THE UNAUDITED INTERIM REPORT of the Abanka Group for the First Half of 2016

ABANKA
Bank of friendly people

CONTENTS

The Unaudited Interim Report of the Abanka Group for the First Half of 2016 is a translation of the original Unaudited Interim Report of the Abanka Group for the First Half of 2016 issued in Slovene. This translation is provided for reference purpose only.

BUSINESS REPORT

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2016	31 Dec. 2015
Total assets	**3,716,278**	3,830,227
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,887,870**	2,845,442
Total amount of loans and receivables to the non-banking sector, measured at amortised cost	**1,764,546**	1,850,384
Total equity	**591,760**	550,379

INCOME STATEMENT (EUR thousand)	Jan.-June 2016	Jan.-June 2015
Net interest income	**40,103**	37,368
Net non-interest income	**33,739**	32,528
Labour costs, general and administration costs	**(34,352)**	(34,896)
Depreciation	**(4,347)**	(4,399)
Impairments and provisions	**22,218**	(17,560)
Profit or loss from ordinary operations before tax	**57,361**	13,041
Corporate income tax on ordinary operations	**(10,064)**	(4,458)

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2016	Jan.-June 2015
Other comprehensive income before tax	**(6,659)**	(16)
Income tax relating to components of other comprehensive income	**1,132**	(115)

INDICATORS	Jan.-June 2016	Jan.-June 2015
Common Equity Tier 1 capital ratio	**26.8%**	20.1%
Tier 1 capital ratio	**26.8%**	20.1%
Total capital ratio	**26.8%**	20.1%
Performance (in %)		
- return on assets after tax(1)	**2.49** *	0.42 *
- return on equity after tax(2)	**16.52** *	3.34 *

Note:

The financial statements of the Abanka Group for 2015 include business events, assets and liabilities of the acquired company Banka Celje d.d. as from 1 January 2015.

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

Notes:

Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out based on the Decision on the books of account and annual reports of banks and savings banks (Official Gazette of the RS, No. 50/2015).

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

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

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2016	31 Dec. 2015
Total assets	**3,713,049**	3,828,463
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,888,688**	2,847,516
– from legal and other persons, who pursue a business activity[1]	**982,087**	1,012,255
– retail	**1,906,601**	1,835,261
Total amount of loans and receivables to the non-banking sector, measured at amortised cost	**1,786,598**	1,869,335
– from legal and other persons, who pursue a business activity[1]	**989,176**	1,068,039
– retail	**797,422**	801,296
Total equity	**590,324**	548,465
Impairments of financial assets and provisions	**318,462**	348,744
Off-balance sheet items (B.1 to B.4)	**711,226**	813,757

INCOME STATEMENT (EUR thousand)	Jan.-June 2016	Jan.-June 2015
Net interest income	**39,427**	36,888
Net non-interest income	**32,584**	31,722
Labour costs, general and administration costs	**(32,864)**	(33,554)
Depreciation	**(3,731)**	(4,037)
Impairments and provisions	**21,751**	(17,540)
Profit or loss before tax from ordinary operations	**57,167**	13,479
Corporate income tax from ordinary operations	**(9,781)**	(4,433)

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2016	Jan.-June 2015
Other comprehensive income before tax	**(6,659)**	(15)
Income tax relating to components of other comprehensive income	**1,132**	(115)

NUMBER OF EMPLOYEES	30 June 2016	31 Dec. 2015
	1,213	1,248

SHARES	30 June 2016	31 Dec. 2015
Number of shareholders	**1**	1
Number of shares	**15,100,000**	15,100,000
Proportion of par-value shares in share capital (in EUR)	**10.00**	10.00
Book value per share (in EUR)	**39.09**	36.32

Note:

The financial statements of the Abanka Group for 2015 include business events, assets and liabilities of the acquired company Banka Celje d.d. as from 1 January 2015.

Note:

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

INDICATORS	Jan.-June 2016	Jan.-June 2015
Common Equity Tier 1 capital ratio	**26.6%**	**19.9%**
Tier 1 capital ratio	**26.6%**	**19.9%**
Total capital ratio	**26.6%**	**19.9%**
Quality of assets and contingent liabilities (in %)		
Impairment of financial assets measured at amortised cost and provisions for commitments and contingencies/classified on-balance-sheet assets and off-balance-sheet items (6)	**9.96**	9.08
Performance (in %)		
– interest margin(1)	**2.04** *	1.77 *
– financial intermediation margin(2)	**3.73** *	3.27 *
– return on assets after tax(3)	**2.46** *	0.43 *
– return on equity before tax(4)	**19.99** *	5.21 *
– return on equity after tax(5)	**16.57** *	3.50 *
Operational costs (in %)		
– operational costs/average assets	**1.90** *	1.81 *
Liquidity (in %)		
– liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost(6)	**49.99**	72.98
– liquid assets/average assets(6)	**28.40**	33.23

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

Notes:

Data and performance indicators have been calculated in accordance with the Instructions for compiling the statement of financial position, the income statement and the statement of comprehensive income and for calculating the performance indicators of banks and savings banks, which the Bank of Slovenia set out based on the Decision on the books of account and annual reports of banks and savings banks (Official Gazette of the RS, No. 50/2015).

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

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

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

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

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

(6) The data for the first six months of 2015 are presented for Abanka Vipa d.d., while the data for the first six months of 2016 are presented for the merged Abanka d.d.

PRESENTATION OF THE BANK AND THE ABANKA GROUP

ABOUT THE BANK

Abanka d.d. is a bank with a long tradition in the Slovene banking sector. The origins of Abanka date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was reorganised as a public limited company. On 31 December 2002, Banka Vipa merged with Abanka. Since then, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. The shares of Abanka were listed on the Ljubljana Stock Exchange from October 2008 to December 2013, when on the basis of the Decision of the Bank of Slovenia on Extraordinary Measures, all qualified liabilities of the Bank on 18 December 2013 ceased in full. On 18 December 2013, the Republic of Slovenia subscribed and fully paid in all 15,000,000 shares newly issued by Abanka, and thereby became the 100% owner of the Bank. On 8 October 2014, the Republic of Slovenia paid in another 100,000 new shares. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. Since that date, the merged bank has operated under the name Abanka d.d. As at 30 June 2016, Abanka's market share in terms of total assets was 10.2%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 58 branches across Slovenia, e-banking, advisory services and a personal approach, the Bank provides integrated financial services, ranging from traditional banking and bancassurance to investment banking.

Moreover, Abanka has gained international reputation. In interbank operations, it uses a network of correspondent banks across the globe to meet its customers' needs for international payment transactions.

Abanka's range of services also includes factoring, leasing and trading in own real property through the following subsidiaries: Afaktor d.o.o., Aleasing d.o.o. and Anepremičnine d.o.o.

SERVICES OF THE BANK

As at 30 June 2016 Abanka was authorised to provide the following mutually recognised financial services under Article 5 of the Banking Act (ZBan-2):

SERVICE	LICENCE ISSUED
1. Acceptance of deposits and other repayable funds;	YES
2. Lending including, inter alia:	
– consumer loans,	YES
– mortgage loans,	YES
– factoring, with or without recourse,	YES
– financing of commercial transactions (including forfeiting);	YES
3. Financial leasing: leasing of assets for a period which is approximately the same as the life expectancy of the leased assets, where the lessee derives most benefit from the use of the leased assets and assumes total transaction risk;	NO
4. Payment services	YES
5. Issuance and administering of payment instruments (e.g. travellers' cheques and bankers' drafts insofar as this service is not covered by previous point);	YES
6. Issuance of guarantees and other commitments;	YES
7. Trading for own account or for the account of customers in:	YES
– money market instruments,	YES
– foreign exchange, including currency exchange transactions,	YES
– financial futures and options,	YES
– exchange and interest-rate instruments,	YES
– transferable securities;	YES
8. Participation in the issuance of securities and services related to such issues;	YES
9. Advice and services related to mergers and acquisitions of undertakings;	YES
10. Money intermediation on inter-bank markets;	NO
11. Advice on portfolio management;	YES
12. Safekeeping of securities and other services related to the safekeeping of securities;	YES
13. Credit reference services: collection, analysis and provision of information on creditworthiness;	YES
14. Renting of safe deposit boxes;	YES
15. Investment services and operations and ancillary investment services in accordance with the Financial Instruments Market Act.	YES

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

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

BANK PROFILE

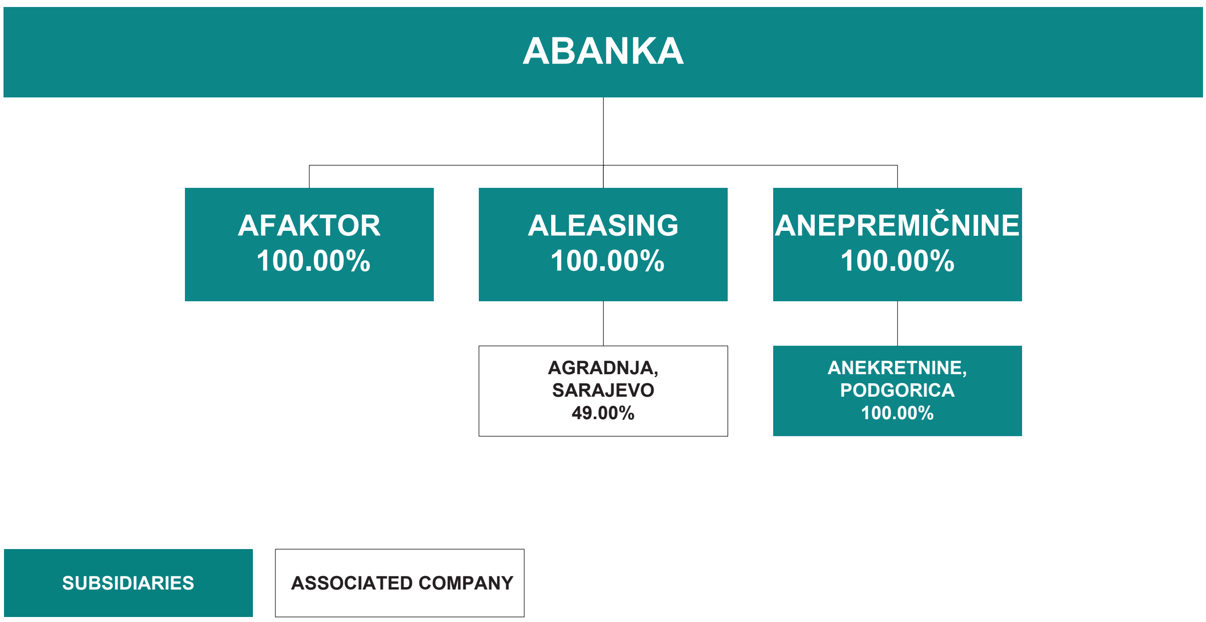
Abanka is entered in the Companies Register kept by the District Court in Ljubljana under registration no. 1/02828/00.

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

ABOUT THE GROUP

As at 30 June 2016, in addition to Abanka, as the parent company, the Abanka Group included the following:

- **subsidiaries:** Afaktor d.o.o., Aleasing d.o.o. with the **associate** Agradnja d.o.o. in Bosnia and Herzegovina and Anepremičnine d.o.o. with the **subsidiary** Anekretnine d.o.o. in Montenegro.



Structure as at 30 June 2016

The following table shows the activities of the subsidiaries of the Abanka Group, equity stakes and the nominal value of the Bank's equity stake as at 30 June 2016.

Company	Activity	Equity stake	Nominal value of equity stakes as at 30 June 2016 (in EUR thousand)
Afaktor d.o.o.	factoring	100.0%	106
Aleasing d.o.o.	leasing	100.0%	1,114
Anepremičnine Group	real property management	100.0%	4,804

Following the merger of Banka Celje with Abanka, Posest d.o.o. – the subsidiary of Banka Celje – became a subsidiary of the merged bank. In the first six months of 2016, the nominal value of Abanka's equity stake in Anepremičnine d.o.o. increased from EUR 3,152 thousand as at the 2015 year-end to EUR 4,804 thousand as at the reporting date due to merger of Posest, Podjetje za trgovino, inženiring in posredovanje, d.o.o. to the acquiring company Anepremičnine, trgovanje z lastnimi nepremičninami d.o.o. in April 2016.

Activities of Subsidiaries

Afaktor d.o.o.

Afaktor, finančna družba za faktoring d.o.o. (hereinafter: Afaktor d.o.o.), established in March 1993, is 100% owned by Abanka. Since 1 April 2016, the company has been managed by Bojan Šuštar, as Matjaž Kaštrun, the long-serving manager of the company, retired on 31 March 2016. The Supervisory Board of Afaktor comprised Davorin Leskovar as its Chairman, Gregor Hudobivnik as its Vice-Chairman and as of 7 March 2016 Bojan Zadravec as its member. On the basis of a letter of resignation as of 11 February 2016, Kristijan Hvala resigned as a member of the Supervisory Board. Afaktor d.o.o. is headquartered in Ljubljana, and its operations are geographically limited to Slovenia.

Afaktor d.o.o. is one of the oldest factoring companies in Slovenia. It provides a comprehensive range of factoring services, with international factoring without recourse at the forefront, followed by domestic factoring with or without recourse. A significant share of its operations is presented by spot factoring and reverse factoring.

In line with the strategy of expansion to the markets of South-East Europe, Afaktor d.o.o. founded a subsidiary in Belgrade in 2007 and another one in Zagreb in April 2010. In view of the revised strategy of the Bank in 2012, Afaktor d.o.o. consequently revised its strategy of expansion to the markets of South-East Europe and began to withdraw from these markets. The subsidiary in Croatia stopped operating in 2013 and the subsidiary in Serbia suspended its operations in the first half of 2014. Withdrawal from the markets in Serbia and Croatia was completed with the sale of both subsidiaries in August and September 2015 respectively.

In the first six months of 2016, Afaktor d.o.o. recorded more than EUR 20 million in its operations. The volume of its business could have been higher; however, in line with the commitments made to the European Commission, the company continues to limit its volume of operations. The business strategy is therefore focused on maintaining cooperation with the existing strategic partners.

The current situation allows growth in factoring mainly as a result of the winding-up of operations of Prvi faktor, the revival of the economy and the increasing visibility of the factoring activity. The company remained a member of the largest global association of factors – Factors Chain International (FCI), which includes only two members from Slovenia following the exit of Prvi faktor. Afaktor continuously adapts to the needs of its customers, aiming to satisfy their needs as quickly as possible and with greatest possible flexibility, while devoting much attention to business streamlining and risk management.

Given the above, Afaktor d.o.o. gives the opportunity to potential customers who would like to start the factoring activity or expand it. In line with commitments made to the European Commission, on 27 June 2016, Abanka announced the start of the procedure to find a strategic investor to purchase the 100% equity holding and the entire lending exposure of its subsidiary Afaktor d.o.o.

Aleasing d.o.o.

Aleasing, financiranje, svetovanje, trženje d.o.o. (short company name: Aleasing d.o.o.) started its operations on 11 February 2000. It is 100% owned by Abanka with its headquarters in Ljubljana and the business units in Celje and Šempeter pri Gorici.

The company has one associated company in Sarajevo in Bosnia and Herzegovina, i.e. a 49% equity stake in Agradnja d.o.o., whereas it sold its 49% equity stake in ASA Aleasing d.o.o. in Sarajevo in August 2015.

The company is led by the Director Nikolaj Fišer. The three members of the Supervisory Board supervise and manage the company: Davorin Leskovar as its Chairman, Gregor Hudobivnik as its Vice-Chairman and Jure Poljšak as its member. In the first half of 2016, the composition of the Management and the Supervisory Board remained unchanged.

The leasing products provided by Aleasing d.o.o. complement the range of products and services provided by the Abanka Group. The main products are financial leasing of real property and movables and operating leasing of vehicles. Within the framework of its core business – leasing, the company is proactive in selling insurance services. To comply with the Abanka Group's strategic guideline, Aleasing d.o.o. does not increase the volume of new operations but focuses on business process optimisation and risk management.

Because of the restrictions arising from the commitments made to the European Commission and thus the limitations on the scope of its operations, Aleasing d.o.o. is unable to fully utilise its potential and exploit the opportunities resulting from higher demand for financial services due to the winding-up of certain other leasing companies and the revival of the economy. The current volume of business allows the company to maintain all its business functions and strategic business partners. As a result of adjusting the business strategy to a smaller volume of new business, the operations of the company are focused on the financing of vehicles and equipment; in this segment, transactions in the amount of EUR 13.3 million were recorded in the first half of 2016. Particular attention is paid to both deepening cooperation with strategic business partners and the development of fleet management services. In collaboration with external providers, Aleasing provides fleet management services suitable for the companies which only want to use company vehicles without having to care for their maintenance, insurance, registration and the like. Aleasing sells these services to large companies with an extensive vehicle fleet and the highest credit rating. In order to achieve the set objectives, Aleasing pays great attention to streamlining its business processes, risk management, finding synergies within the Abanka Group and to identifying its comparative advantages. The objectives of the company are aimed at achieving high interest income, safety of investments and cost effectiveness of its operations.

On 27 June 2016, Abanka announced the start of the procedure to find a strategic investor to purchase the 100% equity holding and the entire lending exposure of its subsidiary Aleasing d.o.o.

Agradnja d.o.o.

Agradnja d.o.o. is an engineering, construction and real property company based in Sarajevo. It was established in 2008 with an aim to build a commercial and residential complex in Sarajevo. In the first half of 2013, Agradnja d.o.o. became an associated company of the subsidiary Aleasing d.o.o. A joint venture agreement was concluded at the same time. The ownership structure of the company is as follows: Aleasing d.o.o. (49%) and ASA Finance d.d. (51%).

Currently, Agradnja is inactive. As at the reporting date, the company was led by Director Sanin Granov and had no Supervisory Board. In May 2016, Abanka publicly announced the start of activities to sell Aleasing's equity stake in the subsidiary Agradnja and the Bank's receivables to Agradnja. The procedure has not yet been completed.

Anepremičnine Group

Anepremičnine d.o.o., which was entered in the Companies Register on 31 May 2013, was established by assuming a portion of assets from Aleasing d.o.o. to Anepremičnine d.o.o. Gregor Žvipelj is Director of Anepremičnine d.o.o. The Supervisory Board is composed of Davorin Leskovar as its Chairman, Gregor Hudobivnik as its Vice-Chairman and Dejan Grum as its member. In the first half of 2016, the composition of the Management and the Supervisory Board of Anepremičnine remained unchanged. Anepremičnine is headquartered in Ljubljana, and its operations are geographically limited to Slovenia and Montenegro, where the company's subsidiary Anekretnine d.o.o. is based in Podgorica. As at the reporting date, the subsidiary Anekretnine d.o.o. was managed by Director Slobodan Radović and had no Supervisory Board.

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

In the first six months of 2016, the company completed the residential development project in the Gorenjska region and prepared an urban proposal for the real property development project. Furthermore, it managed the sale and lease of real property and actively participated in the brokerage of real property pledged as collateral to the Bank. The sale or lease of real property was realised in accordance with the plan.

On 18 April 2016, Anepremičnine d.o.o. acquired **Posest, podjetje za trgovino, inženiring in posredovanje d.o.o.**, which ceased to exist as an independent legal entity, whilst all its assets and liabilities were transferred to Anepremičnine as its acquiring company.

Posest, podjetje za trgovino, inženiring in posredovanje d.o.o. (hereinafter: Posest d.o.o.) was established by Banka Celje on 6 September 1991. Posest, headquartered in Celje, was due to the merger of Banka Celje with Abanka, 100% owned by Abanka d.d. It operated in Slovenia, although in 2015 some appraisals were made abroad, i.e. in Croatia, Serbia and Bosnia and Herzegovina. The company was managed by Davorin Zavasnik, whilst until the merger the Supervisory Board was composed of Davorin Leskovar as its Chairman, Gregor Žvipelj as its Vice-Chairman and Bojan Zadravec as its member.

The core activities of the company were:
- marketing of company- and bank-owned real properties,
- appraisal of real property and equipment,
- assistance in collecting the debts of the Bank that are more difficult to recover,
- real property leasing,
- engineering of own and other real properties,
- advisory services related to financing of real property development projects.

MAJOR BUSINESS EVENTS IN THE FIRST HALF OF 2016 AND AFTER THE FIRST HALF OF 2016

Major Business Events in the First Half of 2016

Major business events in the first half of 2016 included:

- **The change in the status of Abanka d.d. from a less important bank to an important bank:**
  - The European Central Bank changed the status of Abanka d.d. from a less important bank to an important bank as of 1 January 2016.

- **A comprehensive assessment of the Bank:**
  - In 2016, the European Central Bank is conducting a comprehensive assessment of Abanka.

- **The change in the status of Abanka d.d. in accordance with the Financial Instruments Market Act (ZTFI):**
  - As of 16 February 2016 Abanka d.d. is no longer a public limited company in accordance with Article 99 of the ZTFI, as the BCE15 bond of Banka Celje fell due on 15 February 2016.

- **Changes to the Supervisory Board:**
  - In early 2016, the Supervisory Board was composed of seven members: Janko Gedrih as its Chairman, Marko Garbajs as its Vice-Chairman, and Andrej Slapar, Blaž Šterk, Melita Malgaj, Matjaž Trebše and Alenka Vrhovnik Težak as its members.
  - On 9 February 2016, Janko Gedrih, the Chairman of Abanka's Supervisory Board, resigned as a Supervisory Board Member.
  - On 25 February 2016, Marko Garbajs, Vice-Chairman of the Supervisory Board, was appointed Chairman of the Supervisory Board.
  - On 25 February 2016, Melita Malgaj, Member of the Supervisory Board, was appointed Vice-Chairman of the Supervisory Board.
  - The 33rd General Meeting of Shareholders held on 13 May 2016 appointed the following Supervisory Board members: Rok Pivk, starting his four-year term of office on 13 May 2016, and Vid Leskovec, commencing his four-year term of office on 31 May 2016 (on 30 May 2016 the term of office of Andrej Slapar ended).

- **Changes to the Supervisory Board committees:**
  - As at the 2015 year-end, **the Audit Committee** was composed of the following members: Blaž Šterk as its Chairman and Matjaž Trebše, Marko Garbajs and Melita Malgaj as its members. In the reporting period, Marko Garbajs was replaced by Rok Pivk as Committee Member. As at the reporting date, the Audit Committee thus had the following composition: Blaž Šterk as its Chairman and Matjaž Trebše, Melita Malgaj and Rok Pivk as its members.
  - As at the 2015 year-end, **the Compensation Committee** comprised: Andrej Slapar as its Chairman and Alenka Vrhovnik Težak and Matjaž Trebše as its members. In the reporting period, the composition of the Committee changed as follows: Matjaž Trebše was its Chairman and Alenka Vrhovnik Težak and Vid Leskovec were its members.
  - As at the 2015 year-end, **the Human Resource Committee** comprised: Janko Gedrih as its Chairman and Andrej Slapar and Melita Malgaj as its members. In the reporting period, the composition of the Committee changed as follows: Marko Garbajs was its Chairman and Melita Malgaj and Vid Leskovec were its members.
  - As at 31 December 2015, **the Risk Management and Asset Liability Management Committee** had the following composition: Marko Garbajs served as its Chairman and Janko Gedrih, Alenka Vrhovnik Težak and Blaž Šterk as its members. In the reporting period, the composition of the Committee changed as follows: Alenka Vrhovnik Težak was as its Chairman and Marko Garbajs, Blaž Šterk and Rok Pivk were its members.

- **Credit ratings by Moody's Investors Service:**
  - On 10 February 2016, the credit rating agency Moody's Investors Service confirmed Abanka's long term local- and foreign-currency deposit ratings of B3 with a stable outlook, as well as Abanka's BCA (baseline credit assessment) of caa1.

- **Credit ratings by Fitch Ratings:**
  - On 12 May 2016, the international rating agency Fitch Ratings upgraded Abanka's Long-Term Issuer Default Rating from BB– to BB and assigned it a stable outlook. Abanka's Viability Rating was also upgraded from bb– to bb. Other bank ratings remain unchanged: Short-Term IDR at B, Support Rating at 5 and Support Rating Floor at No Floor. The Agency's higher Long-Term Issuer Default Rating and Viability Rating of the Bank are based on the improved credit portfolio of the

Bank, improved capital adequacy ratios, high liquidity reserves and an appropriate structure of sources of funding, in addition to the improved environment in which the Bank operates and further restructuring of the corporate sector.

- **The activities related to the subsidiaries of the Abanka Group:**
  - In 2016, the merger process of Posest d.o.o. with Anepremičnine d.o.o. began. Based on the Decision of the District Court of Ljubljana dated 18 April 2016, Posest, podjetje za trgovino, inženiring in posredovanje d.o.o. was merged to the acquiring company Anepremičnine, trgovanje z lastnimi nepremičninami d.o.o. The merger was executed under the formal status change procedure as a simplified merger. Upon its entry into the Companies Register, Posest d.o.o. ceased to exist as an independent legal entity, whilst all its assets and liabilities were transferred to Anepremičnine d.o.o. as its acquiring company.
  - In line with the Bank's strategy, in 2016 the sales procedures of Afaktor d.o.o., Aleasing d.o.o. and Agradnja d.o.o. continue. In May 2016, Abanka publicly announced the start of activities to sell Aleasing's equity stake in Agradnja d.o.o. and the Bank's receivables to Agradnja, whilst at the end of June it announced the start of the procedure to find a strategic investor to purchase the 100% equity holding and the entire lending exposure of its subsidiaries Aleasing d.o.o. and Afaktor d.o.o.

- **The transfer of activities of AIII mutual pension fund to Banka Koper d.d.:**
  - In January 2016, Abanka signed an agreement on the merger of AIII mutual pension fund (hereinafter: AIII VPS) with Banka Koper's Open-ended mutual pension fund (hereinafter: OVPS). On 7 June 2016, AIII VPS was merged with Banka Koper's Open-ended mutual pension fund and the insured of AIII VPS have become the insured of OVPS, while AIII VPS ceased to exist.

Major Business Events After the First Half of 2016

On 4 August 2016, the credit rating agency Moody's Investors Service assigned the status Review for Upgrade to Abanka's B3 long-term local- and foreign-currency deposit ratings and caa1 BCA (baseline credit assessment).

On 8 August 2016, Matjaž Trebše, a Member of Abanka d.d.'s Supervisory Board, resigned as a Supervisory Board Member.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

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

The unaudited consolidated financial statements of the Abanka Group for the first half of 2015 include the subsidiaries AB58, the Afaktor Group, Aleasing and the Anepremičnine Group, alongside Abanka as the parent bank. The participations in the associated companies ASA Aleasing and Agradnja of the Aleasing subsidiary are consolidated under the equity method. With the acquisition of Banka Celje, its subsidiary Posest also became part of the Abanka Group; due to its negligible importance with respect to prudential supervision goals Posest was excluded from the scope of prudential consolidation after obtaining an authorisation of the Bank of Slovenia. The subsidiary Posest d.o.o. is not included in the consolidated financial statements of the Abanka Group, as it does not have a significant impact on a true and fair view of the Group's financial situation. Total assets of Posest in the amount of EUR 15,621 thousand as at the end of June 2015 represented 0.40% of total assets of the Bank, while its business volume has been decreasing since 2012. In 2016, the company was merged with Anepremičnine and ceased to exist as an independent legal entity.

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

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

In the first half of 2016, **the Abanka Group** posted a **profit before tax** of EUR 57,361 thousand, which was EUR 44,320 thousand more over the corresponding period of 2015, when the Group generated a profit before tax of EUR 13,041 thousand. **Consolidated profit after tax** in the reporting period amounted to EUR 47,297 thousand, while in the first half of 2015 the Abanka Group posted a profit after tax of EUR 8,583 thousand. In the first half of 2016, **Abanka** posted a **profit before tax** of EUR 57,167 thousand, which was reflected in a 20.0% return on equity, having increased by EUR 43,688 thousand over the first six months of 2015. In the reporting period, **corporate income tax** totalled EUR 9,781 thousand (EUR 4,433 thousand in the respective period of 2015). The Bank generated a **profit after tax** of EUR 47,386 thousand, which represented an increase of EUR 38,340 thousand compared to the corresponding period of 2015. In the reporting period, **return on equity after tax** stood at 16.6%, while in the corresponding period of the preceding year it was 3.5%.

The **Abanka Group's interest income** in the first half of 2016 totalled EUR 47,869 thousand; a decrease of 19.3% compared to the first half of 2015, while its **interest expenses** equalled EUR 7,766 thousand, which was 64.6% less than in the first half of 2015. The **Abanka Group's net interest income** earned in the first six months of 2016 thus totalled EUR 40,103 thousand, which was 7.3% or EUR 2,735 thousand above the level recorded in the same period of 2015. **Abanka's interest income** in the first half of 2016 stood at EUR 47.196 thousand or 19.8% less compared to the first half of 2015, whereas its **interest expenses** totalled EUR 7,769 thousand or 64.6% less than in the corresponding period of 2015. Abanka's **net interest income** thus amounted to EUR 39,427 thousand, which was 6.9% or EUR 2,539 thousand more than in the same period of the previous year. Net interest income of 76.9% was generated by loan and deposit transactions with the non-banking sector. Both interest income and interest expenses fell due to lower average interest rates and a lower volume of operations; however, an increase in net interest was recorded primarily as the result of a higher drop in interest rates on primary sources of funding. In the first half of 2016, Abanka's market share of net interest accounted for 11.6%, whilst the interest margin was 2.04%.

In the reporting period, **the Abanka Group** posted EUR 20,108 thousand in **net fee and commission income** or 7.0% or EUR 1,518 thousand less than in the first half of 2015. **Abanka** reached EUR 20,150 thousand **net fee and commission income**, which was 7.2% or EUR 1,574 thousand less than in the same period of the preceding year. The bulk of net fee and commission income was generated by payment transactions and card and ATM operations. In the first half of 2016, the Bank held a 12.7% market share in net fee and commission income.

Other net non-interest income (excluding net fee and commission income) of the **Abanka Group** in the first six months of 2016 amounted to EUR 13,631 thousand, whereas in the same period of 2015 it equalled EUR 10,902 thousand. **Other net non-interest income** (excluding net fee and commission income) of **Abanka** in the first half of 2016 totalled EUR 12,434 thousand, whilst in the first half of 2015 it stood at EUR 9,998 thousand. In the reporting period, other net non-interest income included EUR 9,910 thousand of profit generated by the sale of Visa Europe Limited to Visa Inc.

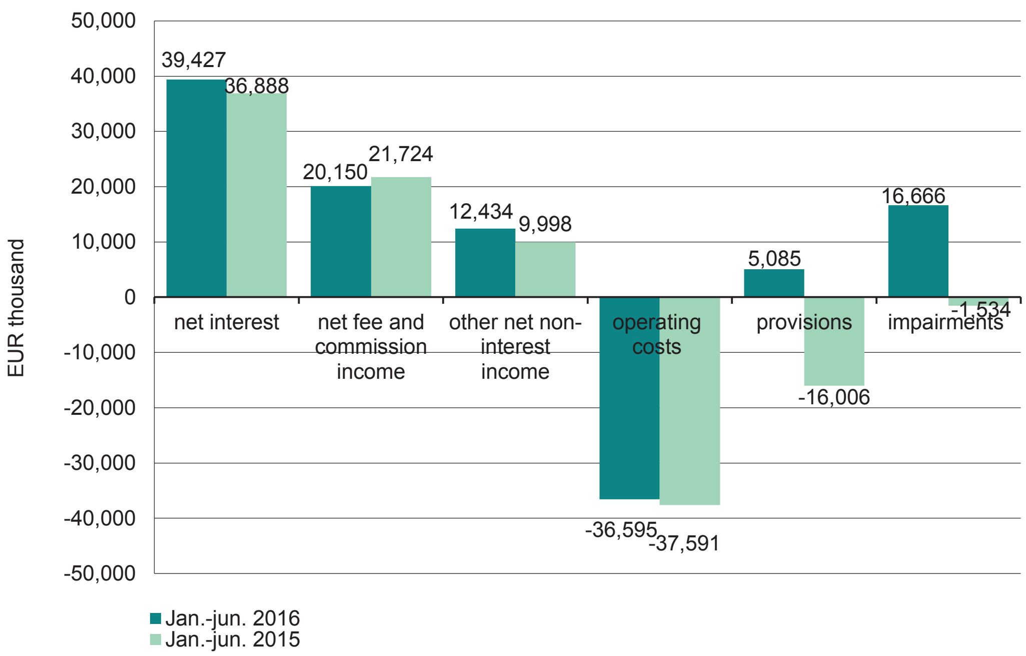
The Abanka Group's operating expenses in the first half of 2016 totalled EUR 38,699 thousand and were 1.5% lower than in the first half of 2015. Labour costs of EUR 20,261 thousand were at a level approximately equal to the corresponding period of

2015, having decreased by EUR 18 thousand, while general and administrative expenses of EUR 14,091 thousand decreased by 3.6% over the same period of 2015. Depreciation expenses amounted to EUR 4,347 thousand, which was 1.2% less compared to the same period of 2015. At 52.4%, labour costs accounted for the largest part of total expenses (51.6% in H1 2015), followed by general and administrative expenses at 36.4% (37.2% in H1 2015) and depreciation expenses, which made up 11.2% of the total (the same in H1 2015). **Abanka's operating expenses** in the first half of 2016 were EUR 36,595 thousand in total, which was 2.6% or EUR 996 thousand less than in the same period of 2015. Operating expenses, excluding restructuring costs, which incurred in the restructuring process of the Bank and the Group and in the merger of Banka Celje, reached EUR 35,299 thousand, having decreased by 3.1% or EUR 1,121 thousand in nominal terms compared to the first six months of 2015. Compared to the corresponding period of the previous year, labour costs were 0.4% lower and totalled EUR 19,533 thousand, whereas general and administrative expenses equalled EUR 13,331 thousand and were 4.4% or EUR 620 thousand nominally below the amount reported for the first half of 2015. Depreciation expenses of EUR 3,731 thousand were 7.6% or EUR 306 thousand lower than in the first six months of 2015. At 53.4%, labour costs represented the largest proportion of total expenses (in the first half of 2015: 52.2%), followed by general and administrative expenses with 36.4% (in the first half of 2015: 37.1%) and depreciation expenses, which accounted for 10.2% of the total (in the first half of 2015: 10.7%).

The Abanka Group's operating income in the first half of 2016 amounted to EUR 35,143 thousand, which represented an increase of 14.8% over the same period of 2015 when it totalled EUR 30,601 thousand. **Abanka's operating income** in the first half of 2016 totalled EUR 35,416 thousand. That compared with EUR 31,019 thousand in operating income posted in the same period last year represents a 14.2% increase.

In the first half of 2016, **the Abanka Group** incurred EUR 22,218 thousand of **net provisioning and impairment income** (in the first half of 2015 **net provisioning and impairment expenses** totalled EUR 17,560 thousand), of which **net provisioning income** totalled EUR 5,094 thousand (in the same period of 2015, net provisioning expenses totalled EUR 16,027 thousand), while **net impairment income** amounted to EUR 17,124 thousand (net impairment expenses of EUR 1,533 thousand in the corresponding period of 2015). In the reporting period, **net impairments and provisions cancelled** of Abanka amounted to EUR 21,751 thousand, whilst net impairments and provisions formed in the corresponding period of 2015 amounted to EUR 17,540 thousand. In the January–June 2016 period, the Bank cancelled impairments of loans and other financial assets in the amount of EUR 16,666 thousand and provisions of EUR 5,085 thousand (in the reporting period, provisions of off-balance-sheet liabilities in the amount of EUR 5,168 thousand were cancelled, whilst the Bank formed provisions for other liabilities totalling EUR 83 thousand). A significant portion of income from the cancelled provisions related to the service guarantees that were wither collected or repaid or the guarantees whose validity expired in 2016; the reversal of impairments is primarily the result of the improved financial position of the companies which have been in the process of restructuring, regular loan repayment and income from debt collection. In the first six months of 2015, the Bank formed impairments of EUR 1,534 thousand and provisions of EUR 16,006 thousand (EUR 14,468 thousand provisions for off-balance sheet liabilities were cancelled, whilst provisions for other liabilities of EUR 30,474 thousand were formed.)

NET INTEREST, NET FEE AND COMMISSION INCOME, OTHER NET NON-INTEREST INCOME, OPERATING COSTS, PROVISIONS AND IMPAIRMENTS OF ABANKA IN THE FIRST HALF OF 2016 COMPARED TO THE FIRST HALF OF 2015



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 30 June 2016 amounted to EUR 3,716,278 thousand, which was EUR 113,949 thousand or 3.0% below the level posted as at the 2015 year-end. The combined balance sheet assets of consolidated subsidiaries, which equalled EUR 76,791 thousand, accounted for 2.1% of consolidated total assets (vs. 1.9% at the 2015 year-end). After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group exceeded Abanka's total assets by 0.1% or EUR 3,229 thousand nominally. **Total assets of Abanka** as at the reporting date amounted to EUR 3,713,049 thousand, which was EUR 115,414 thousand or 3.0% below the level posted as at the 2015 year-end. As at 30 June 2016, Abanka's market share stood at 10.2%.

Loans to non-bank customers accounted for the largest proportion of **consolidated balance sheet assets**, amounting to EUR 1,764,546 thousand at the reporting date, or 47.5% of total assets of the Group. In the first six months of 2016, they experienced a decrease of 4.6% or EUR 85,838 thousand in nominal terms. As at the reporting date, **Abanka's loans to non-bank customers** totalled EUR 1,786,598 thousand, having experienced a decrease of 4.4% compared to the 2015 year-end or EUR 82,737 thousand in nominal terms. Their share in total balance sheet assets went down from 48.8% to 48.1%. In the structure of loans to the non-banking sector, retail loans of 44.6% accounted for the bulk, followed by loans to large companies with 26.7% and loans to SMEs with 16.2%.

In the reporting period, **the Abanka Group's cash, cash balances with the central bank, other demand deposits with banks and loans to banks** totalled EUR 440,718 thousand and represented 11.9% of consolidated balance sheet assets, having increased by 16.4%. The above-mentioned **Abanka's** balance sheet items as at the reporting date stood at EUR 440,039 thousand and were by 16.5% higher or EUR 62,259 thousand nominally over the 2015 year-end. Their share in total assets of the Bank was 11.9% compared to 9.9% as at 31 December 2015. The increase was mainly the result of higher balances of the settlement account with the central bank. In the same period, loans to banks grew from EUR 96,513 thousand as at the 2015 year-end to EUR 121,883 thousand as at the reporting date.

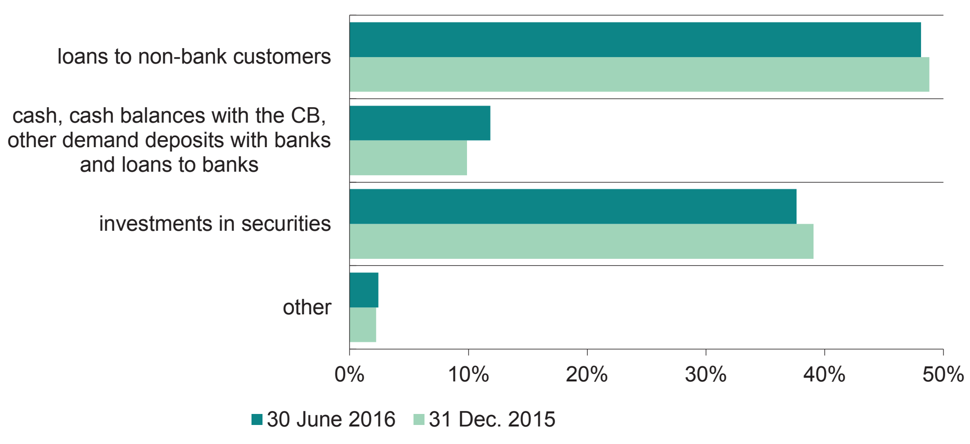
The Abanka Group's investments in securities equalled **those of Abanka**, as the subsidiaries did not disclose securities operations in their balance sheets. As at the reporting date, they amounted to EUR 1,397,114 thousand, having decreased by 6.6% or EUR 98,624 thousand in nominal terms.

Abanka's equity investments in subsidiaries as at the 30 June 2016 totalled EUR 6,024 thousand and were the same as at the 2015 year-end, accounting for 0.2% of total assets.

As at 30 June 2016, **tangible and intangible assets of the Abanka Group** totalled EUR 51,226 thousand, having decreased by 2.6% or EUR 1,367 thousand nominally compared to 31 December 2015, while **those of Abanka** equalled EUR 47,896 thousand, which is 3.5% or EUR 1,718 thousand less compared to the 2015 year-end.

The graph below shows the structure of Abanka's assets as at 30 June 2016 and as at the 2015 year-end.

ASSET STRUCTURE AS AT 30 JUNE 2016 AND 31 DEC. 2015



As at 30 June 2016, **consolidated balance sheet liabilities** were composed of 84.1% of total consolidated liabilities (EUR 3,124,518 thousand) and 15.9% of total equity capital (EUR 591,760 thousand). As at the reporting date, the **Bank's balance sheet liabilities** were lower by EUR 3,229 thousand compared to the consolidated balance sheet liabilities. The Bank's balance sheet liabilities were also made up of 84.1% of total liabilities (EUR 3,122,725 thousand) and 15.9% of total equity (EUR 590,324 thousand).

The Abanka Group's deposits from non-bank customers accounted for the bulk of the Group's total liabilities and reached EUR 2,887,330 thousand as at the reporting date. Together with **loans from customers** of EUR 540 thousand they amounted to EUR 2,887,870 thousand as at the reporting date. In the first six months of 2016, deposits from non-bank customers climbed by 1.5% or EUR 42,446 thousand nominally. As at the reporting date, **deposits from non-bank customers in Abanka** amounted to EUR 2,888,092 thousand. Together with **loans from customers** of EUR 596 thousand they reached EUR 2,888,688 thousand, accounting for a 77.8% share of total liabilities. In H1 2016, deposits from non-bank customers went up by 1.4% or EUR 41,203 thousand nominally. Deposits from corporate customers fell by 3.0% or EUR 30,168 thousand nominally, whilst deposits from retail customers grew by 3.9% or EUR 71,340 thousand. In deposits from corporate customers, the highest decrease was recorded by deposits from the government of EUR 49,248 thousand (of which deposits from the Ministry of Finance in the amount of EUR 17,997 thousand), followed by deposits from the non-financial sector, which decreased by 31,773 thousand, and deposits from non-profit institutions serving households were down by EUR 592 thousand. In the reporting period, deposits from other financial organisations and deposits from sole proprietors grew by EUR 45,983 thousand and EUR 5,493 thousand respectively. Over the reporting period, loans from customers decreased by EUR 31 thousand.

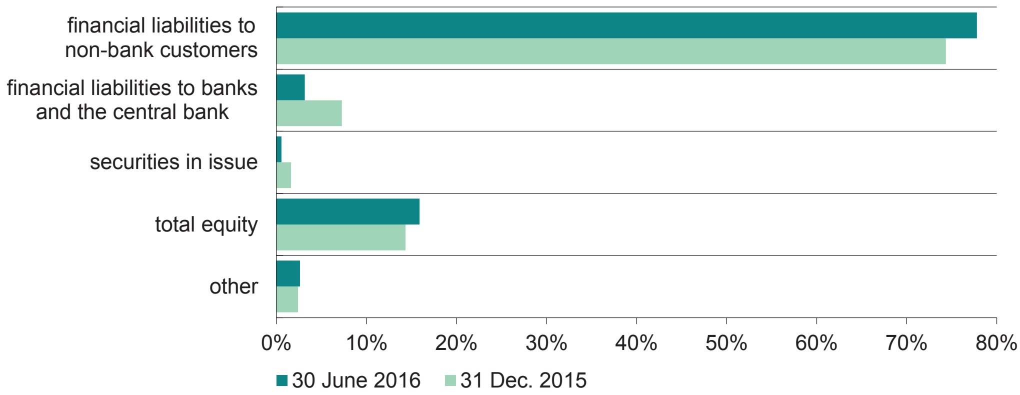
The Abanka Group's financial liabilities to banks amounted to EUR 116,245 thousand as at 30 June 2016, which equalled **those of Abanka**. Financial liabilities to banks were 58.3% lower compared to the 2015 year-end. Their share in total liabilities dropped from 7.3% as at the 2015 year-end to 3.1% as at the reporting date. There were no financial liabilities to the central bank, as they decreased by EUR 100 million in the reporting period. The targeted longer-term refinancing operation with the ECB (TLTRO) of EUR 100 million from 2014 falling due on 26 September 2018 was early repaid by the Bank. In the first half of 2016, loans from commercial banks were down from EUR 163,153 thousand to EUR 97,582 thousand.

Securities in issue of the Abanka Group equalled **those of Abanka.** As at reporting date, debt securities issued amounted to EUR 20,608 thousand, having dropped by EUR 41,252 thousand nominally or by 66.7%. In February 2016, the bond of Banka Celje fell due, which amounted to EUR 35,885 thousand as at 31 December 2015, whilst certificates of deposit went down by EUR 5,367 thousand. Certificates of deposit in issue as at the reporting date represented the Bank's total securities in issue.

The total equity of the Abanka Group as at the reporting date equalled EUR 591,760 thousand, which was 7.5% or EUR 41,381 thousand more compared to the 2015 year-end and higher by EUR 1,436 thousand compared to the total equity of Abanka. **The total equity capital of Abanka** as at the reporting date equalled EUR 590,324 thousand, having increased by 7.6% or EUR 41,859 thousand over the 2015 year-end. The increase is a result of a net profit of EUR 47,386 thousand, generated in the first six months of 2016, decreased by the other comprehensive income after tax of EUR 5,527 thousand.

The graph below shows the structure of Abanka's liabilities as at 30 June 2016 and as at the 2015 year-end.

STRUCTURE OF LIABILITIES AS AT 30 JUNE 2016 AND 31 DEC. 2015



PERFORMANCE OF THE GROUP IN THE FIRST HALF OF 2016

Corporate Banking

In the first half of 2016, a substantial drop in the lending and deposit interest rates was recorded as the result of the expansionary monetary policy measures adopted by the European Central Bank, which additionally affect the lowering of all types of interest rates through various funding schemes aimed at further increasing liquidity. This year was marked by low oil prices, political instability and sanctions related to Russia, whilst the end of the reporting period was especially marked by the exit of Great Britain from the European Union. The latter has had no significant influence thus far, but it is estimated that in the short term the current uncertainty will be mainly reflected in a more conservative approach of customers to investment.

Despite the abovementioned events, no significant changes in the demand structure were seen. In view of the favourable lending prices, companies are mostly interested in long-term sources of funding of projects or current assets. The corporate investment activity slightly improved compared to the same period last year, but not yet to a large extent. The current situation reflects in particular in excess liquidity and the relatively high available assets of enterprises in the short-term and highly liquid investments. Based on the measures taken, the Bank is in a better position to support the economy in terms of long-term funding of projects. Exporters continue to be at the forefront of the more active customer segments.

Economic growth and greater export-orientation of Slovene companies also affected customer demand for trade finance. In this respect, the customers do not limit themselves only to transactions with the existing business partners. In an effort to enter into transactions with new business partners, the scope of business is expanded to include more distant and demanding markets, where the use of trade finance instruments for hedging is particularly important. In giving advice, many years of experience in trade finance and adequately qualified staff enable the Bank to focus on the target choice and prepare individual hedging instruments tailored to the needs of individual customers. In view of the positive responses to the presentation of trade finance last year, this form of cooperation with customers was actively continued throughout the first half of 2016. Presentations were organised for both the existing and new customers, while special attention was devoted to individual presentations with an emphasis on specific cases, which customers face in the course of their business. On the basis of the positive experience of customers who conduct business with import letters of credit via the Abacom electronic bank, which allows not only an easy and quick exchange of data but also monitoring of execution of a transaction, this distribution channel was effectively marketed in the reporting period.

Customer satisfaction remains the key strategic objective of the Bank. In 2016, the Bank has continued to seek solutions for simplifying and accelerating the main processes, which also have an impact on service quality. As of July, a redesigned application for the sale of credit, guarantee and deposit operations to legal persons has been in use. With the aim of achieving customer satisfaction and providing rapid and especially expert solutions, processes will continue to be improved throughout the second half of 2016. The first six months of 2016 were marked by activities related to the merger of Banka Celje with Abanka. Apart from that, the activities for the migration of products to customer transaction accounts opened with Abanka were accelerated.

In order to improve the existing functionalities of applications, the development of products launched in 2015 (Abanet com and Abamobi com) continued in the reporting period. In the first half of 2016, the Abanet com online bank application was upgraded with the option to import the “Business partner address book”, whilst in order to prepare an analysis of operations the “Finance overview” functionality was added. Moreover, “E-order” was introduced, which allows ordering new services of the Bank. The Abanet com online bank application was upgraded to enable access using mobile tokens. In March 2016, Abanka introduced a new service for business users – Abasms com, through which users are informed about the transactions, the account balance and the payments made with business cards both at home and abroad. The Abamobi com mobile bank application was upgraded to enable payment transactions, in addition to the existing functionalities (overview of transactions, remote signing). Payment orders may be entered as a new payment; particularly convenient is the solution “Scan and Pay”, which enables customers to scan bills using their mobile phone. The data are automatically transferred to the mobile bank application and are ready for review and authorisation of the payment. In order to prepare a payment order, predefined templates may be used. A new version of the Abamobi com application also includes the option to check the balance of deposits and loans.

For the purpose of cashless operations, the Bank offers its customers a range of card services. In the first half of 2016, the Visa business card was redesigned to bring it closer to its users. The redesigned Visa business card has the same manner of settlement of liabilities as Mastercard. Other products are adapted in accordance with market demand and the offering of competitors. Despite the high level of competition in card operations (acceptance of cards by merchants), the first half of 2016 was successful, because the Bank managed to retain all the key existing customers and attract new customers by applying an appropriate marketing approach and expertise. In June, the Bank began to issue payment cards that allow contactless payment. A diverse range of banking services is provided not only by creating own special offerings but also through special offers provided in cooperation with business partners (SID Bank, municipalities and others). For all new customers, a welcome package (a business package for legal entities and a business package for sole proprietors) was prepared.

In May, a professional business meeting in the Savinjska region was organised especially for the existing and new SME customers. Thus, as co-organisers of the event *Family Entrepreneurship* in mid-June, attention was also devoted to this corporate customer segment.

Loans to corporate customers and to sole proprietors of Abanka as at 30 June 2016 reached EUR 989,176 thousand after a decrease of EUR 78,863 thousand or 7.4%. The market share of loans to corporate customers and sole proprietors stood at 8.5% as at 30 June 2016, while it was 8.6% as at the 2015 year-end. The share of loans to corporate customers in total assets decreased from 27.9% as at the 2015 year-end to 26.6% as at 30 June 2016. The largest share of loans to corporate customers was represented by loans to the non-financial sector amounting to EUR 767,304 thousand, i.e. 77.6%, of which loans to large companies accounted for EUR 477,414 thousand and loans to SMEs EUR 289,890 thousand. In terms of volume, loans to the non-financial sector were followed by loans to the government in the amount of EUR 120,646 thousand and loans to other financial institutions of EUR 64,032 thousand as at the reporting date. Less than a 4% share was accounted for by loans to sole proprietors, whilst loans to non-profit institutions serving households represented only 0.2% of total loans to corporate customers. Loans to all segments experienced a drop in the first six months of 2016, the highest in nominal terms was recorded in loans to the non-financial sector in the amount of EUR 49,301 thousand.

Deposits and loans from corporate customers and sole proprietors in Abanka reached EUR 982,087 thousand as at the reporting date after decreasing by EUR 3.0% or EUR 30,168 thousand nominally in H1 2016. **Deposits from corporate customers and sole proprietors in Abanka** reached EUR 981,491 thousand as at the reporting date, having decreased by 3.0% or EUR 30,137 thousand nominally in H1 2016. This decrease was predominantly the result of lower deposits from the government, which fell by EUR 49,248 thousand to total EUR 73,649 thousand and lower deposits from the non-financial sector, which were down by EUR 31,773 thousand to EUR 573,203 thousand in total. Deposits from large companies and deposits from SMEs fell by 7.2% and 3.9% respectively. The highest increase in deposits was recorded in deposits from the non-financial sector, which rose by EUR 45,983 thousand, followed by deposits from sole proprietors of EUR 5,493 thousand. The market share of deposits from corporate customers and sole proprietors stood at 11.1% at the reporting date compared to a lower share of 10.3% as at the 2015 year-end. The share of deposits from corporate customers in total liabilities was 26.4% as at the reporting date and was the same as at the 2015 year-end. In the first six months of 2016, developments in deposits by individual segment of corporate deposit operations were also reflected in the shares of total deposits from corporate customers and sole proprietors. The largest share was accounted for by the non-financial sector (58.4%), followed by deposits from other financial institutions (24.2%), deposits from sole proprietors (7.6%) and government deposits (7.5%), whilst the smallest share was represented by deposits from non-profit institutions serving households (2.3%).

Retail Banking

As at 30 June 2016, Abanka provided fast and quality services to its customers through its business network of 58 branches across Slovenia.

In the reporting period, the mobile and online bank applications for retail customers continued to be upgraded. For the purpose of cashless operations, the Bank offers its customers a range of card services. In the first half of the year, the Bank started to issue payment cards that allow contactless payment.

Apart from that, alternative forms of saving were offered to savers. For several years, Abanka has maintained a business relationship with Zavarovalnica Triglav d.d. in order to provide high quality and competitive insurance services to its customers and with Triglav Skladi d.o.o. to sell mutual funds. A special bundled product continued to be provided in the reporting period – an undedicated deposit and an investment in a selected mutual fund.

Therefore, a great deal of energy is being channelled towards simplifying the main processes, as well as into a number of minor improvements, which also have an impact on service quality. In 2016, the introduction of e-pen in the processes of product approval for retail customers continued, in addition to introducing several improvements to the loan application.

A welcome package was prepared for all new customers, Račun users, retired persons, small businesses and entrepreneurs, enabling them more favourable banking operations. The offer of favourable housing and consumer loans was maintained. A package of benefits Apaket Podjetnik (Apaket Entrepreneur) was designed for entrepreneurs and sole proprietors.

In marketing communication, the marketing activities implemented in the first half of 2016 targeted three segments of young and the youngest customers by using the hedgehog mascot “Abanka ježek” for pre-school children, the Akeš junior brand for elementary school pupils and the Akeš brand for high school and university students. The youngest savers and their parents were addressed through promotional activities in the context of Cici Vesela šola sponsorship, via current topics on the website www.jezek.si and through puppet shows "Ježek na obisku" ("Hedgehog Visiting"), shown in kindergartens across Slovenia. Activities for the elementary school children were also continued under the Vesela šola sponsorship and by presenting an award to the winners of the logic competition (ZOTKS). Minor marketing activities in the reporting period were also launched for high school and university students. In this segment, the still leading Facebook banking profile continues to be actively managed. In the youth segment, Abanka maintained the highest net promoter score (NPS) and the highest brand recall for youth in finance.

For families and employed individuals, numerous marketing activities were organised to promote the sale and use of payment cards, as well as to take out housing loans and promote the use of the Abamobi mobile bank application. Furthermore, in the pre-summer holiday period, focus was on those Abanka's services that are wise to choose before going on summer holidays (payment cards, Abamobi, card insurance, travel insurance). Abanka's e-news, which were issued twice in the reporting period, are intended especially for these customers.

A part of the marketing activities in the first six months of 2016 was targeted at the demanding customers of personal and private banking. The marketing activities were mostly implemented at the national level, while some focused on the local or regional marketing specificities. Marketing communication is carried out also on key social networks. In addition to the two active Facebook profiles, a LinkedIn profile was created in June.

Microenterprises and sole proprietors were specifically addressed through cooperation with regional chambers of craft and small business and business events organised at five locations across Slovenia, which potential, new customers were invited to attend and enter into a business partnership, whilst two issues of Abanka's e-newsletter were intended specifically for business customers.

The first six months of 2016 were marked by further activities related to the merger of Banka Celje with Abanka.

In the first half of 2016, **Abanka's retail loans** amounted to EUR 797,422 thousand and decreased by 0.5% or EUR 3,874 thousand nominally, whilst their share in balance sheet assets rose from 20.9% as at the 2015 year-end to 21.5% as at the reporting date. The market share of retail loans stood at 9.9%, while at the 2015 year-end it was 10.1%. In total retail loans, housing loans accounted for the bulk (64.1%), followed by consumer loans (27.8%), whilst account overdrafts (6.2%) and payment and credit cards (1.9%) accounted for small shares.

As at 30 June 2016, the **Abanka's deposits from retail customers** totalled EUR 1,906,601 thousand. In the first six months of 2016, they experienced an increase of 3.9% or EUR 71,340 thousand in nominal terms. In total balance sheet liabilities, deposits from retail customers increased from 47.9% as at the 2015 year-end to 51.3% as at the reporting date. The market share of deposits from retail customers as at 30 June 2016 represented 12.0% and equalled the figure reported as at the 2015 year-end. In total deposits from retail customers, the largest shares were accounted for by funds on transaction accounts (46.2%) and time deposits (33.4%), followed by funds on savings accounts (17.9%), while the shares of other retail deposit types were below 1.0%.

Operations with Other Banks

The macro-economic environment in the euro area improved in the first half of 2016. The pressing problem remains low inflation or deflation, which the European Central Bank tries to curb through different measures. These measures had not yet shown any signs of improvement of the situation, because in addition to the other factors the fall in prices of oil and other energy sources in the first half of 2016 caused a further decline in inflation. Moreover, inflation expectations also remain low. Apart from the abovementioned problems, the European Union is faced with internal frictions and disagreements. An additional problem is the issue of the future path of Great Britain, whose citizens voted to leave the European Union in a referendum.

The European Central Bank continues with the purchases of government securities in order to curb the deflationary pressures in the euro area. It raised the amount of monthly bond purchases, further reduced the deposit interest rate and began purchasing corporate bonds. Such measures aim to contribute to the stability of the euro area; nevertheless, the European countries continue to seek an appropriate balance between austerity and reduction in public spending on the one hand and stimulating economic growth on the other, which is significant for sustainable public finance.

Thanks to the recovery of the Slovene banking system, the situation in the Slovene banking system stabilised. A further reduction in interest rates of EU peripheral countries had a positive impact on more favourable borrowing terms for Slovenia in international markets. Slovenia thus took advantage of the favourable situation and in February issued a new 16-year bond at a 2.25% coupon rate, in which Abanka participated as a co-lead manager. In May, it made a partial purchase of US bonds with maturities in 2022, 2023 and 2024 at a total value of USD 1.2 billion, thereby decreasing its US dollar debt. In parallel, the

Public Treasury increased the existing issues with maturity in 2025 and 2032 at a total value of EUR 1.25 billion, thereby financing the purchase of US bonds. Short-term indicators of economic activity in Slovenia indicate a gradual strengthening of domestic consumption, in addition to improved exports, which remain the main driver of Slovenia's economic growth. Trends in the labour market also remain positive, where the number of persons in employment continues to grow.

Cash, cash balances with the central bank, other demand deposits with banks and loans to banks of the Abanka Group totalled EUR 440,718 thousand as at 30 June 2016. **Cash, cash balances with the central bank, other demand deposits with banks and loans to banks of Abanka** as at the reporting date amounted to EUR 440,039 thousand, which represented a 16.5% increase or EUR 62,259 thousand in nominal terms compared to the preceding year. Their share in total balance sheet assets went up from 9.9% as at the 2015 year-end to 11.9% as at the reporting date. In the reporting period, cash, cash balances with the central bank and demand deposits with banks increased by 13.1% or EUR 36,889 thousand nominally, amounting to EUR 318,156 thousand as at 30 June 2016, whilst loans to banks grew by 26.3% or EUR 25,370 thousand nominally, amounting to EUR 121,883 thousand as at the reporting date.

The Abanka Group's financial liabilities to banks amounted to EUR 116,245 thousand as at 30 June 2016, which equalled **those of Abanka**. Compared to 31 December 2015, they dropped by EUR 58.3% to EUR 162,489 thousand. Their share in total balance sheet liabilities decreased from 7.3% as at the 2015 year-end to 3.1% as at the reporting date. Financial liabilities to central bank were down by EUR 100 million, whereas loans from banks dropped by 40.2% or EUR 65,572 thousand, amounting to EUR 97,582 thousand. Deposits from banks increased by 21.0% or EUR 3,241 thousand nominally in the first half of 2016, totalling EUR 18,663 thousand as at 30 June 2016.

Securities

Due to gradual easing of financial market volatility, the management of the debt securities portfolio included in the trading and banking books demanded the Bank to continue to apply a conservative and prudent investment policy, i.e. to continue investing in investment-grade, highly liquid bonds.

Abanka remains an important primary dealer in Slovene government bond issues and treasury bills and is actively participating as a market maker in MTS Slovenija as an official liquidity provider, as well as on the secondary bond market in general, in both the Slovene and foreign markets. In the previously mentioned issues of Slovene government bonds and treasury bills, Abanka is recognised as an important partner in providing liquidity by both domestic and foreign institutional investors.

As at the reporting date, the value of **the Abanka Group's investments in securities** was at the same level as **those of Abanka**. Compared to the 2015 year-end, they dropped by 6.6% or EUR 98,624 thousand, amounting to EUR 1,397,114 thousand. In total balance sheet assets, their share decreased from 39.1% at the 2015 year-end to 37.6% as at the reporting date. The securities portfolio included both equity and debt securities.

As at 30 June 2016, the equity portfolio of Abanka was worth EUR 44,739 thousand, which represented an 18.2% decrease or EUR 9,932 thousand nominally over the 2015 year-end. In 2015, the Bank paid start-up funds of EUR 24,736 thousand into the Bank Resolution Fund and recognised them as a capital investment in an investment fund, amounting to EUR 24,779 thousand as at the reporting date. The debt securities portfolio of Abanka as at 30 June 2016 totalled EUR 1,352,375 thousand and represented 96.8% of the total securities held by the Bank. Compared to 31 December 2015, debt securities dropped by 6.2% or EUR 88,692 thousand nominally.

As at the reporting date, **securities in issue of the Abanka Group** equalled **those of Abanka**. As at the reporting date, total securities in issue amounted to EUR 20,608 thousand, which was 66.7% or nominally EUR 41,252 thousand less compared to the 2015 year-end. In total balance sheet liabilities, their share decreased from 1.6% as at the 2015 year-end to 0.6% six months later. In the reporting period, certificates of deposit went down by 20.7% or EUR 5,367 thousand nominally. In February 2016, the bond of Banka Celje fell due on (vs. as at the 2015 year-end: EUR 35,885 thousand). Certificates of deposit in issue as at the reporting date represented the Bank's total securities in issue.

Equity Investments

Abanka's long-term equity investments in subsidiaries as at the reporting date totalled EUR 6,024 thousand and remained unchanged in the first six months of 2016, accounting for 0.2% of total assets.

Equity Investments (in EUR thousand)	30 June 2016	31 Dec. 2015	Index
Subsidiaries	6,024	6,024	100.0
Total Equiy Investments	**6,024**	**6,024**	**100.0**

Payment Transactions

As regards domestic and cross-border payment transactions in the first six months of 2016, Abanka processed 19.6 million orders through the Target payment systems and the small-value payment system (SIMP) in the total value of EUR 60,385,323 thousand.

Card and ATM Operations

Abanka has an extensive network of points of sale for all types of card products, which enable transactions via Abanka-held POS terminals or through terminals of other banks. In the first half of 2016, the Bank actively carried out the activities which were the result of the last year's merger of Banka Celje with Abanka and related to the integration of payment systems, the migration of transaction and personal accounts and card operations into a single information system.

One of Abanka's current distribution channels is its extensive ATM network. As at the reporting date, Abanka operated 323 ATMs. Its ATM network was again ranked the second largest despite the fact that the number of bank-owned ATMs fell by 9 and its market share to 19.3%. Abanka's ATMs processed 4.8 million transactions of cash withdrawal worth EUR 492.6 million.

Investment Brokerage

In the first half of 2016, Abanka contributed on average 2.84% to the total volume of trading on the Ljubljana Stock Exchange, and enabled customers access to the most important global stock exchanges via its contractual partners.

AIII Mutual Pension Fund

In June 2016, the management of Abanka's AIII mutual pension fund (hereinafter: AIII VPS) was transferred to Banka Koper d.d. On 7 June 2016, AIII VPS was merged with Banka Koper's Open-ended mutual pension fund (hereinafter: OVPS) as at the accounting date of 31 May 2016. As of 7 June 2016, the insured of AIII VPS have become the insured of OVPS, while AIII VPS ceased to exist. In the first five months of 2016, AIII VPS achieved a 0.95% return.

Custody and Administrative Services

In the first half of 2016, Abanka was again successful in maintaining its leading position in custody and administrative services for investment and pension funds, which remains the Bank's constant priority.

Abanka actively participated in the drafting of amendments to the Investment Funds and Management Companies Act (ZISDU-3) and the Alternative Investment Fund Managers Act (ZUAIS).

For 22 years, Abanka has been the sole provider of administrative services offered to the funds of insurance companies and mutual pension funds, in addition to investment funds.

The Bank also provides custody services for foreign securities in accordance with the Financial Instruments Market Act (ZTFI).

Total Equity and Ownership Structure

As at 30 June 2016, the total equity capital of the Abanka Group and Abanka amounted to EUR 591,760 thousand and EUR 590,324 thousand, respectively. In the first half of 2016, the Bank's capital increased by 7.6% or EUR 41,859 thousand in nominal terms and accounted for 15.9% of total balance sheet liabilities (as at the 2015 year-end: 14.3% of total balance sheet liabilities). This increase resulted from a net profit of EUR 47,386 thousand, decreased by other comprehensive income after tax of EUR 5,527 thousand.

The unaudited share book value was EUR 39.09 as at 30 June 2016, based on 15,100,000 shares (31 December 2015: EUR 36.32). It was calculated as the ratio of all capital components, including net profit for the reporting period, to the number of shares subscribed as at the reporting date.

The Bank's share capital amounted to EUR 151,000 thousand as at 30 June 2016. On 18 December 2013, the Republic of Slovenia subscribed and fully paid up all 15,000,000 shares (ABKS) newly issued by Abanka, and thereby became its 100% owner, holding 15,000,000 ordinary registered no-par value shares with voting rights attached. On 8 October 2014, the Republic of Slovenia paid in 100,000 new shares amounting to EUR 243,000 thousand; the share capital increase of EUR 1,000,000.00

was entered in the Companies Register on 10 October 2014. The share capital of Abanka amounts to EUR 151,000,000.00 and is divided into 15,100,000 ABKS shares, entirely owned by the Republic of Slovenia. On 5 October 2015, Banka Celje d.d., established in 1864 when Celje Municipal Savings Bank was founded, was merged with Abanka Vipa d.d. in line with the commitment made to the European Commission. After the merger of Banka Celje, the **share capital of Abanka** remained unchanged in the amount of EUR 151,000 thousand, while the share capital of Banka Celje was transferred to the **share premium of Abanka**, amounting to EUR 282,459 thousand as at the 2015 year-end and remained unchanged in the first six months of 2016.

As at the reporting date, **the Abanka's accumulated other comprehensive income** amounted to EUR 47,597 thousand (a decrease of EUR 5,527 thousand in H1 2016), **reserves from profit** equalled EUR 39,782 thousand (an increase of EUR 19,249 thousand) and **retained profit** EUR 69,486 thousand (an increase of net profit of EUR 47,386 thousand and a decrease with the aim to distribute net profit to reserves from profit in the amount of EUR 19.249 thousand).

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

THE SHAREHOLDER OF THE BANK

	30 June 2016		31 Dec. 2015	
	Number of shares	Holding in %	Number of shares	Holding in %
The Republic of Slovenia	15,100,000	100.0	15,100,000	100.0

RISK MANAGEMENT

RISK MANAGEMENT IN THE FIRST HALF OF 2016

In 2015, gross domestic product at current prices (hereinafter: GDP) amounted to EUR 38,543 million, nominally 3.3% more over 2014. In real terms, GDP went up by 2.9%. The economic activity in Slovenia in the first quarter of 2016 increased by 0.5% compared to the previous quarter and by 2.3% compared to the first quarter of 2015. In the second quarter of 2016, the GDP growth in the euro area is expected to slow down. Since autumn most recent forecasts by international institutions have not significantly changed in terms of economic growth in the euro area for this year (1.6%) and the next (1.7%). The main growth factor of economic activity in Slovenia remains export growth, stimulated by favourable foreign demand, while maintaining a favourable competitive position of the tradable sector.

The labour market conditions continue to improve. The number of persons employed in the first quarter of 2016 further increased, whilst the number of registered unemployed persons noticeably reduced in May 2016 due to an increased outflow to employment and a lower inflow to unemployment. As at the end of May 2016, the number of registered unemployed persons stood at 102,289 or 9.0% less than a year ago.

As a result of growth in household lending and the decline in the volume of new loans to the non-financial sector, the fall in the volume of loans of domestic non-banking sector slowed over the last months of 2016. Following the growth in the previous period, in March 2016 net deleveraging of enterprises abroad noticeably slowed down. This was primarily the result of higher borrowing in the form of short-term loans, while net repayments of long-term loans have been slowing, even though they are still relatively high. The quality of bank assets is improving, with additional reserves identified in further reduction of non-performing loans especially in the SME segment.

Among the sources of funding, the deposits of non-banking sector are increasing, and banks continued to repay their foreign liabilities. The sum of the twelve-month deleveraging of banks abroad in recent months of 2016 amounted to between EUR 1.5 billion and EUR 1.6 billion, which is almost three quarters more than in the same period last year. Along with minor foreign liabilities falling due in future periods and solid inflows of deposits of the non-financial sector and households, this does not present any major pressure on the liquidity of banks. Among the deposits of non-banking sectors, a significant drop was seen only in government deposits. Due to the low deposit interest rates, sight deposits strengthened in particular, already accounting for 57.5% of total deposits of domestic non-banking sectors.

In the reporting period, Abanka was engaged in further activities related to the merger with Banka Celje, including standardisation and optimisation of technological support for all customer segments and products of the Bank. Special emphasis was put on improving the credit risk management process, especially the recovery process and loan collateral management. The Bank will update its Recovery Plan (an obligatory document for all banks in the EU), which contains the definition of critical functions and the measures envisaged in the event of identified capital or liquidity weakness.

After the merger with Banka Celje d.d., Abanka d.d. became one of the three largest banks in Slovenia in terms of total assets, therefore the responsibility for supervision was transferred to the European Central Bank (ECB). When assuming the responsibility for supervision, the ECB has to prepare a Comprehensive Assessment (CA), based on which it acquires a consistent, objective and comparable assessment of financial statements of the Bank and its capital adequacy. As at the end of the first quarter of 2016, the Bank launched the CA project, which includes the Asset Quality Review (AQR) and stress tests. The project will be completed in the last quarter of 2016. These two elements constitute the basis for assessing the Bank's capital required to cover the risks.

The Bank also launched the IFRS 9 project. It will ensure transition and compliance of the Bank's accounting with the provisions of the new international accounting standard for classification, measurement and impairment of financial instruments and general hedging against the risks (IFRS 9), which is set to apply as of 1 January 2018. Within the framework of the IFRS 9 project, the Bank will be revise its system of assessment of losses arising from credit risk as well as upgrade its rating system for debtor classification (a higher number of credit rating grades), the probability of default (PD) assessment model and the loss given default (LGD) assessment model.

The central projects of the Risk Management Department during the reporting period were the implementation of the necessary activities in the context of CA (AQR and stress tests) and IFRS 9 projects as well as continued activities for the implementation of the Bank of Slovenia guidelines on the calculation of default and loss rates. Apart from that, the early warning system (EWS) for increased credit risk and upgraded IT support for collateral management (central collateral records – CEZ+) were introduced.

In the reporting period, the share of non-performing loans to non-bank customers went down and represented a 14.8% share in gross loans as at the reporting date. A decrease in non-performing loans was mainly a result of a lower share of non-performing loans of some large borrowers. The non-performing loan coverage ratio stood at 87.4% as at the reporting date.

The table below shows the amount of non-performing loans to non-bank customers and their share in total loans as at 30 June 2016 and as at 31 December 2015 (data on non-consolidated basis).

	30 June 2016	31 Dec. 2015
Non-performing loans (in EUR thousand)	304,832	322,616
Share of NPLs in total loans (in %)	14.8	14.9
NPL coverage ratio (in %)	87.4	90.1

Throughout the reporting period, Abanka's liquidity position remained good, as the Bank significantly exceeded the prescribed Category 1 and Category 2 liquidity ratios and maintained the liquidity coverage ratio (LCR) at a very high level. Moreover, the Bank maintained a dispersed structure of funding.

In the reporting period, the European Central Bank reduced the interest rate on the main refinancing operations by 5 basis points to 0% and the deposit facility rate by 10 basis points to –0.40%. The European Central Bank announced a new series of four targeted longer-term refinancing operations (TLTRO II), each with a four-year maturity, while terms and conditions in these operations may reach the interest rate on the deposit facility. The European Central Bank further increased the monthly purchases in the framework of the purchase programme to EUR 80 billion and additionally included corporate debt securities into purchase programm, aimed at reaching the inflation trend close to the medium-term objective defined as the inflation rate of nearly 2.0%. In the reporting period, the downward trend of Euribor interest rates continued.

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

In the first six months of 2016, Abanka continued its policy of limited trading in financial instruments. Trading in equity financial instruments was banned, whilst trading in debt instruments was carried out primarily for the purpose of actively maintaining the market of domestic government securities, where Abanka acts as a primary dealer and official liquidity provider, and to a limited extent with the aim of generating short-term profit. At the end of February, the Ministry of Finance issued a new long-term bond (RS77 with maturity in 2031), at which Abanka actively participated as the only local co-lead manager. Since March 2015, the public sector purchase programme (PSPP) has been implemented by the ECB and the Bank of Slovenia, in which Abanka has maintained an active role. Trading in derivatives was limited to foreign exchange and interest rate financial instruments requested by customers (mostly corporates) for the purpose of hedging against interest rate and currency risks. The Bank closes such positions with back-to-back transactions so as to limit its market risk exposures. The Bank does not trade in more complex financial instruments.

In the reporting period, the trading portfolio of debt financial instruments totalled EUR 3.3 million on average. The equity portfolio kept on the banking book includes only the strategic positions of the Bank and positions resulting from the realisation of collateral or debt-to-equity swaps. The size of the debt securities portfolio of the banking book, serving as an asset and liability management tool, decreased in the first six months of 2016 by 6%, amounting to EUR 1,352 million as at 30 June 2016. The banking book portfolio consisted of mainly domestic and foreign government debt instruments, the bonds of DUTB and the bonds of European banks suitable to be pledged as collateral to the European Central Bank. In the first half of 2016, the value at risk (VaR) of the banking book of debt financial instruments at the 95% confidence level decreased and totalled EUR 1,167 thousand as at the reporting date. The value of the securities portfolio was the most susceptible to the lowering of the Slovene government's sovereign debt rating and a consequently higher required rate of return, the decline in stock index prices and poor liquidity of domestic securities.

In terms of operational risk management, Abanka continued to update its database of incidents and loss events and undertook regular prevention activities aimed at limiting the occurrence of incidents and other loss events, as well as correction activities designed to prevent their reoccurrence. Attention was paid to model and conduct risk management, which are monitored as new special categories of operational risk. Moreover, additional risk analyses for several key services were prepared and the Contingency Management Plan was revised.

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

As at the reporting date, the Bank disclosed higher consolidated total capital ratio and consolidated Common Equity Tier 1 capital ratio than required by the Bank of Slovenia. For details see Note 12 – Capital and Capital Adequacy and Leverage Ratio in the Financial Report of the Abanka Group for the First Half of 2016. Despite high capital ratios, the Bank continues to implement its prudent capital management policy.

SIGNIFICANT TYPES OF RISKS AND HAZARDS IN THE SECOND HALF OF 2016

In the second half of 2016 the Bank will continue with the activities on CA and IFRS 9 projects, implementation of the Bank of Slovenia guidelines on the calculation of default and loss rates and upgrading of the EWS process. Apart from that, the Bank will continue to implement activities for earliest possible detection of increased credit risk and prompt creation of required impairments as well as activities to reduce non-performing exposures (recovery, collection of collateral, sale of receivables, write-offs). Moreover, it will ensure a high coverage of non-performing exposures by creating appropriate impairments. The debts of defaulting borrowers will be restructured using a business model that will generate a sufficient cash flow to repay their loans.

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

It is foreseen that the good liquidity conditions will continue in the second half of 2016, which will also be a positive impact of the unconventional monetary policy implemented by the European Central Bank. In the second half of 2016, Abanka will continue to actively manage its interest rate risk.

Furthermore, appropriate attention will be paid to operational risk management, particularly in the areas needing further improvement (model risk, conduct risk). Apart from that, the business continuity management system will continue to be maintained and upgraded.

In the context of upgrading the recovery plan, the Bank drew up a plan, under which activities will be intensely performed in the second half of 2016 when the recovery plan for 2016 will be prepared.

In the context of the ICAAP process, the existing system is regularly upgraded. In addition, the Bank regularly monitors the risk profile, assesses its risk-bearing capacity, conducts stress tests, calculates internal capital requirements, capital and capital adequacy ratios and reports to both the Management Board and the Supervisory Board.

CHANGES TO THE SUPERVISORY BOARD AND TO THE MANAGEMENT BOARD

CHANGES TO THE SUPERVISORY BOARD

As at 30 June 2016, the Supervisory Board's Chairman was Marko Garbajs, Melita Malgaj its Vice-Chairman, and Blaž Šterk, Matjaž Trebše, Alenka Vrhovnik Težak, Rok Pivk and Vid Leskovec its members.

In the first half of 2016, the composition of the Supervisory Board changed. In early 2016, the Supervisory Board's Chairman was Janko Gedrih, Marko Garbajs was its Vice-Chairman, and Andrej Slapar, Blaž Šterk, Melita Malgaj, Matjaž Trebše and Alenka Vrhovnik Težak its members. On 9 February 2016, Janko Gedrih, Chairman of Abanka's Supervisory Board, resigned as a Supervisory Board Member. On 25 February 2016, Marko Garbajs, Vice-Chairman of the Supervisory Board, was appointed Chairman of the Supervisory Board, whilst Melita Malgaj, Member of the Supervisory Board, was appointed Vice-Chairman of the Supervisory Board of Abanka d.d.

The 33rd General Meeting of Shareholders held on 13 May 2016 appointed the following Supervisory Board members for a four-year term of office: Rok Pivk, starting his term of office on 13 May 2016, and Vid Leskovec, starting his term of office on 31 May 2016 (the term of office of Andrej Slapar ended on 30 May 2016).

CHANGES TO THE MANAGEMENT BOARD

As at 30 June 2016, Abanka was governed by a three-member Management Board, composed of Jože Lenič as its President and Aleksander Vozel and Matej Golob Matzele as its members, which was the same as at the 2015 year-end.

FINANCIAL REPORT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of ABANKA d.d. and the consolidated financial statements of the ABANKA GROUP for the half-year ended 30 June 2016 (pages 32 to 45 of the Interim Report), the applied accounting policies, and the notes to the financial statements (pages 46 to 68 of the Interim Report).

The Management Board is responsible for preparing the financial statements for the half-year 2016 and 2015, which gives a true and fair representation of the financial position of the Bank and the Group as at 30 June 2016, and the results of their operations for the year then ended.

The Management Board confirms that accepted accounting policies adopted for the half year ended 30 June 2016 are consistent with those of the annual financial statements for the year ended 31 December 2015. The Management Board also confirms that the financial statements with the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group and in compliance with the relevant legislation and International Accounting Standard 34.

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

In the period ended 30 June 2016, Abanka d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 12 avgust 2016

Management Board

Matej GOLOB MATZELE	**Aleksander VOZEL**	**Jože LENIČ**
Member of the Management Board	Member of the Management Board	President of the Management Board

INDEX TO THE FINANCIAL STATEMENTS

(All amounts in EUR thousand unless otherwise stated)

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

UNAUDITED INCOME STATEMENT OF ABANKA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	Period ended 30 June 2015
1	2	3	4
1	Interest income (Note 3)	47,196	58,863
2	Interest expenses (Note 3)	(7,769)	(21,975)
3	**Net interest income (1+2)**	**39,427**	**36,888**
4	Dividend income	171	667
5	Fee and commission income (Note 4)	26,661	29,404
6	Fee and commission expenses (Note 4)	(6,511)	(7,680)
7	**Net fee and commission income (5+6)**	**20,150**	**21,724**
8	Net realised gains on financial assets and liabilities not measured at fair value through profit or loss (Note 5)	10,862	10,139
9	Net gains on financial assets and liabilities held for trading	989	640
10	Net (losses)/gains on financial assets and liabilities designated at fair value through profit or loss	(19)	110
11	Fair value adjustments in hedge accounting	238	(1)
12	Exchange differences	239	587
13	Net (losses)/gains on derecognition of assets	(53)	12
14	Net other operating expenses	(3,021)	(2,155)
15	Administration costs (Note 6)	(32,864)	(33,554)
16	Depreciation and amortisation	(3,731)	(4,037)
17	Provisions (Note 7)	5,085	(16,006)
18	Impairment (Note 8)	16,666	(1,534)
19	Total profit/(loss) from non-current assets held for sale (Note 13)	3,028	(1)
20	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)	57,167	13,479
21	Tax expense related to profit from continuing operations	(9,781)	(4,433)
22	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (20+21)	47,386	9,046
23	**NET PROFIT for the financial year (22)**	**47,386**	**9,046**

These interim financial statements were approved for issue by the Management Board on 12 August 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 68 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME OF ABANKA D.D.

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	Period ended 30 June 2015
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**47,386**	**9,046**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3)	**(5,527)**	**(130)**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (3.1 + 3.2)	**(5,527)**	**(130)**
3.1	Available-for-sale financial assets (3.1.1 + 3.1.2)	(6,659)	(15)
3.1.1	Net valuation gains taken to equity	3,017	5,805
3.1.2	Net gains transferred to profit or loss	(9,676)	(5,820)
3.2	Income tax relating to items that may be reclassified to profit or loss	1,132	(115)
4	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**41,859**	**8,916**

These interim financial statements were approved for issue by the Management Board on 12 August 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 68 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF FINANCIAL POSITION OF ABANKA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2016	AMOUNT As at 31 December 2015
1	2	3	4
1	Cash, cash balances with the central bank and other demand deposits with banks	318,156	281,267
2	Financial assets held for trading	6,219	8,556
3	Financial assets designated at fair value through profit or loss	2,433	2,452
4	Available-for-sale financial assets	1,361,971	1,457,768
5	Derivatives - hedge accounting	-	237
6	Loans and receivables	1,930,631	1,978,296
	- loans to banks	121,883	96,513
	- loans to non-bank customers	1,786,598	1,869,335
	- other financial assets	22,150	12,448
7	Held-to-maturity investments	31,431	32,126
8	Non-current assets held for sale	806	806
9	Property and equipment	39,787	40,744
10	Investment property	173	180
11	Intangible assets	8,109	8,870
12	Investments in subsidiaries	6,024	6,024
13	Tax assets	3,933	8,797
	- deferred tax assets	3,933	8,797
14	Other assets	3,376	2,340
15	**TOTAL ASSETS** (from 1 to 14)	**3,713,049**	**3,828,463**

(All amounts in EUR thousand unless otherwise stated)

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

Ser. No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2016	AMOUNT As at 31 December 2015
1	2	3	4
16	Financial liabilities held for trading	4,940	4,742
17	Financial liabilities measured at amortised cost	3,053,956	3,205,417
	- deposits from banks and the central bank	18,663	15,422
	- deposits from non-bank customers	2,888,092	2,846,889
	- loans from banks and the central bank (Note 10)	97,582	263,312
	- loans from non-bank customers	596	627
	- debt securities issued (Note 11)	20,608	61,860
	- other financial liabilities	28,415	17,307
18	Provisions	51,432	57,431
19	Tax liabilities	11,607	11,196
	- current tax liabilities	3,777	2,343
	- deferred tax liabilities	7,830	8,853
20	Other liabilities	790	1,212
21	TOTAL LIABILITIES (from 16 to 20)	3,122,725	3,279,998
22	Share capital	151,000	151,000
23	Share premium	282,459	282,459
24	Accumulated other comprehensive income	47,597	53,124
25	Reserves from profit	39,782	20,533
26	Retained earnings (including income from the current year)	69,486	41,349
27	TOTAL EQUITY (from 22 to 26)	590,324	548,465
28	**TOTAL LIABILITIES AND EQUITY** (21+27)	**3,713,049**	**3,828,463**

These interim financial statements were approved for issue by the Management Board on 12 August 2016.

Management Board

Matej GOLOB MATZELE
Member of the Management Board

Aleksander VOZEL
Member of the Management Board

Jože LENIČ
President of the Management Board

The notes on pages 46 to 68 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**282,459**	**53,124**	**20,533**	**41,349**	**548,465**
2	**Comprehensive income for the financial year after tax**	**-**	**-**	**(5,527)**	**-**	**47,386**	**41,859**
3	Transfer of net profit to reserves from profit	-	-	-	19,249	(19,249)	-
4	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3)**	**151,000**	**282,459**	**47,597**	**39,782**	**69,486**	**590,324**

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 2015

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	Total equity (from 3 to 7)
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**87,296**	**43,354**	**13,233**	**-**	**294,883**
2	Acquisition of Banka Celje - opening balance	50,000	166,221	3,513	2,948	(21,101)	201,581
3	Acquisition of Banka Celje - transfer of share capital to share premium	(50,000)	50,000	-	-	-	-
4	Acquisition of subsidiary AB58	-	-	-	117	2,848	2,965
5	**OPENING BALANCE FOR THE REPORTING PERIOD - after acquisition (1+2+3+4)**	**151,000**	**303,517**	**46,867**	**16,298**	**(18,253)**	**499,429**
6	**Comprehensive income for the financial year after tax**	**-**	**-**	**(130)**	**-**	**9,046**	**8,916**
7	Covering of the loss brought forward	-	(21,058)	-	(43)	21,101	-
8	**CLOSING BALANCE FOR THE REPORTING PERIOD (5+6+7)**	**151,000**	**282,459**	**46,737**	**16,255**	**11,894**	**508,345**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CASH FLOW STATEMENT OF ABANKA D.D.

Designation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	AMOUNT Period ended 30 June 2015
1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit before tax	57,167	13,479
	Depreciation and amortisation	3,731	4,037
	(Reversal of impairments)/impairments of loans and receivables	(16,666)	1,115
	Impairments of other assets	-	419
	Net (gains) from exchange differences	(239)	(587)
	Net losses/(gains) from sale of tangible assets	53	(12)
	Other (gains) from investing activities (Note 13)	(3,623)	(590)
	Other adjustments to total profit or loss before tax (Note 13)	(5,079)	14,604
	Cash flow from operating activities before changes in operating assets and liabilities	**35,344**	**32,465**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**	**167,471**	**282,174**
	Net decrease in financial assets held for trading	2,236	4,034
	Net decrease/(increase) in financial assets designated at fair value through profit or loss	19	(110)
	Net decrease in financial assets available for sale	88,802	241,645
	Net decrease in loans and receivables	77,322	36,534
	Net decrease in assets-derivatives - hedge accounting	237	573
	Net (increase) in non-current assets held for sale	(109)	(1)
	Net (increase) in other assets	(1,036)	(501)
c)	**(Decreases) in operating liabilities**	**(150,407)**	**(410,063)**
	Net increase/(decrease) in financial liabilities held for trading	198	(1,949)
	Net (decrease) in deposits, loans and receivables measured at amortised cost	(108,931)	(336,857)
	Net (decrease) in debt instruments in issue measured at amortised cost	(41,252)	(70,830)
	Net (decrease) in other liabilities	(422)	(427)
d)	**Cash flow from operating activities (a+b+c)**	**52,408**	**(95,424)**
e)	**Income taxes (paid)/refunded**	**(3,374)**	**1**
f)	**Net cash flow from operating activities (d+e)**	**49,034**	**(95,423)**

(All amounts in EUR thousand unless otherwise stated)

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

Designation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	Period ended 30 June 2015
1	2	3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**4,455**	**1,373**
	Receipts from the sale of tangible assets	28	83
	Receipts from non-current assets held for sale (Note 13)	3,137	-
	Receipts from the sale of financial assets held to maturity	1,290	1,290
b)	**Cash payments on investing activities**	**(2,547)**	**(2,112)**
	(Cash payments to acquire tangible assets)	(1,221)	(405)
	(Cash payments to acquire intangible assets)	(1,326)	(1,707)
c)	**Net cash flow from investing activities (a+b)**	**1,908**	**(739)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**-**	**-**
b)	**Cash payments on financing activities**	**-**	**-**
c)	**Net cash flow from financing activities (a+b)**	**-**	**-**
D.	Effects of change in exchange rates on cash and cash equivalents	(989)	5,055
E.	**Net increase/(decrease) in cash and cash equivalents (Af+Bc+Cc)**	**50,942**	**(96,162)**
F.	**Opening balance of cash and cash equivalents**	**344,362**	**434,863**
G.	**Closing balance of cash and cash equivalents (D+E+F) (Note 13)**	**394,315**	**343,756**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED INCOME STATEMENT OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	AMOUNT Period ended 30 June 2015
1	2	3	4
1	Interest income (Note 3)	47,869	59,302
2	Interest expenses (Note 3)	(7,766)	(21,934)
3	**Net interest income (1+2)**	**40,103**	**37,368**
4	Dividend income	171	667
5	Fee and commission income (Note 4)	26,670	29,386
6	Fee and commission expenses (Note 4)	(6,562)	(7,760)
7	**Net fee and commission income (5+6)**	**20,108**	**21,626**
8	Net realised gains on financial assets and liabilities not measured at fair value through profit or loss (Note 5)	10,901	10,139
9	Net gains on financial assets and liabilities held for trading	989	640
10	Net (losses)/gains on financial assets and liabilities designated at fair value through profit or loss	(19)	110
11	Fair value adjustments in hedge accounting	238	(1)
12	Exchange differences	239	582
13	Net gains on derecognition of assets	25	47
14	Net other operating expenses	(1,941)	(1,281)
15	Administration costs (Note 6)	(34,352)	(34,896)
16	Depreciation and amortisation	(4,347)	(4,399)
17	Provisions (Note 7)	5,094	(16,027)
18	Impairment (Note 8)	17,124	(1,533)
19	Total profit/(loss) from non-current assets held for sale (Note 13)	3,028	(1)
20	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)	57,361	13,041
21	Tax expense related to profit from continuing operations	(10,064)	(4,458)
22	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (20+21)	47,297	8,583
23	**NET PROFIT for the financial year (22)**	**47,297**	**8,583**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	AMOUNT Period ended 30 June 2015
1	2	3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**	**47,297**	**8,583**
2	**OTHER COMPREHENSIVE LOSS AFTER TAX** (3)	**(5,527)**	**(131)**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (3.1+3.2+3.3)	**(5,527)**	**(131)**
3.1	Foreign currency translation (3.1.1)	-	(1)
3.1.1	Translation losses taken to equity	-	(1)
3.2	Available-for-sale financial assets (3.2.1+3.2.2)	(6,659)	(15)
3.2.1	Net valuation gains taken to equity	3,017	5,805
3.2.2	Net gains transferred to profit or loss	(9,676)	(5,820)
3.3	Income tax relating to items that may be reclassified to profit or loss	1,132	(115)
4	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**41,770**	**8,452**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2016	As at 31 December 2015
1	2	3	4
	Cash, cash balances with the central bank and other demand deposits with banks	318,325	281,289
2	Financial assets held for trading	6,219	8,556
3	Financial assets designated at fair value through profit or loss	2,433	2,452
4	Available-for-sale financial assets	1,361,971	1,457,768
5	Derivatives - hedge accounting	-	237
6	Loans and receivables	1,909,370	1,960,263
	- loans to banks	122,393	97,218
	- loans to non-bank customers	1,764,546	1,850,384
	- other financial assets	22,431	12,661
7	Held-to-maturity investments	31,431	32,126
8	Non-current assets held for sale	806	806
9	Property and equipment	42,878	43,485
10	Investment property	9,651	5,253
11	Intangible assets	8,348	9,108
12	Investment in a subsidiary	-	1,652
13	Tax assets	4,016	9,143
	- deferred tax assets	4,016	9,143
14	Other assets	20,830	18,089
15	**TOTAL ASSETS** (from 1 to 14)	**3,716,278**	**3,830,227**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2016	AMOUNT As at 31 December 2015
1	2	3	4
16	Financial liabilities held for trading	4,940	4,742
17	Financial liabilities measured at amortised cost	3,054,975	3,204,933
	- deposits from banks and the central bank	18,663	15,422
	- deposits from non-bank customers	2,887,330	2,844,884
	- loans from banks and the central bank (Note 10)	97,582	263,312
	- loans from non-bank customers	540	558
	- debt securities issued (Note 11)	20,608	61,860
	- other financial liabilities	30,252	18,897
18	Provisions	51,510	57,527
19	Tax liabilities	11,626	10,891
	- current tax liabilities	3,796	2,038
	- deferred tax liabilities	7,830	8,853
20	Other liabilities	1,467	1,755
21	TOTAL LIABILITIES (from 16 to 20)	3,124,518	3,279,848
22	Share capital	151,000	151,000
23	Share premium	282,459	282,459
24	Accumulated other comprehensive income	47,581	53,108
25	Reserves from profit	39,782	20,533
26	Retained earnings (including income from the current year)	70,938	43,279
27	TOTAL EQUITY (from 22 to 26)	591,760	550,379
28	**TOTAL LIABILITIES AND EQUITY** (21 + 27)	**3,716,278**	**3,830,227**

These interim financial statements were approved for issue by the Management Board on 12 August 2016.

Management Board

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(All amounts in EUR thousand unless otherwise stated)

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

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

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 2015

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Accumulated other comprehensive income	Reserves from profit	Retained earnings (including income from the current year)	**Total equity (from 3 to 7)**
1	2	3	4	5	6	7	8
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**151,000**	**87,296**	**42,904**	**13,411**	**5,771**	**300,382**
2	Acquisition of Banka Celje - opening balance	50,000	166,221	3,513	2,948	(21,101)	**201,581**
3	Acquisition of Banka Celje - transfer of share capital to share premium	(50,000)	50,000	-	-	-	**-**
4	**OPENING BALANCE FOR THE REPORTING PERIOD - after acquisition (1+2+3)**	**151,000**	**303,517**	**46,417**	**16,359**	**(15,330)**	**501,963**
5	**Consolidated comprehensive income for the financial year after tax**	**-**	**-**	**(131)**	**-**	**8,583**	**8,452**
6	Covering of the loss brought forward	-	(21,058)	-	(43)	21,101	**-**
7	Other	-	-	-	(13)	13	**-**
8	**CLOSING BALANCE FOR THE REPORTING PERIOD (4+5+6+7)**	**151,000**	**282,459**	**46,286**	**16,303**	**14,367**	**510,415**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA GROUP

Designation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	AMOUNT Period ended 30 June 2015
1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit before tax	57,361	13,041
	Depreciation and amortisation	4,347	4,399
	(Reversal of impairments)/ impairments of loans and receivables	(16,382)	1,540
	Impairments of other assets	(137)	(7)
	Impairments of capital investments in a subsidiary	(605)	-
	Net (gains) from exchange differences	(239)	(582)
	Net (gains) from sale of tangible assets	(25)	(47)
	Other (gains) from investing activities (Note 13)	(3,623)	(590)
	Other adjustments to total profit or loss before tax (Note 13)	(5,088)	14,625
	Cash flow from operating activities before changes in operating assets and liabilities	**35,609**	**32,379**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**	**177,697**	**283,997**
	Net decrease in financial assets held for trading	2,236	4,034
	Net decrease/(increase) in financial assets designated at fair value through profit or loss	19	(110)
	Net decrease in financial assets available for sale	88,802	241,645
	Net decrease in loans and receivables	87,246	36,344
	Net decrease in assets-derivatives - hedge accounting	237	573
	Net (increase)/decrease in non-current assets held for sale	(109)	210
	Net (increase)/decrease in other assets	(734)	1,301
c)	**(Decreases) in operating liabilities**	**(160,543)**	**(410,751)**
	Net increase/(decrease) in financial liabilities held for trading	198	(1,949)
	Net (decrease) in deposits, loans and receivables measured at amortised cost	(119,017)	(337,302)
	Net (decrease) in debt instruments in issue measured at amortised cost	(41,252)	(70,830)
	Net (decrease) in other liabilities	(472)	(670)
d)	**Cash flow from operating activities (a+b+c)**	**52,763**	**(94,375)**
e)	**Income taxes (paid)**	**(3,069)**	**(238)**
f)	**Net cash flow from operating activities (d+e)**	**49,694**	**(94,613)**

(All amounts in EUR thousand unless otherwise stated)

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

Designation	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2016	AMOUNT Period ended 30 June 2015
1	2	3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**5,114**	**1,459**
	Receipts from the sale of tangible assets and investment properties	687	169
	Receipts from non-current assets held for sale (Note 13)	3,137	-
	Receipts from the sale of financial assets held to maturity	1,290	1,290
b)	**Cash payments on investing activities**	**(3,719)**	**(2,916)**
	(Cash payments to acquire tangible assets and investment properties)	(2,381)	(1,209)
	(Cash payments to acquire intangible assets)	(1,338)	(1,707)
c)	**Net cash flow from investing activities (a+b)**	**1,395**	**(1,457)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**-**	**-**
b)	**Cash payments on financing activities**	**-**	**-**
c)	**Net cash flow from financing activities (a+b)**	**-**	**-**
D.	Effects of change in exchange rates on cash and cash equivalents	(989)	5,055
E.	**Net increase/(decrease) in cash and cash equivalents (Af+Bc+Cc)**	**51,089**	**(96,070)**
F.	**Opening balance of cash and cash equivalents**	**344,384**	**434,903**
G.	**Closing balance of cash and cash equivalents (D+E+F) (Note 13)**	**394,484**	**343,888**

These interim financial statements were approved for issue by the Management Board on 12 August 2016.

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NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity

Abanka d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the half year ended 30 June 2016 comprise the Bank and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in an associated company. The Group is primarily involved in corporate, retail and investment banking.

1.1 Basis of preparation

(a) Basis of preparation

Accepted accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in the annual financial statements for the year ended 31 December 2015. Accepted accounted policies have been used on a consistent basis, and the accounting estimates have been made in compliance with the principles of prudence and good management. The Management Board confirms that the condensed interim financial statements and the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group for the period of assessment, being twelve months from the date of approval of these interim financial statements and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

The comparative financial statements of Abanka d.d. include business events, assets and liabilities of the acquired company Banka Celje d.d. as from 1 January 2015. The profit and loss effect of the acquisition is additionally disclosed in Note 20.

(b) Statement of compliance

The condensed interim financial statements of the Bank and the consolidated financial statements fort he half-year ended 30 June 2016 have been compiled in accordance with IAS 34, »Interim Financial Reporting«. Annual financial statements of the Bank and of the Group have been compiled in accordance with the International Financial Reporting Standards as adopted by the European Union. The interim half-yearly financial statements contain less comprehensive explanatory notes and disclosures than the financial statements that form part of the Annual Report. The half-yearly financial statements have been compiled in condensed form, and must therefore be read in conjunction with the annual financial statements for the 2015 financial year.

(c) Standards and interpretations effective in the current period

The following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current period:

- 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 beginning 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 beginning on or after 1 January 2016);
- 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 various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards and interpretation has not led to any changes in the Group’s accounting policies.

(d) New Standards and amendments to the existing standards issued by IASB but not yet adopted by the EU
Among the standards issued by the International Accounting Standards Board but not yet adopted by the European Union, IFRS 9 – Financial Instruments (effective for annual periods beginning on or after 1 January 2018) is the most significant for the Group.
IFRS 9 “Financial Instruments” issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

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

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

Hedge accounting - IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

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

The management of the Bank anticipates that in the future the implementation of IFRS 9 will have a certain impact on the amounts reported with respect to the Group’s financial assets and financial liabilities, however no reliable assessment of such impact is possible at this time. In the first half of 2016, during the performance of the activities necessary for the implementation of this standard, the Bank conducted a detailed gap analysis and assessed the impact on its financial statements and the regulatory capital. Up to the date of adoption of this report, the analysis has not yet been completed, therefore its results are expected to be disclosed in the Annual Report for 2016.

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

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 “Leases” (effective for annual periods beginning 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 beginning 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 further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

(e) Comparatives
Due to different accounting recognition of business events in certain accounting items, the acquiring bank adjusted the comparative accounting data as further disclosed in Note 4 Net Fee and Commission Income and Note 6 Administration Costs. The comparative figures of other income statement items have been prepared on the basis of the pooling of interests method explained in Note 20.

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

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Impairment losses on loans and advances
The Group constantly monitors the quality of its credit portfolio and assesses credit risk losses. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating a decline in the solvency of debtors or a deterioration in economic conditions that correlate with defaults on assets in the group of loans. Future cash flows are estimated on the basis of historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group. Individual assessments of losses arising from credit risk are made on the basis of projected future cash flows, taking into account all relevant information about the financial position and payment status of the debtor. Cash flow projections are verified by the Risk Management Department. Minor exposures, including loans to individuals, are collectively assessed. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Group regularly measures the impact of the deterioration of the credit portfolio on the basis of amount of credit risk losses, on profit or loss, as well as on regulatory capital and the capital adequacy ratio of the Group. It employs sensitivity analyses to provide additional information on potential credit risk losses and necessary impairments of financial assets. Two of the analyses used to determine the impact of credit portfolio deterioration on the amount of credit risk loss are presented below.

The first sensitivity analysis assumes that 2% of A, B, C and D loans are downgraded by one credit rating category. Based on data at the end of the half year ended 30 June 2016, credit risk losses would increase by 2.3% (30 June 2015: 2.3%) or EUR 6.9 million (30 June 2015: EUR 7.8 million). The second sensitivity analysis was conducted in accordance with the assumption that 1% of A, B and C loans are downgraded by one credit rating category, 1% of these loans are downgraded by two credit rating categories and 2% of D-rated loans are downgraded by one credit rating category. The result of this sensitivity analysis has shown that, based on data at the end of the half year ended 30 June 2016, credit risk losses would rise by 4% (30 June 2015: 3.8%) or EUR 11.9 million (30 June 2015: EUR 12.8 million).

(b) Impairment of available-for-sale equity investments
The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost.

In addition, the Group estimates the usual fluctuation in share prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

(c) Held-to-maturity investments

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

If all held-to-maturity investments were to be so reclassified, the carrying value would increase by EUR 2,503 thousand (30 June 2015: a EUR 2,712 thousand increase), with a corresponding entry in accumulated other comprehensive income in shareholders' equity.

(d) Fair value of financial assets and liabilities

Financial instruments carried at fair value

The accepted accounting policies used at measuring fair value in the half year ended June 30 2016 are consistent with those of the annual financial statements fort he year ended 31 December 2015. In line with IFRS 13, the Group categorises financial instruments into three fair value levels based on the nature of inputs used to determine fair value.

From among the market approach valuation techniques used in the fair value measurement of equity securities, the Group applies two main methods: the method of comparable brokerage firms and the comparable sales method. From among the income approach valuation techniques, the Group applies the discounted cash flow method. From among the market approach valuation techniques used in the fair value measurement of debt securities, the Group applies the comparable companies method.

Valuation of derivatives is based on discounting the expected future cash flows estimated on the basis of market information, such as interest rates and exchange rates. The Group applies the Garman-Kohlhagen model for the valuation of European-style currency options, and the Barone-Adesi and Whaley model for American currency options valuation. The Blacks model is used for the valuation of interest options.

Valuation techniques and fair value hierarchy are more detailed presented in Annual Report 2015.

(All amounts in EUR thousand unless otherwise stated)

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 June 2016	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	1,006	5,208	5	**6,219**
– debt securities	1,006	–	–	**1,006**
– equity securities	–	268	5	**273**
– derivatives	–	4,932	–	**4,932**
– other	–	8	–	**8**
Financial assets designated at fair value through profit or loss	2,433	–	–	**2,433**
– unit linked investments	2,433	–	–	**2,433**
Available-for-sale financial assets	771,995	585,271	4,705	**1,361,971**
– debt securities	760,160	559,778	–	**1,319,938**
– equity securities	11,835	714	2,011	**14,560**
– equity holdings	–	–	2,694	**2,694**
– Bank Resolution Fund	–	24,779	–	**24,779**
Total financial assets	**775,434**	**590,479**	**4,710**	**1,370,623**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	4,940	–	**4,940**
– derivatives	–	4,931	–	**4,931**
– spot transactions	–	9	–	**9**
Total financial liabilities	**–**	**4,940**	**–**	**4,940**

The debt securities whose fair value is based on the market prices from Bloomberg (BGN) are classified in Level 1 amounted to EUR 741,243 thousand, as with comparative analyses the Group established that the difference in fair value when measured on the basis of offer prices is not material.

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2015	Quoted prices in active markets (level 1)	Valuation techniques based on observable market data (level 2)	Valuation techniques incorporating information other than observable market data (level 3)	Total
Financial assets measured at fair value				
Financial assets held for trading	3,477	5,074	5	**8,556**
– debt securities	3,119	–	–	**3,119**
– equity securities	–	268	5	**273**
– derivatives	358	4,796	–	**5,154**
– other	–	10	–	**10**
Financial assets designated at fair value through profit or loss	2,452	–	–	**2,452**
– unit linked investments	2,452	–	–	**2,452**
Available-for-sale financial assets	786,846	660,768	10,154	**1,457,768**
– debt securities	775,932	629,890	–	**1,405,822**
– equity securities	10,914	714	10,058	**21,686**
– equity holdings	–	5,428	96	**5,524**
– Bank Resolution Fund	–	24,736	–	**24,736**
Derivatives - hedge accounting	–	237	–	**237**
Total financial assets	**792,775**	**666,079**	**10,159**	**1,469,013**

Financial liabilities measured at fair value				
Financial liabilities held for trading	–	4,742	–	**4,742**
– derivatives	–	4,735	–	**4,735**
– spot transactions	–	7	–	**7**
Total financial liabilities	**–**	**4,742**	**–**	**4,742**

* As a result of the adjustment of the valuation methodology undertaken due to the acquisition of Banka Celje d.d., the Bank adopted the same fair value hierarchy for debt securities and equity holdings available-for-sale as applied by the acquiring bank as at 31 December 2014.

Due to the changed valuation technique from market approach to income approach, the Group transferred available-for-sale equity holdings in the amount of EUR 2,598 thousand as at 30 June 2016 from Level 2 to Level 3 in the first half of 2016.

In the first half of 2015 there were no transfes between levels.

ASSETS MEASURED AT FAIR VALUE AT LEVEL 3 OF THE FAIR VALUE HIERARCHY

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

(All amounts in EUR thousand unless otherwise stated)

	Financial assets held for trading		Available-for-sale financial assets	Total
	Equity securities	Debt securities	Equity holdings	
As at 1 January 2015	**5**	**–**	**636**	**641**
Total gains/(losses) - in other comprehensive income	–	12	–	12
Purchases	–	1,689	–	1,689
Sales, redemptions, settlements	–	–	(211)	**(211)**
As at 30 June 2015	**5**	**1,701**	**425**	**2,131**
Gains/(losses) in profit or loss for assets/liabilities held as at 30 June 2015	**–**	**–**	**–**	**–**

Financial instruments not measured at fair value

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

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

As at 30 June 2016	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Finančna sredstva					
Cash, cash balances with the central bank and other demand deposits with banks	318,325	318,325	–	–	318,325
Loans and receivables	1,909,370	–	145,078	1,842,837	1,987,915
– loans to banks	122,393	–	122,647	–	122,647
– loans to non-bank customers	1,764,546	–	–	1,842,837	1,842,837
– other financial assets	22,431	–	22,431	–	22,431
Held-to-maturity investments	31,431	33,933	–	–	33,933
Financial liabilities					
Financial liabilities measured at amortised cost	3,054,975	–	3,062,666	–	3,062,666
– deposits from banks and the central bank	18,663	–	18,615	–	18,615
– deposits from non-bank customers	2,887,330	–	2,891,794	–	2,891,794
– loans from banks and the central bank	97,582	–	100,857	–	100,857
– loans from non-bank customers	540	–	540	–	540
– debt securities issued	20,608	–	20,608	–	20,608
– other financial liabilities	30,252	–	30,252	–	30,252

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2015	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash, cash balances with the central bank and other demand deposits with banks	281,289	281,289	–	–	281,289
Loans and receivables	1,960,263	–	109,526	1,960,115	2,069,641
– loans to banks	97,218	–	96,865	–	96,865
– loans to non-bank customers	1,850,384	–	–	1,960,115	1,960,115
– other financial assets	12,661	–	12,661	–	12,661
Held-to-maturity investments	32,126	34,880	–	–	34,880
Financial liabilities					
Financial liabilities measured at amortised cost	3,204,933	36,108	3,146,038	–	3,182,146
– deposits from banks and the central bank	15,422	–	15,413	–	15,413
– deposits from non-bank customers	2,844,884	–	2,814,671	–	2,814,671
– loans from banks and the central bank	263,312	–	270,524	–	270,524
– loans from non-bank customers	558	–	558	–	558
– debt securities issued	61,860	36,108	25,975	–	62,083
– other financial liabilities	18,897	–	18,897	–	18,897

The major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements were presented in Annual Report 2015.

3 NET INTEREST INCOME

	Abanka		Group	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Interest income				
Loans and advances	35,324	43,195	35,997	43,660
– to banks	166	34	166	34
– to customers	35,158	43,161	35,831	43,600
Available-for-sale securities	10,419	12,114	10,419	12,114
Financial assets held to maturity	595	591	595	591
Financial assets held for trading	810	2,310	810	2,310
Derivatives - hedge accounting	–	627	–	627
Other assets	48	26	48	26
	47,196	**58,863**	**47,869**	**59,302**
Interest expenses				
Deposits	4,872	13,976	4,872	13,914
– from banks	24	14	24	14
– from customers	4,848	13,962	4,848	13,900
Debt securities issued	756	2,637	756	2,637
Financial liabilities held for trading	778	2,250	778	2,250
Derivatives - hedge accounting	–	7	–	7
Loans from banks and the central bank	884	2,964	884	2,989
Other liabilities	479	141	476	137
	7,769	**21,975**	**7,766**	**21,934**
Net interest income	**39,427**	**36,888**	**40,103**	**37,368**

(All amounts in EUR thousand unless otherwise stated)

4 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	Abanka		Group	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Fee and commission income				
Payment transactions	9,763	10,129	9,762	10,127
Transaction account management	3,497	3,914	3,490	3,908
Card and ATM operations	9,221	10,170	9,221	10,170
Lending operations and guarantees granted	2,204	2,590	2,200	2,559
Other services	1,976	2,601	1,997	2,622
	26,661	**29,404**	**26,670**	**29,386**
Fee and commission expenses				
Payment transactions	1,017	1,162	1,017	1,163
Card and ATM operations	5,151	6,208	5,151	6,208
Other services	343	310	394	389
	6,511	**7,680**	**6,562**	**7,760**
Net fee and commission income	**20,150**	**21,724**	**20,108**	**21,626**

Due to different accounting recognition of certain business events in the acquiring and the acquired bank, certain transfers were made between the items of the income statement for the first half of 2015. Pursuant to this fact, net fee and commission income is below that recorded in the interim reports for the first half of 2015 of the two banks by EUR 1,154 thousand, while the administration costs (Note 6) are lower by the same amount.

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

	Abanka		Group	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Net realised gains from available-for-sale financial assets	9,949	6,928	9,949	6,928
Realised losses from loans and other financial assets and liabilities	(8)	(49)	(8)	(49)
Realised gains from loans and other financial assets and liabilities	921	3,260	960	3,260
	10,862	**10,139**	**10,901**	**10,139**

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

(All amounts in EUR thousand unless otherwise stated)

6 ADMINISTRATION COSTS

	Abanka		Group	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Staff costs	19,533	19,603	20,261	20,279
– gross salaries	17,094	17,131	17,730	17,712
– social security costs	1,099	1,121	1,139	1,159
– pension costs	1,340	1,351	1,392	1,408
Professional services	6,953	7,788	7,468	8,213
Advertising and marketing	606	732	660	753
Other administration costs	1,459	1,269	1,510	1,299
IT and software costs	3,423	3,297	3,436	3,322
Rent payable	563	653	633	728
Other costs	327	212	384	302
	32,864	**33,554**	**34,352**	**34,896**

The redistribution between the items of the income statement is explained in Note 4.

Within the administration costs in the first half of 2016, EUR 948 thousand referred to costs of restructuring (first half of 2015: EUR 709 thousand). The residual restructuring cost in the amount of EUR 348 thousand are included in depreciation and amortiasation cost (first half of 2015: 462 thousand).

7 PROVISIONS

	Abanka		Group	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Restructuring provisions	–	28,171	–	28,171
Provisions for legal proceedings	309	583	305	583
Other provisions	(226)	1,720	(226)	1,720
Provisions for guarantees and commitments	(5,168)	(14,468)	(5,173)	(14,447)
Net (release)/charge of provisions	**(5,085)**	**16,006**	**(5,094)**	**16,027**

A significant part of the income from the cancelled provisions for guarantees and commitments in the first half of 2016 refers to guarantees that had been either called or paid as well as guarantees that expired in the first half of 2016.

(All amounts in EUR thousand unless otherwise stated)

8 IMPAIRMENT

	Abanka		Group	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Impairment/(release of impairment) of financial assets:				
– loans to non-bank customers	(16,693)	1,029	(16,397)	1,396
– other financial assets	27	86	15	144
Impairment of investments in subsidiaries	–	–	(605)	–
Impairment/(release of impairment) of non-financial assets:				
– other non-financial assets	–	419	(137)	(7)
	(16,666)	**1,534**	**(17,124)**	**1,533**

The reversal of impairments for loans to non-bank customers in the first six months of 2016 was primarily the result of an improved financial position of the companies which have been in the process of financial restructuring, regular loan repayment and income from debt collection.

9 PLEDGED ASSETS

	Group	
	30 June 2016	31 December 2015
Available-for-sale financial assets (Note 10)	78,976	140,212
Loans to banks	10,748	10,556
Loans to non-bank customers	18,392	56,918
Held-to-maturity investments	3,614	10,420
Total pledged assets	**111,730**	**218,106**

Assets are pledged as collateral for the Eurosystem (ECB) claims, for the purposes of the Deposit Guarantee Scheme, for claims from VISA and Mastercard card transactions and claims by counterparties arising from derivative financial instruments.

10 LOANS FROM BANKS AND CENTRAL BANK

	Group	
	30 June 2016	31 December 2015
Loans from banks	97,582	163,154
Loans from the central bank	–	100,158
Total loans from banks and the central bank	**97,582**	**263,312**

Reduction in loans to the central bank is related to the early repayment of the TLTRO (targeted longer-term refinancing operations) in June 2016 in the amount of EUR 100 million, thereby freeing up the pledged available-for-sale assets (note 9).

Loans from banks and central bank are further analysed as part of the statement of financial position in the following notes: Fair value (Note 2(d)) and Related-party transactions (Note 16).

(All amounts in EUR thousand unless otherwise stated)

11 DEBT SECURITIES ISSUED

	Interest rate on 30 June 2016	Group	
		30 June 2016	31 December 2015
Certificates of deposit (falling due: 2016 to 2020)	0.55–5.95%	20,608	25,975
Bonds – BCE 15th issue, due 15 February 2016	5.00%	–	35,885
Total debt securities issued		**20,608**	**61,860**

The final fifth coupon of the 15th issue BCE15 bonds of EUR 1,050.00 matured on 15 February 2016. The total settled amount of the matured BCE15 principals and interest coupons was EUR 35,858 thousand.

Fair value is disclosed in Note 2(d).

12 CAPITAL AND CAPITAL ADEQUACY AND LEVERAGE RATIO

As at 30 June 2016 the regulatory capital of the Abanka totalled EUR 498,092 thousand, which is EUR 48,848 thousand more than at the end of 2015. As at 30 June 2016 the total risk exposure amount of the Abanka totalled EUR 1,872,667 thousand, which is EUR 92,360 thousand less than at the end of 2015. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Abanka were 26.60% or 3.74 percentage points more than at the end of 2015.

As at 30 June 2016 the regulatory capital of the Group totalled EUR 499,120 thousand, which is EUR 47,349 thousand more than at the end of 2015. As at 30 June 2016 the total risk exposure amount of the Group totalled EUR 1,864,479 thousand, which is EUR 97,253 thousand less than at the end of 2015. At the same date, the total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio of the Group were 26.77% or 3.74 percentage points more than at the end of 2015.

In accordance with Regulation (EU) No 575/2013 credit institutions the following own funds requirements shall apply from 1 January 2015 further: a Common Equity Tier 1 capital ratio at 4.5% or higher; a Tier 1 capital ratio at 6% or higher; and a total capital ratio at 8% or higher. As at 30 June 2016, the Group's capital adequacy ratios were above the legally required levels. According to stress scenarios by the Bank of Slovenia the expected consolidated capital adequacy ratio was 13.5% and the expected consolidated Common Equity Tier 1 capital ratio equalled 10.8%. As at 30 June 2016, the Group's capital adequacy ratios were above the levels required by the Bank of Slovenia.

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

As at 30 June 2016 the Tier 1 capital measure of the Abanka totalled EUR 498,092 thousand, which is EUR 48,848 thousand more than at the end of 2015. As at 30 June 2016 the total exposure measure of the Abanka totalled EUR 4,145,686 thousand, which is EUR 98,307 thousand less than at the end of 2015. At the same date, the leverage ratio of the Abanka was 12.01% or 1.43 percentage points more than at the end of 2015.

As at 30 June 2016 the Tier 1 capital measure of the Gropu totalled EUR 499,120 thousand, which is EUR 47,349 thousand more than at the end of 2015. As at 30 June 2016 the total exposure measure of the Group totalled EUR 4,151,469 thousand, which is EUR 96,090 thousand less than at the end of 2015. At the same date, the leverage ratio of the Abanka was 12.02% or 1.39 percentage points more than at the end of 2015.

(All amounts in EUR thousand unless otherwise stated)

13 CASH FLOW STATEMENT

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

Due to the acquisition of Banka Celje d.d., the Bank adjusted the comparative figures. Prior to the acquisition, Banka Celje d.d. used the direct method in preparing its statement of cash flows. For this reason, it was necessary to redraft the cash flow statement of Banka Celje d.d. for the first half of 2015 by using the indirect method.

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Cash, cash balances with the central bank and other demand deposits with banks	318,156	311,283	318,325	311,415
Loans to banks	76,159	32,473	76,159	32,473
	394,315	**343,756**	**394,484**	**343,888**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Interest paid	11,054	26,691	11,054	26,691
Interest received	60,537	76,201	62,150	77,871
Dividends received	18	–	18	–

OTHER ITEMS IN THE CASH FLOW STATEMENT

Other adjustments to total profit or loss before tax in the first half of 2016 relate to net provisions which decrease in the first half of 2016 and to realised losses on derecognition of financial assets not measured at fair value. Other gains from investing activities totalling EUR 3,623 thousand relate to held-to-maturity investments (EUR 595 thousand) and to non-current assets held for sale (EUR 3,028 thousand). In March 2016, the Group received EUR 3,137 thousand in cash from the successful restructuring of a large company and the sale of this investment, disclosed under non-current assets held for sale, and thus earned profit in the same amount.

14 CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

As at 30 June 2016 the Bank or the Group had no capital expenditure commitments. In the first half of 2016 there were no significant additions and disposals of property and equipments.

As at 30 June 2016 and 31 December 2015, there were some legal proceedings against the Group. Provisions were set aside for those cases where losing a dispute was more probable than not. According to the assessment of the Group, in all other cases the probability of cash outlays upon their outcome was very low and therefore no provisions were formed.

The Group is not involved in any dispute concerning the protection of competition.

With reference to the disputes disclosed in the Annual Report 2015 the following important developments occured:

- ABANCA CORPORACION BANCARIA S.A., C/Canton Claudino Pita, n. 2, W-15300 Betanzos, Spain.

The Spanish bank ABANCA is suing Abanka in Spain, Portugal, France, Great Britain, Germany and Switzerland to revoke its two international brands ABANKA no. 860 632 and no. 860 561 on the ground of non-use. The proceedings are in different phases:

- France: Abanka received the action, immediately hired a lawyer and sent the evidence on the performance of banking services in France. A statement of defence was filed.
- Germany: The Spanish bank filed an opposition with the German Patent and Trade Mark Office on the ground of non-use of Abanka's brand in Germany. The Bank opposed the opposition so that any further proceeding will continue before the Court. Lawyers were hired. Until today no information was received on the lodged action.
- Portugal: The Spanish bank filed an opposition with the local patent office on the ground of non-use of Abanka's brand. The opposition was opposed by submitting all the relevant evidence. A decision has not yet been issued.
- Great Britain: In Great Britain, Abanca initiated two proceedings against Abanka before the patent office, which were combined into a single proceeding in which the patent office is to resolve the opposition of Abanca on the ground of non-use of Abanka's brand. The relevant evidence was submitted to the Bank's representatives in Great Britain. A reasoned application was filed, including the evidence on the use of international brands in Great Britain.
- Switzerland: On 29 March 2016, Abanka was served an action of Abanca, which was filed with the Swiss Federal Institute of Intellectual Property so as to nullify Abanka's two brands on the ground of non-use. A lawyer was hired and the evidence-taking procedure began. At the end of June 2016, a statement of defence was submitted.
- Spain: Abanka received an action filed by Abanca to revoke the brands on the ground of non-use via the Slovene court. A lawyer was hired in Spain, the documentation was gathered and a statement of defence was submitted to the Court in La Coruna, Spain.

In the first half of 2016, no major settlements in legal disputes occured nor new disputes initiated.

15 MANAGED FUNDS

In June 2016, the management of Abanka's AIII mutual pension fund (hereinafter: AIII VPS) was transferred to Banka Koper d.d. On 7 June 2016, AIII VPS was merged with Banka Koper's Open-ended mutual pension fund (hereinafter: OVPS) as at the accounting date of 31 May 2016. As of 7 June 2016, the insured of AIII VPS have become the insured of OVPS, while AIII VPS ceased to exist.

16 RELATED-PARTY TRANSACTIONS

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

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

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

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

(All amounts in EUR thousand unless otherwise stated)

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

Type of related party	Subsidiaries		Associates		Key management personnel		Indirectly related companies	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Financial assets								
Loans	66,935	77,699	–	–	365	323	–	17
Equity securities								
– financial assets designated at fair value through profit or loss	–	–	–	–	–	–	–	2,452
– investments in subsidiaries and associates	6,024	6,024	–	–	–	–	–	–
Financial liabilities								
Deposits	762	2,008	–	–	1,052	972	145	18,047
Loans from non-bank customers	56	69	–	–	–	–	–	–
Debt securities issued	–	–	–	–	–	–	–	16,287
Other financial liabilities	18	28	–	–	–	–	–	28
Off-balance sheet records								
Nominal amount of loan commitments and financial guarantees issued	2,327	1,769	–	–	44	55	–	5,213
Comfort letters	–	–	–	–	–	–	–	–
Allowances for impairment losses on financial assets	482	634	–	–	1	1	–	–
Provisions for guarantees and commitments	47	42	–	–	–	–	–	2
Fiduciary activities	–	–	–	–	–	–	–	–

Type of related party	Subsidiaries		Associates		Key management personnel		Indirectly related companies	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Interest income	1,109	1,611	–	–	4	8	–	1,936
Interest expenses	–	62	–	–	3	16	–	1,116
Fee and commission income	5	33	–	–	1	–	–	3
Net realised gains/(losses) fom loans	–	–	–	1,040	–	–	–	–
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	–	–	–	110
Net other operating income/(expenses)	49	42	–	–	–	–	–	19
Administration costs	124	80	–	–	–	–	–	6
(Impairment)/release of impairment of financial assets	152	74	–	–	–	–	–	3
Income/(expenses) on provisions for guarantees and commitments	(4)	–	–	21	–	–	–	1

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Associates		Key management personnel		Indirectly related companies	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015
Financial assets						
Loans	–	–	369	328	–	17
Equity securities						
– financial assets designated at fair value through profit or loss	–	–	–	–	–	2,452
Financial liabilities						
Deposits	–	–	1,204	1,325	145	18,049
Debt securities issued	–	–	–	–	–	16,287
Other financial liabilities	–	–	–	–	–	28
Off-balance sheet records						
Nominal amount of loan commitments and financial guarantees issued	–	–	46	64	–	5,213
Comfort letters	–	–	–	–	–	–
Allowances for impairment losses on financial assets	–	–	1	1	–	–
Provisions for guarantees and commitments	–	–	–	–	–	2
Fiduciary activities	–	–	–	–	–	–

(All amounts in EUR thousand unless otherwise stated)

Type of related party	Associates		Key management personnel		Indirectly related companies	
	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015	1 January – 30 June 2016	1 January – 30 June 2015
Interest income	–	–	4	9	–	1,936
Interest expenses	–	–	3	19	–	1,116
Fee and commission income	–	–	1	–	–	3
Net realised gains/(losses) from loans	–	1,040	–	–	–	–
Net gains/(losses) on financial assets and liabilities designated at fair value through profit or loss	–	–	–	–	–	110
Net other operating income/(expenses)	–	–	–	–	–	19
Administration costs	–	–	–	–	–	6
(Impairment)/release of impairment of financial assets	–	–	–	–	–	3
Income/(expenses) on provisions for guarantees and commitments	–	21	–	–	–	1

As at 30 June 2016, the Bank's available-for-sale financial assets included available-for-sale debt securities of the Republic of Slovenia in the amount of EUR 495,895 thousand (31 December 2015: EUR 561,557 thousand), while the Bank's held-to-maturity financial assets included debt securities of the Republic of Slovenia in the amount of EUR 31,431 thousand (31 December 2015: EUR 32,126 thousand). As at 30 June 2016, loans granted to the government amounted to EUR 959 thousand (31 December 2015: EUR 1,432 thousand).

Interest income from these transactions totalling EUR 4,935 thousand in the first half of 2016 (first half of 2015: EUR 6,140 thousand).

In the first half of 2016, net gains from trading with debt securities reached EUR 585 thousand (first half of 2015: EUR 248 thousand.

As at 30 June 2016, deposits of the Ministry of Finance amounted to EUR 10,001 thousand (31 December 2015: EUR 27,998 thousand). Interest expenses from these deposits totalling EUR 289 thousand in the first half of 2016 (first half of 2015: EUR 3,109 thousand).

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

Individually significant transactions with state-related companies include debt securities available for sale, given loans and received long-term loans and deposits. As at 30 June 2016, individually significant debt securities available for sale totalled EUR 566,770 thousand (31 December 2015: EUR 556,137 thousand), given long-term loans EUR 140,000 thousand (4 contracts) (31 December 2015: 3 contract amounting to EUR 130,000 thousand), received long-term loans EUR 47,653 thousand (3 contracts) (31 December 2015: 6 contracts amounting to EUR 87,053 thousand) and received deposits EUR 80,885 thousand (5 contracts) (31 December 2015: 5 contracts amounting to EUR 134,398 thousand).

As at 30 June 2016, the remaining (individually insignificant) debt securities available for sale totalled EUR 15,867 thousand (31 December 2015: EUR 19,382 thousand), given loans EUR 44,803 thousand (31 December 2015: EUR 51,450 thousand), received long-term loans EUR 47,038 thousand (31 December 2015: EUR 73,004 thousand) and received deposits EUR 53,553 thousand (31 December 2015: EUR 42,922 thousand).

In the first half of 2016, interest income from transactions with state-related companies amounted to EUR 5,421 thousand (first half of 2015: EUR 4,724 thousand) and interest expenses totalled EUR 1,132 thousand (first half of 2015: EUR 3,831 thousand).

17 SEGMENT ANALYSES

(a) By business segment

The Group provides services in three business segments:

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

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

For the purpose of intra-company accounting, transactions between segments were treated on the basis of an agreed and harmonised set of transfer instruments to account for the transfers of various effects (internal transfers/allocation of indirect costs by business segment, debiting overheads to commercial segments, internal transfers of earnings between business segments).

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

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

Business segment results depend on the system of opportunity interest rates, which is based on alternative/opportunity interest rates applied to interest-bearing assets and liabilities items, aimed at establishing opportunity income and expenses. This serves as a basis for calculating opportunity interest margins for individual segments of assets (as the difference between earned income and opportunity income) as well as opportunity interest margins for individual segments of liabilities (as the difference between opportunity expenses and incurred expenses). This is also the basis for establishing positive and negative opportunity interest margins and consequently positive or negative contributions to the performance of individual business segments.

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

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF THE GROUP

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

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF ABANKA VIPA GROUP AS REPORTED FOR THE FIRST HALF OF 2015

As at 30 June 2015	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	13,473	17,025	4,968	1,905	37,371
Revenues from other segments	–	–	–	–	–
Segment result	(133)	27,227	11,353	(28,482)	9,965
Operating profit					9,965
Share of results of associates	–	–	–	–	–
Profit before tax					9,965
Income tax					(4,017)
Net profit for the year					**5,948**
Segment assets	539,530	550,906	1,316,582	30,811	2,437,829
Investments in subsidiaries and associates	–	–	3,698	(3,698)	–
Unallocated assets					43,032
Total assets					**2,480,861**
Segment liabilities	1,165,244	443,919	486,176	17,320	2,112,659
Unallocated liabilities					64,877
Total liabilities					**2,177,536**
Other segment items					
Capital expenditure	161	14	5	2,453	2,633
Depreciation and amortisation	655	181	24	2,371	3,231
Net impairment and provision	(2,053)	18,320	(2)	(28,963)	(12,698)
Other material non-cash items	–	–	–	–	–
[1]**Including**					
– interest income	9,864	13,078	11,719	439	35,100
– interest expenses	(4,833)	(1,039)	(8,074)	38	(13,908)
– dividend income	–	–	667	–	667
– fee and commission income	10,011	8,421	871	2,021	21,324
– fee and commission expenses	(1,569)	(3,435)	(215)	(593)	(5,812)

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

(All amounts in EUR thousand unless otherwise stated)

PRIMARY SEGMENT INFORMATION OF BANKA CELJE D.D. AS REPORTED FOR THE FIRS HALF OF 2015

As at 30 June 2015	Retail banking	Corporate banking	Financial markets	Other	Total
Total income	11,018	16,028	5,414	–	**32,460**
External income	11,018	15,938	5,414	–	**32,370**
Income from other segments	–	90	–	–	**90**
Net interest income	7,283	10,366	(1,473)	–	**16,176**
Net fee and commission income	3,592	3,208	468	–	**7,268**
Income from financial transactions	(10)	236	684	–	**910**
Net other operating (losses)	(290)	(294)	(130)	–	**(714)**
Administrative expenses including depreciation and amortisation	(6,210)	(3,571)	(5,921)	–	**(15,702)**
Provisions	(25)	(259)	–	–	**(284)**
Impairment	(1,015)	(3,563)	–	–	**(4,578)**
Loss before income tax	3,325	6,123	(6,372)	–	**3,076**
Deferred tax	–	–	–	(441)	**(441)**
Net loss					**2,635**
Segment assets	474,211	473,172	501,471	–	**1,448,854**
Unallocated assets				8,503	**8,503**
Total assets					**1,457,357**
Segment liabilities	745,308	361,063	134,677	–	**1,241,048**
Unallocated liabilities	–	–	–	9,220	**9,220**
Equity	–	–	–	207,089	**207,089**
Total liabilities and equity					**1,457,357**

18 SEASONALITY OR CYCLICALITY OF INTERIM OPERATIONS

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

19 THE NATURE AND AMOUNT OF UNUSUAL ITEMS

In the first half of 2016 there were no unusual items that, in terms of their nature, scope or occurrence, could have an impact on assets, debts, capital, net profit or loss or cash flow.

(All amounts in EUR thousand unless otherwise stated)

20 THE EFFECT OF ACQUISITION

The effect from the acquisition of Banka Celje d.d. to Abanka Vipa d.d. is summarized in the following table. The pooling of interests method was applied in the acquisition, except in the income statement items “Fee and commission expenses” and “Administration costs” (Notes 4 and 6) where adjustments were made.

INCOME STATEMENT

	Banka Celje first half year 2015		Abanka Vipa first half year 2015		Abanka first half year 2015 (adjusted for Banka Celje)	
	Bank	Group	Bank	Group	Bank	Group
Interest income	24,202	24,192	34,661	35,100	58,863	59,302
Interest expenses	(8,026)	(8,026)	(13,949)	(13,908)	(21,975)	(21,934)
Net interest income	**16,176**	**16,166**	**20,712**	**21,192**	**36,888**	**37,368**
Dividend income	–	–	667	667	667	667
Fee and commission income	8,062	8,062	21,342	21,324	29,404	29,386
Fee and commission expenses (Note 4)	(794)	(794)	(5,732)	(5,812)	(7,680)	(7,760)
Net fee and commission income	**7,268**	**7,268**	**15,610**	**15,512**	**21,724**	**21,626**
Net realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	466	466	9,673	9,673	10,139	10,139
Net (losses)/gains on financial assets and liabilities held for trading	(497)	(497)	1,137	1,137	640	640
Net losses on financial assets and liabilities designated at fair value through profit or loss	–	–	110	110	110	110
Fair value adjustments in hedge accounting	(1)	(1)	–	–	(1)	(1)
Exchange differences	943	943	(356)	(361)	587	582
Net (losses)/gains on derecognition of assets	(1)	(1)	13	48	12	47
Net other operating expenses	(714)	(582)	(1,441)	(567)	(2,155)	(1,281)
Administration costs (Note 6)	(14,534)	(14,695)	(20,174)	(21,516)	(33,554)	(34,896)
Depreciation and amortisation	(1,168)	(1,191)	(2,869)	(3,231)	(4,037)	(4,399)
Provisions	(284)	(284)	(15,722)	(15,743)	(16,006)	(16,027)
Impairment	(4,578)	(4,578)	3,044	3,045	(1,534)	(1,533)
Total loss from non-current assets held for sale	–	–	(1)	(1)	(1)	(1)
Total loss before tax from continuing operations	3,076	3,014	10,403	9,965	13,479	13,041
Tax income related to loss from continuing operations	(441)	(441)	(3,992)	(4,017)	(4,433)	(4,458)
Net loss from continuing operations	**2,635**	**2,573**	**6,411**	**5,948**	**9,046**	**8,583**

In April 2016, Anepremičnine d.o.o. was merged with Posest d.o.o. As a result of this merger, the total assets of Anepremičnine increased by EUR 6,512 thousand, which negatively affected its business results by EUR 64 thousand.

As a result of this merger, the following items in the income statement increased: income from services by EUR 71 thousand, income from rent by EUR 67 thousand, interest income by EUR 32 thousand, other operating income by EUR 2 thousand, costs of material and services by EUR 106 thousand, depreciation and amortisation costs by EUR 33 thousand, remuneration by EUR 74 thousand, interest expenses by EUR 34 thousand and other expenses by EUR 5 thousand. The positive difference in the sale of real property amounted to EUR 16 thousand.

In the balance sheet under total assets, plant, property and equipment grew by EUR 153 thousand, investment property by EUR 4,289 thousand, loans to third parties by EUR 109 thousand, receivables from customers and others by EUR 130 thousand and inventories by EUR 1,831 thousand. On the liabilities side, liabilities to Abanka were up by EUR 4,520 thousand, provisions by EUR 22 thousand, liabilities to suppliers and others by EUR 167 thousand and equity of Anepremičnine by EUR 1,803 thousand (share premium increased by EUR 2,124 thousand, loss brought forward by EUR 257 thousand and net loss for the period by EUR 64 thousand).

21 EVENTS AFTER THE REPORTING DATE

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