The Unaudited Interim Report of the Abanka Vipa Group for the First Half of 2014

ABANKA

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The Unaudited Interim Report of the Abanka Vipa Group for the First Half of 2014 is a translation of the original Unaudited Interim Report of the Abanka Vipa Group for the First Half of 2014 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 VIPA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2014	31 Dec. 2013
Total assets	**2,695,955**	3,048,403
Total amount of deposits of the non-banking sector, measured at amortised cost	**1,832,102**	1,886,057
Total amount of loans and receivables to the non-banking sector, measured at amortised cost	**1,665,036**	1,809,717
Total equity	**231,628**	212,139

INCOME STATEMENT (EUR thousand)	Jan.-June 2014	Jan.-June 2013
Net interest income	**30,707**	32,908
Net non-interest income	**16,320**	11,897
Labour costs, general and administration costs	**(22,364)**	(24,893)
Depreciation	**(3,134)**	(2,842)
Impairments and provisions	**(20,411)**	(39,169)
Profit or loss from ordinary operations before tax	**1,118**	(22,099)
Corporate income tax on ordinary operations	**(571)**	2,573

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2014	Jan.-June 2013
Other comprehensive income before tax	**22,831**	(9,791)
Income tax relating to components of other comprehensive income	**(3,889)**	1,468

INDICATORS	Jan.-June 2014	Jan.-June 2013
Capital adequacy	**9.2%**	9.7%
Performance (in %)		
– return on assets after tax(1)	**0.04** *	(1.10) *
– return on equity after tax(2)	**0.49** *	(25.56) *

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

Notes:

Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Books of Account and Annual Reports of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 17/2012).

(1) The indicator equals the ratio **profit/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 VIPA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	30 June 2014	31 Dec. 2013
Total assets	**2,701,760**	3,036,473
Total amount of deposits of the non-banking sector, measured at amortised cost	**1,842,870**	1,894,139
– from legal and other persons, who pursue a business activity[1]	**703,209**	792,948
– retail	**1,139,661**	1,101,191
Total amount of loans and receivables to the non-banking sector, measured at amortised cost	**1,697,240**	1,820,677
– from legal and other persons, who pursue a business activity[1]	**1,189,568**	1,305,005
– retail	**507,672**	515,672
Total equity	**233,554**	212,694
Impairments of financial assets and provisions	**737,049**	754,798
Off-balance sheet items (B.1 to B.4)	**791,754**	918,340

INCOME STATEMENT (EUR thousand)	Jan.-June 2014	Jan.-June 2013
Net interest income	**30,371**	31,883
Net non-interest income	**15,975**	11,704
Labour costs, general and administration costs	**(20,837)**	(22,904)
Depreciation	**(2,763)**	(2,481)
Impairments and provisions	**(20,311)**	(38,265)
Profit or loss before tax from ordinary operations	**2,435**	(20,063)
Corporate income tax from ordinary operations	**(562)**	2,624

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	Jan.-June 2014	Jan.-June 2013
Other comprehensive income before tax	**22,876**	(9,771)
Income tax relating to components of other comprehensive income	**(3,889)**	1,465

NUMBER OF EMPLOYEES	30 June 2014	31 Dec. 2013
	855	881

SHARES	30 June 2014	31 Dec. 2013
Number of shareholders	**1**	1
Number of shares	**15,000,000**	15,000,000
Proportion of par-value shares in share capital (in EUR)	**10.00**	10.00
Book value per share (in EUR)	**15.57**	14.18

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 2014	Jan.-June 2013
Capital adequacy ratio	**9.1%**	9.9%
– Capital of the Bank - for capital adequacy purposes (in thousand of EUR)	**197,466**	264,254
Quality of assets and contingent liabilities (in %)		
Impairments of financial assets at amortised cost and provisions	**23.60**	11.27
Performance (in %)		
– interest margin(1)	**2.03 ***	1.79 *
– financial intermediation margin(2)	**3.10 ***	2.44 *
– return on assets before tax(3)	**0.16 ***	(1.12) *
– return on equity before tax(4)	**2.18 ***	(24.93) *
– return on equity after tax(5)	**1.68 ***	(21.67) *
Operational costs (in %)		
– operational costs/average assets	**1.58 ***	1.42 *
Liquidity (in %)		
– liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost	**86.30**	57.83
– liquid assets/average assets	**33.12**	23.83

* Annualized figures are calculated linearly on the basis of the first 6 months.
Notes:
Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Books of Account and Annual Reports of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 17/2012).

(1) The indicator equals the ratio **net interest income/average assets**.
(2) The indicator equals the ratio **(net interest income+net non-interest income)/average assets**.
(3) The indicator equals the ratio **profit/loss before tax/average assets**.
(4) The indicator equals the ratio **profit/loss before tax/average equity**.
(5) The indicator equals the ratio **profit/loss after tax/average equity**.
(6) **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.
(7) **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.

PRESENTATION OF THE BANK AND THE ABANKA VIPA GROUP

ABOUT THE BANK

Abanka Vipa d.d. (hereinafter: Abanka) is a bank with a 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 in Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was reorganised as a joint-stock 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 to and fully paid up all 15,000,000 new Abanka shares, thus becoming a 100% owner of the Bank. As at 31 December 2013, Abanka’s market share in terms of total assets was 6.9%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 40 branches across Slovenia, e-banking, advisory services and personal approach, the Bank provides integrated financial services, ranging from traditional banking, bancassurance to investment banking. In the scope of investment banking, Abanka also manages AIII mutual retirement fund.

Moreover, Abanka has gained international reputation. In inter-bank 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 includes also financial counselling, factoring, project financing, leasing, asset management and real property management and are complemented through subsidiaries in Slovenia: AB58 d.o.o., Afaktor d.o.o. with two subsidiaries in Serbia and Croatia (Afaktor – faktoring finansiranje d.o.o. and Afaktor – faktoring d.o.o. respectively), Argolina d.o.o., Aleasing d.o.o. with two associated companies in Bosnia and Herzegovina (ASA Aleasing d.o.o. and Agradnja d.o.o.), Analožbe d.o.o. and Anepremičnine d.o.o. with the subsidiary Anekretnine d.o.o. in Montenegro.

SERVICES OF THE BANK

As at 30 June 2014 Abanka was authorised to provide the following mutually recognised financial services under Article 10 of the Banking Act (ZBan-1):

SERVICE	LICENCE ISSUED
1. Acceptance of deposits;	YES
2. Lending including, inter alia: – consumer loans, – mortgage loans, – factoring, with or without recourse, – financing of commercial transactions (including forfeiting);	 YES YES YES YES
3. Financial leasing: 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 point 4);	YES
6. Issuance of guarantees and other commitments;	YES
7. Trading for own account or for the account of customers in: – money market instruments, – foreign exchange, including currency exchange transactions, – financial futures and options, – exchange and interest-rate instruments, – transferable securities;	YES YES YES YES YES YES
8. Participation in the issuance of securities and services related to such issues;	YES
9. Advice and services related to mergers and acquisitions of undertakings;	YES
10. Money intermediation on inter-bank markets;	NO
11. Portfolio management and advice;	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 set out in Article 10 of the Financial Instruments Market Act.	YES

As at 30 June 2014 Abanka was authorised to provide the following other financial services under Article 11 of the Banking Act:

SERVICE	LICENCE ISSUED
1. Insurance brokerage in accordance with the law governing the insurance business;	YES
2. Payment system management services;	NO
3. Pension fund management in accordance with the law governing pension and disability insurance;	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

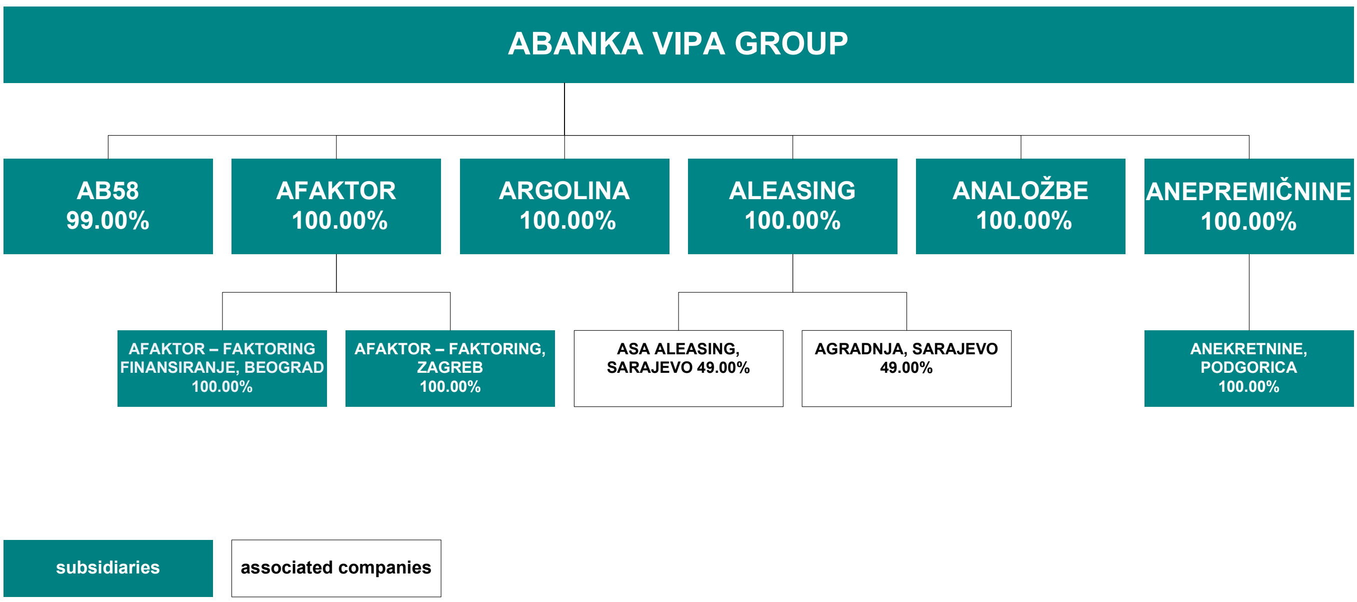
Abanka is entered in the Companies Register kept by the District Court in Ljubljana under registration no. 1/02828/00.

Registered office:	Slovenska cesta 58, 1517 Ljubljana
Transaction account:	SI56 0100 0000 0500 021
SWIFT:	ABANSI2X
Tax number:	68297530
VAT indentification number:	SI68297530
Company registration number:	5026024
Share capital:	EUR 150,000,000.00
Telephone:	(+386 1) 47 18 100
Fax:	(+386 1) 43 25 165
Website:	http://www.abanka.si
E-mail:	info@abanka.si

ABOUT THE ABANKA VIPA GROUP

As at 30 June 2014, in addition to Abanka Vipa as the parent company, the Abanka Vipa Group (hereinafter: the Abanka Group) included the following:

- **subsidiaries**: AB58 d.o.o., Afaktor d.o.o. with two **subsidiaries** in Serbia and Croatia (Afaktor – faktoring finansiranje d.o.o. and Afaktor – faktoring d.o.o. respectively), Argolina d.o.o., Aleasing d.o.o. with two **associated companies** in Bosnia and Herzegovina (ASA Aleasing d.o.o. and Agradnja d.o.o.), Analožbe d.o.o. and Anepremičnine d.o.o. with the **subsidiary** Anekretnine d.o.o. in Montenegro.



Structure as at 30 June 2014

The following table indicates the year the subsidiaries were included in the Abanka Group, their activities and the Abanka's equity shareholding as at 30 June 2014.

Company	Included in Abanka Group	Activity	Equity Share-holding	Nominal Value of Capital Stakes as at 30 June 2014 (in EUR thousand)
AB58 d.o.o.*	2013	financial counselling	99.0%	842
Afaktor d.o.o.	2002	factoring	100.0%	1,505
Argolina d.o.o.	2003	project financing	100.0%	1,682
Aleasing d.o.o.	2003	leasing	100.0%	4,902
Analožbe d.o.o.	2006	investment management	100.0%	100
Anepremičnine d.o.o.	2013	real property management	100.0%	3,639

Note:
* In 2013, after the transmission of activities, Abanka Skladi d.o.o. (included in the Abanka Group in 1994) was renamed to AB58 d.o.o.

In the first half of 2014, the nominal value of Abanka's equity stake in subsidiaries remained unchanged and was the same as at 2013 year-end, amounting to EUR 12,670 thousand.

Activities of Subsidiaries

AB58 d.o.o.

AB58, finančno svetovanje d.o.o. (short company name: AB58 d.o.o.) is the legal successor of Abanka Skladi d.o.o. established on 9 May 1994. The company is based in Ljubljana. Gregor Hudobivnik is the General Manager. The company's ownership remained the same as in the first half of 2014 and as at the reporting date it was as follows:
- Abanka Vipa d.d. – 99%; and
- Mateja Gubanec – 1%.

The activity of Abanka Skladi d.o.o., as AB58 d.o.o. was named prior to 12 September 2013, was investment fund management consisting of:
- managing the assets of investment funds;
- marketing investment funds, selling investment coupons or shares of investment funds; and
- administrative services.

In June 2013, Abanka Skladi, družba za upravljanje d.o.o., and Triglav Skladi, družba za upravljanje d.o.o., concluded the Agreement on the Transfer of Fund Management of the ABANKA SKLADI umbrella fund to Triglav Skladi d.o.o. In September 2013, Triglav Skladi d.o.o. took full control of the management of the ABANKA SKLADI umbrella fund. After the transfer of the fund management business, Abanka Skladi no longer performed this activity. Therefore, the company was transformed into a conventional company under the name AB58, finančno svetovanje d.o.o.

AB58 d.o.o. registered the following activities: other financial service activities, other than insurance and pension funding. The company may also conduct all other activities required for its existence and business, which do not represent its core business.

Afaktor Group

Afaktor, finančna družba za faktoring d.o.o. (hereinafter: Afaktor d.o.o. Ljubljana), established in March 1993, is 100% owned by Abanka. The company's registered office is in Ljubljana.

The core activities of the company are:
- domestic and international factoring,
- factoring, with or without recourse,
- purchase of receivables,
- accounts-receivable management.

Afaktor in Ljubljana has successfully grown through the years since its establishment and broadened its range of factoring services, becoming one of the three largest factoring companies in Slovenia. At the end of 2007 Afaktor in Ljubljana established the subsidiary in Belgrade for operations in Serbia and in April 2010 the subsidiary in Zagreb for operations in Croatia. Both companies were established to provide domestic factoring services in the local market. The company in Ljubljana is responsible for the entire strategic and technological development of operations of the Afaktor Group's subsidiaries as well as for the supervision over their operations. Matjaž Kaštrun manages Afaktor in Ljubljana, Bojan Šuštar in Croatia and Igor Vukotić in Serbia as directors. As at 30 June 2014, the Supervisory Board of Afaktor in Ljubljana comprised of Barbara Jagodič as its Chairwoman, Gregor Hudobivnik as its Vice-Chairman and Kristijan Hvala as a member.

In 2013, the Croatian subsidiary stopped operating. Due to a protracted economic crisis in Serbia in 2014 and a strategic decision to withdraw financial investments, the operations of the subsidiary in Serbia were suspended in the first half of 2014.

In early 2014, the products and services provided by Afaktor in Ljubljana were not competitive enough, especially for major exporters. Lower income of the Ljubljana subsidiary was also due to a temporary loss of business with its important customer in export factoring. Through active involvement and cooperation with key players in the reorganisation and restructuring of the company and in the segment of small and medium-sized companies, the volume of business and income are expected to grow in the second half of 2014.

Argolina d.o.o.

Argolina, investicijski inženiring, d.o.o. (short company name: Argolina d.o.o.) was established in July 2003 as an investor in construction of the business and residential complex Argolina at the site of the former Argo factory in Izola. When the construction is completed, the company should continue functioning as a building manager until another one is selected by new owners. The company's basic activity is the organisation of building construction projects. The company's registered office is in Ljubljana.

Argolina was founded by Abanka Vipa d.d. (25.1%), MPM Engineering d.o.o. (49.9%) and Relax d.o.o. (25.0%). In June 2006, MPM Engineering d.o.o. sold its stake in Argolina d.o.o. to Abanka, which increased its shareholding to 75% of the company. By a resolution of the General Meeting of Shareholders in May 2007, Relax d.o.o. was excluded from the company. Initially, the stake of Relax d.o.o. was transferred to Argolina d.o.o. and, in accordance with the law, three months later it was acquired by Abanka which became the 100% owner of the company. Uroš Šuber is the General Manager.

The economic crisis adversely affected the implementation of the project, as the foreseen construction on the land owned by Argolina d.o.o. requires specific investors from the international tourism market, who have been very prudent in recent years when investing in Slovene companies. Argolina is currently not actively operating as all of its business activities will begin only with the start of the project.

Argolina is dormant; however, its business operations in the first half of 2014 were focused on seeking solutions for the divestment of the company's assets, conversion to more liquid types of assets and/or the completion of an investment project.

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 and has business units in Ljubljana, Celje and Šempeter pri Gorici. In 2012, the company relocated its headquarters from Celje to Ljubljana. In line with the general corporate governance policy of the Abanka Group, the Supervisory Board of Aleasing d.o.o. was established in 2013, consisting of Matej Golob Matzele as its Chairman, Gregor Hudobivnik as Vice-Chairman and Jure Poljšak as member as at 30 June 2014. Aleasing is led by Nikolaj Fišer as General Manager.

The purpose of establishing Aleasing was to offer lease-financing services in Slovenia. Leasing completes the sales range of the Abanka Group. Aleasing sells financial and operational leasing products for vehicles, machinery, equipment and real property. Its range of products is tailored to the needs of its business partners and the market situation. Thus in the first half of 2014, the subsidiary focused on financing vehicles, followed by the financing of machinery and equipment, with real property financing accounting for the rest. Due to higher demand, Aleasing in collaboration with external providers further improved its range of fleet management services for large companies with extensive fleets of vehicles and highest credit rating.

Assets not directly used in the core business were spun-off in 2013, mainly involving real property that was transferred to the newly founded Anepremičnine d.o.o. With an aim to streamline its operations, on 1 January 2014 Aleasing began a spin-off process in order to transfer part of additional assets to Anepremičnine. The spin-off of the assets not involved in the core business of Aleasing, primarily real property and other items in stock, is expected to be officially completed by September 2014.

In cooperation with relevant departments of Abanka, the Credit Rating Department was centralised at the Group level. In this way credit ratings and credit rating policies were standardised and made uniform.

Furthermore, Aleasing prepared an analysis of possible future organisation of leasing operations and its position within the Abanka Group, considering potential closer cooperation with Abanka in order to exploit synergies and increase the stability of operations as well as potentially merging Aleasing with the Bank.

ASA Aleasing d.o.o.

On 18 May 2007, a Joint Venture Agreement was concluded between Abanka and Asa Holding as well as the Memorandum of Association of ASA Abanka leasing, establishing ASA Abanka leasing d.o.o., Sarajevo, with Abanka holding 49% and Asa Holding 51% of the newly established company. In 2011, the holding of the contracting parties were transferred to their related companies. Today, Aleasing d.o.o. holds a 49% of the share capital of the company. Due to the legal requirements of Bosnia and Herzegovina regulating leasing companies, the name of the company was changed to Asa Aleasing d.o.o. Its core business is the leasing of vehicles to natural and legal entities.

As at the end of the reporting period, the ownership structure was as follows: Aleasing d.o.o. (49.0%), ASA Auto d.o.o. (33.8%) and ASA Finance d.d. (17.2%). As at 30 June 2014, Alma Kadrić was the company's General Manager, Radovan Jereb was Chairman of the Supervisory Board and Miha Štepec, Safudin Čengić (replacing Vesna Babić Hodović), Peter Kroyer and Senad Olovčić served as members of the Supervisory Board.

Agradnja d.o.o.

Agradnja d.o.o. is an engineering, construction and real property company based in Sarajevo. It was established in 2007 with an aim to build a business and residential complex in the vicinity of Sarajevo. Agradnja d.o.o. is an associated company of the subsidiary Aleasing d.o.o. with an ownership structure consisting of Aleasing d.o.o. (49%) and ASA Finance d.d. (51%) as at the end of the reporting period. Sanin Granov is the General Manager.

Analožbe d.o.o.

Analožbe, upravljanje z naložbami d.o.o. (short company name: Analožbe d.o.o.) was established in accordance with its Articles of Association on 26 October 2006 for the purpose of providing financial intermediation in both Slovenia and abroad. In its first two years, the company's core business was focused on providing credit to foreign financial institutions and forward dealing in the domestic market. In 2009, the company expanded its operations to precious metal trading at the retail level. However, at the end of the 2010 financial year, the company discontinued its operations in precious metal dealing at the retail level, as Abanka included bullion investment in its offer for the customers in December 2010.

In the reporting period, as well as in 2011, 2012 and 2013, the company was focused on the management of own assets, simultaneously making efforts to lower and control the operating costs. Plans are made to merge Analožbe with Abanka by the end of Q3 2014. To this end, the company and the Bank signed a Merger Agreement.

The main source of the revenues of the subsidiary represented the financial income from the interest. As at the end of June 2014, there were no employees in Analožbe; the subsidiary was led by Tone Pekolj as General Manager and Gorazd Knavs as authorised representative.

Anepremičnine Group

Anepremičnine, trgovanje z lastnimi nepremičninami d.o.o. (short company name: Anepremičnine d.o.o.) was entered in the Companies Register on 31 May 2013 and was established with an aim to centralise real property management at the Group level and enable portfolio value maximisation. Its core business is trading in own real property, with its headquarters in Ljubljana.

The company is led by the General Manager Gregor Žvipelj. In the beginning of 2014, the Supervisory Board was composed of Boštjan Herič as its Chairman, Gregor Hudobivnik as its Deputy Chairman and Miha Štepec its member who resigned on 28 January 2014. The Supervisory Board took note of the resignation of Miha Štepec at its 8th session held on 6 February 2014. On 3 March 2014, Dejan Grum was appointed as a new member of the Supervisory Board.

Anepremičnine was established to enable more efficient management of the real property on which the Bank has a lien and to promote the sale of individual real property developments. In the first half of 2014, the subsidiary was engaged in selling the property acquired through spin-off, capital increases or participation in auctions where the Bank acted as a creditor. With the aim of ensuring transparency and price maximisation, Anepremičnine established a procedure for selling commercial real property at public auctions or invitations to submit binding or non-binding bids (tendering). It prepared the bases necessary for the completion of a construction project in Grosuplje and continuation of a residential development in Jesenice. In the reporting period, the subsidiary sold several pieces of real property directly or through its contractual partners.

In June 2014, Anepremičnine established in Montenegro the subsidiary Anekretnine d.o.o., Podgorica, in order to buy land at an auction, which was realised as planned.

MAJOR BUSINESS EVENTS IN THE FIRST HALF OF 2014 AND AFTER THE FIRST HALF OF 2014

Major Business Events in the First Half of 2014

Major business events in the first half of 2014 included:

- **Activities for capital strengthening of the Bank**
  - By the prescribed deadline (by 18 February 2014) Abanka drew up a restructuring plan for the 2014–2018 period.
  - The second tranche of capital increase and the transfer of non-performing loans to the Bank Asset Management Company will be completed once the European Commission gives its final positive opinion, to be formulated on the basis of the restructuring plan (in accordance with the interim measure decision of the European Commission approving the first tranche of capital increase, on 18 December 2013 the Republic of Slovenia increased the Abanka's capital by EUR 348 million).

- **Activities related to the Abanka Group's subsidiaries**
  - In June 2014, the subsidiary Anepremičnine d.o.o. founded the subsidiary Anekretnine d.o.o., Podgorica in Montenegro.

- **Credit ratings by Fitch Ratings**
  - On 26 March 2014, the international rating agency Fitch Ratings affirmed Abanka's Support Rating at "5" and Support Rating Floor at "B–", whilst other ratings remained the unchanged. The agency affirmed Abanka's Support Rating and Support Rating Floor in the context of revision which was conducted for a large number of banks in the EMEA[1] area, related to the upcoming national implementation of the BRRD[2] measures.

- **Credit ratings by Moody's Investors Service**
  - On 30 January 2014, the international rating agency Moody's upgraded Abanka's long-term deposit ratings to "Caa2" and assigned it a positive outlook. At the same time, Abanka's Bank Financial Strength Rating "E" was affirmed. The change in the rating of Abanka followed the announced and implemented measures of the Government of the Republic of Slovenia for strengthening the Slovene banking sector in terms of capital increase and the forthcoming transfer of debt to the Bank Asset Management Company. Moody's expects further systemic support for the Slovene banks.
  - On 29 May 2014, the international rating agency Moody's started a review in order to raise Abanka's long-term deposit ratings "Caa2", whilst Abanka's Bank Financial Strength Rating was affirmed at "E". Moody's expects the European Commission to approve the Bank's restructuring plan shortly and adopt a final decision. The Bank's capital position will be improved after bad debt will have been transferred to the Bank Asset Management Company.

Major Business Events After the First Half of 2014

The following business events that occurred after the reporting period might have an impact on business decisions of the Report's users made on presented financial statements:

- On 09 July 2014, the international rating agency Fitch Ratings affirmed Abanka's Short-term IDR at "B", Support Rating at "5" and Support Rating Floor at "B–". At the same time it reaffirmed "Rating Watch Positive" for Long-term IDR "B–" and Viability Rating "b–". Fitch Ratings expects further measures to be taken by the Slovene Government (a second round of the Bank's capital increase and bad debt transfer to the Bank Asset Management Company), which will lead to an improved capital position and asset quality of Abanka. Following the implementation of measures by the Slovene Government, Fitch Ratings is likely to upgrade Abanka's Long-term IDR to "B+" and Viability Rating to "b+".

[1] Europe, the Middle East and Africa
[2] Bank Recovery and Resolution Directive.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

The unaudited consolidated financial statements of the Abanka Group for the first half of 2014 include the subsidiaries AB58 (Abanka Skladi in the first half of 2013), Afaktor Group, Argolina, Aleasing, Naložbe, and 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.

The unaudited consolidated financial statements of the Abanka Group for the first half of 2013 included the subsidiaries Abanka Skladi, Afaktor Group, Argolina, Aleasing, Analožbe and Anepremičnine, 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.

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 2014, **the Abanka Group** generated a **profit before tax** of EUR 1,118 thousand, comparing to the same period in 2013 when the loss before tax was recorded in the amount of EUR 22,099 thousand**. Consolidated profit after tax** in the reporting period amounted to EUR 547 thousand, while in the first half of 2013 the Abanka Group posted a loss after tax of EUR 19,526 thousand.

In the first half of 2014, **Abanka** posted a **profit before tax** of EUR 2,435 thousand, which was reflected in a 2.2% return on equity, while in the first half of 2013 Abanka generated a loss before tax of EUR 20,063 thousand, therefore the return on equity was negative and stood at 24.9%. In the reporting period, **corporate income tax** totalled EUR 207 thousand and **net tax expenses from deferred taxes** EUR 355 thousand (in the first half of 2013 net income from deferred taxes totalled EUR 2,624 thousand). **The Bank's profit after tax** in the first half of 2014 amounted to EUR 1,873 thousand, while in the first half of 2013 the Bank posted a loss after tax of EUR 17,439 thousand. In the reporting period, **return on equity after tax** stood at 1.7%, while it was negative at 21.7% in the corresponding period of the preceding year.

The Abanka Group's interest income in the first half of 2014 was EUR 58,194 thousand, a decrease of 18.8% compared to the first half of 2013, whilst **its interest expenses** totalled EUR 27,487 thousand, which was 29.1% less than in the first half of 2013. **The Abanka Group's net interest income** amounted to EUR 30,707 thousand or 6.7% (EUR 2,201 thousand) below the amount reported for the first half of 2013.

Abanka's interest income in the first half of 2014 stood at EUR 57,748 thousand or 17.7% less compared to the first half of 2013, whereas **its interest expenses** totalled EUR 27,377 thousand or 28.5% less than in the corresponding period of 2013. Abanka's **net interest income** thus amounted to EUR 30,371 thousand, which was 4.7% or EUR 1,512 thousand less than in the same period of the previous year. Interest income decreased mostly as a result of lower volume of operations, whereas interest expenses dropped due to lower volume of operations and lower interest rates. In the first half of 2014, Abanka's market share of net interest income accounted for 7.3% (vs. 8.4% in the corresponding period of the preceding year).

In the reporting period, **the Abanka Group** posted EUR 14,488 thousand in **net fee and commission income** or 0.8% (EUR 119 thousand) less than in the first half of 2013. **Abanka** contributed EUR 14,640 thousand to **net fee and commission income**, which was 2.6% or EUR 365 thousand more than in the same period of the preceding year. In the reporting period, the Bank held an 8.4% market share of net fee and commission income (the same as in the first half of 2013).

Other net non-interest income (excluding net fee and commission income) of the **Abanka Group** in the first half of 2014 amounted to EUR 1,832 thousand. (In the corresponding period previous year other net non-interest expenses equalled EUR 2,710 thousand.) **Other net non-interest income** (excluding net fee and commission income) of **Abanka** in the first half of 2014 totalled EUR 1,335 thousand, whilst in the first half of 2013 other net non-interest expenses stood at EUR 2,571 thousand.

The Abanka Group's operating costs in the first half of 2014 totalled EUR 25,498 thousand and were 8.1% lower than in the first half of 2013. Labour costs of EUR 13,449 thousand were by 13.1% lower than in the same period of 2013, while general and administrative expenses decreased by 5.2% over the same period of 2013 to EUR 8,915 thousand. Depreciation expenses amounted to EUR 3,134 thousand and were 10.3% higher than in the same period of 2013. At 52.7%, labour costs accounted for the largest part of total expenses (in the first half of 2013: 55.8%), followed by general and administrative expenses at 35.0% (in the first half of 2013: 33.9%) and depreciation expenses accounted for 12.3% of total (in the first half of 2013: 10.2%).

Abanka's operating costs in the first half of 2014 were EUR 23,600 thousand in total, which was 7.0% lower than in the same period of 2013. Compared to the corresponding period of the preceding year, labour costs were 12.1% lower and totalled EUR 12,669 thousand, whereas general and administrative expenses equalled EUR 8,168 thousand and were 3.8% below the amount reported for the first half of 2013. Depreciation expenses of EUR 2,763 thousand were 11.4% higher than in the first six months of 2013. At 53.7%, labour costs represented the largest proportion of total expenses (in the first half of 2013: 56.8%), followed by general and administrative expenses with 34.6% (in the first half of 2013: 33.4%) and depreciation expenses which accounted for 11.7% of total (in the first half of 2013: 9.8%).

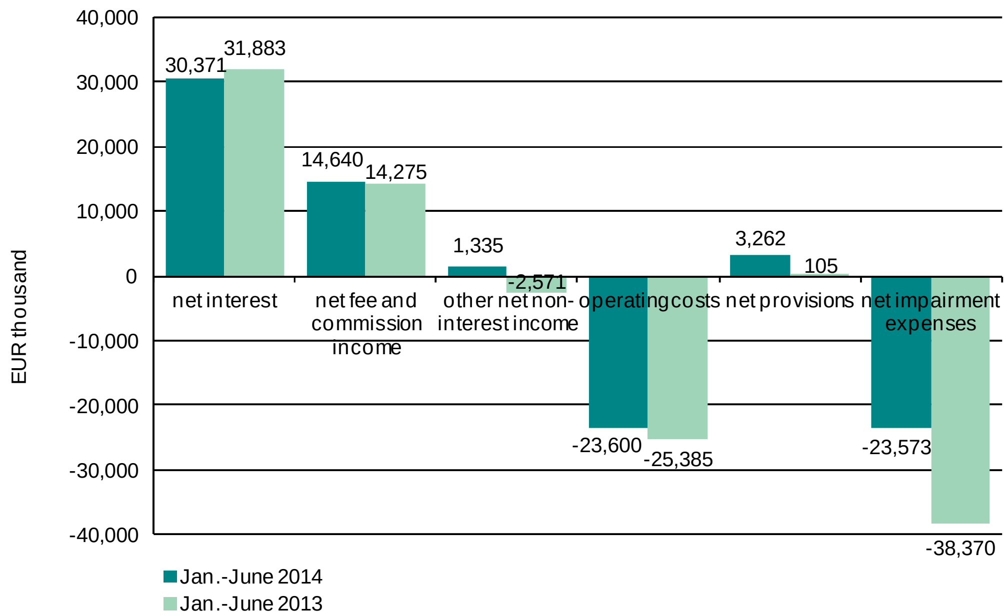
The Abanka Group's operating income in the first half of 2014 amounted to EUR 21,529 thousand, which was 26.1% more than in the same period of 2013, while in the first half of 2013 the Group posted operating income of EUR 17,070 thousand. **Abanka's operating income** in the first half of 2014 increased by 25% compared to the corresponding period of the previous year, when it totalled EUR 22,746 thousand. In the same period last year, Abanka posted **operating income** in the amount of EUR 18,202 thousand.

In the first half of 2014, **the Abanka Group incurred** EUR 20,411 thousand of **net provisioning and impairment expenses** (in the first half of 2013: EUR 39,169 thousand), of which **net provisioning income** totalled EUR 3,253 thousand (in the first half of 2013: EUR 87 thousand), while **net impairment expenses** amounted to EUR 23,664 thousand (in the first half of 2013: EUR 39,256 thousand).

In the reporting period, **Abanka** incurred EUR 20,311 thousand of **net provisioning and impairment expenses** (in the first half of 2013: EUR 38,265 thousand). Abanka's **net provisioning income** totalled EUR 3,262 thousand (in the first half of 2013: EUR 105 thousand), while the Bank's **net impairment expenses** amounted to EUR 23,573 thousand (in the first half of 2013: EUR 38,370 thousand).

Due to the deteriorated quality of its credit portfolio, in the first half of 2014 the Bank had to form additional impairments in the amount of EUR 22,842 thousand, while the Bank's additional impairments in the first half of 2013 totalled EUR 37,221 thousand. Furthermore, the Bank additionally impaired the available-for-sale financial securities by EUR 731 thousand, while in the same period of 2013 such impairments totalled EUR 1,149 thousand.

NET INTEREST, NET FEE AND COMMISSION INCOME, OTHER NET NON-INTEREST INCOME, OPERATING COSTS, NET PROVISIONS AND NET IMPAIRMENT EXPENSES OF ABANKA IN THE FIRST HALF OF 2014 COMPARED TO THE FIRST HALF OF 2013



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 30 June 2014 amounted to EUR 2,695,955 thousand, which was EUR 352,448 thousand or 11.6% below the level posted at the end of 2013. The combined balance sheet assets of consolidated subsidiaries, which equalled EUR 101,396 thousand, accounted for 3.8% of consolidated total assets (vs. 3.5% at the 2013 year-end). After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group dropped by 0.2% or EUR 5,805 thousand nominally compared to Abanka's total assets.

Total assets of Abanka as at 30 June 2014 amounted to EUR 2,701,760 thousand, which was EUR 334,713 thousand or 11.0% below the level posted at the 2013 year-end. As at the end of the reporting period, Abanka's market share stood at 6.9%.

As at the reporting date**, loans and receivables to non-bank customers** accounted for the largest proportion of **consolidated balance sheet assets**, amounting to EUR 1,665,036 thousand, which represents a decrease of 8.0% or EUR 144.681 thousand. As at the reporting date, **Abanka's loans and receivables to non-bank customers** totalled EUR 1,697,240 thousand, having experienced a decrease of 6.8% over the end of 2013, or EUR 123,437 thousand in nominal terms. Gross loans to non-bank customers in the first half of 2014 decreased by EUR 137,305 thousand, comprising of EUR 36,662 thousand of write-offs, sales and debt-to-equity swaps.

As at the reporting date, the **Abanka Group's loans and receivables to banks and cash and balances with the central bank** amounted to EUR 262,734 thousand, having decreased by 45.8% or EUR 221,812 thousand compared to the 2013 year-end, whereas **loans and receivables to banks and cash and balances with the central bank of Abanka** equalled EUR 262,476 thousand at the end of June 2014. In the first six months of 2014, they experienced a decrease of 45.6% or EUR 220,378 thousand in nominal terms.

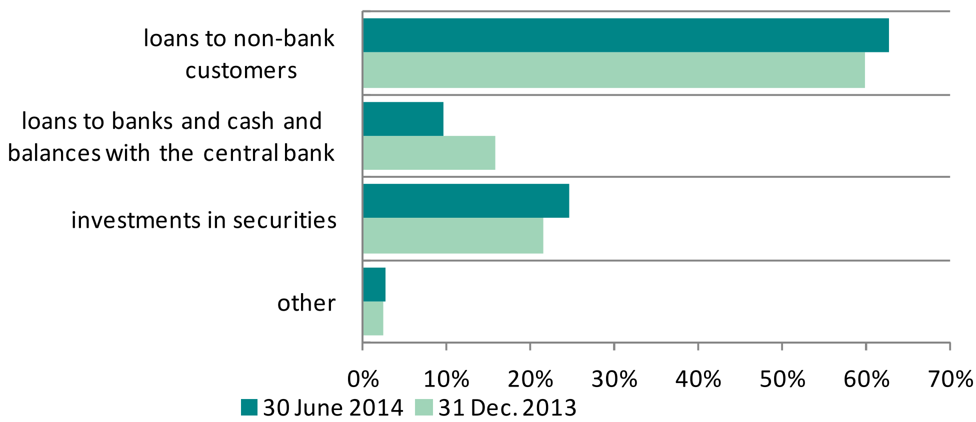
As at the end of June 2014, **the Abanka Group's investments in securities** were the same as **those of the Bank.** They amounted to EUR 666,163 thousand, having increased by 1.8% or EUR 12,012 thousand in the first half of 2014.

Abanka's equity investments in subsidiaries as at 30 June 2014 amounted to EUR 12,670 thousand and were at the same level as at the 2013 year-end. In the first half of 2014, the Bank did not increase its long-term equity investments in subsidiaries.

As at the end of June 2014, **tangible and intangible assets of the Abanka Group** totalled to EUR 53,836 thousand, having decreased by EUR 1,386 thousand or 2.5% compared to 31 December 2013. As at the reporting date, **tangible and intangible assets of Abanka** equalled to EUR 37,106 thousand, which is 3.2% or EUR 1,242 thousand less than at the end of 2013.

The graph below shows the structure of Abanka's assets as at 30 June 2014 and as at the 2013 year-end.

ABANKA'S ASSET STRUCTURE AS AT 30 JUNE 2014 AND 31 DEC 2013



As at 30 June 2014, **consolidated balance sheet liabilities** were composed of 91.4% of total liabilities (EUR 2,464,327 thousand) and 8.6% of total equity (EUR 231,628 thousand). As at the reporting date, **the Bank's balance sheet liabilities** were also made up of 91.4% of liabilities (EUR 2,468,206 thousand) and 8.6% of total equity (EUR 233,554 thousand).

Deposits from non-bank customers represented the bulk of the **Abanka Group's total liabilities.** By the end of June 2014, these decreased by 2.9% or EUR 53,955 thousand and reached EUR 1,832,102 thousand. As at the reporting date, **deposits from non-bank customers in Abanka** totalled to EUR 1,842,870 thousand, having decreased by 2.7% or EUR 51,269 thousand in nominal terms in the first half of 2014. This was caused by a reduction of deposits of the Ministry of Finance, while the deposits from other non-bank customers increased.

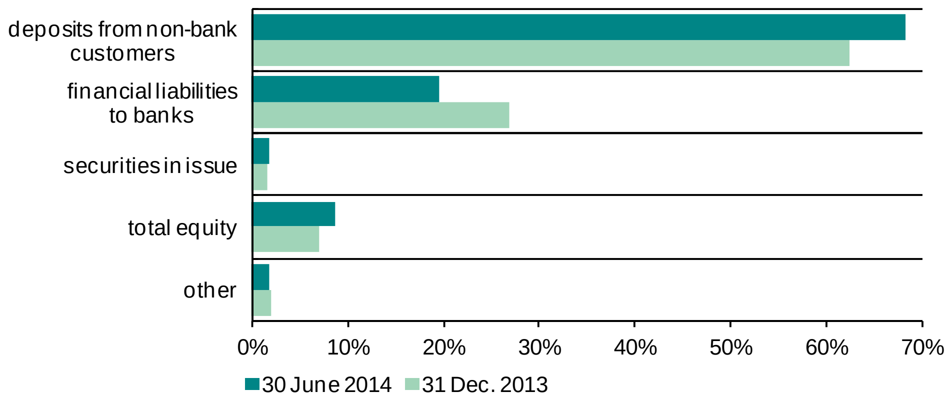
The Abanka Group's financial liabilities to banks, including financial liabilities to the central bank, amounted to EUR 529,085 thousand as at the reporting date, which dropped by 36.6% or EUR 305.374 thousand in the first half of 2014. **Abanka's financial liabilities to banks**, also including financial liabilities to the central bank, totalled of EUR 526,416 thousand as at 30 June 2014, having decreased by 35.7% or EUR 292.579 thousand in the first six months of 2014. This drop was caused by a decrease in LTRO and borrowings from SID banka (Note 9 in the Accounting Report).

Securities in issue of the Abanka Group equal those of Abanka. In the first half of 2014, they decreased by 1.8% or EUR 896 thousand, reaching EUR 49,664 thousand as at the end of June 2014.

The total equity of the Abanka Group at the end of the reporting date equalled EUR 231,628 thousand, which was 9.2% or EUR 19.489 thousand more compared to the corresponding period of the preceding year, whereas **the total equity of Abanka** amounted to EUR 233,554 thousand, having increased by 9.8% or EUR 20.860 thousand compared to the same period last year. The share capital increase recorded by Abanka in the first six months of 2014 mostly resulted from capital revaluation surplus.

The graph below shows the structure of Abanka's liabilities as at 30 June 2014 and as at the 2013 year-end.

ABANKA'S STRUCTURE OF LIABILITIES AS AT 30 JUNE 2014 AND 31 DEC. 2013



PERFORMANCE OF THE GROUP IN THE FIRST HALF OF 2014

Corporate Banking

The past trend of economic slowdown continued to have an impact on the economic activity in early 2014. Nevertheless, capital increases of commercial banks carried out in December 2013 reduced the pressure of further lowering the sovereign credit ratings and the credit ratings of banks. By implementing these measures, the situation has been stabilising and commercial banks are in a better position to support the real economy. Further improvements can be expected once bad debt will have been transferred to the Bank Asset Management Company.

The first six months of 2014 witnessed a significant decline in lending and deposit interest rates, which is partly thanks to the restructuring of the domestic banking sector and partly the measures of the European Central Bank. Corporate investment activity is gradually rising, although corporate demand for investment loans remains low. Higher investment demand was recorded in export-oriented companies, but investment decisions are very conservative and companies on average demand longer repayment periods for funding new investments. Companies continue to demand mainly working capital financing, partially due to the opening of new markets but mainly as a result of the extended terms of payments dictated by their customers. Markedly increased demand for investment activity in the reporting period was recorded in municipal and local government authorities, which was already the case in 2013. As in corporate lending, demand for trade finance is on the rise, particularly for instruments that provide additional hedging against commercial and country risks.

Compared to the 2013 business year which saw massive loan rescheduling by large corporate customers, this year such need arose among small and medium-sized enterprises. The main reasons lie in persistent payment delinquency in the corporate sector, illiquid and non-existing real property market and generally overleveraged Slovene companies. A potential solution for improving liquidity is selling non-core assets. However, due to the illiquid real property market and the extreme reservations of potential investors, transactions often fail to take place.

Compared to 2013, the number of companies in insolvency proceedings was lower. The amendments to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act offer additional solutions with effects expected in the future.

Abanka maintains good business relationships with corporate customers. By organising educational, business and social events, the confidence of various customer segments is boosted, which in turn increases the volume of business. The loan repayment method for sole proprietors was already simplified: they may by contract authorise the Bank to automatically directly debit their transaction accounts as their liabilities fall due.

With the aim of giving customers more active and flexible access to its banking services, in April 2014 Abanka reorganised the Corporate Banking Division and set up the Key Accounts Sector and the SME Banking Sector. The focus on accessibility of banking services to small and medium-sized enterprises is underpinned by the Bank's strategic orientation on this customer segment and efficient management of the Bank's portfolio. Positive effects will be fully felt only after bad debt will have been finally transferred to the Bank Asset Management Company.

The Abanka Group's loans to corporate customers as at the end of June 2014 reached EUR 1,139,106 thousand, having decreased by EUR 135,242 thousand or 10.6% over the first half of 2014. **Abanka’s loans to corporate customers** as at the end of June 2014 reached EUR 1,189,568 thousand, after decreasing by EUR 115,437 thousand or 8.8% over the first half of 2014. In total assets, the portion of loans to corporate customers rose from 43.0% as at the 2013 year-end to 44.0% as at the reporting date. In the first half of 2014, loans to the non-financial sector dropped by 10.2%, loans to the government by 3.0%, loans to sole proprietors by 12.7% and loans to non-profit institutions serving households by 38.6% (as at the end of June 2014 they accounted only for EUR 802 thousand), whereas loans to other financial institutions grew by 2.4%. In total loans to non-bank customers, the largest share was accounted for by loans to non-financial companies (81.9%), followed by loans to other financial organisations (9.0%), loans to the government (6.6%), sole proprietors (2.4%) and non-profit institutions serving households (0.1%). The market share of loans to corporate customers stood at 7.7% at the end of June 2014, while at the end of 2013 it was 7.9%.

The Abanka Group’s deposits from corporate customers (including deposits from the Ministry of Finance) as at the end of June 2014 reached EUR 692,441 thousand, after decreasing by EUR 92,425 thousand or 11.8% in the first half of 2014. **Deposits from corporate customers in Abanka** (including deposits from the Ministry of Finance) at the end of June 2014 totalled EUR 703,209 thousand and were 11.3% or EUR 89,739 thousand less than at the end of 2013. In total balance sheet liabilities, the share of deposits from corporate customers by the end of June 2014 stood at 26.0%, whereas as at 31 December 2013 it was 26.1%. In the reporting period, deposits from corporate customers decreased as a result of lower deposits from the government, which went down by 43.3% (deposits from the Ministry of Finance decreased by 58.5%), whereas deposits from the non-financial sector rose by 13.3%, deposits from other financial organisations by 66.2%, deposits from sole proprietors by 1.3% and deposits from non-profit institutions serving households by 3.0%. In total deposits from corporate customers, the largest share was accounted for by the non-financial sector (40.7%), followed by deposits from the government (33.7%), other financial organisations (20.4%), sole proprietors (3.5%) and deposits from non-profit institutions serving households (1.7%). In the reporting period the market share of deposits from corporate customers fell to 7.5%, whilst at the 2013 year-end it was 9.3%.

Retail Banking

In the first half of 2014, the Bank's key objective was strengthening operations and fostering trust with the existing customers, while success was also seen in concluding new business relations.

In April 2014, the Bank was reorganised; the number of regional offices in Abanka was reduced from six to three:
– Central Slovenia Regional Office, which combines the former Ljubljana and Kranj Regional Offices;
– Eastern Slovenia Regional Office, which combines the former Maribor and Celje Regional Offices; and
– Western Slovenia Regional Office, which combines the former Nova Gorica and Koper Regional Offices.

The positive effects of this reorganisation are sales process optimisation, higher sales and cost effectiveness of the branch network and closer relationships with customers. This contributed to increase the volume of deposits. As expected, lending activity remained fairly conservative, but the Bank nevertheless maintained the same market share.

Abanka pays considerable attention to retail banking. In terms of service and sales channel development, the Bank therefore continually tailors its range of products and services to the needs and requirements of the greatest possible number of customers, in order to increase the satisfaction of the existing customers and attract new ones.

In addition to using banking services in branches, customers increasingly opt for modern sales channels to bank with Abanka. As a result, electronic banking, ATMs and SMS mobile services are becoming progressively more important. In 2014 a new modern sales channel was launched: Abamobi mobile banking, underpinned by quality marketing and communication support. Abamobi is a separate mobile application available to natural persons and sole proprietors, which enables them to easily manage their bank account balances, simply and efficiently conduct their financial transactions, whilst enjoying security and privacy. The processing of universal payment orders by means of a "capture and pay" function is especially convenient. This allows the user to capture an image of a payment order with their mobile phone, whereupon data are automatically transferred to a payment order in the Abamobi application and wait to be checked and confirmed by the user.

For the purpose of cashless operations, the Bank offers its customers a range of card services. Visa Electron credit card was again the most heavily promoted card in the first six months of 2014. This card enables payment by instalments and has been well received by Abanka's customers since its introduction in 2013.

The lending software application was redesigned in order to accelerate and optimise the approval, management and monitoring of retail lending operations. Individual branches are being gradually included in the upgraded lending application. Process redesigning and technological support upgrading for retail deposits are also underway.

In order to promote deposit operations, a unique bundled product was launched this year. It is a combination of two products – all deposits except special-purpose and investments in Triglav funds. In addition to traditional savings products, customers could choose from a wide range of investment opportunities and options to unlock additional investment potential, resulting from business cooperation between Abanka and Triglav Skladi.

In collaboration with Zavarovalnica Triglav as a strategic partner, Abanka has provided insurance services for many years and constantly upgraded them by offering its customers a full range of personal, health, accident and non-life insurance products.

Regular and special offerings are designed for individual customer segments, which are informed of special features and benefits via modern sales channels and targeted marketing campaigns.

In the marketing communication segment, not only the marketing activities proved successful in the past were continued in the first six months of 2014, but also new ones were introduced.

In the reporting period, additional benefits were offered to the new and existing users of Aračun senior personal account, designed for retired persons. This special offering was advertised in selected media. Apart from that, a special marketing campaign for Akeš personal account for pupils and students was conducted, including the unique savings service Abacent, which is becoming increasingly popular among young customers.

Marketing activities followed mainly the promotion of new deposit agreements. In spring when the season of construction and renovation works began, a special range of housing loans at favourable terms was launched, accompanied by a successful advertising campaign. Just before the summer, a "pre-summer vacation package" was advertised, involving banking services to be taken care of before going on holiday.

In 2014, Abanka's Ježek, the mascot of children's savings account, celebrates its 40th anniversary. On this occasion, a short educational documentary film was made on the history of Ježek and children's savings products, which included a presentation of the mascot's designer Miki Muster. This year, puppet shows for children (of educational nature) continue to be put up in selected kindergartens and schools across Slovenia.

As increasing numbers of customers first turn to the Internet for information the web pages of Abanka and its subsidiaries was redesigned this spring so as to improve user experience based on even more transparent websites and easier access to information. Several e-newsletters are published every year to give topical information to customers.

In addition to the marketing campaigns implemented across Slovenia, several local and regional marketing initiatives were carried out in the first half of 2014.

The Abanka Group's retail loans as at the end of June 2014 reached EUR 525,930 thousand, having decreased by EUR 9,439 thousand or 1.8% in the first six months of 2014. **As at the end of June 2014, Abanka's loans to retail customers** totalled EUR 507,672 thousand, having decreased by 1.6% or EUR 8,000 thousand nominally in the first half of 2014, whilst their share in balance sheet assets increased from 17.0% at the end of 2013 to 18.8% at the end of June 2014. The market share of retail loans stood at 6.5% and was at the 2013 year-end level.

As at 30 June 2014, **deposits from retail customers in the Abanka Group equalled those of Abanka,** amounting to EUR 1,139,661 thousand, having increased by 3.5% or EUR 38,470 thousand nominally in the first half of 2014. In total balance sheet liabilities, deposits from retail customers increased from 36.3% as at the 2013 year-end to 42.2% as at 30 June 2014. As at the reporting date, the market share of deposits from retail customers reached 7.8%, while at the 2013 year-end it accounted for 7.9%.

Operations with Other Banks

Despite a continually challenging macroeconomic environment in the euro area, the situation in financial markets was considerably stabilised after the European Central Bank took several measures and the confidence in European markets was restored in the first half of 2014. Moreover, the situation in the Slovene market significantly eased, mainly as a result of the restructuring of the Slovene banking sector in December 2013. Slovene banks continued to reduce their foreign loans and their total assets kept decreasing in the first half of 2014, while in the future primary sources of funds will remain basic sources of funding of Slovene banks.

European countries continue to seek an appropriate balance between austerity and the reduction in public spending on the one hand and stimulating economic growth on the other, which is of great significance for sustainable public finance. As in the reporting period the inflation rate started drifting towards deflationary levels, at its June regular meeting the European Central Bank reacted by introducing several additional unconventional monetary policy measures such as lowering the deposit rate into negative territory for the first time ever, alongside to the ECB's main instrument (lowering the key interest rate). In order to stimulate the economic activity and promote corporate lending, the ECB announced new long-term refinancing operations totalling EUR 400 billion. With these measures, the ECB exceeded the high expectations of market participants in many respects and provided a number of measures aimed at eliminating deflationary pressures as well as promoting overall bank lending activity.

Just as in 2013, in the first half of 2014 Abanka, in addition to short-term and structural liquidity, paid special attention to the process of restructuring the sources of funding with the long-term goal of increasing the share of deposits in its balance sheet structure. The Bank is pursuing the goal of minimising the dependency from foreign financing by changing the financing structure and, consequently, significantly reducing the sensitivity of the Bank to unstable conditions in global financial markets.

Loans and receivables to banks, cash and balances with the central bank of the Abanka Group totalled EUR 262,734 thousand as at 30 June 2014. **Loans and receivables to banks, cash and balances with the central bank of Abanka** totalled EUR 262,476 thousand as at the end of reporting period. Cash and cash balances with the central bank decreased by 77.6%, whereas loans and receivables to banks grew by 66.1%. Their share in total balance sheet assets decreased from 15.9% as at the 2013 year-end to 9.7% as at the reporting date.

As at the end of June 2014, the **Abanka Group's financial liabilities to banks** amounted to EUR 529,085 thousand, and those of **Abanka** to EUR 526,416 thousand. The latter were 35.7% or EUR 292,579 thousand lower compared to the end of 2013. The financial liabilities to the central bank dropped by 44.4% in the first half of 2014, whilst loans and deposits from banks went down by 24.8% and 23.5% respectively. In the reporting period, the Bank repaid EUR 200 million of ECB's long-term refinancing operations (LTRO). Loans from banks decreased by EUR 87.4 million as a result of early repayment of a loan from SID banka totalling EUR 45.7 million and other loans from this bank which fell due. Financial liabilities to banks represented 19.5% of total balance sheet liabilities as at the reporting date, after having decreased from 27.0% as at the 2013 year-end.

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. investing in investment-grade, highly liquid bonds.

Abanka remains an important primary dealer in Slovene government bond issues and is still, on the domestic and foreign markets, actively participating as a "market maker" in MTS Slovenija as an official liquidity provider. In the first half of 2014, the Republic of Slovenia issued bonds on international markets denominated in euros and dollars. In this exercise Abanka was among more active participating banks in terms of volume.

At the end of June 2014 the value of **the Abanka Group's investments in securities** were at the same level as those of **Abanka**. Compared to the 2013 year-end, **investments in securities of Abanka** were higher by 1.8% or nominally by EUR 12,012 thousand and stood at EUR 666,163 thousand at the end of the reporting period. In total balance sheet assets they represented 24.7%, having increased from 21.5% as at the 2013 year-end. The securities portfolio included both equity and debt securities.

As at 30 June 2014, the equity portfolio of Abanka was worth EUR 23,938 thousand, which represented a 25.1% increase or EUR 4,801 thousand nominally over the 2013 year-end. As at the end of the reporting period, debt securities portfolio of Abanka totalled EUR 642,225 thousand and accounted for 96.4% of the total securities held by the Bank. Compared to the end of 2013, debt securities rose by 1.1% or nominally by EUR 7,211 thousand.

Securities in issue of the Abanka Group equalled those of Abanka. They included debt securities in issue (bonds and certificates of deposit). Total securities in issue at the end of June 2014 amounted to EUR 49,664 thousand, which was 1.8% or nominally EUR 896 thousand less compared to the 2013 year-end. In total balance sheet liabilities, their share went up from 1.7% as at the end of 2013 to 1.8%. Certificates of deposit at the end of June 2014 amounted to EUR 35,546 thousand (the 2013 year-end: EUR 35,446 thousand), whereas bonds in issue totalled EUR 15,118 thousand (the 2013 year-end: EUR 15,114 thousand).

Equity Investments

Long-term equity investments in subsidiaries as at the end of June 2014 totalled EUR 12,670 thousand and were the same as at the 2013 year-end, accounting for 0.5% of total assets (0.4% as at the 2013 end-year).

Equity Investments (in EUR thousand)	30 June 2014	31 Dec. 2013	Index
Subsidiaries	12,670	12,670	100.0
Total Equity Investments	**12,670**	**12,670**	**100.0**

Payment Transactions

Once again, Abanka received the STP Excellence Award from Deutsche Bank, Frankfurt, for 2013 in recognition of its high-quality performance of international payment transactions. This involves the highly automated processing of payment orders, lower costs and better quality services for customers of the Bank.

As regards domestic and cross-border payment transactions, in the first half of 2014 Abanka processed 18,356 orders in the Target 2 system (8.7% market share) worth EUR 19,232,569 thousand, which accounted for 13.4% of the market share.

Through the small-value payment system, as many as 5,916,065 orders were processed in the domestic payment system using internal credit transfers (ICT), which resulted in a 11.8% market share. Nominally this represented a 9.1% market share or EUR 1,894,761 thousand. The volume of payments in this system increased by as much as 14.8%, whilst their value decreased by 6.0%.

The bulk of cross-border payments was performed in the SEPA infrastructure for external payments, of which 155,642 orders were processed in the external credit transfer (ECT) system, representing an 11.3% increase and amounting to EUR 985,408 thousand, which is a 0.9% drop compared to the same period of 2013.

In addition to domestic and cross-border payment transactions to SEPA countries, 41,147 orders were executed through the extended network of correspondence banks abroad and totalled EUR 585,942 thousand. The number of orders fell by 14.6% and the value of payments by 23.2%, mainly as a result of Croatia becoming an EU member state, which enabled payments to be made via the SEPA ECT system.

Abanka is an important operator in the direct debit scheme (SEPA, SDD). The scheme was migrated already in January 2013. In the first half of 2014, Abanka processed 4.1 million transactions worth EUR 150,211 thousand through this payment system, which accounted for a 27.5% market share.

Card and ATM Operations

By the end of June 2014, 265,439 cards were issued, 1.0% more than their total number as at the 2013 year-end. The bulk was accounted for by BA Maestro (as much as 57.5%), which also functions as a personal account card (152,515 cards). The biggest contributors to the increased number of issued cards were Visa Electron card, placed second in the total number of issued cards (21.9%), and new Visa debit card, which enables payments by instalments. The latter was launched in the second half of 2013 and reached the number of 4,296 issued cards by the end of the 2013. In the first half of 2014 the number was increased to 5,571 issued cards (index 129.7).

In the first half of 2014, there were 6.3 million POS terminal transactions with Abanka-issued cards, which was 6.1% more than in the same period of 2013. The total amount of these transactions reached EUR 282,790 thousand, representing a increase of 3.2%.

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. On the basis of vendor agreements, transactions were carried out at 17,118 Abanka points of sale. At the latter, 10.5 million transactions involving all card types were recorded in the first half of 2014, or 1.9% less than in the same period of 2013. This nominally amounted to EUR 432,122 thousand or 4.7% less than in the first half of 2013.

The extensive ATM network is one of Abanka's current sales channels. As at the reporting date, Abanka operated 268 ATMs, accounting for a 15.3% market share. Its ATM network was again ranked the second largest. In the first half of 2014, Abanka's ATMs processed 3.0 million cash withdrawals worth EUR 294,684 thousand, as well as 931 thousand other transactions, such as account balance checks, cash deposits, invoice payments etc. The number of ATM withdrawal transactions increased by 0.6% and the value of withdrawals grew by 3.0%. Among other transactions, the highest growth was recorded in cash deposits and universal payment order payments, which went up by 2.6%. On the other hand, the number of account balance checks dropped by 1.5% compared to the corresponding period of 2013.

Investment Brokerage

In the first half of 2014, Abanka contributed on average 5.1% to the total volume of trading on the Ljubljana Stock Exchange, representing an 8.8% increase over the corresponding period of the preceding year. In this period, the total volume of trading by members of the Ljubljana Stock exchange was EUR 605,564 thousand. Abanka contributed EUR 30,627 thousand to this.

Compared to the first half of 2013, the value of customer's assets managed by the brokerage department grew by 10.5%; as at 30 June 2014, the Abanka's financial instrument portfolio under management was worth EUR 15,566 thousand, having increased by 33% in the first half of 2014.

AIII Mutual Pension Fund

The performance of the AIII Mutual Pension Fund was positive in the first half of 2014. A 6.5% growth rate in the reporting period was not only the result of a lower guaranteed rate of return on the Republic of Slovenia bonds but also an upward trend on the Ljubljana Stock Exchange.

Custody and Administrative Services

The year 2014 marks the 20th anniversary of providing administrative services for investment funds and the 10th anniversary of custody services. Abanka is very proud of this milestone, as it is the only bank in Slovenia to have been present in the investment fund market since its creation.

In the beginning of 2014, Abanka was successful in maintaining the leading position in both services, which remains the Bank's priority.

Abanka is the sole provider of administrative services which offers this service, in addition to investment funds, also for the guarantee funds of insurance companies and mutual pension funds.

In 2014, the Bank for the first time offered nominal holding and payment agent services to foreign management companies that sell investment funds in Slovenia.

Total Equity and Ownership Structure

As at 30 June 2014, the total equity capital of the Abanka Group and Abanka amounted to EUR 231,628 thousand and EUR 233,554 thousand, respectively. In the first half of 2014, the Bank's total equity capital increased by 9.8% or EUR 20,860 thousand in nominal terms and accounted for 8.6% of total balance sheet liabilities (as at the 2013 year-end: 7.0% of total balance sheet liabilities). The share capital increase recorded by Abanka in the first six months of 2014 resulted from capital revaluation surplus, which rose by EUR 18,987 thousand or 192.7% over the 2013 year-end, and profit in the amount of EUR 1,873 thousand.

Basic net earnings per share in the first half of 2014 were EUR 0.12 and equalled diluted net earnings per share. Basic net earnings per share are calculated as the ratio of net profit to the average number of shares issued. In calculating diluted net profit per share, the weighted average number of shares is adjusted by the effects of all potentially diluted shares which the Bank did not hold as at 30 June 2014.

The unaudited share book value was EUR 15.57 as at 30 June 2014 (EUR 14.18 as at the 2013 year-end), based on 15,000,000 shares. 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 150,000 thousand as at 30 June 2014. On 18 December 2013, the Republic of Slovenia subscribed and fully paid in all 15,000,000 shares (ABKS) newly issued by Abanka, and thereby became a 100% owner of the Bank, as shown in the table below. After the subscription of ABKS shares, the Republic of Slovenia holds 15,000,000 ordinary registered no-par value voting shares. The corresponding amount per no-par value share in the share capital was EUR 10.00 as at the reporting date.

OWNERSHIP STRUCTURE

	30 June 2014				31 Dec. 2013		
Rank		Number of shares	Holding in %	Rank		Number of shares	Holding in %
1	THE REPUBLIC OF SLOVENIA	15,000,000	100.0	1	THE REPUBLIC OF SLOVENIA	15,000,000	100.0
	All shareholders	15,000,000	100.0		All shareholders	15,000,000	100.0

RISK MANAGEMENT

RISK MANAGEMENT IN THE FIRST HALF OF 2014

In 2014, the restructuring of the domestic banking sector continued. The first half of 2014 was marked by a gradual return of confidence in the domestic banking system as a result of capital increase of some major banks and a partial transfer of non-performing loans to the Bank Asset Management Company (Družba za upravljanje terjatev bank; hereinafter: BAMC) in December 2013. Non-performing loans of two largest banks were already transferred, whilst Abanka is still waiting for the European Commission to approve its restructuring plan, additional capital increase by Republic of Slovenia and the transfer of bad loans to BAMC. Improved capital adequacy indicators and a higher volume of liquid investments decreased uncertainty in the banking system, while also led to an increase in household deposits. Thanks to favourable developments in primary sources of funds and lower credit risk exposure banks operated in a relatively high excess liquidity environment.

The economic recovery of the euro area and higher exports had a positive impact on Slovenia's economic growth. In the first quarter of 2014, the Slovene economy exited recession. Despite the signs of stabilisation in the domestic environment, which will facilitate financial restructuring of the economy, credit risk remains high and still the most significant risk for most banks in the Slovene banking industry. The protracted economic crisis had a negative impact on the quality of loan portfolios not only to the most cyclically sensitive sectors such as construction but across all industries. Liquidity deteriorated due to deleveraging which combined with poor operating results contributed to higher numbers of companies in bankruptcy proceedings.

Global financial markets were marked by positive sentiment and improved confidence of market participants. Stronger economic activity resulted in the growth of major stock market indices. Interest rates were recorded at the historical low levels. Returns on government bonds of European states decreased, including countries with fiscal problems like Slovenia. Furthermore, a decrease in credit spreads in European government bonds was recorded.

In the reporting period, Abanka was intensely engaged in transferring its bad debt to BAMC. According to the methodology arising from the Decree on the Implementation of Measures to Strengthen Bank Stability, once again the economic value of the debt to be transferred to BAMC was assessed. The list of borrowers and non-performing loans to be transferred to BAMC was finalised and approved. The transfer will take place once the European Commission gives its final positive opinion.

In the reporting period, the Bank put special emphasis on a prudent credit policy and on improving the credit risk management process, especially the collection process, credit protection management and procedural aspects of the loan approval process. In addition, the Bank considered the findings of the report on the Bank’s asset quality review conducted in 2013. The selective approach to granting new loans, in combination with the deleveraging of companies, influenced on decrease not only the volume of loans to non-bank customers but also total assets. The Bank continues to pursue a strategy of increasing credit risk dispersion and lending to creditworthy customers.

In the reporting period, the share of non-performing loans to non-bank customers rose by 3.3 percentage points and reached 48.7% as at 30 June 2014. An increase in non-performing loans was mainly a result of a lower total loan portfolio and a higher share of defaulted loans of some large borrowers. The non-performing loan coverage ratio decreased by 2.1 percentage points.

The table below shows the amount of non-performing loans to non-bank customers and their share in total loans and the non-performing loans coverage ratio as at 30 June 2014 and as at 31 December 2013 (data on non-consolidated basis).

	30 June 2014	31 Dec. 2013
Non-performing loans (in EUR thousand)	1,167,234	1,149,786
Share of NPLs in total loans (in %)	48.7	45.4
NPL coverage ratio (in %)	59.9	62.0

It is estimated that in the second half of 2014 the share of non-performing loans in the total credit portfolio will significantly decrease due to the bad debt transfer to BAMC. On the other hand, this decrease will be smaller owing to the introduction of a more stringent internal definition of non-performing loans, which will be, in general terms, based on the methodology of the European Banking Authority.

Following the capital increase by the Government in December 2013, Abanka's liquidity position radically improved. In the first half of 2014, the Bank therefore significantly exceeded the prescribed first- and second-bucket liquidity ratios. Abanka continued to reduce the volume of debt to the European Central Bank and commercial banks. As at 30 June 2014, the Bank for the first time reported the liquidity coverage ratio (LCR), introduced by the new CRD IV regulation. Throughout, the first half of 2014 LCR remained at a very high level, which shows good short-term bank liquidity.

In early June, the European Central Bank decreased the key interest rate from 0.25% to 0.15% and the deposit interest rate from 0% to –0.10%. Furthermore, in September 2014 the European Central Bank will offer banks a new package of four-year long-term funding at favourable terms, aimed at financing loans to non-financial institutions. The ECB also announced that it was ready to introduce additional measures if necessary. As a result, the Euribor interest rates went down by 10 basis points on average in June 2014.

The Bank continuously adapted its interest rate policy to market developments. With respect to interest rate risk, Abanka adjusted its interest rate positions by 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 half of 2014, the Bank changed its strategy of trading in financial instruments. Due to a reduced market risk appetite, the Bank stopped its own account trading in equities and, to a certain extent, in debt financial instruments. Trading in derivatives was limited to foreign exchange and interest derived financial instruments requested by customers (mostly corporates) for the purpose of hedging against interest rate and currency risks. The Bank immediately closes such positions with back-to-back transactions, so as to limit its market risk exposures. Trading in more complex financial instruments is not allowed.

The debt securities portfolio kept on the trading book, which the Bank holds in order to maintain an active domestic government securities market, was EUR 259 thousand on average and accounted for nearly 10% of the average trading volume in 2013. 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 assets and liabilities management tool, remained relatively unchanged at EUR 639 million on average. This portfolio consisted of domestic and foreign government debt instruments and bonds of European banks suitable to be pledged as collateral to the European Central Bank. In the first half of 2014, the value at risk (VaR) of the banking book of debt financial instruments at the 95% confidence level significantly decreased to EUR 703 thousand as at 30 June 2014. The value of the securities portfolio is 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 default 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. Considerable emphasis was placed on outsourcing risk management; specifically, the outsourcing risk management policy and procedure were upgraded. Abanka revised its business continuity plans and actively participated in the exchange of information between banks on identified fraud incidents.

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 and set up measures with the purpose of risk mitigation. Based on the results of the analysis, appropriate measures were adopted, enabling the Bank to assume risks within its risk-bearing capacity. In the reporting period, Abanka evaluated the adequacy of its capital level and quality in relation to its risk profile by calculating internal capital needs. This calculation not only takes into account the capital requirements for credit, market and operational risks (calculated according to the applicable rules set out in Pillar 1 of the Basel II banking accord), but also identifies internal capital needs (under Pillar 2) for all other risks not fully or not at all included in Pillar 1 (e.g. concentration risk, interest rate risk, liquidity risk, reputational risk, etc.). Abanka regularly carried out stress testing and sensitivity analyses, the results of which were used to provide additional information on the Bank's potential losses and its capital needs should one of the selected scenarios occur. Through the ICAAP process the Bank identified the need to raise additional capital, which spurred the adoption of capital strengthening measures.

The consolidated total capital ratio and the consolidated Tier 1 capital ratio expected by the Bank of Slovenia are higher than those the Abanka Group disclosed as at 30 June 2014. For details see Note 11 - Capital and Capital Adequacy in the Financial Report of the Unaudited Interim Report of the Abanka Vipa Group for the First Half of 2014. Therefore, the Group has already taken appropriate measures to improve the capital ratios. These include both capital increase activities and those aimed to reduce capital requirements and needs (credit risk in particular).

SIGNIFICANT TYPES OF RISKS AND HAZARDS IN THE SECOND HALF OF 2014

In the second half of 2014, a reduced lending activity of the Bank will continue in a persisting harsh economic environment. A significant improvement of the credit portfolio quality can be expected only after bad debt will have been transferred to BAMC. Abanka will continue to implement measures based on tightened credit standards and process optimisation. In the future, it will continue to pay particular attention to bad debt recovery. In the second half of 2014, the Bank will intensify its efforts in order to eventually fulfil the conditions for applying the IRB approach to calculate capital requirements for credit risk and in order to improve portfolio management of credit risk.

Abanka's focus on lending as the core banking business is the main reason its market risk appetite decreased. 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.

The Bank anticipates to maintain good liquidity also in the second half of 2014. On the one hand, this will be thanks to the transfer of bad debt to BAMC in exchange for BAMC bonds, along with the planned second round of capital increase. On the other hand, improved liquidity will result from the introduction of ECB's "unconventional monetary policy" in combination with higher confidence in global financial markets. Liquidity risk exposures are expected to decrease owing to positive trends in corporate loan servicing rates (i.e. less defaults and reprogramming), which significantly improved already towards the end of the reporting period.

Furthermore, it will continue paying adequate attention to the management of outsourcing risk, internal and external fraud risk and other elements of operational risks. The Bank will continue to maintain and upgrade its business continuity management system.

Within the framework of the ICAAP, Abanka will upgrade the existing system and continue to regularly monitor its risk profile, assess its risk-bearing capacity, carry out stress tests, calculate internal capital needs, the capital level and ICAAP capital adequacy ratios and further implement the system of early detection of increased risk and reporting to the Management and Supervisory Boards.

CHANGES TO THE SUPERVISORY BOARD AND TO THE MANAGEMENT BOARD

CHANGES TO THE SUPERVISORY BOARD

Janko Gedrih serves as the Chairman of the Supervisory Board, Andrej Slapar as the Vice-Chairman, and Vladimir Mišo Čeplak, M.Sc., Franci Strajnar, M.Sc., Kristina Ana Dolenc, Snežana Šušteršič, Aljoša Uršič and Aleš Aberšek as members. In the first half of 2014, the composition of the Bank’s Supervisory Board remained unchanged.

CHANGES TO THE MANAGEMENT BOARD

Abanka is managed by a two-member Management Board, composed of Jože Lenič, M.Sc. Econ., as the President and Igor Stebernak as the member. There were no changes to the Management Board in the reporting period.

FINANCIAL REPORT

INDEX TO THE FINANCIAL STATEMENTS

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(All amounts in EUR thousand unless otherwise stated)

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

UNAUDITED INCOME STATEMENT OF ABANKA VIPA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT	
		Period ended 30 June 2014	Period ended 30 June 2013
1	2	3	4
1	Interest income	57,748	70,197
2	Interest expenses	(27,377)	(38,314)
3	**Net interest income (1 + 2)**	**30,371**	**31,883**
4	Dividend income	868	486
5	Fee and commission income	20,360	20,319
6	Fee and commission expenses	(5,720)	(6,044)
7	**Net fee and commission income (5 + 6)**	**14,640**	**14,275**
8	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	3,704	1,279
9	Net gains on financial assets and liabilities held for trading	1,744	1,628
10	Losses on financial assets and liabilities designated at fair value through profit or loss	(26)	(374)
11	Exchange differences	44	(3)
12	Net (losses)/gains on derecognition of assets other than held for sale	(144)	3
13	Net other operating expenses	(5,078)	(5,584)
14	Administration costs (Note 3)	(20,837)	(22,904)
15	Depreciation and amortisation (Note 3)	(2,763)	(2,481)
16	Provisions (Note 4)	3,262	105
17	Impairment (Note 4)	(23,573)	(38,370)
18	Total profit/(loss) from non-current assets held for sale	223	(6)
19	TOTAL PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS (3 + 4 + 7 + 8 +9 +10 + 11 + 12 + 13 + 14 + 15 + 16 + 17 + 18)	2,435	(20,063)
20	Tax (expense)/income related to profit/(loss) from continuing operations	(562)	2,624
21	TOTAL PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS (19 + 20)	1,873	(17,439)
22	**NET PROFIT/(LOSS) for the financial year (21)**	**1,873**	**(17,439)**

in EUR

23	Basic earnings per share (Note 5)	0.12	2.43
24	Diluted earnings per share (Note 5)	0.12	2.43

These interim financial statements were approved for issue by the Management Board on 4 August 2014 and signed on its behalf by:

Management Board

Igor STEBERNAK
Member of the Management Board

Jože LENIČ, M.Sc. Econ.
President of the Management Board

The notes on pages 45 to 69 are an integral part of these interim financial statements.

(All amounts in EUR thousand unless otherwise stated)

UNADITED STATEMENT OF COMPREHENSIVE INCOME OF ABANKA VIPA D.D.

Item No.	ITEM DESCRIPTION	AMOUNT	
		Period ended 30 June 2014	Period ended 30 June 2013
1	2	3	4
1	**NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX**	**1,873**	**(17,439)**
2	**OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX** (3)	**18,987**	**(8,306)**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (3.1 + 3.2)	**18,987**	**(8,306)**
3.1	Available-for-sale financial assets (3.1.1 + 3.1.2)	22,876	(9,771)
3.1.1	Net valuation gains/(losses) taken to equity	24,795	(11,008)
3.1.2	Net (gains)/losses transferred to profit or loss	(1,919)	1,237
3.2	Income tax relating to items that may be reclassified to profit or loss	(3,889)	1,465
4	**TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**20,860**	**(25,745)**

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President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF FINANCIAL POSITION OF ABANKA VIPA D.D.

Ser. No.	ITEM DESCRIPTION	AMOUNT	
		As at 30 June 2014	As at 31 December 2013
1	2	3	4
1	Cash and cash balances with the central bank (Note 6)	84,273	375,581
2	Financial assets held for trading	10,974	13,994
3	Financial assets designated at fair value through profit or loss	2,471	2,436
4	Available-for-sale financial assets	542,163	506,684
5	Loans and receivables	1,884,970	1,933,427
	- loans to banks	178,203	107,273
	- loans to non-bank customers (Note 7)	1,697,240	1,820,677
	- other financial assets	9,527	5,477
6	Held-to-maturity investments	121,266	143,458
7	Non-current assets held for sale	4	59
8	Property and equipment	32,319	33,878
9	Investment property	133	74
10	Intangible assets	4,787	4,470
11	Investments in subsidiaries	12,670	12,670
12	Tax assets	3,349	7,605
	- deferred tax assets	3,349	7,605
13	Other assets	2,381	2,137
14	**TOTAL ASSETS** (from 1 to 13)	**2,701,760**	**3,036,473**

(All amounts in EUR thousand unless otherwise stated)

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

Ser. No.	ITEM DESCRIPTION	AMOUNT As at 30 June 2014	As at 31 December 2013
1	2	3	4
15	Deposits and loans from the central bank (Note 9)	253,548	456,213
16	Financial liabilities held for trading	9,400	11,174
17	Financial liabilities designated at fair value through profit or loss	-	8,842
18	Financial liabilities measured at amortised cost	2,180,205	2,317,799
	- deposits from banks	8,306	10,855
	- deposits from non-bank customers	1,842,772	1,894,043
	- loans from banks (Note 9)	264,562	351,927
	- loans from non-bank customers	98	96
	- debt securities issued (Note 10)	49,664	50,560
	- other financial liabilities	14,803	10,318
19	Provisions	24,154	28,086
20	Tax liabilities	222	90
	- current tax liabilities	144	-
	- deferred tax liabilities	78	90
21	Other liabilities	677	1,575
22	TOTAL LIABILITIES (from 15 to 21)	2,468,206	2,823,779
23	Share capital	150,000	150,000
24	Share premium	39,617	39,617
25	Revaluation reserves	28,841	9,854
26	Reserves from profit	13,223	13,223
27	Profit from the current year	1,873	-
28	TOTAL EQUITY (from 23 to 27)	233,554	212,694
29	**TOTAL LIABILITIES AND EQUITY** (22 + 28)	**2,701,760**	**3,036,473**

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Management Board

Igor STEBERNAK
Member of the Management Board

Jože LENIČ, M.Sc. Econ.
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA VIPA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 2014

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Profit 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**	**150,000**	**39,617**	**9,854**	**13,223**	**-**	**212,694**
2	**Comprehensive income for the financial year after tax**	**-**	**-**	**18,987**	**-**	**1,873**	**20,860**
3	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2)**	**150,000**	**39,617**	**28,841**	**13,223**	**1,873**	**233,554**

UNAUDITED STATEMENT OF CHANGES IN EQUITY OF ABANKA VIPA D.D. FOR THE REPORTING PERIOD ENDED 30 JUNE 2013

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Loss from the current year	Treasury shares (equity deduction item)	Total equity (from 3 to 8)
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**7,200**	**143,288**	**4,847**	**13,463**	**-**	**(240)**	**168,558**
2	**Comprehensive loss for the financial year after tax**	**-**	**-**	**(8,306)**	**-**	**(17,439)**	**-**	**(25,745)**
3	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2)**	**7,200**	**143,288**	**(3,459)**	**13,463**	**(17,439)**	**(240)**	**142,813**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CASH FLOW STATEMENT OF ABANKA VIPA D.D.

Designation	ITEM DESCRIPTION	AMOUNT	
		Period ended 30 June 2014	Period ended 30 June 2013
1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit/loss before tax	2,435	(20,063)
	Depreciation and amortisation	2,763	2,481
	Impairments of financial assets available for sale (Note 4)	731	1,149
	Impairments of loans and receivables (Note 4)	22,842	37,221
	Net (gains)/losses from exchange differences	(44)	3
	Net (gains)from financial assets held to maturity	-	(21)
	Net losses/(gains) from sale of tangible assets	144	(3)
	Other (gains) from investing activities (Note 12)	(2,564)	(2,794)
	Other losses from financing activities	-	386
	Net unrealised (gains)/losses from non-current assets held for sale	(223)	6
	Other adjustments to total profit or loss before tax (Note 12)	(3,262)	(105)
	Cash flow from operating activities before changes in operating assets and liabilities	**22,822**	**18,260**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**	**86,264**	**235,815**
	Net decrease in financial assets held for trading	3,021	688
	Net (increase)/decrease in financial assets designated at fair value through profit or loss	(35)	9,000
	Net (increase)/decrease in financial assets available for sale	(13,246)	44,863
	Net decrease in loans and receivables	96,490	181,875
	Net decrease/(increase) in non-current assets held for sale	278	(231)
	Net (increase) in other assets	(244)	(380)
c)	**(Decreases) in operating liabilities**	**(353,413)**	**(135,205)**
	Net (decrease) in financial liabilities to central bank	(202,666)	(78,655)
	Net (decrease) in financial liabilities held for trading	(1,774)	(5,135)
	Net (decrease)/increase in financial liabilities designated at fair value through profit or loss	(8,842)	25
	Net (decrease) in deposits, loans and receivables measured at amortised cost	(138,337)	(2,731)
	Net (decrease) in debt instruments in issue measured at amortised cost	(896)	(49,176)
	Net (decrease)/increase in other liabilities	(898)	467
d)	**Cash flow from operating activities (a+b+c)**	**(244,327)**	**118,870**
e)	**Income taxes (paid)/refunded**	**-**	**-**
f)	**Net cash flow from operating activities (d+e)**	**(244,327)**	**118,870**

(All amounts in EUR thousand unless otherwise stated)

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

Designation	ITEM DESCRIPTION	AMOUNT	
		Period ended 30 June 2014	Period ended 30 June 2013
1	2	3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**25,919**	**120,496**
	Receipts from the sale of tangible assets	8	5
	Receipts from the sale of financial assets held to maturity	25,911	120,491
b)	**Cash payments on investing activities**	**(2,895)**	**(142,478)**
	(Cash payments to acquire tangible assets)	(346)	(873)
	(Cash payments to acquire intangible assets)	(1,394)	(1,130)
	(Cash payments to acquire held to maturity investments)	(1,155)	(140,475)
c)	**Net cash flow from investing activities (a+b)**	**23,024**	**(21,982)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**-**	**-**
b)	**Cash payments on financing activities**	**-**	**(636)**
	(Cash repayments of subordinated liabilities)	-	(636)
c)	**Net cash flow from financing activities (a+b)**	**-**	**(636)**
D.	Effects of change in exchange rates on cash and cash equivalents	895	(264)
E.	**Net (decrease)/increase in cash and cash equivalents (Af+Bc+Cc)**	**(221,303)**	**96,252**
F.	**Opening balance of cash and cash equivalents**	**463,533**	**278,635**
G.	**Closing balance of cash and cash equivalents (D+E+F) (Note 12)**	**243,125**	**374,623**

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Management Board

Igor STEBERNAK
Member of the Management Board

Jože LENIČ, M.Sc. Econ.
President of the Management Board

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED INCOME STATEMENT OF THE ABANKA VIPA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2014	Period ended 30 June 2013
1	2	3	4
1	Interest income	58,194	71,686
2	Interest expenses	(27,487)	(38,778)
3	**Net interest income (1+2)**	**30,707**	**32,908**
4	Dividend income	868	489
5	Fee and commission income	20,366	20,796
6	Fee and commission expenses	(5,878)	(6,189)
7	**Net fee and commission income (5+6)**	**14,488**	**14,607**
8	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	3,704	1,290
9	Net gains on financial assets and liabilities held for trading	1,744	1,631
10	Losses on financial assets and liabilities designated at fair value through profit or loss	(26)	(374)
11	Exchange differences	58	162
12	Net (losses)/gains on derecognition of assets other than held for sale	(129)	45
13	Net other operating expenses	(4,610)	(5,084)
14	Administration costs (Note 3)	(22,364)	(24,893)
15	Depreciation and amortisation (Note 3)	(3,134)	(2,842)
16	Provisions (Note 4)	3,253	87
17	Impairment (Note 4)	(23,664)	(39,256)
18	Share of loss of associates accounted for using the equity method	-	(863)
19	Total profit/(loss) from non-current assets held for sale	223	(6)
20	TOTAL PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)	1,118	(22,099)
21	Tax (expense)/income related to profit/(loss) from continuing operations	(571)	2,573
22	TOTAL PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS (20+21)	547	(19,526)
23	**NET PROFIT/(LOSS) for the financial year (22)**	**547**	**(19,526)**
	a) Profit/(loss) attributable to owners of the parent	546	(19,526)
	b) Profit attributable to non-controlling interests	1	-
			in EUR
24	Basic earnings per share (Note 5)	0.04	(2.72)
25	Diluted earnings per share (Note 5)	0.04	(2.72)

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA VIPA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT Period ended 30 June 2014	AMOUNT Period ended 30 June 2013
1	2	3	4
1	**NET PROFIT/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX**	**547**	**(19,526)**
2	**OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX** (3)	**18,942**	**(8,323)**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (3.1+3.2+3.3)	**18,942**	**(8,323)**
3.1	Foreign currency translation (3.1.1)	(45)	-
3.1.1	Translation losses taken to equity	(45)	-
3.2	Available-for-sale financial assets (3.2.1+3.2.2)	22,876	(9,791)
3.2.1	Net valuation gains/(losses) taken to equity	24,795	(11,014)
3.2.2	Net (gains)/losses transferred to profit or loss	(1,919)	1,223
3.3	Income tax relating to items that may be reclassified to profit or loss	(3,889)	1,468
4	**TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR AFTER TAX (1+2)**	**19,489**	**(27,849)**
	a) Profit/(loss) attributable to owners of the parent	19,488	(27,849)
	b) Profit attributable to non-controlling interests	1	-

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA VIPA GROUP

Item No.	ITEM DESCRIPTION	AMOUNT	
		As at 30 June 2014	As at 31 December 2013
1	2	3	4
1	Cash and cash balances with the central bank (Note 6)	84,273	375,581
2	Financial assets held for trading	10,974	13,994
3	Financial assets designated at fair value through profit or loss	2,471	2,436
4	Available-for-sale financial assets	542,163	506,684
5	Loans and receivables	1,853,454	1,924,473
	- loans to banks	178,461	108,965
	- loans to non-bank customers (Note 7)	1,665,036	1,809,717
	- other financial assets	9,957	5,791
6	Held-to-maturity investments	121,266	143,458
7	Non-current assets held for sale	4	59
8	Property and equipment	48,863	50,512
9	Investment property	3,632	1,050
10	Intangible assets	4,973	4,710
11	Tax assets	3,748	7,958
	- current tax assets	47	-
	- deferred tax assets	3,701	7,958
12	Other assets	20,134	17,488
13	**TOTAL ASSETS** (from 1 to 12)	**2,695,955**	**3,048,403**

(All amounts in EUR thousand unless otherwise stated)

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

Item No.	ITEM DESCRIPTION	AMOUNT	
		As at 30 June 2014	As at 31 December 2013
1	2	3	4
14	Deposits and loans from the central bank (Note 9)	253,548	456,213
15	Financial liabilities held for trading	9,400	11,174
16	Financial liabilities designated at fair value through profit or loss	-	8,842
17	Financial liabilities measured at amortised cost	2,173,177	2,327,132
	- deposits from banks	8,306	10,855
	- deposits from non-bank customers	1,832,102	1,886,057
	- loans from banks (Note 9)	267,231	367,391
	- debt securities issued (Note 10)	49,664	50,560
	- other financial liabilities	15,874	12,269
18	Provisions	26,551	30,474
19	Tax liabilities	78	454
	- current tax liabilities	-	364
	- deferred tax liabilities	78	90
20	Other liabilities	1,573	1,975
21	TOTAL LIABILITIES (from 14 to 20)	2,464,327	2,836,264
22	Share capital	150,000	150,000
23	Share premium	39,617	39,617
24	Revaluation reserves	28,493	9,551
25	Reserves from profit	13,398	13,398
26	Retained earnings (including profit/(loss) from the current year)	90	(456)
27	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (from 22 to 26)	231,598	212,110
28	Equity attributable to non-controlling interests	30	29
29	TOTAL EQUITY (27 + 28)	231,628	212,139
30	**TOTAL LIABILITIES AND EQUITY** (21 + 29)	**2,695,955**	**3,048,403**

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA VIPA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 2014

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including profit from the current year)	Equity attributable to owners of the parent (from 3 to 7)	Equity attributable to non-controlling interests	Total equity (8 + 9)
1	2	3	4	5	6	7	8	9	10
1	OPENING BALANCE FOR THE REPORTING PERIOD	150,000	39,617	9,551	13,398	(456)	212,110	29	212,139
2	Consolidated comprehensive income for the financial year after tax	-	-	18,942	-	546	19,488	1	19,489
3	CLOSING BALANCE FOR THE REPORTING PERIOD (1+2)	150,000	39,617	28,493	13,398	90	231,598	30	231,628

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA VIPA GROUP FOR THE REPORTING PERIOD ENDED 30 JUNE 2013

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including loss from the current year)	Treasury shares (equity deduction item)	Equity attributable to owners of the parent (from 3 to 8)	Equity attributable to non-controlling interests	Total equity (9 + 10)
1	2	3	4	5	6	7	8	9	10	11
1	OPENING BALANCE FOR THE REPORTING PERIOD	7,200	143,288	4,549	13,638	(2,799)	(240)	165,636	8	165,644
2	Consolidated comprehensive loss for the financial year after tax	-	-	(8,323)	-	(19,526)	-	(27,849)	-	(27,849)
3	CLOSING BALANCE FOR THE REPORTING PERIOD (1+2)	7,200	143,288	(3,774)	13,638	(22,325)	(240)	137,787	8	137,795

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(All amounts in EUR thousand unless otherwise stated)

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA VIPA GROUP

Designation	ITEM DESCRIPTION	AMOUNT	
		Period ended 30 June 2014	Period ended 30 June 2013
1	2	3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	Total profit/loss before tax	1,118	(22,099)
	Depreciation and amortisation	3,134	2,842
	Impairments of financial assets available for sale (Note 4)	731	1,149
	Impairments of loans and receivables (Note 4)	22,841	38,086
	Impairments of investment property and other assets	92	21
	Share of the loss of associates and joint ventures accounted for using the equity method	-	863
	Net (gains) from exchange differences	(58)	(162)
	Net (gains) from financial assets held to maturity	-	(21)
	Net losses/(gains) from sale of tangible assets	129	(45)
	Other (gains) from investing activities (Note 12)	(2,564)	(2,794)
	Other losses from financing activities	-	386
	Net unrealised (gains)/losses from non-current assets held for sale	(223)	6
	Other adjustments to total profit or loss before tax (Note 12)	(3,253)	(87)
	Cash flow from operating activities before changes in operating assets and liabilities	**21,947**	**18,145**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**	**103,054**	**237,611**
	Net decrease in financial assets held for trading	3,021	685
	Net (increase)/decrease in financial assets designated at fair value through profit or loss	(35)	9,000
	Net (increase)/decrease in financial assets available for sale	(13,246)	44,934
	Net decrease in loans and receivables	118,285	183,409
	Net decrease/(increase) in non-current assets held for sale	278	(231)
	Net (increase) in other assets	(5,249)	(186)
c)	**(Decreases) in operating liabilities**	**(369,279)**	**(134,558)**
	Net (decrease) in financial liabilities to central bank	(202,666)	(78,655)
	Net (decrease) in financial liabilities held for trading	(1,774)	(5,135)
	Net (decrease)/increase in financial liabilities designated at fair value through profit or loss	(8,842)	25
	Net (decrease) in deposits, loans and receivables measured at amortised cost	(154,698)	(1,998)
	Net (decrease) in debt instruments in issue measured at amortised cost	(896)	(49,176)
	Net (decrease)/increase in other liabilities	(403)	381
d)	**Cash flow from operating activities (a+b+c)**	**(244,278)**	**121,198**
e)	**Income taxes (paid)**	**(564)**	**(55)**
f)	**Net cash flow from operating activities (d+e)**	**(244,842)**	**121,143**

(All amounts in EUR thousand unless otherwise stated)

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

Designation	ITEM DESCRIPTION	AMOUNT	
		Period ended 30 June 2014	Period ended 30 June 2013
1	2	3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Receipts from investing activities**	**26,115**	**120,832**
	Receipts from the sale of tangible assets	204	341
	Receipts from the sale of financial assets held to maturity	25,911	120,491
b)	**Cash payments on investing activities**	**(3,318)**	**(143,886)**
	(Cash payments to acquire tangible assets)	(756)	(1,141)
	(Cash payments to acquire intangible assets)	(1,407)	(1,136)
	(Cash payments for the investment in associates)	-	(1,134)
	(Cash payments to acquire held to maturity investments)	(1,155)	(140,475)
c)	**Net cash flow from investing activities (a+b)**	**22,797**	**(23,054)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Cash proceeds from financing activities**	**-**	**-**
b)	**Cash payments on financing activities**	**-**	**(636)**
	(Cash repayments of subordinated liabilities)	-	(636)
c)	**Net cash flow from financing activities (a+b)**	**-**	**(636)**
D.	Effects of change in exchange rates on cash and cash equivalents	895	(264)
E.	**Net (decrease)/increase in cash and cash equivalents (Af+Bc+Cc)**	**(222,045)**	**97,453**
F.	**Opening balance of cash and cash equivalents**	**464,432**	**279,189**
G.	**Closing balance of cash and cash equivalents (D+E+F) (Note 12)**	**243,282**	**376,378**

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President of the Management Board

The notes on pages 45 to 69 are an integral part of these interim financial statements.

SELECTED NOTES TO THE FINANCIAL STATEMENTS

REPORTING ENTITY

Abanka Vipa d.d. is headquarted in Slovenia. The consolidated financial statements of the Bank as at and for the half-year ended 30 June 2014 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in the associated companies. The Group is primarily involved in corporate, retail and investment banking, and in providing asset management services.

STATEMENT OF COMPLIANCE

The interim financial statements of Abanka Vipa d.d. and the Abanka Vipa Group for the half-year ended 30 June 2014 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 2013 financial year.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparations

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in the annual financial statements for the year ended 31 December 2013. Accepted accounting 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 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 financial statements.

Within the set deadline (18 February 2014), the Bank submitted a restructuring plan, including the transfer of non-performing assets to the Bank Asset Management Company (DUTB) and a further capital increase to be carried out by the Republic of Slovenia pending the approval of the European Commission. Through the Ministry of Finance Abanka promptly answered all the subsequent questions put by the European Commission and participated in the coordination of commitments. According to the estimate of the Management Board, the Bank undertook all the necessary activities for the approval of the restructuring plan and a final decision of the European Commission on state aids, not yet adopted to the reporting date. The Management Board expects the final opinion of the European Commission to be favourable.

(b) Standards, interpretations and amendments that were issued and endorsed by EU and effective for annual periods beginning on 1 January 2014

- IAS 32 (amendment) »Offsetting Financial Assets and Financial Liabilities« (effective for annual periods beginning on or after 1 January 2014);
- IFRS 10 »Consolidated Financial Statements«, IFRS 11 »Joint Arrangements«, IFRS 12 »Disclosures of Interests in Other Entities, IAS 27 »Separate financial statements« and IAS 28 »Investments in Associates and Joint Ventures« which have been amended for the issuance of IFRS 10 (effective for annual periods beginning on or after 1 January 2014);
- IAS 39 (amendment) »Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014);
- IAS 36 (amendment) »Recoverable Amount Disclosures for Non-Financial Assets« (effective for annual periods beginning on or after 1 January 2014).

The application of the new interpretations and standards mentioned above will not affect the valuation of items in the Group's financial statements, but the application of some of them will affect their presentation and disclosure.

(c) Standards, interpretations and amendments issued but not endorsed by EU

- IFRS 9 »Financial instruments«. In November 2013, the adoption of IFRS 9 was delayed indefinitely from the planned introduction date of 1 January 2015. A mandatory implementation date will be defined when the standard is completed.
- IFRIC 21 (new interpretation) »Levies« (effective for annual periods beginning on or after 1 January 2014);
- IAS 19 (amendment) »Employee Benefits« (effective for annual periods beginning on or after 1 July 2014);
- Annual improvements to IFRS 2010-2012 and 2011-2013 Cycle. The improvements comprise a mixture of substansive changes and clarifications, and are effective for annual periods beginning on or after 1 July 2014.
- IFRS 14 (new standard) »Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016).

(d) Comparatives

Since the Bank of Slovenia changed the format of the cash flow statement using the indirect method (Note 12), the Group accordingly adjusted its comparative figures in both the Bank's cash flow statement and the consolidated cash flow statement for half-year ended 30 June 2013.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The disclosure of critical accounting estimates and judgements in applying accounting policies are based only on consolidated statements, as there are no significant differences between the Bank and the Group.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 in 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 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 latest data, credit risk losses would increase by 0.9% (30 June 2013: 1,6%) or EUR 6.1 million (30 June 2013: EUR 6.5 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 the latest data, credit risk losses would rise by 1.3% (30 June 2013: 2.9%) or EUR 9.4 million (30 June 2013: EUR 11.7 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. A prolonged decrease in the fair value of financial assets below their cost is considered to be a period of at least nine months from the date the fair value of the relevant equity investments first fell below their average cost and remained lower throughout that period. In the said period, the Bank continuously recognises a loss in fair value reserve in relation to the relevant equity investments.

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 2,424 thousand (30 June 2013: a EUR 1,337 thousand decrease), with a corresponding entry in the fair value reserve in shareholders' equity.

(d) Fair value of financial assets and liabilities

<u>Financial instruments carried at fair value</u>

Fair value is defined as the price received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or, if not existent, in the most advantageous) market under current market conditions between market participants at the measurement date. Such a definition of price requires the market participants to be independent and unrelated, informed and capable, willing and not forced to enter into a transaction.

When measuring fair value it is assumed that an asset or liability is exchanged in an orderly transaction between market participants to sell an asset or transfer a liability under current market conditions, whether or not the price can be directly observed or estimated by applying other valuation techniques. In doing so, the Group must have access to the principal or the most advantageous market.

- *Valuation techniques*

Valuation techniques used in the measurement of fair value encourage maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The markets on inputs for the valuation of financial instruments can be observed include organised exchange markets, dealer markets, brokered markets and principal-to-principal markets.

Fair value of an asset upon recognition (the price at which an asset can be sold or the exit price) reflects the transaction price (the price at which the asset was acquired or the entry price). Fair value of a liability upon recognition (the price at which a liability can be transferred or the exit price) reflects the transaction price (the price at which a liability was acquired or the entry price). Regardless of that, the Group individually assesses whether or not a transaction actually indicates the fair value, taking into account any possible relation between the parties to the transaction, signs of a possible forced sale, impact of transaction pricing with regard to the specific nature of the parties involved compared to the nature of the Group measuring the fair value, and the market at which the transaction took place compared to the market to which the Group normally accesses.

When measuring the fair value of financial instruments, the Group determines the level of fair value hierarchy in which the measured financial instruments are categorised. The category of individual financial instruments in the level of fair value hierarchy is determined with regard to the type of inputs used to measure the fair value of the financial instrument. The level of inputs having the strongest impact on determining the fair value of a financial instrument is taken into consideration. In cases in which several types of inputs impact the determination of fair value, the lowest level in the hierarchy of inputs is used.

- *Fair value hierarchy*

The Group categorises financial instruments into fair value levels: 1, 2 and 3. Higher levels contain financial instruments whose fair value was measured by using directly observable inputs (directly observable prices). Financial instruments, for which the fair value was also measured by using unobservable inputs, are categorised into lower fair value levels. When using individual valuation techniques and methods, the Group has available inputs required by individual valuation method or model. In case of insufficient inputs, the fair value level is determined lower than in a case of complete inputs.

Level 1: The Group categorises financial instruments, for which the fair value was measured through direct price observation at markets for identical financial instruments, to which the Group had access at the measurement date, into fair value Level 1. In addition, the Group categorises into fair value Level 1 all the financial instruments whose fair value was measured by direct observation of quoted prices for financial instruments from market participants or third parties, provided orderly transaction pricing and a binding quote of a third party.

- Level 2: The Group categorises financial instruments, for which the fair value was measured through direct price observation at markets for similar financial instruments, into fair value Level 2. In addition, the Group categorises into fair value level 2 the financial instruments whose fair value was measured by using inputs that make it impossible to categorise a financial instrument to fair value Level 1, whilst the inputs accessible at the market and indirectly indicate the market conditions, or the inputs are derived from observable market prices or from observable of quoted prices for equal financial instruments from market participants or third parties, provided orderly transaction pricing and a binding quote of a third party.

- Level 3: The Group categorises financial instruments, for which the fair value was measured by using unobservable inputs, into fair value Level 3. Unobservable inputs comprise assumptions and anticipations. In using this valuation technique, the Group forms assumptions and anticipations in compliance with other market participants. In addition, the Group categorises into fair value Level 3 the financial instruments whose fair value was measured by using insufficient or unknown inputs in applying the selected valuation technique. In addition, the Group categorises into fair value Level 3 the financial instruments whose fair value was measured on the basis of third party quoted prices that do not indicate an orderly transaction or a binding quote of a third party.

➢ *Valuation techniques for financial instruments measured at fair value*

The Group measures the fair value of equity securities by using directly observable market prices for identical assets or liabilities, accessible to the Group at the measurement date. As a rule, in such cases the Group makes use of closing market prices on the valuation cut-off date. The Group may further use quoted prices provided by market participants or third parties to measure the fair value of equity securities, provided that inputs stem from orderly transaction pricing and constitute a binding quote of a third party. In this case, the Group uses bid prices for asset positions and ask prices for liability positions. In case of several quotations, the Group may use the most favourable quotation. If directly observable market prices for identical assets or liabilities are not available and, at the same, there are no quoted prices available from market participants or third parties, provided orderly transaction pricing, and a binding quote of a third party, or when the Group estimates that there is no active market for a financial instrument, a market approach or an income approach valuation technique is used to determine the value. When the Group, applying the market approach, uses quoted prices provided by market participants or third parties for the fair value measurement of equity securities, and such quoted prices neither stem from orderly transactions nor constitute a binding quote of the relevant party, the Group shall, in case of several such quotes, select the average value, after having first eliminated the two extreme quotes in case of three or more quotes. From among the market approach valuation techniques, 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.

The Group measures the fair value of debt securities by using directly observable market prices for identical assets or liabilities, accessible to the Group at the measurement date. As a rule, in such cases the Group makes use of closing market prices on the valuation cut-off date, using, if available, bid prices for asset positions and ask prices for liability positions. The Group uses closing market prices for debt securities quoted at the Ljubljana Stock Exchange. In measuring the fair value of debt securities, the Group may also use quoted prices available from market participants or third parties, provided orderly transaction pricing and a binding quote of a third party. In this case, the Group uses bid prices for asset positions and ask prices for liability positions. In case of several quotes, the Group may use the most favourable quote. If directly observable market prices for identical assets or liabilities are not available and, at the same, there are no quoted prices available from market participants or third parties, provided orderly transaction pricing, and a binding quote of a third party, or when the Group estimates that there is no active market for a financial instrument, a market approach or an income approach valuation technique is used to determine the value. When the Group, applying the market approach, uses quoted prices provided by market participants or third parties for the fair value measurement of debt securities, and such quoted prices neither come from orderly transactions nor constitute a binding quote of the relevant party, the Group shall, in case of several such quotes, select the average value, after having first eliminated the two extreme quotes in case of three or more quotes.

The Group measures the fair value of derivative financial instruments by using directly observable market prices for identical assets or liabilities, accessible to the Group at the measurement date. As a rule, in such cases the Group makes use of closing market prices on the valuation cut-off date. In measuring fair value of derivatives, the Group may also use quoted prices available from market participants or third parties, provided orderly transaction pricing and a binding quote of a third party. In this case, the Group uses bid prices for asset positions and ask prices for liability positions. In case of several quotes, the Group may use the most favourable quote. When measuring fair value of derivatives, the Group also applies either the market approach or the income approach valuation techniques.

The Group measures the value of derivatives by applying the yield curve, the zero curve, the discount curve or the forward curve. The zero curve is derived from the yield curve by the bootstrapping method. Future cash flows are converted into comparable present values by applying discount rates. The discounting of future cash flows represents the current value of the money that the Group will receive at a time in the future. Each cash flow is discounted at a rate typical for the period in which the cash flow will occur. The Group calculates the discount rate from zero-coupon rates. The Group daily obtains the zero curves for the domestic (EUR) currency (1M Euribor, 3M Euribor, 6M Euribor) from the Reuters system at the end of the business day for maturities up to 30 years. The yield curves for all foreign currencies are composed of individual foreign currency curves with maturities up to one year and of interest swap curves for foreign currencies for maturities exceeding one year. In addition to the aforementioned curves, other inputs are used for the valuation of derivative financial instruments, such as exchange rates, interest rates and volatility information about exchange rates and interest rates.

The Group applies generally known and recognised valuation models. The Group applies the Garman-Kohlhagen model for the valuation of European-style currency options, which is an adjusted Blacks-Scholes model for currency options valuation. This specific model requires the user to determine the interest rate curve for both transaction currencies. For the valuation of the American-style currency options, the Group applies the Barone-Adesi and Whaley model, which uses the same differential logics as the Black-Scholes model. It is based on square approximation used for the calculation of the early exercise premium envisaged in the American-style currency options. The Blacks model is used for the valuation of interest options. The measured fair values include the counterparty credit risk in cases in which the Group has assessed increased counterparty credit risk.

- Internal environment for valuations

The Group has created an internal environment for the proper implementation of the valuation activity. The valuation of financial instruments that are measured at fair value and constitute part and parcel of assets and liabilities in the Group's statement of financial position is carried out by an organisational unit that is completely independent of the assets and liabilities management unit. In cases of valuing financial instruments received as collateral for the Group's investments, the valuation is carried out by the organisational unit that is not the owner of claims collateralised with financial instruments subject to valuation.

Valuation models, modes of application and types of inputs are defined in internal rules of the Group which also hereby restricts any subjective judgement in fair value measurement. The Group daily performs independent verification of recorded exchange rates and prices used in the valuation of financial instruments.

(All amounts in EUR thousand unless otherwise stated)

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 30 June 2014	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				
Financial assets held for trading	**338**	**10,631**	**5**	**10,974**
– equity securities	–	258	5	**263**
– derivatives	338	10,370	–	**10,708**
– other	–	3	–	**3**
Financial asstes designated at fair value through profit or loss	**2,471**	–	–	**2,471**
– unit linked investments	2,471	–	–	**2,471**
Availabe-for-sale financial assets	**512,447**	**29,646**	**70**	**542,163**
– debt securities	493,149	27,810	–	**520,959**
– equity securities	19,298	174	–	**19,472**
– equity holdings	–	1,662	70	**1,732**
Total financial assets	**515,256**	**40,277**	**75**	**555,608**

Financial liabilities				
Financial liabilities held for trading	–	**9,400**	–	**9,400**
– derivatives	–	9,399	–	**9,399**
– spot transactions	–	1	–	**1**
Total financial liabilities	**–**	**9,400**	**–**	**9,400**

(All amounts in EUR thousand unless otherwise stated)

As at 31 December 2013	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				
Financial assets held for trading	**1,889**	**12,100**	**5**	**13,994**
– equity securities	1,310	258	5	**1,573**
– derivatives	579	11,841	–	**12,420**
– other	–	1	–	**1**
Financial asstes designated at fair value through profit or loss	**2,436**	**–**	**–**	**2,436**
– unit linked investments	2,436	–	–	**2,436**
Availabe-for-sale financial assets	**473,982**	**32,103**	**599**	**506,684**
– debt securities	459,956	31,600	–	**491,556**
– equity securities	14,026	503	–	**14,529**
– equity holdings	–	–	599	**599**
Total financial assets	**478,307**	**44,203**	**604**	**523,114**
Financial liabilities				
Financial liabilities held for trading	**–**	**11,174**	**–**	**11,174**
– derivatives	–	11,160	–	**11,160**
– spot transactions	–	14	–	**14**
Financial asstes designated at fair value through profit or loss	**8,842**	**–**	**–**	**8,842**
– structured deposit	8,842	–	–	**8,842**
Total financial liabilities	**8,842**	**11,174**	–	**20,016**

FAIR VALUE TRANSFERS

1 January – 30 June 2014	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Carrying amount on the transfer date	–	–	–	–	–	–
Available-for-sale financial assets (equity securities)	–	–	–	1,662	(529)	–
As at 30 June 2014		–		**1,662**		–

Due to the changed valuation technique, the Group further transferred available-for-sale equity holdings in two companies in total value of EUR 529 thousand from Level 3 to Level 2. In both cases, the Group applied the market approach valuation technique instead of the former cost model valuation. On the basis of the market approach these two available-for-sale assets valued EUR 1,662 thousand as at 30 June 2014.

1 January – 30 June 2013	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Available-for-sale financial assets (debt securities)	–	10,248	(10,248)	–	–	–
Available-for-sale financial assets (equity securities)	–	2	(2)	–	–	–
Total		**10,250**		–		–

In the first half of 2013, the Group transferred a debt security, available-for-sale, totalling EUR 10,248 thousand from Level 2 to Level 1 of the fair value hierarchy, based on the observation that the quoted marketprice allows for Level 1 classification. For the same reason the Group transferred one equity security, available-for-sale, totalling EUR 2 thousand.

(All amounts in EUR thousand unless otherwise stated)

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

	Financial assets held for trading	**Available-for-sale financial assets**
	Equity securities	**Equity holdings**
As at 1 January 2014	**5**	**599**
Total gains/(losses)	–	
Transfers from Level 3	–	529
As at 30 June 2014	**5**	**70**
Gains/(losses) in profit or loss for assets/liabilities held as at 30 June 2014	–	–

	Financial assets held for trading			**Financial assets designated at fair value through profit or loss**	**Available-for-sale financial assets**			**Financial liabilities held for trading**
	Equity securities	Derivatives	**Total**	**Equity holdings**	Equity securities	Equity holdings	**Total**	**Derivatives**
As at 1 January 2013	5	2,206	**2,211**	**281**	3,452	680	**4,132**	**3**
Total gains/(losses)	–	(118)	**(118)**	**(176)**	(589)	11	**(578)**	–
– in profit or loss	–	(118)	**(118)**	–	(326)	11	**(315)**	–
– in other comprehensive income	–	–	–	–	(263)	–	**(263)**	–
Purchases	–	–	–	–	–	–	–	–
Sales, redemptions, settlements	–	(3)	**(3)**	–	(9)	–	**(9)**	**(3)**
Transfers to level 3	–	–	–	–	–	–	–	–
As at 30 June 2013	**5**	**2,085**	**2,090**	**105**	**2,854**	**691**	**3,545**	–
Gains/(losses) in profit or loss for assets/liabilities held as at 30 June 2013	–	(118)	**(118)**	–	(321)	11	**(310)**	–

➢ *Unobservable inputs used in measuring fair value*

The table below contains information on significant unobservable inputs used in the fair value measurement of financial instruments categorised in fair value Level 3 as at 30 June 2014.

Type of financial instruments	**Fair values at 30 June 2014**	**Valuation technique**	**Significant unobservable input**	**Range of estimates for unobservable input**	**Fair value measurement sensitivity to unobservable inputs**
Equity securities	5	At cost	At cost	–	–

The unobservable inputs for fair value measurement of financial instruments that were categorised in fair value Level 3 as at 30 June 2014 arise from the application of cost model valuation in cases in which obstacles existed in fair value measurement and the values of the relevant assets are low.

➢ *Effect of unobservable inputs on fair value measurement*

Although the Group believes the fair values to be adequate, the application of various valuation techniques or assumptions may lead to different fair value measurements. In case of fair value measurement of financial instruments categorised in Level 3, any changes in the selection of unobservable inputs or assumptions and application of reasonably different inputs or assumptions could, to a certain extent, change the measured fair value.

As at 30 June 2014	**Effect on profit or loss**		**Effect on other comprehensive income**	
Financial asset	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Equity securities	–	5	–	–
Equity holdings	–	–	–	70

Fair value measurement of Level 3 equity financial instruments was used to show possible adverse impact on profit or loss, indicating that the fair value measurement resulted in a zero value in case of transit from the cost valuation model to another valuation technique. The adverse impact on other comprehensive income due to fair value measurement of Level 3 equity interests was measured to show the possibility that the transit from the cost valuation model to some other fair value measurement technique would result in zero value.

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.

(All amounts in EUR thousand unless otherwise stated)

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

	Carrying amount	Fair value			
As at 30 June 2014		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Cash and cash balances with the central bank	84,273	84,273	–	–	84,273
Loans and receivables	1,853,454	–	188,714	1,655,983	1,844,697
– loans to banks	178,461	–	178,757	–	178,757
– loans to non-bank customers	1,665,036	–	–	1,655,983	1,655,983
– retail customers	525,930	–	–	487,180	487,180
– corporate entities	1,139,106	–	–	1,168,803	1,168,803
– other financial assets	9,957	–	9,957	–	9,957
Held-to-maturity investments	121,266	123,690	–	–	123,690
Financial liabilities					
Deposits and loans from the central bank	253,548	–	253,548	–	253,548
Financial liabilities measured at amortised cost	2,173,177	13,980	2,191,354	–	2,205,334
– deposits from banks	8,306	–	8,202	–	8,202
– deposits from non-banks customers	1,832,102	–	1,846,162	–	1,846,162
– retail customers	1,139,661	–	1,143,240	–	1,143,240
– corporate entities	692,441	–	702,922	–	702,922
– loans from banks	267,231	–	286,570	–	286,570
– debt securities issued	49,664	13,980	34,546	–	48,526
– other financial liabilities	15,874	–	15,874	–	15,874

	Carrying amount	Fair value			
As at 31 December 2013		**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Cash and cash balances with the central bank	375,581	375,581	–	–	375,581
Loans and receivables	1,924,473	–	112,824	3,564,070	3,676,894
– loans to banks	108,965	–	107,033	–	107,033
– loans to non-bank customers	1,809,717	–	–	1,782,035	1,782,035
– retail customers	535,369	–	–	487,492	487,492
– corporate entities	1,274,348	–	–	1,294,543	1,294,543
– other financial assets	5,791	–	5,791	–	5,791
Held-to-maturity investments	143,458	142,750	–	–	142,750
Financial liabilities					
Deposits and loans from the central bank	456,213	–	456,213	–	456,213
Financial liabilities measured at amortised cost	2,327,132	13,980	2,321,989	–	2,335,969
– deposits from banks	10,855	–	10,333	–	10,333
– deposits from non-banks customers	1,886,057	–	1,897,289	–	1,897,289
– retail customers	1,101,191	–	1,098,197	–	1,098,197
– corporate entities	784,866	–	799,092	–	799,092
– loans from banks	367,391	–	366,652	–	366,652
– debt securities issued	50,560	13,980	35,446	–	49,426
– other financial liabilities	12,269	–	12,269	–	12,269

(All amounts in EUR thousand unless otherwise stated)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements.

- Loans to banks and to non-bank customers
  Loans are net of provisions for impairment. The estimated fair value of loans is based on discounted expected cash flows, using prevailing market rates for Zero Curve bonds for each currency increased by appropriate Swap Spread and considering the remaining maturity of each cash flow.

- Held-to-maturity investments
  Held-to-maturity investments comprise securities. The fair value of held-to-maturity assets is based on the market prices from Bloomberg (BGN).

- Deposits and loans from banks and non-bank customers and subordinated deposits
  The estimated fair value of deposits with no stated maturity, including non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed-interest-bearing deposits and other borrowings not quoted on an active market is based on discounted cash flow, using interest rates on new debts with a similar remaining maturity. The discount rates used were in a manner consistent with the Group's credit risk and also depend on the currency and maturity of the instrument.

- Debt securities issued and subordinated debt securities
  Total fair value is calculated on the basis of the prices quoted in an active securities market.

3 ADMINISTRATION COST, DEPRECIATION AND AMORTISATION

ADMINISTRATION COST	Abanka		Group	
	1 January – 30 June 2014	1 January – 30 June 2013	1 January – 30 June 2014	1 January – 30 June 2013
Staff costs	12,669	14,414	13,449	15,485
Professional services	5,353	5,617	5,816	6,226
Advertising and marketing	431	633	445	647
Other administration costs	553	637	598	677
IT and software costs	1,226	1,118	1,248	1,146
Rent payable	250	236	331	351
Other costs	355	249	477	361
Total administartion cost	**20,837**	**22,904**	**22,364**	**24,893**

DEPRECIATION AND AMORTISATION	Abanka		Group	
	1 January – 30 June 2014	1 January – 30 June 2013	1 January – 30 June 2014	1 January – 30 June 2013
Property and equipment	1,691	1,616	1,975	1,904
Investment property	3	2	24	10
Intangible assets	1,069	863	1,135	928
Total depreciation and amortisation cost	**2,763**	**2,481**	**3,134**	**2,842**

(All amounts in EUR thousand unless otherwise stated)

4 IMPAIRMENT AND PROVISIONS

IMPAIRMENT	Abanka		Group	
	1 January – 30 June 2014	1 January – 30 June 2013	1 January – 30 June 2014	1 January – 30 June 2013
Impairment of financial assets:				
– available-for-sale financial assets	731	1,149	731	1,149
– loans to non-bank customers (Note 7)	22,794	37,184	22,787	38,016
– other financial assets	48	37	54	70
Impairment of non-financial assets:				
– property and equipment	–	–	–	5
– investment property	–	–	21	–
– other non-financial assets	–	–	71	16
Total impairment	**23,573**	**38,370**	**23,664**	**39,256**

PROVISIONS	Abanka		Group	
	1 January – 30 June 2014	1 January – 30 June 2013	1 January – 30 June 2014	1 January – 30 June 2013
Other provisions	331	129	331	129
Provisions for guarantees and commitments	(3,593)	(234)	(3,584)	(216)
Net charge of provisions	**(3,262)**	**(105)**	**(3,253)**	**(87)**

In the first half of 2014 the Group impaired loans to non-bank customers in the amount of EUR 22,787 thousand, which decreased by 40% comparing to the first half of 2013. Most additional impairments were made for exposures to construction and manufacturing sectors.

Furthermore, in the first half of 2014 the Group impaired the available-for-sale financial assets, the fair value of which decreased steadily or substantially below their cost value.

In the first half of 2014, the provisions for off-balance sheet liabilities of the Group went down by EUR 3,584 thousand. This was mainly as a result of the payment of guarantees given by a borrower under restructuring and another one in bankruptcy proceedings, expiry of certain guarantees and a large revolving loan disbursement.

5 EARNINGS PER SHARE

Basic earnings per share of the Bank and of the Group for the first half of 2014 and the first half of 2013 are calculated by dividing net profit/loss by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume the conversion of all dilutive potential ordinary shares, which the Bank did not have as at 30 June 2014, nor as at 30 June 2013.

	Abanka		Group	
	1 January – 30 June 2014	1 January – 30 June 2013	1 January – 30 June 2014	1 January – 30 June 2013
Net profit/(loss) of the Bank/Group attributable to the owners of the parent, in EUR thousand	1,873	(17,439)	547	(19,526)
Weighted average number of ordinary shares issued	15,000,000	7,190,787	15,000,000	7,190,787
Number of treasury shares as at 30 June	–	9,213	–	9,213
Basic earnings per share (expressed in EUR per share)	**0.12**	**(2.43)**	**0.04**	**(2.72)**
Diluted earnings per share (expressed in EUR per share)	**0.12**	**(2.43)**	**0.04**	**(2.72)**

6 CASH AND CASH BALANCES WITH THE CENTRAL BANK

Data for the Bank and for the Group are identical.

	Group	
	30 June 2014	31 December 2013
Cash in hand	26,651	28,610
Settlement account and obligatory reserve	53,192	192,917
Other deposits with the central bank	4,430	154,054
Total cash and cash balances with the central bank	**84,273**	**375,581**

On 30 December 2013, the Bank participated in the short-term fine-tuning operation by the Bank of Slovenia with the amount of EUR 150,000 thousand, with the aim of placement of surplus liquid funds. The operation expired on 8 January 2014. Due to the repayment of loans arising from the ECB's long-term refinancing operations and to SID banka the settlement account balance decreased.

Fair value is disclosed in Note 2.

7 LOANS TO NON-BANK CUSTOMERS

	Abanka		Group	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Corporate entities	1,875,021	2,003,232	1,834,266	1,982,340
Retail customers	521,162	530,256	544,994	555,658
Gross loans	**2,396,183**	**2,533,488**	**2,379,260**	**2,537,998**
Provision for impairment	(698,943)	(712,811)	(714,224)	(728,281)
Net loans	**1,697,240**	**1,820,677**	**1,665,036**	**1,809,717**

Receivables for interest are recognised together with the underlying financial instrument.

Fair value is disclosed in Note 2.

(All amounts in EUR thousand unless otherwise stated)

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT ARE AS FOLLOWS:

	Abanka			Group		
	Corporate entities	Retail customers	Total	Corporate entities	Retail customers	Total
As at 1 January 2013	**382,919**	**13,940**	**396,859**	**391,004**	**18,729**	**409,733**
Provision for impairment	393,613	1,750	395,363	382,776	2,708	385,484
Write-offs, sales, conversion of loans	(78,305)	(1,106)	(79,411)	(65,788)	(1,148)	(66,936)
As at 31 December 2013	**698,227**	**14,584**	**712,811**	**707,992**	**20,289**	**728,281**
Provision for impairment	23,407	(613)	22,794	23,488	(701)	22,787
Write-offs, sales, conversion of loans	(36,181)	(481)	(36,662)	(36,320)	(524)	(36,844)
As at 30 June 2014	**685,453**	**13,490**	**698,943**	**695,160**	**19,064**	**714,224)**

All loans were written down to their recoverable amounts.

8 PLEDGED ASSETS

Data for the Bank and for the Group are identical.

	Group	
	30 June 2014	31 December 2013
Available-for-sale financial assets	349,462	430,479
Loans to banks	19,345	19,319
Loans to non-bank customers	81,691	85,885
Held-to-maturity investments	117,614	140,865
Total pledged assets	**568,112**	**676,548**

Assets are pledged as collateral for the Eurosystem (ECB) claims and for the purposes of the Deposit Guarantee Scheme, guaranteed claims of investors, Visa and Mastercard credit card transactions, financial derivative transactions and for other liabilities.

9 DEPOSITS AND LOANS FROM THE CENTRAL BANK AND LOANS FROM BANKS

Data for the Bank and for the Group are identical.

	Group	
DEPOSITS AND LOANS FROM THE CENTRAL BANK	30 June 2014	31 December 2013
Deposits	22	18
Liabilities from long-term refinancing operations	253,526	456,195
Total deposits and loans from the central bank	**253,548**	**456,213**

	Abanka		Group	
LOANS FROM BANKS	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Loans from banks	**264,562**	**351,927**	**267,231**	**367,391**

In the reporting period, the Bank repaid EUR 200 million of ECB's long-term refinancing operations (LTRO). On 19 March 2014, and on 18 June 2014 EUR 100 million and EUR 100 million were repaid respectively. In total, loans from banks decreased by

(All amounts in EUR thousand unless otherwise stated)

EUR 87.4 million as a result of early repayment of a loan from SID banka totalling EUR 45.7 million on 30 June 2014 and other loans from this bank which fell due.

Fair value is disclosed in Note 2.

10 ISSUE, REPURCHASE AND REPAYMENT OF DEBT AND EQUITY SECURITIES

Data for the Bank and the Group are identical.

DEBT SECURITIES ISSUED	Interest rate on 31 December	Group	
		30 June 2014	31 December 2013
Certificates of deposit (falling due: 2014 to 2020)	3.7%–5.9%	34,546	35,446
Bonds – 14th issue, due 24 March 2015	6M Euribor + 2.5%	15,118	15,114
Total debt securities issued		**49,664**	**50,560**

The sixth coupon of the 14th issue AB14 bonds of EUR 14.25 matured on 24 March 2014. The coupon consisted of interest. The total settled amount of the matured AB14 coupons was EUR 214 thousand.

Fair value is disclosed in Note 2.

11 CAPITAL AND CAPITAL ADEQUACY

As at 30 June 2014 the regulatory capital of the Abanka totalled EUR 197,466 thousand, which is EUR 4,391 thousand less than at the end of 2013. As at 30 June 2014 the total capital requirements of the Abanka totalled EUR 173,042 thousand, which is EUR 4,222 thousand more than at the end of 2013. At the same date, the total capital ratio was 9.13% or 0.44 p.p. less than at the end of 2013, the Tier 1 capital ratio was 9.13% or 0.27 p.p. less than at the end of 2013 and the Common Equity Tier 1 capital ratio was 9.13% or 0.27 p.p. less than at the end of 2013.

As at 30 June 2014 the regulatory capital of the Abanka Group totalled EUR 196,681 thousand, which is EUR 2,016 thousand less than at the end of 2013. As at 30 June 2014 the total capital requirements of the Abanka Group totalled EUR 171,395 thousand, which is EUR 3,492 thousand more than at the end of 2013. At the same date, the total capital ratio was 9.18% or 0.29 p.p. less than at the end of 2013, the Tier 1 capital ratio was 9.18% or 0.12 p.p. less than at the end of 2013 and the Common Equity Tier 1 capital ratio was 9.18% or 0.12 p.p. less than at the end of 2013.

Based on the Decision of the Bank of Slovenia on Extraordinary Measures dated 18 December 2013, the Republic of Slovenia provided EUR 348 million in cash as the first tranche in the capital increase of Abanka Vipa d.d. Under the extraordinary decision on the termination of qualified liabilities, the Bank of Slovenia decided that all qualified liabilities of Abanka, consisting of share capital and subordinated liabilities to creditors, shall be fully terminated as at the given date. In the above stated decision the Bank of Slovenia assessed that, following the capital increase by the said amount and considering the findings from the assets quality review as at 31 December 2013, the capital adequacy of Abanka and the Abanka Vipa Group, measured by Core Tier 1, will reach at least 9%. The Group is then required to maintain the same capital adequacy until the European Commission issues its final decision on the acceptable amount of the state aids to the Bank. The remaining part of the capital increase (expected in government securities amounting to EUR 243 million) which Abanka requires for its long-term sustainable operation, will be completed after receiving a final favourable opinion from the European Commission, to be drafted on the basis of a restructuring plan.

(All amounts in EUR thousand unless otherwise stated)

Although the legally required total capital ratio of 8.0% was achieved on both consolidated and non-consolidated basis, the results of stress scenarios by the Bank of Slovenia were the expected total capital ratio on a consolidated basis of 11.8% and the expected Tier 1 capital ratio on a consolidated basis of 9.5%. The Group has already taken appropriate measures to strengthen the capital ratios and improve protection against Pillar 2 risks according to the Capital Requirements Directive. These two-way measures include capital-raising activities, the one being the second capital increase tranche by the Republic of Slovenia, as well as activities for decreasing capital requirements and needs (especially for credit risk).

12 CASH FLOW STATEMENT

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

The cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

Since the Bank of Slovenia changed the format of the cash flow statement using the indirect method, the Group adjusted its comparative figures for the first half of 2013.

Under Item a) of the cash flows from the operating activities impairments of financial assets available for sale in the amount of EUR 1,149 thousand (the Group: EUR 1,149 thousand) and impairments of loans in the amount of EUR 37,221 thousand (the Group: 38,086) are newly reported for the first half of 2013. Under item a) the item of net unrealised capital gains in revaluation reserves from financial assets available for sale (excluding the effect of deferred tax) in the amount of EUR -9,771 thousand (the Group: -9,791 thousand) has been deleted. Due to these changes under item a), the comparable figure for the first half of 2013 of the net increase in financial assets available for sale under Item b) of the cash flows from operating activities has been decreased by EUR 10,920 thousand) (the Group: EUR 10,940 thousand) (decreased by EUR 1,149 thousand (the Group: EUR 1,149 thousand) due to impairment and decreased by EUR 9,771 thousand (the Group: 9,791 thousand) due to net unrealised gains in revaluation reserves (excluding the effect of deferred tax) to EUR 44,863 thousand (the Group: 44,934 thousand). Due to the impairment of loans, the item of net decrease in loans under Item b) has been decreased by EUR 37,221 thousand (the Group: EUR 38,086 thousand) to the amount of EUR 181,875 thousand (the Group: EUR 183,409 thousand).

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Cash and cash balances with the central bank	84,273	335,242	84,273	335,242
Loans to banks	158,852	39,381	159,009	41,136
	243,125	**374,623**	**243,282**	**376,378**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Interest paid	38,219	40,821	38,471	63,086
Interest received	57,460	64,726	59,460	95,993
Dividends received	–	206	–	784

OTHER ITEMS IN THE CASH FLOW STATEMENT

Other gains from investing of the Bank and of the Group totalling EUR 2,564 thousand relate to held to maturity investments.

Other adjustments to total profit or loss before tax of the Bank relate to net provisions (EUR 4,139 thousand of new provisions less EUR 7,401 thousand of released provisions).

Other adjustments to total profit or loss before tax of the Group relate to net provisions (EUR 4,130 thousand of new provisions less EUR 7,383 thousand of released provisions).

13 CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no material changes in the Group's contingent liabilities or contingent assets in the first half of 2014.

As at 30 June 2014 the Bank or the Group had no capital expenditure commitments. In the first half of 2014 there were no significant additions and disposals of property and equipments.

As at 30 June 2014 and 31 December 2013, there were some legal proceedings against the Group; however, management considers that the provision booked is appropriate. Total claims in legal actions brought against the Bank amount to EUR 177 thousand (31 December 2013: EUR 467 thousand), for which provisions were formed. Total claims in legal actions brought against the Group amount to EUR 4,822 thousand (31 December 2013: EUR 5,134 thousand), for which provisions were formed. The Bank made provisions for these legal proceedings on the basis of an estimated future cash flow in the amount of EUR 80 thousand (31 December 2013: EUR 225 thousand) and the Group in the amount of EUR 2,407 thousand (31 December 2013: EUR 2,553 thousand). For all other legal proceedings, the Group estimates that it is less than probable that a cash outflow will be required to settle the proceedings.

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

With reference to the disputes disclosed in the Annual Report for 2013 the following important developments occurred:

- MIP d.d. (in bankruptcy proceedings)

The subsidiary ABANKA SKLADI d.o.o. which was renamed into AB58, finančno svetovanje, d.o.o. in 2013 after its asset management activity had been transferred to another company, was a party to the litigation between MIP d.d. (in bankruptcy proceedings) as the plaintiff and ABANKA SKLADI d.o.o. as the defendant in relation to the declaration of the annulment of contract and payment of EUR 2,839,040.00 together with default interest as from the date of receipt of the purchase money. In 2013, the second instance court issued the final decision that the contract for the purchase of MIPG shares is null and void, and also set aside the first instance court judgement in the part concerning the payment claim due to the fact that the offset objections of ABANKA SKLADI d.o.o. have not been considered and, thus, remitted the case to the first instance court for reconsideration. As it was in the common interest of both litigants, the parties agreed on a court settlement under the suspensive condition, which enters into force when the bankruptcy court's decision becomes final, i.e. when the court before which bankruptcy proceedings against MIP d.d. (in bankruptcy proceedings) were brought gives its approval to the said court settlement.

In the first half of 2014, no major settlements in legal disputes occurred.

14 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 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 individual companies in which these persons have significant influence), entities with significant influence on the Bank, associated companies and subsidiaries of the Bank.

(All amounts in EUR thousand unless otherwise stated)

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

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 first half of 2014 and 2013 is as follows:

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

Type of related party	Key management personnel		Entities with a significant influence*		Associates		Subsidiaries	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Financial assets and income								
Loans								
Loans	44,704	28,318	–	31,378	28,911	32,457	83,503	85,359
Interest income and fee and commission income	668	668	–	998	392	1,372	2,342	2,310
Financial assets designated at fair value through profit or loss								
Debt securities	–	–	–	2,410	–	–	–	–
Gains/(losses)	39	–	–	(55)	–	–	–	–
Fee and commission income	1	–	–	–	–	–	–	–
Financial assets held for trading								
Equity securities	–	–	–	–	–	–	–	–
Gains/(losses)	16	–	–	16	–	–	–	–
Debt securities	–	–	–	–	–	–	–	–
Gains/(losses)	–	–	8	–	–	–	–	–
Interest income	–	–	406	–	–	–	–	–
Available-for-sale financial assets								
Debt securities	893	–	193,714	7,929	–	–	–	–
Interest income	64	–	3,365	330	–	–	–	–
Gains/(losses)	–	–	2,668	–	–	–	–	–
Equity securities	58	–	–	1,620	–	–	12,670	8,901
Gains/(losses)	605	–	–	300	–	–	–	–
Dividend income	45	–	–	182	–	–	–	–
Held-to-maturity investments								
Debt securities	–	–	121,266	–	–	–	–	–
Interest income	–	–	2,564	–	–	–	–	–
Other financial assets	**188**	**25**	**–**	**310**	**–**	**–**	**25**	**19**
Other operating income	**–**	**–**	**–**	**–**	**–**	**–**	**43**	**81**

(All amounts in EUR thousand unless otherwise stated)

Type of related party	Key management personnel		Entities with a significant influence*		Associates		Subsidiaries	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Undrawn loans granted (off-balance sheet records)	**5,186**	**104**	**–**	**5,670**	**–**	**–**	**–**	**3,897**
Guarantees								
Guarantees issued	–	–	–	–	–	–	4,783	–
Guarantee fee income	–	–	–	6	–	–	28	3
Comfort letters								
Comfort letters – risky	–	–	–	–	–	–	–	5,000
Comfort letters – non-risky	–	–	–	–	–	–	3,500	30,550
Financial liabilities and expenses								
Deposits								
Deposits	6,223	3,177	148,228	3,655	–	–	10,787	8,573
Interest expenses	23	61	4,619	70	–	–	94	19
Other financial liabilities measured at amortised cost								
Debt securities issued and subordinated liabilities	13,756	3,575	–	9,669	–	–	–	–
Interest expenses	370	102	–	305	–	–	–	–
Other financial liabilities	**7**	**–**	**–**	**39**	–	–	**104**	**111**
Administration costs	**–**	**–**	**–**	**–**	**–**	**–**	**80**	**81**
Other expenses	–	–	–	–	41	–	–	–
Provisions for guarantees and commitments								
Provisions	4	7	–	30	–	–	31	66
Net provision income/(expenses)	–	–	–	183	–	–	10	20
Fiduciary activities	**2**	**–**	**–**	**6**	**–**	**–**	**–**	**–**

(All amounts in EUR thousand unless otherwise stated)

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Key management personnel		Entities with a significant influence*		Associates	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Financial assets and income						
Loans						
Loans	44,709	22,368	–	31,378	28,911	32,457
Interest income and fee and commission income	668	669	–	998	392	1,372
Financial assets designated at fair value through profit or loss						
Debt securities	–	–	–	2,410	–	–
Gains/(losses)	39	–	–	(55)	–	–
Fee and commission income	1	–	–	–	–	–
Financial assets held for trading						
Equity securities	–	–	–	–	–	–
Gains/(losses)	16	–	–	16	–	–
Debt securities	–	–	–	–	–	–
Gains/(losses)	–	–	8	–	–	–
Interest income	–	–	406	–	–	–
Available-for-sale financial assets						
Debt securities	893	–	193,714	7,929	–	–
Interest income	64	–	3,365	330	–	–
Gains/(losses)	–	–	2,668	–	–	–
Equity securities	58	–	–	1,620	–	–
Gains/(losses)	605	–	–	300	–	–
Dividend income	45	–	–	182	–	–
Held-to-maturity investments						
Debt securities	–	–	121,266	–	–	–
Interest income	–	–	2,564	–	–	–
Other financial assets	**188**	**25**	**–**	**310**	**–**	**–**
Other operating income	**–**	**–**	**–**	**–**	**–**	**–**

Type of related party	Key management personnel		Entities with a significant influence*		Associates	
	30 June 2014	30 June 2013	30 June 2014	30 June 2013	30 June 2014	30 June 2013
Undrawn loans granted (off-balance sheet records)	**5,197**	**111**	**–**	**5,670**	–	–
Guarantees						
Guarantees issued	–	–	–	–	–	–
Guarantee fee income	–	–	–	6	–	–
Comfort letters						
Comfort letters – risky	–	–	–	–	–	–
Comfort letters – non-risky	–	–	–	–	–	–
Financial liabilities and expenses						
Deposits						
Deposits	6,623	3,399	148,228	3,655	–	–
Interest expenses	27	62	4,619	70	–	–
Other financial liabilities measured at amortised cost						
Debt securities issued and subordinated liabilities	13,756	3,575	–	9,669	–	–
Interest expenses	370	102	–	305	–	–
Other financial liabilities	**7**	**–**	**–**	**39**	**–**	**–**
Administration costs	**–**	**–**	**–**	**–**	**–**	**–**
Other expenses	**–**	**–**	**–**	**–**	41	**–**
Provisions for guarantees and commitments						
Provisions	4	7	–	30	–	**–**
Net provision income/(expenses)	–	–	–	183	–	–
Fiduciary activities	**2**	**–**	**–**	**6**	**–**	**–**

* To the date of the Decision on Extraordinary Measures issued by the Bank of Slovenia on 17 December 2013, the list of companies with significant influence comprised all those with a holding exceeding a 5% share in Abanka Vipa d.d. Since 18 December 2013 Republika Slovenia has significant influence on Abanka Vipa d.d.

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

Individually significant transactions with state-related companies include given loans and received long-term loans. As at 30 June 2014, individually significant given long-term loans totalled EUR 70,000 thousand (1 contract) (30 June 2013: 1 contract amounting to EUR 70,000 thousand) and received long-term loans EUR 169,487 thousand (7 contracts) (30 June 2013: 12 contracts amounting to EUR 316,582 thousand).

As at 30 June 2014, the remaining (individually insignificant) given loans totalled EUR 6,924 thousand (30 June 2013: EUR 6.535 thousand) and received loans EUR 91,355 thousand (30 June 2013: EUR 64,330 thousand).

In the first half of 2014, interest income from transactions with state-related companies amounted to EUR 507 thousand (first half of 2013: EUR 507 thousand). Dividend income in the first half of 2014 amounted to EUR 637 thousand (first half of 2013: 112 thousand). Interest income from derivative financial instruments in the first half of 2014 equalled EUR 887 thousand (first half of the 2013: EUR 940 thousand). In the first half of 2014, net gains from derivative financial instruments were EUR 539 thousand (first half of 2013: EUR 1,584 thousand) and interest expenses on deposits amounted to EUR 5,939 thousand (first half of 2013: EUR 6,981 thousand).

15 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, Abanet online banking, AbaSMS mobile services, mobile bank, loans, account overdrafts, insurance services, funds, payment cards, Abacent, gold, safe deposit boxes, MoneyGram, “design your own card”, payment transactions and payment instruments, e-accounts;
- Corporate banking – incorporating transaction accounts, account overdrafts, loans and deposits with different terms, payment cards, certificates of deposits, documentary operations, guarantees, letters of credit, payment transactions and payment instruments, Abatočka, cash management, Abakredit, e-account, on-line banks (Abacom and Abanet), on-line payment service, AbaSMS mobile service; and
- Financial markets – incorporating trading with financial instruments, liquidity management, investment banking and inter-bank relations.

The “Other” segment includes the activities of the Group that relate to custody and administrative services, activities of subsidiaries (leasing, factoring, investment management and other activities) and the valuation of associates in the consolidated financial 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 2014	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	7,078	37,757	(2,638)	3,866	46,063
Revenues from other segments	–	–	–	–	–
Segment result	1,092	(22,241)	12,823	9,444	1,118
Operating loss					1,118
Share of results of associates	–	–	–	–	–
Loss before tax					1,118
Income tax					(571)
Net loss for the year					**547**
Segment assets	538,211	1,177,461	912,584	34,270	2,662,526
Investments in associates	–	–	12,670	(12,670)	–
Unallocated assets					33,429
Total assets					**2,695,955**
Segment liabilities	1,165,933	377,384	906,396	4,497	2,454,210
Unallocated liabilities					10,117
Total liabilities					**2,464,327**
Other segment items					
Capital expenditure	54	34	1	2,074	2,163
Depreciation and amortisation	(667)	(194)	(26)	(2,247)	(3,134)
Net impairment and provision charge	(1,168)	(18,062)	(752)	(429)	(20,411)
Other material non-cash items	–	–	–	–	–
[1]Including					
– interest income	10,707	35,397	11,644	446	58,194
– interest expenses	(9,627)	(2,121)	(15,626)	(113)	(27,487)
– dividend income	–	–	868	–	868
– fee and commission income	8,152	6,293	682	5,239	20,366
– fee and commission expenses	(2,154)	(1,812)	(206)	(1,706)	(5,878)

(All amounts in EUR thousand unless otherwise stated)

As at 30 June 2013	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	3,306	41,571	(1,426)	4,553	48,004
Revenues from other segments	–	–	–	–	–
Segment result	(1,618)	(33,019)	20,610	(7,209)	(21,236)
Operating loss					(21,236)
Share of results of associates	–	–	–	(863)	(863)
Loss before tax					(22,099)
Income tax					2,573
Net loss for the year					(19,526)
Segment assets	562,338	1,758,219	1,010,102	90,723	3,421,382
Investments in associates	–	–	8,901	(8,630)	271
Unallocated assets					29,081
Total assets					3,450,734
Segment liabilities	1,180,713	352,473	1,594,160	173,247	3,300,593
Unallocated liabilities					12,346
Total liabilities					3,312,939
Other segment items					
Capital expenditure	135	31	–	2,111	2,277
Depreciation and amortisation	520	126	11	2,185	2,842
Net impairment and provision charge	(369)	(36,610)	(1,154)	(1,036)	(39,169)
Other material non-cash items	–	–	–	–	–
[1]**Including**					
– interest income	11,413	45,757	13,026	1,490	71,686
– interest expenses	(13,283)	(9,572)	(15,456)	(467)	(38,778)
– dividend income	–	–	486	3	489
– fee and commission income	7,450	7,369	745	5,232	20,796
– fee and commission expenses	(2,274)	(1,983)	(227)	(1,705)	(6,189)

Capital expenditure relates to the purchases of tangible and intangible assets in the current business year.

16 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 statements are prepared using the same accounting policy for deferring expenses that will be used at the year end.

17 THE NATURE AND AMOUNT OF UNUSUAL ITEMS

In the first half of 2014 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.

18 THE EFFECT OF ACQUISITIONS AND DISPOSALS DURING THE INTERIM PERIOD

In June 2014 a new company Anekretnine d.o.o. was founded in Črna Gora held 100% by subsidiary Anepremičnine.

19 EVENTS AFTER THE REPORTING DATE

The following business events that occurred after the reporting period might have an impact on business decisions of the Report's users made on presented financial statements:

On 09 July 2014, the international rating agency Fitch Ratings affirmed Abanka's Short-term IDR at "B", Support Rating at "5" and Support Rating Floor at "B–". At the same time it reaffirmed "Rating Watch Positive" for Long-term IDR "B–" and Viability Rating "b–". Fitch Ratings expects further measures to be taken by the Slovene Government (a second round of the Bank's capital increase and bad debt transfer to BAMC), which will lead to an improved capital position and asset quality of Abanka. Following the implementation of measures by the Slovene Government, Fitch Ratings is likely to upgrade Abanka's Long-term IDR to "B+" and Viability Rating to "b+".

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of ABANKA VIPA d.d. and the consolidated financial statements of the ABANKA VIPA GROUP for the half-year ended 30 June 2014 (pages 31 to 44 of the interim report), the applied accounting policies, and the notes to the financial statements (pages 45 to 69 of the interim report).

The Management Board is responsible for preparing the financial statements for the half-year 2014 and 2013, which gives a true and fair representation of the financial position of the Bank and the Group as at 30 June 2014, and the results of their operations for the half-year then ended.

The Management Board confirms that accepted accounting policies adopted for the half-year ended 30 June 2014 are consistent with those of the annual financial statements for the year ended 31 December 2013. 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 Financial Reporting Standards, as adopted by the EU.

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

In the period ended 30 June 2014, Abanka Vipa d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 4 August 2014

Management Board

Igor STEBERNAK
Member of the Management Board

Jože LENIČ, M.Sc. Econ.
President of the Management Board