assets as security for using in ECB operations. The pool of assets includes, in the largest proportion, non-marketable assets (loans to banks), followed by domestic securities and securities deposited abroad. 17% of this pool of assets is used as collateral for a borrowing from the ECB and for intraday credit.

4. INTEREST INCOME AND EXPENSE

	2015	2014
Interest income and similar income		
Financial assets held for trading	6	10
Available-for-sale financial assets	606	1,001
Loans and advances to banks	13	14
Loans and advances to central bank	3	60
Loans and advances to customers	22,425	27,993
Held-to-maturity investments	3,046	3,863
Financial leasing	247	280
Other financial assets	41	55
TOTAL	**26,387**	**33,276**
Interest expense and similar expense		
Deposits by banks and borrowings from banks	998	1,587
Borrowings from central bank	86	59
Deposits by customers	4,868	8,576
Borrowings from customers	20	24
Bonds	522	1,263
Certificates of deposit	202	203
Subordinated liabilities	296	233
Subordinated deposits and loans	291	269
Interest paid on other liabilities	38	24
TOTAL	**7,321**	**12,238**
NET INTEREST INCOME	**19,066**	**21,038**

5. DIVIDEND INCOME

	2015	2014
Dividends on available-for-sale financial assets	0	2
Dividends on financial assets held for trading	6	0
TOTAL	**6**	**2**

6. FEE AND COMMISSION INCOME AND EXPENSE

	2015	2014
Fee and commission income		
Payment transactions	3,693	3,535
Agency services	156	134
Administrative services	3,528	3,289
Guarantees issued	492	452
Securities trading	123	136
Credit operations	313	319
TOTAL	**8,305**	**7,865**
Fee and commission expense		
Banking services	780	719
Securities trading	93	94
Payment transactions	717	652
Republic of Slovenia guarantee for issued bonds	352	782
Fees and commissions to Semenarna's retail franchises	431	308
Fees and commissions to Semenarna's sales representatives	273	264
Other services	17	15
TOTAL	**2,663**	**2,834**
NET FEE AND COMMISSION INCOME	**5,642**	**5,031**

7. REALISED NET GAINS/LOSSES FROM FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015	2014
Realised gains	**331**	**34**
Available-for-sale financial assets	331	34
Realised gains/losses on loans	(95)	(62)
Gains on loans (financial lease and other financial assets included)	166	149
Losses on loans (financial lease and other financial assets included)	261	211
Realised gains/losses on financial liabilities measured at cost	(19)	(7)
Gains on financial liabilities measured at amortised cost	1	2
Losses on financial liabilities measured at amortised cost	20	9
REALISED GAINS/LOSSES	**217**	**(35)**

8. NET GAINS/LOSSES FROM FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2015	2014
Net gains/losses from trading in equity instruments	7	(12)
Net gains/losses from trading in debt securities	(3)	(2)
Net gains/losses from foreign exchange trading	153	98
Net gains/losses from derivatives held for trading	58	24
TOTAL	**215**	**108**

9. FOREIGN EXCHANGE TRANSLATION

	2015	2014
Positive translation differences	1,928	532
Negative translation differences	1,707	622
TOTAL	**221**	**(90)**

10. NET GAINS/LOSSES ON DERECOGNITION OF ASSETS

	2015	2014
Gains		
Derecognition of property, plant and equipment	104	227
Derecognition of other assets, apart from assets held for sale	28,537	28,331
TOTAL	**28,641**	**28,558**
Losses		
Derecognition of property, plant and equipment	19,741	19,393
Derecognition of investment property	18	0
Derecognition of other assets, apart from assets held for sale	124	0
TOTAL	**19,883**	**19,393**
TOTAL	**8,758**	**9,165**

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

11. OTHER NET OPERATING GAINS/LOSSES

	2015	2014
Gains		
Income from non-banking services	127	79
Leases and rents (Note 29 b)	104	76
Denationalisation income	256	3,462
Other operating income	926	1,022
TOTAL	**1,413**	**4,639**
Losses		
Taxes	24	41
Contributions	241	206
Membership fees and similar	97	106
Expenses for investment property under operating lease	0	5
Tax on total assets*	0	573
Financial services tax	777	571
Other operating expenses	335	300
TOTAL	**1,474**	**1,802**
OTHER NET OPERATING GAINS/LOSSES	**(61)**	**2,837**

* Tax on total assets was eliminated as of 1 January 2015.

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

Denationalisation acquisitions by asset type

			2015			2014
	Income	Expense	**Total**	Income	Expense	**Total**
Buildings						
- Acquisitions - restitution in kind	0	0	**0**	313	0	**313**
- Damages, settlements	58	0	**58**	2,982	0	**2,982**
- Leases and rents	198	0	**198**	167	0	**167**
- Revaluation of investment property	0	159	**(159)**	0	308	**(308)**
- Legal and consulting services, and duties	0	9	**(9)**	0	39	**(39)**
TOTAL	**256**	**168**	**88**	**3,462**	**347**	**3,115**

The direct and indirect net denationalisation income in 2015 amounted to a total of EUR 88 thousand (2014: EUR 3,115 thousand).

12. ADMINISTRATIVE EXPENSES

	2015	2014
Labour costs		
Gross wages	11,571	11,483
Social security contributions	846	830
Pension insurance contributions	1,032	1,015
Other contributions, depending on gross wages	(3)	13
Severance pays and compensations	212	109
Other labour costs	2,197	2,229
Total	**15,855**	**15,679**
Overhead and administrative expenses		
Costs of material	570	617
Costs of services*	5,801	5,660
Total	**6,371**	**6,277**
TOTAL	**22,226**	**21,956**

* Costs of services in 2015 include EUR 95 thousand for auditing services, of which EUR 61 thousand was paid to the auditor for auditing separate and consolidated financial statements for 2015. The rest was spent on auditing services by auditor's experts and on other services accompanying the audit of the Bank's financial statements for 2014.

13. DEPRECIATION AND AMORTISATION

	2015	2014
Property, plant and equipment (Note 28)	2,027	2,311
Intangible assets (Note 30)	281	296
TOTAL	**2,308**	**2,607**

14. PROVISIONS

	2015	2014
Net provisions for off-balance-sheet liabilities	**212**	**51**
Expenses for created provisions (Note 41 d)	3,830	3,663
Income from released provisions (Note 41 d)	3,618	3,612
Net other provisions		
Net provisions for pensions and other employee benefit provisions	**97**	**105**
Expenses for created provisions	98	108
Income from released provisions	1	3
Net provisions for tax suits and other pending legal cases	**(10)**	**44**
Expenses for created provisions	0	44
Income from released provisions	10	0
Net provisions for other provisions	**1**	**1**
Expenses for created provisions	1	1
NET PROVISIONS	**300**	**201**

15. IMPAIRMENT CHARGE

	2015	2014
Net impairments of financial assets not measured at fair value through profit or loss	**4,104**	**8,508**
Net impairments of loans and receivables	**4,064**	**8,493**
Impairment of loans	15,998	18,099
Reversed impairment of loans	11,934	9,606
Net impairments of other financial assets	**40**	**15**
Impairment of other financial assets	112	71
Reversed impairment of other financial assets	72	56
Net impairments of other assets	**1,737**	**3,891**
Net impairments of investment property	**216**	**293**
Impairments of investment property	365	329
Reversed impairments of investment property	149	36
Net impairments of other assets	**1,521**	**3,598**
Impairments of real estate inventory	1,521	3,598
NET IMPAIRMENTS	**5,841**	**12,399**

16. NEGATIVE GOODWILL

	2015	2014
Negative goodwill	0	802
TOTAL	**0**	**802**

Negative goodwill was recognised in the consolidation process as at the acquisition date as the excess of the controlling company's (DBS d. d.) interest in the net fair value of identifiable assets, liabilities or contingent liabilities above the cost of the merger.

17. NET GAINS/LOSSES FROM NON-CURRENT ASSETS HELD FOR SALES AND RELATED LIABILITIES

	2015	2014
Gains on non-current assets held for sale	118	0
TOTAL	**118**	**0**

18. TAX

	2015	2014
Income tax	271	657
Deferred tax (Note 42 d)	155	(361)
TOTAL	**426**	**296**
Profit/loss before tax	3,507	1,695
Tax under the 17% tax rate	596	288
Non-taxable income	(43)	(18)
Non-deductible expense	316	1,005
Tax reliefs	(443)	(979)
TOTAL	426	296
Effective tax rate (in %)	12	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 Group's management knows of no circumstances that could give rise to additional liabilities in this regard.

19. EARNINGS/LOSS PER SHARE (EPS)

Basic earnings/loss per share is calculated by dividing net profit/loss and the weighted average number of issued ordinary shares:

	2015	2014
Net profit/loss (in EUR thousand)	3,081	1,399
Weighted average number of ordinary shares	4,228,055	3,742,583
Basic and diluted earnings/loss per share (in EUR per share)	0.728704	0.373806

Basic earnings per share in 2015 amounts to EUR 0.728704 (2014: EUR 0.373806). The weighted average number of issued ordinary shares recorded in the KDD central securities register for 2015, with treasury shares and the shares held by Semenarna deducted, was 4,228,055 (2014: 3,742,583).

The Group's share book value as at 31 December 2015 was EUR 12.424950 (31 December 2014: EUR 12.490859). 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.

20. CASH, BALANCES AT CENTRAL BANKS, AND SIGHT DEPOSITS AT BANKS

a) Breakdown

	2015	2014
Cash		
Cash	7,657	9,652
Cash balances at central bank	15,668	53,962
Sight deposits at banks	10,083	15,096
TOTAL (Note 20 b)	**33,408**	**78,710**

Under the new methodology this item only includes sight deposits at the central bank, while other deposits with the central bank are transferred to the item loans and advances to banks (Note 23).

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 ECB system. The amount of the minimum reserve 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 average amount calculated for each period. Minimum reserves for compliance period from 1 January to 31 December 2015 amounted to EUR 5,132 thousand on average per month, with excess reserves totalling an average monthly EUR 12,846 thousand.

The annual interest rate for assets deposited on the minimum reserves account was 0.05% from 1 January to 31 December 2015, and for excess assets –0.20% from 1 January to 8 December 2015, and –0.30% from 9 to 31 December 2015.

b) Movements

	As at 1 January 2015	Foreign exchange difference	Net increase/ (decrease)	As at 31 December 2015
Cash, balances at central bank, and sight deposits at banks (Note 20 a)	78,710	24	(45,326)	33,408
Loans and advances to banks (Note 23 a)	4,678	150	586	5,414
TOTAL	**83,388**	**174**	**(44,740)**	**38,822**

21. FINANCIAL ASSETS HELD FOR TRADING

a) Breakdown

	2015	2014
Equities		
- Listed	216	0
- Unlisted	0	340
Bonds		
- Listed	42	124
Loans held for trading	0	19
TOTAL	**258**	**483**

b) Movements

	2015	2014
Equities		
As at 1 January	340	352
- Acquisition	205	0
- Revaluation	10	(12)
- Reclassification	(339)	0
As at 31 December	**216**	**340**
Debt securities		
As at 1 January	124	198
- Acquisition	9	10
- Sale	(88)	(88)
- Revaluation	(3)	4
As at 31 December	**42**	**124**
Loans*		
As at 1 January	19	0
- Increase	0	19
- Sale	(19)	0
As at 31 December	**0**	**19**
TOTAL	**258**	**483**

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

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

a) Breakdown

	2015	2014
Equities		
- Unlisted	4,073	338
Bonds		
- Listed	5,853	22,071
TOTAL	**9,926**	**22,409**

Available-for-sale financial assets decreased in 2015 by EUR 12,483 thousand, of which government bonds were down EUR 16,218 thousand and shares and stakes in non-financial institutions and other financial institutions up EUR 3,735 thousand – payment into the Bank Resolution Fund totalled EUR 2,699 thousand.

b) Movements

	2015	2014
As at 1 January	22,409	30,151
Purchases	5,279	2,221
Sale	(16,982)	(10,192)
Margin	(330)	0
Fair value adjustment (Note 46)	(450)	229
As at 31 December	**9,926**	**22,409**

23. LOANS AND ADVANCES TO BANKS

a) Breakdown according to type

	2015	2014
Central bank	1,963	1,889
Domestic banks	3,158	2,409
Foreign banks	500	500
TOTAL	**5,621**	**4,798**

Under the new methodology according to the Resolution on the Books of Account, the item includes deposits at the central bank apart from sight deposits, while sight deposits at banks are given under cash, balances at central banks, and sight deposits at banks (Note 20 a).

b) Breakdown according to maturity

	2015	2014
Short-term loans	5,416	4,798
Long-term loans	205	0
TOTAL	**5,621**	**4,798**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 5,414 thousand (2014: EUR 4,678 thousand) are recognised in the cash flow statement as cash equivalents (Note 20b).

24. LOANS AND ADVANCES TO CUSTOMERS

a) Breakdown

	2015	2014
Loans and advances	635,433	691,568
Financial lease	10,482	9,916
Working capital loans	18,802	19,250
Revaluation allowance	(44,506)	(97,009)
TOTAL	**620,211**	**623,725**

b) Movements in revaluation allowance

	2015	2014
As at 1 January*	97,009	84,441
* Opening for Semenarna	0	4,330
Enhancements (through impairments)	15,998	18,099
Repayments (through impairments)	(11,934)	(9,606)
Transferred off the balance sheet (no write-downs)	(43,647)	0
Write-downs	(12,296)	(531)
Interest excluded (balance sheet receivables)	122	276
Debt to equity swap	(746)	0
As at 31 December	**44,506**	**97,009**

In 2015 100%-impaired provisions in the amount of EUR 43,647 thousand were transferred off the balance sheet (2014: EUR 0).

c) Loans and advances to customers include financial lease receivables

	2015	2014
Gross financial lease receivables		
Past due up to 1 year	5,675	5,733
Past due from 1 to 5 years	1,958	1,546
Past due over 5 years	2,849	2,637
TOTAL	**10,482**	**9,916**
Revaluation allowances	(4,326)	(4,304)
Net financial lease receivables	**6,156**	**5,612**

25. OTHER FINANCIAL ASSETS

a) Breakdown

	2015	2014
Trade receivables	4,545	5,224
Interest receivable	2	3
Fee and commission due	135	152
Other receivables	702	890
Other prepayments and deferred income	74	20
Other financial assets revaluation allowance	(3,195)	(3,543)
TOTAL	**2,263**	**2,746**

b) Movements in revaluation allowance

	2015	2014
As at 1 January*	3,543	611
* Opening for Semenarna	0	2,825
Enhancements (through impairments)	112	71
Repayments (through impairments)	(72)	(56)
Transferred to loans	(332)	0
Transferred off the balance sheet	(11)	0
Write-downs	(45)	92
As at 31 December	**3,195**	**3,543**

26. HELD-TO-MATURITY INVESTMENTS

a) Breakdown

	2015	2014
Held-to-maturity debt securities		
Short-term bank securities	0	7,140
Short-term government securities	0	9,983
Short-term securities issued by non-financial institutions	0	1,386
Long-term bank securities	0	4,074
Long-term government securities	157,090	84,550
TOTAL	**157,090**	**107,133**

b) Movements

	2015	2014
As at 1 January	107,133	91,047
Purchases	83,263	71,357
Maturities	(33,306)	(55,271)
As at 31 December	**157,090**	**107,133**

27. NON-CURRENT ASSETS HELD FOR SALE, AND DISCONTINUED OPERATIONS

	2015	2014
Property, plant and equipment held for sale	1,641	1,614
TOTAL	**1,641**	**1,614**

28. PROPERTY, PLANT AND EQUIPMENT

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

The net carrying value of real estate held as collateral for loans is EUR 14,841 thousand.

2014	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	12,537	4,459	11,273	3,064	0	31,333
Increases*	29,015	831	5,625	101	927	36,499
* Of which increases by Semenarna	24,697	831	5,625	101	0	31,254
Transfer from PPE under construction	58	185	397	287	(927)	0
Decreases	(4)	(7)	(244)	(1,288)	0	(1,543)
As at 31 December	41,606	5,468	17,051	2,164	0	66,289
Revaluation allowance						
As at 1 January	2,887	4,228	8,365	1,312	0	16,792
Increases**	5,894	794	4,966	71	0	11,725
** Of which increases by Semenarna	5,893	794	4,966	71	0	11,724
Decreases	0	(29)	(130)	(851)	0	(1,010)
Depreciation and amortisation	708	184	961	458	0	2,311
As at 31 December	9,489	5,177	14,162	990	0	29,818
Net carrying value						
As at 1 January	9,650	231	2,908	1,752	0	14,541
As at 31 December	32,117	291	2,889	1,174	0	36,471

29. INVESTMENT PROPERTY

a) Breakdown

	2015	2014
Long-term investments into investment property		
- Land	6,693	206
- Buildings	8,982	5,482
TOTAL	**15,675**	**5,688**

b) Movements

	2015	2014
As at 1 January	5,688	3,881
Increase	36	3,616
Transferred from inventories	10,733	0
Decreases	(566)	0
Revaluation allowance	(216)	(1,809)
As at 31 December	**15,675**	**5,688**

Income from investment property leases, in the amount of EUR 302 thousand (2014: EUR 243 thousand), is recognised among other net operating gains/losses (Note 11). Operating lease contracts may be terminated during the lease period. A transfer of EUR 10,733 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. The Group increased its investment property in 2015 by EUR 149 thousand (2014: by EUR 36 thousand). Fair value revaluation (impairment) is recognised under impairment charge. The Group recorded EUR 365 thousand worth of impairment charges against investment property in 2015 (2014: EUR 329 thousand) (Note 15).

30. INTANGIBLE ASSETS

			2015			2014
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	4,196	32	4,228	3,305	0	3,305
Increases		131	131	856	67	923
Decreases	(7)	0	(7)	0	0	0
Transfer from intangible assets under construction	85	(85)	0	35	(35)	0
As at 31 December	4,274	78	4,352	4,196	32	4,228
Revaluation allowance						
As at 1 January	2,966	0	2,966	2,118	0	2,118
Depreciation and amortisation	281	0	281	296	0	296
Decreases	(7)	0	(7)	552	0	552
As at 31 December	3,240	0	3,240	2,966	0	2,966
As at 1 January	**1,230**	**32**	**1,262**	**1,187**	**0**	**1,187**
As at 31 December	**1,034**	**78**	**1,112**	**1,230**	**32**	**1,262**

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

31. TAX ASSETS

	2015	2014
Tax assets	398	0
Deferred tax assets (Note 42 b)	6,311	6,462
TOTAL	**6,709**	**6,462**

Outstanding tax loss amounts to a total of EUR 37,510 thousand. Deferred tax assets could be formed from tax loss, in the amount of EUR 6,377 thousand, of which EUR 5,360 thousand are in fact recognised, in addition to EUR 2,608 thousand of value adjustments for deferred tax assets. The difference has not been recognised due to expected taxable revenues.

32. OTHER ASSETS

	2015	2014
VAT refund receivables for the tax period	14	614
Accrued and short-term deferred costs	664	456
Long-term deferred operating costs	20	40
Materials inventory	7,680	7,209
Real estate inventory	23,655	26,288
Stock of coins held for sale	149	146
Prepayments - construction works	225	85
Prepayments to suppliers for current assets	311	251
Other prepayments	62	82
Other advance tax refund receivables	14	39
Advance suretyship, security receivables	133	2
Consideration receivable	1,896	1,539
Other	1	4
TOTAL	**34,824**	**36,755**

The net carrying value of inventories of real estate held as collateral for loans is EUR 1,460 thousand (2014: EUR 1,462 thousand). Impairment charges against inventories of real estate amounted to EUR 1,521 thousand in 2015 (Note 15).

33. TRADING LIABILITIES

	2015	2014
Derivatives held for trading	0	0
Other trading liabilities	0	19
TOTAL	**0**	**19**

34. DEPOSITS BY BANKS AND CENTRAL BANKS

	2015	2014
Sight deposits by banks	344	212
TOTAL	**344**	**212**

35. DEPOSITS BY CUSTOMERS

	2015	2014
Sight deposits	391,227	312,264
Short-term deposits	164,849	158,282
Long-term deposits	224,814	231,608
TOTAL	**780,890**	**702,154**

36. BORROWINGS FROM BANKS AND CENTRAL BANKS

	2015	2014
Short-term borrowings from banks	20,173	3,256
Long-term borrowings from banks	8,737	36,540
Long-term borrowings from central bank	30,448	30,402
TOTAL	**59,358**	**70,198**

37. BORROWINGS FROM CUSTOMERS

	2015	2014
Long-term borrowings from customers	915	1,290
TOTAL	**915**	**1,290**

38. DEBT SECURITIES

a) Breakdown

	2015	2014
Lond-term bearer bonds with the maturity over 2 years	0	72,387
TOTAL	**0**	**72,387**

In 2010 the Bank issued bonds worth EUR 100,000 thousand under a government guarantee, with the maturity of five years. The Bank made partial early repurchases in 2013 and 2014, and had them delisted. The remaining bonds, worth EUR 72,387 thousand, were fully repaid upon maturity in 2015.

39. SUBORDINATED LIABILITIES

a) Breakdown

	2015	2014
Subordinated liabilities		
- To banks	4,631	6,625
- To non-financial institutions	2,862	2,761
- To other financial institutions	6,082	5,285
- To retail customers	508	0
TOTAL	**14,083**	**14,671**

	Date subscribed	Amount	Currency	Interest rate (%)	Maturity date
Subordinated liabilities					
	20. 5. 2009	532	EUR	6.50	20. 5. 2016
	20. 5. 2009	171	EUR	6.70	20. 5. 2016
	20. 5. 2009	171	EUR	6.70	20. 5. 2016
	20. 5. 2009	459	EUR	6.70	20. 5. 2016
	20. 5. 2009	267	EUR	6.70	20. 5. 2016
	26. 5. 2009	51	EUR	6m Euribor + 4.00	26. 5. 2016
	26. 5. 2009	459	EUR	6m Euribor + 4.00	26. 5. 2016
	24. 6. 2009	509	EUR	6m Euribor + 3.50	24. 6. 2016
	20. 12. 2012	2,061	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	95	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	2,061	EUR	6m Euribor + 6.00	31. 5. 2022
	29. 9. 2015	101	EUR	4.70	30. 9. 2021
	29. 9. 2015	51	EUR	4.70	30. 9. 2021
	29. 9. 2015	711	EUR	6.00	30. 9. 2022
	29. 9. 2015	101	EUR	6.00	30. 9. 2022
	30. 9. 2015	508	EUR	6.00	30. 9. 2022
	9. 10. 2015	152	EUR	6.00	10. 10. 2025
	9. 10. 2015	507	EUR	6.00	10. 10. 2025
	9. 10. 2015	811	EUR	6.00	10. 10. 2025
	9. 10. 2015	558	EUR	6.00	10. 10. 2025
TOTAL		**14,083**			

Subordinated liabilities include subordinated deposits, loans and certificates of deposit eligible for inclusion into tier II capital, consistent with the CRR (Note under 3.5., Capital Management). Subordinated debt was issued over the years in order to maintain the required capital adequacy.

In 2015 the Bank entered into 10 new agreements with characteristics of subordinated debt, in the total value of EUR 5,561 thousand.

40. OTHER FINANCIAL LIABILITIES

	2015	2014
Profit sharing - dividend payments	6	37
Wages and salaries	772	774
Taxes and contributions	410	378
Suppliers	1,912	3,197
Other liabilities	881	5,045
Charges being collected	40	12
Retail-banking charges being collected	0	54
Accrued costs	526	415
Accrued expenses	107	99
Other accruals and income collected in advance	8	29
Long-term liabilities associated with Semenarna's compulsory composition	4,526	4,514
Other long-term liabilities	0	40
Other	9	42
TOTAL	**9,197**	**14,636**

41. PROVISIONS

a) Breakdown

	2015	2014
Provisions for pensions and similar liabilities with employees (Note 41 b and c)	1,713	1,711
Provisions for off-balance-sheet liabilities (Note 41 d)	540	328
Provisions for pending legal cases (Note 41 e)	44	54
Other provisions (Note 41 f)	393	418
TOTAL	**2,690**	**2,511**

On the basis of the second, third, fourth and fifth 5-year scheme, which had all already expired, and the 10-year scheme the Group has estimated that there was a 95% chance of premiums being refunded and has therefore formed provisions in the amount of 95% of the premiums paid for the remaining schemes. These were long-term provisions, which the Group cancelled in 2015, when the last 10-year scheme expired.

b) Provisions for pensions and similar payables to employees

	2015	2014
Provisions for severance pays	1,504	1,489
Other long-term employee benefits	209	222
TOTAL	**1,713**	**1,711**

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 2.25% 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

	2015	2014
As at 1 January*	1,711	996
* Opening for Semenarna	0	480
Provisions made during the year	101	300
Provisions released	(10)	0
Provisions spent during the year	(89)	(65)
As at 31 December	**1,713**	**1,711**

Recalculated payables to employees total EUR 1,713 thousand, for which we had to form as at 31 December 2015 additional provisions of EUR 101 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 98 thousand, were charged to the income statement. The actuarial surplus for severance pays was cancelled in comprehensive income, in the amount of EUR 7 thousand (Note 46).

d) Movements in provisions for off-balance-sheet liabilities

	2015	2014
As at 1 January	328	278
Provisions made during the year (Note 14)	3,830	3,663
Provisions released during the year (Note 14)	(3,618)	(3,613)
As at 31 December	**540**	**328**

e) Movements in provisions for pending legal cases

	2015	2014
As at 1 January	54	10
Provisions made during the year	0	44
Provisions released during the year	(10)	0
As at 31 December	**44**	**54**

f) Movements in other provisions

	2015	2014
As at 1 January*	418	43
* Opening for Semenarna	0	393
Provisions made during the year	1	1
Provisions spent during the year	(26)	(19)
As at 31 December	**393**	**418**

42. TAX LIABILITIES

a) Breakdown

	2015	2014
Current tax liabilities	67	657
Deferred tax liabilities	1,237	1,360
TOTAL	**1,304**	**2,017**

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

	2015	2014
1. Deferred tax liabilities		
Available-for-sale investment securities	78	209
Land valuation	1,151	1,142
Depreciation and amortisation	8	9
TOTAL	**1,237**	**1,360**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	193	199
Available-for-sale investment securities	27	32
Impairment of securities	190	190
Impairment of equity participation	2,733	2,556
Tax loss	2,751	3,068
Valuation of buildings	417	417
TOTAL (Note 31)	**6,311**	**6,462**
Net deferred tax (2 - 1)	**5,074**	**5,102**

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 3,671 thousand.

c) Movements in deferred taxes

	2015	2014
As at 1 January	5,102	5,431
Available-for-sale financial assets - fair value valuation (Note 46)	125	(32)
Building valuation	0	417
Land valuation	(9)	(1,142)
Depreciation and amortisation	1	(9)
Impairment of securities	0	(6)
Impairment of equity participation	178	1,130
Provisions for severance pays and long-service awards	(5)	64
Tax relief	0	(18)
Tax loss	(318)	(733)
As at 31 December	**5,074**	**5,102**

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

	2015	2014
Impairment of securities	0	(6)
Provisions for employee benefits	(7)	(2)
Tax relief	0	(18)
Tax loss	(318)	(733)
Depreciation and amortisation	(8)	(9)
Impairments	178	1,129
TOTAL (Note 18)	**(155)**	**361**

Deferred tax assets and liabilities for 2015 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 17% (2014: 17%).

43. OTHER LIABILITIES

a) Breakdown

	2015	2014
Payments received in advance	265	218
Taxes payable	247	322
Outstanding taxes payable	4	523
Accruals	293	350
TOTAL	**809**	**1,413**

44. SHARE CAPITAL

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 1 January 2014	3,783,000	15,786
As at 31 December 2014/1 January 2015	3,783,000	15,786
As at 31 December 2015	**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 3,772,235 are recorded in the KDD central securities register. Additional capital was raised at the end of 2014, with investors paying 485,248 new shares in the total issue value of EUR 4,367,232.00. The capital increase was recorded in the companies' register on 16 January 2015. The Bank's share capital was up EUR 2,024,904.05 due to the increase, totalling EUR 17,811,083.54. As the newly issued shares from the capital increase had not been recorded in the KDD central securities register as at 31 December 2014, the capital increase was not recognised under equity in the statement of financial position (Note 40).

b) Shareholders with over 5% of share capital

		2015
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
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2015, 322 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2014: 261), of which 100 were domestic companies, 216 domestic individuals, and six foreign entities. The number of the Bank's shareholders increased by 61 in 2015.

45. SHARE PREMIUM

	2015	2014
As at 1 January	28,915	28,915
Subscription (or payment) of new capital	2,342	0
As at 31 December	**31,257**	**28,915**

After shares issued in the capital increase had been recorded in the central securities register, EUR 2,342,327.95 were restated under share premium (Note 44a).

46. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2015	2014
As at 1 January	708	706
Items not to be reclassified to profit or loss	**8**	**(195)**
Actuarial gains/losses on defined benefit pension plans	7	(195)
Income tax	1	0
Items that may be reclassified to profit or loss	**(655)**	**197**
Gains/losses related to available-for-sale financial assets	(780)	229
Gains/losses due to changes in fair value of available-for-sale financial assets (Note 22 b)	(450)	229
Gains/losses transferred to profit or loss	(330)	0
Deferred taxes (Note 42 c)	125	(32)
As at 31 December	**61**	**708**

Items not to be restated in the income statements refer to the actuarial deficit for severance pays (Note 41c).

47. REVENUE RESERVES

a) Breakdown

	2015	2014
Reserves for treasury shares	645	671
Reserves under Statutes	671	269
Other revenue reserves	1,085	0
TOTAL	**2,401**	**940**

In 2015 the Group reported EUR 1,571 thousand of profit for the year. Pursuant to its Statutes, 20% of profit for the year, which amounts to EUR 402 thousand, was allocated to reserves under Statutes.

Share premium and statutory reserves can only be used up under the following terms:
1. if the total amount of these 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

	2015	2014
As at 1 January	671	671
Reversals	(26)	0
As at 31 December	**645**	**671**

EUR 26 thousand worth of treasury shares were sold in 2015 (book value), as a result of which reserves for treasury shares were cancelled and other revenue reserves increased for the same amount. The sales price was EUR 9 per share, which is the market price, and the total amount raised was EUR 11 thousand. The difference between the lower sales value and higher book value totalled EUR 15 thousand and was charged to other revenue reserves.

c) Reserves under Statutes

	2015	2014
As at 1 January	269	0
Transferred from net profit	402	269
As at 31 December	**671**	**269**

d) Other revenue reserves

	2015	2014
As at 1 January	0	0
Transferred from net profit	1,074	0
Positive effect from sale of treasury shares	11	0
As at 31 December	**1,085**	**0**

48. TREASURY SHARES

	2015	2014
Repurchase of treasury shares - ordinary	(656)	(682)
TOTAL	**(656)**	**(682)**

49. RETAINED EARNINGS (INCLUDING NET PROFIT/LOSS FOR FINANCIAL YEAR)

	2015	2014
Net profit/loss for the year	1,571	1,130
Retained earnings	1,125	(49)
TOTAL	**2,696**	**1,081**

Profit for the year amounts to EUR 3,081 thousand. The Bank's accumulated profit as at 31 December 2015 amounts to EUR 1,612 thousand. The AGM will deliberate on the appropriation of accumulated profit. The Management Board and Supervisory Board propose that it be appropriated to other revenue reserves.

50. OFF-BALANCE SHEET LIABILITIES

a) Breakdown by type of contingent liabilities and commitments

	2015	2014
Guarantees	43,922	46,571
Commitments to extend credit	33,671	39,765
Derivatives	0	41
TOTAL	**77,593**	**86,377**
Provisions (Note 41 a and d)	(540)	(328)

51. FIDUCIARY ACTIVITIES

a) Investment and ancillary investment services for customers

	2015	2014
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**123**	**146**
Reception, transmission and execution of orders	111	131
Managing dematerialised securities accounts for clients	12	15
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**63**	**39**
Fees associated with KDD and similar organisations	54	36
Fees associated with the stock exchange and similar organisations	9	3

	2015	2014
ASSETS	**93,756**	**131,619**
Claims on settlement account and current accounts for clients' assets	93,330	130,696
- From financial instruments	93,142	130,616
- From the KDD or the Bank's settlement account for sold financial instruments	9	58
- From other settlement systems and institutions for sold financial instruments	179	22
Clients' cash	426	923
- On the settlement account for clients' assets	426	878
- On banks' current accounts	0	45
LIABILITIES	**93,756**	**131,619**
Liabilities of settlement account and of current accounts for clients' assets	93,756	131,619
- With clients from cash and financial instruments	93,553	131,603
- With KDD or the Bank's settlement account for purchased financial instruments	16	0
- With other settlement systems and institutions for purchased financial instruments	179	0
- With the Bank and the Bank's settlement account for fees, expenses, etc	8	16

b) Other agency services

The item other agency services includes EUR 3,037 thousand from other transactions for the clients' account (2014: EUR 4,378 thousand), and EUR 16 thousand from settlement transactions with the KDD (2014: EUR 58 thousand).

The Group manages assets in the total amount of EUR 96,809 thousand (2014: EUR 136,055 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 Group from these operations. The Group charges the related service fees to the originator. In 2015 these fees amounted to EUR 123 thousand (2014: EUR 106 thousand). For acting as agent in the sale of numismatic values, the Group charged fees in the amount of EUR 24 thousand in 2015 (2014: EUR 28 thousand).

52. RELATED PARTY TRANSACTIONS

Ordinary activities 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

	MB/Managing Director/ Procurator		Senior management		Close family members of MB/ Managing Director/ Procurator, member of SB and senior management		Companies related to members of MB/Managing Director/Procurator, members of SB, senior management and close family members		Bank's shareholders* (10 largest shareholders - without DBS)		Supervisory Board members	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Loans and deposits												
As at 1 January	469	211	425	523	37	25	7,340	9,609	875	1,082	55	96
Increase	88	398	636	200	55	24	17,638	7,363	63	105,060	31	15
Decrease	(393)	(140)	(593)	(298)	(47)	(12)	(18,471)	(9,632)	(261)	(105,267)	(69)	(56)
As at 31 December	164	469	468	425	45	37	6,507	7,340	677	875	17	55
Interest income	4	9	10	14	1	1	285	367	39	57	1	2
Revaluation allowance	0	2	1	0	0	0	80	105	1	1	0	0
Deposits and borrowings												
As at 1 January	41	25	168	248	41	44	342	1,139	10,432	13,981	119	114
Increase	667	585	2,373	1,379	432	417	13,209	61,382	67,281	219,281	534	661
Decrease	(673)	(569)	(2,323)	(1,459)	(391)	(420)	(13,168)	(62,179)	(69,329)	(222,830)	(531)	(656)
As at 31 December	35	41	218	168	82	41	383	342	8,384	10,432	122	119
Interest expense	0	0	9	5	1	2	5	6	479	597	1	4
Guarantees issued	0	0	0	0	0	0	0	0	1,549	1,549	0	0
Fee and commission received	1	0	3	2	0	0	60	139	86	81	1	1
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	0	0	7	3	0	0
Increase	0	0	0	0	0	0	0	0	52	86	0	0
Decrease	0	0	0	0	0	0	0	0	(57)	(82)	0	0
As at 31 December	0	0	0	0	0	0	0	0	2	7	0	0
Lease income	0	0	0	0	0	0	0	0	45	60	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	4	4	0	0	0	0
Increase	0	0	0	0	0	0	49	52	27	26	0	0
Decrease	0	0	0	0	0	0	(52)	(52)	(27)	(26)	0	0
As at 31 December	0	0	0	0	0	0	1	4	0	0	0	0
Lease expense	0	0	0	0	0	0	49	52	21	5	0	0
Other receivables	0	18	0	0	0	0	6	14	1	226	0	0
Other income	1	0	1	0	0	0	339	293	13	1	0	0
Other liabilities	0	37	0	1	0	0	74	28	48	10	0	0
Other expenses	0	0	0	0	0	0	1.032	659	297	335	0	0

* The reported shareholders represent 88.80% of shareholders' equity.

b) Remuneration of senior management

	2015	2014
Wages and other short-term benefits	1,864	2,011
Severance pays	60	0
TOTAL	**1,924**	**2,011**

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 1,947 shares (0.05% of share capital) as at 31 December 2015. As at 31 December 2014 they held 20 shares (0.001% of share capital).

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

	2015	2014
Wages and other short-term benefits	113	161
TOTAL	**113**	**161**

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 managerial and supervisory bodies in 2015

Position / Earnings	Fixed earnings	Variable earnings	Cost reimbur-sement	Supplem. pension insurance	Fringe benefits	Other remuner., severance pays
Management Board of the Bank	**274**	**0**	**3**	**5**	**8**	**0**
- Sonja Anadolli, President of the MB	140	0	1	3	5	0
- mag. Barbara Cerovšek Zupančič, Member of MB since 1 August 2015	44	0	1	1	1	0
- Mojca Štajner, Member of MB until 30 September 2015	90	0	1	1	2	0
Supervisory Board of the Bank	**41**	**42**	**3**	**0**	**0**	**0**
- Peter Vrisk, President	14	12	0	0	0	0
- Marjan Janžekovič, Deputy President	8	11	1	0	0	0
- Primož Žerjav, member until 18 May 2015	3	3	0	0	0	0
- Ivan Lenart, member	8	8	1	0	0	0
- Nikolaj Maver, member	8	8	1	0	0	0
Supervisory Board of the subsidiary	**14**	**10**	**0**	**0**	**0**	**0**
- Peter Vrisk, President	7	5	0	0	0	0
- Sonja Anadolli, Deputy President	7	3	0	0	0	0
- Drago Martinčič, member	0	2	0	0	0	0
Senior management in subsidiaries	**127**	**0**	**3**	**0**	**3**	**0**
- Srečko Korber, Managing Director	15	0	1	0	0	0
- Tevž Korent, Managing Director	3	0	0	0	0	0
- Aleš Šabeder, Managing Director	109	0	2	0	3	0
TOTAL	**456**	**52**	**9**	**5**	**11**	**0**

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.

53. REMUNERATION SYSTEM AND SIGNIFICANT BUSINESS CONTACTS

Remuneration system

The system of remuneration in the Group is based on the Remuneration Policy for Employees Whose Work is of a Specific Nature („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 management, 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.

Significant 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 2015 are published on the Bank's website www.dbs.si.

54. EVENTS AFTER THE REPORTING PERIOD

No relevant event occurred between the end of the reporting period and the date that the financial statements were authorised for issue, such as would have an impact on items presented.

Deželna banka Slovenije d. d.

Financial statements under International Financial Reporting Standards
for the year ended 31 December 2015

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 2015 (pages 117 to 120 of the Annual Report), along with the accounting principles used and notes to the financial statements (pages 121 to 179 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 2015, 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.

Management Board

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

DEŽELNA BANKA SLOVENIJE d.d. LJUBLJANA 1

Ljubljana, 1. February 2016

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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

Report on the Financial Statements

We have audited the accompanying unconsolidated financial statements of the bank Deželna banka Slovenije d.d. (hereinafter: the "Bank"), which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the unconsolidated financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

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

For signature please refer to the original Slovenian version.

Ljubljana, 11 February 2016

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

III. Financial statements as at 31 December 2015

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	Note	1-12 2015	1-12 2014
1	Interest income		26,143	33,293
2	Interest expense		6,472	11,053
3	**Net interest income** (1 - 2)	4	**19,671**	**22,240**
4	Dividends	5	6	2
5	Fee (commission) income		8,268	7,812
6	Fee (commission) expense		1,800	2,091
7	**Net fee (commission) income** (5 - 6)	6	**6,468**	**5,721**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	7	208	69
9	Net gains (losses) from financial assets and liabilities held for trading	8	215	108
10	Foreign exchange translation	9	155	0
11	Net gains/losses on derecognition of assets	10	(115)	100
12	Other net operating gains/losses	11	(480)	2,258
13	Administrative expenses	12	15,534	14,811
14	Depreciation and amortisation	13	1,396	1,499
15	Provisions	14	298	(177)
16	Impairment charge	15	6,482	12,744
17	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16)		**2,418**	**1,621**
18	Tax	16	404	278
19	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (17 - 18)		**2,014**	**1,343**
20	**PROFIT/LOSS FOR THE YEAR** (19)		**2,014**	**1,343**

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

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	Note	1-12 2015	1-12 2014
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**2,014**	**1,343**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(664)**	**67**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1. + 3.2)	43	**(9)**	**(131)**
3.1	Actuarial gains or losses on defined benefit pension plans		(10)	(131)
3.2	Income tax		1	0
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**(655)**	**198**
4.1	Gains/losses in revaluation surplus, associated with available-for-sale financial assets (4.1.1 + 4.1.2)	20 b	(780)	230
4.1.1	Gains/losses in revaluation surplus		(450)	230
4.1.2	Transferred to profit/loss		(330)	0
4.2	Tax on items that may be reclassified to profit or loss	43	125	(32)
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**1,350**	**1,410**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

in EUR thousand

Code	Items	Note	2015	2014
1	Cash, balances at central banks, and sight deposits at banks	18	33,367	78,053
2	Financial assets held for trading	19	258	483
3	Available-for-sale financial assets	20	9,926	22,409
4	Loans and advances		627,052	627,464
	- Loans and advances to banks	21	5,621	4,784
	- Loans and advances to customers	22	621,036	621,942
	- Other financial assets	23	395	738
5	Held-to-maturity investments	24	157,090	107,133
6	Property, plant and equipment	25	11,146	12,014
7	Investment property	26	15,675	5,152
8	Intangible assets	27	755	936
9	Long-term equity participation in subsidiaries, associates and joint ventures, accounted for using the equity method	28	5,922	13,274
10	Income tax assets	29	6,230	5,985
	- Current tax assets		395	0
	- Deferred tax assets		5,835	5,985
11	Other assets	30	24,972	17,158
12	**TOTAL ASSETS** (from 1 to 11)		**892,393**	**890,061**
13	Trading liabilities	31	0	19
14	Financial liabilities measured at amortised cost		837,594	840,364
	- Deposits by banks and central banks	32	309	161
	- Deposits by customers	33	781,946	702,697
	- Borrowings from banks and central banks	34	38,310	42,276
	- Debt securities	35	0	72,387
	- Subordinated liabilities	36	14,083	14,671
	- Other financial liabilities	37	2,946	8,172
15	Provisions	38	1,776	1,553
16	Income tax liabilities	39	133	863
	- Current tax liabilities		55	654
	- Deferred tax liabilities		78	209
17	Other liabilities	40	345	445
18	**TOTAL LIABILITIES** (from 13 to 17)		**839,848**	**843,244**
19	Share capital	41	17,811	15,786
20	Share premium	42	31,257	28,915
21	Accumulated other comprehensive income	43	109	773
22	Revenue reserves	44	2,401	940
23	Treasury shares	45	(645)	(671)
24	Retained earnings (including profit/loss for the year)	46	1,612	1,074
25	**TOTAL EQUITY** (from 19 to 24)		**52,545**	**46,817**
26	**TOTAL EQUITY AND LIABILITIES** (18 + 25)		**892,393**	**890,061**

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

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 (before adjustment)**	**15,786**	**28,915**	**773**	**940**	**1,074**	**(671)**	**46,817**
2	**OPENING BALANCE FOR THE PERIOD** (1)	**15,786**	**28,915**	**773**	**940**	**1,074**	**(671)**	**46,817**
3	Comprehensive income for the year (net of tax)	0	0	(664)	0	2,014	0	**1,350**
4	Fresh capital subscribed (or paid)	2,025	2,342	0	0	0	0	**4,367**
5	Net purchase/sale of own shares	0	0	0	(15)	0	26	**11**
6	Allocation of net profit to revenue reserves	0	0	0	1,476	(1,476)	0	**0**
7	**CLOSING BALANCE FOR THE PERIOD** (2 + 3 + 4 + 5 + 6)	**17,811**	**31,257**	**109**	**2,401**	**1,612**	**(645)**	**52,545**
8	**DISTRIBUTABLE PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**1,612**	**0**	**1,612**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

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 (before adjustment)**	**15,786**	**28,915**	**706**	**671**	**0**	**(671)**	**45,407**
2	**OPENING BALANCE FOR THE PERIOD** (1)	**15,786**	**28,915**	**706**	**671**	**0**	**(671)**	**45,407**
3	Comprehensive income for the year after tax	0	0	67	0	1,343	0	**1,410**
4	Allocation of net profit to revenue reserves	0	0	0	269	(269)	0	**0**
5	**CLOSING BALANCE FOR THE PERIOD** (2 + 3 + 4)	**15,786**	**28,915**	**773**	**940**	**1,074**	**(671)**	**46,817**
6	**DISTRIBUTABLE PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**1,074**	**0**	**1,074**

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

in EUR thousand

Code	Items	2015	2014
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Interest received	30,608	33,667
	Interest paid	(7,727)	(12,138)
	Dividends received	6	2
	Fee and commission received	8,330	7,782
	Fee and commission paid	(1,800)	(2,092)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	445	93
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	(20)	(9)
	Net trading income	161	116
	Cash payments to employees and suppliers	(16,673)	(13,400)
	Other income	513	2,869
	Other expenses	(1,082)	(1,383)
	Cash flows from operating activities before changes in operating assets and liabilities	**12,761**	**15,507**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**(4,178)**	**17,459**
	Net (increase)/decrease in financial assets held for trading	280	55
	Net (increase)/decrease in available-for-sale financial assets	11,200	7,897
	Net (increase)/decrease in loans and advances	(6,639)	11,403
	Net (increase)/decrease in other assets	(9,019)	(1,896)
c)	**Increases/(decreases) in operating liabilities**	**(3,770)**	**27,609**
	Net increase/(decrease) in trading liabilities	(24)	6
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	72,687	26,133
	Net increase/(decrease) in issued debt securities measured at amortised cost	(72,351)	(2,850)
	Net increase/(decrease) in other liabilities	(4,082)	4,320
č)	**Cash flows from operating activities** (a + b + c)	**4,813**	**60,575**
d)	**Income taxes (paid)/received**	**(1,253)**	**0**
e)	**Net cash from operating activities** (č + d)	**3,560**	**60,575**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Investing inflows**	**33,462**	**56,118**
	Proceeds from sale of property, plant and equipment, and investment property	13	727
	Proceeds from sale of held-to-maturity investments	33,449	55,391
b)	**Investing outflows**	**(84,316)**	**(84,970)**
	(Purchase of property, plant and equipment, and investment property)	(343)	(9,857)
	(Purchase of intangible long-term assets)	(32)	(20)
	(Investments into associates, joint ventures and subsidiaries)	0	(7,480)
	(Purchase of held-to-maturity investments)	(83,941)	(67,613)
c)	**Net cash from investing activities** (a - b)	**(50,854)**	**(28,852)**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Inflows from financing activities**	**9,843**	**0**
	Issue of subordinated liabilities	5,450	0
	Issue of shares and other equity instruments	4,367	0
	Disposal of own shares	26	0
b)	**Outflows from financing activities**	**(6,670)**	**0**
	(Repayment of subordinated liabilities)	(6,670)	0
c)	**Net cash from financing activities** (a - b)	**3,173**	**0**
D.	**Effects of exchange rates on cash and cash equivalents**	**174**	**257**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**(44,121)**	**31,723**
F.	**Opening balance of cash and cash equivalents** (Note 18 b)	**82,730**	**50,750**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 18 b)	**38,783**	**82,730**

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.

Management Board

Member of the Management Board
Barbara Cerovšek Zupančič, MSc

President of the Management Board
Sonja Anadolli

Ljubljana, 1 February 2016

IV. Notes to Financial Statements for 2015

1. GENERAL INFORMATION

Deželna banka Slovenije d. d. (hereafter Bank) is a Slovenian 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 45–48 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 (Note 35). 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. The core business of Semenarna is retail sale, wholesale and processing. DBS Adria is a company engaged in real estate activities.

In 2015 the consumer price index was up -0.5% (2014: 0.2%). 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 JUDGEMENTS IN APPLYING 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 2015 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.

Balance sheet structures have been prepared in compliance with the Regulation on the Books of Account and Annual Reports of Banks and Savings Banks, as issued by the Bank of Slovenia. Under assets, sight deposits at banks are included in the item cash, balances at central banks and sight deposits at banks (Note 18 a). Under the new methodology this item only includes sight deposits at the central bank, while other deposits with the central bank are given under the item loans and advances to banks (Note 21).

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 different standards „Improvements of IFRS (2011–2013 cycle)"*, issued under the annual improvements of IFRS (IFRS 3, IFRS 13 and IAS 40), mainly eliminating inconsistencies and interpretations in the text, adopted by the EU on 18 December 2014 (amendments are mandatory for annual periods starting on or after 1 January 2015);
- *IFRIC 21 „Levies",* adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

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

On the day of these financial statements being approved, the following standards, amendments of the valid standards, and interpretations, as issued by the IASB and adopted by the EU, had been issued but were not yet effective:

- *Amendments to IFRS 11 „Joint Arrangements"*– Accounting for Acquisitions of Interests in Joint Operations, adopted by the EU on 24 November 2015 (effective for annual periods starting on or after 1 January 2016);
- *Amendments to IAS 1 „Presentation of Financial Statements"* – Disclosure Initiative, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- *Amendments to IAS 16 „Property, Plant and Equipment" and IAS 38 „Intangible Assets"* – Clarification of Acceptable Methods of Depreciation and Amortisation, adopted by the EU on 2 December 2015 (effective for annual periods starting 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 IAS 19 „Employee Benefits"* – Defined Benefit Plans: Employee Contributions, adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015);
- *Amendments to IAS 27 „Separate Financial Statements"* – Equity Method in Separate Financial Statements, adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016);
- *Amendments to 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 interpretations in 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, IAS 19 and IAS 34), mainly eliminating inconsistencies and interpretations in the text, adopted by the EU on 15 December 2015 (amendments are mandatory for annual periods starting on or after 1 January 2016).

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 International Accounting Standards Board (IASB), with the exception of the following new standards and amendments of valid standards which on 31 December 2015 (the effective dates given below apply to the entire IFRS) were not yet approved for use in the EU:

- *IFRS 9 „Financial Instruments"* (effective for annual periods starting on or after 1 January 2018);
- *IFRS 14 „Regulatory Deferral Accounts"* (effective for annual periods starting on or after 1 January 2016) –

the European Commission decided to not commence the endorsement procedure for this interim standard and rather wait for its final version;
- *IFRS 15 „Revenue from Contracts with Customers"* and subsequent amendments (effective for annual periods starting on or after 1 January 2018);
- *IFRS 16 „Leases"* (effective for annual periods starting on or after 1 January 2019);
- *Amendments to IFRS 10 „Consolidated Financial Statements", IFRS 12 „Disclosure of Interests in Other Entities"* and *IAS 28 „Investments in Associates and Joint Ventures"* – Investment Entities: Applying the Consolidation Exception (effective for annual periods starting on or after 1 January 2016);
- *Amendments to IFRS 10 „Consolidated Financial Statements"* and *IAS 28 „Investments in Associates and Joint Ventures"* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and subsequent amendments (the effective date has been deferred for an indefinite period until the equity method research project is completed);
- *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).

The Bank is preparing an estimate of the effect that the MSRP 9 taking effect will have on its financial statements. As yet, the Bank is unable to estimate the impact of the implementation of these new standards and of the amendments of the valid standards.

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

- *Classification and Measurement* – MSRP 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 valid rule-based requirements under the IAS 39. The new model also introduces a new expected loss impairment model for all financial instruments.

- *Impairment* – MSRP 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. The implementation of the new IFRS 9 is expected to impact the amount of expected credit losses, which the Bank has, however, not yet measured.

- *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.

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 July 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 quarterly 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, *inter alia*, 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 2015 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 exist 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 conditions,
- initiation of bankruptcy proceedings or compulsory composition,
- deterioration of the 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:

	2015	2014
	%	%
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. 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.

2.15. 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 90 days maturity from the date of acquisition, treasury bills and debt securities available-for-sale with less than 90 days maturity from the date of acquisition.

2.16. 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 in the item provisions.

2.17. 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.

2.18. 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 2014: 17%).

Deferred tax is provided on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

2.19. 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.

2.20. 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.

2.21. 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.

2.22. 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 48. These assets are not included into the Bank's statement of financial position.

3. MANAGING FINANCIAL RISK

To the risks it is or could be exposed to 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. The common goal of the strategies and policies of taking and managing risk is to prevent and limit any losses due to individual risks. The Bank's Supervisory Board and senior management take an active part in the process of risk management. All critical risk management internal acts have been revised in 2015.

In relation to assuming and managing risk, the Bank has adopted relevant strategies and policies for assuming and managing major banking risks. In 2015 the Bank continued meeting the requirements of the capital accord and the regulatory framework for banks. The Bank has additionally upgraded risk management, especially the management of credit risk. The largest changes in 2015 were the upgrade of the Early Warning System (EWS) for all the Bank's customers, and the upgrade of the system of collective impairments. The Supervisory Board continually monitored the Bank's exposure to risk, its risk profile and its risk appetite.

3.1. Credit risk

We estimate the Bank to be most exposed to credit risk, which is the risk that a borrower will cause a financial loss to the Bank by failing to discharge an obligation when due, for whatever reason. The Bank provides impairment provisions for potential losses, recognised as at the date of the statement of financial position. 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 provided for as at the 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 subject to annual or more frequent reviews.

The portfolio exposed to credit risk includes balance sheet receivables (loans, debt securities, equity investment, interest, fee and commission, etc.) as well as 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 2015, consistent with regulations.

3.1.1. Measuring credit risk

(a) Loans and receivables

In 2015 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 clients among credit rating classes,
- movements of relevant impairments,
- provisioning of impairments for individual types of credit exposure.

More on forming provisions and impairments is given in Chapter 3.1.3.

(b) Debt securities

In assuming exposure to credit risk when buying debt securities in 2015 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.

3.1.2. 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, activities, industries 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. Credit risk limits of exposure are stipulated for individual customers, sectors, regions and industries.

The maximum possible total exposure of the Bank towards a corporate customer is approved – at the proposal of the Risk Management Section – by the Credit Committee, and when the threshold of large exposure is greatly exceeded, also by the Bank's Supervisory Board. Limits 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.

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 real estate, 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.

3.1.3. Guidelines on forming impairments and provisions

Pursuant to IAC 39 the Bank establishes impairments and impairment losses for all financial assets measured at amortised cost, in compliance with the adopted internal methodology of assessing credit risk losses.

The Bank assesses credit risk losses for loans and advances, other held-to-maturity investments and off-balance-sheet commitments.

The Bank impairs financial assets and forms provisions for off-balance-sheet commitments, whether in case of a collective or individual assessment, when it has objective or impartial evidence that it will not be able to collect all due claims in compliance with contractual stipulations. Exposures with high-quality collateral are not impaired nor are there provisions formed for them.

The Bank establishes impairment losses for financial assets and off-balance-sheet commitments individually or collectively. When it finds for an individual assessment of a financial asset or off-balance-sheet commitment classified into category P that the individual impairment or provision is no longer needed, it re-groups them into the relevant category A to C and re-assigns them into collective assessment.

The Bank regularly examines the methodology of assessing credit risk losses and assumptions used in assessing losses. The methodology was upgraded in 2015 with hedge type included as an additional parameter for determining the percentage of collective impairments.

Impairments and provisions are based on each of the six credit rating categories, as evident from the below table:

	2015		2014	
Credit rating grade	Total claims for classification (%)	Share of provisions and impairment charges (%)	Total claims for classification (%)	Share of provisions and impairment charges (%)
1. A	72.8	0.1	63.0	0.0
2. B	10.5	1.3	10.5	1.2
3. C	1.1	6.7	0.4	6.3
4. D	0.0	67.4	0.0	19.2
5. E	0.1	99.5	0.1	90.7
6. P	15.5	22.2	26.0	33.5
	100.0	3.8	100.0	9.0

In 2015, the share of impairment and provision charges on assets for classification decreased by 5.2 of a percentage point compared to 2014.

Changes in the group of individually impaired assets are primarily the result of the transfer of the high sum of 100%-impaired assets off the balance sheet. The Bank intensely worked on this transfer in the second half of 2015.

3.1.4. Total exposure to credit risk before collateral held or other credit enhancements

The table below illustrates the net values of the Bank's exposure to credit risk – whereby not considering any collateral held by the Bank or any other enhancements of credit quality – and the average exposure amount in the reported period, for 31 December 2015 as compared to the balance at 31 December 2014.

The given exposure levels for 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, grouped into categories of exposure pursuant to CRR/CRD IV.

		2015		2014	
	Exposure category	Net exposure	Average exposure	Net exposure	Average exposure
01	Central government and central banks	364,141	364,424	333,163	313,617
02	Regional and local government	16,886	19,866	19,361	16,111
03	Public sector	29,810	35,499	38,228	35,442
06	Institutions	29,826	20,813	34,728	26,684
07	Corporate customers	45,794	52,080	58,477	79,133
08	Retail customers	150,904	161,436	178,963	201,937
09	Secured by mortgages on residential property	208,462	197,160	174,610	148,982
10	Past due items	62,916	65,770	74,463	62,996
11	Regulatory high risk categories	7,369	9,408	11,479	26,813
14	Investments in investment funds	2,699	2,699	0	0
15	Other exposure	41,392	46,118	36,446	29,536
16	Equity exposure	10,030	15,194	16,168	16,171
	As at 31 December	970,229	990,467	976,086	957,423

The Bank manages and will continue to maintain the lowest possible exposure toward credit risk, consistent with its strategy and capital restrictions.

3.1.5. Loans and receivables

To minimise the potential increase in its exposure to credit risk, the Bank focused its operations on companies and groups with a high credit rating and on transactions with customers that have both a good credit-worthiness and guarantee adequate collateral.

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

	2015		2014	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	178,225	5,621	157,931	4,784
Impaired	476,697	0	550,958	0
Gross amounts	**655,003**	**5,621**	**708,985**	**4,784**
Less impairment allowance	(33,967)	0	(87,043)	0
Net amounts	**621,036**	**5,621**	**621,942**	**4,784**

The total value of loans and receivables in financial year 2015 was down 7.45% from 2014, with loans to customers decreasing and loans to banks increasing. The reported loan loss provisions total EUR 33,967 thousand (2014: EUR 87,043 thousand). Changes in the group of individually impaired assets are primarily the result of the mentioned transfer of the high sum of 100%-impaired assets off the balance sheet.

(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, before considering cash flows from collateral held by the Bank, amount to EUR 129,415 thousand (2014: EUR 224,783 thousand). Exposure to large corporates decreased by 43.34% year-on-year, attributable to the mentioned transfer of assets off the balance sheet. Exposure to the retail segment as well as to SME also decreased year-on-year. The fair value of collateral in the retail banking group increased by 10.33 of a percentage point from 2014.

This gross figure 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:

2015	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	11,566	33,649	84,200	13,999	143,414
- Past due up to 15 days	3,471	19,719	18,986	0	42,176
- Past due 16 to 30 days	0	0	236	0	236
- Past due 31 to 90 days	32	0	3,786	0	3,818
- Past due over 90 days	8,063	13,930	61,192	0	83,185
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.

2014	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	13,359	59,389	152,035	29,425	254,208
Impairment charge	6,296	15,894	63,050	0	85,240
Fair value of collateral	13,992	37,226	108,671	0	159,889

* 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 2015 totalled EUR 13,999 thousand (2014: EUR 29,425 thousand), whereby no individually impaired loans were reported.

(c) Renegotiated loans and receivables

Consistent with the Regulation on the Assessment of Credit Risk Losses of Banks and Savings Banks and its stipulations on renegotiated receivables, the Bank treats renegotiated 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 renegotiation clause also fall into this category.

The gross value of exposure for which a new agreement on repayment conditions was reached and which would otherwise fall due, amounted to a total of EUR 91,563 thousand as at 31 December 2015 (2014: EUR 91,494 thousand).

	2015	2014
Retail loans and receivables – Loans and advances	91,563	91,494
Total	**91,563**	**91,494**

3.1.6. 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, the Bank invests in 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 2015 and 31 December 2014:

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

2014	Debt securities held to maturity	Debt securities held for trading	Available-for-sale debt securities	Total
A-	98,606	124	22,067	120,797
Unrated	8,527	0	0	8,527
Unlisted	0	0	4	4
Total debt securities	**107,133**	**124**	**22,071**	**129,328**

Both in 2015 and 2014 the largest proportion of our debts portfolio were Slovene government bonds, which totalled EUR 163 million (year-end of 2014: EUR 129 million). The Bank classified Republic of Slovenia bonds under held-to-maturity investments. The proportion of debt securities with higher ratings increased in 2015, mainly the result of the purchase of Republic of Slovenia treasury bills. The share of unrated debt securities was down from the previous year, mainly the result of commercial papers and certificates of deposit issued by domestic entities reaching maturity. The Bank's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

3.1.7. Collateral acquired by prescription

In 2015 the Bank acquired assets by calling on the collateral held as guarantee, namely:

		Carrying amount
Asset	2015	2014
Property	10,843	6,522

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

3.1.8. 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 2015			Remaining maturity as at 31 December 2014		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	155,819	208,323	364,142	175,053	158,110	333,163
02	Regional and local government	1,577	15,309	16,886	1,500	17,861	19,361
03	Public sector	21,214	8,596	29,810	20,138	18,090	38,228
06	Institutions	29,603	223	29,826	34,718	10	34,728
07	Corporate customers	28,387	17,407	45,794	33,453	25,024	58,477
08	Retail customers	53,679	97,225	150,904	62,242	116,721	178,963
09	Secured by mortgages on residential property	28,734	179,728	208,462	38,183	136,427	174,610
10	Past due items	37,624	25,292	62,916	42,689	31,774	74,463
11	Regulatory high risk categories	7,335	34	7,369	11,307	172	11,479
14	Investments in investment funds	2,699	0	2,699	0	0	0
15	Other exposure	41,080	312	41,392	36,315	131	36,446
16	Equity exposure	10,030	0	10,030	16,168	0	16,168
	As at 31 December	417,781	552,449	970,229	471,766	504,320	976,086

At the year-end of 2015, 43.06% of the Bank's exposure would reach maturity within one year and 56.94% in over one year. In terms of value, exposure decreased the most towards high risk categories and equity exposure, while it increased the most towards exposure secured with mortgages on residential property.

3.1.9. Risk concentration of financial assets exposed to credit risk

(a) Regional (geographical) areas

The following table analyses the Bank's exposures at their carrying amounts as classified into regions as at the year-end of 2015 and 2014. For the purpose of this table exposures are categorised according to regions, on the basis of their counterparties' domicile.

The Bank conducts its business primarily in Slovenia, while exposure to other countries arises mainly from treasury and investment banking services.

Exposure according to geographical segments, broken down into major exposure categories:

		As at 31 December 2015				As at 31 December 2014			
	Exposure category	Slovenia	Other EU member states	Other countries	TOTAL	Slovenia	Other EU member states	Other countries	TOTAL
01	Central government and central banks	360,811	3,330	0	364,141	329,737	3,426	0	333,163
02	Regional and local government	16,886	0	0	16,886	19,361	0	0	19,361
03	Public sector	29,810	0	0	29,810	38,228	0	0	38,228
06	Institutions	23,325	6,500	1	29,826	22,596	12,131	1	34,728
07	Corporate customers	45,625	168	1	45,794	58,327	149	1	58,477
08	Retail customers	150,527	139	238	150,904	178,534	176	253	178,963
09	Secured by mortgages on residential property	207,909	357	196	208,462	174,080	327	203	174,610
10	Past due items	62,761	1	154	62,916	74,315	0	148	74,463
11	Regulatory high risk categories	7,369	0	0	7,369	11,479	0	0	11,479
14	Investments in investment funds	2,699	0	0	2,699	0	0	0	0
15	Other exposure	41,392	0	0	41,392	36,446	0	0	36,446
16	Equity exposure	10,030	0	0	10,030	16,165	3	0	16,168
	As at 31 December	959,144	10,495	590	970,229	959,268	16,212	606	976,086
	Impaired exposure	34,665	47	15	34,727	87,477	44	15	87,536
	Past due exposure as at 31 December,	63,055	47	168	63,270	116,140	43	162	116,345
	of which impaired exposure	20,727	46	15	20,788	67,993	43	14	68,050

Exposure to Slovenia decreased from 2014 by 0.01 of a percentage point.

(b) Economy sectors – industries

The following table analyses exposures to credit risk by industry.

Exposure according to industry, broken down into major exposure categories, as at 31 December 2015:

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Public admin. & craft services	Agric. and hun-ting	Transp. and ware-housing	Cuture, entert. &recreat. activities	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	343,451	0	0	0	0	0	0	0	364,142
02	Regional and local government	0	0	0	0	0	0	0	0	16,886	0	0	0	0	0	0	0	16,886
03	Public sector	293	1,711	0	0	692	0	1,221	3	1	0	45	3	0	0	25,841	0	29,810
06	Institutions	29,826	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29,826
07	Corporate customers	5,034	17,120	4,742	7,752	1,933	0	6,332	58	2	694	9	57	40	1,640	381	0	45,794
08	Retail customers	459	11,045	6,176	2,380	3,368	144	440	1,136	25	2,324	1,790	254	991	1,952	2,765	115,655	150,904
09	Secured by mortgages on residential property	1,775	36,585	17,264	6,721	3,636	343	285	3,501	369	8,128	1,559	1,832	794	1,635	7,417	116,618	208,462
10	Past due items	3,926	13,693	12,303	7,887	5,293	0	10,158	3,995	0	836	0	0	55	0	1,046	3,724	62,916
11	Regulatory high risk categories	791	50	0	90	6,268	0	0	5	0	55	68	0	3	0	39	0	7,369
14	From investments into 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	41,392	41,392
16	Equity exposure	1,008	3,807	0	0	278	0	2,063	0	2,734	0	0	0	0	57	82	0	10,029
	As at 31 December 2015	66,502	84,011	40,485	24,830	21,468	487	20,499	8,698	363,468	12,037	3,471	2,146	1,883	5,284	37,571	277,389	970,229
	Impaired exposure	5,346	7,153	2,927	4,333	5,366	46	2,174	908	73	143	501	30	336	478	35	4,874	34,723
	Past due exposure,	7,049	10,010	9,858	7,108	14,876	46	3,364	2,127	0	1,147	281	15	152	32	19	7,188	63,272
	of which impaired exposure	3,126	1,871	2,131	3,579	4,447	46	591	398	0	42	212	9	124	3	3	4,205	20,787

Exposure according to industry, broken down into major exposure categories, as at 31 December 2014:

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Public admin. & craft services	Agric. and hun-ting	Transp. and ware-housing	Cuture, entert. &recreat. activities	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	55,217	0	0	0	0	0	0	0	277,946	0	0	0	0	0	0	0	333,163
02	Regional and local government	0	0	0	0	0	0	0	0	19,361	0	0	0	0	0	0	0	19,361
03	Public sector	863	1,923	0	2,633	1,024	0	0	0	4	0	0	12	0	0	31,769	0	38,228
06	Institutions	34,728	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	34,728
07	Corporate customers	6,663	19,653	16,635	5,260	1,577	0	271	7	20	525	56	330	2,726	2,101	2,470	183	58,477
08	Retail customers	1,474	16,277	7,282	3,355	3,943	181	330	1,672	0	2,472	2,019	57	1,104	1,698	4,095	133,004	178,963
09	Secured by mortgages on residential property	1,909	35,692	15,739	4,808	2,734	311	1,431	3,809	30	7,657	1,383	1,325	122	1,341	7,086	89,233	174,610
10	Past due items	2,383	13,805	10,366	19,406	6,719	0	10,171	4,544	0	856	121	5	154	264	128	5,541	74,463
11	Regulatory high risk categories	3,409	249	53	768	6,790	0	1	31	0	3	104	0	23	0	44	4	11,479
15	Other exposure	1	0	0	0	0	0	0	0	0	0	0	0	0	0	36,026	419	36,446
16	Equity exposure	2,182	3,681	0	0	21	0	7,671	0	2,556	0	0	0	0	57	0	0	16,168
	As at 31 December 2014	108,829	91,280	50,075	36,230	22,808	492	19,875	10,063	299,917	11,513	3,683	1,729	4,129	5,461	81,618	228,384	976,086
	Impaired exposure	7,422	14,138	7,767	19,919	23,152	43	2,772	1,712	137	723	1,854	70	131	443	228	7,020	87,531
	Past due exposure,	10,108	11,532	12,647	32,547	30,900	43	4,346	2,607	11	785	1,795	53	202	74	190	8,506	116,346
	of which impaired exposure	5,273	5,653	6,139	19,306	20,975	43	1,749	1,056	10	521	1,581	46	68	23	57	5,551	68,051

Exposure towards other various business activities decreased the most in 2015 as compared to 2014, while the most significant increase was the larger exposure towards the public administration and households.

3.1.10. 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.

		2015		2014	
	Exposure category	Net exposure	Capital requirement	Net exposure	Capital requirement
01	Central government and central banks	364,142	617	333,163	583
02	Regional and local government	16,886	262	19,361	310
03	Public sector	29,810	2,268	38,228	578
06	Institutions	29,826	477	34,728	555
07	Corporate customers	45,794	2,920	58,477	3,750
08	Retail customers	150,904	7,387	178,963	8,742
09	Secured by mortgages on residential property	208,462	7,533	174,610	6,698
10	Past due items	62,916	6,104	74,463	7,241
11	Regulatory high risk categories	7,369	816	11,479	1,292
14	Investments in investment funds	2,699	12	0	0
15	Other exposure	41,392	2,695	36,446	2,142
16	Equity exposure	10,030	802	16,168	1,294
	As at 31 December	970,229	31,893	976,086	33,185

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

3.2. Market risk

The Bank undertakes exposure to market risk, which is the risk of decreased asset value or profitability due to volatile market prices, foreign exchange rates or relevant interest rates; however, the Bank's exposure in this respect is low. The Bank was primarily exposed to interest rate risk due to Euribor changes in 2015, as well as, to a lesser degree, foreign exchange risk.

The Bank's risk management policy is based on the current and expected market conditions, realised and planned financial data, valid regulations and existing risk management systems. The Bank complies with the policy of dispersed portfolios and invests in high-quality assets from countries with a high credit rating, avoiding investments with speculative-grade ratings. 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.

Deviations from the strategy's set framework and risk management policies are monitored through reports on following the guidelines and through the system of limits and indicators, which are discussed by the Bank's committees and the Management Board.

The department responsible for stipulating the acceptable level of risk, for measuring and monitoring risk exposure, and for checking that exposure remains within the set limits, is organisationally separated from the departments that assume risk.

Pursuant to the Deželna banka Slovenije d. d. Rules on Organisation, the requisite two committees, a board and the Bank's business units participate in the Bank's risk management function.

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 capital requirements for market risk according to types of financial instruments.

	2015	2014
Equity instruments	35	54
Debt instruments	4	15
SUM OF CAPITAL REQUIREMENTS FOR MARKET RISK	**39**	**69**

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 is calculated over a time horizon (on a monthly basis in the reports to the Assets and Liabilities Management Committee) 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 Asset Liability Management Committee.

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.

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

To measure and manage 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.

The Bank trades in equities in the domestic and foreign stock markets. The below table shows the VaR for the Slovenian sub-portfolio and the entire equity portfolio. All Slovenian equities on the trading book are unlisted securities whose fair value is therefore established applying the generally accepted valuation models based on market items. For illiquid securities, which include unlisted stock, the VaR used is 16%, corresponding to the capital requirement for market risk in these types of financial instruments. The Bank's equity trading portfolio totalled EUR 216 thousand at the end of 2015, and consisted entirely of PILR shares of the company Pivovarna Laško, d. d., Laško.

VaR value as at 31 December 2015:

Market	Portfolio value	VaR as % of portfolio value	VaR
Slovenia	216	16	35
Total	**216**	**16**	**35**

As at 31 December 2015 the equity portfolio had a VaR of EUR 35 thousand (2014: EUR 54 thousand).

3.2.2. 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 the required market yield. For a parallel movement in the yield curve by 200 basis points, BPV as at 31 December 2015 amounted to the negligible EUR 0.3 thousand (31 December 2014: EUR 2 thousand).

3.2.3. Foreign exchange risk

Foreign exchange risk represents the Bank's potential loss due to the mismatch between assets and liabilities in different currencies. 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 2015 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.

Assets and liabilities as at 31 December 2015 and 31 December 2014 according to currency are given in the following tables:

FOREIGN EXCHANGE RISK as at 31 December 2015					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Cash, balances at central banks, and sight deposits at banks	31,821	208	1,050	288	33,367
Financial assets held for trading	258	0	0	0	258
Available-for-sale financial assets	9,926	0	0	0	9,926
Loans	621,999	2,197	2,102	754	627,052
- Loans to banks	2,670	2,197	0	754	5,621
- Loans to customers	618,934	0	2,102	0	621,036
- Other financial assets	395	0	0	0	395
Held-to-maturity investments	157,090	0	0	0	157,090
Property, plant and equipment	11,146	0	0	0	11,146
Investment property	15,675	0	0	0	15,675
Intangible assets	755	0	0	0	755
Long-term equity participation in subsidiaries, associates and joint ventures	5,922	0	0	0	5,922
Income tax assets	6,230	0	0	0	6,230
- Current tax assets	395	0	0	0	395
- Deferred tax assets	5,835	0	0	0	5,835
Other assets	24,972	0	0	0	24,972
TOTAL ASSETS (1)	**885,794**	**2,405**	**3,152**	**1,042**	**892,393**
Financial liabilities measured at amortised cost	831,084	2,417	3,152	941	837,594
- Deposits by banks and central banks	309	0	0	0	309
- Deposits by customers	775,439	2,414	3,152	941	781,946
- Borrowings from banks and central banks	38,310	0	0	0	38,310
- Subordinated liabilities	14,083	0	0	0	14,083
- Other financial liabilities	2,943	3	0	0	2,946
Provisions	1,776	0	0	0	1,776
Income tax liabilities	133	0	0	0	133
- Current tax liabilities	55	0	0	0	55
- Deferred tax liabilities	78	0	0	0	78
Other liabilities	345	0	0	0	345
TOTAL LIABILITIES (2)	**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**

FOREIGN EXCHANGE RISK as at 31 December 2014					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	884,908	1,935	2,443	775	890,061
Total liabilities	838,187	1,935	2,407	715	843,244
Mismatch (1) less (2)	**46,721**	**0**	**36**	**60**	**46,817**
Off-balance sheet liabilities	**86,444**	**0**	**0**	**0**	**86,444**

As at 31 December 2015 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.

3.2.4. 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 Asset Liability Management Board on a monthly basis, and by the Supervisory Board each quarter in the framework of its 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 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 balancing 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 2015 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 4,656 thousand as at 31 December 2015, which is 7.8% of capital.

Interest income sensitivity to interest rate movements as at 31 December 2015:

Scenario*	Expected net interest	Change in baseline scenario	Change in baseline scenario
Basic scenario	19,671		
One-time curve shift (+2%) - immediate shock	24,547	4,876	19.86%
One-time curve shift (-2%) - immediate shock	9,191	(10,480)	(114.03%)
Curve shift (+2%) - gradually over 12 months	22,349	2,678	11.98%
Curve shift (-2%) - gradually over 12 months	14,665	(5,006)	(34.14%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	29,446	9,775	33.20%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	19,947	276	1.38%
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	24,825	5,153	20.76%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	19,817	146	0.74%

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

The following tables outline exposure to interest rate risk as at 31 December 2015 and 31 December 2014. 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 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
Cash, balances at central banks, and sight deposits at banks	33,367	0	33,367	33,367	0	0	0	0	0
Financial assets held for trading	258	216	42	0	0	0	42	0	0
Available-for-sale financial assets	9,926	4,252	5,674	0	0	1,004	294	4,376	0
Loans	627,052	8,740	618,312	328,334	73,237	110,983	94,457	8,685	2,616
- Loans to banks	5,621	2,470	3,151	0	2,951	0	0	200	0
- Loans to customers	621,036	5,875	615,161	328,334	70,286	110,983	94,457	8,485	2,616
- Other financial assets	395	395	0	0	0	0	0	0	0
Held-to-maturity investments	157,090	2,173	154,917	0	0	0	78,935	51,059	24,923
Long-term equity investments in subsidiaries, associates and joint ventures	5,922	5,922	0	0	0	0	0	0	0
Other assets	24,972	24,972	0	0	0	0	0	0	0
TOTAL ASSETS	**858,587**	**46,275**	**812,312**	**361,701**	**73,237**	**111,987**	**173,728**	**64,120**	**27,539**
Financial liabilities measured at amortised cost	837,594	6,250	831,344	366,874	111,735	76,901	205,190	66,714	3,930
- Deposits by banks and central banks	309	19	290	290	0	0	0	0	0
- Deposits by customers	781,946	2,686	779,260	353,740	111,735	76,901	203,690	32,714	480
- Borrowings from banks and central banks	38,310	66	38,244	7,844	0	0	0	30,400	0
- Subordinated liabilities	14,083	533	13,550	5,000	0	0	1,500	3,600	3,450
- Other financial liabilities	2,946	2,946	0	0	0	0	0	0	0
Other liabilities	345	345	0	0	0	0	0	0	0
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**

INTEREST RATE RISK as at 31 December 2014

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	865,974	45,768	820,206	322,763	25,765	245,115	106,685	82,812	37,066
Total liabilities	840,828	13,176	827,652	306,787	102,238	167,917	181,035	66,439	3,236
Net exposure to interest rate risk	**25,146**	**32,592**	**(7,446)**	**15,976**	**(76,473)**	**77,198**	**(74,350)**	**16,373**	**33,830**

Interest rate risk in 2015 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 2016 the Bank plans to continue matching interest rate gaps and maintain a low exposure to interest rate risk.

3.2.5. Average interest rates as at 31 December

		2015		2014
	EUR	USD	EUR	USD
Assets		%		%
Cash, balances at central banks, and sight deposits at banks	0.03	0.04	0.11	0.00
Loans to banks	0.99	0.55	0.01	0.10
Loans to customers	2.91	0.00	3.55	0.00
Investment securities - debt	2.76	0.00	2.99	0.00
Liabilities				
Deposits and borrowings from banks	0.01	0.00	1.66	0.00
Borrowings from banks and central banks	0.15	0.00	0.15	0.00
Deposits by customers	0.44	0.01	0.97	0.04
Subordinated liabilities	6.14	0.00	5.88	0.00
Liabilities for issued long-term securities	0.00	0.00	1.29	0.00

3.3. Liquidity risk

The Bank's liquidity situation depends on the set of activities for meeting required cash flows as well as on the availability of liquidity assets that at all times ensure immediate fulfilment of matured financial obligations with customers. 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 Commission.

In 2015 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 Asset Liability Management Board on a monthly basis, while the Supervisory Board is presented with the Exposure to Liquidity Risk Report each quarter in the framework of its risk management analysis.

The following tables summarise the Bank's exposure to liquidity risk as at 31 December 2015 and 31 December 2014. Financial instruments are recorded at undiscounted amounts according to remaining contractual maturity as at 31 December 2015, which in addition to the asset's carrying value includes expected future cash flows from interest.

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**
Cash, balances at central banks, and sight deposits at banks	33,367	0	0	0	0	0	33,367
Financial assets held for trading	216	0	0	0	43	0	259
Available-for-sale financial assets	0	0	1,208	304	4,354	4,060	9,926
Loans	49,981	61,516	17,031	103,646	172,409	291,986	696,569
- Loans to banks	2,391	2,952	0	0	46	232	5,621
- Loans to customers	47,195	58,564	17,031	103,646	172,363	291,754	690,553
- Other financial assets	395	0	0	0	0	0	395
Held-to-maturity investments	0	629	1,218	80,516	59,742	30,147	172,252
Long-term equity investments in subsidiaries, associates and joint ventures	0	0	0	0	0	5,922	5,922
Other assets	0	0	0	0	24,972	0	24,972
TOTAL ASSETS	**83,564**	**62,145**	**19,457**	**184,466**	**261,520**	**332,115**	**943,267**
Financial liabilities measured at amortised cost	352,477	112,407	81,410	209,486	79,521	8,667	843,968
- Deposits by banks and central banks	309	0	0	0	0	0	309
- Deposits by customers	352,150	112,407	77,497	205,020	36,430	599	784,103
- Borrowings from banks and central banks	18	0	967	1,791	34,658	1,466	38,900
- Subordinated liabilities	0	0	0	2,675	8,433	6,602	17,710
- Other financial liabilities	0	0	2,946	0	0	0	2,946
Other liabilities	0	0	345	0	0	0	345
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**

LIQUIDITY RISK as at 31 December 2014							
Balance sheet items	**Sight**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Total assets	129,542	11,914	63,349	222,124	312,980	209,516	949,425
Total liabilities	288,353	111,274	98,504	257,703	85,920	6,353	848,107
Net exposure to liquidity risk	**(158,811)**	**(99,360)**	**(35,155)**	**(35,579)**	**227,060**	**203,163**	**101,318**

The liquidity gap for the Sight 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 in the Sight time period according to their stability/instability calculated using an in-house model.

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.

In 2016 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 new banking liquidity regulation, especially to monitoring the LCR and NSFR and to meeting their required values.

3.4. Fair value of financial assets and liabilities

3.4.1. Financial instruments not measured at fair value

	2015					2014				
	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	5,621	0	0	5,621	5,621	4,784	0	0	4,784	4,784
Loans and advances to customers	621,036	0	0	621,036	621,036	621,942	0	0	621,942	621,942
Held-to-maturity debt securities	157,090	167,589	0	0	167,589	107,133	116,846	0	0	116,846
Total assets	**783,747**	**167,589**	**0**	**626,657**	**794,246**	**733,859**	**116,846**	**0**	**626,726**	**743,572**
Liabilities										
Deposits by banks	309	0	0	309	309	161	0	0	161	161
Deposits by customers	781,946	0	0	781,946	781,946	702,697	0	0	702,697	702,697
Borrowings from banks and central banks	38,310	0	0	38,310	38,310	42,276	0	0	42,276	42,276
Debt securities - issued bonds	0	0	0	0	0	72,387	71,184	0	0	71,184
Subordinated liabilities	14,083	0	0	14,083	14,083	14,671	0	0	14,671	14,671
Total liabilities	**834,648**	**0**	**0**	**834,648**	**834,648**	**832,192**	**71,184**	**0**	**759,805**	**830,989**

(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 2015 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 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 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.

3.4.2. Financial instruments measured at fair value

Financial instruments measured at fair value in the financial statements:

2015	Level 1	Level 2	Level 3	Total
Financial assets held for trading (Note 19 a)	258	0	0	**258**
Available-for-sale financial assets (Note 20 a)	292	0	9,634	**9,926**
Investment property (Note 26 a)	0	0	15,675	**15,675**
Financial liabilities held for trading (Note 31)	0	0	0	**0**

2014	Level 1	Level 2	Level 3	Total
Financial assets held for trading (Note 19 a)	124	0	359	**483**
Available-for-sale financial assets (Note 20 a)	867	0	21,542	**22,409**
Investment property (Note 26 a)	0	0	5,152	**5,152**
Financial liabilities held for trading (Note 31)	0	0	19	**19**

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

	2015	2014
Equities		
Bank Resolution Fund	2,699	0
Equity investments at cost	1,374	338
Bonds		
Lithuania	3,330	3,426
NLB d. d., Ljubljana	4	0
Republic of Slovenia	2,227	17,778
TOTAL	**9,634**	**21,542**

Pursuant to the Bank Resolution Authority and Fund Act, the Bank paid EUR 2.7 million into the Bank Resolution Fund in 2015. 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 as Level 3. The Bank additionally categorises as Level 3 capital investments worth EUR 1.3 million for which market value does not exist and which are valued at cost, and EUR 5.6 million of bonds recognised under available-for-sale which are valued at fair value.

There were no transfers between different valuation levels in 2014 and 2015.

3.5. 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 CRR, the CRD and EBA guidelines. Consistent with these regulations, the Bank must meet the minimum common equity tier 1 capital ratio of 4.5%, the minimum tier 1 capital ratio of 6% and the minimum total capital ratio of 8%.

In the process of managing, controlling and reducing capital risk, the Group uses its internal acts: Strategy of Assuming and Managing Risk, Capital Management Policy, Methodology for Calculating Internal Capital Requirements, Methodology for Establishing Risk Profile, and other internal acts and instructions. All acts are updated and supplemented at least once a year. At least once per quarter, management and supervisory bodies at Bank level monitor capital levels, capital adequacy ratios and the implementation of measures for meeting the statutory capital adequacy ratios and those stipulated by 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 the conditions for inclusion into common equity tier I, share premium, revenue reserves, retained earnings/loss, accumulated other comprehensive income, treasury shares, intangible assets, and deferred tax assets associated with future returns and not arising out of temporary differences. Loss, treasury shares, intangible assets, and deferred tax assets associated with future returns and not arising out of temporary differences[2] constitute deductions from common equity tier 1 capital.

2 A transitional period applies to this deduction item, with 20% being deduced in 2014 and 40% being deduced in 2015.

According to the balance as at 31 December 2014 and 31 December 2015, the Bank did not have additional tier I capital.

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.

		2015	2014
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	2,401	939
3	Accumulated other comprehensive income and other reserves	31,201	31,257
4	**Common equity tier I capital before regulatory adjustments**	**51,413**	**50,008**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS			
5	Intangible assets (deductions for associated tax liabilities)	(755)	(936)
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)	(1,100)	(614)
7	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(671)
8	Regulatory adjustments applied to common equity tier I in respect of amounts subject to pre-CRR treatment	(2,500)	(2,221)
9	Total regulatory adjustments to common equity tier I capital	(2,500)	(2,221)
10	Common equity tier I capital	48,913	47,787
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**48,913**	**47,787**
TIER II CAPITAL: INSTRUMENTS AND RESERVES			
12	Capital instruments and the related share premium	10,563	8,019
13	Tier II capital before regulatory adjustments	10,563	8,019
14	**TIER II CAPITAL**	**10,563**	**8,019**
15	**TOTAL CAPITAL (tier I + tier II)**	**59,476**	**55,806**
16	Total risk-weighted assets	450,024	463,835
CAPITAL RATIOS AND CAPITAL BUFFERS			
17	**Common equity tier I capital (in %)**	**10.87**	**10.30**
18	**Tier I capital (in %)**	**10.87**	**10.30**
19	**Total capital (in %)**	**13.22**	**12.03**
20	Common equity tier I capital that qualifies as capital buffer (in %)	10.87	10.30
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)	3,195	259
22	Direct and indirect equity holdings on 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)	2,241	9,593
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)	3,086	2,917

The Bank's regulatory capital as at 31 December 2015 amounted to EUR 59,476 thousand, up EUR 3,670 thousand year-on-year. The quality of capital structure improved at the year-end of 2015 as compared to 2014. After increasing common equity tier I in 2014, the Bank continued in 2015 with activities to increase regulatory capital; it successfully converted EUR 2,000 thousand of existing subordinated debt and issued new subordinated debt worth EUR 3,450 thousand. In addition it continually implemented activities to lower its capital requirements. All this had a positive impact on capital adequacy ratios. Total capital requirements at the level of the Bank totalled EUR 36,002 thousand at the year-end of 2015, down EUR 1,105 thousand year-on-year. The Bank's capital requirements for credit risk decreased primarily due to the 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 retail banking and past due items. On account of the capital increase and reduction of capital requirements (especially for credit risk), the Bank's capital adequacy ratio improved. The total capital ratio as at 31 December 2015 was 13.22%, up 1.19 of a percentage point year-on-year. Tier 1 capital ratio and common equity tier 1 capital ratio as at 31 December 2015 were 10.87%, up 0.57 of a percentage point year-on-year.

The Bank monitors capital and capital needs at the level of the Group. Given the Group's internal capital adequacy assessment, we estimate the reported capital adequacy ratio as appropriate for managing 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. In 2015 the Bank of Slovenia imposed new minimum capital adequacy ratios for the DBS Group on the basis of the ICAAP/SREP process: capital adequacy ratio of 13.1% (in 2014 the target was 11.4%) and tier I capital adequacy ratio of 10.5% (in 2014 the target was 9.1%).

As at 31 December 2015 the Bank's equity investments in financial sector entities in which it participated in 100% of the companies' capital, were: DBS Leasing and DBS Nepremičnine. The equity investment in DBS Leasing totalled EUR 749 thousand as at 31 December 2015; 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 equity investment in DBS Nepremičnine totalled EUR 1,492 thousand as at 31 December 2015; consistent with the provisions of Articles 4(1) and 4(18) of the Regulation, DBS Nepremičnine is considered an ancillary services undertaking and therefore one of the financial sector entities under Articles 4(1) and 4(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 the same as to DBS Leasing. As at 31 December 2015 the equity investment in DBS Adria totalled EUR 0 thousand due to impairment charge.

As at 31 December 2015 the Bank participated in the equity of Semenarna with EUR 3,681 thousand and was its 100% owner. Under Regulation 575/2013, this is as a qualified holding outside the financial sector. It was not included in prudential consolidation and was not deduced from capital due to Article 89 of the Regulation. This investment was therefore included in the calculation of the capital requirement for credit risk.

Balancing items with financial statements

Statement of financial position

Code	Items	2015	Inclusion into calculation of capital for the purpose of CA as at 31 December 2015	Full inclusion (without considering transitional provisions)	Note
1	Cash, balances at central banks, and sight deposits at banks	33,367			
2	Financial assets held for trading	258			
3	Available-for-sale financial assets	9,926			
4	Loans and advances	627,052			
	- Loans and advances to banks	5,621			
	- Loans and advances to customers	621,036			
	- Other financial assets	395			
5	Held-to-maturity investments	157,090			
6	Property, plant and equipment	11,146			
7	Investment property	15,675			
8	Intangible assets	755	(755)	(755)	deduction item, Article 36 b - fully
9	Long-term equity participation in subsidiaries, associates and joint ventures, accounted for using the equity method	5,922			
10	Income tax assets	6,230			
	- Current tax assets	395			
	- Deferred tax assets	5,835			
	Depending on future profitability and not arising out of temporary differences	2,749	(1,100)	(2,749)	deduction item, Article 36 c - 40% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,086			
11	Other assets	24,972			
12	**TOTAL ASSETS** (from 1 to 11)	**892,393**			
13	Trading liabilities	0			
14	Financial liabilities measured at amortised cost	837,594			
	- Deposits by banks and central banks	309			
	- Deposits by customers	781,946			
	- Borrowings from banks and central banks	38,310			
	- Debt securities	0			
	- Subordinated liabilities	14,083	10,563	10,563	included on the basis of Articles 62 and 63
	- Other financial liabilities	2,946			
15	Provisions	1,776			
16	Income tax liabilities	133			
	- Current tax liabilities	55			
	- Deferred tax liabilities	78			
17	Other liabilities	345			
18	**TOTAL LIABILITIES** (from 13 to 17)	**839,848**			
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	109	(57)	109	
	From government debt securities	251	0	251	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	(2)	(1)	(2)	only 40% of unrealised losses included in 2015, Article 467 (transitional period)
	Other revaluation surplus	(140)	(56)	(140)	only 40% of unrealised losses included in 2015, Article 467 (transitional period)
22	Revenue reserves	2,401	2,401	2,401	fully included; Article 26
23	Own interest	(645)	(645)	(645)	deduction item, Article 36 f - fully
24	Retained earnings (including profit/loss for the year)	1,612	1,612	1,612	
	Retained earnings	0	0	0	fully included; Article 26
	Profit for the period	1,612	1,612	1,612	conditions for inclusion not yet met
25	**TOTAL EQUITY** (from 19 to 24)	**52,545**			
26	**TOTAL EQUITY AND LIABILITIES** (18 + 25)	**892,393**			
			59,476	**57,993**	Regulatory capital

3.5.1. Internal capital adequacy assessment

For making an internal assessment of its risk-based capital requirements and internal capital adequacy, the Bank employs its own methodology based on the requisite instructions for implementing stress tests, which it can use to assess its risk-based capital requirements under the second pillar of the Basel Capital Accord, and include them into its collective risk assessment. It thereby takes into account the capital requirement for credit risk, which is not included into 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), as well as 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 deviations in passive interest rates), strategic risk, Bank management risk, and the additional requirements related to compliance with the Bank of Slovenia regulations. When calculating capital adequacy, to be discussed at a Management Board meeting or the Assets and Liabilities Management Committee meeting, the impact of the Bank's planned future business is also estimated. Once a year the Bank prepares stress test calculations according to the instructions of the Bank of Slovenia and EBA, and includes them into its internal capital requirements assessment. The Bank reports its internal capital adequacy assessment and capital adequacy to the Supervisory Board and its Audit Committee each quarter.

An adequate amount, type and allocation of requisite capital is maintained as dictated by the Bank's risk profile, which facilitates our ability to settle all liabilities. Risk profile is examined once a year and special attention is devoted to the assessment of internal control areas.

3.5.2. Financial leverage

The leverage ratio is calculated as the Bank's capital measure divided by its total exposure measure, and it is given in per cents. The capital measure is the tier 1 capital, and the total exposure measure is the sum of the exposure values of all items and off-balance-sheet items not deducted when determining the capital measure. For the purposes of mitigating and managing risks associated with financial leverage, the Bank adopted its Financial Leverage Policy in 2015. The Policy imposes a leverage ratio of above 3% at all times.

	2015	2014
Leverage ratio - applying the definition of tier I capital without transitional provisions (in %)	5.09	5.03
Leverage ratio - applying the definition of tier I capital with transitional provisions (in %)	5.24	5.19

3.6. Managing 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. Operational risk also includes IT risk and legal risk.

The Bank uses the Policy of Assuming and Managing Operational Risk in DBS d. d. (the Policy defines the basic goals, competences and responsibilities, as well as the manner of identification, assessment, monitoring and management of operational risk), examining and supplementing it, if required, at least once a year.

Regular reporting on (loss) events associated with operational risk has been in place since 1 April 2007. The Bank has developed its proprietary application support for systematic monitoring of loss events arising out of operational risk, which is regularly updated and supplemented. The new Resolution on Internal Governance, Governance 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. 147 (loss) events associated with operational risk were reported in 2015, which is fewer than in 2014 when there were 155, and the realised net loss was also lower. The total reported net loss in 2015 remained 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 2015 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 2015 the Bank staged six BCP I tests, 11 BCP II tests and eight BCP III tests.

The Bank calculates capital requirements for operational risk using the simple approach. The operational risk capital requirement is calculated as the three-year average of the sum of net interest income and net non-interest income, minus extraordinary income. The result is then multiplied by the weight of 15%.

3.7. Asset encumbrance

(a) Assets

					2015
		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**	**54,254**	**-**	**838,139**	**-**
030	Equity instruments	0	0	4,289	4,289
040	Debt securities	23,523	27,061	139,461	146,422
120	Other assets	0	-	72,343	-

(b) Collateral received

			2015
		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**	**2**
150	Equity instruments	0	0
160	Debt securities	0	2
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

			2015
		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**	**657,992**	**44,254**

(d) Information on the importance of encumbrance

The Bank's encumbered assets include investments in debt securities available for sale or held to maturity.

A proportion of the Bank's investments in top rated debt securities are reserved for investors' guaranteed deposits.

A major segment of encumbered assets constitutes investments pledged into the pool of assets as security for using in ECB operations. The pool of assets includes, in the largest proportion, non-marketable assets (loans to banks), followed by domestic securities and securities deposited abroad. 17% of this pool of assets is used as collateral for a borrowing from the ECB and for intraday credit.

4. INTEREST INCOME AND EXPENSE

	2015	2014
Interest income		
Financial assets held for trading	6	10
Available-for-sale financial assets	606	1,001
Loans and advances to banks	13	14
Loans and advances to central bank	3	60
Loans and advances to customers	22,461	28,343
Held-to-maturity investments	3,046	3,863
Other financial assets	8	2
TOTAL	**26,143**	**33,293**
Interest expense		
Deposits by bank	167	426
Borrowings from banks and central banks	86	59
Deposits by customers	4,908	8,600
Bonds	522	1,263
Certificates of deposit	202	203
Subordinated liabilities	296	233
Subordinated deposits and loans	291	269
TOTAL	**6,472**	**11,053**
NET INTEREST INCOME	**19,671**	**22,240**

5. DIVIDEND INCOME

	2015	2014
Dividends on financial assets held for trading	0	2
Dividends on available-for-sale financial assets	6	0
TOTAL	**6**	**2**

6. FEE AND COMMISSION INCOME AND EXPENSE

	2015	2014
Fee and commission income		
Payment transactions	3,708	3,547
Agency services	147	116
Administrative services	3,477	3,231
Guarantees issued	492	452
Securities trading	123	136
Services to subsidiaries	8	11
Credit operations	313	319
TOTAL	**8,268**	**7,812**
Fee and commission expense		
Banking services	744	678
Securities trading	93	94
Payment transactions	597	531
Republic of Slovenia guarantee for issued bonds	352	782
Other services	14	6
TOTAL	**1,800**	**2,091**
NET FEE AND COMMISSION INCOME	**6,468**	**5,721**

7. REALISED NET GAINS/LOSSES FROM FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015	2014
Realised gains/losses on available-for-sale financial assets	**331**	**34**
Gains on available-for-sale financial assets	331	34
Realised gains/losses on loans	**(104)**	**42**
Gains on loans (financial lease and other financial assets included)	113	57
Losses on loans (financial lease and other financial assets included)	217	15
Realised gains/losses on financial liabilities measured at cost	**(19)**	**(7)**
Gains on financial liabilities measured at amortised cost	1	2
Losses on financial liabilities measured at amortised cost	20	9
REALISED GAINS/LOSSES	**208**	**69**

8. NET GAINS/LOSSES FROM FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2015	2014
Net gains/losses from trading in equity instruments	7	(12)
Net gains/losses from trading in debt securities	(3)	(2)
Net gains/losses from foreign exchange trading	153	98
Net gains/losses from derivatives held for trading	58	24
TOTAL	**215**	**108**

9. FOREIGN EXCHANGE TRANSLATION

	2015	2014
Positive translation differences	1,783	522
Negative translation differences	1,628	522
TOTAL	**155**	**0**

10. NET GAINS/LOSSES ON DERECOGNITION OF ASSETS

	2015	2014
Gains		
Derecognition of property, plant and equipment	55	100
Total	**55**	**100**
Losses		
Derecognition of property, plant and equipment	28	0
Derecognition of investment property	18	0
Derecognition of other assets, apart from assets held for sale	124	0
Total	**170**	**0**
TOTAL	**(115)**	**100**

11. OTHER NET OPERATING GAINS/LOSSES

	2015	2014
Gains		
Income from non-banking services	25	7
Leases and rents (Note 26 a)	120	71
Denationalisation income	256	3,462
Other	201	101
TOTAL	**602**	**3,641**
Losses		
Taxes	7	0
Contributions	103	82
Membership fees and similar	87	92
Expenses for investment property under operating lease	0	5
Tax on total assets*	0	573
Financial services tax	774	571
Other operating expenses	111	60
TOTAL	**1,082**	**1,383**
OTHER NET OPERATING GAINS/LOSSES	**(480)**	**2,258**

* Tax on total assets was eliminated as of 1 January 2015.

Denationalisation income refers to assets received from denationalisation procedures. Initially these assets are recognised at fair value.

Denationalisation acquisitions by asset type

			2015			2014
	Income	Expense	**Total**	Income	Expense	**Total**
Buildings						
- Acquisitions - restitution in kind	0	0	**0**	313	0	**313**
- Damages, settlements	58	0	**58**	2,982	0	**2,982**
- Leases and rents	198	0	**198**	167	0	**167**
- Revaluation of investment property	0	159	**(159)**	0	308	**(308)**
- Legal and consulting services, and duties	0	9	**(9)**	0	39	**(39)**
TOTAL	**256**	**168**	**88**	**3,462**	**347**	**3,115**

The direct and indirect net denationalisation income in 2015 amounted to a total of EUR 88 thousand (2014: EUR 3,115 thousand).

12. ADMINISTRATIVE EXPENSES

	2015	2014
Employee benefits cost		
Gross wages	7,787	7,499
Social security contributions	569	537
Pension insurance contributions	693	657
Other contributions, depending on gross wages	(6)	10
Severance pays and compensations	85	1
Other employee benefits cost	1,459	1,419
TOTAL	**10,587**	**10,123**
Overhead and administrative expenses		
Costs of material	416	445
Costs of services*	4,531	4,243
TOTAL	**4,947**	**4,688**
TOTAL	**15,534**	**14,811**

* Costs of services in 2015 include EUR 68 thousand for auditing services, of which EUR 61 thousand was paid to the auditor for auditing separate and consolidated financial statements for 2015. The rest was spent on auditing services by auditor's experts and on other services accompanying the audit of the Bank's financial statements for 2014.

13. DEPRECIATION AND AMORTISATION

	2015	2014
Property, plant and equipment (Note 25)	1,183	1,270
Intangible assets (Note 27)	213	229
TOTAL	**1,396**	**1,499**

14. PROVISIONS

	2015	2014
Net provisions for off-balance-sheet liabilities	**240**	**(280)**
Expenses for created provisions (Note 38 d)	4,185	4,062
Income from released provisions (Note 38 d)	3,945	4,342
Net provisions for other provisions	**58**	**103**
Net provisions for pensions and other employee benefits provisions	**67**	**102**
Expenses for created provisions	67	102
Net provisions for tax suits and other pending legal cases	**(10)**	**0**
Income from released provisions	10	0
Net provisions for other provisions	**1**	**1**
Expenses for created provisions	1	1
NET PROVISIONS	**298**	**(177)**

15. IMPAIRMENT CHARGE

	2015	2014
Net impairments of financial assets not measured at fair value through profit or loss	**3,834**	**5,318**
Net impairments of financial assets - loans and receivables	**3,804**	**5,338**
Impairment of loans and other financial assets	15,830	17,890
Reversed impairment of loans and other financial assets	12,026	12,552
Net impairments of other financial assets	**30**	**(20)**
Impairments of other financial assets	100	49
Reversed impairments of other financial assets	70	69
Net impairments of equity investments in subsidiaries	1,047	6,640
Impairments of equity investments in subsidiaries	1,176	6,640
Reversed impairments of investments in subsidiaries	129	0
Net impairments of other assets	**1,601**	**786**
Net impairments of investment property	**216**	**272**
Impairments of investment property	365	308
Reversed impairments of investment property	149	36
Impairment of other assets	**1,385**	**514**
Impairments of real estate inventory	1,385	514
NET IMPAIRMENTS	**6,482**	**12,744**

16. TAX

	2015	2014
Income tax	259	654
Deferred tax (Note 39 d)	145	(376)
TOTAL	**404**	**278**
Profit/loss before tax	2,418	1,621
Tax under the 17% tax rate	411	276
Non-taxable income	(23)	(13)
Non-deductible expense	395	827
Tax reliefs	(379)	(812)
TOTAL	**404**	**278**
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.

17. EARNINGS/LOSS PER SHARE (EPS)

Basic earnings/loss per share is calculated by dividing net profit/loss and the weighted average number of issued ordinary shares:

	2015	2014
Net profit/loss (in EUR thousand)	2,014	1,343
Weighted average number of ordinary shares	4,228,740	3,743,268
Basic and diluted earnings/loss per share (in EUR per share)	0.476265	0.358777

Basic earnings per share in 2015 amounts to EUR 0.476265 (2014: EUR 0.358777). The weighted average number of issued ordinary shares recorded in the KDD central securities register was 4,228,740 in 2015 (2014: 3,743,268).

The Bank's share book value as at 31 December 2015 was EUR 12.422937 (31 December 2014: EUR 12.506898). 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 Bank has not issued any financial instruments convertible into shares.

18. CASH, BALANCES AT CENTRAL BANKS, AND SIGHT DEPOSITS AT BANKS

a) Breakdown

	2015	2014
Cash		
Cash	7,644	9,636
Cash balances at central bank	15,640	53,320
Sight deposits at banks	10,083	15,097
TOTAL (Note 18 b)	**33,367**	**78,053**

Under the new methodology according to the Resolution on the Books of Account this item only includes sight deposits at the central bank, while other deposits at the central bank are reported under the item loans and advances to banks (Note 21).

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 ECB system. The amount of the minimum reserve 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 average amount calculated for each period. Minimum reserves for compliance period from 1 January to 31 December 2015 amounted to EUR 5,132 thousand on average per month, with excess reserves totalling an average monthly EUR 12,846 thousand.

The annual interest rate for assets deposited on the minimum reserves account was 0.05% from 1 January to 31 December 2015, and for excess assets –0.20% from 1 January to 8 December 2015, and –0.30% from 9 to 31 December 2015.

b) Movements

	As at 1 January 2015	Foreign exchange differences	Net increase/ (decrease)	As at 31 December 2015
Cash, balances at central banks, and sight deposits at banks (Note 18 a)	78,052	24	(44,709)	33,367
Loans and advances to banks (Note 21 b)	4,678	150	588	5,416
TOTAL	**82,730**	**174**	**(44,121)**	**38,783**

19. FINANCIAL ASSETS HELD FOR TRADING

a) Breakdown

	2015	2014
Equities		
- Listed	216	0
- Unlisted	0	340
Bonds		
- Listed	42	124
Loans held for trading	0	19
TOTAL	**258**	**483**

b) Movements

	2015	2014
Equities		
As at 1 January	340	352
- Acquisition	205	0
- Revaluation	10	(12)
- Reclassification	(339)	0
As at 31 December	**216**	**340**
Debt securities		
As at 1 January	124	198
- Acquisition	9	10
- Sale	(88)	(88)
- Revaluation	(3)	4
As at 31 December	**42**	**124**
Loans*		
As at 1 January	19	0
- Increase	0	19
- Sale	(19)	0
As at 31 December	**0**	**19**
TOTAL	**258**	**483**

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

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS

a) Breakdown

	2015	2014
Equities		
- Unlisted	4,073	338
Bonds		
- Listed	5,853	22,071
TOTAL	**9,926**	**22,409**

Available-for-sale financial assets decreased in 2015 by EUR 12,483 thousand, of which government bonds were down EUR 16,218 thousand and shares and stakes in non-financial institutions and other financial institutions up EUR 3,735 thousand – payment into the Bank Resolution Fund totalled EUR 2,699 thousand.

b) Movements

	2015	2014
As at 1 January	22,409	30,151
Purchases	5,279	2,221
Sale	(16,982)	(10,193)
Margin	(330)	0
Fair value adjustment (Note 43)	(450)	230
As at 31 December	**9,926**	**22,409**

21. LOANS AND ADVANCES TO BANKS

a) Breakdown according to type

	2015	2014
Central bank	1,963	1,889
Domestic banks	3,158	2,395
Foreign banks	500	500
TOTAL	**5,621**	**4,784**

Under the new methodology according to the Resolution on the Books of Account, the item includes deposits at the central bank apart from sight deposits, while sight deposits at banks are given under the item cash, balances at central banks, and sight deposits at banks (Note 18 a).

b) Breakdown according to maturity

	2015	2014
Short-term loans and advances	5,416	4,784
Long-term loans and advances	205	0
TOTAL	**5,621**	**4,784**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 5,416 thousand (2014: EUR 4,678 thousand) are recognised in the cash flow statement as cash equivalents (Note 18 b).

22. LOANS AND ADVANCES TO CUSTOMERS

a) Breakdown

	2015	2014
Loans and advances	636,201	686,327
Working capital loans	18,802	22,658
Revaluation allowance	(33,967)	(87,043)
TOTAL	**621,036**	**621,942**

b) Movements in revaluation allowance

	2015	2014
As at 1 January	87,043	82,163
Enhancements (through impairments)	15,830	17,890
Repayments (through impairments)	(12,026)	(12,566)
Transferred off the balance sheet (no write-downs)	(43,647)	0
Write-downs	(12,296)	(531)
Interest excluded (balance sheet receivables)	(191)	222
Debt to equity swap	(746)	(135)
As at 31 December	**33,967**	**87,043**

In 2015 100%-impaired provisions in the amount of EUR 43,647 thousand were transferred off the balance sheet (2014: EUR 0).

23. OTHER FINANCIAL ASSETS

a) Breakdown

	2015	2014
Trade receivables	55	251
Interest receivable	2	3
Fee and commission due	135	152
Other receivables	326	488
Other accruals and prepaid expenditure	60	0
Other financial assets revaluation allowance	(183)	(156)
TOTAL	**395**	**738**

b) Movements in revaluation allowance

	2015	2014
As at 1 January	156	163
Increases (through impairments)	100	49
Decreases (through impairments)	(70)	(69)
Transferred off the balance sheet	(11)	0
Write-downs	8	13
As at 31 December	**183**	**156**

24. HELD-TO-MATURITY INVESTMENTS

a) Breakdown

	2015	2014
Held-to-maturity investments		
Short-term bank securities	0	7,140
Short-term government securities	0	9,983
Short-term securities issued by non-financial institutions	0	1,386
Long-term bank securities	0	4,074
Long-term government securities	157,090	84,550
TOTAL	**157,090**	**107,133**

b) Movements

	2015	2014
As at 1 January	107,133	91,047
Purchases	83,263	71,357
Maturities	(33,306)	(55,271)
As at 31 December	**157,090**	**107,133**

25. PROPERTY, PLANT AND EQUIPMENT

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

The Bank holds no property, plant or equipment received as guarantee for liabilities or such with limited ownership rights.

2014	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	12,537	4,433	11,204	1	0	28,175
Increases	0	0	0	0	474	474
Transfer from PPE under construction	5	185	266	18	(474)	0
Decreases	0	0	(2)	0	0	(2)
As at 31 December	12,542	4,618	11,468	19	0	28,647
Revaluation allowance						
As at 1 January	2,887	4,207	8,270	1	0	15,365
Decreases	0	0	(2)	0	0	(2)
Depreciation and amortisation	333	155	781	1	0	1,270
As at 31 December	3,220	4,362	9,049	2	0	16,633
Net carrying value						
As at 1 January	9,650	226	2,934	0	0	12,810
As at 31 December	9,322	256	2,419	17	0	12,014

26. INVESTMENT PROPERTY

a) Breakdown

	2015	2014
Long-term investments into investment property		
- Land	6,693	35
- Buildings	8,982	5,117
TOTAL	**15,675**	**5,152**

b) Movements

	2015	2014
As at 1 January	5,152	1,845
Increase	36	3,579
Transferred from inventories	10,733	0
Decrease	(30)	0
Revaluation allowance	(216)	(272)
As at 31 December	**15,675**	**5,152**

Income from investment property leases, in the amount of EUR 318 thousand (2014: EUR 238 thousand), is recognised among other net operating gains/losses (Note 11). Operating lease contracts may be terminated during the lease period. A transfer of EUR 10,733 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. Fair value revaluation (impairment) is recognised under impairment charge. The Bank recorded EUR 216 thousand worth of impairment charges against investment property in 2015 (2014: EUR 272 thousand) (Note 15).

27. INTANGIBLE ASSETS

			2015			2014
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	3,146	0	3,146	3,126	0	3,126
Increases	0	32	32	0	20	20
Decreases	(5)	0	(5)	0	0	0
Transfer from intangible assets under construction	32	(32)	0	20	(20)	0
As at 31 December	3,173	0	3,173	3,146	0	3,146
Revaluation allowance						
As at 1 January	2,210	0	2,210	1,981	0	1,981
Depreciation and amortisation	213	0	213	229	0	229
Decreases	(5)	0	(5)	0	0	0
As at 31 December	2,418	0	2,418	2,210	0	2,210
As at 1 January	**936**	**0**	**936**	**1,145**	**0**	**1,145**
As at 31 December	**755**	**0**	**755**	**936**	**0**	**936**

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.

28. LONG-TERM EQUITY INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	2015	2014
Long-term equity investments in other domestic financial institutions		
As at 1 January	1,923	0
Increases	0	7,000
Impairments	(1,174)	(5,077)
As at 31 December	**749**	**1,923**
Long-term equity investments in domestic non-financial institutions		
As at 1 January	11,348	9,230
Increases	129	3,681
Impairments	0	(1,563)
Reduction of share capital	(6,304)	0
As at 31 December	**5,173**	**11,348**
Long-term equity investments in foreign non-financial institutions		
As at 1 January	3	0
Increases	(3)	3
As at 31 December	**0**	**3**
TOTAL	**5,922**	**13,274**

Equity investments in subsidiaries totalled EUR 5,922 thousand at the end of 2015, down EUR 7,352 thousand from the beginning of the year. The investment in DBS Leasing d. o. o. decreased by EUR 296 thousand due to an impairment in September and by EUR 878 thousand in December, so that it totalled EUR 749 thousand at the year-end of 2015. The investment in DBS Nepremičnine d. o. o. totalled EUR 1,492 thousand at the year-end of 2015, having decreased in November by EUR 6,304.6 thousand on account of the owner withdrawing funds, and having increased in December by EUR 129 thousand due to the reversal of impairment. The investment in Semenarna Ljubljana d. o. o. totalled EUR 3,681 thousand at the end of 2015. An impairment charge of EUR 2.6 thousand reduced the capital investment in DBS Adria d. o. o. so that it totalled EUR 0 thousand at the year-end of 2015.

29. TAX ASSETS

	2015	2014
Current tax assets	395	0
Deferred tax assets (Note 39 b)	5,835	5,985
TOTAL	**6,230**	**5,985**

The Bank made EUR 54 thousand of advance payments for income tax in 2015 due to the positive tax base for 2014. Outstanding tax loss amounts to EUR 24,461 thousand. Deferred tax assets were formed in the amount of EUR 4,158 thousand, impairments of deferred tax assets totalling EUR 1,409 thousand.

30. OTHER ASSETS

	2015	2014
Accrued and short-term deferred costs	639	441
Long-term deferred operating costs	20	17
Real estate inventory	21,840	14,230
Stock of coins held for sale	149	146
Prepayments - construction work	225	85
Other prepayments	62	82
Other tax refund receivables	8	614
Advance suretyship, security receivables	131	2
Consideration receivable	1,896	1,539
Other	2	2
TOTAL	**24,972**	**17,158**

Impairment charges against inventories of real estate amounted to EUR 1,385 thousand in 2015 (2014: EUR 514 thousand) (Note 15).

31. TRADING LIABILITIES

	2015	2014
Derivatives held for trading	0	0
Other trading liabilities	0	19
TOTAL	**0**	**19**

32. DEPOSITS BY BANKS AND CENTRAL BANKS

	2015	2014
Sight deposits by banks	309	161
TOTAL	**309**	**161**

33. DEPOSITS BY CUSTOMERS

	2015	2014
Sight deposits	391,623	312,775
Short-term deposits	165,479	158,406
Long-term deposits	224,844	231,516
TOTAL	**781,946**	**702,697**

34. BORROWINGS FROM BANKS AND CENTRAL BANKS

	2015	2014
Long-term borrowings from banks	7,862	11,874
Long-term borrowings from central banks	30,448	30,402
TOTAL	**38,310**	**42,276**

35. DEBT SECURITIES

a) Breakdown

	2015	2014
Lond-term bearer bonds with the maturity over 2 years	0	72,387
TOTAL	**0**	**72,387**

In 2010 the Bank issued bonds worth EUR 100,000 thousand under a government guarantee, with the maturity of five years. The Bank made partial early repurchases in 2013 and 2014, and had them delisted. The remaining bonds, worth EUR 72,387 thousand, were fully repaid upon maturity in 2015.

36. SUBORDINATED LIABILITIES

a) Breakdown

	2015	2014
Subordinated liabilities		
- To banks	4,631	6,625
- To non-financial institutions	2,862	2,761
- To other financial institutions	6,082	5,285
- To retail customers	508	0
TOTAL	**14,083**	**14,671**

	Date subscribed	Amount	Currency	Interest rate (%)	Maturity date
Subordinated liabilities					
	20. 5. 2009	532	EUR	6.50	20. 5. 2016
	20. 5. 2009	171	EUR	6.70	20. 5. 2016
	20. 5. 2009	171	EUR	6.70	20. 5. 2016
	20. 5. 2009	459	EUR	6.70	20. 5. 2016
	20. 5. 2009	267	EUR	6.70	20. 5. 2016
	26. 5. 2009	51	EUR	6m Euribor + 4.00	26. 5. 2016
	26. 5. 2009	459	EUR	6m Euribor + 4.00	26. 5. 2016
	24. 6. 2009	509	EUR	6m Euribor + 3.50	24. 6. 2016
	20. 12. 2012	2,061	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	95	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	2,061	EUR	6m Euribor + 6.00	31. 5. 2022
	29. 9. 2015	101	EUR	4.70	30. 9. 2021
	29. 9. 2015	51	EUR	4.70	30. 9. 2021
	29. 9. 2015	711	EUR	6.00	30. 9. 2022
	29. 9. 2015	101	EUR	6.00	30. 9. 2022
	30. 9. 2015	508	EUR	6.00	30. 9. 2022
	9. 10. 2015	152	EUR	6.00	10. 10. 2025
	9. 10. 2015	507	EUR	6.00	10. 10. 2025
	9. 10. 2015	811	EUR	6.00	10. 10. 2025
	9. 10. 2015	558	EUR	6.00	10. 10. 2025
TOTAL		**14,083**			

Subordinated liabilities include subordinated deposits, loans and certificates of deposit eligible for inclusion into tier II capital, consistent with the CRR (Note under 3.5., Capital Management). Subordinated debt was issued over the years in order to maintain the required capital adequacy.

In 2015 the Bank entered into 10 new agreements with characteristics of subordinated debt, in the total value of EUR 5,561 thousand.

37. OTHER FINANCIAL LIABILITIES

	2015	2014
Profit sharing - dividend payments	6	37
Wages and salaries	525	492
Taxes and contributions	303	257
Suppliers	621	1,838
Other liabilities	848	4,898
Charges being collected	40	12
Retail-banking charges being collected	0	54
Accrued costs	487	401
Accrued expenses	107	99
Other	9	84
TOTAL	**2,946**	**8,172**

Other financial liabilities were down EUR 5,226 thousand, of which EUR 4,367 thousand are associated with the payment of new shares from the capital increase in 2014. The restatement to equity was effected upon the entry of shares in the KDD register (Note 41).

38. PROVISIONS

a) Breakdown

	2015	2014
Provisions for pensions and similar payables to employees (Note 38 b and c)	1,199	1,182
Provisions for off-balance-sheet liabilities (Note 38 d)	577	336
Provisions for pending legal cases (Note 38 e)	0	10
Other provisions (Note 38 f)	0	25
TOTAL	**1,776**	**1,553**

On the basis of the second, third, fourth and fifth 5-year scheme, which had all already expired, and the 10-year scheme the Bank estimated that there was a 95% chance of premiums being refunded and therefore formed provisions in the amount of 95% of the premiums paid for the remaining schemes. These were long-term provisions, which the Bank cancelled in 2015, when the last 10-year scheme expired.

b) Provisions for pensions and similar payables to employees

	2015	2014
Provisions for severance pays	993	964
Other long-term employee benefits	206	218
TOTAL	**1,199**	**1,182**

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 2.25% 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

	2015	2014
As at 1 January	1,182	979
Provisions made during the year	75	232
Provisions utilised during the year	(58)	(29)
As at 31 December	**1,199**	**1,182**

Recalculated payables to employees total EUR 1,199 thousand, for which we had to form as at 31 December 2015 additional provisions of EUR 75 thousand. The increase in payables for severance pays comprising EUR 58 thousand of costs for the period and EUR 8 thousand of long-service awards, was charged to profit and loss, while the proportion associated with the actuarial deficit for severance pays, totalling EUR 9 thousand, was charged to comprehensive income (Note 43).

d) Movements in provisions for off-balance-sheet liabilities

	2015	2014
As at 1 January	336	616
Provisions made during the year (Note 14)	4,185	4,062
Provisions released during the year (Note 14)	(3,944)	(4,342)
As at 31 December	**577**	**336**

e) Movements in provisions for pending legal cases

	2015	2014
As at 1 January	10	10
Provisions released during the year	(10)	0
As at 31 December	**0**	**10**

f) Movements in other provisions

	2015	2014
As at 1 January	25	43
Provisions spent during the year	(25)	(18)
As at 31 December	**0**	**25**

39. TAX LIABILITIES

a) Breakdown

	2015	2014
Current tax liabilities	55	654
Deferred tax liabilities	78	209
TOTAL	**133**	**863**

Pursuant to the Corporate Income Tax Act (ZDDPO-2), the income tax payable for 2015 amounts to EUR 133 thousand, applying the 17% tax rate.

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

	2015	2014
1. Deferred tax liabilities		
Available-for-sale investment securities	78	209
TOTAL	**78**	**209**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	136	139
Available-for-sale investment securities	26	32
Impairment of securities	190	190
Impairment of equity participation	2,734	2,556
Tax loss	2,749	3,068
TOTAL (Note 29)	**5,835**	**5,985**
NET DEFERRED TAX (2 - 1)	**5,757**	**5,776**

There were no impairments of deferred tax assets in 2015.

c) Movements in deferred taxes

	2015	2014
As at 1 January	5,776	5,431
Available-for-sale financial assets - fair value valuation (Note 43)	125	(32)
Impairment of securities	0	(5)
Impairment of equity participation	178	1,129
Provisions for severance pays and long-service awards	(3)	4
Tax relief	0	(18)
Tax loss	(319)	(733)
As at 31 December	**5,757**	**5,776**

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

	2015	2014
Impairment of securities	0	(6)
Provisions for employee benefits	(4)	4
Tax relief	0	(18)
Tax loss	(319)	(733)
Impairment of equity participation	178	1,129
TOTAL (Note 16)	**(145)**	**376**

Deferred tax assets and liabilities for 2015 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 17% (2014: 17%).

40. OTHER LIABILITIES

a) Breakdown

	2015	2014
Payments received in advance	79	104
Taxes payable	193	263
Accruals	73	78
TOTAL	**345**	**445**

41. SHARE CAPITAL

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 1 January 2014	3,783,000	15,786
As at 31 December 2014/1 January 2015	3,783,000	15,786
As at 31 December 2015	**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 end of 2014 the Bank raised additional capital, with investors paying 485,248 new shares in the total issue value of EUR 4,367,232.00. The capital increase was recorded in the companies' register on 16 January 2015. The Bank's share capital was up EUR 2,024,904.05 due to the increase, totalling EUR 17,811,083.54. As the newly issued shares from the capital increase had not been recorded in the KDD central securities register as at 31 December 2014, the capital increase was not recognised under equity in the statement of financial position (Note 37).

b) Shareholders with over 5% of share capital

		2015
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
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2015, 322 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2014: 261), of which 100 were domestic companies, 216 were domestic individuals, and six were foreign entities. The number of the Bank's shareholders increased by 61 in 2015.

42. SHARE PREMIUM

	2015	2014
As at 1 January	28,915	28,915
Additional paid-in capital	2,342	0
As at 31 December	**31,257**	**28,915**

After shares issued in the capital increase had been recorded in the central securities register, EUR 2,342,327.95 were restated under share premium (Note 41 a) in 2015.

43. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2015	2014
As at 1 January	773	706
Items not to be reclassified to profit or loss	**(9)**	**(131)**
Actuarial gains/losses on defined benefit pension plans	(10)	(131)
Income tax	1	0
Items that may be reclassified to profit or loss	**(655)**	**198**
Gains/losses related to available-for-sale financial assets	(780)	230
Revaluation gains/losses recognised in equity (Note 20 b)	(450)	230
Gains/losses transferred to profit or loss	(330)	0
Deferred taxes (Note 39 c)	125	(32)
As at 31 December	**109**	**773**

Items not to be restated in the income statements refer to the actuarial deficit for severance pays (Note 38 c).

44. REVENUE RESERVES

a) Breakdown

	2015	2014
Reserves for treasury shares	645	671
Reserves under Statutes	671	269
Other revenue reserves	1,085	0
TOTAL	**2,401**	**940**

Pursuant to its Statutes, the Bank allocated 20% of the profit for the year, which amounts to EUR 402 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 these 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

	2015	2014
As at 1 January	671	671
Reversals	(26)	0
As at 31 December	**645**	**671**

EUR 26 thousand worth of treasury shares were sold in 2015 (book value), as a result of which reserves for treasury shares were cancelled and other revenue reserves increased for the same amount. The sales price was EUR 9 per share, which is the market price, and the total amount raised was EUR 11 thousand. The difference between the lower sales value and higher book value totalled EUR 15 thousand and was charged to other revenue reserves.

c) Statutory reserves

	2015	2014
As at 1 January	269	0
Transferred from net profit	402	269
As at 31 December	**671**	**269**

d) Other revenue reserves

	2015	2014
As at 1 January	0	0
Transferred from net profit	1,074	0
Positive effect from sale of treasury shares	11	0
As at 31 December	**1,085**	**0**

45. TREASURY SHARES

	2015	2014
Repurchase of treasury shares - ordinary	(645)	(671)
TOTAL	**(645)**	**(671)**

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. They decreased by EUR 26 thousand in 2015.

46. RETAINED EARNINGS (INCLUDING NET PROFIT/LOSS FOR FINANCIAL YEAR)

	2015	2014
Retained earnings	1,612	1,074
TOTAL	**1,612**	**1,074**

Profit for the year amounts to EUR 2,014 thousand. The Bank's accumulated profit as at 31 December 2015 amounts to EUR 1,612 thousand. The AGM will deliberate on the appropriation of accumulated profit. The Management Board and Supervisory Board propose that it be appropriated to other revenue reserves.

47. OFF-BALANCE SHEET LIABILITIES

a) Breakdown by type of contingent liabilities and commitments

	2015	2014
Guarantees	44,153	46,576
Commitments to extend credit	34,214	39,827
Derivatives	0	41
TOTAL	**78,367**	**86,444**
Provisions (Note 38 a and d)	(577)	(336)

48. FIDUCIARY ACTIVITIES

a) Investment and ancillary investment services for customers

	2015	2014
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**123**	**146**
Reception, transmission and execution of orders	111	131
Managing dematerialised securities accounts for clients	12	15
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**63**	**39**
Fees associated with KDD and similar organisations	54	36
Fees associated with the stock exchange and similar organisations	9	3

	2015	2014
ASSETS	**93,756**	**131,619**
Claims on settlement account and current accounts for clients' assets	93,330	130,696
- From financial instruments	93,142	130,616
- From the KDD or the Bank's settlement account for sold financial instruments	9	58
- From other settlement systems and institutions for sold financial instruments	179	22
Clients' cash	426	923
- On the settlement account for clients' assets	426	878
- On banks' current accounts	0	45
LIABILITIES	**93,756**	**131,619**
Liabilities of settlement account and of current accounts for clients' assets	93,756	131,619
- With clients from cash and financial instruments	93,553	131,603
- With KDD or the Bank's settlement account for purchased financial instruments	16	0
- With other settlement systems and institutions for purchased financial instruments	179	0
- With the Bank and the Bank's settlement account for fees, expenses, etc.	8	16

b) Other agency services

The item other agency services includes EUR 3,037 thousand from other transactions for the clients' account (2014: EUR 4,378 thousand), and EUR 16 thousand from settlement transactions with the KDD (2014: EUR 58 thousand).

The Bank manages assets in the total amount of EUR 96,809 thousand (2014: EUR 136,055 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 2015 these fees amounted to EUR 123 thousand (2014: EUR 88 thousand). For acting as agent in the sale of numismatic values, the Bank charged fees in the amount of EUR 24 thousand in 2015 (2014: EUR 28 thousand).

49. RELATED PARTY TRANSACTIONS

Ordinary activities 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 MB, SB and senior management		Companies related to members of MB, SB and senior management, and their close family members		Bank's shareholders* (10 largest shareholders - without DBS)		Supervisory Board members	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Loans and deposits placed												
As at 1 January	7	6	385	498	15	13	7,340	8,003	875	1,082	55	96
Increase	79	2	663	169	77	11	17,638	7,363	63	105,060	31	15
Decrease	(25)	(1)	(591)	(282)	(47)	(9)	(18,471)	(8,026)	(261)	(105,267)	(69)	(56)
As at 31 December	61	7	457	385	45	15	6,507	7,340	677	875	17	55
Interest income	1	0	9	12	1	0	285	367	39	57	1	2
Revaluation allowance	0	0	0	0	0	0	80	105	1	1	0	0
Deposits and borrowings												
As at 1 January	41	25	168	248	41	41	342	1,108	10,432	13,981	111	82
Increase	600	371	2,374	1,379	432	417	13,188	61,382	67,281	215,781	542	527
Decrease	(606)	(355)	(2,324)	(1,459)	(391)	(417)	(13,166)	(62,148)	(69,329)	(219,330)	(531)	(498)
As at 31 December	35	41	218	168	82	41	364	342	8,384	10,432	122	111
Interest expense	0	0	9	5	1	2	5	6	479	553	1	2
Guarantees issued	0	0	0	0	0	0	0	0	1,549	1,549	0	0
Fee and commission received	0	0	3	2	0	0	60	139	86	81	1	1

	Management Board		Senior management		Close family members of MB, SB and senior management		Companies related to members of MB, SB and senior management, and their close family members		Bank's shareholders* (10 largest shareholders - without DBS)		Supervisory Board members	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	0	0	0	0	0	0
Increase	0	0	0	0	0	0	0	0	12	0	0	0
Decrease	0	0	0	0	0	0	0	0	(12)	0	0	0
As at 31 December	0	0	0	0	0	0	0	0	0	0	0	0
Lease income	0	0	0	0	0	0	0	0	12	0	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	4	4	0	0	0	0
Increase	0	0	0	0	0	0	49	52	27	26	0	0
Decrease	0	0	0	0	0	0	(52)	(52)	(27)	(26)	0	0
As at 31 December	0	0	0	0	0	0	1	4	0	0	0	0
Lease expense	0	0	0	0	0	0	49	52	21	5	0	0
Other receivables	0	0	0	0	0	0	0	0	0	226	0	0
Other income	1	0	1	0	0	0	1	0	5	0	0	0
Other liabilities	0	0	0	0	0	0	0	0	41	3	0	0
Other expenses	0	0	0	0	0	0	72	95	210	249	0	0

* The ten largest reported shareholders represent 88.80% of shareholders' equity.

b) Subsidiaries DBS Leasing, DBS Nepremičnine, Semenarna and DBS Adria

	Subsidiaries - DBS Leasing, DBS Nepremičnine, Semenarna, DBS Adria		Subsidiaries - related parties - Management Board/Managing Director/ Procurator		Subsidiaries - related parties - Close family members of MB/ Managing Director/Procurator, members of SB and senior management		Subsidiaries - related parties - Companies related to members of MB/Managing Director/Procurator, members of SB, senior management and their close family members		Subsidiaries - related parties - Supervisory Board members	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Loans and deposits placed										
As at 1 January	808	16,101	135	36	0	0	0	1,606	0	0
Increase	21,473	1,797	8	219	0	0	0	0	0	0
Decrease	(14,233)	(17,090)	(40)	(120)	0	0	0	(1,606)	0	0
As at 31 December	8,048	808	103	135	0	0	0	0	0	0
Interest income	70	384	3	4	0	0	0	0	0	0
Revaluation allowance	141	90	0	0	0	0	0	0	0	0
Deposits and borrowings										
As at 1 January	608	0	0	0	0	3	0	31	0	32
Increase	21,350	36,013	67	214	0	0	21	0	0	134
Decrease	(20,900)	(35,405)	(67)	(214)	0	(3)	(2)	(31)	0	(158)
As at 31 December	1,058	608	0	0	0	0	19	0	0	8
Interest expense	1	0	0	0	0	0	0	0	0	2
Guarantees issued	231	5	0	0	0	0	0	0	0	0
Fee and commission received	29	15	0	0	0	0	0	0	0	0
Full operational lease granted										
As at 1 January	0	0	0	0	0	0	0	0	0	0
Increase	15	24	0	0	0	0	0	0	0	0
Decrease	(15)	(24)	0	0	0	0	0	0	0	0
As at 31 December	0	0	0	0	0	0	0	0	0	0
Lease income	15	24	0	0	0	0	0	0	0	0
Full operational lease received										
As at 1 January	6	0	0	0	0	0	0	0	0	0
Increase	79	123	0	0	0	0	0	0	0	0
Decrease	(82)	(117)	0	0	0	0	0	0	0	0
As at 31 December	3	6	0	0	0	0	0	0	0	0
Lease expense	78	110	0	0	0	0	0	0	0	0
Other receivables	0	0	0	0	0	0	0	0	0	0
Other income	3	0	0	0	0	0	0	0	0	0
Other liabilities	0	1	0	0	0	0	0	0	0	0
Other expenses	20	11	0	0	0	0	5	0	0	0

c) Remuneration of senior management

	2015	2014
Wages and other short-term benefits	1,531	1,444
Severance pays	60	0
TOTAL	**1,591**	**1,444**

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 1,947 shares (0.05% of share capital) as at 31 December 2015. As at 31 December 2014 they held 20 shares (0.001% of share capital).

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

	2015	2014
Wages and other short-term benefits	89	104
TOTAL	**89**	**104**

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 2015

Position / Earnings	Fixed earnings	Variable earnings	Cost reimbur-sement	Supplem. pension insurance	Fringe benefits
Management Board of the Bank	**274**	**0**	**3**	**5**	**8**
- Sonja Anadolli, President of the MB	140	0	1	3	5
- Barbara Cerovšek Zupančič, MSc, Member of the MB since 1 August 2015	44	0	1	1	1
- Mojca Štajner, Member of MB until 30 September 2015	90	0	1	1	2
Supervisory Board of the Bank	**42**	**42**	**3**	**0**	**0**
- Peter Vrisk, President	14	11	0	0	0
- Marjan Janžekovič, Deputy President	8	12	1	0	0
- Ivan Lenart, member	8	9	1	0	0
- Nikolaj Maver, member	8	8	1	0	0
- Primož Žerjav, member until 18 May 2015	4	2	0	0	0
	316	**42**	**6**	**5**	**8**

The amount includes the earnings of individual Management and Supervisory Board members, pursuant to the requirement of Article 294 of the Companies Act.

f) Remuneration of staff engaged in control functions in 2015

Position/Earnings	No. of recipients	Fixed earnings	Cost reimbur-sement	Supplem. pension insurance	Fringe benefits	Severance pays	**Total**
TOTAL	**18**	**893**	**33**	**11**	**13**	**60**	**1,010**

50. REMUNERATION SYSTEM AND SIGNIFICANT BUSINESS CONTACTS

Remuneration system

The system of remuneration in the Bank is based on the Remuneration Policy for Staff with a Special Nature of Work („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 management, 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.

Significant 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.

Pursuant to Article 88 of the Zban-2 and Section 8 of the Regulation (EU) No 575/2013, disclosures for 2015 are published on the Bank's website www.dbs.si.

51. EVENTS AFTER THE REPORTING PERIOD

No relevant event occurred between the end of the reporting period and the date that the financial statements were authorised for issue, such as would have an impact on items presented.

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BRANCH NETWORK

The Bank's branch network is spread all over Slovenia. In 2015 it operated under six branch units with 85 branches.

Bank's Branch Units

Branch Unit Central Slovenia

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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 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 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 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 2	Cerklje
Branch II	Šenčur	Gasilska 5	Šenčur
Branch II	Kamnik	Trg talcev 1	Kamnik
Branch II	Škofja Loka	Fužinska 3	Škofja Loka
Branch II	Gorenja vas	Poljanska 55	Gorenja vas
Branch II	Trata	Kidričeva 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 24b	Vojnik
Branch II	Žalec	Ulica heroja Staneta 8	Žalec
Branch II	Vransko	Vransko 133	Vransko
Branch II	Braslovče	Braslovče 23	Braslovče
Branch I	**Šentjur**	**Ulica 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 1	Slovenska Bistrica
Branch I	**Lenart**	**Industrijska 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 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 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 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 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 4	Ilirska Bistrica
Branch I	**Nova Gorica**	**Tolminskih puntarjev 2**	**Nova Gorica**
Branch II	Dobrovo v Brdih	Zadružna 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 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 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 20c	Sevnica
Branch I	**Kočevje**	**Roška 8**	**Kočevje**
Branch II	Ribnica	Škrabčev trg 19	Ribnica
Branch II	Velike Lašče	Na postajo 8	Velike Lašče