2018 ANNUAL REPORT

Deželna Banka Slovenije

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Deželna Banka Slovenije

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DEŽELNA BANKA SLOVENIJE GROUP 2018 ANNUAL REPORT

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board:
Marko Rozman

DEŽELNA BANKA SLOVENIJE d.d.
LJUBLJANA
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Ljubljana, March 2019

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BUSINESS REPORT

I. FINANCIAL HIGHLIGHTS AND INDICATORS

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

	Deželna banka Slovenije Group	2018	2017	2016
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	1,014,673	957,221	876,240
	Total deposits by non-banking sector measured at amortised cost	857,834	802,603	767,666
	- Corporates	161,755	146,796	132,046
	- Individuals	696,079	655,807	635,620
	Total loans to non-banking sector measured at amortised cost	744,355	710,040	599,627
	- Corporates	569,097	558,620	456,210
	- Individuals	175,258	151,420	143,417
	Total equity	68,502	60,982	56,503
	Impairments of financial assets and provisions**	(27,643)	(40,487)	(45,590)
	Off-balance sheet operations (B.1. to B.4.)	63,930	68,106	60,852
2.	**Income statement** (in EUR thousand)			
	Net interest income	17,127	17,505	16,009
	Net non-interest income	20,407	15,852	14,891
	Employee benefits cost, overhead and administrative expenses	(23,354)	(22,844)	(22,533)
	Depreciation and amortisation	(1,564)	(1,819)	(2,074)
	Impairments and provisions**	(701)	(3,099)	(3,124)
	Profit/loss from continuous and discontinued operations before tax	8,921	5,615	3,242
	Income tax	(1,349)	(858)	(495)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	7,540	4,609	2,444
4.	**No. of employees** (at end of period)			
	No. of employees	584	588	583
5.	**Shares**			
	No. of shareholders (at end of period)	306	304	318
	No. of shares (at end of period)*	4,230,997	4,228,995	4,228,995
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	14.935309	13.800792	12.932528
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	13.11	12.81	12.03
	Tier I capital ratio	13.11	12.81	12.03
	Total capital ratio	14.52	14.72	14.23
b)	**Quality of assets and commitments** (in %)**			
	Non-performing (on- and off-balance sheet) exposures/Classified on- and off-balance sheet exposures	6.26	8.59	12.06
	Non-performing loans and other financial assets/Classified loans and other financial assets	7.34	10.24	15.07
	Value adjustments and provisions for credit losses/Non-performing exposures	(31.92)	(36.03)	(30.71)
	Received collateral/Non-performing exposures	46.93	32.65	42.84
c)	**Profitability** (in %)			
	Interest margin	1.71	1.83	1.75
	Financial intermediation margin	3.74	3.48	3.37
	Return on assets (ROA) after tax	0.75	0.50	0.30
	Return on equity (ROE) before tax	13.49	9.10	5.82
	Return on equity (ROE) after tax	11.45	7.71	4.93
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	(2.48)	(2.57)	(2.68)
e)	**Liquidity****			
	Liquidity coverage ratio (in %)			
	- January-March	226.95	305.14	-
	- April-June	229.36	278.85	-
	- July-September	230.16	262.05	-
	- October-December	232.70	240.94	-
	Liquidity buffer (in EUR thousand)			
	- January-March	152,112	166,751	-
	- April-June	152,709	162,863	-
	- July-September	155,120	157,161	-
	- October-December	160,785	153,580	-
	Net liquidity outflows (in EUR thousand)			
	- January-March	67,024	54,647	-
	- April-June	66,582	58,405	-
	- July-September	67,395	59,975	-
	- October-December	69,094	63,743	-

Note: The indicators have been calculated in compliance with the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks.
* The number of shares is in accordance with the records of the Slovene Central Securities Clearing Corporation KDD, less treasury shares.
** New indicators are based on the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks in use since 1 January 2018; comparative data have been calculated accordingly.

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

	Deželna banka Slovenije d. d.	2018	2017	2016
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	990,798	931,030	845,862
	Total deposits by non-banking sector measured at amortised cost	858,234	802,871	767,963
	- Corporates	162,155	147,064	132,343
	- Individuals	696,079	655,807	635,620
	Total loans to non-banking sector measured at amortised cost	743,173	710,310	598,785
	- Corporates	570,936	561,645	458,015
	- Individuals	172,237	148,665	140,770
	Total equity	63,191	58,363	54,692
	Impairments of financial assets and provisions**	(16,322)	(29,991)	(30,896)
	Off-balance sheet operations (B.1. to B.4.)	64,517	68,819	61,794
2.	**Income statement** (in EUR thousand)			
	Net interest income	17,288	17,813	16,552
	Net non-interest income	12,068	8,719	6,915
	Employee benefits cost, overhead and administrative expenses	(16,461)	(16,441)	(15,988)
	Depreciation and amortisation	(951)	(1,089)	(1,237)
	Impairments of financial assets measured at amortised cost, and provisions**	37	(4,339)	(3,300)
	Profit/loss from continuous and discontinued operations before tax	6,722	4,663	2,942
	Income tax	(1,281)	(857)	(486)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	5,380	3,671	2,147
4.	**No. of employees** (at end of period)			
	No. of employees	340	348	348
5.	**Shares**			
	No. of shareholders (at end of period)	306	304	318
	No. of shares (at end of period)*	4,231,682	4,229,680	4,229,680
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	14.932892	13.798557	12.930433
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	13.09	12.77	11.99
	Tier I capital ratio	13.09	12.77	11.99
	Total capital ratio	14.50	14.68	14.19
b)	**Quality of assets and commitments** (in %)**			
	Non-performing (on- and off-balance sheet) exposures/Classified on- and off-balance sheet exposures	5.66	7.98	11.30
	Non-performing loans and other financial assets/Classified loans and other financial assets	6.62	9.56	14.21
	Value adjustments and provisions for credit losses/Non-performing exposures	(27.30)	(32.89)	(27.75)
	Received collateral/Non-performing exposures	50.25	34.07	44.50
c)	**Profitability** (in %)			
	Interest margin	1.78	1.93	1.88
	Financial intermediation margin	3.03	2.87	2.67
	Return on assets (ROA) after tax	0.56	0.42	0.28
	Return on equity (ROE) before tax	10.85	8.12	5.48
	Return on equity (ROE) after tax	8.79	6.63	4.57
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	(1.80)	(1.90)	(1.95)
e)	**Liquidity****			
	Liquidity coverage ratio (in %)			
	- January-March	225.80	305.29	-
	- April-June	228.04	278.41	-
	- July-September	228.76	261.24	-
	- October-December	232.02	239.68	-
	Liquidity buffer (in EUR thousand)			
	- January-March	151,695	166,751	-
	- April-June	152,292	162,863	-
	- July-September	154,703	157,161	-
	- October-December	160,785	153,163	-
	Net liquidity outflows (in EUR thousand)			
	- January-March	67,181	54,620	-
	- April-June	66,782	58,498	-
	- July-September	67,626	60,159	-
	- October-December	69,299	63,903	-

Note: The indicators have been calculated in compliance with the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks.
* The number of shares is in accordance with the records of the Slovene Central Securities Clearing Corporation KDD, less treasury shares.
** New indicators are based on the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks in use since 1 January 2018; comparative data have been calculated accordingly.

II. THE MANAGEMENT

II.1. REPORT OF THE MANAGEMENT BOARD

The favourable economic and fiscal developments of 2018 had a positive impact on the viability of our Bank. The viability trend continued in the previous year, which provides us with motivation and ambition for the future.

Deželna banka Slovenije being a universal bank upholding tradition is reflected in our diversified business network of more than 80 branches. We operate the third largest bank network in Slovenia. Comprehensive financial support to Slovenian agriculture and rural areas remains our principal guideline, however, the Bank has been increasingly addressing other target groups as well. By offering competitive services and advanced marketing channels to reach the general population, it has continued to achieve its goals, which is reflected in customer retention and other performance indicators.

In 2018, our operating result again improved considerably from the year before, i.e. by 44%, as we reported EUR 6,722 thousand of profit before tax (2017: EUR 4,663 thousand). Total assets increased by more than 6% compared to 2017, to EUR 991 million (2017: EUR 931 million).

Alongside active asset and liability management, we were continually monitoring market conditions and investment opportunities. The negative effect of low interest rates is being neutralised by soliciting new customers and a partial increase in non-interest income. Attention of all Bank employees has to be devoted to improving business processes, streamlining operations and cost control.

The Group's capital adequacy suffices to counterbalance all potential risks arising out of the operations of the DBS Group, and our capital adequacy ratios meet all the requirements imposed by the Bank of Slovenia.

In 2018, funds collected from households were again the most important source of financing. They were up 7% (2017: 3% increase), and loans to households increased by 12% (2017: 9% increase).

DBS Leasing again witnessed substantially increased demand for financial leases of farming and commercial vehicles and machinery, which perfectly complements the Bank's comprehensive range of services.

We continued to diligently monitor and control all financial risks we are exposed to, and continually upgrade risk management methodologies and approaches. We have additionally improved the quality of our credit portfolio, decreased the amount of non-performing exposures and minimised impairment charges against current transactions. Careful attention was invested in obtaining adequate collateral for credit transactions, both when entering into new credit arrangements and for existing ones.

The Bank's healthy and stable growth provides us with the strength and motivation for long-term viability. We are constantly alert to banking trends, adapting to them by updating various applications and tools. Our focus is on learning about and meeting the needs of our existing and potential customers, whom we provide with high-quality, comprehensive, and above all, safe financial services in times of accelerating technological changes. The fact that we are on the right track has been confirmed by various media analyses, which rank DBS a top provider of affordable and attractive services.

We have preserved our traditional function of the authorised reseller of commemorative and collector coins, which brings us close to yet another specialised segment of the population.

Being aware of our social corporate responsibility, we have the opportunity to give back to the environment in which we operate. We are present at the national and local levels with donations and sponsorships. We support various cultural, sports, agricultural, humanitarian, and educational events that result in a better quality of life. For a series of years, we have been the main sponsor of events such as Woman of the Year and Wine Queen, which highlight positive aspects and the importance of the rural sector of Slovenia.

We pay considerable attention to the youth from rural areas, collaborating with the Slovenian Rural Youth Association, which brings together the ambition and great potential to build on innovation is this area. With major generation shifts expected at Slovenian farms, we have been providing farmers with full support in terms of favourable financial services and assistance in their activities. Farmers have extended outside the Slovenian borders long ago with their activities, and it is international experience and benchmarking that will bring added value to Slovenian rural areas in the future.

Ever since its foundation, the Bank has been actively integrated in the sustainable development of the Slovenian countryside, providing considerable financial support to it. To this end, we have always adapted our services and supported various projects aimed at creating a better quality of life, new jobs, better use of renewable resources, emphasising the importance of green tourism, and organic and local food production.

However, positive results in all areas could not have been achieved were it not for our committed, highly skilled and professional employees. Knowing that the owners believe in us, we have always been working hard to preserve and reinforce their trust. Throughout the year, members of the Supervisory Board are an active body monitoring and supporting our work, while also giving proposals and ideas that contribute to the implementation of the Bank's development strategy.

An effective synergy of all of the above makes it easier for us to form trustworthy long-term relationships with our customers, based on expertise, transparency and honesty.

At this point we wish to express our highest gratitude to all links in this chain of success, hoping for such collaboration at all levels to continue in the future.

Ljubljana, 25 March 2019

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Marko Rozman

II.2. REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of Deželna banka Slovenije d. d. monitors and oversees the Bank's management and its operations. The framework for its work and its competences and responsibilities is based on the Banking Act, the Companies Act, Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, other applicable regulations, and the Bank's internal acts.

At the year-end of 2018, the Supervisory Board of Deželna banka Slovenije d. d. was composed of President Peter Vrisk and members Nikolaj Maver, Ivan Lenart, Iris Dežman –who replaced Viktor Lenče as of 9 October 2018, Tomaž Petrovič – who replaced Simon Kolenc as of 9 October 2018, and Jure Kvaternik – who took office on 9 October 2018. Simon Kolenc and Viktor Lenče were elected members of the Supervisory Board on 30 March 2018, the latter submitting his letter of resignation on 10 August 2018, and the former on 7 September 2018.

In 2018, the Supervisory Board met at 12 regular and 4 extraordinary meetings, additionally having convened 4 correspondence meetings. Regular reports and other pressing matters as well as major issues related to the Bank's operations were discussed. Decisions were made regarding transactions within the Board's competence.

The following are the main topics that the Supervisory Board discussed and made decisions on in 2018.

Bank's financial operations

The Board regularly reviewed and discussed the Bank's financial operations, and reviewed periodic operations reports of the Bank and its subsidiaries in 2018. It approved the 2017 Deželna banka Slovenije Group Annual Report, and gave consent to the Revised Plan of Deželna banka Slovenije d. d. for 2018 and Deželna banka Slovenije d. d. Plan for 2019. It kept a close watch on Management Board activities aimed at increasing profitability and cutting operations costs. It monitored the profitability of the Bank's branches and analysed the Bank's performance indicators against the Slovene banking average and against peers.

Risk

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

Management of the Bank

Together with the Management Board, the Supervisory Board convened for 27 February 2018 the Bank's 34th Annual General Meeting, which reviewed the 2017 Annual Report and all its constituent parts. The Supervisory Board reviewed and approved the Annual Report, and offered a positive opinion with respect to the certified auditor's report. It delivered a favourable opinion on the suitability of Management Board members and gave a positive assessment of the structure, size, composition and performance of the Management Board. The General Meeting took note of remuneration received by members of management and supervisory bodies in the Company and subsidiaries, adopted the amendments and supplements to the DBS d. d. Statutes, examined the report on dividends payments for financial year 2015, and elected new members to the Bank's Supervisory Board. Together with the Management Board, the Supervisory Board convened for 7 September 2018 the Bank's 35th Annual General Meeting, which elected new members of the Bank's Supervisory Board and appointed a special auditor to examine certain Bank's transactions. The Supervisory Board confirmed as appropriate suitability evaluations of Supervisory Board members, also in terms of their membership in various committees, and the suitability evaluation of the Supervisory Board as a whole.

Internal audit of the Bank

In 2018, the Supervisory Board reviewed the 2017 Internal Audit Department Annual Report, and the Department's two half-year reports – for the second half of 2017 and for the first half of 2018. It approved the revised Annual Work Plan of the Internal Audit Department for 2018 and its Annual Work Plan for 2018.

Operations of subsidiaries

The Supervisory Board regularly monitored the financial performance of subsidiaries.

The Bank's internal acts

The Board reviewed and gave its consent to numerous updated internal acts of the Bank, including the Strategy and Policies of Risk Management, the Restoration Plan and the Deželna banka Slovenije d. d. Code of Conduct.

Other relevant activities

The Board reviewed letters from the auditor Deloitte revizija d. o. o., Ljubljana, and oversight measures imposed by the Bank of Slovenia and other regulators and audit firms. It noted the materially relevant judicial proceedings involving the Bank, decided on giving its consent to the decisions of the Management Board when so stipulated by the legislation and the Statutes, made decisions on appointing members of the Bank's management body, regularly monitored the enforcement of Supervisory Board decisions and discharged other required tasks.

Internal organisation of the Supervisory Board

In 2018, the Board received expert support from the Audit Committee, Risk Committee and Nomination Committee. The tasks and competences of each committee are laid down in the Bank's Statutes and in the terms of reference and rules of procedure of each committee. Members of committees are Supervisory Board members. On 9 November 2017, the Bank's Supervisory Board, based on the prior authorisation by the Bank of Slovenia, adopted a decision on merging the Audit Committee and Risk Committee into a single body. Separate committees were reappointed on 17 April 2018.

The internal organisation of the Supervisory Board is described in Chapter VI.4. Composition and Operations of Management and Supervisory Bodies and Their Committees.

Based on adequate and timely reports and information as well as additional clarifications and explanations at the meetings themselves, the Board was able to monitor and oversee the management responsibly, and direct its actions based on the Bank's best interest considering the circumstances. The Board feels to have collaborated well and constructively with the Management Board, the appointed auditor and the Bank's departments. All this has contributed to the Bank's stable operations and a favourable budget outturn.

As at 1 April 2019, the Management Board provided the Supervisory Board with the Deželna banka Slovenije Group Annual Report for 2018, which consists of the business report and financial report, the latter containing audited standalone financial statements of the Bank and consolidated statements of the Group, along with the auditor's report. The auditor believes the financial statements with notes give a true and fair view of the financial position of the Bank and the Group as at 31 December 2018, as well as of profit or loss and cash flow for the financial year ended as at the same date, in accordance with the International Financial Reporting Standards.

At its meeting on 9 April 2019, the Supervisory Board confirmed the Deželna banka Slovenije Group 2018 Annual Report.

President of the Supervisory Board
Peter Vrisk

Supervisory Board resolution on reviewing and confirming the annual report

Pursuant to the provisions of the Companies Act and Article 41 of the Deželna banka Slovenije d. d. Statutes, the DEŽELNA BANKA SLOVENIJE d. d. Supervisory Board adopted, at its 31st regular meeting held on 9 April 2019, the following

RESOLUTION

Based on its review, the Deželna banka Slovenije d. d. Supervisory Board hereby confirms the DEŽELNA BANKA SLOVENIJE GROUP 2018 Annual Report, and expresses its positive opinion of the Auditor's Report by Deloitte revizija d. o. o., Ljubljana, for financial year 2018.

Ljubljana, 9 April 2019

President of the Supervisory Board
Peter Vrisk

III. GENERAL INFORMATION ON THE BANK

III.1. THE BANK'S ROOTS AND HISTORICAL DEVELOPMENT

The roots of Deželna banka Slovenije d. d. go back to the era of the early agricultural credit unions, and savings and loan undertakings.

1872	• First credit union in Ljutomer
1883	• First Slovene cooperative association *Zveza slovenskih posojilnic Celje*
1920	• *Cooperative business bank* Zadružna gospodarska banka
1949	• Savings and credit sections of agricultural cooperatives
1954	• Cooperative savings banks (first new cooperative savings bank in Kranj)
1971	• *Association of savings and loan undertakings of Slovenia* Zveza hranilno-kreditnih služb Slovenije
1990	• *Agricultural cooperative bank of Slovenia* Slovenska zadružna kmetijska banka d. d.
2004	• Deželna banka Slovenije d. d.
2005	• DBS Leasing d. o. o.
2013	• DBS Nepremičnine d. o. o.
2014	• DBS Adria d. o. o. • Semenarna d. o. o.

III.2. BANK'S SERVICES

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

In 2018, the Bank was licensed to provide the following mutually recognised financial services under Article 5 of the Slovene Banking Act (ZBan-2):

Service

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

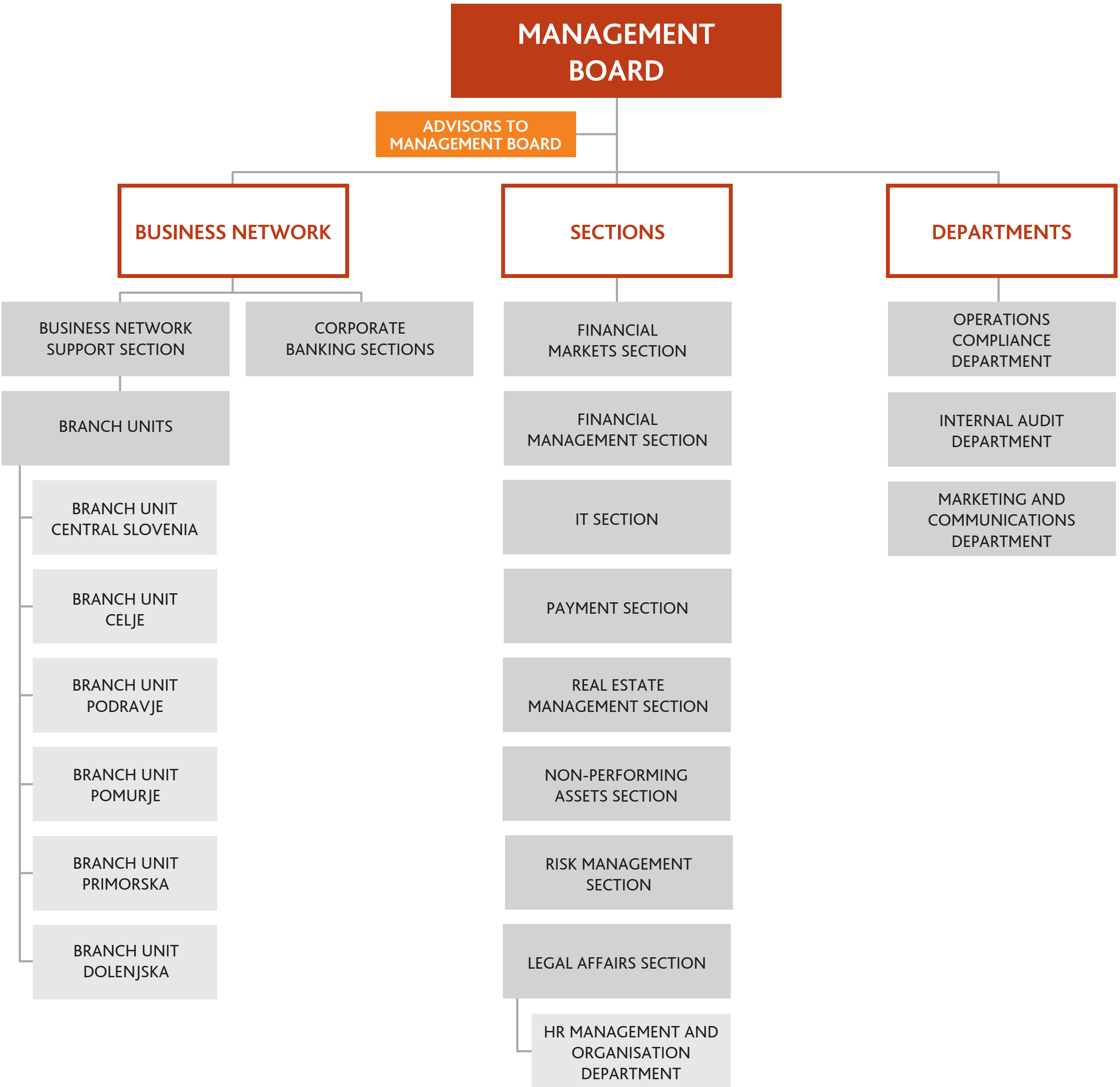
It was also licensed to provide the following ancillary financial services under Article 6 of ZBan-2:

Service

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

III.3. ORGANISATION CHART

Organisation chart as at 31 December 2018



Such an organisation structure allows the Bank to implement its strategy, streamline business processes and facilitate risk and human resource management. Its organisation has been tailored to the planned scope of operations, taking into account the front- and back office as well as management functions.

IV. DEŽELNA BANKA SLOVENIJE BANKING GROUP

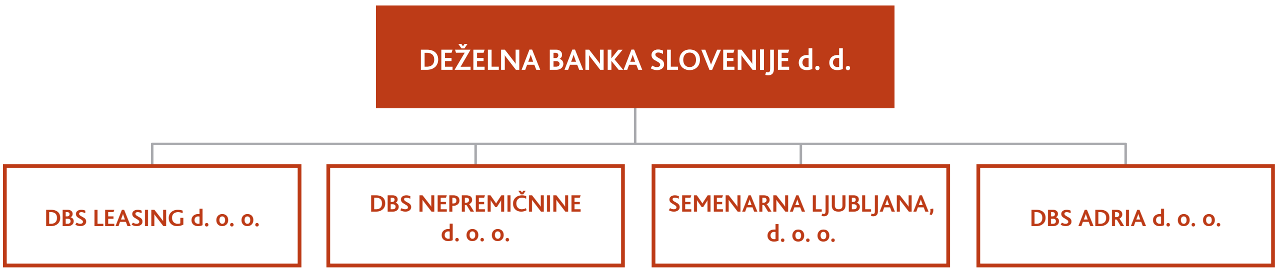
Deželna banka Slovenije d. d. is the controlling company in the Deželna banka Slovenije Group ("Group"). As at 31 December 2018, the Group included four subsidiaries: the leasing company DBS Leasing d. o. o. ("DBS Leasing"), the real estate company DBS Nepremičnine d. o. o., which trades in the Group's property ("DBS Nepremičnine"), the seed-producer Semenarna Ljubljana, proizvodnja in trgovina, d. o. o. ("Semenarna"), and the Croatia-based real estate company DBS Adria d. o. o. ("DBS Adria").

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

Group organisation chart as at 31 December 2018

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

DBS Group organisation chart as at 31 December 2018



Performance indicators of the Group's subsidiaries for 2018

Company	DBS Leasing d. o. o.		DBS Nepremičnine d. o. o.		Semenarna Lj., d. o. o.		DBS Adria d. o. o.	
	2018	2017	2018	2017	2018	2017	2018	2017
Total assets (in EUR thousand)	14,015	10,208	1,505	1,474	23,396	28,268	172	173
Equity (in EUR thousand)	2,757	2,691	1,504	1,473	4,158	2,567	0	2
Profit/loss before tax (in EUR thousand)	50	5	(5)	9	605	(360)	(4)	(5)
Income tax (in EUR thousand)	-	-	-	-	(61)	4	0	1
Profit/loss after tax (in EUR thousand)	50	5	(5)	9	544	(356)	(4)	(4)
Return on assets (ROA) before tax (in %)	0.40	0.05	(0.33)	0.61	2.14	(1.16)	(2.31)	(2.89)
Return on equity (ROE) before tax (in %)	1.82	0.19	(0.33)	0.61	16.47	(6.99)	-	-
No. of employees (at end of period)	7	5	0	0	237	235	0	0
Total assets/No. of employees (at end of period) (in EUR thousand)	2,002	2,042	-	-	99	120	-	-

DBS Leasing d. o. o.

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

DBS Leasing is a universal leasing company offering mainly movable property leases (for tractors, farming and forest machines and equipment, and cars). It complements the range of the Bank's and Group's financial services especially by financing agricultural machinery and equipment. A gradual phasing-out immovable property leases continued in 2018, with operations increasingly focusing on movable property leases.

A profit of EUR 50 thousand was reported for financial year 2018. The company's total assets were up 37% in 2018, to EUR 14,015 thousand. The majority of investments are finance lease receivables. As to equity and liabilities, the majority is equity and borrowings from the founder.

The company actively manages financial risk, and credit risk is controlled by checking customers' creditworthiness before approving each transaction pursuant to the methodology adopted at Group level. Interest rate risk is controlled with a balanced application of the variable rate in the remuneration of assets and liabilities, and liquidity risk is controlled by balancing the maturity periods of liabilities and assets. The company also devotes numerous efforts to ensuring timely payments from lessees, and has reduced the volume of bad receivables, especially in the area of vehicle and equipment leases, by undertaking vigilant monitoring of missing payments.

DBS Nepremičnine d. o. o.

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

DBS Nepremičnine was founded in January 2013 and is wholly-owned by DBS d. d. In the past, the company's core businesses included selling the Group's property, renting and developing real estate projects, whereas in 2018, the company's core businesses included other production of electricity.

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

A loss of EUR 5 thousand was reported for financial year 2018.

Semenarna Ljubljana, d. o. o.

Registered address: Kolodvorska ulica 9, 1000 Ljubljana, Slovenia
Registration number: 5005574
Business: 46.210 Wholesale of grain, unmanufactured tobacco, seeds and animal feeds
Initial capital: EUR 8,796 thousand
CEO: Gregor Kopriva

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

Semenarna is the largest seed-producer, seed-wholesaler, seed-retailer and seed exports company in Slovenia and the region, with a 110-year tradition. In 2018, it generated EUR 25 million of revenues, down 16.3% from the previous year, attributable to lower wholesale revenues (mainly due to the wind-up of the Crops and Livestock Buying-in product group) and the winding up of agricultural units Rodovita (as part of the restructuring programme countervailing measures). In 2018, the company recorded a profit of EUR 544 thousand.

DBS Adria d. o. o.

Registered address: Cvjetno naselje 26, Samobor, Croatia
Registration number: 0103191000 (court ID number: 080906254)
Business: 68.320 Management of real estate on a fee or contract basis
Initial capital: EUR 18 thousand
CEO: Jožef Berdnik

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

In 2018, the company reported EUR 4 thousand of net loss. Total assets were EUR 172 thousand at the year-end. The majority of investments were inventories of property abroad, while under equity and liabilities the majority were borrowings from banks.

V. THE BANK'S PERFORMANCE IN 2018

V.1. GENERAL ECONOMIC ENVIRONMENT[1]

The world economy is in a period of great uncertainty due to growing trade disputes. Global activity indicators suggest a slowdown in growth, but this still remains above the average of the last few years due to the favourable effects of the stimulating monetary policy, improved conditions on the labour market and the strengthening of corporate balance sheets. In the third quarter, the economic growth in the Euro area weakened considerably. In addition to global factors, the risk related to further growth is increased due to the uncertainty associated with the Italian fiscal plans and Brexit. Economic growth forecast for Slovenian trading partners is lower, indicating less strong support of foreign demand to domestic economic growth. International institutions have decreased the forecast GDP growth in the Euro area for 2018 to 1.9%, which is below last year's growth of 2.4%. In the coming years, economic growth will be yet somewhat lower.

Following last year's accelerated, 4.9% economic growth, the forecast growth of economic activity remains favourable, i.e. standing at 4.2% for 2018, and at 3.4% for 2019. Despite the slowdown of economic growth in the euro area, quite strong conditions are expected to continue in the exports sector. With good domestic demand, imports growth is even expected to slightly increase. Consequently, the contribution of net exports to total GDP growth will decrease slightly in the coming years. Moderate economic growth will mainly be due to the gradual transition into a more mature phase of the business cycle.

With favourable conditions in the labour market, private consumption and investments are expected to increase further. Public spending will increase moderately in the coming years. The growth of final consumption of households will be strong and backed by the growth in gross disposable income, which will be affected mainly by the slightly higher wage growth. Spending will also be enabled by further growth of consumer loans and favourable conditions in the labour market where in some sectors labour demand already exceeds its supply. A gradual slowdown in consumption is expected in the coming years. Based on the still favourable assumption of growth in foreign demand and a good production capacity utilisation rate, the investment cycle of companies is expected to continue, driven by the continued availability of affordable sources of financing. In addition to investments in machinery and equipment, investments in dwellings are also expected to grow, encouraged by conditions in the real estate market where the housing shortage is mainly reflected in rapid price increases.

Due to the favourable economic environment, employment growth remains relatively high in 2018. However, with the growing structural imbalances in the labour market, reflected in labour shortages, and moderate economic growth, employment growth will gradually slow down. An important factor limiting employment in the medium term, is the ageing of the population. It is expected that in the future, employers will continue to mitigate domestic restrictive factors at least partly by recruiting foreign labour force.

With further strong economic growth, wage growth will be higher, but will not significantly weaken the nominal cost competitiveness of the economy.

The average annual inflation rate in 2018 was 1.7%, mainly driven by higher prices of energy products and services. Price growth is expected to exceed 2% in the coming years, mainly due to the rise in domestic demand, supported by the favourable situation on the labour market and cost pressures.

The moderate growth of lending to the private sector, in particular households, has continued this year. The growth in the volume of bank loans was mostly fuelled by lending to households. Despite favourable circumstances, bank lending to businesses remains moderate. Moderate growth of bank loans to the private sector, in particular households, is also predicted for the next two years. A moderate increase of bank lending to businesses is also expected to continue, with favourable economic results enabling companies to maintain a significantly lower level of debt than a few years ago.

The situation in the banking system remains stable. In 2018, there was a halt to the decrease of net interest

[1] Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD).
Bank of Slovenia, Summary of macroeconomic developments, November 2018, December 2018.

income, which is partly a result of the gradual growth of lending. Operating results of banks have been improving but are mainly based on reduced volumes of provisions and impairments. The share of non-performing assets is decreasing, also due to favourable economic conditions and increased solvency of companies. The share of foreign sources of financing has continued to decline, with deposits by domestic businesses and households continuing to increase. Moreover, the deposit maturity structure of non-banking sectors keeps deteriorating. With low deposit interest rates, it is particularly sight deposits that continue to increase. They now account for around 72% of deposits by non-banking sectors and thereby over a half of the banking system's total assets. With the gradual increase in the Banks' lending activity, the capital adequacy of the banking system is gradually decreasing, nevertheless remaining relatively high.

V.2. THE BANK'S BUSINESS OPERATING POLICY

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

As a matter of priority market focus, the Bank is targeting households and young customers, as well as SMEs. The Bank is boosting the utilisation of its business network by strengthening effective marketing activities across it. Customers are treated holistically, both individuals and businesses. Other financial services are also marketed, including insurance and leases of farming machines and equipment, with emphasis placed on increasing interest and all types of non-interest income. The Bank plans to develop banking products to service the financing of agriculture, organic food production, renewable energy sources, green economy, and increased food chain self-sufficiency. In cooperation with insurance companies, the Bank will market insurance services, particularly those related to banking. In rendering services, the Bank is striving for excellent responsiveness both in terms of quality and time. The Bank is devoted to preserving stability and an adequate maturity of its financial resources, and with respect to investments it intends to increase the quality of its portfolio, placing a major focus on ensuring adequate collateral covers for its receivables, the safety of investments and limiting risks in lending. The Bank will effectively manage all types of risk and seek to ensure that credit exposure is adequately diversified. It will continue to sell numismatic values, i.e. collector and commemorative coins. Marketing activities will be performed by providing communication support to the Bank's key products. The Bank will undertake an active recovery of non-performing loans. It will attend to the efficient management and accelerated marketing of unnecessary property held by the Bank or the Group. The Bank will continue to develop and rationalise its information support to existing and new services and processes. The streamlining of work processes and departments will continue, and operating efficiency will be enhanced across all segments of business. The Bank is leading a wise human resources policy and ensuring life-long education and training of employees.

By reaching its objectives, DBS d. d. will preserve its market share in Slovenia's banking system at the year-end of 2019, and reaffirm its place among the top three banks according to stage of development and branching. DBS d. d. will remain Slovenia's leading bank provider of banking and other financial services to the agro-food sector and rural areas, and the leading distributor of EU and state financial aid. It will remain the leader in servicing the manufacturing sector, hi-tech industries, tourism, ecology-related disciplines, and the energy sector.

V.3. THE BANK'S PERFORMANCE

V.3.1. CORPORATE BANKING

Corporate lending

The main principles used in soliciting new customers are the following: knowing the company well, understanding its operations, understanding the risks it is exposed to in its operations, identifying its needs for financing and other banking products. We cross-market all our services for corporate customers, including treasury, payment transactions, and modern banking solutions.

The Bank pursued a conservative investment policy and dispersed its exposure among family-owned companies, SMEs and cooperatives operating in the manufacturing industry, high-tech industries, ecology-related industries, the energy sector, the tourism industry and the agro-food sector. Sales efforts were dispersed selectively, with the Bank allowing exposure to corporates and cooperatives with adequate credit ratings and operations that generate enough cash-flow to repay loans. Attention was devoted to acquiring adequate collateral for loans. With customers identified as posing increased risk, action for recovery was intensified or additional collateral demanded.

The Bank's investments into loans to non-financial companies, the state and other financial companies totalled EUR 447,804 thousand at the end of 2018. This was an increase by EUR 1,401 thousand compared to the year-end of 2017.

The Bank continued to decrease its non-performing exposures, this remaining one of its major activities. Reduction of non-performing exposures is a relevant factor conditioning the growth of corporate lending and thus the recovery of the (private) investment cycle. Consistent with Slovenian principles of renegotiation adopted by the Bank Association of Slovenia and the recommendations of the Bank of Slovenia, the Bank continued to restructure receivables from customers with adequate business models and market potential for further operations, and was actively engaged in interbank agreements on renegotiating loans to customers exposed to several creditor banks. Where it was estimated that repayment would be higher if seizing the collateral rather than upon renegotiation, it stepped up action for recovery.

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

The number of active corporate transactional accounts increased by 11% in 2018, with almost 94% of corporate customers that have an active transactional account with the Bank using DBS PRONET at the end of 2018.

Payment transactions

In 2018 the Bank followed trends in state-of-the-art developments in payment transactions and complied with legal requirements. In addition to individual credit transfers, it offers its customers SEPA mass payments, SEPA direct debit, payment cards, and the issuing and paying of e-invoices. The Bank is integrated into modern payment systems due to extensive maintenance and upgrades of its information support, thereby offering its customers high-quality services. The majority of payments transacted for corporate customers in the past year were internal and domestic transactions via the SEPA IKP payment scheme and via TARGET2, and international and cross-border transactions via the SEPA EKP system.

The Bank is integrated in the Slovenian project of establishing the national scheme for instant payments, and migration of the SEPA IKP payment scheme into the new BIPS payment system where both SEPA IKP payments and instant payments will be processed.

With respect to international operations, the Bank offers its customers guarantees, letters of credit, collection and cheques, and maintains good business relations with other banks by adequately servicing its current account and correspondent banking network as well as by offering services to other banks.

Corporate deposits

Corporate term deposits, including deposits with characteristics of subordinated debt and deposits by the state, amounted to EUR 53,009 thousand as at 31 December 2018, down 16% compared to the previous year. The decrease is mostly the result of discouraging interest rates for term deposits. The Bank adjusted its activity aimed at collecting corporate deposits to the liquidity situation, thereby monitoring markets and investment opportunities. Corporate demand deposits, including deposits by the state, amounted to EUR 69,678 thousand as at 31 December 2018, up 33% compared to the previous year.

V.3.2. RETAIL BANKING AND BUSINESS NETWORK

The Bank's operations with households in 2018 benefited from the positive impact of the economic situation and public optimism, which boosted economic activities of households – the general public, farmers and private entrepreneurs.

Collected funds

The balance of collected funds from households, including foreign entities and non-profit institutions serving households, and deposits with characteristics of subordinated debt, amounted to EUR 741,963 thousand at the end of 2018. This was up EUR 47,664 thousand, or 7%, compared to the end of 2018. Funds collected from households total EUR 693,809 thousand. An increase in collected funds was reported although the level of interest rates remains very low.

The Bank managed to keep demand deposits stable, and retain a satisfactory volume of term deposits.

Lending

The balance of loans and advances to retail customers amounted to EUR 295,369 thousand at the end of 2018, an increase by EUR 31,462 thousand, or 12%, compared to the year-end of 2017.

Despite difficult conditions and increased competition in the lending market, the Bank managed to preserve the quality of its credit portfolio in the segment of households. Safety and limitation or risks were again at the forefront in 2018. Due to special sales campaigns, the volume of housing loans increased considerably. Expedient and intensified daily debtor treatment has helped the Bank keep the volume of overdue receivables from our retail customers at a manageable level.

Transactional accounts

In 2018 the Bank continued to implement one of its key goals related to the operations of the business network, set in previous years. A continual increase in the number of household transactional accounts, predominantly full-functionality accounts, is a priority that has been materialising fully. The opening of transactional accounts is closely related to the cross-marketing of products, which come in packages that enable customers to expand their cooperation with the Bank to several areas and banking services. In an effort to increase the number of current accounts, the Bank continued to market special offers, such as Sowing Package, Harvest Package, Secondary On-farm Activity Package, Transferee of a Farm Package, and a special package for private entrepreneurs, associations and other legal persons governed by private law. The Bank's primary focus is with customers that ask for full-functionality accounts, and young customers. The growth trend and net increase in the number of transactional accounts continued in 2018.

Administering payment transactions via the business network

The total number of processed payment orders remained on a similar level year-on-year, with the contribution of electronic banking on the rise, which is in line with the Bank's strategy. The share of payment orders processed via electronic banking has increased and now represents over 52%. In 2018, the Bank's fee and commission income decreased slightly as compared to 2017. The market is still witnessing public cash registers and non-banking providers of payment transactions, which offer payment services at low prices. Some of them have accounts at and conduct payment transactions via the Bank.

Numismatics

The Bank continues to sell numismatic – collector and commemorative – coins, numismatics representing an important contribution to maintaining the Bank's visibility in its environment. Two sets of collector and commemorative coins were issued in 2018: the EUR 2 commemorative coin issue to celebrate the world bee day, and the issue of collector coins to mark the centenary of the end of World War I. Two issues are also expected for 2019: the EUR 2 commemorative coin to celebrate the centenary of the foundation of the University of Ljubljana, and collector coins to mark the centenary of the annexation of the Prekmurje region to its mother country.

Marketing mutual funds

In 2018, the Bank maintained its cooperation with the portfolio manager KD Skladi, družba za upravljanje, d. o. o. The volume of transactions has remained on a similar level for several years.

Electronic banking for individuals – DBS NET

In 2018, the Bank again witnessed increases in both the number of transactional accounts with the electronic banking functionality, and the number of E-bank users. This is the result of a larger number of younger customers, and of the Bank actively redirecting existing customers to process payment transactions via the E-bank.

The number of mDBS mobile bank users was also up in 2018, the annual increase having been expected, since a growing number of customers opt to use mobile applications.

Insurance brokerage

The Bank maintained cooperation with the business partners – insurance companies – for which it provides insurance brokerage.

The Bank's ATM network

As at the year-end of 2018, the Bank's ATM network consisted of 38 machines, there being 37 the year before.

Payment cards

The Bank's active marketing of a wide range of services related to transactional accounts resulted in an increase in the number of issued bank cards. Both the number of issued Activa Maestro debit cards and Activa MasterCard credit cards were up. The pre-pay bank card has remained the most sought after product in 2018.

Marketing UPN forms via outsourcers

In 2018, the Bank outsourced the marketing of standard payment order forms (so-called UPN forms) to eight providers, two of whom were cooperative stores. In October 2018, the contract with one of them was terminated, leaving seven active providers at the end of the year. Compared to 2017, both the volume of payment order processing and the Bank's resulting income were up.

V.3.3. OPERATIONS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Operations with domestic and foreign banks in 2018 comprised deposits placed and conversions. A proportion of these operations included transactions with which the Bank managed net open foreign exchange positions.

In 2018, the Bank paid the final instalment of its interbank borrowing, and as at 31 December 2018 it had no borrowings in the interbank money market. As to investments, exposure to the banking sector was negligible.

V.3.4. SECURITIES TRANSACTIONS

Debt securities

The Bank's portfolio of debt securities as at 31 December 2018 was worth EUR 107,748 thousand. In line with our adopted strategy, the Bank partly replaced matured and sold debt securities with new ones, focusing mainly on top-rated securities that meet the criteria for eligible underlying assets of the Eurosystem.

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

Equity investments

The total value of equity investments as at 31 December 2018 amounted to EUR 11,280 thousand, of which investments in subsidiaries represented a 73% share.

V.3.5. PROPERTY MANAGEMENT

In 2018, the Bank reduced the volume of its investment property and inventory of properties. Alongside active marketing, this was a result of the property market upturn, favourable lending conditions in the banking sector, solid economic situation, expected high economic growth, historically low interest rates, as well as the growth in recruitment, salaries and thereby purchasing power.

V.4. FINANCIAL RESULTS AND FINANCIAL POSITION

V.4.1. FINANCIAL RESULTS

DEŽELNA BANKA SLOVENIJE GROUP

In 2018, the Group reported EUR 8,921 thousand of profit before tax, which is a 59% or EUR 3,306 thousand increase year-on-year (2017: EUR 5,615 thousand). After tax, net profit totalled EUR 7,572 thousand (2017: EUR 4,757 thousand). The result is mostly attributable to the high profit reported by the Bank, operating figures additionally enhanced by the profits reported by subsidiaries Semenarna and DBS Leasing. DBS Nepremičnine and DBS Adria, meanwhile, ended the year with a minimum loss.

Group net interest income amounted to EUR 17,127 thousand, a decrease by EUR 378 thousand year-on-year. The majority of interest income results from the Bank's operations, including loans, borrowings, deposits and securities. The consolidation of subsidiaries into Group statements has increased financing expenses and decreased net interest income by EUR 161 thousand.

Net gains from the derecognition of assets and liabilities not measured at fair value through profit or loss included EUR 5,653 thousand of income from the sale of government debt securities (2017: EUR 1,816 thousand).

Net fee and commission income amounted to EUR 6,900 thousand, up EUR 136 thousand from the year before. The majority of fees and commissions refer to the operations of the Bank. The consolidation of Semenarna has upped fee and commission expense by EUR 798 thousand, attributable mainly to financial services and payment transaction services.

Net gains on the derecognition of non-financial assets totalled EUR 9,106 thousand (2017: EUR 7,690 thousand). In the consolidation process, both Semenarna's revenues from the sale of goods, products and services, as well as non-financial income and costs of material were allocated to this item.

Net impairment charges for financial assets measured at amortised cost and for non-financial assets amounted to EUR 3,646 thousand. The highest impairment charge was against investment property and property inventory, totalling EUR 2,826 thousand. Impairment charges for loans amounted to EUR 807 thousand, down EUR 461 thousand compared to the previous year. Net provision expenses totalled EUR 68 thousand, a decrease by EUR 754 thousand compared to 2017.

DEŽELNA BANKA SLOVENIJE d. d.

In 2018, the Bank improved its operating result as compared to the year before, reporting EUR 6,722 thousand of profit before tax, a year-on-year increase of 44% or EUR 2,059 thousand (2017: EUR 4,663 thousand). After tax, net profit totalled EUR 5,441 thousand (2017: EUR 3,806 thousand). Comprehensive income for the period amounted to EUR 5,380 thousand EUR (2017: EUR 3,671 thousand). Operating profit before impairments and provisions, and before tax, was EUR 11,944 thousand (2017: EUR 9,002 thousand).

Net interest income amounted to EUR 17,288 thousand in 2018, a decrease by EUR 525 thousand year-on-year (2017: EUR 17,813 thousand). Interest income was lower by EUR 652 thousand, mostly due to lower interest received on government debt securities. Interest income was also lower in the segment of corporate loans and loans to the state, with interest income from loans to households higher. Interest income includes interest on the borrowing from the ECB, which has a negative interest rate. Interest expenditure decreased by EUR 127 thousand compared to 2017, mainly due to lower interest payments on household deposits.

Net fee and commission income totalled EUR 7,702 thousand, up EUR 142 thousand year-on-year (2017: EUR 7,560 thousand). Fee and commission income increased by EUR 305 thousand, mainly on account of higher revenues from administrative services and payment transactions. Fees and commission income for guarantees issued and securities transactions for customers, decreased. Fee and commission paid was up EUR 163 thousand year-on-year.

Net gains from the derecognition of assets and liabilities not measured at fair value through profit or loss included EUR 5,653 thousand of income from the sale of government debt securities (2017: EUR 1,816 thousand).

Charges against impairments of investments were up. Net impairments amounted to EUR 5,220 thousand (2017: EUR 3,416 thousand). Impairment charges were the highest against property inventories and investment property (EUR 2,826 thousand) and against equity investments in subsidiaries (EUR 2,272 thousand). There were EUR 122 thousand of realised net impairment charges on loans and debt securities. There were EUR 2 thousand of net expenses for provisions formed in 2018 (2017: EUR 923 thousand of net expenses). Provisions for off-balance sheet liabilities contributed EUR 159 thousand of net income, and other provisions contributed EUR 161 thousand of net expenses.

Other net operating losses totalled EUR 1,704 thousand (2017: EUR 1,596 thousand). Gains included EUR 337 thousand of lease payments. Losses included EUR 1,013 thousand paid into the deposit guarantee scheme and EUR 907 thousand of financial transaction tax (2017: EUR 858 thousand).

The Bank's operating expenses in 2018 amounted to EUR 17,412 thousand (2017: EUR 17,530 thousand). Employee benefits cost amounted to EUR 10,940 thousand, a year-on-year decrease by EUR 77 thousand. Costs of material and services totalled EUR 5,521 thousand, up EUR 97 thousand from 2017. The costs that increased were especially those associated with property, costs of payment cards and consumed electricity, and costs of other services, particularly for information security and postal services. Amortisation and depreciation expenses amounted to EUR 951 thousand, down EUR 138 thousand compared to 2017.

V.4.2. FINANCIAL POSITION

DEŽELNA BANKA SLOVENIJE GROUP

The Group's total assets amounted to EUR 1,014,673 thousand at the end of 2018, up EUR 57,452 thousand from the beginning of the year. The total assets of subsidiaries amounted to EUR 39,088 thousand, representing 4% of the Group's total assets (31 December 2017: 4%). After the elimination of inter-company relationships, the Group's total assets exceeded the Bank's by EUR 23,875 thousand, i.e. 2%. According to the balance as at 31 December 2018, the consolidation of Semenarna increased Group assets by EUR 23,396 thousand.

Loans and other financial assets[2] of the Group amounted to EUR 754,526 thousand at the end of December, up EUR 35,614 thousand. Loans and advances to banks were up EUR 1,784 thousand to EUR 6,698 thousand, while loans and advances to customers (including the state) were up EUR 34,315 thousand to EUR 744,355 thousand. The consolidation of Semenarna increased loans and other financial assets at Group level by EUR 1,038 thousand, mainly attributable to trade receivables.

The carrying amount of property, plant and equipment totalled EUR 28,282 thousand as at 31 December 2018, down EUR 263 thousand year-on-year. Depreciation costs decreased by EUR 255 thousand.

Long-term investments in the capital of subsidiaries were deduced from equity investments in the consolidation process in the total amount of EUR 8,287 thousand.

Consolidation increased the item other assets, which totalled EUR 13,296 thousand at the year-end. The main increase is attributable to Semenarna's inventory of materials, which totalled EUR 6,708 thousand.

Financial liabilities measured at amortised cost (including deposits, loans, subordinated liabilities and other financial liabilities) totalled EUR 941,000 thousand at the end of December, up EUR 50,667 thousand. The consolidation of Semenarna increased liabilities measured at amortised cost by EUR 18,375 thousand, which includes financing sources outside the Group – borrowings from banks and trade payables. Deposits and borrowings from banks and the central bank, without subordinated liabilities, were down EUR 8,171 thousand in 2018, to EUR 61,302 thousand, and deposits from customers, including deposits from the state (but excluding subordinated liabilities), increased by EUR 55,231 thousand to EUR 857,834 thousand. Borrowings from customers totalled EUR 503 thousand at the end of December, a decrease by EUR 95 thousand.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank's total assets amounted to EUR 990,798 thousand at the end of December 2018. This is an increase by EUR 59,768 thousand year-on-year, attributable mainly to higher household deposits as well as corporate deposits.

Corporate deposits, including state deposits, were up by EUR 7,699 thousand by the end of December. Deposits by the state decreased by EUR 3,614 thousand, and corporate deposits were up EUR 11,313 thousand. Under investments, loans and advances in this segment were up EUR 1,401 thousand.

Household deposits increased by EUR 47,664 thousand in 2018, with loans and advances to households up EUR 31,462 thousand.

As to borrowings from banks, there have been no major changes. As to investments, balances with the central bank increased, and totalled together with the minimum reserve EUR 44,497 thousand at the end of December.

Equity investments in subsidiaries totalled EUR 8,287 thousand at the end of 2018, down EUR 1,402 thousand from the beginning of the year. The Bank impaired its equity investment in subsidiary Semenarna in 2018 by EUR 2,457 thousand. After injecting Semenarna with new capital, the equity investment increased by EUR 870 thousand, totalling EUR 4,025 thousand at the year-end of 2018. The equity investment in subsidiary DBS Leasing increased by EUR 75 thousand due to reversal of impairment, and totalled EUR 2,757 thousand at the end of 2018. Due to the reversal of impairment, the equity investment in DBS Nepremičnine increased by EUR 31 thousand, totalling EUR 1,504 thousand at the end of 2018. After an impairment charge, the equity investment in DBS Adria decreased by EUR 2 thousand and totalled EUR 0 thousand at the end of 2018.

In 2018, the Bank's inventories of property and investment property decreased by EUR 4,799 thousand or 15%, to a total of EUR 27,372 thousand at the end of the year.

[2] Together with loans at fair value through profit or loss, not held for trading.

V.5. SHAREHOLDERS' EQUITY

The Group's equity as at 31 December 2018 amounted to EUR 68,502 thousand, up EUR 7,520 thousand year-on-year.

The Bank's equity as at 31 December 2018 amounted to EUR 63,191 thousand, up EUR 4,828 thousand year-on-year. Net profit contributed EUR 2,721 thousand to the increase, as 50% of the net profit, i.e. EUR 2,720 thousand, had been allocated to revenue reserves. Moreover, equity decreased by EUR 423 thousand of dividends paid for 2015 and by EUR 846 thousand of dividends paid for 2017. Due to the transition to IFRS 9 as of 1 January 2018, equity increased by a total of EUR 484 thousand after tax.

The Bank's audited share book value as at 31 December 2018 was EUR 14.932892. It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central securities register of the Slovene Central Securities Clearing Corporation (KDD) less treasury shares.

The Bank's 10 largest shareholders as entered in the KDD central securities register as at 31 December 2018

Shareholder	Number of shares	Stake in %, considering all shares in KDD
Kapitalska zadruga, z. b. o.	894,158	21.002
Skupina Prva d. d.	422,557	9.925
Kritni sklad PRVA+ ZAJAMČENI	422,557	9.925
KD Kapital d. o. o.	377,181	8.859
KD Group d. d.	255,941	6.012
Banca Popolare di Cividale S.C.p.A.	228,289	5.362
ČZD Kmečki glas, d. o. o.	200,000	4.698
SRC d. o. o.	188,022	4.416
BNP Paribas Securities Services S.C.A. - fiduciarni račun	185,110	4.348
Zadružna zveza Slovenije, z. o. o.	171,848	4.036
Total	**3,345,663**	**78.583**

The Bank's share capital amounts to EUR 17,811,083.54 and is divided into 4,268,248 ordinary no par value shares of the same class. The KDD central securities register has on record 4,257,483 no par value shares. The difference of 10,765 shares is due to the fact that certain shareholders have not yet changed their paper stock into dematerialised securities. As at 31 December 2018 the Bank held 25,801 repurchased treasury shares, which is 0.61% of all issued shares.

A change occurred in the KDD share register as of 8 March 2018, when shares purchased by Skupina Prva, d. d., and Prva osebna zavarovalnica, d. d., were transferred to the new owners. Both companies now have ownership stakes in Deželna banka Slovenije, d. d., recorded in the register as of that day, together a total of 25.063%. Skupina Prva, d. d., acquired a 9.925% stake, and Prva osebna zavarovalnica, d. d., the rest via its pension guarantee funds KRITNI SKLAD PRVA+ ZAJAMČENI, KRITNI SKLAD PRVA IN PRVA+ DINAMIČNI, KRITNI SKLAD PRVA IN PRVA+ URAVNOTEŽENI and KRITNI SKLAD PRVA ZAJAMČENI. The ownership stake of shareholder Kapitalska zadruga, z. b. o., as recorded in the KDD share register changed as of the same day, dropping from 47.532% to 21.002%.

VI. CORPORATE GOVERNANCE STATEMENT OF DEŽELNA BANKA SLOVENIJE d. d. FOR THE YEAR ENDED 31 DECEMBER 2018

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

VI.1. STATEMENT OF INTERNAL GOVERNANCE ARRANGEMENTS

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

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

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

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

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

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

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

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

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

[3] Banking Act (ZBan-2), Official Gazette RS 25/15, with amendments.
[4] Bank of Slovenia Regulation on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, Official Gazette of the RS No 73/15, with amendments.
[5] https://www.bsi.si/financna-stabilnost/predpisi/seznam-predpisov/razkritja-revizija-in-poslovne-knjige

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

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

Risk management in relation to the financial reporting process includes processes for ensuring the authenticity, accuracy, integrality and completeness of accounting information, and processes for ensuring that financial disclosures are timely and fair in both internal and external reports. In accounting procedures, internal controls are based on an adequate delimitation of powers and responsibilities.

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

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

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

VI.3. OPERATIONS AND KEY COMPETENCES OF THE GENERAL MEETING, AND DESCRIPTION OF SHAREHOLDERS' RIGHTS AND HOW THEY CAN BE EXERCISED

The General Meeting (GM) is composed of the Bank's shareholders. It is convened by the Management Board at least once a year and additionally when this is urgent for the Bank's best interest. It may also be convened by the Supervisory Board, especially when the Management Board had not done so in due time or when this is necessary to ensure the Bank's smooth operations. It may also be convened upon demand of the shareholders whose aggregated shares amount to one twentieth of equity.

Pursuant to the Deželna banka Slovenije d. d. Statutes, the General Meeting adopts decisions on the appropriation of distributable profit as proposed by the Management Board and Supervisory Board, endorsing the annual report in case it was not approved by the Supervisory Board or if the Management Board and Supervisory Board leave this decision to the GM, the Internal Audit Department annual report and the related Supervisory Board opinion, discharging the Management Board and Supervisory Board from liability, nominating and recalling Supervisory Board members, capital increases and decreases, except in cases when the Statutes stipulate the decision to be in the competence of the Management Board, adopting amendments and supplements to the Statutes (the GM adopts amendments and supplements to the Statutes by a three-quarters majority of the votes cast), the dissolution of the Bank and changes of its status, appointing auditors, the General Meeting Rules of Procedure, and other matters as provided for by the Statutes and the law. The GM adopts decisions on issues related to managing the Bank's business if so requested by the Management Board after the Supervisory Board had refused its consent.

The GM adopts decisions with a majority of the votes cast, except in cases where the law or the Statutes stipulate a three-quarters majority of the votes cast.

Those shareholders may attend the General Meeting and cast their votes who hold ordinary shares and are recorded in the central registry of dematerialised securities at the end of the fourth day prior to the General Meeting and who have confirmed their attendance in writing not later than at the end of the fourth day prior to the General Meeting. They may exercise their rights at the General Meeting in person or through their agent or authorised representative.

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

The Deželna banka Slovenije d. d. dividend policy is based on the main objectives defined in strategic plans, statutory provisions and recommendations of the Bank of Slovenia and European Central Bank. The recommendations stipulate that the Bank form a conservative dividend policy based on which to be able to comply with minimum capital requirements. The Bank's management and owners are aware at all times that capital adequacy, the related statutory provisions and growth of the volume of business are crucial for the Bank's long-term viability and continual increase of the value of assets invested in its operations.

Deželna banka Slovenije d. d. has devised the following dividend payment policy:
- regular payment of the dividend if the Bank complies with the regulator's requirements and with capital requirements, and if the payment would not pose a threat to the compliance with capital requirements;
- subject to the conditions set out in first indent, after each audited annual report and following a decision of the GM, the Bank pays the dividend, as a rule, amounting to not more than 25 percent of net profits;
- growth of the dividend has to be stable, predictable and moderate.

VI.4. COMPOSITION AND OPERATIONS OF MANAGEMENT AND SUPERVISORY BODIES AND THEIR COMMITTEES

Deželna banka Slovenije d. d. operates under a two-tier system of governance. The Bank is run by the Management Board, and their work is overseen by the Supervisory Board. The Bank's internal governance and organisational structure are implemented pursuant to the Slovene and European legislation in force, internal acts, and best practice standards in corporate governance.

Management Board

In 2018 the Bank Management Board was composed of:
- Marko Rozman, president (as of 17 July 2018),
- Barbara Cerovšek Zupančič MSc, member,
- Sonja Anadolli, member (until 17 July 2018).

The Management Board runs and manages the Bank autonomously and at its own responsibility, acting with due professional care and thus ensuring the Bank operates in compliance with the requirements of the Banking Act as well as with highest ethical and professional standards of governance, also being attentive to preventing potential conflicts of interest. Pursuant to the Slovene Banking Act, the two members of the Management Board represent the Bank jointly.

The members and president of the Management Board are appointed and discharged by the Supervisory Board. They are appointed for a maximum five-year renewable term. The Management Board has two members, who hold meetings once a week. The function of member of the Bank's Management Board may only be performed by a person who has obtained the requisite licence. The Supervisory Board must make a decision regarding the appointment of an individual as member of the Bank's Management Board – and obtain, to that end, the Nomination Committee's estimate on the suitability of this person to act as member of the Management Board – prior to this person filing for the licence for acting as member of the board.

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

Activity of the Management Board is governed by the Deželna banka Slovenije d. d. General Meeting Rules of Procedure. The Management Board may transfer certain rights. Important roles are also assigned to different boards and committees which make decisions in line with their respective powers and competences: Credit Board, Asset Liability Management Committee, Non-performing Loans Board, Liquidity Committee, Property Board, Investment Board, Operational Risk Board, Safety Board, and Crisis Team.

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

Supervisory Board

In 2018, the Supervisory Board was composed of:
- Peter Vrisk, president,
- Ivan Lenart, member,
- Nikolaj Maver, member,
- Tomaž Petrovič, member (as of 9 October 2018),
- Jure Kvaternik, member (as of 9 October 2018),
- Iris Dežman, member (as of 9 October 2018),
- Simon Kolenc, member (30 March to 7 September 2018),
- Viktor Lenče, member (30 March to 10 August 2018).

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

The Supervisory Board makes decisions on nominating and recalling members of the Management Board, approval of loans to members of the Management Board, Holders of Procuration and other persons regarding whom it is thus laid down by law, and approval of contracts between members of the Supervisory Board and the Bank, adopts the Remuneration Policy and oversees its implementation, proposes to the General Meeting members of the Supervisory Board for election and auditors for appointment, verifies the annual report and proposal for the distribution of the distributable profit and submits to the General Meeting a related written report, confirms the annual report and verifies financial and other reports composed by the Management Board and gives opinion on any such report. The Supervisory Board gives its consent to the Bank regarding the matters laid down in law or statutes.

Supervisory Board committees

The Supervisory Board appoints committees acting as its advisory bodies. They have three members each, who are also members of the Supervisory Board and who act in line with the relevant Rules of Procedure.

On 9 November 2017, the Bank's Supervisory Board, based on prior authorisation by the Bank of Slovenia, adopted a decision on merging the Audit Committee and Risk Committee into a single body.

The Audit and Risk Committee operated with the following composition 9 November 2017 to 17 April 2018:
- Nikolaj Maver, president,
- Peter Vrisk, member,
- Ivan Lenart, member.

In 2018 the Committee met at three meetings.

On 9 November 2017, the Supervisory Board appointed Simon Kolenc an external specialist adviser to the Audit and Risk Committee. He worked on the Committee until 17 April 2018.

The Audit Committee provides the Supervisory Board with expertise related to operations compliance, internal audit and the system of internal controls, and it offers professional support in assessing the composition of annual reports. It monitors the financial reporting process and oversees the accuracy of financial information, helps determine areas of audit and undertakes other related tasks. In 2018 the Committee met at three meetings.

17 April to 7 September 2018 the composition of the Committee was as follows:
- Simon Kolenc, president,
- Peter Vrisk, member,
- Ivan Lenart, member.

23 October to 27 November 2018 the composition of the Committee was as follows:
- Jure Kvaternik, president,
- Peter Vrisk, member,
- Nikolaj Maver, member,
- Iris Dežman, member.

Since 27 November 2018 the Committee has been composed of:
- Jure Kvaternik, president,
- Peter Vrisk, member,
- Iris Dežman, member.

The Risk Committee attends to efficient and prudent risk management at all levels of the Bank's operations, monitors the efficiency of risk management systems, and advises the Supervisory Board on what are current and future acceptable risks for the Bank. In 2018, the Committee met at five meetings.

17 April to 10 August 2018 the composition of the Committee was as follows:
- Nikolaj Maver, president,
- Simon Kolenc, member,
- Viktor Lenče, member.

23 October to 27 November 2018 the composition of the Committee was as follows:
- Nikolaj Maver, president,
- Peter Vrisk, member,
- Iris Dežman, member,
- Tomaž Petrovič, member.

Since 27 November 2018 the Committee has been composed of:
- Nikolaj Maver, president,
- Ivan Lenart, member,
- Tomaž Petrovič, member.

The Nomination Committee is the Supervisory Board's expert working body charged with appointing members of the management body, determining the tasks and conditions to be met in order to win an appointment, assessing the suitability of individual members and the management body as a whole, and with different advisory HR tasks and other related assignments. In 2018 the Committee met at 11 meetings.

Its composition in 2018 was as follows:
- Ivan Lenart, president,
- Peter Vrisk, member,
- Nikolaj Maver, member.

Since 23 October 2018 the Committee has been composed of:
- Ivan Lenart, president,
- Peter Vrisk, member,
- Nikolaj Maver, member,
- Tomaž Petrovič, member.

Number of directorships held by members of the Management Board and Supervisory Board in other companies and organisations

	Number of directorships in other companies and organisations pursuant to Article 435 (2) (a) of the CRR Regulation	Number of directorships in other companies and organisations pursuant to Article 36 of the ZBan-2
Management Board		
Marko Rozman (as of 17 July 2018)	0	0
Barbara Cerovšek Zupančič	0	0
Sonja Anadolli (up to 17 July 2018)	2	1
Supervisory Board		
Peter Vrisk	3	1
Nikolaj Maver	3	3
Ivan Lenart	1	1
Tomaž Petrovič (as of 9 October 2018)	2	2
Jure Kvaternik (as of 9 October 2018)	4	1
Iris Dežman (as of 9 October 2018)	1	1
Simon Kolenc (30 March 2018 to 7 September 2018)	2	2
Viktor Lenče (30 March 2018 to 10 August 2018)	0	0

VI.5. INFORMATION UNDER ITEMS 3, 4, 6, 8, 9 OF ARTICLE 70 (6) OF THE COMPANIES ACT

Major direct and indirect shareholdings
As at 31 December 2018 the Bank had six shareholders who directly held qualified stakes (of over 5%), as follows:

1. Kapitalska zadruga, z. b. o., Ljubljana — 894,158 shares (21.002%)
2. Prva osebna zavarovalnica, d. d.* — 644,506 shares (15.138%)
3. Skupina Prva d. d. — 422,557 shares (9.925%)
4. KD Kapital d. o. o. — 377,181 shares (8.859%)
5. KD Group d. d. — 255,941 shares (6.012%)
6. Banca Popolare di Cividale S.C.p.A. — 228,289 shares (5.362%)

* The insurer Prva osebna zavarovalnica, d. d., holds shares in its own name and for the account of pension guarantee funds it manages, as follows:

- KRITNI SKLAD PRVA+ ZAJAMČENI — 422,557 shares (9.925%)
- KRITNI SKLAD PRVA IN PRVA+ DINAMIČNI — 95,304 shares (2.239%)
- KRITNI SKLAD PRVA IN PRVA+ URAVNOTEŽENI — 80,884 shares (1.900%)
- KRITNI SKLAD PRVA ZAJAMČENI — 45,761 shares (1.074%)

As at 31 December 2018 the Bank had three shareholders who indirectly held qualified stakes (above 5%):

1. Alenka Žnidaršič Kranjc — 750,535 shares (17.629%)
2. KD Group d. d. — 563,491 shares (13.235%)
3. Zadružna zveza Slovenije z. o. o. — 371,947 shares (8.736%)

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

Restrictions related to voting rights
Pursuant to Article 8 of the Bank's Statutes, the shares of Deželna banka Slovenije have limited transferability. Any person acquiring shares needs a prior approval from the Bank's Management Board if their purchase is resulting in a holding of up to 5% and the prior approval of the Supervisory Board if their purchase is resulting in a holding of over 5%. Details on how and when voting rights can be exercised, are given in Chapter VI.3. Operations and Key Competences of the General Meeting, and Description of Shareholders' Rights and How They Can Be Exercised, p. 26.

The Bank's rules on appointments and replacements of members of management and supervisory bodies, and on amendments of the Statutes
Rules on appointments and replacements of members of management and supervisory bodies are given in Chapter VI.4. Composition and Operations of Management and Supervisory Bodies and Their Committees, p. 27.

Rules on amendments of the Statutes are outlined in Chapter VI.3. Operations and Key Competences of the General Meeting, and Description of Shareholders' Rights and How They Can Be Exercised, p. 26.

Authorisation of members of the management regarding issue or purchase of treasury shares
The Management Board is not authorised to issue or purchase treasury shares or issue authorised capital.

Ljubljana, 9 April 2019

Management Board:

Marko Rozman
President of the Management Board

Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board:

Peter Vrisk
President of the Supervisory Board

VII. NON-FINANCIAL STATEMENT OF THE DEŽELNA BANKA SLOVENIJE GROUP FOR THE YEAR ENDED 31 DECEMBER 2018

The non-financial statement of the Deželna banka Slovenije Group has been devised pursuant to the requirements of the Companies Act (ZGD-1) and Directive 2014/95/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

VII.1. INTRODUCTION

Deželna banka Slovenije d. d. has always been the financial pillar supporting the Slovene agriculture sector and rural areas. As a matter of priority focus, its operations and development have been directed to supporting farmers, the agricultural activity, cooperatives, SMEs, associations, members of cooperatives and agro-food companies. Being a cooperative bank, it is exploiting mutual advantages and striving towards the economic, social and cultural development of local communities. The Bank has a major impact on the preservation of natural and cultural heritage. Cooperative banking invests in human capital, which, to us, are customers, employees and other stakeholders.

VII.2. BUSINESS MODEL

The Deželna banka Slovenije Group (Group) consists of the Bank and four subsidiaries: leasing company DBS Leasing d. o. o., real-estate company DBS Nepremičnine d. o. o., seed-producer Semenarna Ljubljana d. o. o., and the Croatia-based real estate company DBS Adria d. o. o. In the implementation of our strategic orientation and sustainable development targets, the Group acts as one.

The Group is consistent in respecting fundamental principles and values, which include:

- ethical, responsible, professional and fair business conduct,
- fair and equal treatment of employees,
- responsible environmental management,
- close links with local communities, and social responsibility,
- respect for fundamental human rights,
- accessibility in meeting the needs of customers, buyers, owners and the wider environment.

The Bank is a universal all-Slovenian bank. With the third most widespread network of branches in the country it operates across Slovenia, providing the widest range of banking and financial services. Its subsidiaries are active in the leasing of moveable property, including farming machines and equipment, trading and management of immovable properties, and the retail, wholesale and production of seeds based on own development.

The current model has proven successful in terms of business performance, with the Bank constantly supplementing its services to, primarily, rural customers, and thus offering them with a complete financial solution. We are thus using mutual advantages and aiming at the economic, social and cultural development of local communities. This has a major impact on the preservation of natural and cultural heritage.

In order to achieve profitability and the Bank's long-term performance, we are constantly upgrading our business model, adapting it to challenges of the external environment where we operate, and to the expectations of all stakeholders integrated in the Bank's operation.

Rapid technological development, changing customers' demands and needs, and competitive providers of financial services are making the Bank adapt actively to changes in the financial market. In 2017, we had set up a group for digital transformation. They have been focusing on improving the user experience, rationalising the Bank's business processes, introducing new products and services, while also using all opportunities provided by the latest information technology and ensuring safe banking operations. Related development continued in 2018.

In performing business activities, employees in the Group follow the principles of sustainable development and social responsibility, as described below.

VII.3. MATERIAL ASPECTS (environment-related)

a) Social corporate responsibility

We are a socially responsible Group, placing a strong emphasis on close ties with the environment and coordinating the activities of local communities and the economy, thus contributing to the development of society.

As a Group, we are a link in the chain ensuring the sustainable development of Slovenian rural areas, participating with our services and products in numerous projects that are of vital importance for ensuring a better quality of life, new jobs, use of renewable resources, green tourism, high quality ecologically produced food, a range of indigenous Slovene varieties and orderliness of the living environment and landscape. Approximately a half of all agricultural subsidies being directed through our Bank, we are an important distributor of aid for rural development from European and national funds.

The Group is a recognisable donor and sponsor of various agricultural, charitable, cultural, educational and sports events across Slovenia. Our support goes to societies, non-profit organisations, projects, clubs, individuals and institutes. In choosing the recipients of sponsor or donor funds, we take into consideration the partnership with the recipient, their consistency with the values and objectives of the Group, enhancement of visibility and reputation, and social responsibility. We support projects that emphasise positive values and tradition, and contribute to a better quality of life.

We have supported the Slovenian Rural Youth Association for several years, encouraging the young to see and pursue their future in the rural areas, driving them to use their knowledge, ambition and innovative drive to follow global trends and bring added value to this segment. This is raising the appeal of agriculture as a profession, encouraging the young to take over farms and preserve agricultural activity in Slovenia.

By annually supporting the Agrobiznis (Agro-business) project, run by the Slovene financial daily Finance, we help encourage entrepreneurship and innovation in the area of food self-sufficiency.

Being a Group deeply incorporated in the agro-food sector and rural areas, for us the importance of the Wine Queen event is in building the public image of Slovenian wines and vine growing regions, the mission of the reigning title holder. We are the general sponsor of the event.

We help co-create annual agricultural fairs by participating at and presenting our new products and services there. The fairs, which are of paramount importance in this segment, include the international agricultural and food fair Agra in Gornja Radgona, the agriculture and crafts fair in Komenda, Gregor's fair in Novo mesto, and others.

b) Concern for the environment

All employees in the Group abide by environmental regulations. We encourage our employees to take a positive attitude towards the natural environment, e.g. by recommending the train and other public transport for commuting, and by reimbursing the costs of such transport. To reduce out impact on the environment, we centralised printers, reducing their number to approximately 50 (prior to which each office had their own device). Employees are encouraged to use electronic means of communication only.

In the 65 branches that have electronic financial displays, we replaced ordinary computers with the Raspberry Pi system. Electricity consumption has consequently dropped by 28,470 kWh annually.

In 2018 we began gradually replacing outdated monitors with LED ones, which also consume half the energy.

The Group has established a separate waste collection system at eco points, to increase the awareness among employees on how to prevent environmental pollution. Waste that poses ecological concern is submitted to a relevant authorised organisation for recycling or destruction. Plasticware has been replaced by glassware at hospitality events, thus reducing waste. We use around 1,800 items of different-sized glass drinkware a year, which we return so that it is 100% recycled. This saves energy and, above all, reduces the amount of plastic waste. Whenever possible we only use glass water jugs at meetings.

VII.4. HUMAN RESOURCE MANAGEMENT

Since Group employees spend most of our time at work, the Group has undertaken to ensure a healthy and safe working environment. Group companies have therefore adopted various programmes for the protection and maintenance of health at the workplace.

The following measures were introduced to the working process: flexible working hours at workplaces that allow it, encouraging employees to take active breaks at the workplace, the option of working part-time, encouraging employees to drink a sufficient amount of water or soft drinks, participation at sports events held by sports association ŠKD Zadružnik such as biking, trekking and swimming, seeing plays, participation at the Bank's sports games and at winter and summer banking games.

Group employees meet twice a year at informal get togethers, for New Year's and at an outdoor summer picnic. Our New Year's event is an opportunity to look back at what we have accomplished and look ahead to where we are going. Both events are relaxed and encourage mingling, especially between colleagues that normally do not see each other much.

The Bank considers human resource risk to be a material risk, and has therefore set up procedures to monitor and manage it in compliance with the adopted HR Risk-taking and Risk Management Policy, which is reviewed and updated annually. Given the available resources the Bank resolved human resource needs with internal staff, trying to motivate employees by promoting them at their current employer and thus have them work their best as well as build their loyalty to the Bank and its values. Due to their average age, educational profile and work experience it was not always possible to redeploy existing employees. In such cases, the Bank recruited off the market.

At the end of 2018, the Bank had 340 employees, 8 less than in 2017. As to gender, 79% were women and 21% men. The average age of the Bank's employees is 47.

40% of all employees, i.e. 137 people, work at the Bank's headquarters, while the business network employs a further 60%, i.e. 203 employees. In 2018, the proportion of fixed-term employees was 8.82%. 20 employees work part-time due to parental leave, partial retirement or part-time work. In 2018, 1.18% of employed female workers (4) were absent from the Bank due to parental leave. The Bank employs 13 workers with limited capability for work, representing 3.82% of all employees (category II. and III. disabled persons).

In 2018, the Bank hired 25 new employees, 11 at the headquarters and 14 across the business network. 31 employees left the Bank, either due to retirement, termination of work on a fixed-term basis, or by mutual agreement.

Subsidiary Semenarna Ljubljana d. o. o. had 237 employees at the end of 2018. As to gender, 68.78% were women and 31.22% men. Their average age is 45.8. In 2018, the share of fixed-term employees was 6.48%. 8 employees work part-time due to parental leave, partial retirement or part-time work. The company employs 15 workers with limited capability for work, representing 6.33% of all employees (category II. and III. disabled persons). In 2018, the company hired 34 new employees while 21 left, either due to retirement, termination of work on a fixed-term basis, or by mutual agreement (in addition, 14 employees were made redundant on operational grounds and upon notice, and there was also 1 dismissal).

Subsidiary DBS Leasing d.o.o. had 7 employees at the end of 2018, of which 1 fixed-term and 1 part-time worker. There was 1 new recruitment in 2018, with no departures.

To account for an increased volume of work, the Bank also occasionally hired secondary-school and university students to work fixed terms.

At the Bank:
- all employees are responsible for working professionally and with due care, respecting the rules, internal acts and standards of operation in force; compliance with professional standards and ethical values strengthens relationships between employees and other stakeholders; based on open communication and collaboration we ensure commitment to common goals; employees put the Bank's interests before their own;
- there is zero tolerance of unlawful and unethical conduct, and of disrespect of the Bank's values, which might damage its reputation;
- we avoid all circumstances the related financial interests and benefits of which could be contrary to the interests and benefits of the Bank and which could compromise the impartial and objective performance of tasks; the Bank is strictly committed to protecting confidential information and banking secrecy, and we are consistent in implementing measures to prevent their abuse and safeguard them permanently;
- we perform our duties fairly, prudently, diligently – according to the principles of due commercial care and in accordance with banking regulations.

Throughout the year, employees actively participate in various training courses. Internal training courses that we provide are run by the Bank's experts assisted by external advisers or contractors who are invited to the Bank, as required. Period trainings are held for employees across the branch network and at the Bank headquarters covering safety at work, prevention of money laundering, marketing of banking products and services, regulatory novelties, and novelties in the operations of the Bank. For the majority of external trainings, we make use of the Training Centre of the Bank Association of Slovenia and its programmes. To keep abreast of the new Consumer Credit Act, all Bank employees engaged in the process of marketing, granting and monitoring of consumer loans secured by real estate attended a respective seminar and obtained a certificate of competence.

Number of Group employees as at 31 December 2018

Year	2018	2017	2016
Number of employees*	584	588	583

* DBS Nepremičnine d. o. o. and DBS Adria d. o. o. have no employees.

Education profile of Group employees as at 31 December 2018

Staff education profiles	Number of employees			
	Semenarna Ljubljana, d. o. o.	DBS Leasing d. o. o.	Deželna banka Slovenije d. d.	Total
Level VIII/2	0	0	0	0
Level VIII/1	1	0	11	12
Level VII	4	2	55	61
Level VI/2	46	2	79	127
Level VI/1	30	1	49	80
Level V	94	2	138	234
Less than or level IV	62	0	8	70
Total	**237**	**7**	**340**	**584**

Age structure of Group employees as at 31 December 2018

Age	Number of employees			
	Semenarna Ljubljana, d. o. o.	DBS Leasing d. o. o.	Deželna banka Slovenije d. d.	Total
Under 30	24	0	15	39
30 to 40	46	4	71	121
40 to 50	83	2	95	180
50 to 60	81	1	140	222
Over 60	3	0	19	22
TOTAL	**237**	**7**	**340**	**584**

All employees in the Group are responsible for working professionally and with due care, and for respecting the rules and standards in force. We plan joint actions with the trade union to strengthen ethical values, organise charity campaigns and reinforce the relations among employees and other stakeholders. Based on open communication and collaboration, we ensure devotion to shared goals. Employees place interests of the Group before their own personal interests. In the Group there is zero tolerance of unlawful and unethical conduct, and disrespect of the Group's values that might damage its reputation. We perform our duties fairly, prudently, diligently – by exercising due commercial care.

Throughout the year, employees in the Group actively participate in various training courses. Internal training courses that we provide are run by experts assisted by external advisers or contractors who are invited to individual companies, as required. Periodical training courses for employees cover the following areas: safety at work, prevention of money laundering, service and product marketing, and new legislative features. The major part of external training courses is executed in cooperation with the ZBS education centre, Slovene Chamber of Commerce and other authorised institutions.

Information regarding human resource management in the Bank is given in Chapter IX.4. Human Resource Management, p. 50.

a) Respect for human rights

Employee relations in the Group are based on camaraderie, mutual respect and help.

Bank employees take utmost account of the provisions of the Deželna banka Slovenije d. d. Code of Conduct, the Deželna banka Slovenije d. d. Rules on the Prevention of Mobbing, and the Employment Relationship Act, which stipulate respectful treatment of employees and protection of human rights, among other things. In this context, the Bank has established a method of identifying, preventing and dealing with the consequences of sexual and other harassment and maltreatment at the workplace.

The fundamental values and principles of corporate integrity are enshrined in the Deželna banka Slovenije d. d. Code of Conduct. They are complied with by the members of the management and supervisory bodies and other Bank employees. The Bank has adopted the Policy of Safeguarding Integrity in Deželna banka Slovenije d. d., which aims to protect the integrity, core values and reputation of the Bank, and all employees abide by it. The Policy of Safeguarding Integrity provides that in order to uphold the core professional and ethical standards and standards of integrity, all wrongdoings and reports of suspected wrongdoing by any Bank employee must be dealt with. There is zero tolerance in the Bank of unlawful and unethical conduct, and of disrespect of the Bank's values.

We have set up a system of controlling and managing this Policy, since it should prevent any form of unlawful practice constituting a violation of the rules in terms of operations compliance. The system enables employees to report suspected violations of regulations and wrongdoing, assuring them whistleblowing does not have negative effects. Whistleblowing can be anonymous.

Special attention is devoted to the following types of wrongdoing: deception, fraud and business fraud, corruption and unauthorised receipt and giving of gifts, misuse of inside information and abuse of the market in financial instruments, money laundering and terrorist financing, conflict of interests, misuse of personal data, disclosure or unjustified acquisition of business secrets, hacking into business information systems, falsifying or destroying business documents, secret agreements and abuse of position or trust, embezzlement and unjustified use of foreign assets, and extortion and harassment at the workplace.

These wrongdoings can adversely affect the Bank's reputation, cause financial loss, and regulatory sanctions can affect employees, customers, suppliers, shareholders and other stakeholders.

With its Money Laundering and Terrorist Financing Risk Management Policy, the Bank has established a system for the implementation of measures to prevent and detect money laundering and terrorist financing. It enables the Bank to effectively manage operational and legal risk and the risk of loss of reputation potentially caused by financial crime related to money laundering or terrorist financing. The Bank's approach is based on an internal risk assessment, in turn based on knowing the customer, and in the detection and prevention of money laundering and terrorist financing, and the operation of internal controls and internal controls over the implementation of measures. The responsibilities of employees in carrying out these tasks are accurately delimited. Relevant employees are regularly trained in this respect, this being one of the key elements for the effective implementation of the established system and risk management in the Bank. Protecting against the negative effects that might ensue from being engaged in money laundering or terrorist financing is a matter of the Bank's strategic orientation, since any abuse in this respect would not only compromise the reputation of the Bank but the reputation of the country's entire financial system.

The Bank implements procedures for verifying customers before entering into business transactions with them in the context of KYC, Know Your Customer, and with other records as provided for by the applicable legislation.

The Internal Audit Department regularly reviews the applicable system in order to identify potential weaknesses and strengthen the relevant internal controls.

To support the effective implementation of the Policy and the management of the risk of abuse, we have set up different reporting lines between individual stakeholders involved in the prevention and detection of money laundering and terrorist financing.

The Bank carefully carries out measures for the prevention of money laundering and terrorist financing, successfully supporting risk management with in-house software that is constantly being updated with the latest findings on the forms of and trends in money laundering.

b) Diversity policy

The Group is aiming at equal and balanced representation of men and women at all levels.

The Group's management structure is balanced, having both genders represented fairly equally. We also operate with diverse knowledge and experience as required for efficient operations and long-term risk management.

At the year-end of 2018, the Bank's management body comprised six men and two women. The Policy for the Selection of Members of the Management Body prescribes for diversity of members of the management body to show in diverse professional experience, age, education and expertise, and in diverse characteristics of members of the management body. Information regarding the Policy for the Selection of Members of the Bank Management Body is given in Chapter IX.4.2. Recruitment Policy, p. 51.

The average age of employees in the Group is above 45, which is why the Group's HR policy aims at acquiring younger employees in the future, staff versed in new technologies and specialist know-how. The fundamental aim, however, is to select employees who possess diverse knowledge, adequate qualifications and relevant experience.

c) Learning, growth

To excel at non-financial performance indicators, the Bank provides the necessary infrastructure (people, systems and procedures) that enables it to reach its targets. We are investing in additional employee training, in improving information technology and process optimisation, in short, in growth and learning.

Employees continually build on their skills via internal and external training courses, thus maintaining and increasing the quality of their work. Ideas for improving processes and customer service come directly from employees, as they are the ones that know internal processes and Bank customers best. Employee performance is monitored as part of their productivity and satisfaction assessment, a basis for which are annual development interviews.

The fluctuation level in the Bank is below the Slovenian average, the majority of employees leaving due to retirement. Successful employees being keepers ensures that intellectual capital remains in the Bank; their departure would be a great loss for the Bank.

Quality and timely information is paramount for successful work in today's financial environment. We provide it to our employees by continuously upgrading our information system capacity, which is a prerequisite for risk management and process improvement.

VII.5. NON-FINANCIAL PERFORMANCE INDICATORS

a) Retail banking

In dealing with customers, we monitor the levels their satisfaction, loyalty, customer retention, and how profitable they are for the Bank.

The Bank's market share is stable, meaning that the existing customer base is stable and increasing.

By digitising the Bank, we have been introducing various innovations in the use of modern marketing channels to enable our services anywhere and anytime, in real time.

We are acutely aware of the importance of banking in person and of the fact that our customers also include generations with an aversion to modern ways of doing business. At the same time, other users are provided with faster and more cost-effective online and mobile banking solutions. Our employees act as professionals and are quick to respond to customer inquiries. In designing and introducing new services, special attention is devoted to safety of operations. Changes also increase all risks, which the Bank manages and safeguards from effectively.

Bank employees strive to fulfil the wishes and meet the needs of customers by abiding by the operating rules, policies and strategic objectives of the Bank. We build trust by delivering on given promises, with honesty, protecting the rights and benefits of our customers, mutual respect, accessibility, and ensuring the protection of personal and confidential information. Our customers are briefed comprehensively, including on risks related to a service or product. We accept responsibility for our actions and are always looking for common solutions that lead to long-term cooperation.

We are aware that knowing your customer is essential for the successful operation of the Bank, and we support it by means of our set up CRM system. It helps keep customer details up to date, helps us regularly and actively track every customer interaction, and manage the customer's needs, wishes, compliments and complaints. We do not enter into business relationships with customers that do business unlawfully and unethically. If such a customer is identified, it is evaluated on the basis of a risk assessment, whereupon we act in accordance with the procedures envisaged for these cases. We are constantly striving to maintain and strengthen our customers' trust. The Bank has set up a system for monitoring customer proposals, complaints and comments, based on the Deželna banka Slovenije d. d. Rules on Extrajudicial Settlement of Customer Complaints.

Customer complaints are attended to with special care and resolved quickly, taking into account both the benefits of the customer and the Bank's reputation. Written replies are always sent within a reasonable time. In 2018, all customer complaints were resolved in extrajudicial procedures.

Customers are informed regularly and in a timely manner of all changes in the terms and conditions of the Bank's operations. In a transparent and comprehensible way we familiarise them with the types of our services, pricing and other conditions, in accordance with the fair rules of marketing communication and connecting with customers. We do this using channels such as the Bank's website, regular monthly statements, and the like.

We received over 3,500 messages via e-channels – on the web form or by e-mail – by either existing or potential customers or external third parties (for example, information on garnishment). These messages refer to our range of services, requests for calculations of loans, requests for assistance in entering the E-bank, requests for data on properties sold by the Bank, inquiries about garnishment and bankruptcy procedures, open positions, and other. The Marketing and Communication Department, which receives these messages, forwards them regularly, on a daily basis, either to the branch nearest to the customer or to the competent department in the Bank, for resolving.

One of the most important indicators of a successful customer service is offering solutions for our target customer segments. The Bank has developed tailor-made products and services to this end. Being a banking specialist for rural customers, we focus on servicing farmers, cooperatives, agro-food companies, SMEs, sole traders and young people. These are the segments that we adjust marketing processes and product and service development to, to the greatest extent possible. Despite being a universal banking institution, the Bank devotes special attention to agriculture. For new customers we have the Sowing Package, and we offer existing, long-standing customers the Harvest Package. We also have custom-made solutions for young farm transferees and a banking package for secondary activities on farms. Customers can choose between short-term and long-term loans of different maturities, tailored to the agricultural activity. We provide cash and special purpose loans, seasonal loans, eco loans and livestock loans.

In line with its strategic objectives, the Bank has decided to support projects from areas designated as having priority in the future longer term: increasing the productivity and self-sufficiency in Slovenian agriculture; market organisation of agriculture; strengthening the food and agro-food chains; increased visibility and quality of organic and locally produced products; promoting agricultural practices that have a positive impact on the conservation of natural and renewable energy sources; adaptation to climate change; green jobs; coherent and sustainable rural development; organic farming; green tourism; and social entrepreneurship.

In 2018 the Bank devoted special attention to housing loans. Having granted especially favourable loans, it financed quite a number of purchases, constructions and renovations of residential properties.

The Bank has maintained a large network of branches, providing people outside urban areas with access to financial services.

b) Improving the internal customer relationship management process

In 2017, the Bank had started implementing improvements to customer relationship management (CRM), unifying work processes across the business network in processing different types of customers, and automating the processing of applications and requests by the users of our services.

The CRM application provides an insight into operations with customers and activities of the sales staff. CRM is defined as a corporate activity fostering the acquisition of new customers and the preservation of existing ones. The CRM management tool enables us to join all CRM activities, centralising and managing all messages, reminders and comments that had previously been recorded in various different places. The CRM application is aimed at soliciting new customers, upgrading the existing customer data bases, offering a comprehensive overview of a customer, monitoring the profitability of individual customers, monitoring customer habits and customer satisfaction, identifying customers' needs, and measuring the quality of customer relationships. We have started adding potential customers into CRM application, recording sales projects and identifying activities for each customer. Every Bank employee monitors the realisation of sales activities on a daily basis, and on the other hand, the application allows the Bank's management to monitor sales activities across the network. The CRM application is constantly being updated and upgraded.

The following internal business processes have been designated for upgrades in the future:
- approval and activation of mass transactions (extraordinary limits, credit cards, quick loans, changes in ATM and card limits),
- automatic processing of orders and requests submitted via the E-bank (deposits, requests for SMS notifications, My BA, requests to change ATM limits, requests to change card limits...),
- possibility of making changes to cards (orders of new cards, early replacement, card blocks),
- possibility of scanning and archiving cash register records upon data entry into banking applications,
- adding "interactive instructions" when using and entering data,
- introduction of electronic signing for deposits, claims, contracts between the Bank and customers,
- remote identification of Bank customers.

The Bank nevertheless continues to place great emphasis on the personal touch and one-on-one treatment of customers.

VII.6. PREVENTION OF CORRUPT ACTS AND FRAUD

Employees of each company in the Group are committed to protect the integrity, fundamental values and reputation of the Group. It is the task and responsibility of all employees in the Group to ensure zero tolerance of wrongdoing, which also includes fraud and corrupt acts.

The Bank has established a system enabling its employees to report, in good faith, any suspicion of wrongdoing, while ensuring them that there will be no negative consequences resulting from such a report.

Wrongdoing, the mode of reporting and investigation procedure are detailed in the Bank's internal acts.

The Bank is a party to the Declaration of Fair Business, which was devised by the United Nations Global Compact Slovenia, and has thus committed to transparent and fair business, and to rejection of any corrupt activity. We have also undertaken to include the anti-corruption clause in our legal transactions and to take account of anti-bribery principles in our business.

Examples of fraud and abuse identified in the Bank in 2018, were mostly of external origin. All cases were identified in time, and adequate measures were taken to prevent any negative consequences.

In May 2016, Deželna banka Slovenije d. d. was as one of the few companies in Slovenia that signed an agreement with the Financial Administration of the Republic of Slovenia to be part of a programme promoting voluntary compliance with tax liabilities, as it pursues the policy of tax payment optimisation and the policy of preventing an inclination toward aggressive tax planning or deliberate increase of tax risk.

Management Board:

Marko Rozman
President of the Management Board

Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board:

Peter Vrisk
President of the Supervisory Board

Ljubljana, 9 April 2019

VIII. RISK MANAGEMENT

VIII.1. RISK MANAGEMENT OBJECTIVES AND POLICIES (Article 435 of the CRR, items 1a, 1b, 1c, and 1d)

Pursuant to provisions of the regulatory framework, the Group considers the following risks as banking risks: credit, market, operational, interest, liquidity, capital, strategic risk, profitability risk, reputation risk, financial leverage risk and other property portfolio risks.

Risk-taking and risk management strategies and policies share the objectives of ensuring the Group's stable and safe operations and compliance with risk management standards, achieving appropriate investment quality, and preventing and limiting losses resulting from individual risks. The acceptable risk level is defined as moderate (i.e. low to medium), meaning that the Group pursues a conservative approach in its operations. To measure exposure to different types of risk, the Group uses internal methodologies and approaches in addition to regulatory ones, which facilitate a close monitoring of risks and their management.

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

The strategy for risk-taking and managing liquidity risk is stipulated in the Risk-taking and Risk Management Policy for Liquidity Risk of Deželna banka Slovenije d. d. To manage liquidity risk, the Bank applies rules and measures for implementing the procedures of mitigating and diversifying liquidity risk.

The Bank identifies and measures liquidity risk using the system of internal limits and quantitative indicators from the restoration plan, establishing the liquidity position on a daily basis, making cash flow projections and calculating liquidity ratios.

The function of monitoring and managing liquidity risk is the responsibility of the Risk Management Section. To provide a basis for making management decisions with regard to liquidity risk, the Bank performs the following internal reporting daily or monthly: daily liquidity report, monthly liquidity plan, liquidity ratio movement simulation, calculations of the ratio of highly liquid assets and liabilities, calculations of growth levels of retail deposits, liquidity coverage ratio (LCR), net stable funding ratio (NSFR), liquidity ratio (LR), stress tests, minimum level of unencumbered liquid assets, reports on structural liquidity risk ratios, and other reports. The management body and the Asset and Liability Management Board have to be informed of major reports.

To mitigate liquidity risk, the Bank has adopted:

- an internal limit system in which all major liquidity risk factors are taken into account, including liquidity gaps, currency mismatch, sources of funds, off-balance sheet liabilities, the DBS Group composition and intraday liquidity, as well as findings of liquidity stress tests;
- liquidity buffers that strengthen the Bank's resistance to liquidity risks in crisis situations.

Disclosure of LCR indicator on an individual basis

in EUR million

	Scope of consolidation (on an individual basis)	Unweighted total (average)	Weighted total (average)			
	Quarter ended		31. 3. 2018	30. 6. 2018	30. 9. 2018	31. 12. 2018
	Number of data points used to calculate average values		12	12	12	12
21	LIQUIDITY BUFFER		152	152	155	161
22	TOTAL NET LIQUIDUTY OUTFLOWS		67	67	68	69
23	LIQUIDITY COVERAGE RATIO (in %)		225.80	228.04	228.76	232.02

Disclosure of LCR indicator on a consolidated basis

in EUR million

	Scope of consolidation (on a consolidated basis)	Unweighted total (average)	Weighted total (average)			
	Quarter ended		31. 3. 2018	30. 6. 2018	30. 9. 2018	31. 12. 2018
	Number of data points used to calculate average values		12	12	12	12
21	LIQUIDITY BUFFER		152	153	155	161
22	TOTAL NET LIQUIDUTY OUTFLOWS		67	67	67	69
23	LIQUIDITY COVERAGE RATIO (in %)		226.95	229.36	230.16	232.70

The majority of other risks are monitored monthly in the context of the Bank's operations analysis, which is prepared by the Financial Management Section, Risk Management Section and Financial Markets Section and is discussed at the ALM Board, which includes the Management Board. In addition, there is a series of other reports, the purpose of which is to inform the management body of different types of risk. The Risk Management Section therefore prepares a comprehensive risk analysis, which includes an analysis of the current credit portfolio and inherent credit risk, analyses of market risk, liquidity risk, interest rate risk and exchange rate risk, profitability risk, and an analysis of regulatory capital and capital adequacy. The risk analysis is prepared on a quarterly basis, and is reviewed by the Management Board, the Supervisory Board Risk Committee, and the Supervisory Board. For the Management Board, the Risk Management Section also prepares quarterly reports on overdrafts and on operational risk events, and proposed limits of large exposure and exposure to persons (and their groups) in a special relationship with the Group, devising them as required but at least once a year, to be reviewed by the Management Board and the Supervisory Board. The capital adequacy report (ICAAP) used to estimate the capital needed to cover all major risks, the liquidity adequacy report (ILAAP) used to estimate liquidity and liquidity risk management, and the risk profile report are reviewed by the Management Board, the Risk Committee of the Supervisory Board and the Supervisory Board at least once a year or as required.

Associated with individual types of risk, policies operationalise the starting points of the risk-management strategy, detailing organisational rules, procedures for establishing, measuring, assessing and monitoring risks, and internal risk reporting, establishing the rules for the internal controls system and the activities associated with conducting the internal assessment of capital requirements.

Regarding risk management, control environment and capital adequacy, the Group has adopted the following framework documents (as confirmed by the Bank's Supervisory Board) to establish risk management guidelines:

- The Strategy of Risk-taking and Risk Management in Deželna banka Slovenije d. d. and Concise Risk Statement by the Management Body,
- The Policy of Risk-taking and Risk Management for Credit Risk in Deželna banka Slovenije d. d.,
- The Policy of Risk-taking and Risk Management for Market Risk in Deželna banka Slovenije d. d.,

- The Policy of Risk-taking and Risk Management for Operational Risk in Deželna banka Slovenije d. d.,
- The Policy of Risk-taking and Risk Management for Interest Rate Risk in Deželna banka Slovenije d. d.,
- The Policy of Risk-taking and Risk Management for Liquidity Risk in Deželna banka Slovenije d. d.,
- The Policy of Risk-taking and Risk Management for Compliance Risk in Deželna banka Slovenije d. d.
- The Policy of Risk-taking and Risk Management for Profitability Risk in Deželna banka Slovenije d. d.
- Disclosure Policy of Deželna banka Slovenije d. d.,
- The Policy of Risk-taking and Risk Management for Strategic Risk in Deželna banka Slovenije d. d.,
- The Policy of Risk-taking and Risk Management for Reputation Risk in Deželna banka Slovenije d. d.,
- The Policy of Risk-taking and Risk Management for the Risk of Capital Inadequacy in Deželna banka Slovenije d. d.,
- The Policy of Using External Service Providers in Deželna banka Slovenije d. d.,
- The Policy of Financial Leverage Management in Deželna banka Slovenije d. d.,
- The Policy of Safeguarding Integrity in Deželna banka Slovenije d. d.

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in the DBS Group Restoration Plan. Limit values have been set for each indicator, marking the point of commencement for internal processes based on the restoration plan. The document provides an array of measures to be carried out by the Group to re-establish and normalise operations.

VIII.2. DECLARATION APPROVED BY THE MANAGEMENT BODY ON THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS (Article 435 of the CRR, item 1e)

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

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

Marko Rozman, President of the Management Board, and Barbara Cerovšek Zupančič MSc, Member of the Management Board,

and the Supervisory Board:

Peter Vrisk, President of the Supervisory Board,

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

Management Board:

Marko Rozman
President of the Management Board

DEŽELNA BANKA SLOVENIJE
LJUBLJANA

Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board:

Peter Vrisk
President of the Supervisory Board

Ljubljana, 9 April 2019

VIII.3. CONCISE RISK STATEMENT APPROVED BY THE MANAGEMENT BODY (Article 435 of the CRR, item 1f)

Risk management

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

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

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

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

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

Within a prudent credit process, the Bank runs a conservative policy of assuming and managing credit risk. To this end it:

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

As a rule the Bank will avoid:

- financing acquisitions and new purchases of securities, business stakes and mutual fund shares when assessing increased risk;
- new financing of heavily indebted customers, customers with bad credit ratings and customers that do not display adequate creditworthiness;

- granting loans when the only or predominant collateral is such with a strong correlation between the customer's creditworthiness and the value of;
- financing of entities engaged in shadow banking;
- financing of projects associated with the speculative financing of property.

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

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

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

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

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

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

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

In risk-taking and managing the risk of capital inadequacy, the Bank:
- maintains such a volume of regulatory capital with which it could cover all potential risks it is exposed to according to the internal assessment as created using the Deželna banka Slovenije d. d. Methodology for Calculating Internal Capital Requirements;

- maintains the volume of regulatory capital as required by the regulator;
- will only pay dividends when regulatory and internally set values of capital adequacy ratios are exceeded.

In risk-taking and managing strategic risk, the Bank:
- is implementing a business strategy that involves as little exposure to strategic risk as possible;
- is intensely monitoring its business environment and promptly responding to changes in it in order to decrease exposure to strategic risk.

In risk-taking and managing reputation risk, the Bank:
- operates so as to reduce reputation risk and the probability of losing its good name to the minimum. This means it acts ethically, in accordance with good business customs and practices, taking into account to the greatest extent possible the needs and expectations of the environment in which it operates (as to violations of regulations, legal disputes, involvement in money laundering and financing of terrorism and corruption, failure to comply with embargos, international conventions and business regulations), and abiding by the Deželna banka Slovenije d. d. Code of Conduct.

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

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

The following is also of key importance to ensure long-term performance of the Bank: distribution of competence and responsibility among management and supervisory bodies and other stakeholders; relations between them, and other factors, such as the Bank's responsibility to environmental and societal interests of the community in which it operates, due to which the Bank operates pursuant to applicable regulations, best practice standards in corporate governance and highest standards of professional ethics.

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in its Restoration plan, which are capital and capital adequacy, liquidity, profitability, asset quality and macroeconomic indicators. Limit values have been set for each indicator, marking the point of commencement for internal processes based on the restoration plan. Recovery measures are stipulated to be intensified depending on achieving yellow or red limit values, enabling the Bank to react timely to the emergence of factors that could threaten its operation.

Quantitative Risk Indicators

Indicator	Category	Unit	Early intervention limit (Yellow Level)	Recovery decision-making limit (Red level)
Common Equity Tier 1 ratio (CET-1)	Equity	%	12.20	12.00
Total capital ratio	Equity	%	13.75	13.50
Leverage ratio	Equity	%	4.50	3.50
First class liquidity ratio	Liquidity		1.10	1.05
Liquidity coverage ratio (LCR)	Liquidity	%	125.00	110.00
Net stable funding ratio (NSFR)	Liquidity	%	125.00	110.00
Wholesale funding costs	Liquidity	T EUR	1000.00	2000.00
Return on assets (ROA)	Profitability	%	0.10	0.02
Return on equity (ROE) before tax	Profitability	%	1.50	0.01
Considerable operating losses	Profitability	T EUR	400.00	800.00

Indicator	Category	Unit	Early intervention limit (Yellow Level)	Recovery decision-making limit (Red level)
Net interest margin	Profitability	%	2.60	2.40
Gross non-performing loans growth rate	Asset quality	%	5.00	15.00
Coverage rate	Asset quality	%	25.00	20.00
Gross non-performing loans/total loans	Asset quality	%	20.00	25.00
GDP change	Macroeconomic indicators	%	0.00	(0.20)
Credit default swaps (CDS) related to sovereign debt	Macroeconomic indicators	b.p.	150.00	300.00

VIII.4. DESCRIPTION OF INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY (Article 435 of the CRR, items 2d and 2e)

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

The Management Board actively takes part in risk management through relevant committees and based on materials prepared to this effect by the Risk Management Section. The Group has also adopted the Concise Risk Statement Approved by the Management Body, establishing and describing the predefined overall risk profile, including individual risk levels that the Group is ready to take with a view to realising its strategic objectives given its risk tolerance. The Concise Risk Statement Approved by the Management Body is presented in detail in Chapter VIII.3. The Group regularly updates its Risk-taking and Risk Management Strategy, a uniform document stating its objectives and general orientations for taking and managing key risks that the Group is exposed to in its operations. Risk is monitored by the Risk Management Section, which is in charge of, among other things, designing and updating individual strategies and policies of risk-taking and risk management, overseeing their implementation, continually improving the system of monitoring and controlling all major types of risk, and preparing in-house reports and reports for regulators. The Group has also set up the Asset and Liability Management Committee (ALM Committee) and the Risk Committee of the Supervisory Board, which – together with the Supervisory Board and senior management – promptly monitor the Group's exposure to risk, its risk profile and its risk appetite.

The Supervisory Board gives consent to the Bank's business policy and financial plan as proposed by the Management Board, assesses the adequacy of risk-taking and risk management strategies and policies with the establishment of an internal controls system and gives consent to planned excesses over the threshold of large exposure. The Bank's Management Board approves and reviews strategies and policies, and ensures that they remain up to date regarding the changes in the internal and external environment. The Board ensures their coherence, and proportionality within risks that the Group is or could be exposed to in its operations. On a regular basis, or at least once a year, the Management Board also monitors and verifies the effectiveness of the management system, ensures a clear and documented decision-making process for major issues and establishes a clear delimitation of competences and tasks, approves or confirms the limit system, encourages improvements of organisational culture, which contributes to fair and proper execution of business operations, and keeps the Bank's Supervisory Board informed of the management system. Senior management devises and implements the strategy and policies, informs management bodies of risks, establishes and maintains the risk management process and internal control system, establishes procedures and devises instructions or orientations to execute the Bank's risk-taking business operations, and establishes and controls limits for reducing risk exposure.

Provision of information to relevant organisational units is ensured by having decisions of the Management Board and the related documents sent to directors or heads of units that the amendments concern when such documents are amended. Each document also states which organisational units are responsible to devise, or take part in devising, amendments to the document. The Bank's Management Board has also appointed an Operations Compliance Officer who participates in preparing amendments to internal acts, including those related to risks.

IX. DEVELOPMENT OF THE BANK

IX.1. INVESTMENTS

For several years now we have devoted great attention to refurbishing our branches or moving them to technically and spatially more appropriate locations, as well as into making them compliant with security and other banking standards. The Bank fosters a level of security consistent with the security standards of the Bank Association of Slovenia.

In addition to investments made across the network of branches, the most investment funds in 2018 were dedicated to information technology. As a safeguard from cyber-attacks, the Bank updated its firewall equipment at the primary and backup location. With additional servers to upgrade the virtual infrastructure, it increased its capacity and expanded the storage disk system for the production environment. At the infrastructure level, it also updated the equipment for network switches at the Bank's headquarters. By investing in the information technology, the Bank is fostering a stable and efficient operation of both the infrastructure and application part of the information system, necessary for the Bank's uninterrupted operation.

IX.2. INFORMATICS AND BANKING TECHNOLOGY

In the field of applicative development, the Bank has adjusted its IT support for meeting the legal and regulatory requirements with regard to reporting detailed information on individual bank loans in the euro area, AnaCredit, for ITS supervisory reporting in accordance with the data model DPM 2.8, and for transitioning to IFRS 16 for reporting the financial situation. The impairments model was adjusted, introducing automated procedures, and activities were introduced for overseeing financial reporting data under IFRS 9. IT support was upgraded for reporting to the Slovenian information system on credit ratings, SISBON, which allows banks, savings banks and other legal persons the mutual exchange and processing of data on outstanding amounts of natural persons. Other related adjustments were also made. Application support was adjusted to ensure compliance with the requirements of standards governing card transactions. As to applications supporting sales, the Bank embarked on developing solutions for instant payments, so as to integrate in the pan-European instant payment scheme. It will enable users to make and receive payments in euros whenever and wherever. As to cards, the existing credit card was upgraded so that it now offers the possibility of paying outstanding amounts in instalments.

The Bank upgraded solutions for mobile and electronic banking, offering users certain innovations and implementing certain modifications in order to enhance the user experience. Users of mobile banking can now quickly and simply start a new payment order by scanning the QR code, while internal transfers have been upgraded so that businesses can now make internal payments 24/7 all year round. Additionally, e-documents can now be exchanged with issuers of e-invoices operating via non-banking participants. Moreover, the display of transactions in the Activa MasterCard has been adjusted so that the E- and mobile bank show all instalment card transactions.

IX.3. MARKETING AND COMMUNICATION

In 2018, the Bank devoted the majority of its marketing and sales activities to attracting new customers, while also informing our existing customers of our current products and services, novelties and changes in the Bank’s operations. As a matter of traditional focus, we have been committed to the agro-food segment and the rural areas, which we devote special attention to in accordance with the Bank's strategic objectives. Operating a business network of 81 branches across Slovenia, we have maintained our image of a universal bank, also increasing our market share in urban areas.

One of the channels for external communication is the Bank's website, which the Marketing and Communications Department updates with information in relation to the Bank's operations on a daily basis. Using a form on the website and in the E-bank, customers and potential customers submit questions, suggestions, commendations and complaints daily, and the Bank strives to respond promptly and professionally. Internal communication in the Bank takes place on the intranet portal.

Publications and analyses of individual media and institutions again ranked the Bank among the most favourable banking providers in Slovenia. Studies of various media found the Bank the most cost-effective for cash loans, and it received good reviews for communications via the call centre. All modern payment methods have met with an excellent response from customers, particularly contactless technology, the pre-pay card and mDBS, which is being used by a growing number of customers and is also being continually updated to accommodate their needs and to keep up with the trends in banking of both individuals and corporates.

As in previous years, we took part in the central agriculture and agro-food event in Slovenia, the international agro-food fair Agra in Gornja Radgona. For the occasion, a special offer was formed in the Bank and promotional gifts were given to numerous visitors to the fair. The fair is also an important occasion for the Bank, enabling us numerous commercial and individual meetings with our customers. In spring and autumn of 2018, we appeared at the agriculture and crafts fair in Komenda, at the Woman of the Year event, we were supporters of the Ognjišče Radio Gala evening, and appeared at several others local events across Slovenia. For several years now, the Bank has supported the Wine Queen event.

Throughout the year we participated in the Agrobiznis (Agro-business) project, comprising promotional activities in a supplement to the Slovene financial daily Finance, and participation in its expert forums. We kept up collaboration with the online and print media "S Podeželja.si" and "Kmečki glas", through which the Bank reaches out to its primary target audience with advertisements and news. Our range was also promoted in a collaboration with TV Veseljak, where our employees appeared in a TV show ("S petkami na deželo") presenting our products and services.

In the autumn, we launched an all-Slovenian media campaign supporting the sales of housing loans. It highlighted the advantages of our service, including the favourable variable interest rate, and the speedy and simple process. The Bank's reputation and visibility in the public eye improved, having a positive effect on the public opinion of all members of the Group.

We keep abreast of publications in different Slovenian media on a daily basis with the clipping system. Based on media coverage, an analysis of the Bank's media appearances is made annually to assess the reputation indicators and plan our corporate communication. Over 790 different publications were recorded in 2018, the most related to the Bank's operations, changes of ownership, and the Bank having sponsored various events and projects.

IX.4. HUMAN RESOURCE MANAGEMENT

IX.4.1. HUMAN RESOURCE POLICY

Due to rapid changes in the business environment, the Bank's needs for capabilities and knowledge change rapidly as well, which requires constant adaptations. HR management activities are in line with the Bank's development strategy and tailored to the daily needs of the extensive branch network and changing legislation.

The Bank has adopted the Policy of Risk-taking and Risk Management for HR Risk, suited to the size of the Bank, taking into consideration the nature and complexity of our business. As part of this process, the HR Management and Organisation Department continually checks the skills, know-how and experience of staff in relation to their tasks. The Department identifies the key employees, proposes amendments to the Remuneration Policy, monitors potential violations of employment law and other acts, and proposes preventive measures to avoid repeat violations. Together with the Management Board and managerial staff, the Department assesses the HR risk level by holding regular interviews with employees.

As at 31 December 2018, the Bank had 340 employees, 8 less than at the end of the previous year. The Bank replaced absent staff selectively, making new hires from the labour market especially when there were no suitable existing employees available. In 2019, the HR policy will rest on top quality professionals, the promotion of loyalty to the Bank and its values, and the gradual increase in the proportion of younger staff.

Employees by education profile are presented in Chapter VII.4. Human Resource Management.

Employees by gender, for the Bank

31 December 2018

	Women	Men	Total
No. of staff	270	70	340
Share of staff (in %)	79	21	100

31 December 2017

	Women	Men	Total
No. of staff	278	70	348
Share of staff (in %)	80	20	100

The average age of employees as at 31 December 2018 was 47, whereby 3.82% of staff had limited capability for work.

The Bank estimates the education profile of its employees to be adequate given the needs of the business process, with 57% having at least higher education, and 43% intermediate or lower education.

The fluctuation level in the Bank is below the Slovenian average, the majority of employees leaving the bank due to retirement.

IX.4.2. RECRUITMENT POLICY

Disclosure of Recruitment Policy for the Selection of Members of the Management Body in Deželna banka Slovenije d. d.

The selection and appointment of members of the management body of Deželna banka Slovenije d. d. are regulated pursuant to the Slovene legislation in force, recommendations of the Bank of Slovenia, the European Banking Authority (EBA) regulation and the Bank's internal acts.

The Bank's Recruitment Policy for the Selection of Members of the Management Body lays down the criteria for the selection and appointment of members of the management body, a body which consists of the Bank's Management Board and Supervisory Board. The overall composition must ensure that members have the requisite expertise, skills and experience needed for an in-depth understanding of the Bank's operations and the risks it is exposed to, and that they can dedicate sufficient time to working in the Bank. Composition of the management body has to be ensured to comprise complementary and diverse competences of its individual members. Diversity in the body's composition is reflected in its members' diverse professional experience and know-how, age, education, expertise and personal characteristics.

Adequate knowledge, skills and experience are considered to compose the theoretical experience gained through education and training, practical experience gained at previous positions, and knowledge and skills gained and proven by the member through their business conduct.

The Nomination Committee identifies and recommends to the Supervisory Board candidates for members of the Management Board, and identifies and recommends to the Bank's General Meeting candidates for members of the Supervisory Board. It also determines the tasks and requirements for each appointment, and assesses the estimated time needed for the member of a management body to perform their function. The Bank informs the member of the estimated time they should dedicate to their duties, and may require confirmation from the member that they can in fact allocate sufficient time to working in the Bank.

The Bank's Nomination Committee assesses once a year the structure, size, composition, and efficacy of the Management Board and Supervisory Board, and based on that devises recommendations with regard to potential changes.

IX.4.3. EMPLOYEE TRAINING

In 2018, the Bank's employees attended various training and education courses to gain adequate expert competence. The major part of education was held to ensure improvement and training to meet the requirements of various work processes, for areas of banking and finance, marketing of non-bank products, information technology, and due to various legislative changes and developments.

Internal training courses were held in the Bank in collaboration with our co-workers, and external courses were held in collaboration with the Training Centre of the Bank Association of Slovenia and other professional institutions. We were also using e-learning courses.

Staff development is also ensured based on annual development interviews that are used to assess the set tasks and employee competences, and to devise goals for the upcoming financial period.

In the recruitment procedure for vacant posts, existing employees are prioritised, thus given the opportunity to acquire new knowledge and be promoted, while the staff structure of each organisational unit is also restructured internally.

The employees achieving above average work results are rewarded each three months pursuant to the Rules on Employee Performance, Promotions and Remuneration in Deželna banka Slovenije d. d. Each year, employees are rewarded for having worked in the Bank continuously for a period of time by receiving jubilee benefits. There is also a scholarship system for children of deceased employees and a solidarity aid system for employees that might need it.

IX.4.4. REMUNERATION POLICY

Information concerning the decision-making process used for determining the remuneration policy (Article 450 (a) of Regulation (EU) No 575/2013)

The Policy, which is applied at Group level, was designed on the basis of the Banking Act (ZBan-2), the Bank of Slovenia Resolution on Internal Governance Arrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Savings Banks, Commission Delegated Regulation (EU) No 604/2014 and Delegated Regulation (EU) No 527/2014, and Guidelines on Sound Remuneration Policies under Articles 74 (3) and 75 (2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013.

The Bank's remuneration policy reflects the Bank's position inside the Slovene banking sector, its internal organisation, the nature, volume and complexity of the Bank's business and the Bank's financial standing, and is based on the results of the Bank, individual organisational units and individual employees.

Its objective is to set up a remuneration framework defining remuneration types and the criteria and rules on the basis of which staff identified as having a material impact on the institution's risk profile ('Identified Staff') receive payment.

The Supervisory Board has the authority to approve the Remuneration Policy once it is adopted by the Management Board, and it also has the competences that the Banking Act (ZBan-2) provides for a remuneration committee.

The Supervisory Board makes independent professional assessments of remuneration policies and practices. These assessments constitute a basis for its forming and adopting proposals for the management body to make decisions regarding the remuneration of employees who have an impact on risk, risk management, capital and liquidity. The Supervisory Board also oversees the remuneration of senior management who are risk aligners and compliance officers.

Information on the link between pay and performance (Article 450 (b) of Regulation (EU) No 575/2013)

Remuneration of Identified Staff is defined in their contract of employment, and consists of a fixed and variable component. The variable component is not a major factor in the overall remuneration amount but it represents an efficient motivation pushing employees to reach or even exceed targets. Fixed remuneration is high enough for the Bank to be able to pursue a flexible variable pay policy, including the application of malus conditions or claw back provisions.

If the Bank's financial performance is poor, this will drive overall variable pay down considerably, and in case of red numbers, variable pay will be withheld altogether. Both applies to remuneration for the current period and amounts earned in past periods, including agreements on the malus condition or claw back provisions under the law governing employment relationships or the collective labour agreement.

The most important design characteristics of the remuneration system (Article 450 (c) of Regulation (EU) No 575/2013)

Having been devised pursuant to national and European legislation and taking into account the principle of proportionality, the Remuneration Policy of Deželna banka Slovenije d. d. reflects the size, internal organisation, nature, scope and complexity of transactions, i.e. the Bank's activity.

These are the fundamental principles of the Remuneration Policy:
- the remuneration policy is compatible with and encourages wise and efficient risk management; exposure to risks above the risk levels acceptable for the Bank is not stimulated;
- the remuneration policy complies with the Bank's business strategy, goals, values and long-term interests, and it includes measures to prevent conflicts of interest;
- employees with control functions are independent from the business units they oversee; they have the required competences and receive adequate remuneration proportionate to meeting targets associated with their functions, independent of the performance of the business units they oversee.

The Remuneration Policy provides for the deferral of a proportion of variable pay for a particular financial year subject to certain conditions. And it also provides that at least 50% of the variable component be paid in the form of the Bank's ordinary shares. The beneficiary may transfer such shares only subject to the Bank's permission, which may be issued not sooner than two years after acquisition. In case of all employees, the Bank must defer the payment of a substantial proportion, but not less than 40%, of the variable component for a period of three years. The deferral period, maturity method and method of payment are governed by laws and regulations.

Taking into account its size, nature, volume and complexity of its operations, the Bank has decided that the total variable pay amount for all Identified Staff, if not exceeding a gross of EUR 50,000 annually, does not represent variable remuneration for the purposes from Article 170 (1), items 7 and 8, of the Banking Act (ZBan-2).

Variable remuneration, including deferred components, is paid and becomes payable only if this is financially sound considering the financial standing of the Bank as a whole, and if it is justified with the Bank's and each individual's performance.

The ratio between fixed and variable remuneration
(Article 450 (d) of Regulation (EU) No 575/2013)

The Remuneration Policy clearly differentiates between the criteria for determining:
- fixed remuneration, which should particularly reflect professional experience and level of the person's responsibility in the Bank, as laid down in the description of a person's duties, which constitute conditions of employment,
- variable remuneration, which must reflect sustainable and risk-weighted performance above the expected performance level, as laid down in the description of a person's duties, which constitute conditions of employment. The variable component is based on a combination of the performance review of an individual and their business and organisational unit, and the Bank's overall financial result.

The necessary preconditions for variable pay are the Bank's reporting a profit and its reaching and exceeding all fundamental targets.

Variable remuneration of Identified Staff may amount, in an assessment period, to a maximum of three average gross monthly salaries per employee. An individual's variable remuneration cannot exceed 100% of their fixed remuneration.

Information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based
(Article 450 (e) of Regulation (EU) No 575/2013)

Performance criteria are laid down at the beginning of a financial year for the ongoing financial year. They are tailored to an individual's level of responsibility and the Bank's risks and capital requirements. Performance criteria in respect of other forms of variable remuneration for Identified Staff are determined subject to the conditions and rules for variable remuneration.

The variable component is based on a combination of the performance review of an individual and their business and organisational unit, and the Bank's overall financial result.

Criteria to evaluate each individual's performance level

In addition to financial performance, other, non-financial criteria are also relevant to the Bank's generation of long-term value and are therefore taken into account; they include compliance with the valid rules and ethical standards, fostering innovation, acquired knowledge, personal development, respect of internal controls, devotion to the Bank's strategy and policies, successful risk management and internal controls, cooperation with other organisational units, particularly with internal control functions, contribution to teamwork, contribution to the development of junior staff, staff and customer satisfaction, concern for the Bank's reputation, attainment of own objectives, results-oriented approach, proper, diligent, professional and timely performance of work tasks, quality of written materials, concern for transfer of knowledge, and education.

Employees with control functions are independent from the business units they oversee; they have the required competences and receive adequate remuneration proportionate to meeting targets associated with their functions, independent of the performance of the business units they oversee.

Criteria at the level of an organisational unit

Commercial functions
a) Quantitative criteria: account shall be taken of meeting or exceeding the sales plan and the planned action for recovery, the success rate of streamlining the organisational unit, profitability of operations.
b) Qualitative criteria: criteria important for creating long-term value of the Bank, including respect of rules and ethical standards, proposals made and proposed innovations, respect of internal controls, dedication to the strategy and policies of the Bank, effectiveness of risk management and internal control, collaboration skills, particularly with

internal control functions, teamwork and motivation, concern for the transfer of know-how, quality of written products, compliance with deadlines, satisfaction of employees and customers, concern for the Bank's reputation.

Control or oversight functions

a) Qualitative criteria: non-financial criteria are taken into account, including respect of valid rules and ethical standards, proposals made and proposed innovations, respect of internal controls, respect of and dedication to the strategy and risk policies of the Bank, effectiveness of risk management and internal control, collaboration skills, teamwork and motivation, concern for the transfer of know-how, quality of written products, compliance with deadlines, employee satisfaction, concern for the reputation of the Bank.

Unethical behaviour and behaviour incompatible with regulations and internal acts cannot be compensated by financial success.

The main parameters and rationale for any variable component scheme and any other non-cash benefits (Article 450 (f) of Regulation (EU) No 575/2013)

The methodology for calculating pay under the collective labour agreement, the method of forming and distributing the aggregate volume of variable pay, and the system of promotions and variable remuneration for employees are governed by the Rules on Employee Performance, Promotions and Remuneration in Deželna banka Slovenije d. d.

Eligibility criteria for variable remuneration of Identified Staff are stipulated in the Remuneration Policy. They are based on a combination of collective and individual performance criteria, taking into account the Bank's performance, the performance of an individual's organisational unit and the individual employee's performance. The criteria and their weight depend on whether Identified Staff have a commercial or control function.

The methodology for the assessment of Identified Staff is detailed in the internal Rules on the Annual Development Interview and Assessment of Identified Staff.

	Criteria	Assessment				
Bank's performance	Quantitative criteria	Objectives not achieved	Objectives achieve			
Performance of the parent bank	Quantitative criteria and qualitative criteria	Objectives not achieved (1)	Objectives achieved (2)	Objectives exceeded (3)	Objectives mostly exceeded (4)	Objectives fully exceeded (5)
Individual's performance	Quantitative criteria and qualitative criteria	Objectives not achieved (1)	Objectives not achieved (2)	Objectives exceeded (3)	Objectives mostly exceeded (4)	Objectives fully exceeded (5)

The Bank's financial indicators have to be exceeded as a prerequisite for variable emuneration.

Identified Staff meet the criteria for variable remuneration when the following has been achieved:
- average score of 4 when assessing tasks, assignments and projects,
- at least two realised internal or external training courses, and
- average score of 4 when assessing competences.

The impact of these criteria on the total variable remuneration percentage equals 20%, and 50% when the employee has control functions.

The variable remuneration condition is met when the total score of an organisational unit:
- when using quantitative criteria, exceeds the average score of 3 – objectives exceeded, and
- when using qualitative criteria, exceeds the average score of 4.

For commercial functions, the impact of quantitative and qualitative criteria on the total variable remuneration percentage equals 40%. For control or oversight functions, the impact of qualitative criteria on the total variable remuneration percentage equals 50%.

Aggregate quantitative information on remuneration, broken down by business area (Article 450 (g) of Regulation (EU) No 575/2013)

	Supervisory Board	Management Board	Investment banking	Retail banking	Asset management	Corporate functions	Indepenent internal control functions	Other
Members (number of employees)	8	3						
Number of Identified Staff in terms of FTE			1.00	6.77		3.38	3.00	5.44
Number of Identified Staff in senior management positions			1	7		4	5	12
Total fixed remuneration (in EUR)	103,279.58	339,795.06	70,955.29	455,328.33		235,871.15	184,921.05	381,404.66
Total fixed in cash	103,279.58	339,795.06	70,955.29	455,328.33		235,871.15	184,921.05	381,404.86
Total fixed in equity								
Total fixed in other instruments								
Total variable remuneration (in EUR)		131,561.60	5,142.65	37,262.88		19,092.85	15,000.00	61,344.16
Total variable in cash		120,680.90	3,642.65	26,762.87		13,426.18	10,000.00	55,510.83
Total variable in equity		10,880.70	1,500.00	10,500.01		5,666.67	5,000.00	5,833.33
Total variable in other instruments								
Total amount of variable remuneration deferred in year N (in EUR)								
Additional information on amount of total variable remuneration								
No. of employees eligible to severance pay		1.00						2.00
Total severance paid in year N (in EUR)		84,502.02						41,679.56
Maximum severance paid to individual (in EUR)		84,502.02						26,404.56

The table shows remuneration amounts for 2018, aggregated according to business segments.

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the Bank's risk profile, and total remuneration for each member of the management body or senior management (Article 450 (h) of Regulation (EU) No 575/2013)

The required information is disclosed in the financial report (Chapter 4.39. Related party transactions).

X. INTERNAL AUDIT DEPARTMENT

The Internal Audit Department operates in accordance with the Banking Act, the International Standards for the Professional Practice of Internal Auditing, the Code of Professional Ethics of Internal Auditors, and the Internal Audit Code of Ethics. The Department's operations are based on the Rules of Operation of the Deželna banka Slovenije d. d. Internal Audit Department, which stipulate its powers, responsibilities and operations.

It is a standalone independent organisational unit, functionally and organisationally separate from other units and directly subordinated to the Management Board, which ensures it can act independently. It regularly reports its findings and on its operations to the Management Board, Audit Committee and Supervisory Board.

The Internal Audit Department makes independent and impartial assurances with regard to the effectiveness of internal management, management of key risks, and the functioning of internal controls. Its duties and responsibilities are carried out in accordance with the annual work plan approved by the Bank's Management Board and confirmed by the Supervisory Board.

In 2018 the Department carried out 14 periodic and 5 extraordinary internal audits. All internal audit reports were discussed by the Bank's Management Board, with half-yearly reports also reviewed by the Audit Committee and Supervisory Board. Audits focused on credit risk, including the management of non-performing exposures and operational risk. The Department promptly monitored compliance with the recommendations made.

The Internal Audit Department also engaged in advisory activities in 2018, and coordinated the course of external auditing of the Bank's operations as well as audits carried out by external supervisory institutions.

The Department had a staff of three internal auditors at the end of 2018. They all have a deep insight into banking processes and the auditing profession, and regularly attend trainings. Two employees have the title of certified internal auditor.

XI. EVENTS AFTER THE 2018 FINANCIAL YEAR

Starting 1 February 2019, the Bank will no longer provide investment services and transactions for customers.

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

FINANCIAL STATEMENTS

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Deželna banka Slovenije Group

Consolidated Financial Statements under International Financial Reporting Standards for the year ended 31 December 2018

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management Board hereby approves the financial statements of the Deželna banka Slovenije Group for the financial year ended 31 December 2018 (pages 72 to 75 of the Annual Report), along with the accounting principles used and notes to the financial statements (pages 76 to 156 of the Annual Report).

We hereby reaffirm our responsibility for the Annual Report, which is a true and fair presentation of the Group's financial standing as at 31 December 2018, and for the results of its operations for the year ended on the same day.

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

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

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

BANK MANAGEMENT BOARD:

Member of the Management Board Barbara Cerovšek Zupančič MSc	President of the Management Board: Marko Rozman

DEŽELNA BANKA SLOVENIJE d.d. LJUBLJANA

Ljubljana, 25 March 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the company DEŽELNA BANKA SLOVENIJE d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Company presented loans and advances to customers in the amount of EUR 765.6 million and total expected credit loss in the amount of EUR 23.8 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans to non-bank customers is deemed a key audit matter since high level of significant judgements is applied	Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of

by Management as well as the use of complex models. Additionally, from 1 January 2018, the Group has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes ,2.8 – Financial assets', '4.8 – Loans and advances to customers', '3.12 – Impairment charge' and ,5.1 – Credit risk'. Information regarding the transitional effect of IFRS 9 are disclosed in note 'Disclosures upon introduction of IFRS 9', including the impact on shareholders' equity and retained earnings at 1 January 2018.	the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Group's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the

	calculation and measurement of expected future cash flows from operations taking into consideration borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Group.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the consolidated financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the consolidated financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Group and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Consolidated Financial Statements

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Group's financial reporting process and for approving audited annual report.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated with Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 21 March 2016. Our total uninterrupted engagement has lasted 8 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company and its controlled undertakings, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 26 March 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

I. Consolidated financial statements as at 31 December 2018

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	Note	1-12 2018	1-12 2017
1	Interest income		19,156	19,724
2	Interest expense		(2,029)	(2,219)
3	**Net interest income** (1 - 2)	3.1.	**17,127**	**17,505**
4	Dividends	3.2.	30	91
5	Fee (commission) income		9,589	9,339
6	Fee (commission) expense		(2,689)	(2,575)
7	**Net fee (commission) income** (5 - 6)	3.3.	**6,900**	**6,764**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3.4.	5,666	2,020
9	Net gains/losses from financial assets and liabilities held for trading	3.5.	139	347
10	Foreign exchange translation	3.6.	(6)	(85)
11	Net gains/losses on derecognition of assets	3.7.	9,106	7,690
12	Other net operating gains/losses	3.8.	(1,428)	(975)
13	Administrative expenses	3.9.	(23,354)	(22,844)
14	Depreciation and amortisation	3.10.	(1,564)	(1,819)
15	Provisions	3.11.	(68)	(822)
16	Impairment charge	3.12.	(3,646)	(2,277)
17	Net gains/losses from non-current assets held for sale and related liabilities	3.13.	19	20
18	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 17)		**8,921**	**5,615**
19	Income tax	3.14.	(1,349)	(858)
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (18 + 19)		**7,572**	**4,757**
21	**PROFIT/LOSS FOR THE YEAR** (20)		**7,572**	**4,757**
	a) Attributable to owners of the parent		7,572	4,757

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	Note	1-12 2018	1-12 2017
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**7,572**	**4,757**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(33)**	**(148)**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1 + 3.2 + 3.3)		**(33)**	**(41)**
3.1	Actuarial gains/losses on defined benefit pension plans	4.32.	91	(44)
3.2	Gains/losses associated with changes in the fair value of investments into equity instruments mesaured at fair value through other comprehensive income		(146)	0
3.3	Income tax relating to components of items not be reclassified to profit or loss		22	3
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**0**	**(107)**
4.1	Gains/losses related to available-for-sale financial assets (IFRS 39) (4.1.1 + 4.1.2)	4.4. b	0	(134)
4.1.1	Valuation gains/losses taken to equity		0	(136)
4.1.2	Transferred to profit/loss		0	2
4.2	Income tax relating to components of items that may be reclassified to profit or loss	4.28. c	0	27
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**7,539**	**4,609**
	a) Attributable to owners of the parent		7,539	4,609

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

in EUR thousand

Code	Items	Note	2018	2017
1	Cash, balances at central banks, and sight deposits at banks	4.1.	77,289	29,613
2	Financial assets held for trading	4.2.	0	227
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	4.3.	2,519	-
4	Financial assets mesaured at fair value through other comprehensive income	4.4.	2,994	-
5	Available-for-sale financial assets (IFRS 39)	4.5.	-	3,753
6	Financial assets measured at amortised cost		859,755	-
	- Debt securities	4.6.	107,748	-
	- Loans and advances to banks	4.7.	6,698	-
	- Loans and advances to customers	4.8.	741,836	-
	- Other financial assets	4.9.	3,473	-
7	Loans and advances (IFRS 39)		-	718,912
	- Loans and advances to banks	4.10.	-	4,914
	- Loans and advances to customers	4.11.	-	710,040
	- Other financial assets	4.12.	-	3,958
8	Held-to-maturity investments (IFRS 39)	4.13.	-	123,572
9	Tangible assets		52,789	58,174
	- Property, plant and equipment	4.14.	28,282	28,545
	- Investment property	4.15.	24,507	29,629
10	Intangible assets	4.16.	765	834
11	Income tax assets	4.17.	5,104	5,608
	- Deferred tax assets		5,104	5,608
12	Other assets	4.18.	13,296	13,311
13	Non-current assets held for sale, and discontinued operations	4.19.	162	3,217
14	**TOTAL ASSETS** (from 1 to 13)		**1,014,673**	**957,221**
15	Financial liabilities held for trading	4.20.	0	227
16	Financial liabilities measured at amortised cost		941,000	890,333
	- Deposits by banks and central banks	4.21.	758	594
	- Deposits by customers	4.22.	864,250	809,019
	- Borrowings from banks and central banks	4.23.	64,660	72,995
	- Borrowings from customers	4.24.	503	598
	- Debt securities	4.25.	1,082	1,082
	- Other financial liabilities	4.26.	9,747	6,045
17	Provisions	4.28.	2,490	3,105
18	Income tax liabilities	4.29.	1,750	1,352
	- Current tax liabilities		566	177
	- Deferred tax liabilities		1,184	1,175
19	Other liabilities	4.30.	931	1,222
20	**TOTAL LIABILITIES** (from 15 to 19)		**946,171**	**896,239**
21	Share capital	4.31.	17.811	17,811
22	Share premium	4.32.	31,257	31,257
23	Accumulated other comprehensive income	4.33.	(573)	(390)
24	Revenue reserves	4.34.	11,701	7,230
25	Treasury shares	4.35.	(612)	(657)
26	Retained earnings (including profit/loss for the year)	4.36.	8,918	5,731
27	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 21 to 26)		**68,502**	**60,982**
28	TOTAL EQUITY (27)		68,502	60,982
29	**TOTAL EQUITY AND LIABILITIES** (20 + 28)		**1,014,673**	**957,221**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Equity attributable to owners of the parent (from 3 to 8)	Total equity (9)
1	2	3	4	5	6	7	8	9	10
1	**OPENING BALANCE FOR THE PERIOD (before adjustment)**	**17,811**	**31,257**	**(390)**	**7,230**	**5,731**	**(657)**	**60,982**	**60,982**
2	Effects of transition to IFRS 9	0	0	(150)	0	574	0	424	**424**
3	**OPENING BALANCE FOR THE PERIOD** (1 + 2)	**17,811**	**31,257**	**(540)**	**7,230**	**6,305**	**(657)**	**61,406**	**61,406**
4	**Comprehensive income for the year (net of tax)**	**0**	**0**	**(33)**	**0**	**7,572**	**0**	**7,539**	**7,539**
5	Dividends/share bonuses paid (accounted)	0	0	0	(26)	0	44	18	**18**
6	Dividends paid (accounted)	0	0	0	(423)	(846)	0	(1,269)	**(1,269)**
7	Allocation of net profit to revenue reserves	0	0	0	4,920	(4,920)	0	0	**0**
8	Other	0	0	0	0	807	1	808	**808**
9	**CLOSING BALANCE FOR THE PERIOD** (3 + 4 + 5 + 6 + 7 + 8)	**17,811**	**31,257**	**(573)**	**11,701**	**8,918**	**(612)**	**68,502**	**68,502**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/ loss for the year)	Treasury shares (deduction)	Equity attribut- able to owners of the parent (from 3 to 8)	Total equity (9)
1	2	3	4	5	6	7	8	9	10
1	**OPENING BALANCE FOR THE PERIOD**	**17,811**	**31,257**	**(242)**	**4,504**	**3,830**	**(657)**	**56,503**	**56,503**
2	Comprehensive income for the year (net of tax)	0	0	(148)	0	4,757	0	4,609	**4,609**
3	Allocation of net profit to revenue reserves	0	0	0	2,726	(2,726)	0	0	**0**
4	Other	0	0	0	0	(130)	0	(130)	**(130)**
5	**CLOSING BALANCE FOR THE PERIOD** (1 + 2 + 3 + 4)	**17,811**	**31,257**	**(390)**	**7,230**	**5,731**	**(657)**	**60,982**	**60,982**

Pojasnila so sestavni del skupinskih računovodskih izkazov.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	2018	2017
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	**Interest received**	**20,650**	**20,821**
	Interest paid	(2,157)	(2,899)
	Dividends received	30	91
	Fee and commission received	9,605	9,352
	Fee and commission paid	(2,689)	(2,575)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	119	240
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	0	(36)
	Net trading income	0	347
	Cash payments to employees and suppliers	(22,392)	(21,982)
	Other income	1,033	1,326
	Other expenses	(2,462)	(2,300)
	Cash flows from operating activities before changes in operating assets and liabilities	**1,737**	**2,385**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**(23,588)**	**(109,684)**
	Net (increase)/decrease in financial assets held for trading	377	(240)
	Net (increase)/decrease in available-for-sale financial assets	641	4,132
	Net (increase)/decrease in loans and other financial assets measured at amortised cost	(35,862)	(123,123)
	Net (increase)/decrease in non-current assets held for sale	4,950	0
	Net (increase)/decrease in other assets	6,306	9,547
c)	**Increases/(decreases) in operating liabilities**	**53,607**	**87,128**
	Net increase/(decrease) in liabilities with central bank	(357)	50,000
	Net increase/(decrease) in trading liabilities	(225)	229
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	54,765	36,637
	Net increase/(decrease) in other liabilities	(576)	262
č)	**Cash flows from operating activities** (a + b + c)	**31,756**	**(20,171)**
d)	**Income taxes (paid)/received**	**(546)**	**(249)**
e)	**Net cash from operating activities** (č + d)	**31,210**	**(20,420)**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Investing inflows**	**41,271**	**39,054**
	Proceeds from sale of property, plant and equipment, and investment property	4,906	7,056
	Proceeds from sale of held-to-maturity investments	32,759	31,998
	Other investing inflows	3,606	0
b)	**Investing outflows**	**(19,240)**	**(10,353)**
	(Purchase of property, plant and equipment, and investment property)	(1,925)	(380)
	(Purchase of intangible long-term assets)	(139)	(83)
	(Purchase of held-to-maturity investments)	(17,176)	(9,890)
c)	**Net cash from investing activities** (a + b)	**22,031**	**28,701**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
a)	**Inflows from financing activities**	**3,000**	**0**
	Other inflows from financing activities	3,000	0
b)	**Outflows from financing activities**	**(6,991)**	**(2,936)**
	(Dividends paid)	(1,269)	0
	(Other outflows from financing activities)	(5,722)	(2,936)
c)	**Net cash from financing activities** (a + b)	**(3,991)**	**(2,936)**
D.	**Effects of exchange rates on cash and cash equivalents**	**201**	**(604)**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**49,250**	**5,345**
F.	**Opening balance of cash and cash equivalents** (Note 4.1. b)	**34,322**	**29,581**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 4.1. b)	**83,773**	**34,322**

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

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

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board:
Marko Rozman

BANKA SLOVENIJE d.d. LJUBLJANA 1

Ljubljana, 25 March 2019

II. Notes to Consolidated Financial Statements for 2018

1. GENERAL INFORMATION

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

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

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

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

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

Semenarna is the largest seed-producer, seed-wholesaler and seed-retailer, and seed exports company in Slovenia and the region. After the Bank increased the capital of Semenarna with cash contributions during its compulsory composition in 2013 and 2014, the Bank became Semenarna's 100% owner in July 2014. In June 2015, the company transformed from a joint stock company to a limited liability company. Semenarna also consists of several subsidiaries, but those are not consolidated due to being either in liquidation or not operational.

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

In 2018, the consumer price index was up 1.4% (2017: 1.7%). From 1 January 2007, Slovenia's national currency has been the euro, which has thus also become the functional and presentation currency of the Bank's financial statements. All amounts in the financial statements and related notes are given in euro thousands, unless specified otherwise.

2. CRITICAL ACCOUNTING POLICIES

2.1. Basis for the presentation of financial statements

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

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

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

Changes in accounting policies

In financial year 2018, the Group did not adopt or apply accounting policies different from those applied in previous periods, such as would have a material effect on the financial statements of the current year, except for accounting standards and other changes effective as of 1 January 2018 and adopted by the EU.

IFRS 9 'Financial Instruments', issued by IASB on 24 July 2014, replaced IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting, which is disclosed into detail in the section Disclosures upon implementation of IFRS 9. The application of IFRS 9 is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted. In compliance with requirements regarding the transition to IFRS 9, comparative data was not restated.

Initial use of new amendments to other standards valid in the current reporting period whose introduction has no significant impact on the Group

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

- *IFRS 15 'Revenue from Contracts with Customers'*, published by the IASB on 28 May 2014 (on 11 September 2015, the IASB changed the effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 it issued interpretations). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. It replaces IAS 18 'Revenues' and IAS 11 'Construction Contracts' and numerous other revenue-related interpretations. The standard is mandatory for all IFRS reporters and applies to all contracts with customers except for leases, financial instruments and insurance contracts. The core principle of the new standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also introduces better disclosure of revenue, instructions for transactions that have not been fully covered thus far (e.g.: revenues from services and amendments of contracts), and improved guidelines for accounting for agreements with several elements.

  The introduction of IFRS 15 has no impact on consolidated financial statements since the effects of the standard on subsidiaries are insignificant.

- *Amendments to IFRS 4 'Insurance Contracts'* – Applying IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts', adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018, or upon first application of IFRS 9 'Financial Instruments').

Adoption of these amendments to the valid standard did not cause major changes in the Group's financial statements.

Standards and amendments to valid standards issued by the IASB and adopted by the EU; not yet effective

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

- *IFRS 16 'Leases', adopted by the EU on 31 October 2017* (effective for annual periods beginning on or after 1 January 2019); IFRS 16 'Leases', as published by the IASB on 13 January 2016. Under IFRS 16, the lessee recognises the right to use an asset and liability under the lease. The right to use an asset is treated in a similar way to other non-financial assets and is, consequently, subject to amortisation. A lease obligation is initially measured at the current value of the lease paid during the lease period, discounted at the implicit interest rate if it can be determined immediately. If it cannot be determined immediately, the lessee must use the assumed lease interest rate. The same as with IAS 17, which was replaced by IFRS 16, the lessor shall classify each lease as an operating or finance lease, depending on its nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

The Group will implement the transition to IFRS 16 by retrospective application and recognise the cumulative effect as at 1 January 2019, recognising assets at an amount equal to the lease liability. The Group has assessed for the total amount of the rights resulting from lease and lease liabilities to equal EUR 5,687 thousand upon transition on 1 January 2019.

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

IFRS as adopted by the EU currently do not differ in any major respect from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments to valid standards and new interpretations which on 31 December 2018 (effective dates given below apply to the entire IFRS) were not yet approved for use in the EU:

- *IFRS 17 (new standard) 'Insurance Contracts'* (effective for annual periods beginning on or after 1 January 2021);
- *IFRIC 23 Note 'Uncertainty over Income Tax Treatments'* (effective for annual periods beginning on or after 1 January 2019);
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – composed of substantive amendments and interpretations, and effective for annual periods beginning on or after 1 January 2019;
- *IAS 28 (amendment) 'Long-term Interests in Associates and Joint Ventures'* (effective for annual periods beginning on or after 1 January 2019);
- *IAS 19 (amendment) 'Plan Amendment, Curtailment or Settlement'* (effective for annual periods beginning on or after 1 January 2019).

The Group assumes that its adoption of the new standards and amendments to existing ones will not have a major effect on its financial statements over the initial period of use.

Disclosures upon introduction of IFRS 9

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

Impact of the initial use of IFRS 9 on financial statements

The implementation of IFRS 9 has a major impact on different areas of the Group's operations. It affects models, processes, systems, data, product assortment, client segmentation and other. Due to the complexity of IFRS 9 requirements and its impact on overall operations, the standard has been implemented step-by-step. Representatives of all relevant business lines took part, including accounting, risk management, process support, business section, technology and IT. An implementation plan was set for IFRS 9, with the progress of implementation being monitored.

IFRS 9 has changed the classification and measurement of financial assets, with the most substantial changes associated with the impairment of financial assets. Previously, the impairment requirements were based on the IAS 39 incurred loss model, which has been replaced by the expected credit loss model as introduced by IFRS 9. As a matter of in-house development, the Group has set up a new model for calculating impairments and implemented the necessary adjustments to applications.

Classification and measurement of financial assets

Upon transition to IFRS 9, the Group has not reclassified any recognised financial assets from the category of those measured at amortised cost. Following a cash flow test, all loans remained in the category of those measured at amortised cost. For equities that upon transition stood for equity investments and had been classified under IAS 39 as available-for-sale, the Group has elected fair value measurement through other comprehensive income. The Group classifies all recognised financial assets subsequently and measures them at amortised cost or fair value, depending on cash flow characteristics and the business model for managing a financial instrument. Three business models are used to manage financial assets: (1) the 'hold to collect' business model, the objective of which is to hold financial assets to collect their contractual cash flows; (2) the 'hold to collect and sell' business model, the objective of which is to both collect the contractual cash flows and sell the financial asset; (3) the 'held for trading' business model, the objective of which is to trade in a financial asset. The Group's classification decision for contractual cash flow characteristics is based on the Solely Payments of Principal and Interest (SPPI) test, in accordance with instructions for the contractual cash flow characteristics test. Upon initial recognition, each financial asset or contract is classified under the relevant item of the statement of financial position. Depending on the classification item, after initial recognition financial assets are measured at: (a) amortised cost, (b) fair value through other comprehensive income, or (c) fair value through profit or loss. The effective interest rate method is used to calculate the amortised cost of financial assets or liabilities and the distribution of income and expenditure. The accounting treatment of exposures upon changes in repayment terms or contractual cash flows depends on reaching the threshold of a major change in cash flows to the gross carrying amount of the financial asset, measuring the impact of the changes to terms, when they occur, on the gross carrying amount of the financial instrument. If the difference between the new and the old gross carrying amount is insignificant, accounting treatment modifies the financial instrument. The modification effect is recognised as a gain or loss in the income statement and as a deviation within the gross carrying amount. When initially recognising POCI assets, which can be purchased or originated credit-impaired assets, the credit-adjusted effective interest rate is calculated by including initial expected credit losses into estimated cash flows.

As at 1 January 2018, the Group transitioned to IFRS 9, classifying its financial assets as at 31 December 2017 to the opening balance under IFRS 9 as at 1 January 2018 as follows:

- for financial assets classified under cash and balances at the central bank and sight deposits at banks, the classification and measurement at amortised cost in the balance sheet item 'Cash, balances at central bank, and sight deposits at banks' do not change;
- for financial assets held for trading, the classification and measurement at fair value in the balance sheet item 'Financial assets held for trading' do not change;
- held-to-maturity financial assets are fully allocated to the item 'Financial assets measured at amortised cost';
- financial assets under item 'Loans' are allocated to loans under the item 'Financial assets measured at amortised cost';
- financial assets under the item 'Available-for-sale financial assets', which as at 31 December 2017 included only investments in equity securities and interests measured at fair value or at cost, are, upon initial recognition as at the day of transition to IFRS 9, irrevocably classified for measurement at fair value through other comprehensive income and are classified in the item 'Financial assets measured at fair value through other comprehensive income'.

The table below shows the comparison of financial assets measurement categories under IAS 39, and measurement categories under IFRS 9 as at 1 January 2018.

DBS Group

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial instruments - 1 Jan 2018				
Cash, balances at central banks, and sight deposits at banks	Loans and receivables	Amortised cost	29,613	29,613
Loans and receivables - debt securities	Loans and receivables	Amortised cost	0	0
Loans and receivables - to banks	Loans and receivables	Amortised cost	4,914	4,914
Loans and receivables - to customers	Loans and receivables	Amortised cost	710,040	710,299
Loans and receivables - to customers	Loans and receivables	Mandatory fair value through profit or loss	-	-
Loans and receivables - other financial assets	Loans and receivables	Amortised cost	3,958	3,958
Financial assets held for trading	Fair value through profit or loss	Fair value through profit or loss	227	227
Financial assets measured at fair value through profit or loss	Recognised fair value through profit or loss	Mandatory fair value through profit or loss	-	-
Available-for-sale financial assets - debt instruments	Available-for-sale	Fair value through other comprehensive income	-	-
Available-for-sale financial assets - debt instruments	Available-for-sale	Amortised cost	-	-
Available-for-sale financial assets - equity instruments	Available-for-sale	Mandatory fair value through profit or loss	-	-
Available-for-sale financial assets - equity instruments	Available-for-sale	Recognised fair value through other comprehensive income recognised	3,753	3,567
Held-to-maturity investments	Held-to-maturity	Amortised cost	123,572	123,552
Other assets	Other assets	Amortised cost	13,311	13,304
Total			**889,388**	**889,434**

Comparison of carrying amounts of financial assets under IAS 39 with carrying amounts of financial assets under IFRS 9 as at 1 January 2018

DBS Group

	Note	IAS 39 carrying amount 31 Dec 2017	Restatement	Remeasurement	IFRS 9 carrying amount 1 Jan 2018
Amortised cost					
Cash, balances at central banks, and sight deposits at banks					
Opening balance		29,613			
Remeasurement: credit impairment	(a)				
Closing balance					29,613
Loans and receivables - to banks					
Opening balance		4,914			
Remeasurement: credit impairment	(b)				
Closing balance					4,914
Loans and receivables - to customers					
Opening balance		710,040			
Remeasurement: credit impairment	(c)			259	
Closing balance					710,299
Other financial assets					
Opening balance		3,958			
Remeasurement: credit impairment	(c)				
Closing balance					3,958
Debt securities					
Opening balance		0			
Increase: from held-to-maturity assets	(d)		123,572		
Remeasurement: credit impairment				(20)	
Closing balance					123,552
Held-to-maturity assets					
Opening balance		123,572			
Decrease: to debt securities - amortised cost	(d)		(123,572)		
Closing balance					0
Other assets					
Opening balance		13,311			
Remeasurement: credit impairment	(e)			(7)	
Closing balance					13,304
Total financial assets carried at amortised cost		**885,408**	**0**	**232**	**885,640**
Fair value through other comprehensive income					
Available-for-sale financial assets					
Opening balance		3,753			
Decrease: to fair value through other comprehensive income - equity instruments	(f)		(3,753)		
Closing balance					0
Fair value through other comprehensive income - equity instruments					
Opening balance		0			
Increase: from available-for-sale financial assets	(f)		3,753	(186)	
Closing balance					3,567
Total financial assets at fair value through other comprehensive income		**3,753**	**0**	**(186)**	**3,567**
Financial assets held for trading					
Opening and closing balance		227			227
Total financial assets at fair value through profit or loss		**227**			**227**

a) The Group also calculates expected credit losses for balances in central bank accounts and sight deposits with banks. However, due to impairment amounts being less than EUR 500, they are not shown in the table.
b) Impairments of loans to banks amount to less than EUR 500 and are, therefore, not shown in the table.
c) Differences in carrying amounts of loans and other financial assets result from the changed amount of impairments due to the remeasurement at amortised cost.
d) Debt securities that before transition to IFRS 9 were categorised as held to maturity at amortised cost, were reclassified at amortised cost in accordance with IFRS 9 since their previous category under IAS 39 was discontinued.
e) Differences in carrying amounts of other assets result from the changed amount of impairments due to the remeasurement at amortised cost.
f) Equity investments that before transition to IFRS 9 were categorised as held for sale, were recognised at fair value through other comprehensive income and recalculated at fair value upon transition to IFRS 9.

The table below shows a comparison of the final statement of credit impairment for financial assets under IAS 39, and provisions for credit risks for undisbursed loans granted and financial guarantees under IAS 37 as at 31 December 2017, and the opening balance of credit impairments calculated under IFRS 9 as at 1 January 2018.

DBS Group

Measurement category	31 Dec 2017 credit impairment under IAS 39/ provisions under IAS 37	Restatement	Remeasurement	1 Jan 2018 credit impairment under IFRS 9
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9				
Cash, balances at central banks, and sight deposits at banks	0	0	0	0
Loans and receivables- to banks	0	0	0	0
Loans and receivables - to customers	34,479	0	(259)	34,220
Loans and receivables - other financial assets	2,903	0	0	2,903
Held-to-maturity assets under IAS 39/financial assets at amortised cost under IFRS 9	0	0	20	20
Other assets under IAS 39/other assets at amortised cost under IFRS 9	0	0	7	7
Loan commitments and issued financial guarantees	704	0	(472)	232
Total	**38,086**	**0**	**(704)**	**37,382**

Impairments – assessing expected credit losses

IFRS 9 impairment model

Client segmentation

For the purpose of calculating expected credit losses, clients are segmented into the following groups:
a) legal entities: corporates and private individuals with a registration number (sole proprietors);
b) natural persons: households, farmers and private individuals without a registration number;
c) state: units of central government and central bank, units of regional and local government, and public sector entities.

Classification of transactions into groups

For the purpose of assessing credit losses, financial assets measured at amortised cost – loans, lease receivables, debt securities measured at fair value through other comprehensive income, and off-balance sheet exposures from credit commitments and financial guarantee contracts, to which impairment requirements apply – are classified as at each reporting date into one of three groups. Group 1 includes financial instruments the credit risk of which is not considered significantly increased as at the reporting date from initial recognition and transactions involving low credit risk as at the reporting date. An allowance for 12-month expected credit losses is recognised for such assets. Group 2 financial instruments are those the credit risk of which has increased significantly since initial recognition. In this case, the allowance covers lifetime expected credit losses over the entire period of duration. Financial instruments for which there is objective evidence of impairment are classified as Group 3 (impairment on an individual basis, except in the case of non-credit transactions and some exceptions), and a value adjustment is also formed on the basis of expected lifetime credit losses, whereby the expected cash flows also take into account the possibility of the liquidation of collateral. Through the LGD parameter, the value of the collateral is also observed in group assessment of credit losses.

For POCI assets, lifetime expected credit losses are always calculated, even if the financial asset is transferred from non-performing to performing exposures. As at 31 December 2017, the Group had no such assets in its portfolio.

The Group uses the following criteria in classifying financial instruments into the above groups:
- comparison of the client's credit rating at the time of approving a transaction and as at the reporting date;
- major delays in the transaction;
- if the financial instrument refers to a restructured client or a related person within the scope of the restructured client's regulatory consolidation;
- if the financial instrument refers to a client placed on the last watch list due to enforcement actions or unauthorised negative balances on their account;
- for financial instruments approved after 1 January 2018, the relative change in the forward-looking weighted cumulative probability of default ('PD') will also be taken into account as of 1 January 2020 upon approving the financial instrument and as at the reporting date.

Approach to recognising impairment

Impairment is generally recognised on a collective basis for financial instruments classified as group 1 or 2, and on an individual basis for financial instruments classified as group 3, except for limits that are subject to an action, service and payment guarantees, and non-credit transactions, for which, even if classified as group 3, impairment is recognised on a collective basis.

Collective assessment of expected credit losses

For the purpose of assessing expected credit losses, financial Instruments are grouped together based on shared credit risk characteristics. Assessment of credit risk parameters on a collective basis is performed with regard to the type of collateral and with regard to the type of customer.

The expected credit loss is calculated monthly based on the actual maturity of transaction as the product of the probability of default (PD), loss given default (LGD), exposure at default (EAD), discount factor based on the effective interest rate (EIR) and the conversion factor (CCF).

The expected credit loss is calculated as a weighted average of expected losses taking into account the most likely outcome, the best-case and the worst-case scenario. Expectations for the future are comprised in calculations of PD, which are based on forecasts for the selected macroeconomic factor. Calculations of PD for legal entities and natural persons are based on migration matrices, and calculations of PD for sovereign exposure are based on the Pluto-Tasche method, which is used to calculate PD for low- or zero-rate default portfolios.

Calculations of LGD are based on types of customers (legal entities and natural persons) and based on collateral (property as collateral and other types of collateral). For each of the stated categories, the average rate of default upon migration to the status of a defaulted obligor is calculated by discounting inflows from actual payments and/or foreclosure of the collateral on the date of the default event or of migration of a non-defaulted obligor to the status of a defaulted obligor.

Calculations of expected credit losses for the exposure to the state are based on LGD values laid down in Article 161(1) of Regulation No 575/2013/EU (CRR).

Used as a conversion factor is the regulatory defined CCF as laid down in Article 111(1) of the CRR, which corresponds to the off-balance sheet item based on being classified into a risk category pursuant to the Annex 1 to the CRR.

Individual assessment of expected credit losses

The Group assesses expected credit losses individually for non-performing exposures, i.e. exposures regarding which a default is considered to have happened pursuant to Article 178 of the CRR, and for exposures which have been found impaired pursuant to the valid accounting standard.

The expected exposure loss is calculated as the difference between the asset's carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. according to whether the approach used is that of business as a going concern or a not going concern.

The impact of transition to IFRS 9 on the amount of impairments and the value of equity investments

To assess the impact of transition to IFRS 9, the Group classified financial assets as at 31 December 2017 based on IFRS 9, and evaluated credit losses for financial assets measured at amortised cost, for which impairment requirements are used, at the date of transition to IFRS 9, 1 January 2018, pursuant to the internal impairment methodology and by applying the impairment model. The joint impact of transition to IFRS 9 on 1 January 2018 on balance sheet and off-balance sheet exposures of the stated financial assets equals a reversal of impairment amounting to EUR 704 thousand; on the date of transition, the positive impact was reported as retained earnings from transition to IFRS 9.

The Group also calculated the impact of transition for equity investments measured at purchase value, which on the date of transition to IFRS 9 were reclassified from available-for-sale to measured at fair value through other comprehensive income. Such impact on the date of transition to IFRS 9 equals revaluation expenses amounting to EUR 186 thousand, which were reported as other comprehensive income or fair value reserves.

The joint net impact of transition to IFRS 9 on 1 January 2018 is positive, amounting to EUR 518 thousand before tax and EUR 423 thousand after tax.

The impact of transition to IFRS 9 on own funds and capital adequacy ratios

Pursuant to the EU Regulation No. 2017/2395, when taking into consideration the impacts of introducing IFRS 9 on the calculation of regulatory capital, the Group opted for a static approach and has therefore not applied a transitional arrangement to reduce the impact of introducing IFRS 9 on equity. The effects of impact on own funds were positive in case of retained earnings, and negative in case of fair value reserves and specific revaluations arising from credit risk. Due to IFRS 9, after transition on 1 January 2018, the Group's regulatory capital increased by EUR 423 thousand to EUR 60,374 thousand. The Group's CET 1 and Tier 1 capital adequacy ratio increased by 0.10 percentage points to 12.91% (31 December 2017: 12.81%), and the total capital ratio also by 0.10 percentage points to 14.82% (31 December 2017:14.72%).

Adjustment due to adopting IFRS 9 was recognised in the retained earnings and other comprehensive income as at 1 January 2018. The transition to IFRS 9 requirements upped the Group capital by EUR 423 thousand.

Effects of the transition to IFRS 9 on the capital were as follows:

DBS Group

Impact on equity upon transition to IFRS 9 - details	
Changed methodology for impairments and provisions	704
Remeasurement of loans to fair value	0
Recognition of loss on modification of financial assets	0
Reclassification and remeasurement of securities	(186)
Income tax upon transition	(95)
Total	**423**

2.2. Consolidation

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

2.3. Critical accounting estimates

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

(a) Impairment losses on loans and receivables and potential off-balance sheet liabilities

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

The Group assesses expected credit losses based on the impairment model in accordance with IFRS 9. For the purpose of assessing credit losses, financial assets measured at amortised cost – loans, debt securities, other receivables, debt instruments measured at fair value through other comprehensive income, and off-balance sheet exposures from credit commitments and financial guarantee contracts, to which impairment requirements apply – are classified as at each reporting date into one of three stages. In this context, the allowance covers lifetime expected credit losses. Financial instruments for which there is objective evidence of impairment are classified as Group 3 (impairment on an individual basis, except in the case of non-credit transactions and some exceptions), and a value adjustment is also formed on the basis of expected lifetime credit losses, whereby the expected cash flows also take into account the possibility of the liquidation of collateral. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between loss estimates and actual loss experience.

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

For purposes of assessing credit losses, off-balance sheet exposures from assumed liabilities under financial guarantee contracts, regarding which the impairment requirements are to be used, are classified at each reporting day into one of the three transaction phases for purposes of calculating the expected credit losses for the period of validity of the financial guarantee.

(b) Fair value of investment property

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

(c) Taxes

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

2.4. Segment reporting

As at 31 January 2018, the Group has no issued securities traded on a regulated capital market, therefore it does not prepare segment reporting.

2.5. Foreign currency translation

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

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using exchange rates effective at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences in equities measured through other comprehensive income are recognised with valuation gains/losses as other comprehensive income or as fair value reserves.

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

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

2.6. Interest income and expense

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

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

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

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

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

2.7. Fee and commission income and expense

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

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

2.8. Financial assets

2.8.1. Accounting policies after 1 January 2018 under IFRS 9

The Group classifies its financial assets into the following groups: financial instruments at fair value through profit or loss, financial instruments at amortised cost, and financial instruments at fair value through other comprehensive income. The management determines the classification of investments upon initial recognition.

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

The Group only holds financial assets held for trading.

(b) Financial instruments at amortised cost
A financial instrument has to be measured at amortized cost if the following two conditions are met:
(a) a financial instrument is held within a business model the aim of which is to hold financial instruments with the purpose of receiving contractual cash flows, and
(b) in compliance with contractual terms of the financial instrument, cash flows occur on certain dates that comprise repayments of principal and interest on the outstanding principal exclusively.

As well as loans fulfilling the conditions of the cash flow test, the Group classifies into this category all debt securities intended for the collection of contractual cash flows.

(c) Financial instruments at fair value through other comprehensive income
Financial instruments at fair value through other comprehensive income are those the Group intends to hold for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices of financial instruments.

(d) Measurement and recognition
Purchases and sales of financial instruments at fair value through profit or loss, financial instruments at amortised cost, and financial instruments at fair value through other comprehensive income are recognised as at the date the transaction was concluded – the date on which the Group commits to carry out the purchase or sale of the respective instrument. Derivatives are recognised on the trade date.

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

Financial instruments at fair value through other comprehensive income and financial instruments at fair value trough profit or loss are measured at fair value. Loans and receivables are measured at amortised cost applying the effective interest rate. Gains and losses from changes in the fair value of the financial instruments at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of the financial instruments at fair value through other comprehensive income are recognised directly in equity until the financial asset is sold or impaired, at which time they are recognised in the income statement. With debt securities classified into this category, expected credit losses and differences resulting from foreign currency translation are recognised in the income statement, and the difference to fair value is recognised in other comprehensive income until derecognition. Upon derecognition of a debt financial instrument, the cumulative profit or loss recognised in other comprehensive income is reclassified into the income statement.

Upon derecognition of an equity instrument for which upon initial recognition the option for measured at fair value through other comprehensive income was chosen irrevocably, cumulative gains or losses are never recognised in the income statement.

Interest from the effective interest rate and exchange differences are recognised in the income statement. Dividends from financial instruments are recognised in the income statement, upon the establishment of the holder's right to payment.

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

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

2.8.2. Accounting policies for the comparative year ended 31 December 2017 under IAS 39

Until 31 December 2017, the Group applied IAS 39 with regard to recognition and measurement of financial Instruments. The Group assessed at each date of the statement of financial position whether there was objective evidence that a financial asset or group of financial assets was impaired. That a financial asset or group of financial assets was impaired and impairment losses were incurred was recognised if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that event had an impact on the estimated future cash flows of the financial asset or group of financial assets, which could be reliably estimated.

Accounting policies used by 31 December 2017 according to IAS 39 are presented in more detail in the Deželna banka Slovenije Group 2017 Annual Report.

2.9. Offsetting

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

2.10. Impairment of financial assets

2.10.1. Impairment of financial assets before 1 January 2018 under IAS 39

(a) Financial assets measured at amortised cost

Before the transition to IFRS 9, measurement of impairment loss was based on the realised credit losses concept. The Group assessed at each date of the statement of financial position whether there was objective evidence that a financial asset or group of financial assets was impaired. That a financial asset or group of financial assets was impaired and impairment losses were incurred was recognised if, and only if, there was objective evidence of impairment as a result of one or more events (or "loss events") that occurred after the initial recognition of the asset and that event had an impact on the estimated future cash flows of the financial asset or group of financial assets, which could be reliably estimated.

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

Individual assessment of credit losses
In individual assessment of credit losses, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that were not yet incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced through an allowance account and the loss amount was recognised in the income statement.

Collective assessment of credit losses
For the purpose of collective assessment of impairment, borrowers were classified into groups from A to E, on the basis of similar credit risk characteristics. Credit loss was calculated as the product of probability of default (PD). loss given default (LGD), and exposure at default (EAD). Calculations of PD were based on the aggregate migration matrix that shows the probability of the migration of customers between internal rating classes within one year; and calculations of LGD were based on the average default rate. In estimating losses, the Group considered both historical loss experience as well as factors reflecting the current situation, whereas forward-looking information was not considered in the calculation.

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

(b) Available-for-sale financial assets
The Group assessed at each date of the statement of financial position whether there was objective evidence that a financial asset or group of financial assets at fair value through other comprehensive income was impaired. In the case of equity investments, a significant or prolonged decline in the fair value of a security below its cost was considered in determining whether the assets were impaired. If any such evidence of impairment existed for such assets, the cumulative loss was recognised in equity. Impairment losses recognised in the income statement of available-for-sale equity instruments could not be reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified in this group increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, impairment losses were reversed through the income statement.

2.10.2. Impairment of financial assets after 1 January 2018 under IFRS 9

(a) Financial assets measured at amortised cost
Measurement of impairment loss under IFRS 9 is based on the expected credit losses concept. Financial instruments measured at amortised cost in accordance with the SPPI test are impaired either on a collective basis (financial instruments in groups 1 and 2, and some exceptions in group 3) or on an individual basis (financial instruments in group 3).

Collective assessment of credit losses
Collective impairment is calculated as the sum of discounted monthly weighted expected credit losses, and an individual (monthly) unit is calculated as the product of probability of default (PD), loss given default (LGD), exposure at default (EAD) and conversion factor (CCF). In collective assessment of losses, the Group also considers forward-looking information, which is included in the calculation through forward-looking PD.

Individual assessment of credit losses
As a rule, the Group assesses group 3 financial instruments individually in accordance to how a default is considered to have happened pursuant to Article 178 of the CRR.

The expected exposure loss is calculated as the difference between the asset's carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. according to whether the approach used is that of business as a going concern or a not going concern.

Calculation of credit losses under IFRS 9 is presented in more detail in sections 2.1 and 5.1.3.

(b) Financial instruments at fair value through other comprehensive income
As financial instruments at fair value through other comprehensive income are measured at fair value, gains and losses resulting from valuation are recognised directly in equity, and when a debt security is sold or impaired, they are recognised in the income statement.

2.11. Property, plant and equipment, and intangible assets

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

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

The following are the annual depreciation and amortisation rates used:

	2018 %	2017 %
Buildings	2.0-4.0	2.0-4.0
Computer equipment	20.0-30.0	20.0-30.0
Software	10.0-20.0	10.0-20.0
Motor vehicles	12.5-20.0	12.5-20.0
Other equipment	4.0-50.0	4.0-50.0

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

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

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

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

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

2.12. Investment property

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

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

In determining the fair value of investment property, the income approach (capitalised cash flow method, discounted future gains method) or sales comparison approach was used.

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

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

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

2.13. Non-current assets held for sale

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

2.14. Inventories

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

2.15. Leases

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

(a) The Group is the lessee

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

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

(b) The Group is the lessor

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

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

2.16. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise: cash and balances at central bank, loans to banks with less than 90 days maturity from the date of acquisition, treasury bills and debt securities with less than 90 days maturity from the date of acquisition.

2.17. Provisions

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

2.18. Provisions for severance pays and long-service awards

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

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

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

2.19. Income tax

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

Corporate income tax is levied on taxable profits at the rate of 19%.

Pursuant to the Slovenian Corporate Income Tax Act, current corporate income tax is charged at the rate of 19% off the established tax base (2017: 19%).

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

The most important temporary differences arise from tax loss, impairment of investments in subsidiaries, valuation of financial assets at fair value through other comprehensive income, and provisions.

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

Deferred tax related to the revaluation of financial assets at fair value through other comprehensive income to fair value is recognised directly in equity and subsequently transferred to the income statement together with the deferred revaluation profit or loss, except for equity investments that upon initial recognition were determined irrevocably as measured through other comprehensive income.

Deferred tax liabilities are recognised on account of a revaluation of financial assets at fair value through other comprehensive income.

2.20. Borrowings

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

2.21. Capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

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

(c) Treasury shares

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

2.22. Financial guarantee contracts

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

Financial guarantee contracts are initially recognised at fair value plus the fee received. Fee income is recognised in the income statement on a straight-line basis, over the entire term of the financial guarantee contract. The Group subsequently recognises them at the higher of the initial measurements less fee income received, on a straight-line basis over the entire term of the financial guarantee contract, and less the best estimate of the expenditure required to settle the obligation under the financial guarantee as at the reporting date. For purposes of assessing credit losses, off-balance sheet exposures from assumed liabilities under financial guarantee contracts, regarding which the impairment requirements are to be used, are classified at each reporting day into one of the three transaction phases for purposes of calculating the expected credit losses for the period of validity of the financial guarantee.

2.23. Fiduciary activities

The Group offers its customers, corporate as well as retail, the services of asset management and the services of lending under authorisation. For these services, customers are charged a fee. Details are explained in Note 4.38. a. These assets are not included into the Group's statement of financial position.

3. NOTES TO THE INCOME STATEMENT

3.1. Interest income and expense

	2018	2017
Interest income		
Financial assets measured at fair value through other comprehensive income	0	123
Debt securities measured at amortised cost	1,501	2,924
Loans to banks	53	37
Loans to customers	16,804	16,312
Financial leasing	400	291
Other financial assets	40	37
Interest in relation to financial liabilities with a negative interest rate	358	0
TOTAL	**19,156**	**19,724**
Interest expense		
Deposits by banks and borrowings from banks	361	447
Borrowings from banks and central bank	0	1
Deposits by customers	818	1,077
Borrowings from customers	13	13
Certificates of deposit	82	82
Subordinated liabilities	229	230
Subordinated deposits and loans	336	336
Interest in relation to financial liabilities with a negative interest rate	190	33
TOTAL	**2,029**	**2,219**
NET INTEREST INCOME	**17,127**	**17,505**

3.2. Dividends

	2018	2017
Dividends on financial assets measured at fair value through other comprehensive income	30	91
TOTAL	**30**	**91**

3.3. Fee and commission income and expense

	2018	2017
Fee and commission income		
Payment transactions	4,719	4,642
Agency services	161	165
Administrative services	3,791	3,598
Guarantees issued	303	317
Securities trading	284	288
Credit operations	331	329
TOTAL	**9,589**	**9,339**
Fee and commission expense		
Banking services	878	797
Securities trading	144	154
Payment transactions	999	931
Commissions from Semenarna franchisors	404	441
Commissions from Semenarna commercial agents	248	237
Other services	16	15
TOTAL	**2,689**	**2,575**
NET FEE AND COMMISSION INCOME	**6,900**	**6,764**

3.4. Net gains/losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss

	2018	2017
Realised gains/losses from financial assets measured at fair value through other comprehensive income	**0**	**4**
Gains from financial assets measured at fair value through other comprehensive income	0	4
Realised gains/losses from financial assets measured at amortised cost	**5,689**	**1,901**
Gains from financial assets measured at amortised cost	5,769	2,052
Losses from financial assets measured at amortised cost	80	151
Realised net gains/losses from financial liabilities measured at cost	**(23)**	**115**
Gains from financial liabilities measured at amortised cost	1	151
Losses from financial liabilities measured at amortised cost	24	36
REALISED GAINS/LOSSES	**5,666**	**2,020**

In 2018, the realised net gains amounted to EUR 5,666 thousand (2017: EUR 2,020 thousand), of which EUR 5,653 thousand were gains realised from the sale of sovereign debt, EUR 36 thousand were net gains on loans, and EUR 23 thousand were net losses on cleared deposits and transactional accounts.

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

	2018	2017
Net gains/losses from derivatives	0	21
Net gains/losses from foreign exchange trading	139	326
TOTAL	**139**	**347**

3.6. Foreign exchange translation

	2018	2017
Positive translation differences	1,052	1,146
Negative translation differences	1,058	1,231
TOTAL	**(6)**	**(85)**

3.7. Net gains/losses on derecognition of non-financial assets

	2018	2017
Gains		
- Derecognition of property, plant and equipment	1,917	21
- Derecognition of investment property	121	234
- Sales revenue and other	23,965	29,746
TOTAL	**26,003**	**30,001**
Losses		
- Cost of goods sold	16,875	22,229
- Derecognition of investment property	22	82
TOTAL	**16,897**	**22,311**
TOTAL NET GAINS/LOSSES	**9,106**	**7,690**

Gains and losses on derecognition of other assets mainly refer to Semenarna's sales revenues and its costs of goods and material. Gains on derecognition of property, plant and equipment result from the sale of Semenarna's property.

3.8. Other net operating gains/losses

	2018	2017
Gains		
Income from non-banking services	136	117
Leases and rents (Note 4.15. a)	307	358
Other	590	850
TOTAL	**1,033**	**1,325**
Losses		
Taxes	98	22
Contributions	253	275
Membership fees and similar	116	109
Financial services tax	912	862
Deposit guarantee scheme	1,013	985
Bank resolution fund	3	20
Other operating expenses	66	27
TOTAL	**2,461**	**2,300**
OTHER NET OPERATING GAINS/LOSSES	**(1,428)**	**(975)**

3.9. Administrative expenses

	2018	2017
Employee benefits cost		
Gross wages	11,679	11,818
Social security contributions	858	852
Pension insurance contributions	1,060	1,048
Other contributions depending on gross wages	(4)	(7)
Severance pays and compensations	252	78
Other labour costs	2,105	2,119
TOTAL	**15,950**	**15,908**
Overhead and administrative expenses		
Costs of material	718	557
Costs of services	6,686	6,379
TOTAL	**7,404**	**6,936**
TOTAL	**23,354**	**22,844**

Costs of services for 2018 also include costs of the audit of companies' financial statements and of the Group's consolidated financial statements including the transition to IFRS 9 and IFRS 16 amounting to a total of EUR 69 thousand (2017: EUR 75 thousand), and for other assurance services in the amount of EUR 8 thousand (2017: EUR 9 thousand).

3.10. Depreciation and amortisation

	2018	2017
Property, plant and equipment (Note 4.14.)	1,355	1,594
Intangible assets (Note 4.16.)	209	225
TOTAL	**1,564**	**1,819**

3.11. Provisions

	2018	2017
Net provisions for off-balance sheet liabilities (Note 4.28. d and e)	**(106)**	**305**
Expenses for created provisions	66	3,078
Income from released provisions	172	2,773
Net other provisions	**174**	**517**
Net provisions for pensions and other employee benefits	**63**	**94**
Expenses for created provisions	70	94
Income from released provisions	7	0
Net provisions for tax suits and other pending legal cases (Note 4.28. f)	**(423)**	**423**
Expenses for provisions created for dividend payments for 2015	0	423
Income from provisions released for dividend payments for 2015	423	0
Net provisions for other provisions (Note 4.28. g)	**534**	**0**
Expenses for created provisions	541	0
Income from released provisions	7	0
NET PROVISIONS	**68**	**822**

Income from released provisions upon payment of dividends for 2015 was realised in 2018. Other provisions included provisions formed for changed taxation on sale of property.

3.12. Impairment charge

	2018	2017
Net impairments of financial assets not measured at fair value through profit or loss	**807**	**1,481**
Net impairments of financial assets measured at cost	**0**	**213**
Impairments of financial assets measured at cost	0	213
Net impairments of debt securities	**3**	**0**
Impairments of debt securities	12	0
Reversal of impairments on debt securities	9	0
Net impairments of loans	**804**	**1,268**
Impairments of loans	6,568	12,035
Reversal of loan impairments	5,764	10,767
Net impairments of other assets	**2,839**	**796**
Net impairments (revaluations) of property, plant and equipment	**13**	**0**
Impairments (revaluations) of property, plant and equipment	13	0
Net impairments (revaluations) of investment property (Note 4.15. b)	**2,769**	**796**
Impairment (revaluation) of investment property	2,807	1,144
Reversal of investment property impairments (revaluations)	38	348
Net impairments (revaluations) of other assets	**57**	**0**
Impairments (revaluations) of property inventories (Note 4.18.)	57	0
NET IMPAIRMENTS	**3,646**	**2,277**

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

	2018	2017
Gains on non-current assets held for sale	19	20
TOTAL	**19**	**20**

3.14. Income tax

	2018	2017
Income tax	782	402
Deferred tax (Note 4.29. d)	567	456
TOTAL	**1,349**	**858**
Profit/loss before tax	7,369	5,615
Tax under the 19% tax rate	1,400	819
Non-taxable income	(160)	(52)
Non-deductible expense	1,261	617
Tax reliefs	(1,152)	(526)
TOTAL	**1,349**	**858**
Effective tax rate (in %)	18	15

* Tax for 2018 was charged at the tax rate of 19% (2017: 19%).
The last tax inspection was in 2005 for financial year 2004.

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

3.15. Earnings per share (EPS)

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

	2018	2017
Net profit (in EUR thousand)	7,572	4,757
Weighted average number of ordinary shares	4,230,497	4,228,995
Basic and diluted earnings per share (in EUR per share)	1.789861	1.124854

Basic EPS in 2018 amounts to EUR 1.789861 (2017: EUR 1.124854). The weighted average number of issued ordinary shares recorded in the KDD central securities register for 2018, with treasury shares and the shares held by Semenarna deducted, was 4,230,497 (2017: 4,228,995).

The Group’s share book value as at 31 December 2018 was EUR 14.935309 (31 December 2017: EUR 13.800792). It is calculated as follows: share capital less treasury shares, divided by the number of shares recorded in the central registry of the Central Securities Clearing Corporation (KDD) less treasury shares.

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

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

a) Breakdown

	2018	2017
Cash		
Cash	11,681	8,649
Bank balances at central bank	61,947	17,446
Sight deposits at banks	3,662	3,518
Revaluation allowance	(1)	0
TOTAL (Note 4.1. b)	**77,289**	**29,613**

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

The Bank must ensure that the settlement account is credited on a daily basis with a specific amount calculated for each period. Minimum reserves for compliance period from 1 January to 31 December 2018 amounted to EUR 7,663 thousand on average per month, with excess reserves totalling a monthly EUR 46,537 thousand on average.

The annual interest rate for assets deposited on the minimum reserves account was 0.00% from 1 January to 31 December 2018. For excess assets deposited on the minimum reserves account, the annual interest rate was –0.40% from 1 January to 31 December 2018.

Movements in revaluation allowance for balances at central bank and demand deposits at banks are disclosed in section 5.1.5. (Note b).

b) Movements

	As at 1 January 2018	Foreign exchange differences	Net increase/ (decrease)	Revaluation allowance	As at 31 December 2018
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	29,613	119	47,558	(1)	77,289
Loans and advances to banks (Note 4.7. b)	4,709	82	1,693	0	6,484
TOTAL	**34,322**	**201**	**49,251**	**(1)**	**83,773**

4.2. Financial assets held for trading

a) Breakdown

	2018	2017
Loans held for trading	0	227
TOTAL	**0**	**227**

b) Movements

	2018	2017
Loans*		
As at 1 January	227	0
- Increase	18,894	22,994
- Sale	(19,121)	(22,767)
As at 31 December	**0**	**227**
TOTAL	**0**	**227**

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

4.3. Non-trading financial assets mandatorily measured at fair value through profit or loss

	2018	2017
Loans and other financial assets	2,519	-
TOTAL	**2,519**	**-**

Fair value is disclosed in section 5.4.2

4.4. Financial assets measured at fair value through other comprehensive income

a) Breakdown

	2018
Equities	
Equity investments	2,994
- Bank resolution fund	2,697
- Other equity investments	297
TOTAL	**2,994**

This item comprises equity investments classified as available-for-sale as at 31 December 2017, and upon initial recognition on the day of transition to IFRS 9 classified irrevocably as measured at fair value through other comprehensive income. In 2018, the Group reduced its position of investments into securities measured at fair value through other comprehensive income by EUR 759 thousand, of which EUR 641 thousand due to selling of equity instruments. The Bank Resolution Fund balance was down EUR 2 thousand to EUR 2,697 thousand in 2018 (2017: EUR 2,699 thousand).

b) Movements

	2018
As at 1 January	3,567
Sale	(641)
Revaluation	(146)
Margin	214
As at 31 December	**2,994**

List of investments into equity instruments

A list of equity investments recorded as measured at fair value through other comprehensive income, and a statement of fair values of investments at the end of the reporting period are given in the table below.

	2018	2017
Equity investments		
- Bank resolution fund	2,697	2,699
- Total other equity investments	297	1,054
Bankart d. o. o.	21	37
Hranilnica Lon d. d., Kranj	0	21
Las MDD z. b. o.	1	1
Marles d. d., Limbuš	8	20
Primorska hranilnica Vipava d. d.	121	220
Vorpo d. o. o.	0	1
Zadružna zveza Slovenije, z .o. o.	1	3
Gorenjska banka d. d.	11	17
Regia Group d. d.	45	257
Elektro Ljubljana d. d.	89	82
Sava d. d.	0	395
TOTAL	**2,994**	**3,753**

Grounds for classification

Before the introduction of IFRS 9, equity investments, except for investments in subsidiaries, were classified as available-for-sale. These investments not being strategic in nature, meaning that they cannot be controlled by the Group, they were classified irrevocably as measured at fair value through other comprehensive income after the introduction of IFRS 9. Changes in fair value of such equity investments shall never be recognised through profit or loss, which also holds for the impact in case of sale.

Dividends recognised for the period

In 2018, the Group received EUR 30 thousand in dividends, of which dividends from investments held by the Group at the year-end of 2018: EUR 24 thousand, from Bankart d. o. o., and EUR 2 thousand from Elektro Ljubljana d. d. The Group received EUR 4 thousand in dividends from Hranilnica LON d. d. Kranj, which the Bank sold in 2018.

Transfers within equity and reasons for transfers

The transfer of the cumulative gain from other comprehensive income to current year retained earnings was made due to cumulative effects of derecognition resulting from the sale of equity investments.

Reasons for disposal of equity investments

In accordance with its business policy and a business opportunity, the Group sold its equity investments that were not strategic investments.

Fair value of investments as at derecognition date

Fair value of investments as at derecognition date and cumulative gains or losses upon disposal are given in the table below.

Company	Fair value of investments as at derecognition date	Cumulative gains upon disposal
Hranilnica Lon d. d., Kranj	23	3
Primorska hranilnica Vipava d. d.	8	(2)
Sava d. d.	395	214
Total	**426**	**215**

4.5. Available-for-sale financial assets (under IAS 39)

a) Breakdown

	2017
Equities	
- Unlisted	3,753
TOTAL	**3,753**

b) Movements

	2017
As at 1 January	8,348
Purchases	2
Sale	(2,183)
Impairment of equity investments	(213)
Maturities	(2,067)
Fair value adjustment (Note 4.33.)	(134)
As at 31 December	**3,753**

4.6. Debt securities measured at amortised cost

a) Breakdown

	2018
Long-term government debt securities	105,969
Long-term debt securities issued by non-financial institutions	1,802
Revaluation allowance	(23)
TOTAL	**107,748**

In 2018, the Group sold part of its portfolio of debt securities measured at amortised cost at the nominal value of EUR 27,107 thousand. The sale was considered as a one-off sale of a significant share of the securities portfolio, and complied with the amortised cost model. The impact of sale that was recorded as the difference between the market and carrying amount of bonds, was positive and amounted to EUR 5,653 thousand.

Movements in revaluation allowance for debt securities measured at amortised cost are disclosed in section 5.1.5. (Note c).

b) Movements

	2018
As at 1 January	123,552
Purchases	18,618
Sale	(27,437)
Maturities	(6,982)
Revaluation allowance	(3)
As at 31 December	**107,748**

4.7. Loans and advances to banks and central bank at amortised cost

a) Breakdown according to type

	2018
Loans to the central bank	2,318
Loans to domestic banks	2,599
Loans to foreign banks	1,781
TOTAL	**6,698**

b) Breakdown according to maturity

	2018
Short-term loans	6,484
Long-term loans	214
TOTAL	**6,698**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 6,484 thousand (2017: EUR 4,709 thousand) are recognised in the cash flow statement as cash equivalents (Note 4.1.b).

4.8. Loans and advances to customers measured at amortised cost

a) Breakdown according to type

	2018
Loans and advances	731,099
Financial lease	14,869
Working capital loans	19,663
Revaluation allowance	(23,795)
TOTAL	**741,836**

Movements in revaluation allowance for loans and advances to customers measured at amortised cost are disclosed in section 5.1.5. (Note d).

b) Loans and advances to customers include financial leasing receivables

	2018
Gross financial lease receivables	
Past due up to 1 year	4,840
Past due from 1 to 5 years	5,843
Past due over 5 years	4,186
TOTAL	**14,869**
Revaluation allowances	(3,348)
Net financial lease receivables	**11,521**

4.9. Other financial assets

	2018
Trade receivables	3,726
Interest receivable	52
Fee and commission due	152
Other receivables	2,355
Other prepayments and deferred income	10
Other financial assets revaluation allowance	(2,822)
TOTAL	**3,473**

Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note d).

4.10. Loans and advances to banks (under IAS 39)

a) Breakdown according to type

	2017
Loans to the central bank	2,104
Loans to domestic banks	2,810
TOTAL	**4,914**

b) Breakdown according to maturity

	2017
Short-term loans	4,709
Long-term loans	205
TOTAL	**4,914**

4.11. Loans and advances to customers (under IAS 39)

a) Breakdown according to type

	2017
Loans and advances	714,755
Financial lease	10,970
Working capital loans	18,794
Revaluation allowance	(34,479)
TOTAL	**710,040**

Movements in revaluation allowance for loans and advances to customers are disclosed in section 5.1.5. (Note f).

b) Loans and advances to customers include financial leasing receivables

	2017
Gross financial lease receivables	
Past due up to 1 year	4,698
Past due from 1 to 5 years	4,293
Past due over 5 years	1,979
TOTAL	**10,970**
Revaluation allowances	(3,373)
Net financial lease receivables	**7,597**

4.12. Other financial assets (under IAS 39)

	2017
Trade receivables	4,697
Interest receivable	2
Fee and commission due	147
Other receivables	1,951
Other prepayments and deferred income	64
Other financial assets revaluation allowance	(2,903)
TOTAL	**3,958**

Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note f).

4.13. Held-to-maturity investments (under IAS 39)

a) Breakdown

	2017
Long-term government held-to-maturity debt securities	123,572
TOTAL	**123,572**

b) Movements

	2017
As at 1 January	140,941
Purchases	10,147
Sale	(6,817)
Maturities	(20,699)
As at 31 December	**123,572**

4.14. Property, plant and equipment

2018	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	34,379	4,065	16,742	1,150	0	56,336
Increases	54	48	187	174	856	1,319
Transfer from PPE under construction	588	118	150	0	(856)	0
Decreases	(164)	(405)	(1,013)	(195)	0	(1,777)
As at 31 December	34,857	3,826	16,066	1,129	0	55,878
Revaluation allowance						
As at 1 January	8,544	3,718	15,224	305	0	27,791
Decreases	(36)	(404)	(1,001)	(109)	0	(1,550)
Depreciation and amortisation	606	160	426	163	0	1,355
As at 31 December	9,114	3,474	14,649	359	0	27,596
Net carrying value						
As at 1 January	25,835	347	1,518	845	0	28,545
As at 31 December	25,743	352	1,417	770	0	28,282

The net carrying value of real estate held as collateral for loans is EUR 6,799 thousand.

2017	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	42,480	4,062	17,188	1,116	0	64,846
Increases	0	62	0	37	255	354
Transfer from PPE under construction	90	44	125	0	0	259
Decreases	(2,510)	(103)	(571)	(3)	(255)	(3,442)
Transfer to non-current assets held for sale	(5,681)	0	0	0	0	(5,681)
As at 31 December	34,379	4,065	16,742	1,150	0	56,336
Revaluation allowance						
As at 1 January	11,019	3,665	15,266	358	0	30,308
Decreases	(560)	(103)	(735)	(71)	0	(1,469)
Transfer to non-current assets held for sale	(2,642)	0	0	0	0	(2,642)
Depreciation and amortisation	727	156	693	18	0	1,594
As at 31 December	8,544	3,718	15,224	305	0	27,791
Net carrying value						
As at 1 January	31,461	397	1,922	758	0	34,538
As at 31 December	25,835	347	1,518	845	0	28,545

4.15. Investment property

a) Breakdown

	2018	2017
Long-term investments into investment property		
- Land	11,360	13,215
- Buildings	13,147	16,414
TOTAL	**24,507**	**29,629**

b) Movements

	2018	2017
As at 1 January	29,629	26,442
Increase	336	1,045
Transferred from inventories	382	9,447
Decrease	(3,071)	(6,383)
Transferred to inventories	0	(126)
Enhancements (Note 3.12.)	38	348
Revaluation allowance (Note 3.12.)	(2,807)	(1,144)
As at 31 December	**24,507**	**29,629**

Operating lease contracts may be terminated during the lease period. A transfer of EUR 382 thousand was made from inventories to investment property in respect of property not sold within one year. The Group recorded EUR 2,807 thousand worth of impairment charges against investment property in 2018 (2017: EUR 1,144 thousand) (Note 3.12.).

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

4.16. Intangible assets

	2018			2017		
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	4,392	0	4,392	4,461	0	4,461
Increases	140	0	140	0	89	89
Decreases	(6)	0	(6)	(158)	(89)	(247)
Transfer from intangible assets under construction	0	0	0	89	0	89
As at 31 December	4,526	0	4,526	4,392	0	4,392
Revaluation allowance						
As at 1 January	3,558	0	3,558	3,491	0	3,491
Depreciation and amortisation	209	0	209	225	0	225
Decreases	(6)	0	(6)	(158)	0	(158)
As at 31 December	3,761	0	3,761	3,558	0	3,558
As at 1 January	**834**	**0**	**834**	**970**	**0**	**970**
As at 31 December	**765**	**0**	**765**	**834**	**0**	**834**

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

4.17. Income tax assets

	2018	2017
Deferred tax assets (Note 4.29. b)	5,104	5,608
TOTAL	**5,104**	**5,608**

Outstanding tax loss amounts to a total of EUR 29,363 thousand. Deferred tax assets were formed in the amount of EUR 5,285 thousand, impairments of deferred tax assets totalling EUR 3,771 thousand.

4.18. Other assets

	2018	2017
VAT refund receivables for the tax period	173	79
Accrued and short-term deferred costs	490	569
Long-term deferred operating costs	178	193
Materials inventory	6,709	8,190
Real estate inventory	4,160	3,849
Stock of coins held for sale	155	153
Prepayments to suppliers for current assets	152	159
Other prepayments	0	5
Other tax refund receivables	54	44
Advance suretyship, security receivables	36	4
Consideration receivable	1,156	64
Other	33	2
TOTAL	**13,296**	**13,311**

Impairment charges against inventories of real estate amounted to EUR 57 thousand in 2018 (2017: EUR 0 thousand) (Note 3.12.). Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note f).

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

	2018	2017
Property, plant and equipment held for sale	162	3,217
TOTAL	**162**	**3,217**

In 2018, the net carrying value of real estate held for sale pledged as collateral for loans is EUR 0 thousand.

4.20. Financial liabilities held for trading

	2018	2017
Other trading liabilities	0	227
TOTAL	**0**	**227**

4.21. Deposits by banks and central banks

	2018	2017
Sight deposits by banks	758	594
TOTAL	**758**	**594**

4.22. Deposits by customers

	2018	2017
Sight deposits	654,841	569,658
Short-term deposits	63,967	82,613
Long-term deposits	145,442	156,748
TOTAL	**864,250**	**809,019**

* According to the Methodology for preparing a recapitulation of the statement of financial position, long-term deposits also include deposits with characteristics of subordinated debt (Note 4.27.).

4.23. Borrowings from banks and central banks

	2018	2017
Short-term borrowings from banks	8,804	15,810
Long-term borrowings from banks	6,213	7,185
Long-term borrowings from central bank	49,643	50,000
TOTAL	**64,660**	**72,995**

* According to the Methodology for preparing a recapitulation of the statement of financial position, long-term loans also include loans with characteristics of subordinated debt (Note 4.27.).

4.24. Borrowings from customers

	2018	2017
Long-term borrowings from customers	503	598
TOTAL	**503**	**598**

4.25. Debt securities measured at amortised cost

	2018	2017
Certificates of deposit		
- To other financial institutions	1,082	1,082
TOTAL	**1,082**	**1,082**

* According to the Methodology for preparing a recapitulation of the statement of financial position, debt securities at amortised cost also include certificates of deposit with characteristics of subordinated debt (Note 4.27.).

4.26. Other financial liabilities

	2018	2017
Profit sharing - dividend payments	6	6
Wages and salaries	778	931
Taxes and contributions	362	382
Suppliers	3,919	2,784
Other liabilities	1,063	1,304
Charges being collected	21	123
Accrued costs	277	312
Accrued expenses	180	96
Other long-term liabilities	3,005	6
Other	136	101
TOTAL	**9,747**	**6,045**

4.27. Subordinated liabilities

a) Breakdown by statement of financial position items

	2018	2017
Deposits by customers - long-term deposits (Note 4.22.)	6,416	6,416
Borrowings from banks and central banks - long-term borrowings from banks (Note 4.23.)	4,116	4,116
Debt securities mesured at amortised cost - certificates of deposit (Note 4.25.)	1,082	1,082
TOTAL	**11,614**	**11,614**

b) Breakdown by sectors

	2018	2017
Subordinated liabilities		
- To banks	4,116	4,116
- To non-financial institutions	1,623	2,866
- To other financial institutions	5,345	4,102
- To households	530	530
TOTAL	**11,614**	**11,614**

	Date subscribed	Amount	Currency	Interest rate (%)	Maturity date
Subordinated liabilities					
	20. 12. 2012	2,058	EUR	6m Euribor + 6.00	20. 12. 2019
	20. 12. 2012	184	EUR	8.20	20. 12. 2019
	20. 12. 2012	162	EUR	8.20	20. 12. 2019
	20. 12. 2012	460	EUR	8.20	20. 12. 2019
	20. 12. 2012	276	EUR	8.20	20. 12. 2019
	23. 10. 2013	531	EUR	6.20	3. 11. 2020
	23. 10. 2013	53	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	96	EUR	6.20	3. 11. 2020
	23. 10. 2013	32	EUR	6.20	3. 11. 2020
	23. 10. 2013	106	EUR	6.20	3. 11. 2020
	30. 10. 2013	106	EUR	6.20	10. 11. 2020
	30. 10. 2013	712	EUR	6.20	10. 11. 2020
	30. 10. 2013	531	EUR	6.20	10. 11. 2020
	30. 10. 2013	32	EUR	6.20	10. 11. 2020
	30. 10. 2013	319	EUR	6.20	10. 11. 2020
	30. 10. 2013	74	EUR	6.20	10. 11. 2020
	29. 5. 2015	2,058	EUR	6m Euribor + 6.00	31. 5. 2022
	29. 9. 2015	105	EUR	4.70	30. 9. 2021
	29. 9. 2015	52	EUR	4.70	30. 9. 2021
	29. 9. 2015	742	EUR	6.00	30. 9. 2022
	29. 9. 2015	106	EUR	6.00	30. 9. 2022
	30. 9. 2015	530	EUR	6.00	30. 9. 2022
	9. 10. 2015	159	EUR	6.00	10. 10. 2025
	9. 10. 2015	530	EUR	6.00	10. 10. 2025
	9. 10. 2015	848	EUR	6.00	10. 10. 2025
	9. 10. 2015	583	EUR	6.00	10. 10. 2025
TOTAL		**11,614**			

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

4.28. Provisions

a) Breakdown

	2018	2017
Provisions for pensions and similar payables to employees (Note 4.28. b and c)	1,823	1,978
Provisions for off-balance sheet liabilities (Note 4.28. d)	126	-
Group 1	72	-
Group 2	4	-
Group 3	50	-
Provisions for off-balance sheet liabilities (IFRS 39) (Note 4.28. e)	-	704
Provisions for pending legal cases (Note 4.28. f)	0	423
Other provisions (Note 4.28. g)	541	0
TOTAL	**2,490**	**3,105**

b) Provisions for pensions and similar payables to employees

	2018	2017
Provisions for severance pays	1,646	1,773
Provisions for long-service awards	177	205
TOTAL	**1,823**	**1,978**

The actuarial calculation of provisions for severance pays and long-service awards to employees included the following assumptions: average earnings growth in the Republic of Slovenia is expected to total an annual 3.3% in 2019 and 1% in subsequent years; the calculation of liabilities for severance pays takes into account an employee's period of employment; the selected discount factor is 1.83% annually. Assumptions on employment fluctuations and the company's related payables: it is assumed that employment fluctuation depends primarily on the employees age; the mortality rates used are from the Slovenian reference population mortality table for 2007; it is assumed that employees will exercise their right to retire upon reaching their full retirement age, and therefore the employer will not incur liabilities for long-service awards projected to fall due at a later date.

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

	2018	2017
As at 1 January	1,978	1,936
Provisions made during the year	84	138
Provisions released	(120)	0
Provisions utilised during the year	(119)	(96)
As at 31 December	**1,823**	**1,978**

Recalculated payables to employees total EUR 1,823 thousand, for which provisions of EUR 36 thousand had to be released as at 31 December 2018. Higher provisions for severance pays, which represent costs for the period, and an increase in provisions for long-service awards in the total amount of EUR 55 thousand, were charged to the income statement. The actuarial deficit for severance pays was released in comprehensive income in the amount of EUR 91 thousand (Note 4.33.).

d) Movements in provisions for commitments and guarantees given

2018

	Group 1	Group 2	Group 3	Total
As at 1 January	112	4	117	233
Transferred to Group 1	1	(1)	0	0
Transferred to Group 2	0	13	(13)	0
Transferred to Group 3	0	(1)	1	0
Enhancements through issuing and acquisition	2	0	0	2
Decreases through derecognition	(18)	0	(6)	(24)
Changes due to change in credit risk (net)	(25)	(11)	(49)	(85)
As at 31 December	**72**	**4**	**50**	**126**

e) Movements in provisions for off-balance-sheet liabilities (under IAS 39)

	2017
As at 1 January	400
Provisions made during the year (Note 3.11.)	3,077
Provisions released during the year (Note 3.11.)	(2,773)
As at 31 December	**704**

f) Movements in provisions for pending legal cases

	2018	2017
As at 1 January	423	0
Provisions created during the year for dividend payments for 2015	0	423
Provisions utilised during the year for dividend payments for 2015	(423)	0
As at 31 December	**0**	**423**

g) Movements in other provisions

	2018	2017
As at 1 January	0	0
Provisions made during the year	541	0
As at 31 December	**541**	**0**

Other provisions included provisions formed in the amount of EUR 541 thousand for changed taxation on sale of property.

4.29. Tax liabilities

a) Breakdown

	2018	2017
Current tax liabilities	566	177
Deferred tax liabilities	1,184	1,175
TOTAL	**1,750**	**1,352**

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

	2018	2017
1. Deferred tax liabilities		
Financial assets measured at fair value through other comprehensive income	2	0
Land valuation	1,182	1,175
TOTAL	**1,184**	**1,175**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	187	207
Impairment of securities	69	168
Impairment of equity participation	3,350	2,790
Tax loss	1,066	2,004
Valuation of buildings	432	439
TOTAL (Note 4.17.)	**5,104**	**5,608**
Net deferred tax (2 - 1)	**3,920**	**4,433**

Deferred tax assets arising from the impaired equity investment, assets, loans, financial leasing, unspent allowances and tax losses, were collectively impaired and the impairment charge totals EUR 3,771 thousand.

c) Movements in deferred taxes

	2018	2017
As at 1 January	4,473	4,829
Financial assets measured at fair value through other comprehensive income (Note 4.33.)	27	27
Valuation of buildings	0	46
Land valuation	(7)	(22)
Depreciation and amortisation	(7)	0
Impairment of securities	0	(21)
Impairment of equity participation	391	38
Provisions for severance pays and long-service awards	(19)	(1)
Tax loss	(938)	(463)
As at 31 December	**3,920**	**4,433**

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

	2018	2017
Provisions for employee benefits	(14)	(3)
Other provisions	0	(22)
Tax loss	(939)	(463)
Depreciation and amortisation	(6)	(6)
Impairment of equity participation	391	38
Impairment of securities	1	0
TOTAL (Note 3.14.)	**(567)**	**(456)**

Deferred tax assets and liabilities for 2018 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 19%.

4.30. Other liabilities

	2018	2017
Payments received in advance	452	611
Taxes payable	333	345
Accruals	146	266
TOTAL	**931**	**1,222**

4.31. Share capital

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 31 December 2017/1 January 2018	4,268,248	17,811
As at 31 December 2018	**4,268,248**	**17,811**

The Bank's share capital is divided into 4,268,248 ordinary no par value shares of class A, of which 4,257,483 are recorded in the central registry of dematerialised securities held by the Slovenian Central Securities Clearing Corporation – KDD. At the year-end of 2018, the Bank's share capital totals EUR 17,811,083.54.

b) Shareholders with over 5% of share capital

2018

Shareholder	No. of shares	Stake in shareholders' equity in KDD
Kapitalska zadruga, z. b. o., Ljubljana	894,158	21.002
Skupina Prva d. d.	422,557	9.925
Kritni sklad PRVA+ ZAJAMČENI	422,557	9.925
KD Kapital d. o. o., Ljubljana	377,181	8.859
KD Group d. d., Ljubljana	255,941	6.012
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2018, 306 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2017: 304), of which 106 were domestic corporate entities, 195 were domestic individuals, and five were foreign entities. The number of the Bank's shareholders increased by 2 in 2018.

4.32. Share premium

	2018	2017
As at 1 January	31,257	31,257
As at 31 December	**31,257**	**31,257**

4.33. Accumulated other comprehensive income

	2018	2017
As at 1 January	**(540)**	**(242)**
Items not to be reclassified to profit or loss	**(33)**	**(41)**
Actuarial gains/losses on defined benefit pension plans	91	(44)
Changes in the fair value of investments into equity instruments measured at fair value through other comprehensive income (Note 4.4. b)	(146)	0
Income tax relating to components of items not be reclassified to profit or loss	22	3
Items that may be reclassified to profit or loss	**0**	**(107)**
Investments into debt securities measured at fair value through other comprehensive income (Note 4.5. b)	0	(134)
Valuation gains/losses taken to equity	0	(136)
Gains/losses transferred to profit or loss	0	2
Deferred taxes (Note 4.29. c)	0	27
As at 31 December	**(573)**	**(390)**

Items not restated in the income statement refer to the actuarial deficit for severance pays (Note 4.29. c) and investments in equity instruments.

4.34. Revenue reserves

a) Breakdown

	2018	2017
Reserves for treasury shares	601	645
Reserves under Statutes	1,924	1,924
Other revenue reserves	9,176	4,661
TOTAL	**11,701**	**7,230**

Pursuant to Article 230 (3) of the Companies Act (ZGD-1), the Group allocated 50% of net profit for the year, which amounted to EUR 2,721 thousand, to other revenue reserves.

Share premium and statutory reserves can only be used up under the following terms:
1. if the total amount of these reserves is less than 10% of share capital, they can only be used to:
- cover net loss for the financial year if it cannot be covered from retained earnings or other revenue reserves;
- cover retained loss if it cannot be covered from net profit for the financial year or other revenue reserves;

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

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

b) Reserves for treasury shares

	2018	2017
As at 1 January	645	645
Reversals	(44)	0
As at 31 December	**601**	**645**

Reserves for treasury shares decreased by EUR 44 thousand due to the derecognition of treasury shares (Note 4.35).

c) Reserves under Statutes

	2018	2017
As at 1 January	1,924	1,163
Transferred from net profit	0	761
As at 31 December	**1,924**	**1,924**

d) Other revenue reserves

	2018	2017
As at 1 January	4,661	2,696
Appropriation based on the decision of the General Meeting	2,199	1,965
Transferred from net profit	2,721	0
Impact of derecognition of treasury shares	18	0
Dividend payments	(423)	0
As at 31 December	**9,176**	**4,661**

The impact of the derecognition of treasury shares refers to the difference between acquisition cost of the share and its value accounted for.

4.35. Treasury shares

	2018	2017
Repurchase of treasury shares - ordinary	(612)	(657)
TOTAL	**(612)**	**(657)**

Treasury shares were bought back due to: employee share remuneration, protection from hostile takeovers, and reasons from indents 1 and 2 of Article 247 (1) of the Companies Act. In 2018, treasury shares decreased by EUR 44 thousand resulting from part of variable component of remuneration to Identified Staff having been paid with shares of the Bank.

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

a) Breakdown

	2018	2017
Net profit for the year	4,851	3,996
Retained earnings	4,067	1,735
TOTAL	**8,918**	**5,731**

Profit for the year amounts to EUR 7,572 thousand, whereas profit less other revenue reserves amounts to EUR 4,851 thousand.

4.37. Off-balance sheet liabilities

a) Breakdown by type of contingent liabilities and commitments

	2018	2017
Guarantees	21,155	27,520
Commitments to extend credit	42,775	40,586
TOTAL	**63,930**	**68,106**
Provisions (Note 4.28. a, d and e)	(126)	(704)

4.38. Fiduciary activities

The Group manages assets in the total amount of EUR 130,151 thousand (2017: EUR 118,902 thousand) in the name and for the accounts of third parties. Assets under management are accounted for separately from the Group's assets. Income and expenses from operations in the name of third parties and for the accounts of third parties are credited or charged to the originator, therefore no liabilities arise for the Group from these operations. The Group charges the related service fees to the originator. In 2018 these fees amounted to EUR 279 thousand (2017: EUR 285 thousand). For acting as agent in the sale of numismatic coins, the Group charged fees in the amount of EUR 12 thousand in 2018 (2017: EUR 15 thousand).

a) Investment and ancillary investment services for customers

	2018	2017
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**285**	**288**
Reception, transmission and execution of orders	285	288
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	114	124
Fees associated with KDD and similar organisations	100	110
Fees associated with the stock exchange and similar organisations	14	14

	2018	2017
ASSETS	**128,551**	**117,160**
Claims on settlement account and current accounts for clients' assets	127,451	116,578
- From financial instruments	127,157	116,534
- From the KDD or the Bank's settlement account for sold financial instruments	165	25
- From other settlement systems and institutions for sold financial instruments	129	19
Clients' cash	1,100	582
- On the settlement account for clients' assets	605	582
- On banks' current accounts	495	0
LIABILITIES	**128,551**	**117,160**
Liabilities of settlement account and of current accounts for clients' assets	128,551	117,160
- With clients from cash and financial instruments	128,389	116,982
- With KDD or the Bank's settlement account for purchased financial instruments	6	129
- With other settlement systems and institutions for purchased financial instruments	127	25
- With the Bank and the Bank's settlement account for fees, expenses, etc	29	24

b) Other agency services

The item other agency services includes EUR 1,435 thousand from other transactions for the clients' account (2017: EUR 1,612 thousand), and EUR 165 thousand from settlement transactions with the KDD (2017: EUR 129 thousand).

4.39. Related party transactions

The ordinary course of business includes numerous banking transactions with related parties. These transactions are carried out on commercial terms and conditions, and at market rates.

a) Volume of banking transactions among related parties

	Management Board/CEO		Senior management		Close family members of Management Board/CEO/ Members of Supervisory Board		Companies related to members of Management Board/ CEO/Members of Supervisory Board and close family members		Bank's shareholders* (holders of qualifying stake in the Bank)		Supervisory Board members	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Loans and deposits												
As at 1 January	211	181	281	373	1	52	2,029	6,288	0	0	123	106
Increase	49	114	357	105	31	90	4,774	12,141	5	0	5	173
Decrease	(187)	(84)	(322)	(197)	(13)	(141)	(4,635)	(16,400)	0	0	(72)	(156)
As at 31 December	73	211	316	281	19	1	2,168	2,029	5	0	56	123
Interest income	2	4	9	7	1	1	63	150	0	0	1	2
Revaluation allowance	0	0	0	0	0	0	10	9	0	0	0	0
Deposits and borrowings												
As at 1 January	62	64	249	214	77	76	1,882	2,038	10	126	106	211
Increase	569	1,644	1,481	1,705	178	502	10,396	12,103	1,281	198	218	481
Decrease	(540)	(1,646)	(1,519)	(1,670)	(247)	(501)	(10,583)	(12,259)	(431)	(314)	(242)	(586)
As at 31 December	91	62	211	249	8	77	1,695	1,882	860	10	82	106
Interest expense	0	0	0	1	0	1	160	76	43	0	0	1
Guarantees issued	0	0	0	0	0	0	1,500	0	0	0	0	0
Fee and commission received	0	1	3	3	0	1	42	66	77	0	0	1
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	3	3	0	0	0	0
Increase	0	0	0	0	0	0	45	90	0	0	0	0
Decrease	0	0	0	0	0	0	(45)	(90)	0	0	0	0
As at 31 December	0	0	0	0	0	0	3	3	0	0	0	0
Lease income	0	0	0	0	0	0	28	70	0	0	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	1	144	0	0	0	0
Increase	0	0	0	0	0	0	37	14	0	0	0	0
Decrease	0	0	0	0	0	0	(37)	(157)	0	0	0	0
As at 31 December	0	0	0	0	0	0	1	1	0	0	0	0
Lease expense	0	0	0	0	0	0	37	56	0	0	0	0
Other receivables	0	0	0	0	0	0	7	12	0	0	0	0
Other income	0	0	0	1	0	0	67	281	27	0	0	0
Other liabilities	0	0	0	0	0	0	0	41	0	0	0	0
Other expenses	0	0	0	4	0	0	129	894	1	0	0	0

* Only the Bank's qualified shareholders are included.

Disclosures of transactions among related parties include all changes taking place during the year. Each individual related party is considered as of the date of being entered in the related party list up to the date of exit or until the end of the year of reference.

b) Remuneration of senior management

	2018	2017
Wages and other short-term benefits	1,238	1,423
Variable remuneration	114	6
Variable remuneration - severance pays	167	0
TOTAL	**1,519**	**1,429**

The remuneration of the Management Board and others on management contracts includes gross wages, pay for annual leave (statutory severance pays, long-service awards, compensations), cost reimbursement and supplementary pension insurance. The variable component of remuneration includes the variable component of performance, fringe benefits and severance pays under contract. The variable remuneration amounting to EUR 112 thousand is composed of monetary remuneration of EUR 67 thousand, shares amounting to EUR 31 thousand, and other fringe benefits (use of a car, accident and health insurance) amounting to EUR 14 thousand. The senior management category comprises the Management Board and employees subordinated to it directly.

The Management Board and others on management contracts held 1,933 shares (0.045% of share capital) as at 31 December 2018. As at 31 December 2017 they held 1,850 shares (0,04% of share capital).

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

	2018	2017
Wages and other short-term benefits	112	118
TOTAL	**112**	**118**

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

d) Remuneration of members of management and supervisory bodies in 2018

	Fixed remuneration				Variable remuneration		
Position/Remuneration type	Fixed remuneration	Cost reimbursement	Supplement pension insurance	Total	Variable remuneration	Other payments	Total
Management Board of the Bank	**332**	**3**	**5**	**340**	**117**	**14**	**131**
- Marko Rozman, President (from 17 July 2018)	72	1	1	74	0	0	0
- Sonja Anadolli, President (up to 17 July 2018)	129	1	2	132	103	7	110
- Barbara Cerovšek Zupančič MSc, member	131	1	2	134	14	7	21
Supervisory Board of the Bank	**99**	**4**	**0**	**103**	**0**	**0**	**0**
- Peter Vrisk, President	29	1	0	30	0	0	0
- Ivan Lenart, Deputy President	22	2	0	24	0	0	0
- Nikolaj Maver, member	22	1	0	23	0	0	0
- Jure Kvaternik, member (from 9 October 2018)	4	0	0	4	0	0	0
- Iris Dežman, member (from 9 October 2018)	4	0	0	4	0	0	0
- Vikor Lenče, member (from 30 March up to 10 August 2018)	7	0	0	7	0	0	0
- Tomaž Petrovič, member (from 9 October 2018)	4	0	0	4	0	0	0
- Simon Kolenc, member (from 30 March up to 7 September 2018)	7	0	0	7	0	0	0
							0
Supervisory Board/Board of Directors of subsidiaries	**9**	**0**	**0**	**9**	**0**	**0**	**0**
- Peter Vrisk, President	6	0	0	6	0	0	0
- Sonja Anadolli, Deputy President (payments until 31 March 2018)	3	0	0	3	0	0	0
							0
Senior management in subsidiaries	**73**	**2**	**0**	**75**	**41**	**2**	**43**
- Gregor Kopriva, CEO (from 19 July 2018)	36	1	0	37	0	0	0
- Svarun Udovič, CEO (from 15 February up to 19 July 2018)	37	1	0	38	41	2	43
TOTAL	**513**	**9**	**5**	**527**	**158**	**16**	**174**

The table shows the earnings of Management Board members of the Bank and subsidiaries, and of Supervisory Board members, pursuant to the requirement of Article 294 of the Slovenian Companies Act. Management and supervisory bodies are defined in the Business Report, chapter VI.4. Composition and operations of the management and supervisory bodies and their committees.

e) Remuneration of Identified Staff in 2018

Position/ Remuneration type	Number of beneficiaries	Fixed earnings	Variable remuneration	Cost reimbursement	Insurance premiums	Total
TOTAL REMUNERATION	**29**	**1,259**	**138**	**48**	**21**	**1,466**

The category of Identified Staff comprises the Management Board, Management Board advisers, executive directors, directors of Sections and Departments and of Branch units.

4.40. Remuneration system and important business contacts

Remuneration system

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

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

Important business contacts

A significant indirect business contact exists if a member of the Management Board or Supervisory Board, or their close family member, is a business partner, holder of a qualifying stake in Group companies, CEO or member of the senior management in a company or organisation that is in a business relationship with the Group. In this respect, the Group promotes the culture of avoiding significant direct and indirect business contacts.

Pursuant to Article 88 of the Zban-2 and Section 8 of the Regulation (EU) No 575/2013, disclosures for 2018 are published on the Bank's website www.dbs.si.

4.41. Events after the statement of financial position date

As of 1 February 2019, the Group will no longer perform investment services and transactions for customers.

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

5. CONTROLLING RISK IN THE GROUP

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

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

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

In 2018, the Group complied with the capital requirements and other requirements of the regulatory framework for banks. Risk management was additionally upgraded, especially the management of credit risk. The Group thereby continued with the upgrade of its early warning system for increased credit risk for monitoring all customers. The Supervisory Board noted the Group risk profile and its risk-taking capacity, and promptly monitored its exposure to risks. All critical risk management internal acts were revised in 2018.

Under Directive No 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), the controlling company DBS d. d. and the two subsidiaries DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. are included in prudential consolidation. Both subsidiaries had also been included in prudential consolidation under the previous legislation in force. Consistent with the provisions of Article 4(1) and 4(18) of the Regulation, DBS Nepremičnine d. o. o. is considered an ancillary services undertaking and therefore one of the financial sector entities under Article 4(1) and 4(27c) of the Regulation.

Risk control has been presented within prudential consolidation, and not for the whole Group. In addition to DBS d. d. and the two subsidiaries, DBS Leasing d. o. o. and DBS Nepremičnine d. o. o., consolidation for accounting purposes also includes the subsidiaries DBS Adria d. o. o. and Semenarna Ljubljana, d. o. o., which are excluded from prudential consolidation per Article 19 of the Regulation. Notwithstanding their exclusion, they are estimated not to have significant risks, and the impact of their share of interest, liquidity and foreign exchange risk on the Group is estimated as negligible or, in any event, not greater than any similar exposure. As the sole owner or the controlling undertaking, the Bank granted the comfort letter to Semenarna in February 2018, according to which the Bank will remain its main holder for at least 12 additional months, as well as provide Semenarna with financial and other support for its operations, and undertakes not to demand for its liabilities to be repaid. In 2018, the Bank recapitalised Semenarna by converting partly a claim amounting to EUR 0.5 million into company's capital, and additionally by transferring a property as a contribution in kind. The latter was a condition imposed by the Ministry of the Economy, based on which at the year-end of 2018 Semenarna was granted public aid in the form of a long-term loan of EUR 3 million. Chapter 5 of this Annual Report is prepared using prudential consolidation data.

Group statement of financial position – comparison of regulatory and prudential consolidation as at 31 December 2018

2018

Code	Items	Accounting consolidation	Prudential consolidation	Difference between accounting and prudential consolidation
1	Cash, balances at central banks, and sight deposits at banks	77,289	77,008	281
2	Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519	2,519	0
3	Financial assets measured at fair value through other comprehensive income	2,994	2,993	1
4	Financial assets measured at amortised cost	859,755	858,890	865
	- Debt securities	107,748	107,748	0
	- Loans to banks	6,698	6,698	0
	- Loans to customers	741,836	742,986	(1,150)
	- Other financial assets	3,473	1,458	2,015

2018

Code	Items	Accounting consolidation	Prudential consolidation	Difference between accounting and prudential consolidation
	Long-term equity participation in subsidiaries, associates and joint ventures	0	4,025	(4,025)
5	Tangible assets	52,789	34,453	18,336
	- Property, plant and equipment	28,282	9,946	18,336
	- Investment property	24,507	24,507	0
6	Intangible assets	765	486	279
7	Income tax assets	5,104	4,613	491
	- Deferred tax assets	5,104	4,613	491
8	Other assets	13,296	6,103	7,193
9	Non-current assets held for sale, and discontinued operations	162	6	156
10	**TOTAL ASSETS** (from 1 to 9)	**1,014,673**	**991,096**	**23,577**
11	Financial liabilities measured at amortised cost	941,000	924,164	16,836
	- Deposits by banks and central banks	758	746	12
	- Deposits by customers	864,250	864,451	(201)
	- Borrowings from banks and central banks	64,660	53,758	10,902
	- Borrowings from customers	503	-	503
	- Debt securities	1,082	1,082	0
	- Other financial liabilities	9,747	4,127	5,620
12	Provisions	2,490	2,518	(28)
13	Income tax liabilities	1,750	511	1,239
	- Current tax liabilities	566	509	57
	- Deferred tax liabilities	1,184	2	1,182
14	Other liabilities	931	582	349
15	**TOTAL LIABILITIES** (from 11 to 14)	**946,171**	**927,775**	**18,396**
16	Share capital	17,811	17,811	0
17	Share premium	31,257	31,257	0
18	Accumulated other comprehensive income	(573)	(538)	(35)
19	Revenue reserves	11,701	11,701	0
20	Treasury shares	(612)	(601)	(11)
21	Retained earnings (including profit/loss for the year)	8,918	3,691	5,227
22	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 16 to 21)	**68,502**	**63,321**	**5,181**
23	TOTAL EQUITY (22)	68,502	63,321	5,181
24	**TOTAL EQUITY AND LIABILITIES** (15 + 23)	**1,014,673**	**991,096**	**23,577**

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

Credit risk

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

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

Market risk

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

Foreign exchange risk

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

Interest rate risk

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

Liquidity risk

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

Adequate cash inflows must be ensured to account for the expected (and potential) cash outflows. To this end, the Group tests the adequacy of its disaster plan and regularly implements four liquidity stress scenarios every three months. The scenarios are detailed in the Methodology for Liquidity Stress Scenarios and Calculation of

Liquidity Ratios. Based on the stress scenarios, the Group calculates the maximum liquidity shortage for up to one month, which serves to determine the minimum level of unencumbered liquid assets. With a view to determining its structural liquidity position, the Group also calculates certain liquidity ratios and monitors trends in selected structural liquidity ratios.

Operational risk

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

Capital risk

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

5.1. Credit risk

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

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

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

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

Depending on the risk category of a borrower, as expressed by their credit rating, and the risk of a particular business, which is also influenced by the guarantees provided, the Group forms appropriate revaluation allowances and provisions. In order to reduce capital requirements for credit risk, the Group only accepted first-class and appropriate guarantees in 2018, consistent with regulations.

5.1.1. Measuring credit risk

(a) Loans and receivables

In 2018, the Group determined credit risk pursuant to the valid regulations. To this end, it drew up its credit portfolio quality analyses, into which it included data on:

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

More on forming provisions and impairments is given in Chapter 5.1.3.

(b) Debt securities

In assuming exposure to credit risk when buying debt securities in 2018, the Group used the classification into credit rating classes according to issuing states and other issuers, the kind used by i.e. Standard & Poor's or credit rating agencies of their level, whereby it specified the minimum acceptable credit rating limit for the respective securities.

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

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

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

(a) Collateral

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

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

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

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

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

(b) Off-balance sheet commitments

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

5.1.3. Guidelines on forming impairments and provisions

Pursuant to the regulatory framework for banks, and the provisions of the International Financial Reporting Standards (IFRS 9, effective from 1 January 2018), the Group classifies financial assets and off-balance-sheet commitments (hereafter: exposures) into groups according to their risk profile, and assesses the amount of expected losses associated with these exposures. Whereas measuring the impairment loss under IAS 39 was based on the incurred loss model, IFRS 9 introduces the expected credit loss model with forward-looking information being included in the measurement. As a matter of in-house development, the Group has set up a new model for calculating impairments and implemented the necessary adjustments to applications.

The credit rating system

The Group has an established system of credit rating grades for categorising exposure. Eleven credit rating grades are used for measuring credit exposure of business entities, and 5 grades are used for natural persons. To categorise an entity into a credit rating grade, four groups of criteria are used with business entities, i.e. selected financial ratios (based on balance sheet and income statement data), soft or subjective factors (additional information on entity's performance in the business environment), other risk factors (delays, compulsory composition, bankruptcy, restructuring, blockage, outstanding tax liabilities, etc.) and an assessment acquired through an in-depth analysis of its operations. With natural persons, the decision to classify them into a credit rating grade mainly depends on the length of material default, but also on other criteria (personal bankruptcy, renegotiating claims, etc.).

For establishing an increase in credit risk, the Group has harmonised the credit rating grades for business entities and natural persons in the context of forming impairments based on the model, and thus uses five individual grades as shown in the table below.

Credit rating grades

Harmonised credit rating grades	Business entities	Natural persons and farmers	Risk	Estimated annual conditional PD (from – to)
A	A1, A2, A3	A	Low credit risk	0.16-1.15%
B	B1, B2, B3	B	Medium credit risk	2.92-3.37%
C	C1, C2, C3	C	High credit risk	13.27-24.70%
D	D	D	Defaulted obligor	100%
E	E	E	Defaulted obligor	100%

Classification of financial assets

At each reporting date, the Group classifies the exposures for which impairment requirements are used into groups 1, 2 and 3, depending on whether credit risk has increased significantly since initial recognition.

The Group classifies as group 1 all exposures whose credit risk has not increased significantly since initial recognition or which are considered low-credit risk transactions (this includes sovereign exposure, exposure to institutions, the public sector, as well as local and regional authorities). For such exposures, the Group measures 12-month expected credit losses.

If the Group establishes that the credit risk of an exposure has increased significantly since initial recognition, the instrument is classified as group 2, and expected credit losses are measured as full lifetime expected credit losses.

Exposures for which there is objective evidence of impairment (i.e. transactions by customers with the status of defaulted obligors) are classified as group 3. Their credit losses are measured based on estimated future cash flows reflecting the current value of estimated cash flows, or based on the assessment of the repayable amount of collateral based on the not-going concern principle.

At each reporting date, the Group estimates whether the credit risk of a financial Instrument has increased significantly since initial recognition, taking into account appropriate and demonstrable information that can be acquired without entailing excessive costs or efforts. Credit insurance is not taken into account in classifying exposures as group 1, 2 or 3. The tables below show the classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2018 and as at 31 December 2017.

Classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2018

2018

	Group 1	Group 2	Group 3	POCI	Total
Receivable's credit rating A	776,951	1,461	0	0	778,412
Receivable's credit rating B	96,063	2,033	0	0	98,096
Receivable's credit rating C	526	9,425	0	0	9,951
Receivable's credit rating D	0	0	113	0	113
Receivable's credit rating E	0	0	1,203	0	1,203
Receivable's credit rating P	0	0	56,851	761	57,612
Gross carrying amount of classified balance sheet exposures	873,540	12,919	58,167	761	945,387
Revaluation allowance for classified balance sheet exposures	(719)	(548)	(18,701)	0	(19,968)
Net carrying amount of classified balance sheet exposures	872,820	12,371	39,466	761	925,419

Classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2017

	2017
Receivable's credit rating A	702,731
Receivable's credit rating B	87,788
Receivable's credit rating C	15,595
Receivable's credit rating D	102
Receivable's credit rating E	4,131
Receivable's credit rating P	83,918
Gross carrying amount of classified balance sheet exposures	894,264
Revaluation allowance for classified balance sheet exposures	(31,813)
Net carrying amount of classified balance sheet exposures	862,451

Significant increase of credit risk

For all financial assets subject to impairment requirements, the Group estimates whether a significant increase of credit risk has occurred since initial recognition. If so, full lifetime expected credit losses are used instead of 12-month expected credit losses. The Group considers for a significant increase of credit risk to have occurred when at least one of the following criteria is fulfilled:

a) at the time of approving the transaction, the customer's credit rating is A or B, and as at the reporting date, their credit rating is C;
b) material default in the transaction exceeds 30 days;
c) in the trial period, the customer was restructured profitably, or restructured unprofitably;
d) the customer is included on the last watch list due to enforcement or non-permitted negative balances;
e) comparison of the cumulative probability of default (PD) on the day of approving the transaction and as at the reporting date: cumulative (lifetime) PD representing the default risk for the duration of the financial instrument will be used by the Group as criterion in the classification of transactions into groups beginning with 1 January 2020, i.e. for transactions approved after 1 January 2018; if there is a significant increase of the cumulative PD compared with the cumulative PD upon approval of the transaction, the transaction will be classified as group 2, and vice-versa (transfer from group 2 to group 1 in case of a significant decrease of the cumulative PD).

The Group has decided not to use the rebuttable presumption of material default in the transaction that is more than 30 days past due, and rather classify all transactions with the material default of more than 30 days as group 2 and recognise for them full lifetime expected credit losses.

If the customer's credit rating is D or E (exposure will be recognised as a non-performing exposure when it is considered there to have been a default in accordance with article 178 of CRR, or when it has been found to have been impaired in accordance with an effective accounting standard), the transaction will be considered credit impaired and therefore classified as group 3 regardless of the credit rating grade upon initial recognition.

COLLECTIVE ASSESSMENT OF CREDIT LOSSES

Use of forward-looking information

In measuring the expected credit losses (ECL), the Group uses forward-looking information which is available without undue cost or effort. It then forms the most likely outcome for future behaviour of economic variables, and also the best-case and the worst-case scenario. External information includes economic data and forecasts published by state institutions. Each scenario is ascribed a weight that represents a percentage of its probability to materialise. The most likely outcome is the scenario that is the most probable to materialise. The use of forward-looking information and determination of scenarios is described further below.

Measurement of expected credit losses (ECL)

Exposures classified as group 1 or 2 are, as a rule, impaired on a collective basis, and exposures classified as group 3 on an individual basis, with certain exceptions, such as limits that are subject to an action, service and payment guarantees, and non-credit transactions, for which, even if classified as group 3, impairment is recognised on a collective basis.

Collective impairment is calculated as the sum of discounted monthly weighted expected credit losses, and an individual (monthly) unit is calculated as the product of probability of default (PD). loss given default (LGD), exposure at default (EAD) and conversion factor (CCF).

Calculation of limit probability of default (PD)

In accordance with IFRS 9, the calculation of expected credit losses is based on the monthly limit PD that comprises expectations for the future and takes into consideration the probability of viability up to a certain month and the default event in this certain month. Forward-looking PD is calculated for the most likely outcome as well as the best-case and worst-case scenarios, and is based on the forecast for the chosen macroeconomic variable.

Calculation of forward-looking PS is based on the Z-shift method that enables forecasts for migration matrices in the coming periods using the forecast for macroeconomic variables. Using the forecast migration matrices, we can discern the probability of transfer to grades D and E, which stands for the probability of default (PD). In PD calculations, expectations for the future are comprised in the Z variable that is related to the chosen macroeconomic variable.

PD calculations use annual migration matrices, whereas macroeconomic variables also refer to the annual level. Migration matrices for farmers and natural persons are combined, and estimated PD values are thus acquired using two models: (I) the business entity model, and (II) the natural persons and farmers model. The source of past data and forecasts for macroeconomic variables is the Autumn Forecast of Economic Trends of the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (hereinafter: IMAD).

Forecasts for Z values are acquired with the regression model based on the ordinary least squares method (OLS). Z values are then translated back into migration matrices. For the years for which forecasts for the macroeconomic variable are no longer available, the last available Z value is used and decreased gradually to 0 (which results in an average matrix) by continually subtracting a fifth of the latest Z value and multiplying the latest cumulative matrix with the average matrix. This is based on the assumption that migration matrices have the characteristics of Markov chains, meaning that each time the probability of migration depends only on the current situation.

The annual conditional PD is then translated to the monthly level and in turn used to calculate the monthly limit PD. Foe each type of customer (corporate customers, natural persons, farmers) and each grade (A, B, and C), a time series of monthly PD is calculated taking into account the most likely outcome, the best-case and the worst-case scenario for the movement of the macroeconomic variable. Scenario weights are calculated based on the share of past errors in IMAD's forecasts for the chosen macroeconomic variable.

Calculations of PD for sovereign exposure and exposure to institutions and public sector entities are based on the Pluto-Tasche method, which is used to calculate PD for low- or zero-rate default portfolios The PD values calculated for the purpose of measuring the expected credit losses are also translated to the monthly level.

Calculation of loss given default (LGD)

Loss given default (LGD) is the share the Group loses on average within seven years of the occurrence of default with respect to the exposure at default. The calculation takes into account all the Group's receivables on loans from customers who have migrated to the status of default in the past seven years. The Group calculates the LGD parameter by calculating the recovery rate for each exposure and then subtracting it from 1.

Recovery rate is the share acquired by the Group after the occurrence of default either from calling on collateral or repayments by the customer. Calculations of the recovery rate take into account the actual cash flows received after the customer migrated to the status of a defaulted obligor and discounted on the day of their migration to this status, plus the value of the collateral which is also discounted on the day of their migration to the status of a defaulted obligor. If the transaction is not yet resolved, the calculation also takes into account the expected (estimated) cash flows which are also discounted on the day of the default. Exposure at default (EAD) is taken into account in the denominator. The amount of EAD is neither increased by interest on arrears or additional costs incurred after the event of default; nor is it decreased if the Group should receive an inflow after their migration to the status of a defaulted obligor.

The LGD parameter is calculated for (i) collateralised exposures, and (ii) exposures for receivables without collateral, which also includes receivables with types of collateral that are not taken into account in the calculation of LGD for the collateralised portion of the receivable. The LGD parameter is calculated separately for corporate customers and jointly for natural persons, farmers and private individuals without a registration number.

Calculations of expected credit losses for the exposure to the state are based on LGD values laid down in Article 161(1) of Regulation No. 575/2013/EU (CRR).

Calculation of exposure at default (EAD)

As at the reporting day, the actual exposure (EAD) is taken into account for each financial Instrument. If in the future, the exposure of a financial instrument changes in accordance with the contractually agreed repayment of interest and the principal, all future expected exposures of a financial instrument until its maturity are recalculated on the reporting day. If a delay in the payment of individual financial instruments should occur as at the reporting day, it is assumed that any delay will be repaid within the month following the reporting day. In the event of overpayment of instalment loans, the expected future exposure does not decrease until overpayments are equivalent to the expected exposure under the amortisation schedule. In the event of overpayment of annuity loans, the expected future exposure is regularly decreased by the amount of annuity, which results in advance repayment of loan.

If in the future, the exposure of a financial instrument is not liable to change in accordance with the contractually agreed repayment of interest and the principal, i.e. if the movement of exposure of a financial instrument is not known in advance (in case of a revolving loan, overdraft loan, limit, etc.), the actual exposure of a financial instrument as at the reporting day is taken into account in all months until the instrument's maturity.

Calculation of credit conversion factor (CCF)

Used as a conversion factor is the regulatory defined CCF as laid down in Article 111(1) of the CRR, which corresponds to the off-balance sheet item based on being classified into a risk category pursuant to the Annex 1 to the CRR.

Calculation of discount factor

Monthly weighted expected credit losses are discounted using a discount factor calculated from the effective interest rate, or the contractual interest rate if the Group has no information on the effective interest rate.

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

INDIVIDUAL ASSESSMENT OF CREDIT LOSSES

The Group assesses expected credit losses individually for non-performing exposures consistent with the definition of such exposures. Exposures are considered as non-performing when a default is considered to have happened with respect to them pursuant to Article 178 of the CRR, or when they have been found impaired pursuant to the valid accounting standard.

The expected exposure loss is calculated as the difference between the asset's carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. according to whether the approach used is that of business as a going concern or a not going concern.

The Group assesses expected cash flows based on objective evidence.

Changes to assessment techniques and material assumptions

In the period from 1 January 2018 to 31 December 2018, the Group made no changes to the methodology and assumptions used in the assessment of losses originating in credit risk, and there were also no changes to the risk parameters used in the calculation of expected credit losses.

Impact of the value of collateral on the calculation of expected credit losses

In calculating expected credit losses, the Group only takes into consideration real estate as collateral, whereas transactions with other types of collateral (insurance covers, guarantees, bank deposits, etc.) are considered unsecured transactions.

The value of collateralised assets affects the calculation of expected credit losses using the LGD parameter. The LGD parameter is assessed using a defaulted obligors sample and used in the collective assessment of credit losses (for non-defaulted obligors, i.e. groups 1 and 2). In the calculation of expected credit loss, LGD is used with respect to the type of customer and type of collateral. If an exposure has several types of collateral, the calculation of expected credit loss is based on weighted LGD.

For collateral, the Group only accepts property that conforms to its internal rules on collateral and complies with the conditions for mitigating credit risk as stipulated in Section 4 of CRR. In granting new transactions, the Group consistently follows its internal rules determining the loan-to-value ratio (LTV). When exposures are protected with residential property, the required LTV is 66%, and when protected with commercial property, the required LTV is normally 50%. With respect to housing loans intended for the construction of residential property, the Group also takes into account the growing mortgage value principle, with the required LTV having to be reached by the completion of construction.

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

	2018		2017	
Credit rating grade	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)	Total receivables for classification (%)	Receivables impairments and provisions for classification under IFRS (%)
1. A	80.8	0.0	76.9	0.1
2. B	12.0	0.4	12.1	1.4
3. C	1.0	5.5	1.7	5.2
4. D	0.0	45.1	0.0	56.2
5. E	0.0	80.6	0.4	100.0
6. P	6.2	31.8	8.9	30.4
	100.0	2.1	100.0	3.4

Total receivables for classification were up 5.2% in 2018 compared to 2017, and total impairments and provisions decreased by 34.1% as a result of successfully completed cases of restructuring, repayments received for non-performing exposures, and also due to the transfer of 100%-impaired receivables off the balance sheet and the write-off of unrecoverable receivables. At the year-end of 2018, the majority, i.e. 80.8%, of the Group's receivables for classification were given an A credit rating, followed by receivables for classification given a B credit rating, which represented 12.0% of all receivables for classification, and individually impaired receivables from customers in category P, which represented 6.2% of all receivables for classification. Impairments and provisions were formed for the latter under IFRS on the basis of the amounts of collateral and expected future cash flows.

5.1.4. Loans and receivables

Consistent with its strategy, in 2018 the Group focused on banking for the retail segment, farmers and SMEs, and groups with good credit ratings. Those clients were prioritised which, in addition to exhibiting creditworthiness, provided adequate collateral, so as to minimise the possible increase in the Group's exposure to credit risk.

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

	2018		2017	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	1,714	6,698	277,137	4,914
Impaired	760,654	0	435,037	0
Non-trading loans mandatorily measured at fair value through profit or loss	3,526	0	-	-
Gross amounts	765,878	6,698	743,440	4,914
Revaluation allowance for impairments of loans	(19,371)	0	(31,163)	0
Accumulated changes in fair value due to credit risk	(1,002)	0	-	-
Net amounts	**745,505**	**6,698**	**712,277**	**4,914**

The table above shows the amounts of drawn loans to customers and to banks, with loans that are neither due nor impaired including all transactions which will mature in periods after 31 December 2018 and whose impairment percentage equals 0. Loans whose impairment charge is higher than 0 are recorded under impaired loans. Value adjustment is also shown only for the balance sheet portion of exposure. Pursuant to IFRS 9, impairment requirements are also valid for certain transactions that in accordance with IAS 39 were not impaired, which is shown in the table (as at 31 December 2018, loans not impaired only amount to EUR 1,714 thousand, whereas the remaining portion of loans is to be impaired).

The total value of loans and receivables in financial year 2018 increased by 3.04% from 2017, with loans to customers and loans to banks both up. The reported loan loss provisions totalled EUR 20,373 thousand (2017: EUR 31,163 thousand). Pursuant to IFRS 9, the Group also measures impairments for receivables from banks, however, the related credit risk having been assessed as low, the total impairment charge for such exposures is negligible.

(b) Loans and receivables individually assessed as impaired

Loans and advances to customers (loans and receivables)

Individually impaired loans to customers and receivables from customers, without individually impaired loans to banks (upon transition to IFRS 9, receivables from banks are no longer classified as individually impaired, resulting from which individually impaired loans to banks equal 0) and before considering cash flows from collateral held by the Group, amount to EUR 62,609 thousand (2017: EUR 78,471 thousand). As opposed to 2017, exposure to SMEs decreased the most in 2018, by 21.3%, followed by exposure to large corporate clients down

19.2%, and exposure to individuals by 10.3% year-on-year, a result of repayments of non-performing exposures as well as the transfer of receivables off the balance sheet and their being written off.

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

2018	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	4,322	8,058	46,708	0	62,609
- Past due up to 15 days	1,255	5,750	21,033	0	31,559
- Past due 16 to 30 days	41	0	1,588	0	1,629
- Past due 31 to 90 days	43	0	51	0	94
- Past due over 90 days	2,982	2,308	24,036	0	29,326
Impairment charge	1,099	4,336	13,551	0	19,988
Fair value of collateral	7,047	1,170	51,984	0	63,715

* Micro, small and medium enterprises.

2017	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	4,819	14,336	59,316	6,474	84,945
Impairment charge	1,339	6,562	17,975	0	25,876
Fair value of collateral	8,367	6,712	59,412	0	74,491

* Micro, small and medium enterprises.

Loans and advances to banks (loans and receivables)

With respect to exposure to the banking sector, the Group formed no impairments on individual basis in 2018. In 2017, such exposures were included in individual impairments, however, no revaluation allowance was formed in this regard. Pursuant to IFRS 9, revaluation allowance is formed also for less credit risk-prone exposures, which includes banks; however, in the event of a default event, they are impaired collectively and are therefore not shown in the table.

(c) Restructured loans and receivables

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

The gross value of exposure for which a new agreement on repayment conditions was reached and which could otherwise fall due, amounted to a total of EUR 40,580 thousand as at 31 December 2018 (2017: EUR 64,884 thousand).

	2018	2017
Retail loans and receivables – Loans and advance	40,580	64,884
Total	**40,580**	**64,884**

5.1.5. Movements in revaluation allowance and gross value of financial assets and provisions for off-balance sheet liabilities

Movements in revaluation allowance and provisions for off-balance sheet liabilities

a) Movements in revaluation allowance for financial assets measured at amortised cost – loans and other financial assets, debt securities, other assets and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI**	Total
As at 1 January	569	1,202	29,519	0	31,290
Transferred to Group 1	116	(116)	0	0	0
Transferred to Group 2	(27)	171	(144)	0	0
Transferred to Group 3	(1)	(66)	67	0	0
Enhancements through issuing and acquisition	68	0	87	0	155
Decreases through derecognition	(104)	(76)	(1,933)	0	(2,113)
Changes due to change in credit risk (net)	98	(401)	2,309	0	2,006
Write-downs*	0	(166)	(10,202)	0	(10,368)
Other adjustments	0	0	(1,002)	0	(1,002)
As at 31 December	**719**	**548**	**18,701**	**0**	**19,968**
Repayments of previous write-downs recorded directly in the income statement	0	0	80	0	80
Write-downs recorded directly in the income statement	0	(1)	(12)	0	(13)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

** In December 2018, the Group purchased and newly recognised a purchased or originated credit-impaired (POCI) financial asset. In the period from recognition until 31 December 2018, no facts changed based on which expectations regarding the future cash flows would change, which means that no new impairments were required.

In 2018 there were no loans and advances regarding which modification or change effects should be recognised.

b) Movements in revaluation allowance for balances at central bank and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	0	0	0	0	0
Enhancements through issuing and acquisition	1	0	0	0	1
As at 31 December	**1**	**0**	**0**	**0**	**1**
Repayments of previous write-downs recorded directly in the income statement	0	0	0	0	0
Write-downs recorded directly in the income statement	0	0	0	0	0

c) Movements in revaluation allowance for debt securities at amortised cost

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	20	0	0	0	20
Enhancements through issuing and acquisition	2	0	0	0	2
Decreases through derecognition	(5)	0	0	0	(5)
Changes due to change in credit risk (net)	6	0	0	0	6
As at 31 December	**23**	**0**	**0**	**0**	**23**
Repayments of previous write-downs recorded directly in the income statement	0	0	0	0	0
Write-downs recorded directly in the income statement	0	0	0	0	0

d) Movements in revaluation allowance for loans and other financial assets at amortised cost

2018

	Group 1	Group 2	Group 3	POCI**	Total
As at 1 January	549	1,202	29,516	0	31,267
Transferred to Group 1	116	(116)	0	0	0
Transferred to Group 2	(27)	171	(144)	0	0
Transferred to Group 3	(1)	(66)	67	0	0
Enhancements through issuing and acquisition	65	0	81	0	146
Decreases through derecognition	(99)	(76)	(1,926)	0	(2,101)
Changes due to change in credit risk (net)	92	(401)	2,311	0	2,002
Write-downs*	0	(166)	(10,202)	0	(10,368)
Other adjustments	0	0	(1,002)	0	(1,002)
As at 31 December	**695**	**548**	**18,701**	**0**	**19,944**
Repayments of previous write-downs recorded directly in the income statement	0	0	80	0	80
Write-downs recorded directly in the income statement	0	(1)	(12)	0	(13)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

** In December 2018, the Group purchased and newly recognised a purchased or originated credit-impaired (POCI) financial asset. In the period from recognition until 31 December 2018, no facts changed based on which expectations regarding the future cash flows would change, which means that no new impairments were required.

e) Movements in revaluation allowance for other assets

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	0	0	3	0	3
Enhancements through issuing and acquisition	0	0	6	0	6
Decreases through derecognition	0	0	(7)	0	(7)
Changes due to change in credit risk (net)	0	0	(2)	0	(2)
As at 31 December	**0**	**0**	**0**	**0**	**0**
Repayments of previous write-downs recorded directly in the income statement	0	0	0	0	0
Write-downs recorded directly in the income statement	0	0	0	0	0

f) Movements in revaluation allowance for loans to banks and loans to customers and other financial assets (IAS 39)

2017

	Loans to banks	Loans to customers	Other financial assets
As at 1 January	-	33,426	638
Enhancements (through impairments)	-	13,254	221
Repayments (through impairments)	-	(11,025)	(105)
Transferred off the balance sheet (no write-downs)	-	(3,697)	(33)
Write-downs	-	(892)	(71)
Debt-to-equity swap	-	97	0
As at 31 December	**-**	**31,163**	**650**

g) Movements in provisions for off-balance sheet commitments and contingent off-balance sheet liabilities

2018

	Group 1	Group 2	Group 3	Total
As at 1 January	112	4	653	769
Transferred to Group 1	1	(1)	0	0
Transferred to Group 2	0	13	(13)	0
Transferred to Group 3	0	(1)	1	0
Enhancements through issuing and acquisition	2	0	3	5
Decreases through derecognition	(18)	0	(246)	(264)
Changes due to change in credit risk (net)	(25)	(11)	136	100
As at 31 December	**72**	**4**	**534**	**610**
Repayments of previous write-downs recorded directly in the income statement	0	0	0	0
Write-downs recorded directly in the income statement	0	0	0	0

Movements in gross value of financial assets and off-balance sheet liabilities

a) Movements in gross value of financial assets measured at amortised cost – loans and other financial assets, debt securities, other assets and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	787,253	25,584	81,503	0	894,340
Transferred to Group 1	13,267	(13,266)	(1)	0	0
Transferred to Group 2	(8,639)	9,585	(946)	0	0
Transferred to Group 3	(141)	(1,584)	1,725	0	0
Enhancements through issuing and acquisition	260,735	1,753	4,003	761	267,252
Decreases through derecognition	(154,754)	(4,288)	(14,134)	0	(173,176)
Write-downs*	(12)	(170)	(10,740)	0	(10,922)
Other changes	(24,169)	(4,695)	(3,243)	0	(32,107)
As at 31 December	**873,540**	**12,919**	**58,167**	**761**	**945,387**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

b) Movements in gross value of balances at central bank and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	20,838	0	0	0	20,838
Enhancements through issuing and acquisition	44,355	0	0	0	44,355
Other changes	143	0	0	0	143
As at 31 December	**65,336**	**0**	**0**	**0**	**65,336**

c) Movements in gross value of debt securities measured at amortised cost

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	123,572	0	0	0	123,572
Enhancements through issuing and acquisition	17,056	0	0	0	17,056
Decreases through derecognition	(31,573)	0	0	0	(31,573)
Other changes	(1,285)	0	0	0	(1,285)
As at 31 December	**107,770**	**0**	**0**	**0**	**107,770**

d) Movements in gross value of loans and other financial assets measured at amortised cost

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	642,835	25,584	81,440	0	749,859
Transferred to Group 1	13,267	(13,266)	(1)	0	0
Transferred to Group 2	(8,639)	9,585	(946)	0	0
Transferred to Group 3	(141)	(1,584)	1,725	0	0
Enhancements through issuing and acquisition	199,076	1,753	974	761	202,564
Decreases through derecognition	(123,181)	(4,288)	(12,072)	0	(139,541)
Write-downs*	(12)	(170)	(10,740)	0	(10,922)
Other changes	(22,936)	(4,695)	(3,243)	0	(30,874)
As at 31 December	**700,269**	**12,919**	**57,137**	**761**	**771,086**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

e) Movements in gross value of other assets

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	8	0	63	0	71
Enhancements through issuing and acquisition	248	0	3,029	0	3,277
Decreases through derecognition	0	0	(2,062)	0	(2,062)
Other changes	(91)	0	0	0	(91)
As at 31 December	**165**	**0**	**1,030**	**0**	**1,195**

f) Movements in off-balance sheet commitments and contingent off-balance sheet liabilities

2018

	Group 1	Group 2	Group 3	Total
As at 1 January	67,110	318	1,293	68,721
Transferred to Group 1	254	(254)	0	0
Transferred to Group 2	(256)	292	(36)	0
Transferred to Group 3	(51)	(21)	72	0
Enhancements through issuing and acquisition	117,168	672	2,833	120,673
Decreases through derecognition	(120,811)	(758)	(3,377)	(124,946)
As at 31 December	**63,414**	**249**	**785**	**64,448**

5.1.6. Debt securities and bills

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

The table below shows the Group's exposure with respect to its debt securities according to Standard & Poor's ratings, as at 31 December 2018 and 31 December 2017.

2018	Debt securities at amortised cost	Debt securities held for trading	Debt securities measured at fair value through other comprehensive income	Total
AA	15,265	0	0	15,265
A+	90,684	0	0	90,684
Unrated	1,799	0	0	1,799
Total debt securities	**107,748**	**0**	**0**	**107,748**

2017	Debt securities held to maturity	Debt securities held for trading	Debt securities available for sale	Total
A	123,572	0	0	123,572
Total debt securities	**123,572**	**0**	**0**	**123,572**

Both in 2018 and 2017, the largest proportion of our debts portfolio were Slovene state bonds, which totalled nearly EUR 91 million (the year-end of 2017: EUR 123 million). In the context of state bonds, they are followed by French state bonds totalling EUR 15 million. The remainder of the nearly EUR 2 million worth portfolio consists of commercial papers and bonds that were issued by major Slovene companies but not rated by prominent rating agencies. The Group's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

5.1.7. Collateral acquired by prescription

In 2018, the Group acquired assets by calling on the collateral held as guarantee, namely:

	Carrying amount	
	2018	2017
Property	2,081	3,987
Total	**2,081**	**3,987**

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

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

	Exposure category	Remaining maturity as at 31 December 2018			Remaining maturity as at 31 December 2017		
		Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	85,829	365,306	451,135	28,674	396,036	424,710
02	Regional and local government	8	6,080	6,088	9	4,623	4,632
03	Public sector entities	6,880	8,871	15,751	4,292	7,943	12,235
06	Institutions	35,720	304	36,024	38,955	216	39,171
07	Corporate	16,049	12,506	28,555	19,873	11,341	31,214
08	Retail exposures	66,964	131,389	198,353	59,255	112,200	171,455
09	Secured by mortgages of immovable property	25,982	230,505	256,487	30,177	222,430	252,607
10	Exposures in default	19,055	1,676	20,731	24,042	7,973	32,015
11	Regulatory high risk categories	6,605	5,221	11,826	1,523	20	1,543
14	Investments in investment funds	1	2,697	2,698	0	2,699	2,699
15	Other exposure	22,199	586	22,785	19,697	386	20,083
16	Equity exposure	7,567	0	7,567	8,981	0	8,981
	As at 31 December	292,859	765,141	1,058,000	235,478	765,867	1,001,345

At the year-end of 2018, 27.7% of the Group's exposure had maturities of up to one year and 72.3% fell due in over one year. In 2018, in absolute terms, the value to have decreased most was that of past due items, and retail exposure increased the most. In conformity with its internal policies, the Group has removed balance sheet exposures from the statement of financial position to keep them in off-balance sheet records. This relates to exposures for which the Group has ensured to cover the total exposure by applying revaluation allowance or provisions for credit risk losses. These are not comprised in the table showing exposure categories. The exposure categories shown include prudential consolidation the basis for which are financial statements on such prudential basis rather than regulatory consolidation of the balance sheet.

5.1.9. Capital requirements according to exposure categories

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

		2018		2017	
	Exposure category	Net exposure	Capital requirement	Net exposure	Capital requirement
01	Central government and central banks	451,135	710	424,710	621
02	Regional and local government	6,089	97	4,632	74
03	Public sector entities	15,751	940	12,235	776
06	Institutions	36,024	2,328	39,171	2,686
07	Corporate	28,555	1,706	31,214	1,807
08	Retail exposures	198,353	9,829	171,455	8,445
09	Secured by mortgages of immovable property	256,486	9,347	252,607	9,410
10	Exposures in default	20,731	1,995	32,015	2,885
11	Regulatory high risk categories	11,826	1,375	1,543	181
14	Investments in investment funds	2,698	27	2,699	25
15	Other exposure	22,785	874	20,083	913
16	Equity exposure	7,567	605	8,981	719
	As at 31 December	1,058,000	29,834	1,001,345	28,542

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

5.2. Market risk

In managing market risk, the Group relies on the Policy of Risk-taking and Managing Market Risk of Deželna banka Slovenije d. d. In compliance with its policy, market risk management is a collaboration of:

- front office (Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section),
- various boards and committees (Liquidity Commission, Investment Committee, Asset and Liability Management Board).

Each organisation unit taking part in market risk management has clearly defined competences and responsibilities. The basic principle applied by the Group in doing so is a clear division of the work processes each of them carries out:

- front office: carrying out trading transactions, analysing market prospects or trends, brokering trade in financial Instruments for customers, providing investment counselling to customers;
- back office: submitting and accepting clearances of transactions, implementation of a material and/or cash settlement, preparing underlying documents for accounting and recording transactions to compose bank position records, performing completeness checks for documentation received from trading sections, verification of transactions for compliance with market conditions and for documentation of deviations allowed, preparation of reports for senior management;
- Risk Management Section: measuring and analysing the Bank's exposure due to taking market positions, defining and monitoring set limits, implementation of stress scenarios, evaluation of unlisted securities, informing the senior management through the Asset and Liability Management Board, etc.,
- Financial Management Section: plans, analyses, controlling, reporting, registries.

The Group's exposure to market risk is low. Market risk exposure in 2018, as in 2017, primarily included exposure to interest rate risk due to Euribor changes and, to a lesser degree, foreign exchange risk. In any case, the Group pursues a policy of portfolio diversification and investing in highly liquid assets from countries with a high credit rating, avoiding investments with speculative-grade ratings.

The Group calculates the capital requirement for market risk under the standardised approach, pursuant to the provisions of Regulation (EU) No 575/2013. The table below shows that the Group had no market risk exposure at the year-end of 2018 and consequently did not have capital requirements for market risk.

	2018	2017
Equity instruments	0	0
Debt instruments	0	0
SUM OF CAPITAL REQUIREMENTS FOR MARKET RISK	**0**	**0**

Even though the Group had no market risk exposure as at 31 December 2018, a description of how such exposure is monitored is presented below. The Group monitors market risk by means of:
- prompt data on trading positions, spending of limits and overdrafts, and exposure to different risks,
- prompt data on currency positions,
- daily reporting on securities trading,
- end-of day reporting on overdrafts,
- monthly reporting on capital requirements for market risk, and
- quarterly risk analyses.

To manage market risks, the Group has:
- adopted the Risk-taking and Risk Management Strategy, which also includes a chapter on market risk,
- established relevant internal controls in implementing transactions,
- introduced quantitative analytic methods to measure individual types of market and foreign exchange risks with the growing complexity and scope of trading, and monthly performance of stress tests for exceptional yet likely situations.

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

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

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

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

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

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

To measure and control market risk, the Group applies the Value-at-Risk method (VaR) for its equity trading portfolio. VaR measures the risk of loss on a specific portfolio of financial assets for a 10-day time horizon, with a 99% level of confidence. As at 31 December 2018, the Group had no equities in its equity trading portfolio.

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

The Group measures these risks using Basis Point Value (BPV), which denotes the change in the market value of a trading book position, attributable to the parallel movement in the yield curve. BPV tells us how much value financial instruments will gain or lose depending on the market interest rate, i.e. change in yield. As at 31 December 2018, the Group had no debts in its bond trading portfolio.

5.2.3. Foreign exchange risk

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

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

In 2018, the Group promptly balanced the differences between purchases and sales of foreign exchange, which were mainly the result of payment and foreign exchange transactions. Exposure towards financial instruments denominated in foreign currencies was very low and consistent with the set limits.

The tables below show assets and liabilities as at 31 December 2018 and 31 December 2017 according to currency.

FOREIGN EXCHANGE RISK as at 31 December 2018					
Balance sheet items	EUR	USD	CHF	OTHER	TOTAL
Cash, balances at central banks, and sight deposits at banks	73,953	580	1,850	625	77,008
Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519	0	0	0	2,519
Financial assets measured at fair value through other comprehensive income	2,993	0	0	0	2,993
Financial assets measured at amortised cost	854,533	1,747	1,973	637	858,890
- Debt securities	107,748	0	0	0	107,748
- Loans to banks	2,533	1,747	1,781	637	6,698
- Loans to customers	742,794	0	192	0	742,986
- Other financial assets	1,458	0	0	0	1,458
Long-term equity participation in subsidiaries, associates and joint ventures	4,025	0	0	0	4,025
Tangible assets	34,453	0	0	0	34,453
- Property, plant and equipment	9,946	0	0	0	9,946
- Investment property	24,507	0	0	0	24,507
Intangible assets	486	0	0	0	486

FOREIGN EXCHANGE RISK as at 31 December 2018					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Income tax assets	4,613	0	0	0	4,613
- Deferred tax assets	4,613	0	0	0	4,613
Other assets	6,103	0	0	0	6,103
Non-current assets held for sale, and discontinued operations	6	0	0	0	6
TOTAL ASSETS (1)	**981,165**	**2,327**	**3,823**	**1,262**	**988,577**
Financial liabilities measured at amortised cost	916,801	2,341	3,905	1,117	924,164
- Deposits by banks and central banks	746	0	0	0	746
- Deposits by customers	857,104	2,325	3,905	1,117	864,451
- Borrowings from banks and central banks	53,758	0	0	0	53,758
- Debt securities	1,082	0	0	0	1,082
- Other financial liabilities	4,111	16	0	0	4,127
Provisions	2,518	0	0	0	2,518
Income tax liabilities	511	0	0	0	511
- Current tax liabilities	509	0	0	0	509
- Deferred tax liabilities	2	0	0	0	2
Other liabilities	582	0	0	0	582
TOTAL LIABILITIES (2)	**920,412**	**2,341**	**3,905**	**1,117**	**927,775**
MISMATCH (1) less (2)	**60,753**	**(14)**	**(82)**	**145**	**60,802**
Off-balance sheet liabilities	**64,448**	**0**	**0**	**0**	**64,448**

FOREIGN EXCHANGE RISK as at 31 December 2017					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	924,220	2,032	3,946	1,090	931,288
Total liabilities	865,757	2,038	3,988	910	872,693
MISMATCH (1) less (2)	**58,463**	**(6)**	**(42)**	**180**	**58,595**
Off-balance sheet liabilities	**61,375**	**0**	**0**	**0**	**61,375**

As at 31 December 2018, the Group did not have capital requirements for foreign exchange risk, as its net currency position did not exceed 2% of the Group's capital.

5.2.4. Interest rate risk

In managing interest rate risk, the Group relies on the Policy of Risk-taking and Managing Interest Rate Risk of Deželna banka Slovenije d. d. Taking interest rate risk and managing it within the Group is a collaboration of:

- front office (Branch Network, Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section),
- various boards (Lending Committee, Liquidity Commission, Asset and Liability Management Board).

The Group additionally monitors exposure to interest rate risk with reference to items in the banking book. It does this by using the methodology of interest rate sensitivity gap reports according to type of maturity and time periods relative to the following setting of interest rates (gap analysis). Interest rate gaps show the difference between the cash flows of interest-sensitive assets and interest-sensitive liabilities according to time periods. In the analysis of interest rate risk, the Group takes into consideration the distribution of stable demand deposits separately for corporate customers and natural persons, and savings deposits in accordance with the internal model, i.e. by transferring them from the O/N basket to other baskets with regard to continuity. In accordance with guidelines for managing interest rate risk originating in the operations of a non-trading book as prescribed by EBA, the Group distributes stable sight deposits for natural persons and bank’s savings deposits into time buckets of up to 10 years, and sight deposits for corporate customers into time buckets of up to 5 years. For deposits without an agreed maturity, the maximum average maturity of 5 years might be used in conformity to the mentioned guidelines, whereas the actual average maturity used by the Group for deposits without an agreed maturity is considerably lower than the maturity mentioned. Reports on exposure to interest rate risk are reviewed by the Bank's ALM Board on a monthly basis, and are noted quarterly by the

Management Board and Supervisory Board in the context of a risk management analysis.

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

With the gap analysis, the Group performs sensitivity tests to determine the effect of changes in market interest rates on the amount of net interest income in the following 12 months, as well as the exposure of the banking book economic value in the event of a standard parallel 200-basis-point interest rate shock. The latter result is used as the basis for computing the Group's additional capital requirement for interest rate risk under Pillar II; it is computed as the 6-month mean exposure of the banking book economic value assuming a standard interest rate shock. For the purposes of balancing interest rate risk on the banking book, the Group has in place a two-stage system of limits for each interest rate gap. The first stage is a position limit for each established gap, calculated using a proprietary methodology, while the second is a limit for the total exposure of the banking book economic value with the final risk limit set at 10% of the Group's capital.

According to the balance as at 31 December 2018, the Group had at its disposal an adequate amount of capital to offset the potential losses from interest rate risk. In the event of a sudden and unexpected parallel movement of the yield curve by 200 basis points, the effect of the changed interest rate never exceeded 10% of the value of capital.

The impact of the 200 basis points change in interest rates on the total exposure of the banking book economic value amounted to almost EUR 2,508 thousand as at 31 December 2018, which is 4% of the Bank's regulatory capital (2017: EUR 322 thousand). Higher exposure of the economic value of the banking book in 2018 is mainly due to higher values of stable demand deposits by natural persons which are distributed into time buckets by their continuity, and to the redistribution of debt securities into a shorter time bucket.

Interest income sensitivity to interest rate movements as at 31 December 2018

Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	17,558		
One-time curve shift (+2%) - immediate shock	25,523	7,965	45.37%
One-time curve shift (-2%) - immediate shock	5,349	(12,209)	(69.54%)
Curve shift (+2%) - gradually over 12 months	21,691	4,133	23.54%
Curve shift (-2%) - gradually over 12 months	11,300	(6,258)	(35.64%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	29,387	11,829	67.37%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	8,555	(9,003)	(51.28%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	23,537	5,979	34.06%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	12,939	(4,619)	(26.31%)

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

Assuming that the Group's investments and liabilities as at 31 December 2018 remained unchanged and held-to-maturity, and that the Group did not actively influence the structure of investments and liabilities in order to modify exposure to interest rate risk, a 2% drop in market interest rates (immediate shock) would cause a more than EUR 12 million decrease in net interest income over a one-year period (2017: just over EUR 10 million).

The following two tables outline exposure to interest rate risk as at 31 December 2018 and 31 December 2017. Financial instruments are recorded at carrying amounts and categorised into time periods according to the subsequent change in interest rate or maturity. Sight loans to customers (O/N) also include loans linked to six-month Euribor rate, for which interest rates are fixed each 1 January and 1 July.

INTEREST RATE RISK as at 31 December 2018									
Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash, balances at central banks, and sight deposits at banks	77,008	0	77,008	66,909	0	10,099	0	0	0
Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519	0	2,519	0	2,519	0	0	0	0
Financial assets measured at fair value through other comprehensive income	2,993	2,993	0	0	0	0	0	0	0
Financial assets measured at amortised cost	858,890	4,711	854,179	294,180	18,433	210,873	174,077	112,769	43,847
- Debt securities	107,748	1,831	105,917	0	0	16,122	1,194	53,100	35,501
- Loans to banks	6,698	16	6,682	2,318	2,383	1,781	200	0	0
- Loans to customers	742,986	1,406	741,580	291,862	16,050	192,970	172,683	59,669	8,346
- Other financial assets	1,458	1,458	0	0	0	0	0	0	0
Long-term equity participation in subsidiaries, associates and joint ventures	4,025	4,025	0	0	0	0	0	0	0
Other assets	6,103	6,103	0	0	0	0	0	0	0
TOTAL ASSETS	**951,538**	**17,832**	**933,706**	**361,089**	**20,952**	**220,972**	**174,077**	**112,769**	**43,847**
Financial liabilities measured at amortized cost	924,164	5,550	918,614	608,927	89,066	41,019	101,604	75,719	2,279
- Deposits by banks and central banks	746	0	746	746	0	0	0	0	0
- Deposits by customers	864,451	1,226	863,225	608,181	89,066	41,019	100,604	22,076	2,279
- Borrowings from banks and central banks	53,758	115	53,643	0	0	0	0	53,643	0
- Debt securities	1,082	82	1,000	0	0	0	1,000	0	0
- Other financial liabilities	4,127	4,127	0	0	0	0	0	0	0
Other liabilities	582	582	0	0	0	0	0	0	0
TOTAL LIABILITIES	**924,746**	**6,132**	**918,614**	**608,927**	**89,066**	**41,019**	**101,604**	**75,719**	**2,279**
Net exposure to interest rate risk	**26,792**	**11,700**	**15,092**	**(247,838)**	**(68,114)**	**179,953**	**72,473**	**37,050**	**41,568**

INTEREST RATE RISK as at 31 December 2017									
Balance sheet item	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	885,313	20,198	865,115	291,994	15,752	195,955	176,481	139,252	45,681
Total liabilities	869,682	5,529	864,153	529,230	95,294	46,378	102,600	88,347	2,304
Net exposure to interest rate risk	**15,631**	**14,669**	**962**	**(237,236)**	**(79,542)**	**149,577**	**73,881**	**50,905**	**43,377**

The Group's largest exposure as at 31 December 2018 was in euro, with exposures in other currencies negligible and immaterial. Interest rate risk in 2018 arose mainly out of the imbalance between the maturities of interest-rate-sensitive investments and liabilities, and out of the subsequent determination of interest rates. In 2019, the Group plans to continue matching interest rate gaps, the emphasis being on sight time periods of longer maturity, and to maintain a low exposure to interest rate risk. The Group will also continue to upgrade its methodology for establishing and measuring interest rate risk, while also fulfilling the guidelines for managing interest rate risk originating in the operations of a non-trading book as prescribed by EBA.

5.2.5. Average interest rates as at 31 December

	2018		2017	
	EUR	USD	EUR	USD
Assets	%	%	%	%
Cash, balances at central banks, and sight deposits at banks	(0.21)	0.04	0.00	0.03
Debt securities	2.36	0.00	3.13	0.00
Loans to banks	1.13	2.32	1.16	1.18
Loans to customers	2.10	0.00	2.05	0.00
Liabilities				
Borrowings from banks and central banks	(0.40)	0.00	0.00	0.00
Deposits by customers	0.08	0.01	0.11	0.01
Subordinated liabilities	6.16	0.00	6.16	0.00

5.3. Liquidity risk

In managing liquidity risk, the Group relies on the Policy of Risk-taking and Managing Liquidity Risk of Deželna banka Slovenije d. d. Liquidity risk management in the Group is a collaboration of:
- Management Board,
- front office (Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section, Payments Section, Treasury Section),
- various boards and commissions (Liquidity Commission, Asset and Liability Management Board).

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

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

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

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

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

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

Liquidity risk is evaluated comprehensively at the Group level once a year within the internal liquidity adequacy assessment process (ILAAP), which is used to assess liquidity and liquidity risk management.

In 2018, the Group had at its disposal an adequate pool of liquidity reserves, which can be utilised to settle any liabilities as well as off-balance sheet liabilities. In addition, it has at its disposal adequate secondary liquidity (liquid debt securities, domestic loans eligible as collateral with the European Central Bank, etc.) which it could easily and efficiently liquidate and use in case of a liquidity stress event that would compromise the daily system of liquidity management, such as an unexpected large-scale withdrawal of deposits.

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in the DBS Group Restoration plan. The Group selected the following liquidity indicators for the restoration plan: liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and wholesale funding cost indicator. Limit values have been set for each indicator stated, marking the point of commencement for internal processes based on the restoration plan. As well as in the aforementioned DBS Group Restoration plan, the array of indicators with set limits has also been summarised in the Risk-taking and Risk Management Strategy of Deželna banka Slovenije d. d.

As at 31 December 2018 and 31 December 2017, the first class liquidity ratio was 1.21 and 1.22 respectively. Monitoring the level of liquidity ratios and adopting measures for their improvement fall under the responsibility of the Liquidity Commission, which also verifies assumptions based on which decisions are made regarding the facilitation of the Group's liquidity.

The Group calculates on a regular basis the LCR liquidity coverage ratio, which has been defined as the ratio of the stock of high-quality liquid assets and the expected total net cash outflows over a 30 day period. The indicator has been regulated, and thus not allowed to fall below 100%. As at 31 December 2018, the liquidity coverage ratio was 222%.

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

The tables below summarise the Group's exposure to liquidity risk as at 31 December 2018 and 31 December 2017. Financial instruments are recorded at undiscounted amounts according to the remaining contractual maturity as at 31 December 2018, which in addition to the asset's carrying value includes expected future cash flows from interest.

LIQUIDITY RISK as at 31 December 2018							
Balance sheet item	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash, balances at central banks, and sight deposits at banks	66,910	0	10,105	0	0	0	77,015
Non-trading financial assets mandatorily measured at fair value through profit or loss	0	0	0	192	2,327	0	2,519
Financial assets measured at fair value through other comprehensive income	2,993	0	0	0	0	0	2,993
Financial assets measured at amortised cost	32,722	6,541	47,622	98,680	285,267	475,471	946,303
- Debt securities	0	220	17,920	1,564	56,049	36,238	111,991
- Loans to banks	2,319	2,393	1,781	11	232	0	6,736
- Loans to customers	29,481	3,769	27,657	97,086	228,940	439,185	826,118
- Other financial assets	922	159	264	19	46	48	1,458
Long-term equity participation in subsidiaries, associates and joint ventures	4,025	0	0	0	0	0	4,025
Other assets	4,377	84	0	1,642	0	0	6,103
TOTAL ASSETS	**111,027**	**6,845**	**75,647**	**102,078**	**343,643**	**511,709**	**1,150,949**
Financial liabilities measured at amortized cost	608,429	89,389	41,193	104,601	79,694	2,687	925,993
- Deposits by banks and central banks	746	0	0	0	0	0	746
- Deposits by customers	603,886	89,114	41,193	103,517	25,926	2,643	866,279
- Borrowings from banks and central banks	0	0	0	0	53,758	0	53,758
- Debt securities	0	0	0	1,083	0	0	1,083
- Other financial liabilities	3,797	275	0	1	10	44	4,127
Other liabilities	382	148	2	27	15	8	582
TOTAL LIABILITIES	**608,811**	**89,537**	**41,195**	**104,628**	**79,709**	**2,695**	**926,575**
Net exposure to liquidity risk	**(497,784)**	**(82,692)**	**34,452**	**(2,550)**	**263,934**	**509,014**	**224,374**

LIQUIDITY RISK as at 31 December 2017							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	71,825	8,075	30,170	102,794	308,673	454,806	976,343
Total liabilities	528,566	95,831	46,786	103,290	95,595	2,799	872,867
Net exposure to liquidity risk	**(456,741)**	**(87,756)**	**(16,616)**	**(496)**	**213,078**	**452,007**	**103,476**

The liquidity gap for the demand bracket is indeed deeply in the negative, however, financial liabilities in this group include total sight deposits, and this despite the fact that according to the calculation of the liquidity coverage ratio as at 31 December 2018 (LCR), the Group attains a 93% stability of deposits. In simulating liquidity stress tests, the Group categorises sight deposits and demand deposits in the Sight time period according to their stability/instability calculated using an in-house model. Additionally, the simulation of liquidity stress tests also takes into account the actual and potential future cash flows based on an analysis of funds drawn from off-balance sheet arrangements, the actual share of repayments from loans, and the share of renewed deposits.

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

As at 31 December 2018, the Group had EUR 270 million of unencumbered liquidity reserves, i.e. of eligible assets available for use in ECB credit operations, which substantially exceed liquidity shortages in case of shock scenarios.

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

5.4. Fair value of financial assets and liabilities

5.4.1. Financial assets not measured at fair value

	2018					2017				
	Carrying amount	Fair value				Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Assets										
Debt securities at amortised cost	107,748	93,546	15,447	1,794	110,787	123,572	133,911	0	0	133,911
Loans and advances to banks	6,698	0	0	6,698	6,698	4,914	0	0	4,914	4,914
Loans and advances to customers	741,836	0	0	782,701	782,701	710,040	0	0	737,702	737,702
Other financial assets	3,473	0	0	3,473	3,473	3,958	0	0	3,958	3,958
Total assets	**859,755**	**93,546**	**15,447**	**794,666**	**903,659**	**842,484**	**133,911**	**0**	**746,574**	**880,485**
Liabilities										
Deposits by banks	758	0	0	758	758	594	0	0	594	594
Deposits by customers*	864,250	0	0	864,250	864,250	809,019	0	0	809,019	809,019
Borrowings from banks and central banks*	64,660	0	0	64,660	64,660	72,995	0	0	72,995	72,995
Debt securities at amortised cost*	1,082	0	0	1,082	1,082	1,082	0	0	1,082	1,082
Other financial liabilities	9,747	0	0	9,747	9,747	6,045	0	0	6,045	6,045
Total liabilities	**940,497**	**0**	**0**	**940,497**	**940,497**	**889,735**	**0**	**0**	**889,735**	**889,735**

* According to the Methodology for Preparing a Recapitulation of the Statement of Financial Position, in 2017 and 2018, deposits by customers, borrowings from banks and debt securities at amortised cost include deposits, loans and advances, and certificates of deposits with characteristics of subordinated debt

(a) Loans and advances to banks

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

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The calculated fair value of loans and advances to customers is based on discounting the simulated future cash flows until maturity less the impairment losses, whereby the discount curve has been based on a zero curve as at 31 December 2018 as the best proxy for market rates.

(c) Debt securities measured at amortised cost

Debt securities are recorded in the books of account at amortised cost. Their fair value as at 31 December 2018 was calculated using market prices formed in the markets where they are listed.

(d) Deposits and borrowings

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

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

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

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

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

Valuation methods for financial instruments measured at fair value in the financial statements

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	0	**0**
Non-trading financial assets mandatorily measured at fair value through profit or loss (Note 4.3)	0	0	2,519	**2,519**
Financial assets measured at fair value through other comprehensive income (Note 4.4. a)	0	0	2,993	**2,993**
Non-financial assets				
Investment property (Note 4.15. a)	0	0	24,507	**24,507**
Financial liabilities				
Financial liabilities held for trading (Note 4.20.)	0	0	0	**0**

2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	227	**227**
Non-trading financial assets mandatorily measured at fair value through profit or loss (Note 4.3)	-	-	-	**-**
Available-for-sale financial assets (Note 4.4. a)	0	0	3,751	**3,751**
Non-financial assets				
Investment property (Note 4.15. a)	0	0	29,629	**29,629**
Financial liabilities				
Financial liabilities held for trading (Note 4.20.)	0	0	227	**227**

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

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

Level 3: Level 3 includes unlisted equities (EUR 2.7 million is the investment into the Bank Resolution Fund), bonds, receivables and payables associated with the purchase and sale of foreign exchange, loans and advances, and investment property at fair value. The valuation of equities that do not have quoted prices is based on market observables. Key parameters are compared with those of similar assets and liabilities traded in an active market, with the data coming from Bloomberg or another reliable source. Own interest in a private limited liability company is calculated based on carrying value of equity multiplied by the percentage of own share in equity and the liquidity deduction of 25%. In determining their fair value, the Group applies the same internal methodologies as for Level 2 instruments. The fair value of investment property is determined on the basis of appraisal reports prepared by independent appraisers working in compliance with International Valuation Standards (IVS).

Level 3: Financial assets measured at fair value through other comprehensive income - breakdown

	2018	2017
Equity instruments		
Bank resolution fund	2,697	2,699
Equity investments at fair value	296	1,052
TOTAL	**2,993**	**3,751**

In 2018, the Bank Resolution Fund total amounted to EUR 2,697 thousand. Pursuant to the Bank Resolution Authority and Fund Act, the Group paid EUR 2,702 thousand into the Bank Resolution Fund in 2016. These assets are managed by the Bank of Slovenia consistent with the Regulation on the Investment Policy and Management Fees of the Bank Resolution Fund. The Bank of Slovenia sends regular monthly reports on the value of the investment, which serves as the basis for its valuation and which is why the Group categorises it as Level 3. The Group additionally categorises as Level 3 capital assets worth EUR 0.3 million for which market value does not exist and which are measured at fair value through other comprehensive income.

There were no transfers between different valuation levels in 2017 and 2018.

5.5. Managing operational risk

In managing operational risk, the Group applies the Risk-taking and Risk Management Policy for Operational Risk of Deželna banka Slovenije d. d.
Operational risk management in the Group is a collaboration of:
- Management Board,
- senior management,
- Risk Management Section,
- Operations Compliance Department,
- security manager,
- various boards and committees (Operational Risk Committee, Security Committee, Asset and Liability Management Board).

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in its Restoration plan. For monitoring operational risk, it has selected the indicator of significant operational loss. The indicator is monitored monthly at the Bank's ALM Board. The array of indicators with set limits has been laid down in the Restoration plan and also summarised in the Risk-taking and Risk Management Strategy of Deželna banka Slovenije d. d. Operational risk management at the Group level is also assessed once a year within the internal capital adequacy assessment process (ICAAP process).

Regular reporting on (loss) events associated with operational risk has been in place since 1 April 2007. The Group has proprietary application support for systematic monitoring of loss events arising out of operational risk, which is regularly updated and upgraded. According to the new Resolution on Internal Governance, Governance Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks, each employee of the Group can report a (loss) event into the loss events database. 290 (loss) events associated with operational risk were reported in this manner in 2018, which is more than in 2017 when there were 284. The realised net loss in 2018 was higher than in 2017. In 2018, these fees amounted to EUR 704.1 thousand (2017: EUR 13.8 thousand). The total reported net loss was relatively low considering the capital requirements for operational risk.

Integrated into this system are measures to resolve operational risk events and prevent repeat events. Since the final quarter of 2010, operational risk (loss) events have been additionally monitored according to key risk indicators. Reports on operational risk (loss) events with the financial impact over EUR 500 and operational risk events that might affect the Bank's reputation are promptly presented to the Bank's Management Board, whereas the Internal Audit Department and the Operations Compliance Department are briefed on all the events recorded.

The Group calculates and reports capital requirements for operational risk using the simple approach. The capital requirement for operational risk is calculated as the average over three years of the sum of net interest income and net non-interest income, minus extraordinary income, the result then multiplied with the weight of 15%. Using the said simple approach, the 2018 capital requirement for operational risk totalled EUR 3,947 thousand.

In 2018, the Group also calculated the capital requirement for information purposes using the standardised approach.

5.6. Capital management

In managing capital risk, the Group applies the Risk-taking and Risk Management Policy for Capital Risk of Deželna banka Slovenije d. d. Capital risk management in the Group is a collaboration of:
- Management Board,
- Audit and Risk Committee of the Supervisory Board,
- Supervisory Board,
- all commercial sections in the Group,
- Risk Management Section, Financial Management Section,
- various boards and committees (Asset and Liability Management Board, Lending Committee, Non-performing Loans Committee, Real Estate Management Board).

With regard to capital risk management and in relation to policies of managing other inherent risks within the Group, the following is adopted and implemented where necessary:
- measures to increase the Group's regulatory capital,
- measures to reduce risk-adjusted items, including measures to improve the quality of credit and market portfolios,
- measures to improve the Group's risk profile, and
- measures to reduce the requirements regarding adequate regulatory capital.

To monitor its operations and the related major risks that could affect its existence, the Group has laid down an array of quantitative indicators in its Restoration plan. To monitor capital risk, it has selected two indicators, the common equity tier 1 capital ratio and the total capital ratio, whereas the level of financial leverage is also being monitored. The indicators are monitored monthly at the Bank's ALM Board, and quarterly at the Bank's Management Board, the Risk Committee of the Bank's Supervisory Board, and the Bank's Supervisory Board. The array of indicators with set limits has been laid down in the Restoration plan and also summarised in the Risk-taking and Risk Management Strategy of Deželna banka Slovenije d. d.

Capital risk management at the Group level is also assessed once a year within the internal capital adequacy assessment process (ICAAP process).

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

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

The Group did not have additional tier I capital neither according to the balance as at 31 December 2018 nor as at 31 December 2017.

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

Capital may never drop below the amount stipulated by the Regulation (EU) No 575/2013 and must always equal minimally the sum of minimum capital requirements stipulated in said Regulation.

[1] It has been a capital deduction item since 2016.
[2] Before 2018, a transitional period was considered for this deduction, whereas in 2018 it is fully taken into account.

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

		2018	2017
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES			
1	Capital instruments and the related share premium	17,811	17,811
	of which: instrument type 1	17,811	17,811
2	Retained earnings and revenue reserves	8,980	6,626
3	Accumulated other comprehensive income and other reserves	30,720	30,996
4	**Common equity tier I capital before regulatory adjustments**	**57,511**	**55,434**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS			
5	Additional fair value and credit risk adjustments	(16)	(424)
6	Intangible assets (deductions for associated tax liabilities)	(486)	(594)
7	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(1,061)	(1,600)
8	Direct and indirect holdings in own common equity tier I capital instruments	(601)	(645)
9	Total regulatory adjustments to common equity tier I capital	(2,165)	(3,263)
10	Common equity tier I capital	55,346	52,170
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**55,346**	**52,170**
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS			
12	Capital instruments and the related share premium account	5,971	7,781
13	Tier II capital before regulatory adjustments	5,971	7,781
14	**TIER II CAPITAL**	**5,971**	**7,781**
15	**TOTAL CAPITAL (tier I + tier II)**	**61,317**	**59,951**
16	Total risk-weighted assets	422,275	407,369
CAPITAL RATIOS AND CAPITAL BUFFERS			
17	**Common equity tier I capital (in %)**	**13.11**	**12.81**
18	**Tier I capital (in %)**	**13.11**	**12.81**
19	**Total capital (in %)**	**14.52**	**14.72**
20	Common equity tier I capital that qualifies as capital buffer (in %)	13.11	12.81
21	Institution-specific buffer requirement (in %)	1.875	1.250
22	of which: capital conservation buffer requirement (in %)	1.875	1.250
23	Direct and indirect equity holdings in financial sector entities where the institution does not have a significant investment (amount below 10% threshold, reduced by permitted short positions)	2,849	2,995
24	Deferred tax assets arising out of temporary differences (amount under 10% threshold, reduced by associated tax liabilities if conditions from Article 38(3) are met)	3,552	3,106

The Group's regulatory capital as at 31 December 2018 amounted to EUR 61,317 thousand, up EUR 1,366 thousand year-on-year. The quality of capital structure improved at the year-end of 2018 as compared to 2017, the share of tier I capital having increased to 90.3% (from 87% in 2017). Total capital requirements at Group level totalled EUR 33,728 thousand at the year-end of 2018, up EUR 1,192 thousand year-on-year. Capital requirements for credit risk mostly increased due to higher exposure to retail banking. In addition, the Group continued in 2018 with activities aimed at reducing capital requirements (sorting mortgages as to eligibility in order to reduce capital requirements, minding non-performing exposures and exposures associated with particular high risk). In 2018, as in 2017, exposure decreased the most in terms of defaulting items. The total capital ratio as at 31 December 2018 thus stood at 14.52%, down 0.20 of a percentage point year-on-year, and by 1.14 of a percentage point higher than what had been imposed by the Bank of Slovenia. Tier 1 capital ratio and common equity tier 1 capital ratio as at 31 December 2018 were 13.11%, up 0.30 of a percentage point year-on-year, and by 1.36 of a percentage point higher than what had been imposed by the Bank of Slovenia.

Given the Group's internal capital adequacy assessment within the ICAAP process, we estimate the reported capital adequacy ratio as appropriate for managing the risk of potential losses. The Bank and the Group will continue to operate an adequate amount of capital to sustain their normal operations in the future. In 2018, the Bank of Slovenia imposed minimum capital adequacy ratios for the Bank and the Group on the basis of the ICAAP/SREP process: capital adequacy ratio of 13.38% (in 2017 the target was 12.75%) and tier I capital adequacy ratio of 11.5%, or 11.75% taking into consideration the capital guideline (in 2017 the target was 11.5%). At the year-end of 2018, the Group thus met all the capital adequacy ratios imposed by the Bank of Slovenia.

For the period after 1 March 2019, the Bank of Slovenia imposed new minimum capital adequacy ratios for the Bank and the Group on the basis of the ICAAP/SREP process: the overall capital adequacy ratio of 14.00% and the common equity tier I capital adequacy ratio of 11.5%.

The table below shows the balancing of the Group's items of capital with its financial statements.

		Prudential consolidation	Inclusion into calculation of capital for the purpose of CA as at 31 December 2018	Note
Code	Items	2018		
1	Cash, balances at central banks, and sight deposits at banks	77,008		
2	Financial assets held for trading	0	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519		
4	Financial assets measured at fair value through other comprehensive income	2,993	(3)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
5	Financial assets measured at amortised cost	858,890		
	- Debt securities	107,748		
	- Loans and advances to banks	6,698		
	- Loans and advances to customers	742,986		
	- Other financial assets	1,458		
6	Long-term equity participation in subsidiaries, associates and joint ventures	4,025	(4)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
7	Tangible assets	34,453		
	- Property, plant and equipment	9,946		
	- Investment property	24,507		
8	Intangible assets	486	(486)	deduction item Article 36 b - fully
9	Income tax assets	4,613		
	- Deferred tax assets	4,613		
	Depending on future profitability and not arising out of temporary differences	1,061	(1,061)	deduction item Article 36 c - 100% of item's value during transitional period
	"Depending on future profitability and arising out of temporary differences"	3,552		
10	Other assets	6,103		
11	Non-current assets held for sale, and discontinued operations	6		
12	**TOTAL ASSETS** (from 1 to 11)	**991,096**		
13	Financial liabilities held for trading	0	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
14	Financial liabilities measured at amortised cost	924,164		
	- Deposits by banks and central banks	746		
	- Deposits by customers	864,451	4,022	included on the basis of Articles 62 and 63
	- Borrowings from banks and central banks	53,758	1,755	included on the basis of Articles 62 and 63
	- Borrowings from customers	0		
	- Debt securities	1,082	194	included on the basis of Articles 62 and 63
	- Other financial liabilities	4,127		
15	Provisions	2,518		
16	Income tax liabilities	511		
	- Current tax liabilities	509		
	- Deferred tax liabilities	2		
17	Other liabilities	582		
18	**TOTAL LIABILITIES** (from 13 to 17)	**927,775**		
19	Share capital	17,811	17,811	fully included; Article 26
20	Share premium	31,257	31,257	fully included; Article 26
21	Accumulated other comprehensive income	(538)	(538)	
	Other revaluation surpluses	(538)	(538)	100% of unrealised losses included in 2018, Article 467
22	Revenue reserves	11,701	8,980	conditions for inclusion not yet met for the amount of EUR 2,721 thousand
23	Treasury shares	(601)	(601)	deduction item, Article 36 f - fully

Code	Items	Prudential consolidation	Inclusion into calculation of capital for the purpose of CA as at 31 December 2018	Note
		2018		
24	Retained earnings (including profit/loss for the year)	3,691		
	Retained earnings	991		conditions for inclusion not yet met
	Profit for the period	2,700		conditions for inclusion not yet met
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**63,321**		
26	**TOTAL EQUITY** (25)	63,321		
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**991,096**		
			61,327	**Regulatory capital (sum of capital from SFP)**
			(9)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			61,317	**Regulatory capital**

5.7. Asset encumbrance

(a) Assets

	2018			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
	010	040	060	090
Assets of the reporting institution	**62,751**	**-**	**928,345**	**-**
Equities	0	0	2,993	2,993
Debt securities	3,108	3,108	104,640	107,680
Other assets	0	-	61,360	-

(b) Collateral received

		2018	
		Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**0**	**0**
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	0
240	**Own debt securities issued other than own covered bonds or ABSs**	**0**	**0**

(c) Encumbered assets/collateral received and related liabilities

		2018	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**49,643**	**49,643**

(d) Information on the importance of encumbrance

The Group's encumbered assets include investments in debt securities measured at fair value through other comprehensive income, or in debt securities measured amortised cost and held to maturity, and non-marketable assets (loans to the state).

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

Deželna banka Slovenije d. d.

Financial statements under International Financial Reporting Standards for the year ended 31 December 2018

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management Board hereby approves the financial statements of Deželna banka Slovenije d. d. for the financial year ended 31 December 2018 (pages 165 to 168 of the Annual Report), along with the accounting principles used and notes to the financial statements (pages 169 to 248 of the Annual Report).

We hereby reaffirm our responsibility for the Annual Report, which is a true and fair presentation of the Bank's financial standing as at 31 December 2018, and for the results of its operations for the year ended on the same day.

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

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

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

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board:
Marko Rozman

BANKA SLOVENIJE DEŽELNA d.d. LJUBLJANA 1

Ljubljana, 25 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte.

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Slovenija

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the DEŽELNA BANKA SLOVENIJE d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (hereinafter 'IFRS').

Basis for Opinon

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) 537/2014 of the European Parliament and of the Council, dated 16 April 2014, on specific requirements regarding statutory audit of public-interest entities. Our responsibilities under those rules are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the year ended 31 December 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Company presented loans and advances to customers in the amount of EUR 755.8 million and total expected credit loss in the amount of EUR 15.2 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans to non-bank customers is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models.	Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion.

Additionally, from 1 January 2018, the Bank has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes ‚2.8 – Financial assets', '4.8 – Loans and advances to customers', '3.12 – Impairment charge' and ‚5.1 – Credit risk'. Information regarding the transitional effect of IFRS 9 are disclosed in note 'Disclosures upon introduction of IFRS 9', including the impact on shareholders' equity and retained earnings at 1 January 2018.	We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from operations taking into consideration

	borrower's financial status and performance iii. Reviewing and critically assessing estimated value of collateral and estimated realisation period iv. Critical assessment of discount rates used in the estimation of the expected cash flows from operations and/or collateral v. Re-performing calculation of expected credit losses by applying our own independent judgment and assumptions, based on our industry experience, on to calculation and comparing derived result of the impairment losses per certain sampled loans with the ones provided by the Bank.

Other information

Management is responsible for the other information. The other information comprises the information, included in Annual report, other than the financial statements and our auditor's report thereon. Other information were obtained prior to the date of this auditor's report, except Report from Supervisory Board, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we express no assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, assess whether the other information is materially inconsistent with the financial statements, legal requirements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that other information include material misstatement we need to report such circumstances.

In relation to this and based on our procedures performed, we report that:

- other information are, in all material respects, consistent with the financial statements;
- other information are prepared in compliance with applicable law or regulation; and
- based on our knowledge and understanding of the Company and its environment obtained in the audit, we did not identify any material misstatement of fact related to the other information.

Responsibilities of Management, Supervisory Board and Audit Committee for the Financial Statements

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

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process and for approving audited annual report.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

With Supervisory Board and Audit Committee we communicate the planned scope and timing of the audit and significant findings from the audit, including deficiencies in internal control we have identified during our audit.

We also provide Supervisory Board and Audit Committee with the statement of compliance with relevant ethical requirements regarding independence, and we communicate with them all relationships and other matters for which it may reasonably be thought to bear on independence, and, if appropriate, all the related safeguards.

From the matters communicated Supervisory Board and Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 21 March 2016. Our total uninterrupted engagement has lasted 8 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in the Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. There are no services, in addition to the statutory audit, which we provided to the Company, and which have not been disclosed in the Annual Report.

Engagement partner responsible for the audit on behalf of Deloitte revizija d.o.o. is Katarina Kadunc, certified auditor.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 26 March 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

III. Financial statements as at 31 December 2018

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	Note	1-12 2018	1-12 2017
1	Interest income		18,944	19,596
2	Interest expense		(1,656)	(1,783)
3	**Net interest income** (1 - 2)	3.1.	**17,288**	**17,813**
4	Dividends	3.2.	30	91
5	Fee (commission) income		9,615	9,310
6	Fee (commission) expense		(1,913)	(1,750)
7	**Net fee (commission) income** (5 - 6)	3.3.	**7,702**	**7,560**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3.4.	5,697	2,102
9	Net gains (losses) from financial assets and liabilities held for trading	3.5.	140	347
10	Foreign exchange translation	3.6.	(1)	(83)
11	Net gains/losses on derecognition of assets	3.7.	204	298
12	Other net operating gains/losses	3.8.	(1,704)	(1,596)
13	Administrative expenses	3.9.	(16,461)	(16,441)
14	Depreciation and amortisation	3.10.	(951)	(1,089)
15	Provisions	3.11.	(2)	(923)
16	Impairment charge	3.12.	(5,220)	(3,416)
17	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 + 15 + 16)		**6,722**	**4,663**
18	Income tax	3.13.	(1,281)	(857)
19	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (17 + 18)		**5,441**	**3,806**
20	**PROFIT/LOSS FOR THE YEAR** (19)		**5,441**	**3,806**

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

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	Note	1-12 2018	1-12 2017
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**5,441**	**3,806**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(61)**	**(135)**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1. + 3.2 + 3.3)	4.31.	**(61)**	**(28)**
3.1	Actuarial gains/losses on defined benefit pension plans		63	(31)
3.2	Gains/losses associated with changes in the fair value of investments into equity instruments mesaured at fair value through other comprehensive income		(146)	0
3.3	Income tax relating to components of items not be reclassified to profit or loss		22	3
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**0**	**(107)**
4.1	Gains/losses associated with available-for-sale financial assets (4.1.1 + 4.1.2)	4.4. b	0	(134)
4.1.1	Valuation gains/losses taken to equity		0	(136)
4.1.2	Transferred to profit/loss		0	2
4.2	Income tax relating to components of items that may be reclassified to profit or loss	4.27. c	0	27
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**5,380**	**3,671**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

in EUR thousand

Code	Items	Note	2018	2017
1	Cash, balances at central banks, and sight deposits at banks	4.1.	77,008	29,450
2	Financial assets held for trading	4.2.	0	227
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	4.3.	2,519	-
4	Financial assets mesaured at fair value through other comprehensive income	4.4.	2,993	-
5	Available-for-sale financial assets (IFRS 39)	4.5.	-	3,751
6	Financial assets measured at amortised cost		856,449	-
	- Debt securities	4.6.	107,748	-
	- Loans and advances to banks	4.7.	6,698	-
	- Loans and advances to customers	4.8.	740,654	-
	- Other financial assets	4.9.	1,349	-
7	Loans and advances (IFRS 39)		-	715,918
	- Loans and advances to banks	4.10.	-	4,914
	- Loans and advances to customers	4.11.	-	710,310
	- Other financial assets	4.12.	-	694
8	Held-to-maturity investments (IFRS 39)	4.13.	-	123,572
9	Long-term equity participation in subsidiaries, associates and joint ventures	4.14.	8,287	9,689
10	Tangible assets		33,713	39,357
	- Property, plant and equipment	4.15.	9,206	9,728
	- Investment property	4.16.	24,507	29,629
11	Intangible assets	4.17.	445	576
12	Income tax assets		4,613	5,106
	- Deferred tax assets	4.18.	4,613	5,106
13	Other assets	4.19.	4,771	3,384
14	**TOTAL ASSETS** (from 1 to 13)		**990,798**	**931,030**
15	Financial liabilities held for trading	4.20.	0	227
16	Financial liabilities measured at amortised cost		924,156	869,086
	- Deposits by banks and central banks	4.21.	746	579
	- Deposits by customers	4.22.	864,650	809,287
	- Borrowings from banks and central banks	4.23.	53,758	54,927
	- Debt securities	4.24.	1,082	1,082
	- Other financial liabilities	4.25.	3,920	3,211
17	Provisions	4.27.	2,505	2,822
18	Income tax liabilities	4.28.	512	177
	- Current tax liabilities		510	177
	- Deferred tax liabilities		2	0
19	Other liabilities	4.29.	434	355
20	**TOTAL LIABILITIES** (from 15 to 19)		**927,607**	**872,667**
21	Share capital	4.30.	17,811	17,811
22	Share premium	4.31.	31,257	31,257
23	Accumulated other comprehensive income	4.32.	(547)	(335)
24	Revenue reserves	4.33.	11,701	7,230
25	Treasury shares	4.34.	(601)	(645)
26	Retained earnings (including profit/loss for the year)	4.35.	3,570	3,045
27	**TOTAL EQUITY** (from 21 to 26)		**63,191**	**58,363**
28	**TOTAL EQUITY AND LIABILITIES** (20 + 27)		**990,798**	**931,030**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Total equity (from 3 to 8)
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE PERIOD** (before adjustment)	**17,811**	**31,257**	**(335)**	**7,230**	**3,045**	**(645)**	**58,363**
2	Effects of transition to IFRS 9	0	0	(151)	0	635	0	**484**
3	**OPENING BALANCE FOR THE PERIOD** (1 + 2)	**17,811**	**31,257**	**(486)**	**7,230**	**3,680**	**(645)**	**58,847**
4	**Comprehensive income for the year** (net of tax)	**0**	**0**	**(61)**	**0**	**5,441**	**0**	**5,380**
5	Dividends/share bonuses paid (accounted)	0	0	0	(26)	0	44	**18**
6	Dividends paid (accounted)	0	0	0	(423)	(846)	0	**(1,269)**
7	Allocation of net profit to revenue reserves	0	0	0	4,920	(4,920)	0	**0**
8	Other*	0	0	0	0	215	0	**215**
9	**CLOSING BALANCE FOR THE PERIOD** (3 + 4 + 5 + 6 + 7 + 8)	**17,811**	**31,257**	**(547)**	**11,701**	**3,570**	**(601)**	**63,191**
10	**ACCUMULATED PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**3,570**	**0**	**3,570**

* Gains on equities through other comprehensive income

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	Share capital	Share premium	Accumulated other comprehensive income	Revenue reserves	Retained earnings (including profit/loss for the year)	Treasury shares (deduction)	Total equity (from 3 to 8)
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE PERIOD**	**17,811**	**31,257**	**(200)**	**4,504**	**1,965**	**(645)**	**54,692**
2	Comprehensive income for the year (net of tax)	0	0	(135)	0	3,806	0	**3,671**
3	Allocation of net profit to revenue reserves	0	0	0	2,726	(2,726)	0	**0**
4	**CLOSING BALANCE FOR THE PERIOD** (1 + 2 + 3)	**17,811**	**31,257**	**(335)**	**7,230**	**3,045**	**(645)**	**58,363**
5	**ACCUMULATED PROFIT FOR THE YEAR**	**0**	**0**	**0**	**0**	**3,045**	**0**	**3,045**

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

in EUR thousand

Code	Items	2018	2017
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
a)	**Interest received**	**20,508**	**20,688**
	Interest paid	(1,775)	(2,448)
	Dividends received	30	91
	Fee and commission received	9,634	9,324
	Fee and commission paid	(1,913)	(1,750)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	82	198
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	0	(36)
	Net trading income	0	347
	Cash payments to employees and suppliers	(15,584)	(16,168)
	Other income	536	534
	Other expenses	(2,241)	(2,130)
	Cash flows from operating activities before changes in operating assets and liabilities	**9,277**	**8,650**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**(34,216)**	**(112,645)**
	Net (increase)/decrease in financial assets held for trading	377	(240)
	Net (increase)/decrease in available-for-sale financial assets	641	4,134
	Net (increase)/decrease in loans and advances	(33,560)	(127,522)
	Net (increase)/decrease in other assets	(1,674)	10,983
c)	**Increases/(decreases) in operating liabilities**	**53,889**	**81,684**
	Net increase/(decrease) in liabilities with central bank	(357)	50,000
	Net increase/(decrease) in trading liabilities	(225)	229
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	54,590	31,588
	Net increase/(decrease) in other liabilities	(119)	(133)
č)	**Cash flows from operating activities** (a + b + c)	**28,950**	**(22,311)**
d)	**Income taxes (paid)/received**	**(546)**	**(249)**
e)	**Net cash from operating activities** (č + d)	**28,404**	**(22,560)**
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
a)	**Investing inflows**	**40,988**	**38,501**
	Proceeds from sale of property, plant and equipment, and investment property	4,623	6,503
	Proceeds from sale of held-to-maturity investments	36,365	31,998
b)	**Investing outflows**	**(18,991)**	**(10,187)**
	(Purchase of property, plant and equipment, and investment property)	(1,788)	(232)
	(Purchase of intangible long-term assets)	(26)	(65)
	(Purchase of held-to-maturity investments)	(17,177)	(9,890)
c)	**Net cash from investing activities** (a + b)	**21,997**	**28,314**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
b)	**Outflows from financing activities**	**(1,269)**	**0**
	(Dividends paid)	(1,269)	0
c)	**Net cash from financing activities** (b)	**(1,269)**	**0**
D.	**Effects of exchange rates on cash and cash equivalents**	**201**	**(604)**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**49,132**	**5,754**
F.	**Opening balance of cash and cash equivalents** (Note 4.1. b)	**34,159**	**29,009**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 4.1. b)	**83,492**	**34,159**

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

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

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board:
Marko Rozman

Ljubljana, 25 March 2019

IV. Notes to financial statements for 2018

1. GENERAL INFORMATION

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

Deželna banka Slovenije d. d. owns four subsidiaries: DBS Leasing d. o. o. (hereafter DBS Leasing), real estate company DBS Nepremičnine d. o. o. (hereafter DBS Nepremičnine), seed-producer Semenarna Ljubljana, proizvodnja in trgovina, d. o. o. (hereafter Semenarna), and real estate company DBS Adria d. o. o. (hereafter DBS Adria). Consolidated financial statements are presented on pages 72–75 of the Annual Report.

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

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

In 2018, the consumer price index was up 1.4% (2017: 1.7%). From 1 January 2007, Slovenia's national currency has been the euro, which has thus also become the functional and presentation currency of the Bank's financial statements. All amounts in the financial statements and related notes are given in euro thousands, unless specified otherwise.

2. CRITICAL ACCOUNTING POLICIES

2.1. Basis for the presentation of financial statements

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

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

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

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

Changes in accounting policies

In financial year 2018, the Bank did not adopt or apply accounting policies different from those applied in previous periods, such as would have a material effect on the financial statements of the current year, except for accounting standards and other changes effective as of 1 January 2018 and adopted by the EU.

IFRS 9 'Financial Instruments', issued by IASB on 24 July 2014, has replaced *IAS 39 'Financial Instruments: Recognition and Measurement'*. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting, which is disclosed into detail in the section *Disclosures upon implementation of IFRS 9. The application of IFRS* 9 is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted. In compliance with requirements regarding the transition to IFRS 9, comparative data was not restated.

Initial use of new amendments to other standards valid in the current reporting period whose introduction has no significant impact on the Bank

The following standards, amendments of valid standards, and interpretations, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, apply to the current reporting period:
- *IFRS 15 'Revenue from Contracts with Customers'*, published by the IASB on 28 May 2014 (on 11 September 2015, the IASB changed the effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 it issued interpretations). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. It replaces IAS 18 'Revenues' and IAS 11 'Construction Contracts' and numerous other revenue-related interpretations. The standard is mandatory for all IFRS reporters and applies to all contracts with customers except for leases, financial instruments and insurance contracts. The core principle of the new standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also introduces better disclosure of revenue, instructions for transactions that have not been fully covered thus far (e.g.: revenues from services and amendments of contracts), and improved guidelines for accounting for agreements with several elements.
- *Amendments to IFRS 4 'Insurance Contracts'* – Applying IFRS 9 'Financial Instruments' together with IFRS 4 'Insurance Contracts', adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018, or upon first application of IFRS 9 'Financial Instruments').

Adoption of these amendments to the valid standard did not cause major changes in the Bank's financial statements.

Standards and amendments to valid standards issued by the IASB and adopted by the EU; not yet effective

The following new standards and amendments to valid standards, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, had already been issued but have not yet taken effect as at the date of these financial statements:
- *IFRS 16 'Leases',* adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019); IFRS 16 'Leases', as published by the IASB on 13 January 2016. Under IFRS 16, the lessee recognises the right to use an asset and liability under the lease. The right to use an asset is treated in a similar way to other non-financial assets and is, consequently, subject to amortisation. A lease obligation is initially measured at the current value of the lease paid during the lease period, discounted at the implicit interest rate if it can be determined immediately. If it cannot be determined immediately, the lessee must use the assumed lease interest rate. The same as with IAS 17, which was replaced by IFRS 16, the lessor shall classify each lease as an operating or finance lease, depending on its nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment.

  The Bank will implement the transition to IFRS 16 by retrospective application and recognise the cumulative effect as at 1 January 2019, recognising assets at an amount equal to the lease liability. The Bank has assessed for the total amount of the rights resulting from lease and lease liabilities to equal EUR 2,371 thousand upon transition on 1 January 2019.

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

IFRS as adopted by the EU currently do not differ in any major respect from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments to valid standards and new interpretations which on 31 December 2018 (effective dates given below apply to the entire IFRS) were not yet approved for use in the EU:
- *IFRS 17 (new standard) 'Insurance Contracts'* (effective for annual periods beginning on or after 1 January 2021)*;*
- *IFRIC 23 Note 'Uncertainty over Income Tax Treatments'* (effective for annual periods beginning on or after 1 January 2019)*;*

- *Annual Improvements to IFRS Standards 2015–2017 Cycle* – composed of substantive amendments and interpretations, and effective for annual periods beginning on or after 1 January 2019;
- *IAS 28 (amendment) 'Long-term Interests in Associates and Joint Ventures'* (effective for annual periods beginning on or after 1 January 2019);
- *IAS 19 (amendment) 'Plan Amendment, Curtailment or Settlement'* (effective for annual periods beginning on or after 1 January 2019).

The Bank assumes that its adoption of the new standards and amendments to existing ones will not have a major effect on its financial statements over the initial period of use.

Disclosures upon introduction of IFRS 9

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

Impact of the initial use of IFRS 9 on financial statement

The implementation of IFRS 9 has a major impact on different areas of the Bank's operations. It affects models, processes, systems, data, product assortment, client segmentation and other. Due to the complexity of IFRS 9 requirements and its impact on overall operations, the standard has been implemented step-by-step. Representatives of all relevant business lines took part, including accounting, risk management, process support, business section, technology and IT. An implementation plan was set for IFRS 9, with the progress of implementation being monitored.

IFRS 9 has changed the classification and measurement of financial assets, with the most substantial changes associated with the impairment of financial assets. Previously, the impairment requirements were based on the IAS 39 incurred loss model, which has been replaced by the expected credit loss model as introduced by IFRS 9. As a matter of in-house development, the Bank has set up a new model for calculating impairments and implemented the necessary adjustments to applications.

Classification and measurement of financial assets

Upon transition to IFRS 9, the Bank has not reclassified any recognised financial assets from the category of those measured at amortised cost. Following a cash flow test, all loans remained in the category of those measured at amortised cost. For equities that upon transition stood for equity investments and had been classified under IAS 39 as available-for-sale, the Bank has elected to be measured at fair value through other comprehensive income. Three business models were used to manage financial assets: (1) the 'hold to collect' business model, the objective of which is to hold financial assets to collect their contractual cash flows; (2) the 'hold to collect and sell' business model, the objective of which is to both collect the contractual cash flows and sell the financial asset; (3) the 'held for trading' business model, the objective of which is to trade in a financial asset. The Bank's classification decision for contractual cash flow characteristics is based on the Solely Payments of Principal and Interest (SPPI) test, in accordance with instructions for the contractual cash flow characteristics test. Upon initial recognition, each financial asset or contract is classified under the relevant item of the statement of financial position. Depending on the classification item, after initial recognition financial assets are measured at: (a) amortised cost, (b) fair value through other comprehensive income, or (c) fair value through profit or loss. The effective interest rate method is used to calculate the amortised cost of financial assets or liabilities and the distribution of income and expenditure. The accounting treatment of exposures upon changes in repayment terms or contractual cash flows depends on reaching the threshold of a major change in cash flows to the gross carrying amount of the financial asset, measuring the impact of the changes to terms, when they occur, on the gross carrying amount of the financial instrument. If the difference between the new and the old gross carrying amount is insignificant, accounting treatment modifies the financial instrument. The modification effect is recognised as a gain or loss in the income statement and as a deviation within the gross carrying amount. When initially recognising POCI assets, which can be purchased or originated credit-impaired assets, the credit-adjusted effective interest rate is calculated by including initial expected credit losses into estimated cash flows.

As at 1 January 2018, the Bank transitioned to IFRS 9, classifying its financial assets as at 31 December 2017 to the opening balance under IFRS 9 as at 1 January 2018 as follows:
- for financial assets classified under cash and balances at the central bank and sight deposits at banks, the classification and measurement at amortised cost in the balance sheet item 'Cash, balances at central bank, and sight deposits at banks' do not change;
- for financial assets held for trading, the classification and measurement at fair value in the balance sheet item 'Financial assets held for trading' do not change;
- held-to-maturity financial assets are fully allocated to the item 'Financial assets measured at amortised cost';
- financial assets under item 'Loans' are allocated to loans under the item 'Financial assets measured at amortised cost';
- financial assets under the item 'Available-for-sale financial assets', which as at 31 December 2017 included only investments in equity securities and interests measured at fair value or at cost, are, upon initial recognition as at the day of transition to IFRS 9, irrevocably classified for measurement at fair value through other comprehensive income and are classified in the item 'Financial assets measured at fair value through other comprehensive income'.

The table below shows the comparison of financial assets measurement categories under IAS 39, and measurement categories under IFRS 9 as at 1 January 2018.

DBS

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial instruments - 1 Jan 2018				
Cash, balances at central banks, and sight deposits at banks	Loans and receivables	Amortised cost	29,450	29,450
Loans and receivables - debt securities	Loans and receivables	Amortised cost	0	0
Loans and receivables- to banks	Loans and receivables	Amortised cost	4,914	4,914
Loans and receivables - to customers	Loans and receivables	Amortised cost	710,310	710,939
Loans and receivables - to customers	Loans and receivables	Mandatory fair value through profit or loss	-	-
Loans and receivables - other financial assets	Loans and receivables	Amortised cost	694	694
Financial assets held for trading	Fair value through profit or loss	Fair value through profit or loss	227	227
Financial assets measured at fair value through profit or loss	Recognised fair value through profit or loss	Mandatory fair value through profit or loss	-	-
Available-for-sale financial assets - debt instruments	Available-for-sale	Fair value through other comprehensive income	-	-
Available-for-sale financial assets - debt instruments	Available-for-sale	Amortised cost	-	-
Available-for-sale financial assets - equity instruments	Available-for-sale	Mandatory fair value through profit or loss	-	-
Available-for-sale financial assets - equity instruments	Available-for-sale	Recognised fair value through other comprehensive income recognised	3,751	3,565
Held-to-maturity investments	Held-to-maturity	Amortised cost	123,572	123,552
Other assets	Other assets	Amortised cost	3,384	3,379
Total			**876,302**	**876,720**

Comparison of carrying amounts of financial assets under IAS 39 with carrying amounts of financial assets under IFRS 9 as at 1 January 2018

DBS

	Note	IAS 39 carrying amount 31 Dec 2017	Restatement	Remeasurement	IFRS 9 carrying amount 1 Jan 2018
Amortised cost					
Cash, balances at central banks, and sight deposits at banks					
Opening balance		29,450			
Remeasurement: credit impairment	(a)				
Closing balance					29,450
Loans and receivables - to banks					
Opening balance		4,914			
Remeasurement: credit impairment	(b)				
Closing balance					4,914
Loans and receivables - to customers					
Opening balance		710,310			
Remeasurement: credit impairment	(c)			629	
Closing balance					710,939
Other financial assets					
Opening balance		694			
Remeasurement: credit impairment	(c)				
Closing balance					694
Debt securities					
Opening balance		0			
Increase: from held-to-maturity assets	(d)		123,572		
Remeasurement: credit impairment				(20)	
Closing balance					123,552
Held-to-maturity assets					
Opening balance		123,572			
Decrease: to debt securities - amortised cost	(d)		(123,572)		
Closing balance					0
Other assets					
Opening balance		3,384			
Remeasurement: credit impairment	(e)			(5)	
Closing balance					3,379
Total financial assets carried at amortised cost		**872,324**	**0**	**604**	**872,928**
Fair value through other comprehensive income					
Available-for-sale financial assets					
Opening balance		3,751			
Decrease: to fair value through other comprehensive income - equity instruments	(f)		(3,751)		
Closing balance					0
Fair value through other comprehensive income - equity instruments					
Opening balance		0			
Increase: from available-for-sale financial assets	(f)		3,751	(186)	
Closing balance					3,565
Total financial assets at fair value through other comprehensive income		**3,751**	**0**	**(186)**	**3,565**
Financial assets held for trading					
Opening and closing balance		227			227
Total financial assets at fair value through profit or loss		**227**			**227**

a) The Bank also calculates expected credit losses for balances in central bank accounts and sight deposits with banks. However, due to impairment amounts being less than EUR 500, they are not shown in the table.
b) Impairments of loans to banks amount to less than EUR 500 and are, therefore, not shown in the table.
c) Differences in carrying amounts of loans and other financial assets result from the changed amount of impairments due to the remeasurement at amortised cost.
d) Debt securities that before transition to IFRS 9 were categorised as held to maturity at amortised cost, were reclassified at amortised cost in accordance with IFRS 9 since their previous category under IAS 39 was discontinued.
e) Differences in carrying amounts of other assets result from the changed amount of impairments due to the remeasurement at amortised cost.
f) Equity investments that before transition to IFRS 9 were categorised as held for sale, were recognised at fair value through other comprehensive income and recalculated at fair value upon transition to IFRS 9.

The table below shows a comparison of the final statement of credit impairment for financial assets under IAS 39, and provisions for credit risks for undisbursed loans granted and financial guarantees under IAS 37 as at 31 December 2017, and the opening balance of credit impairments calculated under IFRS 9 as at 1 January 2018.

DBS

Measurement category	31 Dec 2017 credit impairment under IAS 39/ provisions under IAS 37	Restatement	Remeasurement	1 Jan 2018 credit impairment under IFRS 9
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9				
Cash, balances at central banks, and sight deposits at banks	0	0	0	0
Loans and receivables- to banks	0	0	0	0
Loans and receivables - to customers	26,973	0	(629)	26,344
Loans and receivables - other financial assets	196	0	0	196
Held-to-maturity assets under IAS 39/financial assets at amortised cost under IFRS 9	0	0	20	20
Other assets under IAS 39/other assets at amortised cost under IFRS 9	0	0	5	5
Loan commitments and issued financial guarantees	948	0	(179)	769
Total	**28,117**	**0**	**(783)**	**27,334**

Impairments – assessing expected credit losses

IFRS 9 impairment model

Client segmentation

For the purpose of calculating expected credit losses, clients are segmented into the following groups:
a) legal entities: corporates and private individuals with a registration number (sole proprietors);
b) natural persons: households, farmers and private individuals without a registration number;
c) state: units of central government and central bank, units of regional and local government, and public sector entities.

Classification of transactions into groups

For the purpose of assessing credit losses, financial assets measured at amortised cost – loans, lease receivables, debt securities measured at fair value through other comprehensive income, and off-balance sheet exposures from credit commitments and financial guarantee contracts, to which impairment requirements apply – are classified as at each reporting date into one of three groups. Group 1 includes financial instruments the credit risk of which is not considered significantly increased as at the reporting date from initial recognition and transactions involving low credit risk as at the reporting date. An allowance for 12-month expected credit losses is recognised for such assets. Group 2 financial instruments are those the credit risk of which has increased significantly since initial recognition. In this case, the allowance covers lifetime expected credit losses over the entire period of duration. Financial instruments for which there is objective evidence of impairment are classified as Group 3 (impairment on an individual basis, except in the case of non-credit transactions and some exceptions), and a value adjustment is also formed on the basis of expected lifetime credit losses, whereby the expected cash flows also take into account the possibility of the liquidation of collateral. Through the LGD parameter, the value of the collateral is also observed in group assessment of credit losses.

For POCI assets, lifetime expected credit losses are always calculated, even if the financial asset is transferred from non-performing to performing exposures. As at 31 December 2017, the Bank had no such assets in its portfolio.

The Bank uses the following criteria in classifying financial instruments into the above groups:
- comparison of the client's credit rating at the time of approving a transaction and as at the reporting date;
- major delays in the transaction;
- if the financial instrument refers to a restructured client or a related person within the scope of the restructured client's regulatory consolidation;
- if the financial instrument refers to a client placed on the last watch list due to enforcement actions or unauthorised negative balances on their account;
- for financial instruments approved after 1 January 2018, the relative change in the forward-looking weighted cumulative probability of default ('PD') will also be taken into account as of 1 January 2020 upon approving the financial instrument and as at the reporting date.

Approach to recognising impairment

Impairment is generally recognised on a collective basis for financial instruments classified as group 1 or 2, and on an individual basis for financial instruments classified as group 3, except for limits that are subject to an action, service and payment guarantees, and non-credit transactions, for which, even if classified as group 3, impairment is recognised on a collective basis.

Collective assessment of expected credit losses

For the purpose of assessing expected credit losses, financial Instruments are grouped together based on shared credit risk characteristics. Assessment of credit risk parameters on a collective basis is performed with regard to the type of collateral and with regard to the type of customer.

The expected credit loss is calculated monthly based on the actual maturity of transaction as the product of the probability of default (PD), loss given default (LGD), exposure at default (EAD), discount factor based on the effective interest rate (EIR) and the conversion factor (CCF).

The expected credit loss is calculated as a weighted average of expected losses taking into account the most likely outcome, the best-case and the worst-case scenario. Expectations for the future are comprised in calculations of PD, which are based on forecasts for the selected macroeconomic factor. Calculations of PD for legal entities and natural persons are based on migration matrices, and calculations of PD for sovereign exposure are based on the Pluto-Tasche method, which is used to calculate PD for low- or zero-rate default portfolios.

Calculations of LGD are based on types of customers (legal entities and natural persons) and based on collateral (property as collateral and other types of collateral). For each of the stated categories, the average rate of default upon migration to the status of a defaulted obligor is calculated by discounting inflows from actual payments and/or foreclosure of the collateral on the date of the default event or of migration of a non-defaulted obligor to the status of a defaulted obligor.

Calculations of expected credit losses for the exposure to the state are based on LGD values laid down in Article 161(1) of Regulation No. 575/2013/EU (CRR).

Used as a conversion factor is the regulatory defined CCF as laid down in Article 111(1) of the CRR, which corresponds to the off-balance sheet item based on being classified into a risk category pursuant to the Annex 1 to the CRR.

Individual assessment of expected credit losses

The Bank assesses expected credit losses individually for non-performing exposures, i.e. exposures regarding which a default is considered to have happened pursuant to Article 178 of the CRR, and for exposures which have been found impaired pursuant to the valid accounting standard.

The expected exposure loss is calculated as the difference between the asset's carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. according to whether the approach used is that of business as a going concern or a not going concern.

The impact of transition to IFRS 9 on the amount of impairments and the value of equity investments

To assess the impact of transition to IFRS 9, the Bank classified financial assets as at 31 December 2017 based on IFRS 9, and evaluated credit losses for financial assets measured at amortised cost, for which impairment requirements are used, at the date of transition to IFRS 9, 1 January 2018, pursuant to the internal impairment methodology and by applying the impairment model. The joint impact of transition to IFRS 9 on 1 January 2018 on balance sheet and off-balance sheet exposures of the stated financial assets equals a reversal of impairment amounting to EUR 784 thousand; on the date of transition, the positive impact was reported as retained earnings from transition to IFRS 9.

The Bank also calculated the impact of transition for equity investments measured at purchase value, which on the date of transition to IFRS 9 were reclassified from available-for-sale to measured at fair value through other comprehensive income. Such impact on the date of transition to IFRS 9 equals revaluation expenses amounting to EUR 186 thousand, which were reported as other comprehensive income or fair value reserves.

The joint net impact of transition to IFRS 9 on 1 January 2018 is positive, amounting to EUR 598 thousand before tax and EUR 484 thousand after tax.

The impact of transition to IFRS 9 on own funds and capital adequacy ratios

Pursuant to the EU Regulation No. 2017/2395, when taking into consideration the impacts of introducing IFRS 9 on the calculation of regulatory capital, the Bank opted for a static approach and has therefore not applied a transitional arrangement to reduce the impact of introducing IFRS 9 on equity. The effects of impact on own funds were positive in case of retained earnings, and negative in case of fair value reserves and specific revaluations arising from credit risk. Due to IFRS 9, after transition on 1 January 2018, the Bank's regulatory capital increased by EUR 484 thousand to EUR 60,281 thousand. The Bank's CET 1 and Tier 1 capital adequacy ratio increased by 0.12 percentage points to 12.89% (31 December 2017: 12.77%), and the Bank's total capital ratio also by 0.12 percentage points to 14.80% (31 December 2017:14.68%).

Adjustment due to adopting IFRS 9 was recognised in the retained earnings and other comprehensive income as at 1 January 2018. The transition to IFRS 9 requirements upped the Bank's capital by EUR 484 thousand.

Effects of the transition to IFRS 9 on the capital were as follows.

	Adjustment due to IFRS 9
Impact on equity upon transition to IFRS - details	
Changed methodology for impairments and provisions	783
Remeasurement of loans to fair value	0
Recognition of loss on modification of financial assets	0
Reclassification and remeasurement of securities	(186)
Income tax upon transition	(113)
Total	**484**

2.2. Investments in subsidiaries

Subsidiaries

The Group has four subsidiaries. In November 2005, the Bank incorporated a subsidiary, DBS Leasing, in which it holds a 100% ownership stake. At the beginning of 2013, DBS Leasing incorporated a real estate company, DBS Nepremičnine, which in April 2013 the Bank purchased and became its 100% owner. Following a debt-to-equity conversion in January 2014, the Bank acquired Semenarna and became its majority owner. After purchasing all its shares in June 2014, the Bank became its 100% owner. DBS Adria was incorporated in April 2014 and is 100%-owned by the Bank.

Investments in subsidiaries are measured at cost.

2.3. Critical accounting estimates

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

(a) Impairment losses on loans and receivables and potential off-balance sheet liabilities

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

The Bank assesses expected credit losses based on the impairment model in accordance with IFRS 9. For the purpose of assessing credit losses, financial assets measured at amortised cost – loans, debt securities, other receivables, debt instruments measured at fair value through other comprehensive income, and off-balance sheet exposures from credit commitments and financial guarantee contracts, to which impairment requirements apply – are classified as at each reporting date into one of three stages. In this context, the allowance covers lifetime expected credit losses. Financial instruments for which there is objective evidence of impairment are classified as Group 3 (impairment on an individual basis, except in the case of non-credit transactions and some exceptions), and a value adjustment is also formed on the basis of expected lifetime credit losses, whereby the expected cash flows also take into account the possibility of the liquidation of collateral. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly, in order to reduce any differences between loss estimates and actual loss experience.

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

For purposes of assessing credit losses, off-balance sheet exposures from assumed liabilities under financial guarantee contracts, regarding which the impairment requirements are to be used, are classified at each reporting day into one of the three transaction phases for purposes of calculating the expected credit losses for the period of validity of the financial guarantee.

(b) Fair value of investment property

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

(c) Impairment charge on investments in subsidiaries

In assessing impairments against its investments, the Bank considers objective evidence of impairment and indications that an investment may be impaired. If any such indication exists, the Bank determines the impairment charge as the difference between the investments' carrying value and its recoverable amount. The recoverable amount is fair value less the cost of disposal, or value in use, whichever is higher, whereby value in use is the present value of the future cash flows expected to be derived from the respective investment, discounted at current market returns for similar financial assets. If future cash flows cannot be estimated, the impairment charge is calculated using the subsidiary net asset value method (asset accumulation method) or as the difference between the asset's carrying amount and the carrying amount of the subsidiary's equity, proportionate to participation in equity.

(d) Taxes

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

2.4. Segment reporting

As at 31 December 2018, the Bank has no issued securities traded on a regulated capital market, therefore it does not prepare segment reporting.

2.5. Foreign currency translation

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates effective at the date of the transaction. Foreign exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange differences in equities measured through other comprehensive income are recognised with valuation gains/losses as other comprehensive income or as fair value reserves.

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

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

2.6. Interest income and expense

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

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

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

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

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

2.7. Fee and commission income and expense

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

2.8. Financial assets

2.8.1. Accounting policies after 1 January 2018 under IFRS 9

The Bank classifies its financial assets into the following groups: financial instruments at fair value through profit or loss, financial instruments at amortised cost, and financial instruments at fair value through other comprehensive income. The management determines the classification of investments upon initial recognition.

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

The Bank only holds financial assets held for trading.

b) Financial instruments at amortised cost
A financial instrument has to be measured at amortized cost if the following two conditions are met:
(a) a financial instrument is held within a business model the aim of which is to hold financial instruments with the purpose of receiving contractual cash flows, and

(b) in compliance with contractual terms of the financial instrument, cash flows occur on certain dates that comprise repayments of principal and interest on the outstanding principal exclusively.

As well as loans fulfilling the conditions of the cash flow test, the Bank classifies into this category all debt securities intended for the collection of contractual cash flows.

c) Financial instruments at fair value through other comprehensive income

Financial instruments at fair value through other comprehensive income are those the Bank intends to hold for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or prices of financial instruments.

d) Measurement and recognition

Purchases and sales of financial instruments at fair value through profit or loss, financial instruments at amortised cost, and financial instruments at fair value through other comprehensive income are recognised as at the date the transaction was concluded – the date on which the Bank commits to carry out the purchase or sale of the respective instrument. Derivatives are recognised on the trade date.

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

Financial instruments at fair value through other comprehensive income and financial instruments at fair value trough profit or loss are measured at fair value. Loans and receivables are measured at amortised cost applying the effective interest rate. Gains and losses from changes in the fair value of the financial instruments at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of the financial instruments at fair value through other comprehensive income are recognised directly in equity until the financial asset is sold or impaired, at which time they are recognised in the income statement. With debt securities classified into this category, expected credit losses and differences resulting from foreign currency translation are recognised in the income statement, and the difference to fair value is recognised in other comprehensive income until derecognition. Upon derecognition of a debt financial instrument, the cumulative profit or loss recognised in other comprehensive income is reclassified into the income statement.

Upon derecognition of an equity instrument for which upon initial recognition the option for measured at fair value through other comprehensive income was chosen irrevocably, cumulative gains or losses are never recognised in the income statement.

Interest from the effective interest rate and exchange differences in financial instruments measured at other comprehensive income are recognised in the income statement. Dividends are recognised in the income statement, upon the establishment of the holder's right to payment.

Fair values of financial instruments traded in an active market are based on market prices. If a financial instrument is not traded in an active market, the Bank determines its fair value by using valuation models.

2.8.2. Accounting policies for the comparative year ended 31 December 2017 under IAS 39

Until 31 December 2017, the Bank applied IAS 39 with regard to recognition and measurement of financial Instruments. The Bank assessed at each date of the statement of financial position whether there was objective evidence that a financial asset or group of financial assets was impaired. That a financial asset or group of financial assets was impaired and impairment losses were incurred was recognised if, and only if, there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that event had an impact on the estimated future cash flows of the financial asset or group of financial assets, which could be reliably estimated.

Accounting policies used by 31 December 2017 according to IAS 39 are presented in more detail in the Deželna banka Slovenije Group 2017 Annual Report.

2.9. Offsetting

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

2.10. Impairment of financial assets

2.10.1. Impairment of financial assets before 1 January 2018 under IAS 39

(a) Financial assets measured at amortised cost
Before the transition to IFRS 9, measurement of impairment loss was based on the realised credit losses concept. The Bank assessed at each date of the statement of financial position whether there was objective evidence that a financial asset or group of financial assets was impaired. That a financial asset or group of financial assets was impaired and impairment losses were incurred was recognised if, and only if, there was objective evidence of impairment as a result of one or more events (or "loss events") that occurred after the initial recognition of the asset and that event had an impact on the estimated future cash flows of the financial asset or group of financial assets, which could be reliably estimated.

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

Individual assessment of credit losses
In individual assessment of credit losses, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that were not yet incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced through an allowance account and the loss amount was recognised in the income statement.

Collective assessment of credit losses
For the purpose of collective assessment of impairment, borrowers were classified into groups from A to E, on the basis of similar credit risk characteristics. Credit loss was calculated as the product of probability of default (PD). loss given default (LGD), and exposure at default (EAD). Calculations of PD were based on the aggregate migration matrix that shows the probability of the migration of customers between internal rating classes within one year; and calculations of LGD were based on the average default rate. In estimating losses, the Bank considered both historical loss experience as well as factors reflecting the current situation, whereas forward-looking information was not considered in the calculation.

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

(b) Available-for-sale financial assets

The Bank assessed at each date of the statement of financial position whether there was objective evidence that a financial asset or group of financial assets at fair value through other comprehensive income was impaired. In the case of equity investments, a significant or prolonged decline in the fair value of a security below its cost was considered in determining whether the assets were impaired. If any such evidence of impairment existed for such assets, the cumulative loss was recognised in equity. Impairment losses recognised in the income statement of available-for-sale equity instruments could not be reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified in this group increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, impairment losses were reversed through the income statement.

2.10.2. Impairment of financial assets after 1 January 2018 under IFRS 9

(a) Financial assets measured at amortised cost

Measurement of impairment loss under IFRS 9 is based on the expected credit losses concept. Financial instruments measured at amortised cost in accordance with the SPPI test are impaired either on a collective basis (financial instruments in groups 1 and 2, and some exceptions in group 3) or on an individual basis (financial instruments in group 3).

Collective assessment of credit losses

Collective impairment is calculated as the sum of discounted monthly weighted expected credit losses, and an individual (monthly) unit is calculated as the product of probability of default (PD), loss given default (LGD), exposure at default (EAD) and conversion factor (CCF). In collective assessment of losses, the Bank also considers forward-looking information, which is included in the calculation through forward-looking PD.

Individual assessment of credit losses

As a rule, the Bank assesses group 3 financial instruments individually in accordance to how a default is considered to have happened pursuant to Article 178 of the CRR.

The expected exposure loss is calculated as the difference between the asset's carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. according to whether the approach used is that of business as a going concern or a not going concern.

Calculation of credit losses under IFRS 9 is presented in more detail in sections 2.1 and 5.1.3.

(b) Financial instruments at fair value through other comprehensive income

As financial instruments at fair value through other comprehensive income are measured at fair value, gains and losses resulting from valuation are recognised directly in equity, and when a debt security is sold or impaired, they are recognised in the income statement.

2.11. Property, plant and equipment, and intangible assets

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

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

The following are the annual depreciation and amortisation rates used:

	2018 %	2017 %
Buildings	2.0-4.0	2.0-4.0
Computer equipment	20.0-30.0	20.0-30.0
Software	10.0-20.0	10.0-20.0
Motor vehicles	12.5-20.0	12.5-20.0
Other equipment	4.0-50.0	4.0-50.0

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

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

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

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

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

2.12. Investment property

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

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

In determining the fair value of investment property, the income approach (capitalised cash flow method, discounted future gains method) or sales comparison approach was used.

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

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

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

2.13. Non-current assets held for sale

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

2.14. Inventories

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

2.15. Leases

(a) The Bank is the lessee

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

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

(b) The Bank is the lessor

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

2.16. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise: cash and balances at central bank, loans to banks with less than 90 days maturity from the date of acquisition, treasury bills and debt securities with less than 90 days maturity from the date of acquisition.

2.17. Provisions

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

2.18. Provisions for severance pays and long-service awards

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

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

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

2.19. Income tax

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

Corporate income tax is levied on taxable profits at the rate of 19%.

Pursuant to the Slovenian Corporate Income Tax Act, current corporate income tax is charged at the rate of 19% off the established tax base (2017: 19%).

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

The most important temporary differences arise from tax loss, impairment of investments in subsidiaries, valuation of financial assets through other comprehensive income, and provisions. An estimation of the amount of taxable profit for the future period is made at least once a year.

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

Deferred tax related to the revaluation of financial assets at fair value through other comprehensive income to fair value is recognised directly in equity and subsequently transferred to the income statement together with the deferred revaluation profit or loss, except for equity investments that upon initial recognition were determined irrevocably as measured through other comprehensive income.

Deferred tax liabilities are recognised on account of a revaluation of financial assets at fair value through other comprehensive income.

The competent tax office may conduct a tax inspection of the current accounting period any time within the following five years, and in this regard impose additional taxes and penalties. The Bank management knows of no circumstances that could give rise to additional liabilities in this regard.

2.20. Borrowings

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

2.21. Capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

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

(c) Treasury shares

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

2.22. Financial guarantee contracts

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

Financial guarantee contracts are initially recognised at fair value plus the fee received. Fee income is recognised in the income statement on a straight-line basis, over the entire term of the financial guarantee contract. The Bank subsequently recognises them at the higher of the initial measurements less fee income received, on a straight-line basis over the entire term of the financial guarantee contract, and less the best estimate of the expenditure required to settle the obligation under the financial guarantee as at the reporting date. For purposes of assessing credit losses, off-balance sheet exposures from assumed liabilities under financial guarantee contracts, regarding which the impairment requirements are to be used, are classified at each reporting day into one of the three transaction phases for purposes of calculating the expected credit losses for the period of validity of the financial guarantee.

2.23. Fiduciary activities

The Bank offers its customers, corporate as well as retail, the services of asset management and the services of lending under authorisation. For these services, customers are charged a fee. Details are explained in Note 4.37.a. These assets are not included into the Bank's statement of financial position.

3. NOTES TO THE INCOME STATEMENT

3.1. Interest income and expense

	2018	2017
Interest income		
Financial assets measured at fair value through other comprehensive income	0	123
Debt securities measured at amortised cost	1,501	2,924
Loans to banks	53	37
Loans to customers	17,025	16,508
Other financial assets	7	4
Interest in relation to financial liabilities with a negative interest rate	358	0
TOTAL	**18,944**	**19,596**
Interest expense		
Deposits by banks and borrowings from banks	4	24
Borrowings from banks and central bank	0	1
Deposits by customers	815	1,077
Certificates of deposit	82	82
Subordinated liabilities	229	230
Subordinated deposits and loans	336	336
Interest in relation to financial liabilities with a negative interest rate	190	33
TOTAL	**1,656**	**1,783**
NET INTEREST INCOME	**17,288**	**17,813**

3.2. Dividends

	2018	2017
Dividends on financial assets measured at fair value through other comprehensive income	30	91
TOTAL	**30**	**91**

3.3. Fee and commission income and expense

	2018	2017
Fee and commission income		
Payment transactions	4,729	4,658
Agency services	157	157
Administrative services	3,739	3,543
Guarantees issued	303	317
Securities trading	284	288
Services to subsidiaries	72	18
Credit operations	331	329
TOTAL	**9,615**	**9,310**
Fee and commission expense		
Banking services	867	784
Securities trading	144	154
Payment transactions	891	803
Other services	11	9
TOTAL	**1,913**	**1,750**
NET FEE AND COMMISSION INCOME	**7,702**	**7,560**

3.4. Net gains/losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss

	2018	2017
Realised gains/losses from financial assets measured at fair value through other comprehensive income	**0**	**4**
Gains from financial assets measured at fair value through other comprehensive income	0	4
Realised gains/losses from financial assets measured at amortised cost	**5,720**	**1,983**
Gains from financial assets measured at amortised cost	5,733	2,010
Losses from financial assets measured at amortised cost	13	27
Realised net gains/losses from financial liabilities measured at amortised cost	**(23)**	**115**
Gains from financial liabilities measured at amortised cost	1	151
Losses from financial liabilities measured at amortised cost	24	36
REALISED GAINS/LOSSES	**5,697**	**2,102**

In 2018, the realised net gains amounted to EUR 5,697 thousand (2017: EUR 2,102 thousand), of which EUR 5,653 thousand were gains realised from the sale of sovereign debt, EUR 67 thousand were net gains on loans, and EUR 23 thousand were net losses on cleared deposits and transactional accounts.

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

	2018	2017
Net gains/losses from derivatives	0	21
Net gains/losses from foreign exchange trading	140	326
TOTAL	**140**	**347**

3.6. Foreign exchange translation

	2018	2017
Positive translation differences	1,051	1,145
Negative translation differences	1,052	1,228
TOTAL	**(1)**	**(83)**

3.7. Net gains/losses on derecognition of non-financial assets

	2018	2017
Gains		
- Derecognition of investment property	121	234
- Derecognition of other assets	113	150
TOTAL	**234**	**384**
Losses		
- Derecognition of property, plant and equipment	8	4
- Derecognition of investment property	22	82
TOTAL	**30**	**86**
TOTAL GAINS/LOSSES	**204**	**298**

3.8. Other net operating gains/losses

	2018	2017
Gains		
Income from non-banking services	32	24
Leases and rents (Note 4.16. a)	337	370
Other	167	140
TOTAL	**536**	**534**
Losses		
Taxes	17	17
Contributions	146	151
Membership fees and similar	99	95
Financial services tax	907	858
Deposit guarantee scheme	1,013	985
Bank resolution fund	3	20
Other operating expenses	55	4
TOTAL	**2,240**	**2,130**
OTHER NET OPERATING GAINS/LOSSES	**(1,704)**	**(1,596)**

3.9. Administrative expenses

	2018	2017
Employee benefits cost		
Gross wages	8,065	8,257
Social security contributions	591	593
Pension insurance contributions	728	730
Other contributions depending on gross wages	(6)	(10)
Severance pays and compensations	135	3
Other employee benefits cost	1,427	1,444
TOTAL	**10,940**	**11,017**
Overhead and administrative expenses		
Costs of material	514	452
Costs of services	5,007	4,972
TOTAL	**5,521**	**5,424**
TOTAL	**16,461**	**16,441**

Costs of services for 2018 also include EUR 58 thousand for costs related to the audit of the annual report (2017: EUR 66 thousand). Costs of services for 2018 also include costs of the audit of the company's financial statements and of the Group's consolidated financial statements including the transition to IFRS 9 and IFRS 16 amounting to a total of EUR 50 thousand (2017: EUR 58 thousand), and for other assurance services in the amount of EUR 8 thousand (2017: EUR 8 thousand).

3.10. Depreciation and amortisation

	2018	2017
Property, plant and equipment (Note 4.15.)	793	923
Intangible assets (Note 4.17.)	158	166
TOTAL	**951**	**1,089**

3.11. Provisions

	2018	2017
Net provisions for off-balance sheet liabilities (Note 5.1.5. g and h)	**(159)**	**435**
Expenses for created provisions	260	4,206
Income from released provisions	419	3,771
Net other provisions	**161**	**488**
Net provisions for pensions and other employee benefits (Note 4.27. c)	**43**	**65**
Expenses for created provisions	50	65
Income from released provisions	7	0
Net provisions for tax suits and other pending legal cases (Note 4.27. f)	**(423)**	**423**
Expenses for provisions created for dividend payments for 2015	0	423
Income from provisions released for dividend payments for 2015	423	0
Net provisions for other provisions	**541**	**0**
Expenses for created provisions (Note 4.27. g)	541	0
NET PROVISIONS	**2**	**923**

Income from released provisions upon payment of dividends for 2015 was realised in 2018. Other provisions included the provisions formed for changed taxation on sale of property.

3.12. Impairment charge

	2018	2017
Net impairments of financial assets not measured at fair value through profit or loss	**122**	**2,629**
Net impairments of financial assets measured at cost	**0**	**213**
Impairments of financial assets measured at cost	0	213
Net impairments of debt securities	**3**	**0**
Impairments of debt securities	12	0
Reversal of impairments on debt securities	9	0
Net impairments of loans	**119**	**2,416**
Impairments of loans	6,856	13,505
Reversal of loan impairments	6,737	11,089
Net impairments of equity investments in subsidiaries (Note 4.14.)	**2,272**	**(9)**
Impairment of equity investments in subsidiaries	2,966	5
Reversal of impairment of equity investments in subsidiaries	694	14
Net impairments of other assets	**2,826**	**796**
Net impairments (revaluations) of investment property (Note 4.16. b)	**2,769**	**796**
Impairment (revaluation) of investment property	2,807	1,144
Reversal of investment property impairments (revaluations)	38	348
Net impairments (revaluations) of other assets	**57**	**0**
Impairments (revaluations) of property inventories (Note 4.19. b)	57	0
NET IMPAIRMENTS	**5,220**	**3,416**

3.13. Income tax

	2018	2017
Income tax	725	402
Deferred tax (Note 4.28. d)	556	455
TOTAL	**1,281**	**857**
Profit/loss before tax	6,722	4,663
Tax under the 19% tax rate	1,277	886
Non-taxable income	(138)	(45)
Non-deductible expense	1,142	541
Tax reliefs	(1,000)	(525)
TOTAL	**1,281**	**857**
Effective tax rate (in %)	19	18

* Tax for 2018 was charged at the tax rate of 19% (2017: 19%).
The last tax inspection was in 2005 for financial year 2004.

In the portion related to impairments reversed due to the transition to IFRS 9, the income tax expense is recorded under retained earnings in the amount of EUR 153 thousand.

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

3.14. Earnings per share (EPS)

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

	2018	2017
Net profit (in EUR thousand)	5,441	3,806
Weighted average number of ordinary shares	4,231,182	4,229,680
Basic and diluted earnings per share (in EUR per share)	1.285929	0.899832

Basic EPS in 2018 amounts to EUR 1.285929 (2017: EUR 0.899832). The weighted average number of ordinary shares recorded in the KDD central securities register for 2018, with treasury shares deducted, was 4,231,182 (2017:4,229,680).

The Bank's share book value as at 31 December 2018 was EUR 14.932892 (31 December 2017: EUR 13.798557). It is calculated as follows: share capital less treasury shares, divided by the number of shares in the central registry of the Central Securities Clearing Corporation (KDD) less treasury shares.

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

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

a) Breakdown

	2018	2017
Cash		
Cash	11,673	8,612
Bank balances at central bank	61,674	17,320
Sight deposits at banks	3,662	3,518
Revaluation allowance	(1)	0
TOTAL (Note 4.1. b)	**77,008**	**29,450**

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

The Bank must ensure that the settlement account is credited on a daily basis with a specific amount calculated for each period. Minimum reserves for compliance period from 1 January to 31 December 2018 amounted to EUR 7,663 thousand on average per month, with excess reserves totalling a monthly EUR 46,537 thousand on average.

The annual interest rate for assets deposited on the minimum reserves account was 0.00% from 1 January to 31 December 2018. For excess assets deposited on the minimum reserves account, the annual interest rate was –0.40% from 1 January to 31 December 2018.

Movements in revaluation allowance for balances at central bank and demand deposits at banks are disclosed in section 5.1.5. (Note b).

b) Movements

	As at 1 January 2018	Foreign exchange differences	Net increase/ (decrease)	Revaluation allowance	As at 31 December 2018
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	29,450	119	47,440	(1)	77,008
Loans and advances to banks (Note 4.7. b)	4,709	82	1,693	0	6,484
TOTAL	**34,159**	**201**	**49,133**	**(1)**	**83,492**

4.2. Financial assets held for trading

a) Breakdown

	2018	2017
Loans held for trading	0	227
TOTAL	**0**	**227**

b) Movements

	2018	2017
Loans*		
As at 1 January	227	0
- Increase	18,894	22,994
- Sale	(19,121)	(22,767)
As at 31 December	**0**	**227**
TOTAL	**0**	**227**

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

4.3. Non-trading financial assets mandatorily measured at fair value through profit or loss

	2018	2017
Loans and other financial assets	2,519	-
TOTAL	**2,519**	**-**

Fair value is disclosed in section 5.4.2.

4.4. Financial assets measured at fair value through other comprehensive income

a) Breakdown

	2018
Equities	
Equity investments	2,993
- Bank resolution fund	2,697
- Other equity investments	296
TOTAL	**2,993**

This item comprises equity investments classified as available-for-sale as at 31 December 2017, and upon initial recognition on the day of transition to IFRS 9 classified irrevocably as measured at fair value through other comprehensive income. In 2018, the Bank reduced its position of investments into securities measured at fair value by EUR 758 thousand, of which EUR 641 thousand due to selling of equity instruments. The Bank Resolution Fund balance was down EUR 2 thousand to EUR 2,697 thousand in 2018 (2017: EUR 2,699 thousand).

b) Movements

	2018
As at 1 January	3,565
Sale	(641)
Revaluation	(146)
Margin	215
As at 31 December	**2,993**

List of investments into equity instruments

A list of equity investments recorded as measured at fair value through other comprehensive income, and a statement of fair values of investments at the end of the reporting period are given in the table below.

	2018	2017
Equity investments		
- Bank resolution fund	2,697	2,699
- Total other equity investments	296	1,052
Bankart d. o. o.	21	37
Hranilnica Lon d. d., Kranj	0	21
Las MDD z. b. o.	1	1
Marles d. d., Limbuš	8	20
Primorska hranilnica Vipava d. d.	121	220
Vorpo d. o. o.	0	1
Zadružna zveza Slovenije, z .o. o.	0	1
Gorenjska banka d. d.	11	17
Regia Group d. d.	45	257
Elektro Ljubljana d. d.	89	82
Sava d. d.	0	395
TOTAL	**2,993**	**3,751**

Grounds for classification

Before the introduction of IFRS 9, equity investments, except for investments in subsidiaries, were classified as available-for-sale. These investments not being strategic in nature, meaning that they cannot be controlled by the Bank, they were classified irrevocably as measured at fair value through other comprehensive income after the introduction of IFRS 9. Changes in fair value of such equity investments shall never be recognised through profit or loss, which also holds for the imapct in case of sale.

Dividends recognised for the period

In 2018, the Bank received EUR 30 thousand in dividends, of which dividends from investments held by the Bank at the year-end of 2018: EUR 24 thousand, from Bankart d. o. o., and EUR 2 thousand from Elektro Ljubljana d. d. The Bank received EUR 4 thousand in dividends from Hranilnica LON d. d. Kranj, which it sold in 2018.

Transfers within equity and reasons for transfers

The transfer of the cumulative gain from other comprehensive income to current year retained earnings was made due to cumulative effects of derecognition resulting from the sale of equity investments.

Reasons for disposal of equity investments

In accordance with its business policy and a business opportunity, the Bank sold its equity investments that were not strategic investments.

Fair value of investments as at derecognition date

Fair value of investments as at derecognition date and cumulative gains or losses upon disposal are given in the table below.

Company	Fair value of investments as at derecognition date	Cumulative gains upon disposal
Hranilnica Lon d. d., Kranj	23	3
Primorska hranilnica Vipava d. d.	8	(2)
Sava d. d.	395	214
TOTAL	**426**	**215**

4.5. Available-for-sale financial assets (under IAS 39)

a) Breakdown

	2017
Equities	
- Unlisted	3,751
TOTAL	**3,751**

b) Movements

	2017
As at 1 January	8,348
Sale	(2,183)
Impairment of equity investments	(213)
Maturities	(2,067)
Fair value adjustment	(134)
As at 31 December	**3,751**

4.6. Debt securities measured at amortised cost

a) Breakdown

	2018
Long-term government debt securities	105,969
Long-term debt securities issued by non-financial institutions	1,802
Revaluation allowance	(23)
TOTAL	**107,748**

In 2018, the Bank sold part of its portfolio of debt securities measured at amortised cost at the nominal value of EUR 27,107 thousand. The sale was considered as a one-off sale of a significant share of the securities portfolio, and complied with the amortised cost model. The impact of sale that was recorded as the difference between the market and carrying amount of bonds, was positive and amounted to EUR 5,653 thousand.

Movements in revaluation allowance for debt securities measured at amortised cost are disclosed in section 5.1.5. (Note c).

b) Movements

	2018
As at 1 January	123,552
Purchases	18,618
Sale	(27,437)
Maturities	(6,982)
Revaluation allowance	(3)
As at 31 December	**107,748**

4.7. Loans and advances to banks and central bank at amortised cost

a) Breakdown according to type

	2018
Loans to the central bank	2,318
Loans to domestic banks	2,599
Loans to foreign banks	1,781
TOTAL	**6,698**

b) Breakdown according to maturity

	2018
Short-term loans	6,484
Long-term loans	214
TOTAL	**6,698**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 6,484 thousand (2017: EUR 4,709 thousand) are recognised in the cash flow statement as cash equivalents (Note 4.1.b).

4.8. Loans and advances to customers measured at amortised cost

a) Breakdown according to type

	2018
Loans and advances	735,248
Working capital loans	20,578
Revaluation allowance	(15,172)
TOTAL	**740,654**

Movements in revaluation allowance for loans and advances to customers measured at amortised cost are disclosed in section 5.1.5. (Note d).

4.9. Other financial assets

	2018
Trade receivables	51
Interest receivable	52
Fee and commission due	154
Other receivables	1,215
Other financial assets revaluation allowance	(123)
TOTAL	**1,349**

Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note d).

4.10. Loans and advances to banks (under IAS 39)

a) Breakdown according to type

	2017
Loans to the central bank	2,104
Loans to domestic banks	2,810
TOTAL	**4,914**

b) Breakdown according to maturity

	2017
Short-term loans	4,709
Long-term loans	205
TOTAL	**4,914**

4.11. Loans and advances to customers (under IAS 39)

a) Breakdown according to type

	2017
Loans and advances	717,583
Working capital loans	19,700
Revaluation allowance	(26,973)
TOTAL	**710,310**

Movements in revaluation allowance for loans and advances to customers are disclosed in section 5.1.5. (Note f).

4.12. Other financial assets (under IAS 39)

	2017
Trade receivables	125
Fee and commission due	147
Other receivables	567
Retail receivables in the course of collection	11
Other prepayments and deferred income	40
Other financial assets revaluation allowance	(196)
TOTAL	**694**

Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note e).

4.13. Held-to-maturity investments (under IAS 39)

a) Breakdown

	2017
Long-term government held-to-maturity debt securities	123,572
TOTAL	**123,572**

b) Movements

	2017
As at 1 January	140,941
Purchases	10,147
Sale	(6,817)
Maturities	(20,699)
As at 31 December	**123,572**

4.14. Equity investments in subsidiaries, joint ventures, and associates

	2018	2017
Long-term equity investments in other domestic financial institutions		
As at 1 January	2,683	2,678
Reversal of impairment	74	5
As at 31 December	**2,757**	**2,683**
Long-term equity investments in domestic non-financial institutions		
As at 1 January	7,004	5,144
Capital increase	870	1,850
Impairments	(2,964)	0
Reversal of impairment	620	10
As at 31 December	**5,530**	**7,004**
Long-term equity investments in foreign non-financial institutions		
As at 1 January	2	7
Impairments	(2)	(5)
As at 31 December	**0**	**2**
TOTAL	**8,287**	**9,689**

Equity investments into the two subsidiaries amounted to EUR 8,287 thousand at the year-end of 2018. Changes occurred with the equity investment into Semenarna Ljubljana, d. o. o., which increased by EUR 870 thousand due capital increase and was impaired by EUR 2,375 thousand to total EUR 4,026 thousand at the year-end of 2018. Due to reversal of impairment, the equity investment in DBS Leasing increased by EUR 75 thousand, totalling EUR 2,757 thousand at the year-end of 2018, and the equity investment into DBS Npremičnine increased by EUR 31 thousand, totalling EUR 1,504 thousand at the year-end of 2018. After the impairment charge of EUR 2 thousand, the equity investment in DBS Adria totalled EUR 0 thousand at the end of the year.

4.15. Property, plant and equipment

2018	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	12,594	3,287	10,976	97	0	26,954
Increases	0	0	0	0	279	279
Transfer from PPE under construction	11	118	150	0	(279)	0
Decreases	0	(214)	(462)	0	0	(676)
As at 31 December	12,605	3,191	10,664	97	0	26,557
Revaluation allowance						
As at 1 January	4,221	3,018	9,968	19	0	17,226
Decreases	0	(213)	(453)	0	0	(666)
Depreciation and amortisation	335	119	325	12	0	791
As at 31 December	4,556	2,924	9,840	31	0	17,351
Net carrying value						
As at 1 January	8,373	269	1,008	78	0	9,728
As at 31 December	8,049	267	824	66	0	9,206

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

2017	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	12,542	3,283	11,359	97	0	27,281
Increases	0	0	0	0	216	216
Transfer from PPE under construction	52	44	121	0	0	217
Decreases	0	(40)	(504)	0	(216)	(760)
As at 31 December	12,594	3,287	10,976	97	0	26,954
Revaluation allowance						
As at 1 January	3,887	2,927	10,020	7	0	16,841
Decreases	0	(40)	(499)	0	0	(539)
Depreciation and amortisation	334	131	446	12	0	923
As at 31 December	4,221	3,018	9,968	19	0	17,226
Net carrying value						
As at 1 January	8,655	356	1,339	90	0	10,440
As at 31 December	8,373	269	1,008	78	0	9,728

4.16. Investment property

a) Breakdown

	2018	2017
Long-term investments into investment property		
- Land	11,360	13,215
- Buildings	13,147	16,414
TOTAL	**24,507**	**29,629**

b) Movements

	2018	2017
As at 1 January	29,629	26,442
Increase	336	1,045
Transferred from inventories	382	9,447
Decrease	(3,071)	(6,383)
Transferred to inventories	0	(126)
Enhancements (Note 3.12.)	38	348
Revaluation allowance (Note 3.12.)	(2,807)	(1,144)
As at 31 December	**24,507**	**29,629**

Operating lease contracts may be terminated during the lease period. A transfer of EUR 382 thousand was made from inventories to investment property in respect of property not sold within one year. The Bank recorded EUR 2,807 thousand worth of impairment charges against investment property in 2018 (2017: EUR 1,144 thousand) (Note 3.12.).

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

4.17. Intangible assets

	2018			2017		
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	3,199	0	3,199	3,282	0	3,282
Increases	26	26	52	65	65	130
Decreases	0	(26)	(26)	(148)	(65)	(213)
As at 31 December	3,225	0	3,225	3,199	0	3,199
Revaluation allowance						
As at 1 January	2,623	0	2,623	2,604	0	2,604
Depreciation and amortisation	157	0	157	166	0	166
Decreases	0	0	0	(147)	0	(147)
As at 31 December	2,780	0	2,780	2,623	0	2,623
As at 1 January	**576**	**0**	**576**	**678**	**0**	**678**
As at 31 December	**445**	**0**	**445**	**576**	**0**	**576**

The Bank holds no intangible assets received as guarantee for liabilities, and holds no assets with limited ownership rights. Intangible assets do not include licences under lease.

4.18. Income tax assets

	2018	2017
Deferred tax assets (Note 4.28. b)	4,613	5,106
TOTAL	**4,613**	**5,106**

The Bank made EUR 34 thousand of monthly advance payments for income tax in 2018 due to the positive tax base for 2017. Outstanding tax loss amounts to EUR 15,402 thousand. Deferred tax assets were formed in the amount of EUR 6,958 thousand, impairments of deferred tax assets totalling EUR 2,345 thousand.

4.19. Other assets

a) Breakdown

	2018	2017
Accrued and short-term deferred costs	464	540
Long-term deferred operating costs	25	25
Property inventory (Note 4.19. b)	2,865	2,542
Stock of coins held for sale	155	153
Other prepayments	0	5
Input VAT receivable	33	0
Other tax refund receivables	51	51
Advance suretyship, security receivables	17	2
Consideration receivable	1,156	64
Other	5	2
TOTAL	**4,771**	**3,384**

Movements in revaluation allowance for other assets are disclosed in section 5.1.5. (Note e).

b) Movements in inventories of property

	2018	2017
As at 1 January	2,542	12,259
Increase	2,328	3,704
Transferred to investment property	(382)	(9,730)
Decrease	(1,566)	(3,817)
Revaluation	(57)	0
As at 31 December	**2,865**	**2,542**

The Bank recorded EUR 57 thousand worth of impairment charges against investment property in 2018 (2017: EUR 0 thousand) (Note 3.12.).

4.20. Financial liabilities held for trading

	2018	2017
Other trading liabilities	0	227
TOTAL	**0**	**227**

4.21. Deposits by banks and central banks

	2018	2017
Sight deposits by banks	746	579
TOTAL	**746**	**579**

4.22. Deposits by customers

	2018	2017
Sight deposits	655,205	569,885
Short-term deposits	63,967	82,629
Long-term deposits	145,478	156,773
TOTAL	**864,650**	**809,287**

* According to the Methodology for preparing a recapitulation of the statement of financial position, long-term deposits also include deposits with characteristics of subordinated debt (Note 4.26.).

4.23. Borrowings from banks and central banks

	2018	2017
Long-term borrowings from banks	4,115	4,927
Long-term borrowings from central banks	49,643	50,000
TOTAL	**53,758**	**54,927**

* According to the Methodology for preparing a recapitulation of the statement of financial position, long-term loans also include loans with characteristics of subordinated debt (Note 4.26.).

4.24. Debt securities measured at amortised cost

	2018	2017
Certificates of deposit		
- To other financial institutions	1,082	1,082
TOTAL	**1,082**	**1,082**

* According to the Methodology for preparing a recapitulation of the statement of financial position, debt securities at amortised cost also include certificates of deposit with characteristics of subordinated debt (Note 4.26.).

4.25. Other financial liabilities

	2018	2017
Profit sharing - dividend payments	6	6
Wages and salaries	498	656
Taxes and contributions	264	276
Suppliers	1,549	503
Other liabilities	1,011	1,154
Charges being collected	21	123
Accrued costs	262	296
Accrued expenses	180	96
Funds for remittance transactions abroad	125	56
Other	4	45
TOTAL	**3,920**	**3,211**

4.26. Subordinated liabilities

a) Breakdown by statement of financial position items

	2018	2017
Deposits by customers - long-term deposits (Note 4.22.)	6,416	6,416
Borrowings from banks and central banks - long-term borrowings from banks (Note 4.23.)	4,116	4,116
Debt securities mesured at amortised cost - certificates of deposit (Note 4.24.)	1,082	1,082
TOTAL	**11,614**	**11,614**

b) Breakdown by sectors

	2018	2017
Subordinated liabilities		
- To banks	4,116	4,116
- To non-financial institutions	1,623	2,866
- To other financial institutions	5,345	4,102
- To households	530	530
TOTAL	**11,614**	**11,614**

	Date subscribed	Amount	Currency	Interest rate (%)	Maturity date
Subordinated liabilities					
	20. 12. 2012	2,058	EUR	6m Euribor + 6.00	20. 12. 2019
	20. 12. 2012	184	EUR	8.20	20. 12. 2019
	20. 12. 2012	162	EUR	8.20	20. 12. 2019
	20. 12. 2012	460	EUR	8.20	20. 12. 2019
	20. 12. 2012	276	EUR	8.20	20. 12. 2019
	23. 10. 2013	531	EUR	6.20	3. 11. 2020
	23. 10. 2013	53	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	85	EUR	6.20	3. 11. 2020
	23. 10. 2013	96	EUR	6.20	3. 11. 2020
	23. 10. 2013	32	EUR	6.20	3. 11. 2020
	23. 10. 2013	106	EUR	6.20	3. 11. 2020
	30. 10. 2013	106	EUR	6.20	10. 11. 2020
	30. 10. 2013	712	EUR	6.20	10. 11. 2020
	30. 10. 2013	531	EUR	6.20	10. 11. 2020
	30. 10. 2013	32	EUR	6.20	10. 11. 2020
	30. 10. 2013	319	EUR	6.20	10. 11. 2020
	30. 10. 2013	74	EUR	6.20	10. 11. 2020
	29. 5. 2015	2,058	EUR	6m Euribor + 6.00	31. 5. 2022
	29. 9. 2015	105	EUR	4.70	30. 9. 2021
	29. 9. 2015	52	EUR	4.70	30. 9. 2021
	29. 9. 2015	742	EUR	6.00	30. 9. 2022
	29. 9. 2015	106	EUR	6.00	30. 9. 2022
	30. 9. 2015	530	EUR	6.00	30. 9. 2022
	9. 10. 2015	159	EUR	6.00	10. 10. 2025
	9. 10. 2015	530	EUR	6.00	10. 10. 2025
	9. 10. 2015	848	EUR	6.00	10. 10. 2025
	9. 10. 2015	583	EUR	6.00	10. 10. 2025
TOTAL		**11,614**			

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

4.27. Provisions

a) Breakdown

	2018	2017
Provisions for pensions and similar payables to employees (Note 4.27. b and c)	1,354	1,451
Provisions for off-balance sheet liabilities	610	-
Group 1	72	-
Group 2	4	-
Group 3	534	-
Provisions for off-balance sheet liabilities (IFRS 39)	-	948
Provisions for pending legal cases (Note 4.27. d)	0	423
Other provisions (Note 4.27. e)	541	0
TOTAL	**2,505**	**2,822**

Movements in provisions for commitments and guarantees given and provisions for off-balance-sheet liabilities (under IAS 39) are disclosed in Section 5.1.5 (Notes h and i).

b) Provisions for pensions and similar payables to employees

	2018	2017
Provisions for severance pays	1,180	1,249
Provisions for long-service awards	174	202
TOTAL	**1,354**	**1,451**

The actuarial calculation of provisions for severance pays and long-service awards to employees included the following assumptions: average earnings growth in the Republic of Slovenia is expected to total an annual 3.3% in 2019 and 1% in subsequent years; the calculation of liabilities for severance pays takes into account an employee's period of employment; the selected discount factor is 1.83% annually. Assumptions on employment fluctuations and the company's related payables: it is assumed that employment fluctuation depends primarily on the employees age; the mortality rates used are from the Slovenian reference population mortality table for 2007; it is assumed that employees will exercise their right to retire upon reaching their full retirement age, and therefore the employer will not incur liabilities for long-service awards projected to fall due at a later date.

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

	2018	2017
As at 1 January	1,451	1,428
Provisions made during the year	63	96
Provisions released during the year	(84)	0
Provisions utilised during the year	(76)	(73)
As at 31 December	**1,354**	**1,451**

Recalculated payables to employees total EUR 1,354 thousand, for which additional provisions of EUR 21 thousand had to be released as at 31 December 2018. Higher provisions for severance pays, which represent costs for the period and an increase in provisions for long-service awards in the total amount of EUR 42 thousand, were charged to the income statement. The actuarial deficit for severance pays was released in comprehensive income in the amount of EUR 63 thousand (Note 4.32.).

d) Movements in provisions for pending legal cases

	2018	2017
As at 1 January	423	0
Provisions created during the year for dividend payments for 2015	0	423
Provisions utilised during the year for dividend payments for 2015	(423)	0
As at 31 December	**0**	**423**

e) Movements in other provisions

	2018	2017
As at 1 January	0	0
Provisions created during the year	541	0
As at 31 December	**541**	**0**

Other provisions included provisions formed in the amount of EUR 541 thousand for changed taxation on sale of property.

4.28. Tax liabilities

a) Breakdown

	2018	2017
Current tax liabilities	510	177
Deferred tax liabilities	2	0
TOTAL	**512**	**177**

Pursuant to the Corporate Income Tax Act (ZDDPO-2), the income tax payable for 2018, applying the 19% tax rate, amounts to EUR 512 thousand.

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

	2018	2017
1. Deferred tax liabilities		
Financial assets measured at fair value through other comprehensive income	2	0
TOTAL	**2**	**0**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	133	148
Impairment of securities	69	168
Impairment of equity participation	3,350	2,790
Tax loss	1,061	2,000
TOTAL (Note 4.18.)	**4,613**	**5,106**
NET DEFERRED TAX (2 - 1)	**4,611**	**5,106**

No adjustments for long-term deferred tax assets were formed in 2018.

c) Movements in deferred taxes

	2018	2017
As at 1 January	5,146	5,531
Financial assets measured at fair value through other comprehensive income (Note 4.32.)	27	27
Impairment of equity participation	391	38
Provisions for severance pays and long-service awards	(14)	(5)
Tax loss	(939)	(464)
As at 31 December	**4,611**	**5,106**

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

	2018	2017
Provisions for employee benefits	(9)	(7)
Other provisions	1	(22)
Tax loss	(939)	(464)
Impairment of equity participation	391	38
TOTAL (Note 3.13)	**(556)**	**(455)**

Deferred tax assets and liabilities for 2018 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 19%.

4.29. Other liabilities

	2018	2017
Payments received in advance	124	5
Taxes payable	271	285
Accruals	39	65
TOTAL	**434**	**355**

4.30. Share capital

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 31 December 2017/1 January 2018	4,268,248	17,811
As at 31 December 2018	**4,268,248**	**17,811**

The Bank's share capital is divided into 4,268,248 ordinary no par value shares of class A, of which 4,257,483 are recorded in the central registry of dematerialised securities held by the Slovenian Central Securities Clearing Corporation – KDD. At the year-end of 2018, the Bank's share capital totals EUR 17,811,083.54.

b) Shareholders with over 5% of share capital

2018

Shareholder	No. of shares	Stake in shareholders' equity in KDD
Kapitalska zadruga, z. b. o., Ljubljana	894,158	21.002
Skupina Prva d. d.	422,557	9.925
Kritni sklad PRVA+ ZAJAMČENI	422,557	9.925
KD Kapital d. o. o., Ljubljana	377,181	8.859
KD Group d. d., Ljubljana	255,941	6.012
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2018, 306 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2017: 304), of which 106 were domestic corporate entities, 195 were domestic individuals, and five were foreign entities. The number of the Bank's shareholders increased by 2 in 2018.

4.31. Share premium

	2018	2017
As at 1 January	31,257	31,257
As at 31 December	**31,257**	**31,257**

4.32. Accumulated other comprehensive income

	2018	2017
As at 1 January	**(486)**	**(200)**
Items not to be reclassified to profit or loss	**(61)**	**(28)**
Actuarial gains/losses on defined benefit pension plans	63	(31)
Changes in the fair value of investments into equity instruments measured at fair value through other comprehensive income	(146)	0
Income tax relating to components of items not be reclassified to profit or loss	22	3
Items that may be reclassified to profit or loss	**0**	**(107)**
Investments into debt securities measured at fair value through other comprehensive income (Note 4.5. b)	0	(134)
Valuation gains/losses taken to equity	0	(136)
Gains/losses transferred to profit or loss	0	2
Deferred taxes (Note 4.28. c)	0	27
As at 31 December	**(547)**	**(335)**

Items not restated in the income statement refer to the actuarial surplus for severance pays (Note 4.27. c) and investments in equity instruments.

4.33. Revenue reserves

a) Breakdown

	2018	2017
Reserves for treasury shares	601	645
Reserves under Statutes	1,924	1,924
Other revenue reserves	9,176	4,661
TOTAL	**11,701**	**7,230**

Pursuant to Article 230 (3) of the Companies Act (ZGD-1), the Bank allocated 50% of net profit for the year, which amounted to EUR 2,721 thousand, to other revenue reserves. Statutory and other revenue reserves can only be formed from profits for the year and retained earnings.

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

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

b) Reserves for treasury shares

	2018	2017
As at 1 January	645	645
Reversals	(44)	0
As at 31 December	**601**	**645**

Reserves for treasury shares decreased by EUR 44 thousand due to the derecognition of treasury shares (Note 4.34).

c) Reserves under Statutes

	2018	2017
As at 1 January	1,924	1,163
Transferred from net profit	0	761
As at 31 December	**1,924**	**1,924**

d) Other revenue reserves

	2018	2017
As at 1 January	4,661	2,696
Appropriation based on the decision of the General Meeting	2,199	0
Transferred from net profit	2,721	1,965
Dividend payments	(423)	0
Impact of derecognition of treasury shares	18	0
As at 31 December	**9,176**	**4,661**

The impact of the derecognition of treasury shares refers to the difference between acquisition cost of the share and its value accounted for.

4.34. Treasury shares

	2018	2017
Repurchase of treasury shares - ordinary	(601)	(645)
TOTAL	**(601)**	**(645)**

Treasury shares were bought back due to: employee share remuneration, protection from hostile takeovers, and reasons from indents 1 and 2 of Article 247 (1) of the Companies Act. In 2018, treasury shares decreased by EUR 44 thousand resulting from part of variable component of remuneration to Identified Staff having been paid with shares of the Bank.

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

a) Breakdown

	2018	2017
Net profit for the year	2,720	3,045
Retained earnings	850	0
TOTAL	**3,570**	**3,045**

b) Distributable profit

	2018	2017
Net profit for the year	5,441	3,806
Utilisation of net profit for the year		
- Reserves under statutes	0	(761)
- Other revenue reserves	(2,721)	0
Retained earnings	850	0
DISTRIBUTABLE PROFIT	**3,570**	**3,045**

Profit for the year amounts to EUR 5,441 thousand. The Bank's distributable profit as at 31 December 2018 amounts to EUR 3,570 thousand, and consists of the effect of transition to IFRS 9 as of 1 January 2018 recognised in retained earnings in the amount of EUR 635 thousand; profit realised on sales of equity investments recognised in retained earnings in the amount of EUR 214 thousand; and 50% of net profit for the year 2018 totalling EUR 2,720 thousand (the remaining 50% of net profit was already appropriated to other revenue reserves pursuant to a decision of the Supervisory Board in accordance with Article 230 of the Companies Act). The appropriation of distributable profit will be decided by the General Meeting. However, the Management Board and the Supervisory Board recommend that the entire distributable profit in the amount of EUR 3,570 thousand be appropriated to other revenue reserves.

4.36. Off-balance sheet liabilities

a) Breakdown by type of contingent liabilities and commitments

	2018	2017
Guarantees	21,671	28,093
Commitments to extend credit	42,846	40,726
TOTAL	**64,517**	**68,819**
Provisions (Note 4.27. a, 5.1.5. g and h)	(610)	(948)

4.37. Fiduciary activities

The Bank manages assets in the total amount of EUR 130,151 thousand (2017: EUR 118,902 thousand) in the name and for the accounts of third parties. Assets under management are accounted for separately from the Bank's assets. Income and expenses from operations in the name of third parties and for the accounts of third parties are credited or charged to the originator, therefore no liabilities arise for the Bank from these operations. The Bank charges the related service fees to the originator. In 2018, these fees amounted to EUR 279 thousand (2017: EUR 285 thousand). For acting as agent in the sale of numismatic coins, the Bank charged fees in the amount of EUR 12 thousand in 2018 (2017: EUR 15 thousand).

a) Investment and ancillary investment services for customers

	2018	2017
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**285**	**288**
Reception, transmission and execution of orders	285	288
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**114**	**124**
Fees associated with KDD and similar organisations	100	110
Fees associated with the stock exchange and similar organisations	14	14

	2018	2017
ASSETS	**128,551**	**117,160**
Claims on settlement account and current accounts for clients' assets	127,451	116,578
- From financial instruments	127,157	116,534
- From the KDD or the Bank's settlement account for sold financial instruments	165	25
- From other settlement systems and institutions for sold financial instruments	129	19
Clients' cash	1,100	582
- On the settlement account for clients' assets	605	582
- On banks' current accounts	495	0
LIABILITIES	**128,551**	**117,160**
Liabilities of settlement account and of current accounts for clients' assets	128,551	117,160
- With clients from cash and financial instruments	128,389	116,982
- With KDD or the Bank's settlement account for purchased financial instruments	6	129
- With other settlement systems and institutions for purchased financial instruments	127	25
- With the Bank and the Bank's settlement account for fees, expenses, etc	29	24

b) Other agency services

The item other agency services includes EUR 1,435 thousand from other transactions for the clients' accounts (2017: EUR 1,612 thousand), and EUR 165 thousand from settlement transactions with the KDD (2017: EUR 129 thousand).

4.38. Related party transactions

The ordinary course of business includes numerous banking transactions with related parties. These transactions are carried out on commercial terms and conditions, and at market rates.

a) Volume of banking transactions among related parties

	Management Board		Senior management		Close family members of members of the Management Board, Supervisory Board		Companies associated with members of the Management Board, Supervisory Board, and their close family members		Bank's shareholders* (holders of qualifying stake)		Supervisory Board members	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Loans and deposits placed												
As at 1 January	37	48	281	373	1	52	2,029	6,288	0	0	123	106
Increase	22	6	245	105	2	90	4,774	12,141	5	0	5	173
Decrease	(33)	(17)	(317)	(197)	(2)	(141)	(4,635)	(16,400)	0	0	(72)	(156)
As at 31 December	26	37	209	281	1	1	2,168	2,029	5	0	56	123
Interest income	1	1	7	7	0	1	63	150	0	0	1	2
Revaluation allowance	0	0	0	0	0	0	10	9	0	0	0	0
Deposits and borrowings												
As at 1 January	15	63	249	214	77	76	1,882	2,038	10	126	106	211
Increase	401	1,318	1,481	1,705	178	502	10,396	12,103	1,281	198	218	481
Decrease	(380)	(1,366)	(1,519)	(1,670)	(247)	(501)	(10,583)	(12,259)	(431)	(314)	(242)	(586)
As at 31 December	36	15	211	249	8	77	1,695	1,882	860	10	82	106
Interest expense	0	0	0	1	0	1	160	76	43	0	0	1
Guarantees issued	0	0	0	0	0	0	1,500	0	0	0	0	0
Fee and commission received	0	0	3	3	0	1	42	66	77	0	0	1
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	0	0	0	0	0	0
Increase	0	0	0	0	0	0	0	51	0	0	0	0
Decrease	0	0	0	0	0	0	0	(51)	0	0	0	0
As at 31 December	0	0	0	0	0	0	0	0	0	0	0	0
Lease income	0	0	0	0	0	0	0	42	0	0	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	1	144	0	0	0	0
Increase	0	0	0	0	0	0	37	15	0	0	0	0
Decrease	0	0	0	0	0	0	(37)	(158)	0	0	0	0
As at 31 December	0	0	0	0	0	0	1	1	0	0	0	0
Lease expense	0	0	0	0	0	0	37	56	0	0	0	0
Other income	0	0	0	0	0	0	0	0	27	0	0	0
Other liabilities	0	0	0	0	0	0	0	41	0	0	0	0
Other expenses	0	0	0	4	0	0	114	237	0	0	0	0

* Only shareholders holding qualified stakes included.

Disclosures of transactions among related parties include all changes taking place during the year. Each individual related party is considered as of the date of being entered in the related party list up to the date of exit or until the end of the year of reference.

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

	Subsidiaries - DBS Leasing, DBS Nepremičnine, Semenarna, DBS Adria		Subsidiaries - related parties - Management Board/CEO/Holder of Procuration		Subsidiaries - related parties - Companies related to members of the Management or Supervisory Board/CEO/Holder of Procuration, or their close family members	
	2018	2017	2018	2017	2018	2017
Loans and deposits placed						
As at 1 January	9,533	7,941	174	132	0	0
Increase	24,558	17,987	27	109	0	0
Decrease	(22,702)	(16,395)	(155)	(67)	0	0
As at 31 December	11,389	9,533	46	174	0	0
Interest income	203	220	1	3	0	0
Revaluation allowance	628	1,608	0	0	0	0
Deposits and borrowings						
As at 1 January	270	299	48	1	0	0
Increase	10,043	6,765	167	327	0	0
Decrease	(9,910)	(6,794)	(161)	(280)	0	0
As at 31 December	403	270	54	48	0	0
Interest expense	1	1	0	0	0	0
Guarantees issued	515	573	0	0	0	0
Fee and commission received	131	44	0	1	0	0
Full operational lease granted						
As at 1 January	0	0	0	0	0	0
Increase	35	12	0	0	0	0
Decrease	(35)	(12)	0	0	0	0
As at 31 December	0	0	0	0	0	0
Lease income	35	12	0	0	0	0
Full operational lease received						
As at 1 January	0	0	0	0	0	0
Increase	7	4	0	0	0	0
Decrease	(7)	(4)	0	0	0	0
As at 31 December	0	0	0	0	0	0
Lease expense	0	4	0	0	0	0
Other income	28	12	0	0	0	0
Other liabilities	0	12	0	0	0	0
Other expenses	8	13	0	0	0	0

c) Remuneration of senior management

	2018	2017
Wages and other short-term benefits	1,141	1,276
Variable remuneration	112	5
Variable remuneration - severance pays	126	0
TOTAL	**1,379**	**1,281**

The remuneration of the Management Board and others on management contracts includes gross wages, pay for annual leave (statutory severance pays, long-service awards, compensations), cost reimbursement and supplementary pension insurance. The variable component of remuneration includes the variable component of performance, fringe benefits and severance pays under contract. The variable remuneration amounting to EUR 112 thousand is composed of monetary remuneration of EUR 67 thousand, shares amounting to EUR 31 thousand, and other fringe benefits (use of a car, accident and health insurance) amounting to EUR 14 thousand. The senior management category comprises the Management Board and employees subordinated to it directly.

The Management Board and others on management contracts held 1,933 shares (0.045% of share capital) as at 31 December 2018. As at 31 December 2017 they held 1,850 shares (0,04% of share capital).

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

	2018	2017
Wages and other short-term benefits	103	94
TOTAL	**103**	**94**

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

e) Remuneration of members of management and supervisory bodies in 2018

	Fixed remuneration				Variable remuneration		
Position/Remuneration type	Fixed remuneration	Cost reimbursement	Supplement pension insurance	Total	Variable remuneration	Other payments	Total
Management Board of the Bank	**332**	**3**	**5**	**340**	**117**	**14**	**131**
- Marko Rozman, President (from 17 July 2018)	72	1	1	74	0	0	0
- Sonja Anadolli, President (up to 17 July 2018)	129	1	2	132	103	7	110
- Barbara Cerovšek Zupančič MSc, member	131	1	2	134	14	7	21
Supervisory Board of the Bank	**99**	**4**	**0**	**103**	**0**	**0**	**0**
- Peter Vrisk, President	29	1	0	30	0	0	0
- Ivan Lenart, Deputy President	22	2	0	24	0	0	0
- Nikolaj Maver, member	22	1	0	23	0	0	0
- Jure Kvaternik, member (from 9 October 2018)	4	0	0	4	0	0	0
- Iris Dežman, member (from 9 October 2018)	4	0	0	4	0	0	0
- Viktor Lenče, member (from 30 March 2018 up to 10 August 2018)	7	0	0	7	0	0	0
- Tomaž Petrovič, member (from 9 October 2018)	4	0	0	4	0	0	0
- Simon Kolenc, member (from 30 March 2018 up to 7 September 2018)	7	0	0	7	0	0	0
TOTAL	**431**	**7**	**5**	**443**	**117**	**14**	**131**

The table shows the earnings of Management and Supervisory Board members, pursuant to the requirement of Article 294 of the Companies Act. Management and supervisory bodies are defined in the Business Report, chapter VI.4. Composition and operations of the management and supervisory bodies and their committees.

f) Remuneration of Identified Staff in 2018

Position/Remuneration type	Number of beneficiaries	Fixed earnings	Variable remuneration	Cost reimbursement	Insurance premiums	Total
TOTAL REMUNERATION	**26**	**1,237**	**138**	**48**	**21**	**1,444**

The category of Identified Staff comprises the Management Board, Management Board advisers, executive directors, directors of Sections and Departments and of Branch units.

4.39. Remuneration system and important business contacts

Remuneration system

The system of remuneration in the Bank is based on the Remuneration Policy for Identified Staff ("Remuneration Policy"), which lays down the system of remuneration and performance bonuses for the staff having a material impact on the Bank's risk profile by virtue of performing their work tasks and assignments: either by being risk takers, or by cooperating in risk management, or by having control and supervision functions. The necessary preconditions for variable pay are the Bank's reporting a profit for the assessment period and its reaching and exceeding all fundamental objectives. In 2018, a total of EUR 269 thousand was allocated to the variable component of remuneration for Identified Staff.

Important business contacts

A significant indirect business contact exists if a member of the Management Board or Supervisory Board or their close family member is a business partner, holder of a qualifying stake, CEO or member of the senior management in a company or organisation that is in a business relationship with the Bank. In this respect, the Bank promotes the culture of avoiding significant direct and indirect business contacts.

4.40. Events after the statement of financial position date

As of 1 February 2019, the Bank will no longer perform investment services and transactions for customers.

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

5. RISK CONTROL

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

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

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

In 2018, the Bank complied with the requirements of the capital accord and other requirements of the regulatory framework for banks. Risk management was additionally upgraded, especially the management of credit risk. The Bank thereby continued with the upgrade of its early warning system for increased credit risk for monitoring all customers. The Supervisory Board noted the Bank risk profile and its risk-taking capacity, and promptly monitored its exposure to risks. All critical risk management internal acts were revised in 2018.

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

Credit risk

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

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

Market risk

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

Foreign exchange risk

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

Interest rate risk

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

Liquidity risk

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

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

Operational risk

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

Capital risk

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

5.1. Credit risk

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

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

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

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

Depending on the risk category of a borrower, as expressed by their credit rating, and the risk of a particular business, which is also influenced by the guarantees provided, the Bank forms appropriate revaluation allowances and provisions. In order to reduce capital requirements for credit risk, the Bank only accepted first-class and appropriate guarantees in 2018, consistent with regulations.

5.1.1. Measuring credit risk

(a) Loans and receivables

In 2018 the Bank determined credit risk pursuant to the valid regulations. To this end, it drew up its credit portfolio quality analyses, into which it included data on:

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

More on forming provisions and impairments in Chapter 5.1.3.

(b) Debt securities

In assuming exposure to credit risk when buying debt securities in 2018, the Bank used the classification into credit rating classes according to issuing states and other issuers, the kind used by i.e. Standard & Poor's or credit rating agencies of their level, whereby it specified the minimum acceptable credit rating limit for the respective securities.

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

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

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

(a) Collateral

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

Internal rules on collateral define:

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

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

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

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

(b) Off-balance sheet commitments

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

5.1.3. Guidelines on forming impairments and provisions

Pursuant to the regulatory framework for banks, and the provisions of the International Financial Reporting Standards (IFRS 9, effective as of 1 January 2018), the Bank classifies financial assets and off-balance-sheet commitments (hereafter: exposures) into groups according to their risk profile, and assesses the amount of expected losses associated with these exposures. Whereas measuring the impairment loss under IAS 39 was based on the incurred loss model, IFRS 9 introduces the expected credit loss model with forward-looking information being included in the measurement. As a matter of in-house development, the Bank has set up a new model for calculating impairments and implemented the necessary adjustments to applications.

The credit rating system

The Bank has in place a system of credit rating grades for categorising exposure. Eleven credit rating grades are used for measuring credit exposure of business entities, and five grades are used for natural persons. To categorise an entity into a credit rating grade, four groups of criteria are used with business entities, i.e. selected financial ratios (based on balance sheet and income statement data), soft or subjective factors (additional information on entity's performance in the business environment), other risk factors (delays, compulsory composition, bankruptcy, restructuring, blockage, outstanding tax liabilities, etc.) and an assessment acquired through an in-depth analysis of its operations. With natural persons, the decision to classify them into a credit rating grade mainly depends on the length of material default, but also on other criteria (personal bankruptcy, renegotiating claims, etc.).

For establishing an increase in credit risk, the Bank has harmonised the credit rating grades for business entities and natural persons in the context of forming impairments based on the model, and thus uses five individual grades as shown in the table below.

Credit rating grades

Harmonised credit rating grades	Business entities	Natural persons and farmers	Risk	Estimated annual conditional PD (from – to)
A	A1, A2, A3	A	Low credit risk	0.16-1.15%
B	B1, B2, B3	B	Medium credit risk	2.92-3.37%
C	C1, C2, C3	C	High credit risk	13.27-24.70%
D	D	D	Defaulted obligor	100%
E	E	E	Defaulted obligor	100%

Classification of financial assets

At each reporting date, the Bank classifies the exposures for which impairment requirements are used into groups 1, 2 and 3, depending on whether credit risk has increased significantly since initial recognition.

The Bank classifies as group 1 all exposures whose credit risk has not increased significantly since initial recognition or which are considered low-credit risk transactions (this includes sovereign exposure, exposure to institutions, the public sector, as well as local and regional authorities). For such exposures, the Bank measures 12-month expected credit losses.

If the Bank establishes that the credit risk of an exposure has increased significantly since initial recognition, the instrument is classified as group 2, and expected credit losses are measured as full lifetime expected credit losses.

Exposures for which there is objective evidence of impairment (i.e. transactions by customers with the status of defaulted obligors) are classified as group 3. Their credit losses are measured based on estimated future cash flows reflecting the current value of estimated cash flows or based on the assessment of the repayable amount of collateral based on the not-going concern principle.

At each reporting date, the Bank estimates whether the credit risk of a financial instrument has increased significantly since initial recognition, taking into account appropriate and demonstrable information that can be acquired without entailing excessive costs or efforts. Credit insurance is not taken into account in classifying exposures as group 1, 2 or 3. The tables below show the classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2018 and as at 31 December 2017.

Classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2018

2018

	Group 1	Group 2	Group 3	POCI	Total
Receivable's credit rating A	769,832	1,461	0	0	771,293
Receivable's credit rating B	103,074	1,904	0	0	104,978
Receivable's credit rating C	507	9,019	0	0	9,526
Receivable's credit rating D	0	0	100	0	100
Receivable's credit rating E	0	0	1,153	0	1,153
Receivable's credit rating P	0	0	50,470	761	51,231
Gross carrying amount of classified balance sheet exposures	873,413	12,384	51,723	761	938,281
Revaluation allowance for classified balance sheet exposures	(810)	(505)	(14,005)	0	(15,320)
Net carrying amount of classified balance sheet exposures	872,603	11,879	37,718	761	922,961

Classification of balance sheet exposures by receivables credit rating and groups as at 31 December 2017

	2017
Receivable's credit rating A	698,486
Receivable's credit rating B	92,180
Receivable's credit rating C	15,144
Receivable's credit rating D	79
Receivable's credit rating E	222
Receivable's credit rating P	81,386
Gross carrying amount of classified balance sheet exposures	887,497
Revaluation allowance for classified balance sheet exposures	(27,170)
Net carrying amount of classified balance sheet exposures	860,327

Significant increase of credit risk

For all financial assets subject to impairment requirements, the Bank estimates whether a significant increase of credit risk has occurred since initial recognition. If so, full lifetime expected credit losses are used instead of 12-month expected credit losses. The Bank considers for a significant increase of credit risk to have occurred when at least one of the following criteria is fulfilled:

a) at the time of approving the transaction, the customer's credit rating is A or B, and as at the reporting date, their credit rating is C;
b) material default in the transaction exceeds 30 days;
c) in the trial period, the customer was restructured profitably, or restructured unprofitably;
d) the customer is included on the last watch list due to enforcement or non-permitted negative balances;
e) comparison of the cumulative probability of default (PD) on the day of approving the transaction and as at the reporting date: cumulative (lifetime) PD representing the default risk for the duration of the financial instrument will be used by the Bank as criterion in the classification of transactions into groups beginning with 1 January 2020, i.e. for transactions approved after 1 January 2018; if there is a significant increase of the cumulative PD compared with the cumulative PD upon approval of the transaction, the transaction will be classified as group 2, and vice-versa (transfer from group 2 to group 1 in case of a significant decrease of the cumulative PD).

The Bank has decided not to use the rebuttable presumption of material default in the transaction that is more than 30 days past due, and rather classify all transactions with the material default of more than 30 days as group 2 and recognise for them full lifetime expected credit losses.

If the customer's credit rating is D or E (exposure will be recognised as a non-performing exposure when it is considered there to have been a default in accordance with article 178 of CRR, or when it has been found to have been impaired in accordance with an effective accounting standard), the transaction will be considered credit impaired and therefore classified as group 3 regardless of the credit rating grade upon initial recognition.

COLLECTIVE ASSESSMENT OF CREDIT LOSSES

Use of forward-looking information

In measuring the expected credit losses (ECL), the Bank uses forward-looking information which is available without undue cost or effort. It then forms the most likely outcome for future behaviour of economic variables, and also the best-case and the worst-case scenario. External information includes economic data and forecasts published by state institutions. Each scenario is ascribed a weight that represents a percentage of its probability to materialise. The most likely outcome is the scenario that is the most probable to materialise. The use of forward-looking information and determination of scenarios is described further below.

Measurement of expected credit losses (ECL)

Exposures classified as group 1 or 2 are, as a rule, impaired on a collective basis, and exposures classified as group 3 on an individual basis, with certain exceptions, such as limits that are subject to an action, service and payment guarantees, and non-credit transactions, for which, even if classified as group 3, impairment is recognised on a collective basis.

Collective impairment is calculated as the sum of discounted monthly weighted expected credit losses, and an individual (monthly) unit is calculated as the product of probability of default (PD). loss given default (LGD), exposure at default (EAD) and conversion factor (CCF).

Calculation of limit probability of default (PD)

In accordance with IFRS 9, the calculation of expected credit losses is based on the monthly limit PD that comprises expectations for the future and takes into consideration the probability of viability up to a certain month and the default event in this certain month. Forward-looking PD is calculated for the most likely outcome as well as the best-case and worst-case scenarios, and is based on the forecast for the chosen macroeconomic variable.

Calculation of forward-looking PS is based on the Z-shift method that enables forecasts for migration matrices in the coming periods using the forecast for macroeconomic variables. Using the forecast migration matrices, we can discern the probability of transfer to grades D and E which stands for the probability of default (PD). In PD calculations, expectations for the future are comprised in the Z variable that is related to the chosen macroeconomic variable.

PD calculations use annual migration matrices, whereas macroeconomic variables also refer to the annual level. Migration matrices for farmers and natural persons are combined, and estimated PD values are thus acquired using two models: (I) the business entity model, and (II) the natural persons and farmers model. The source of past data and forecasts for macroeconomic variables is the Autumn Forecast of Economic Trends of the Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (hereinafter: IMAD).

Forecasts for Z values are acquired with the regression model based on the ordinary least squares method (OLS). Z values are then translated back into migration matrices. For the years for which forecasts for the macroeconomic variable are no longer available, the last available Z value is used and decreased gradually to 0 (which results in an average matrix) by continually subtracting a fifth of the latest Z value and multiplying the latest cumulative matrix with the average matrix. This is based on the assumption that migration matrices have the characteristics of Markov chains, meaning that each time the probability of migration depends only on the current situation.

The annual conditional PD is then translated to the monthly level and in turn used to calculate the monthly limit PD. Foe each type of customer (corporate customers, natural persons, farmers) and each grade (A, B, and C), a time series of monthly PD is calculated taking into account the most likely outcome, and the best-case and the worst-case scenario for the movement of the macroeconomic variable. Scenario weights are calculated based on the share of past errors in IMAD's forecasts for the chosen macroeconomic variable.

Calculations of PD for sovereign exposure and exposure to institutions and public sector entities are based on the Pluto-Tasche method, which is used to calculate PD for low- or zero-rate default portfolios The PD values calculated for the purpose of measuring the expected credit losses are also translated to the monthly level.

Calculation of loss given default (LGD)

Loss given default (LGD) is the share the Bank loses on average within seven years of the occurrence of default with respect to the exposure at default. The calculation takes into account all the Bank's receivables on loans from customers who have migrated to the status of default in the past seven years. The Bank calculates the LGD parameter by calculating the recovery rate for each exposure and then subtracting it from 1.

Recovery rate is the share acquired by the Bank after the occurrence of default either from calling on collateral or repayments by the customer. Calculations of the recovery rate take into account the actual cash flows received after the customer migrated to the status of a defaulted obligor and discounted on the day of their migration to this status, plus the value of the collateral which is also discounted on the day of their migration to the status of a defaulted obligor. If the transaction is not yet resolved, the calculation also takes into account the expected (estimated) cash flows which are also discounted on the day of the default. Exposure at default (EAD) is taken into account in the denominator. The amount of EAD is neither increased by interest on arrears or additional costs incurred after the event of default; nor is it decreased if the Bank should receive an inflow after their migration to the status of a defaulted obligor.

The LGD parameter is calculated for (i) collateralised exposures, and (ii) exposures for receivables without collateral, which also includes receivables with types of collateral that are not taken into account in the calculation of LGD for the collateralised portion of the receivable. The LGD parameter is calculated separately for corporate customers and jointly for natural persons, farmers and private individuals without a registration number.

Calculations of expected credit losses for the exposure to the state are based on LGD values laid down in Article 161(1) of Regulation No. 575/2013/EU (CRR).

Calculation of exposure at default (EAD)

As at the reporting day, the actual exposure (EAD) is taken into account for each financial instrument. If in the future, the exposure of a financial instrument changes in accordance with the contractually agreed repayment of interest and the principal, all future expected exposures of a financial instrument until its maturity are recalculated on the reporting day. If a delay in the payment of individual financial instruments should occur as at the reporting day, it is assumed that any delay will be repaid within the month following the reporting day. In the event of overpayment of instalment loans, the expected future exposure does not decrease until overpayments are equivalent to the expected exposure under the amortisation schedule. In the event of overpayment of annuity loans, the expected future exposure is regularly decreased by the amount of annuity, which results in advance repayment of loan.

If in the future, the exposure of a financial instrument does not change in accordance with the contractually agreed repayment of interest and the principal, i.e. if the movement of exposure of a financial instrument is not known in advance (in case of a revolving loan, overdraft loan, limit, etc.), the actual exposure of a financial instrument as at the reporting day is taken into account in all months until the instrument's maturity.

Calculation of credit conversion factor (CCF)

Used as a conversion factor is the regulatory defined CCF as laid down in Article 111(1) of the CRR, which corresponds to the off-balance sheet item based on being classified into a risk category pursuant to the Annex 1 to the CRR.

Calculation of discount factor

Monthly weighted expected credit losses are discounted using a discount factor calculated from the effective interest rate, or the contractual interest rate if the Bank has no information on the effective interest rate.

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

INDIVIDUAL ASSESSMENT OF CREDIT LOSSES

The Bank assesses expected credit losses individually for non-performing exposures consistent with the definition of such exposures. Exposures are considered as non-performing when a default is considered to have happened with respect to them pursuant to Article 178 of the CRR, or when they have been found impaired pursuant to the valid accounting standard.

The expected exposure loss is calculated as the difference between the asset's carrying amount and estimated future cash flows that are discounted at the original effective interest rate of the financial asset. Expected cash flows are evaluated against the type of scenario, i.e. according to whether the approach used is that of business as a going concern or a not going concern.

The Bank assesses expected cash flows based on objective evidence.

Changes to assessment techniques and material assumptions

In the period from 1 January 2018 to 31 December 2018, the Bank made no changes to the methodology and assumptions used in the assessment of losses originating in credit risk, and there were also no changes to risk parameters used in the calculation of expected credit losses.

Impact of the value of collateral on the calculation of expected credit losses

In calculating expected credit losses, the Bank only takes into consideration real estate as collateral, whereas transactions with other types of collateral (insurance covers, guarantees, bank deposits, etc.) are considered unsecured transactions.

The value of collateralised assets affects the calculation of expected credit losses using the LGD parameter. The LGD parameter is assessed using a defaulted obligors sample and used in the collective assessment of credit losses (for non-defaulted obligors i.e. groups 1 and 2). In the calculation of expected credit loss, LGD is used with respect to the type of customer and type of collateral. If an exposure has several types of collateral, the calculation of expected credit loss is based on weighted LGD.

For collateral, the Bank only accepts property that conforms to its internal rules on collateral and complies with the conditions for mitigating credit risk as stipulated in Section 4 of CRR. In granting new transactions, the Bank consistently follows its internal rules determining the loan-to-value ratio (LTV). When exposures are protected with residential property, the required LTV is 66%, and when protected with commercial property, the required LTV is normally 50%. With respect to housing loans intended for the construction of residential property, the Bank also takes into account the growing mortgage value principle, with the required LTV having to be reached by the completion of construction.

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

Credit rating grade	2018 Total receivables for classification (%)	2018 Receivables impairments and provisions for classification under IFRS (%)	2017 Total receivables for classification (%)	2017 Receivables impairments and provisions for classification under IFRS (%)
1. A	80.6	0.0	77.0	0.1
2. B	12.8	0.5	12.7	1.5
3. C	1.0	5.3	1.6	5.2
4. D	0.0	44.7	0.0	56.1
5. E	0.0	74.7	0.0	99.7
6. P	5.6	27.2	8.6	30.2
	100.0	1.7	100.0	2.9

At the year-end of 2018, individually impaired receivables for classification were considerably down compared to 2017, both in terms of volume and share, a result of successfully completed cases of restructuring, repayments received for non-performing exposures, and also due to the transfer of 100%-impaired receivables off the balance sheet and the write-off of unrecoverable receivables. At the year-end of 2018, the majority, i.e. 80.6%, of the Bank's receivables for classification were given an A credit rating, followed by receivables for classification given a B credit rating, which represented 12.8% of all receivables for classification, and individually impaired receivables from customers in category P, which represented 5.6% of all receivables for classification. Impairments and provisions were formed for the latter under IFRS on the basis of the amounts of collateral and expected future cash flows.

5.1.4. Loans and receivables

Consistent with its adopted strategy, in 2018 the Bank focused on banking for the retail segment, farmers and SMEs, and groups with good credit ratings. Those clients were prioritised which, in addition to exhibiting creditworthiness, provided adequate collateral, so as to minimise the possible increase in the Bank's exposure to credit risk.

(a) Loans and receivables non past due and not impaired and loans and receivables collectively assessed as impaired

	2018 Loans to customers	2018 Loans to banks	2017 Loans to customers	2017 Loans to banks
Non past due and not impaired	1,714	6,698	277,137	4,914
Impaired	754,121	0	432,981	0
Non-trading loans mandatorily measured at fair value through profit or loss	3,526	0	-	-
Gross amounts	759,347	6,698	737,283	4,914
Revaluation allowance for impairments of loans	(15,172)	0	(26,973)	0
Accumulated changes in fair value due to credit risk	(1,002)	0	-	-
Net amounts	**743,173**	**6,698**	**710,310**	**4,914**

The table above shows the amounts of drawn loans to customers and to banks, with loans that are neither due nor impaired including all transactions which will mature in periods after 31 December 2018 and whose impairment percentage equals 0. Loans whose impairment charge is higher than 0 are recorded under impaired loans. Value adjustment is also shown only for the balance sheet portion of exposure. Pursuant to IFRS 9, impairment requirements are also valid for certain transactions that in accordance with IAS 39 were not impaired, which is shown in the table (as at 31 December 2018, loans not impaired only amount to EUR 1,714 thousand, whereas the remaining portion of loans is to be impaired).

The total value of loans and receivables in financial year 2018 increased by 3.2% from 2017, with loans to customers and loans to banks both up. The reported loan loss provisions totalled EUR 16,174 thousand (2017: EUR 26,973 thousand). Pursuant to IFRS 9, the Bank also measures impairments for receivables from banks, however, the related credit risk having been assessed as low, the impairment charge for such exposures is negligible.

(b) Loans and receivables individually assessed as impaired

Loans and advances to customers (loans and receivables)

Individually impaired loans to customers and receivables from customers, without individually impaired loans to banks (upon transition to IFRS 9, receivables from banks are no longer classified as individually impaired, resulting from which individually impaired loans to banks equal 0) and before considering cash flows from collateral held by the Bank, amount to EUR 56,348 thousand (2017: EUR 75,692 thousand). As opposed to 2017, exposure to SMEs decreased the most in 2018, by 27.2%, followed by exposure to individuals down 25.2%, and exposure to large corporate clients by 19.2% year-on-year, a result of repayments of non-performing exposures as well as the transfer of receivables off the balance sheet and their being written off.

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

2018	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	3,109	8,051	41,667	0	56,348
- Past due up to 15 days	1,255	5,743	20,963	0	31,482
- Past due 31 to 90 days	0	0	1,588	0	1,588
- Past due over 90 days	1,854	2,308	19,116	0	23,278
Impairment charge	613	4,333	9,448	0	15,396
Fair value of collateral	6,036	1,170	50,473	0	61,193

* Micro, small and medium enterprises.

2017	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	4,157	14,324	57,211	6,474	82,166
Impairment charge	1,330	6,555	16,949	0	24,834
Fair value of collateral	7,284	6,712	57,916	0	71,912

* Micro, small and medium enterprises.

Loans and advances to banks (loans and receivables)

With respect to exposure to the banking sector, the Bank formed no impairments on individual basis in 2018. In 2017, such exposures were included in individual impairments, however, no revaluation allowance was formed in this regard. Pursuant to IFRS 9, revaluation allowance is formed also for less credit risk-prone exposures, which includes banks; however, in the event of a default event, they are impaired collectively and are therefore not shown in the table.

(c) Restructured loans and receivables

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

The gross value of exposure for which a new agreement on repayment conditions was reached and which could otherwise fall due, amounted to EUR 40,580 thousand as at 31 December 2018 (2017: EUR 64,884 thousand).

	2018	2017
Retail loans and receivables – Loans and advances	40,580	64,884
Total	**40,580**	**64,884**

5.1.5. Movements in revaluation allowance and gross value of financial assets and provisions for off-balance sheet liabilities

Movements in revaluation allowance and provisions for off-balance sheet liabilities

a) Movements in revaluation allowance for financial assets measured at amortised cost – loans and other financial assets, debt securities, other assets and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI**	Total
As at 1 January	625	1,158	24,785	0	26,568
Transferred to Group 1	111	(111)	0	0	0
Transferred to Group 2	(20)	164	(144)	0	0
Transferred to Group 3	(1)	(44)	45	0	0
Enhancements through issuing and acquisition	28	0	85	0	113
Decreases through derecognition	(103)	(65)	(1,911)	0	(2,079)
Changes due to change in credit risk (net)	170	(431)	2,349	0	2,088
Write-downs*	0	(166)	(10,202)	0	(10,368)
Other adjustments	0	0	(1,002)	0	(1,002)
As at 31 December	**810**	**505**	**14,005**	**0**	**15,320**
Repayments of previous write-downs recorded directly in the income statement	0	0	80	0	80
Write-downs recorded directly in the income statement	0	(1)	(12)	0	(13)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.
** In December 2018, the Bank purchased and newly recognised a purchased or originated credit-impaired (POCI) financial asset. In the period from recognition until 31 December 2018, no facts changed based on which expectations regarding the future cash flows would change, which means that no new impairments were required.

In 2018, there were no loans and advances regarding which modification or change effects should be recognised.

b) Movements in revaluation allowance for balances at central bank and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	0	0	0	0	0
Enhancements through issuing and acquisition	1	0	0	0	1
As at 31 December	**1**	**0**	**0**	**0**	**1**

c) Movements in revaluation allowance for debt securities at amortised cost

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	20	0	0	0	20
Enhancements through issuing and acquisition	2	0	0	0	2
Decreases through derecognition	(5)	0	0	0	(5)
Changes due to change in credit risk (net)	6	0	0	0	6
As at 31 December	**23**	**0**	**0**	**0**	**23**
Repayments of previous write-downs recorded directly in the income statement	0	0	0	0	0
Write-downs recorded directly in the income statement	0	0	0	0	0

d) Movements in revaluation allowance for loans and other financial assets at amortised cost

2018

	Group 1	Group 2	Group 3	POCI**	Total
As at 1 January	605	1,158	24,782	0	26,545
Transferred to Group 1	111	(111)	0	0	0
Transferred to Group 2	(20)	164	(144)	0	0
Transferred to Group 3	(1)	(44)	45	0	0
Enhancements through issuing and acquisition	25	0	79	0	104
Decreases through derecognition	(98)	(65)	(1,904)	0	(2,067)
Changes due to change in credit risk (net)	164	(431)	2,351	0	2,084
Write-downs*	0	(166)	(10,202)	0	(10,368)
Other adjustments	0	0	(1,002)	0	(1,002)
As at 31 December	**786**	**505**	**14,005**	**0**	**15,296**
Repayments of previous write-downs recorded directly in the income statement	0	0	80	0	80
Write-downs recorded directly in the income statement	0	(1)	(12)	0	(13)

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

** In December 2018, the Bank purchased and newly recognised a purchased or originated credit-impaired (POCI) financial asset. In the period from recognition until 31 December 2018, no facts changed based on which expectations regarding the future cash flows would change, which means that no new impairments were required.

e) Movements in revaluation allowance for other assets

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	0	0	3	0	3
Enhancements through issuing and acquisition	0	0	6	0	6
Decreases through derecognition	0	0	(7)	0	(7)
Changes due to change in credit risk (net)	0	0	(2)	0	(2)
As at 31 December	**0**	**0**	**0**	**0**	**0**
Repayments of previous write-downs recorded directly in the income statement	0	0	0	0	0
Write-downs recorded directly in the income statement	0	0	0	0	0

f) Movements in revaluation allowance for loans to banks and loans to customers and other financial assets (under IAS 39)

2017

	Loans to banks	Loans to customers	Other financial assets
As at 1 January	-	28,842	113
Enhancements (through impairments)	-	13,296	209
Repayments (through impairments)	-	(10,998)	(90)
Reversed off-balance sheet impairments	-	312	0
Transferred off the balance sheet (no write-downs)	-	(3,697)	(33)
Write-downs	-	(780)	(3)
Suspended interest (balance sheet receivables)	**-**	(435)	**0**
Debt-to-equity swap	-	336	0
Increase from compulsory composition	-	97	0
As at 31 December	**-**	**26,973**	**196**

g) Movements in provisions for off-balance sheet commitments and contingent off-balance sheet liabilities

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	112	4	653	0	769
Transferred to Group 1	1	(1)	0	0	0
Transferred to Group 2	0	13	(13)	0	0
Transferred to Group 3	0	(1)	1	0	0
Enhancements through issuing and acquisition	2	0	3	0	5
Decreases through derecognition	(18)	0	(246)	0	(264)
Changes due to change in credit risk (net)	(25)	(11)	136	0	100
As at 31 December	**72**	**4**	**534**	**0**	**610**
Repayments of previous write-downs recorded directly in the income statement	0	0	0	0	0
Write-downs recorded directly in the income statement	0	0	0	0	0

h) Movements in provisions for off-balance-sheet liabilities (under IAS 39)

2017

As at 1 January	513
Provisions made during the year	4,206
Provisions released during the year	(3,771)
As at 31 December	**948**

Movements in gross value of financial assets and off-balance sheet liabilities

a) Movements in gross value of financial assets measured at amortised cost Ð loans and other financial assets, debt securities, other assets and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	787,470	25,081	75,021	0	887,572
Transferred to Group 1	13,069	(13,068)	(1)	0	0
Transferred to Group 2	(7,932)	8,859	(927)	0	0
Transferred to Group 3	(134)	(1,363)	1,497	0	0
Enhancements through issuing and acquisition	232,062	1,753	3,596	761	238,172
Decreases through derecognition	(153,945)	(4,218)	(14,089)	0	(172,252)
Write-downs*	(12)	(170)	(10,740)	0	(10,922)
Other changes	2,835	(4,490)	(2,634)	0	(4,289)
As at 31 December	**873,413**	**12,384**	**51,723**	**761**	**938,281**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

b) Movements in gross value of balances at central bank and demand deposits at banks

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	20,838	0	0	0	20,838
Enhancements through issuing and acquisition	44,355	0	0	0	44,355
Other changes	143	0	0	0	143
As at 31 December	**65,336**	**0**	**0**	**0**	**65,336**

c) Movements in gross value of debt securities measured at amortised cost

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	123,572	0	0	0	123,572
Enhancements through issuing and acquisition	17,056	0	0	0	17,056
Decreases through derecognition	(31,573)	0	0	0	(31,573)
Other changes	(1,285)	0	0	0	(1,285)
As at 31 December	**107,770**	**0**	**0**	**0**	**107,770**

d) Movements in gross value of loans and other financial assets measured at amortised cost

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	643,052	25,081	74,958	0	743,091
Transferred to Group 1	13,069	(13,068)	(1)	0	0
Transferred to Group 2	(7,932)	8,859	(927)	0	0
Transferred to Group 3	(134)	(1,363)	1,497	0	0
Enhancements through issuing and acquisition	170,421	1,753	567	761	173,502
Decreases through derecognition	(122,372)	(4,218)	(12,027)	0	(138,617)
Write-downs*	(12)	(170)	(10,740)	0	(10,922)
Other changes	4,067	(4,490)	(2,634)	0	(3,057)
As at 31 December	**700,159**	**12,384**	**50,693**	**761**	**763,997**

* Write-downs include write-offs and transfers (write-downs) of receivables to off-balance sheet in accordance with Article 32 of the Decision on Credit Risk Management for Banks and Savings Banks.

e) Movements in gross value of other assets

2018

	Group 1	Group 2	Group 3	POCI	Total
As at 1 January	8	0	63	0	71
Enhancements through issuing and acquisition	230	0	3,029	0	3,259
Decreases through derecognition	0	0	(2,062)	0	(2,062)
Other changes	(91)	0	0	0	(91)
As at 31 December	**147**	**0**	**1,030**	**0**	**1,177**

f) Movements in off-balance sheet commitments and contingent off-balance sheet liabilities

2018

	Group 1	Group 2	Group 3	Total
As at 1 January	67,208	318	1,293	68,819
Transferred to Group 1	254	(254)	0	0
Transferred to Group 2	(256)	292	(36)	0
Transferred to Group 3	(51)	(21)	72	0
Enhancements through issuing and acquisition	117,168	672	2,833	120,673
Decreases through derecognition	(120,841)	(758)	(3,377)	(124,976)
As at 31 December	**63,482**	**249**	**785**	**64,516**

5.1.6. Debt securities and bills

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

The table below shows the Bank's exposure with respect to its debt securities according to Standard & Poor's ratings, as at 31 December 2018 and 31 December 2017.

2018	Debt securities at amortised cost	Debt securities held for trading	Debt securities measured at fair value through other comprehensive income	Total
AA	15,265	0	0	15,265
A+	90,684	0	0	90,684
Unrated	1,799	0	0	1,799
Total debt securities	**107,748**	**0**	**0**	**107,748**

2017	Debt securities held to maturity	Debt securities held for trading	Debt securities available for sale	Total
A	123,572	0	0	123,572
Total debt securities	**123,572**	**0**	**0**	**123,572**

Both in 2018 and 2017, the largest proportion of our debts portfolio were Slovene state bonds, which totalled EUR 91 million (the year-end of 2017: EUR 123 million). In the context of state bonds, they are followed by French state bonds totalling EUR 15 million. The remainder of the nearly EUR 2 million worth portfolio consists of commercial papers and bonds that were issued by major Slovene companies but not rated by prominent rating agencies. The Bank's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

5.1.7. Collateral acquired by prescription

In 2018, the Bank acquired assets by calling on the collateral held as guarantee, namely:

	Carrying amount	
	2018	2017
Property	2,081	3,987
Total	**2,081**	**3,987**

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

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

		Remaining maturity as at 31 December 2018			Remaining maturity as at 31 December 2017		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	85,801	365,306	451,107	28,666	396,036	424,702
02	Regional and local government	8	6,080	6,088	9	4,623	4,632
03	Public sector entities	6,878	8,799	15,677	4,292	7,939	12,231
06	Institutions	35,720	304	36,024	38,955	216	39,171
07	Corporate	15,736	18,403	34,139	18,482	15,466	33,948
08	Retail exposures	66,610	123,385	189,995	59,290	107,283	166,573
09	Secured by mortgages of immovable property	27,241	229,891	257,132	31,294	221,747	253,041
10	Exposures in default	18,233	1,619	19,852	23,124	7,851	30,975
11	Regulatory high risk categories	6,003	5,221	11,224	914	20	934
14	Investments in investment funds	1	2,697	2,698	0	2,699	2,699
15	Other exposure	21,459	586	22,045	18,782	380	19,162
16	Equity exposure	11,829	0	11,829	13,137	0	13,137
	As at 31 December	295,519	762,291	1,057,810	236,945	764,260	1,001,205

At the year-end of 2018, 27.9% of the Bank's exposure had maturities of up to one year and 72.1% of over one year. In 2018, in absolute terms, the value to have decreased most was that of past due items, and exposure towards the central government and central banks increased the most. In conformity with its internal policies, the Bank has removed balance sheet exposures from the statement of financial position to keep them in off-balance sheet records. This relates to exposures for which the Bank has ensured to cover the total exposure by applying revaluation allowance or provisions for credit risk losses. These are not comprised in the table showing exposure categories. The exposure categories shown include prudential consolidation the basis for which are financial statements on such prudential basis rather than regulatory consolidation of the balance sheet.

5.1.9. Bank's exposure to credit risk: net exposure values, and average exposure amounts as at 31 December 2018 and 31 December 2017

The table below illustrates net exposure values, and average exposure amounts for credit risk as at 31 December

2018 and 31 December 2017, whereby not considering any collateral held by the Bank or any other enhancements of credit quality, and broken down according to different categories of exposure.

The exposure levels for balance sheet and off-balance sheet assets are given on the basis of net carrying amounts as reported in the statement of financial position, including off-balance sheet figures, and grouped into categories of exposure pursuant to CRR/CRD IV.

	Exposure category	2018		2017	
		Net exposure	Average exposure	Net exposure	Average exposure
01	Central government and central banks	451,107	439,457	424,702	431,859
02	Regional and local government	6,088	5,532	4,632	5,834
03	Public sector entities	15,677	15,106	12,231	11,584
06	Institutions	36,024	37,526	39,171	43,469
07	Corporate	34,139	38,871	33,948	35,555
08	Retail exposures	189,995	186,872	166,573	163,520
09	Secured by mortgages of immovable property	257,132	254,443	253,041	240,929
10	Exposures in default	19,852	21,801	30,975	32,081
11	Regulatory high risk categories	11,225	6,237	934	4,575
14	Investments in investment funds	2,698	2,699	2,699	2,698
15	Other exposure	22,045	21,635	19,162	18,794
16	Equity exposure	11,829	11,496	13,137	12,638
	As at 31 December	1,057,810	1,041,675	1,001,205	1,003,536

5.2. Market risk

In managing market risk, the Bank relies on the Policy of Risk-taking and Managing Market Risk of Deželna banka Slovenije d. d. In compliance with its policy, market risk management is a collaboration of:

- front office (Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section),
- various boards and committees (Liquidity Commission, Investment Committee, Asset and Liability Management Board).

Each organisation unit taking part in market risk management has clearly defined competences and responsibilities. The basic principle applied by the Bank in doing so is a clear division of the work processes each of them carries out:

- front office: carrying out trading transactions, analysing market prospects or trends, brokering trade in financial Instruments for customers, providing investment counselling to customers;
- back office: submitting and accepting clearances of transactions, implementation of a material and/or cash settlement, preparing underlying documents for accounting and recording transactions to compose bank position records, performing completeness checks for documentation received from trading sections, verification of transactions for compliance with market conditions and for documentation of deviations allowed, preparation of reports for senior management;
- Risk Management Section: measuring and analysing the Bank's exposure due to taking market positions, defining and monitoring set limits, implementation of stress scenarios, evaluation of unlisted securities, informing the senior management through the Asset and Liability Management Board, etc.,
- Financial Management Section: plans, analyses, controlling, reporting, registries.

The Bank's exposure to market risk is low. In 2018, as in 2017, the Bank was primarily exposed to interest rate risk due to Euribor changes and, to a lesser degree, foreign exchange risk. In any case, the Bank pursues a policy of portfolio diversification and investing in highly liquid assets from countries with a high credit rating, avoiding investments with speculative-grade ratings.

The Bank calculates the capital requirement for market risk under the standardised approach, pursuant to the provisions of Regulation (EU) No 575/2013. The table below shows that the Bank had no market risk exposure at the year-end of 2018 and consequently did not have capital requirements for market risk.

	2018	2017
Equity instruments	0	0
Debt instruments	0	0
SUM OF CAPITAL REQUIREMENTS FOR MARKET RISK	**0**	**0**

Even though the Bank had no market risk exposure as at 31 December 2018, a description of how such exposure is monitored is presented below. The Bank monitors market risk by means of:
- prompt data on trading positions, spending of limits and overdrafts, and exposure to different risks,
- prompt data on currency positions,
- daily reporting on securities trading,
- end-of day reporting on overdrafts,
- monthly reporting on capital requirements for market risk, and
- quarterly risk analyses.

To manage market risks, the Bank has:
- adopted the Risk-taking and Risk Management Strategy, which also includes a chapter on market risk,
- established relevant internal controls in implementing transactions,
- introduced quantitative analytic methods to measure individual types of market and foreign exchange risks with the growing complexity and scope of trading, and monthly performance of stress tests for exceptional yet likely situations.

Market risk management is based on a diversified system of limits (limits on equity and debt security positions, limits on exposure to individual types of issuers, limits of maximum possible loss, limits according to individual authorised persons, etc.), which the Bank regularly reviews and adjusts, if necessary. Due to the increased volatility of capital markets (compared to bond markets and money markets), the Bank devotes special attention to its equity positions. To this end, it has in place the additional "stop-loss" limit system for each position on both the domestic and foreign markets, which daily examines the set limits. Value-at-Risk (VaR) is calculated over a time horizon (on a monthly basis in the reports to the ALM Board) for each position as well as for both sub-portfolios (domestic and foreign equities) and the joint portfolio, in order to detect any potential increased risk due to exposure to increased volatility.

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

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

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

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

To measure and control market risk, the Bank applies the Value-at-Risk method (VaR) for its equity trading portfolio. VaR measures the risk of loss on a specific portfolio of financial assets for a 10-day time horizon, with a 99% level of confidence. As at 31 December 2018, the Bank had no equities in its equity trading portfolio.

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

The Bank measures these risks using Basis Point Value (BPV), which denotes the change in the market value of a trading book position, attributable to the parallel movement in the yield curve. BPV tells us how much value financial instruments will gain or lose depending on the market interest rate, i.e. change in yield. As at 31 December 2018, the Bank had no debts in its bond trading portfolio.

5.2.3. Foreign exchange risk

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

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

In 2018, the Bank promptly balanced the differences between purchases and sales of foreign exchange, which were mainly the result of payment and foreign exchange transactions. Exposure towards financial instruments denominated in foreign currencies was very low and consistent with the set limits.

The tables below show assets and liabilities as at 31 December 2018 and 31 December 2017 according to currency.

FOREIGN EXCHANGE RISK as at 31 December 2018					
Balance sheet items	EUR	USD	CHF	OTHER	TOTAL
Cash, balances at central banks, and sight deposits at banks	73,953	580	1,850	625	77,008
Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519	0	0	0	2,519
Financial assets measured at fair value through other comprehensive income	2,993	0	0	0	2,993
Financial assets measured at amortised cost	852,005	1,747	2,060	637	856,449
- Debt securities	107,748				107,748
- Loans to banks	2,533	1,747	1,781	637	6,698
- Loans to customers	740,375	0	279	0	740,654
- Other financial assets	1,349	0	0	0	1,349
Long-term equity participation in subsidiaries, associates and joint ventures	8,287	0	0	0	8,287
Tangible assets	33,713	0	0	0	33,713
- Property, plant and equipment	9,206	0	0	0	9,206
- Investment property	24,507	0	0	0	24,507
Intangible assets	445	0	0	0	445

FOREIGN EXCHANGE RISK as at 31 December 2018					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Income tax assets	4,613	0	0	0	4,613
- Deferred tax assets	4,613	0	0	0	4,613
Other assets	4,771	0	0	0	4,771
TOTAL ASSETS (1)	**983,299**	**2,327**	**3,910**	**1,262**	**990,798**
Financial liabilities measured at amortised cost	916,788	2,341	3,905	1,122	924,156
- Deposits by banks and central banks	746	0	0	0	746
- Deposits by customers	857,303	2,325	3,905	1,117	864,650
- Borrowings from banks and central banks	53,758	0	0	0	53,758
- Debt securities	1,082	0	0	0	1,082
- Other financial liabilities	3,899	16	0	5	3,920
Provisions	2,505	0	0	0	2,505
Income tax liabilities	512	0	0	0	512
- Current tax liabilities	510	0	0	0	510
- Deferred tax liabilities	2	0	0	0	2
Other liabilities	434	0	0	0	434
TOTAL LIABILITIES (2)	**920,239**	**2,341**	**3,905**	**1,122**	**927,607**
MISMATCH (1) less (2)	**63,060**	**(14)**	**5**	**140**	**63,191**
Off-balance sheet liabilities	**64,517**	**0**	**0**	**0**	**64,517**

FOREIGN EXCHANGE RISK as at 31 December 2017					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	923,928	2,032	3,980	1,090	931,030
Total liabilities	865,730	2,039	3,988	910	872,667
Mismatch (1) less (2)	**58,198**	**(7)**	**(8)**	**180**	**58,363**
Off-balance sheet liabilities	**68,819**	**0**	**0**	**0**	**68,819**

As at 31 December 2018, the Bank did not report capital requirements for foreign exchange risk, as its net currency position did not exceed 2% of the Bank's capital. Sight loans to customers (O/N) also include loans linked to six-month Euribor rate, for which interest rates are fixed each 1 January and 1 July.

5.2.4. Interest rate risk

In managing interest rate risk, the Bank relies on the Policy of Risk-taking and Managing Interest Rate Risk of Deželna banka Slovenije d. d. Taking interest rate risk and managing it within the Bank is a collaboration of:
- front office (Branch Network, Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section),
- various boards (Lending Committee, Liquidity Commission, Asset and Liability Management Board).

The Bank additionally monitors exposure to interest rate risk with reference to items in the banking book. It does this by using the methodology of interest rate sensitivity gap reports according to type of maturity and time periods relative to the following setting of interest rates (gap analysis). Interest rate gaps show the difference between the cash flows of interest-sensitive assets and interest-sensitive liabilities according to time periods. In the analysis of interest rate risk, the Bank takes into consideration the distribution of stable demand deposits separately for corporate customers and natural persons, and savings deposits in accordance with the internal model, i.e. by transferring them from the O/N basket to other baskets with regard to continuity. In accordance with guidelines for managing interest rate risk originating in the operations of a non-trading book as prescribed by EBA, the Bank distributes stable sight deposits for natural persons and bank's savings deposits into time buckets of up to 10 years, and sight deposits for corporate customers into time buckets of up to 5 years. For deposits without an agreed maturity, the maximum average maturity of 5 years might be used in conformity to the mentioned guidelines, whereas the actual average maturity used by the Bank for deposits without an agreed maturity is considerably lower that the maturity mentioned.

Reports on exposure to interest rate risk are reviewed by the Bank's ALM Board on a monthly basis, and quarterly by the Management Board and Supervisory Board in the context of a risk management analysis. Measuring, monitoring and examining interest rate risk in the Bank is kept separate from adopting decisions on banking positions, which prevents conflicts of interest. This is conducted by the Risk Management Section, which regularly monitors all activities in this area.

With the gap analysis, the Bank performs sensitivity tests to determine the effect of changes in market interest rates on the amount of net interest income in the following 12 months, as well as the exposure of the banking book economic value in the event of a standard parallel 200-basis-point interest rate shock. The latter result is used as the basis for computing the Bank's additional capital requirement for interest rate risk under Pillar II; it is computed as the 6-month mean exposure of the banking book economic value assuming a standard interest rate shock. For the purposes of balancing interest rate risk on the banking book, the Bank has in place a two-stage system of limits for each interest rate gap. The first stage is a position limit for each established gap, calculated using a proprietary methodology, while the second is a limit for the total exposure of the banking book economic value with the final risk limit set at 10% of the Bank's capital.

According to the balance as at 31 December 2018, the Bank had at its disposal an adequate amount of capital to offset the potential losses from interest rate risk. In the event of a sudden and unexpected parallel movement of the yield curve by 200 basis points, the effect of the changed interest rate never exceeded 10% of the value of capital.

The impact of the 200 basis points change in interest rates on the total exposure of the banking book economic value amounted to just over EUR 2,333 thousand as at 31 December 2018, which is 3.8% of the Bank’s regulatory capital (2017: EUR 257 thousand). Higher exposure of the economic value of the banking book in 2018 is mainly due to higher values of stable demand deposits by natural persons which are distributed into time buckets by their continuity and to the redistribution of debt securities into a shorter time bucket.

Občutljivost neto obrestnih prihodkov na spremembo obrestne mere na dan 31. 12. 2018:

Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	17,288		
One-time curve shift (+2%) - immediate shock	25,149	7,861	45.47%
One-time curve shift (-2%) - immediate shock	5,243	(12,045)	(69.67%)
Curve shift (+2%) - gradually over 12 months	21,354	4,066	23.52%
Curve shift (-2%) - gradually over 12 months	11,124	(6,164)	(35.66%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	29,055	11,767	68.07%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	8,347	(8,941)	(51.72%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	23,234	5,946	34.39%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	12,702	(4,586)	(26.53%)

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

Assuming that the Bank’s investments and liabilities as at 31 December 2018 remained unchanged and held-to-maturity, and that the Bank would not actively influence the structure of investments and liabilities in order to modify exposure to interest rate risk, a 2% drop in market interest rates (immediate shock) would cause a more than EUR 12 million decrease in net interest income over a one-year period (2017: just over EUR 10 million).

The following two tables outline exposure to interest rate risk as at 31 December 2018 and 31 December 2017. Financial instruments are recorded at carrying amounts and categorised into time periods according to the subsequent change in interest rate or maturity.

INTEREST RATE RISK as at 31 December 2018									
Balance sheet items	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Cash, balances at central banks, and sight deposits at banks	77,008	0	77,008	66,909	0	10,099	0	0	0
Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519	0	2,519	0	2,519	0	0	0	0
Financial assets measured at fair value through other comprehensive income	2,993	2,993	0	0	0	0	0	0	0
Financial assets measured at amortised cost	856,449	4,155	852,294	286,666	19,755	211,097	175,739	115,190	43,847
- Debt securities	107,748	1,831	105,917	0	0	16,122	1,194	53,100	35,501
- Loans to banks	6,698	16	6,682	2,318	2,383	1,781	200	0	0
- Loans to customers	740,654	959	739,695	284,348	17,372	193,194	174,345	62,090	8,346
- Other financial assets	1,349	1,349	0	0	0	0	0	0	0
Long-term equity investments in subsidiaries, associates and joint ventures	8,287	8,287	0	0	0	0	0	0	0
Other assets	4,771	4,771	0	0	0	0	0	0	0
TOTAL ASSETS	**952,027**	**20,206**	**931,821**	**353,575**	**22,274**	**221,196**	**175,739**	**115,190**	**43,847**
Financial liabilities measured at amortised cost	924,156	5,343	918,813	609,126	89,066	41,019	101,604	75,719	2,279
- Deposits by banks and central banks	746	0	746	746	0	0	0	0	0
- Deposits by customers	864,650	1,226	863,424	608,380	89,066	41,019	100,604	22,076	2,279
- Borrowings from banks and central banks	53,758	115	53,643	0	0	0	0	53,643	0
- Debt securities	1,082	82	1,000	0	0	0	1,000	0	0
- Other financial liabilities	3,920	3,920	0	0	0	0	0	0	0
Other liabilities	434	434	0	0	0	0	0	0	0
TOTAL LIABILITIES	**924,590**	**5,777**	**918,813**	**609,126**	**89,066**	**41,019**	**101,604**	**75,719**	**2,279**
Net exposure to interest rate risk	**27,437**	**14,429**	**13,008**	**(255,551)**	**(66,792)**	**180,177**	**74,135**	**39,471**	**41,568**

INTEREST RATE RISK as at 31 December 2017									
Balance sheet items	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	885,991	22,835	863,156	288,468	16,948	196,326	176,481	139,252	45,681
Total liabilities	869,668	5,336	864,332	529,409	95,294	46,378	102,600	88,347	2,304
Net exposure to interest rate risk	**16,323**	**17,499**	**(1,176)**	**(240,941)**	**(78,346)**	**149,948**	**73,881**	**50,905**	**43,377**

The Bank's largest exposure as at 31 December 2018 was in euro, with exposures in other currencies negligible and immaterial. Interest rate risk in 2018 arose mainly out of the imbalance between the maturities of interest sensitive investments and liabilities, and out of the subsequent determination of interest rates. In 2019, the Bank plans to continue matching interest rate gaps, the emphasis being on sight time periods of longer maturity, and to maintain a low exposure to interest rate risk. The Bank will also continue to upgrade the Methodology for establishing and measuring interest rate risk, while also fulfilling the guidelines for managing interest rate risk originating in the operations of a non-trading book as prescribed by EBA.

5.2.5. Average interest rates as at 31 December

	2018		2017	
	EUR	USD	EUR	USD
Assets	%	%	%	%
Cash, balances at central banks, and sight deposits at banks	(0.21)	0.04	0.00	0.03
Debt securities	2.36	0.00	3.13	0.00
Loans to banks	1.13	2.32	1.16	1.18
Loans to customers	2.10	0.00	2.05	0.00
Liabilities				
Borrowings from banks and central banks	(0.40)	0.00	0.00	0.00
Deposits by customers	0.08	0.01	0.11	0.01
Subordinated liabilities	6.16	0.00	6.16	0.00

5.3. Liquidity risk

In managing liquidity risk, the Bank relies on the Policy of Risk-taking and Managing Liquidity Risk of Deželna banka Slovenije d. d. Liquidity risk management in the Bank is a collaboration of:

- Management Board,
- front office (Financial Markets Section),
- various sections (Financial Management Section, Risk Management Section, Payments Section, Treasury Section),
- various boards and commissions (Liquidity Commission, Asset and Liability Management Board).

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

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

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

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

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

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

Liquidity risk is evaluated comprehensively at the Bank level once a year within the internal liquidity adequacy assessment process (ILAAP), which is used to assess liquidity and liquidity risk management.

In 2018, the Bank had at its disposal an adequate pool of liquidity reserves, which can be utilised to settle any liabilities as well as off-balance sheet liabilities. In addition, it has at its disposal adequate secondary liquidity (liquid debt securities, domestic loans eligible as collateral with the European Central Bank, etc.) which it could easily and efficiently liquidate and use in case of a liquidity stress event that would compromise the daily system of liquidity management, such as an unexpected large-scale withdrawal of deposits.

To monitor its operations and the related major risks that could affect its existence, the Bank has laid down an array of quantitative indicators in the DBS Group Restoration plan. The Bank selected the following liquidity indicators for the restoration plan: liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and wholesale funding cost indicator. Limit values have been set for each indicator stated, marking the point of commencement for internal processes based on the restoration plan. As well as in the DBS Group Restoration plan, the array of indicators with set limits has also been summarised in the Risk-taking and Risk Management Strategy of Deželna banka Slovenije d. d.

As at 31 December 2018 and 31 December 2017, the first class liquidity ratio was 1.21 and 1.22 respectively. Monitoring the level of liquidity ratios and adopting measures for their improvement fall under the responsibility of the Liquidity Commission, which also verifies assumptions based on which decisions are made regarding the facilitation of the Bank's liquidity.

The Bank calculates on a regular basis the LCR liquidity coverage ratio, which has been defined as the ratio of the stock of high-quality liquid assets and the expected total net cash outflows over a 30 day period. The indicator has been regulated, and thus not allowed to fall below 100%. As at 31 December 2018, the liquidity coverage ratio was 220%.

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

The tables below summarise the Bank’s exposure to liquidity risk as at 31 December 2018 and 31 December 2017. Financial instruments are recorded at undiscounted amounts according to the remaining contractual maturity as at 31 December 2018, which in addition to the asset's carrying value includes expected future cash flows from interest.

LIQUIDITY RISK as at 31 December 2018							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash, balances at central banks, and sight deposits at banks	66,910	0	10,105	0	0	0	77,015
Non-trading financial assets mandatorily measured at fair value through profit or loss	0	0	0	192	2,327	0	2,519
Financial assets measured at fair value through other comprehensive income	2,993	0	0	0	0	0	2,993
Financial assets measured at amortised cost	33,268	7,773	47,359	98,533	282,956	475,429	945,318
- Debt securities	0	220	17,920	1,564	56,049	36,238	111,991
- Loans to banks	2,319	2,393	1,781	11	232	0	6,736
- Loans to customers	30,136	5,001	27,394	96,939	226,629	439,143	825,242
- Other financial assets	813	159	264	19	46	48	1,349
Long-term equity investments in subsidiaries, associates and joint ventures	8,287	0	0	0	0	0	8,287
Other assets	3,045	84	0	1,642	0	0	4,771
TOTAL ASSETS	**114,503**	**7,857**	**57,464**	**100,367**	**285,283**	**475,429**	**1,040,903**
Financial liabilities measured at amortised cost	608,429	89,182	41,193	104,601	79,694	2,687	925,786
- Deposits by banks and central banks	746	0	0	0	0	0	746
- Deposits by customers	603,886	89,114	41,193	103,517	25,926	2,643	866,279
- Borrowings from banks and central banks	0	0	0	0	53,758	0	53,758
- Debt securities	0	0	0	1,083	0	0	1,083
- Other financial liabilities	3,797	68	0	1	10	44	3,920
Other liabilities	382	0	2	27	15	8	434
TOTAL LIABILITIES	**608,811**	**89,182**	**41,195**	**104,628**	**79,709**	**2,695**	**926,220**
Net exposure to liquidity risk	**(494,308)**	**(81,325)**	**16,269**	**(4,261)**	**205,574**	**472,734**	**114,683**

LIQUIDITY RISK as at 31 December 2017							
Balance sheet items	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Total assets	64,738	8,006	29,965	102,012	306,765	465,512	976,998
Total liabilities	528,373	95,831	46,786	103,290	95,595	2,799	872,674
Net exposure to liquidity risk	**(463,635)**	**(87,825)**	**(16,821)**	**(1,278)**	**211,170**	**462,713**	**104,324**

The liquidity gap for the demand bracket is indeed deeply in the negative, however, financial liabilities in this group include total sight deposits, and this despite the fact that according to the calculation of the liquidity coverage ratio as at 31 December 2018 (LCR), the Bank attains a 93% stability of deposits. In simulating liquidity stress tests, the Bank categorises sight deposits and demand deposits in the Sight time period according to their stability/

instability calculated using an in-house model. Additionally, the simulation of liquidity stress tests also takes into account the actual and potential future cash flows based on an analysis of funds drawn from off-balance sheet arrangements, the actual share of repayments from loans, and the share of renewed deposits.

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

As at 31 December 2018, the Bank had EUR 270 million of unencumbered liquidity reserves, i.e. of eligible assets available for use in ECB credit operations, which substantially exceed liquidity shortages in case of shock scenarios.

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

5.4. Fair value of financial assets and liabilities

5.4.1. Financial assets not measured at fair value

	2018					2017				
	Carrying amount	Fair value				Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Assets										
Debt securities at amortised cost	107,748	93,546	15,447	1,794	110,787	123,572	133,911	0	0	133,911
Loans and advances to banks	6,698	0	0	6,698	6,698	4,914	0	0	4,914	4,914
Loans and advances to customers	740,654	0	0	780,641	780,641	710,310	0	0	737,972	737,972
Other financial assets	1,349	0	0	1,349	1,349	694	0	0	694	694
Total assets	**856,449**	**93,546**	**15,447**	**790,482**	**899,475**	**839,490**	**133,911**	**0**	**743,580**	**877,491**
Liabilities										
Deposits by banks	746	0	0	746	746	579	0	0	579	579
Deposits by customers*	864,650	0	0	864,650	864,650	809,287	0	0	809,287	809,287
Borrowings from banks and central banks*	53,758	0	0	53,758	53,758	54,927	0	0	54,927	54,927
Debt securities at amortised cost*	1,082	0	0	1,082	1,082	1,082	0	0	1,082	1,082
Other financial liabilities	3,920	0	0	3,920	3,920	3,211	0	0	3,211	3,211
Total liabilities	**924,156**	**0**	**0**	**924,156**	**924,156**	**869,086**	**0**	**0**	**869,086**	**869,086**

* According to the Methodology for Preparing a Recapitulation of the Statement of Financial Position, in 2017 and 2018, deposits by customers, borrowings from banks and debt securities at amortised cost include deposits, loans and advances, and certificates of deposits with characteristics of subordinated debt.

(a) Loans and advances to banks

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

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The calculated fair value of loans and advances to customers is based on discounting the simulated future cash flows until maturity less the impairment losses, whereby the discount curve has been based on a zero curve as at 31 December 2018 as the best proxy for market rates.

(c) Debt securities measured at amortised cost

Debt securities are recorded in the books of account at amortised cost. Their fair value as at 31 December 2018 was calculated using market prices formed in the markets where they are listed.

(d) Deposits and borrowings

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

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

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

For deposits from banks and deposits from other customers, there is no difference between carrying amount and fair value.

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

Valuation methods for financial instruments measured at fair value in the financial statements

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	0	**0**
Non-trading financial assets mandatorily measured at fair value through profit or loss (Note 4.3)	0	0	2,519	**2,519**
Financial assets measured at fair value through other comprehensive income (Note 4.4. a)	0	0	2,993	**2,993**
Non-financial assets				
Investment property (Note 4.16. a)	0	0	24,507	**24,507**
Financial liabilities				
Financial liabilities held for trading (Note 4.20.)	0	0	0	**0**

2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	227	**227**
Non-trading financial assets mandatorily measured at fair value through profit or loss (Note 4.3)	-	-	-	**-**
Available-for-sale financial assets (Note 4.5. a)	0	0	3,751	**3,751**
Non-financial assets				
Investment property (Note 4.16. a)	0	0	29,629	**29,629**
Financial liabilities				
Financial liabilities held for trading (Note 4.20.)	0	0	227	**227**

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

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

Level 3: Level 3 includes unlisted equities (EUR 2.7 million is the investment into the Bank Resolution Fund), bonds, receivables and payables associated with the purchase and sale of foreign exchange, loans and advances, and investment property at fair value. The valuation of equities that do not have quoted prices is based on market observables. Key parameters are compared with those of similar assets and liabilities traded in an active market, with the data coming from Bloomberg or another reliable source. Own interest in a private limited liability company is calculated based on carrying value of equity multiplied by the percentage of own share in equity and the liquidity deduction of 25%. In determining their fair value, the Bank applies the same internal methodologies as for Level 2 instruments. The fair value of investment property is determined on the basis of appraisal reports prepared by independent appraisers working in compliance with International Valuation Standards (IVS).

Level 3: Financial assets measured at fair value through other comprehensive income - breakdown

	2018	2017
Equity instruments		
Bank resolution fund	2,697	2,699
Equity investments at fair value	296	1,052
TOTAL	**2,993**	**3,751**

In 2018, the Bank Resolution Fund total amounted to EUR 2,697 thousand. Pursuant to the Bank Resolution Authority and Fund Act, the Bank paid EUR 2,702 thousand into the Bank Resolution Fund in 2016. These assets are managed by the Bank of Slovenia consistent with the Regulation on the Investment Policy and Management Fees of the Bank Resolution Fund. The Bank of Slovenia sends regular monthly reports on the value of the investment, which serves as the basis for its valuation and which is why the Bank categorises it as Level 3. The Bank additionally categorises as Level 3 capital assets worth EUR 0.3 million for which market value does not exist and which are measured at fair value through other comprehensive income.

There were no transfers between different valuation levels in 2017 and 2018.

5.5. Managing operational risk

In managing operational risk, the Bank applies the Risk-taking and Risk Management Policy for Operational Risk of Deželna banka Slovenije d. d. Operational risk management in the Bank is a collaboration of:
- Management Board,
- senior management,
- Risk Management Section,
- Operations Compliance Department,
- security manager,
- various boards and committees (Operational Risk Committee, Security Committee, Asset and Liability Management Board).

To monitor its operations and the related major risks that could affect its existence, the Bank has laid down an array of quantitative indicators in its Restoration plan. For monitoring operational risk, it has selected the indicator of significant operational loss. The indicator is monitored monthly at the Bank's ALM Board. The array of indicators with set limits has been laid down in the Restoration plan and also summarised in the Risk-taking and Risk Management Strategy of Deželna banka Slovenije d. d. Operational risk management at the Bank level is also assessed once a year within the internal capital adequacy assessment process (ICAAP process).

Regular reporting on (loss) events associated with operational risk has been in place since 1 April 2007. The Bank has proprietary application support for systematic monitoring of loss events arising out of operational risk, which is regularly updated and upgraded. According to the new Resolution on Internal Governance, Governance Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks, each employee of the Bank can report a (loss) event into the loss events database. 290 (loss) events associated with operational risk were reported in this manner in 2018, which is more than in 2017 when there were 284. The realised net loss in 2018 was higher than in 2017. In 2018, these fees amounted to EUR 704.1 thousand (2017: EUR 13.8 thousand). The total reported net loss was relatively low considering the capital requirements for operational risk.

Integrated into this system are measures to resolve operational risk events and prevent repeat events. Since the final quarter of 2010, operational risk (loss) events have been additionally monitored according to key risk indicators. Reports on operational risk (loss) events with the financial impact over EUR 500 and operational risk events that might affect the Bank's reputation are promptly presented to the Bank's Management Board, whereas the Internal Audit Department and the Operations Compliance Department are briefed on all the events recorded.

In 2018, the Bank regularly updated its business continuity plan BCP I (alternative provision of services in case of shorter or longer interruptions of regular operations), BCP II (Bank's operations in case of natural disasters, break-ins, burglaries, earthquakes, communication failures and blackouts, min. twice a year) and BCP III (operations of a back-up computer centre and data restoration). The BCP I, BCP II and BCP III are being tested regularly, with test reports being presented to the Operational Risk Board and the Bank Management Board once a year. In 2018, the Bank staged 4 BCP I tests, 17 BCP II tests and 10 BCP III tests.

The Bank calculates and reports capital requirements for operational risk using the simple approach. The capital requirement for operational risk is calculated as the average over three years of the sum of net interest income and net non-interest income, minus extraordinary income, the result then multiplied with the weight of 15%. Using the said simple approach, the Bank's 2018 capital requirement for operational risk totalled EUR 3,870 thousand.

In 2018, the Bank also calculated the capital requirement for information purposes using the standardised approach.

5.6. Capital management

In managing capital risk, the Bank applies the Risk-taking and Risk Management Policy for Capital Risk of Deželna banka Slovenije d. d. Capital risk management in the Bank is a collaboration of:

- Management Board,
- Audit and Risk Committee of the Supervisory Board,
- Supervisory Board,
- all commercial sections in the Bank,
- Risk Management Section, Financial Management Section,
- various boards and committees (Asset and Liability Management Board, Lending Committee, Non-performing Loans Committee, Real Estate Management Board).

With regard to capital risk management and in relation to policies of managing other inherent risks within the Bank, the following is adopted and implemented where necessary:

- measures to increase the Bank's regulatory capital,
- measures to reduce risk-adjusted items, including measures to improve the quality of credit and market

portfolios,
- measures to improve the Bank's risk profile, and
- measures to reduce the requirements regarding adequate regulatory capital.

With respect to managing capital risk in accordance with the devised Restoration plan, the Bank has laid down an array of quantitative indicators to monitor its operations and the related major risks that could affect its existence, To monitor capital risk, it has selected two indicators, the common equity tier 1 capital ratio and the total capital ratio, whereas the level of financial leverage is also being monitored. The indicators are monitored monthly at the Bank's ALM Board, and quarterly at the Bank's Management Board, the Risk Committee of the Bank's Supervisory Board, and the Bank's Supervisory Board. The array of indicators with set limits has been laid down in the Restoration plan and also summarised in the Risk-taking and Risk Management Strategy of Deželna banka Slovenije d. d.

Capital risk management at the Bank level is also assessed once a year within the internal capital adequacy assessment process (ICAAP process).

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

The Bank's regulatory capital consists of tier I and tier II capital. Under the Regulation, tier I capital consists of common equity tier I and additional tier I capital. The calculation of common equity tier 1 capital is based on: paid capital instruments meeting conditions for inclusion into common equity tier I, share premium, revenue reserves, retained earnings/loss, accumulated other comprehensive income, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences, as well as a special credit risk adjustment and an adjustment for prudent valuation of financial assets measured at fair value in the banking and trading book[3]. The following constitute deductions from common equity tier 1 capital: loss, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences[4], special credit risk adjustment and adjustment for prudent valuation of financial assets measured at fair value banking and trading book.

The Bank did not have additional tier I capital neither according to the balance as at 31 December 2018 nor as at 31 December 2017.

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

Capital may never drop below the amount stipulated by the Regulation (EU) No 575/2013 and must always equal minimally the sum of minimum capital requirements stipulated in said Regulation.

[3] It has been a capital deduction item since 2016.
[4] Before 2018, a transitional period was considered for this deduction, whereas in 2018 it is fully taken into account.

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

		2018	2017
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES			
1	Capital instruments and the related share premium	17,811	17,811
	of which: instrument type 1	17,811	17,811
2	Retained earnings and revenue reserves	8,980	6,469
3	Accumulated other comprehensive income and other reserves	30,711	30,989
4	**Common equity tier I capital before regulatory adjustments**	**57,502**	**55,269**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS			
5	Additional fair value and credit risk adjustments	(27)	(431)
6	Intangible assets (deductions for associated tax liabilities)	(445)	(576)
7	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(1,061)	(1,600)
8	Direct and indirect holdings in own common equity tier I capital instruments	(601)	(645)
9	Total regulatory adjustments to common equity tier I capital	(2,135)	(3,253)
10	Common equity tier I capital	55,367	52,017
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**55,367**	**52,017**
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS			
12	Capital instruments and the related share premium account	5,971	7,781
13	Tier II capital before regulatory adjustments	5,971	7,781
14	**TIER II CAPITAL**	**5,971**	**7,781**
15	**TOTAL CAPITAL (tier I + tier II)**	**61,338**	**59,797**
16	Total risk-weighted assets	423,049	407,311
CAPITAL RATIOS AND CAPITAL BUFFERS			
17	**Common equity tier I capital** (in %)	**13.09**	**12.77**
18	**Tier I capital** (in %)	**13.09**	**12.77**
19	**Total capital** (in %)	**14.50**	**14.68**
20	Common equity tier I capital that qualifies as capital buffer (in %)	13.09	12.77
21	Institution-specific buffer requirement (in %)	1.875	1.250
22	of which: capital conservation buffer requirement (in %)	1.875	1.250
23	Direct and indirect equity holdings in financial sector entities where the institution does not have a significant investment (amount below 10% threshold, reduced by permitted short positions)	2,849	2,995
24	Direct and indirect equity holdings in common equity tier I capital instruments of financial sector entities where the institution has a significant investment (amount below 10% threshold, reduced by permitted short positions)	4,261	4,155
25	Deferred tax assets arising out of temporary differences (amount under 10% threshold, reduced by associated tax liabilities if conditions from Article 38(3) are met)	3,552	3,106

The Bank's regulatory capital as at 31 December 2018 amounted to EUR 61,338 thousand, up EUR 1,044 thousand year-on-year. The quality of capital structure improved at the year-end of 2018 as compared to 2017, the share of tier I capital having increased to 90.3% (from 87.0% in 2017). Total capital requirements at Bank level totalled EUR 33,844 thousand at the year-end of 2018, up EUR 1,259 thousand year-on-year. The Bank's capital requirements for credit risk increased mainly due to higher exposure to retail banking. In 2018, the Bank continued with activities aimed at reducing capital requirements (sorting mortgages as to eligibility in order to reduce capital requirements, minding non-performing exposures and exposures associated with particular high risk). In 2018, as in 2017, the Bank's exposure decreased the most in terms of outstanding items. The total capital ratio as at 31 December 2018 thus stood at 14.50%, down 0.18 of a percentage point year-on-year. Tier 1 capital ratio and common equity tier 1 capital ratio as at 31 December 2018 were 13.09%, up 0.32 of a percentage point year-on-year.

For 2018, the Bank of Slovenia imposed no minimum capital adequacy ratios for the Bank on the basis of the ICAAP/SREP process; such ratios were only imposed at the Group level.

As at 31 December 2018 the Bank had equity holdings in financial sector entities where it had a significant investment (100% of capital): in DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. The equity investment in DBS Leasing totalled EUR 2,757 thousand as at 31 December 2018; consistent with Article 49(2) of the Regulation it was not deducted from capital, but was included in the calculation of the capital requirement for credit risk. The equity investment in DBS Nepremičnine d. o. o. totalled EUR 1,504 thousand as at 31 December 2018; consistent with the provisions of Article 4(1) and 4(18) of the Regulation, DBS Nepremičnine d. o. o. is considered an ancillary services undertaking and therefore one of the financial sector entities under Article 4(1) and 4(27c) of the same. In the calculation of capital and capital requirements for credit risk, Article 49(2) of the Regulation applies to DBS Nepremičnine d. o. o. the same as to DBS Leasing d. o. o.

Under Regulation (EU) No 575/2013, the Bank also had two 100% investments in a qualified holding outside the financial sector: in DBS Adria d. o. o. with EUR 0 thousand following impairment and in Semenarna Ljubljana d. o. o. with EUR 4,025 thousand. These investments were not included in prudential consolidation and were not deducted from capital per Article 89 of the Regulation. They were therefore included in the calculation of the capital requirement for credit risk.

The table below shows the balancing of the Bank's items of capital with its financial statements.

Code	Items	2018	Inclusion into calculation of capital for the purpose of CA as at 31 December 2018	Explanation from Regulation 575/2013
1	Cash, balances at central banks, and sight deposits at banks	77,008		
2	Financial assets held for trading	0	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519		
4	Financial assets measured at fair value through other comprehensive income	2,993	(3)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
5	Financial assets measured at amortised cost	856,449		
	- Debt securities	107,748		
	- Loans and advances to banks	6,698		
	- Loans and advances to customers	740,654		
	- Other financial assets	1,349		
6	Long-term equity participation in subsidiaries, associates and joint ventures	8,287	(8)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
7	Tangible assets	33,713		
	- Property, plant and equipment	9,206		
	- Investment property	24,507		
8	Intangible assets	445	(445)	deduction item Article 36 b - fully
9	Income tax assets	4,613		
	- Current tax assets	0		
	- Deferred tax assets	4,613		
	Depending on future profitability and not arising out of temporary differences	1,061	(1,061)	deduction item Article 36 c - 100% of item's value during transitional period
	"Depending on future profitability and arising out of temporary differences"	3,552		
10	Other assets	4,771		
11	**TOTAL ASSETS** (from 1 to 10)	**990,798**		
12	Financial liabilities held for trading	0	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
13	Financial liabilities measured at amortised cost	924,156		
	- Deposits by banks and central banks	746		
	- Deposits by customers	864,650	4,022	included on the basis of Articles 62 and 63
	- Borrowings from banks and central banks	53,758	1,755	included on the basis of Articles 62 and 63
	- Debt securities	1,082	194	included on the basis of Articles 62 and 63
	- Other financial liabilities	3,920		
14	Provisions	2,505		
15	Income tax liabilities	512		
	- Current tax liabilities	510		
	- Deferred tax liabilities	2		
16	Other liabilities	434		
17	**TOTAL LIABILITIES** (from 12 to 16)	**927,607**		
18	Share capital	17,811	17,811	fully included; Article 26
19	Share premium	31,257	31,257	fully included; Article 26
20	Accumulated other comprehensive income	(547)		
	Other revaluation surpluses	(547)	(547)	100% of unrealised losses included in 2018, Article 467

Code	Items	2018	Inclusion into calculation of capital for the purpose of CA as at 31 December 2018	Explanation from Regulation 575/2013
21	Revenue reserves	11,701	8,980	conditions for inclusion not yet met for the amount of EUR 2,721 thousand
22	Treasury shares	(601)	(601)	deduction item, Article 36 f - fully
23	Retained earnings (including profit/loss for the year)	3,570		
	Retained earnings	850		conditions for inclusion not yet met
	Profit for the period	2,720		conditions for inclusion not yet met
24	**TOTAL EQUITY** (from 18 to 23)	**63,191**		
25	**TOTAL EQUITY AND LIABILITIES** (17 + 24)	**990,798**		
			61,354	**Regulatory capital (sum of capital from SFP)**
			(16)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			61,338	**Regulatory capital**

5.7. Asset encumbrance

(a) Assets

		2018			
		Carrying amount of encumberedassets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**62,751**	**-**	**928,047**	**-**
030	Equities	0	0	2,993	2,993
040	Debt securities	3,108	3,108	104,640	107,680
120	Other assets	0	-	63,502	-

(b) Prejeto zavarovanje s premoženjem

		2018	
		Fair value of encumbered collateral received or own debt securities issued	Fair value of received collateral or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	**0**	**0**
150	Equity instruments	0	0
160	Debt securities	0	0
230	Other collateral received	0	0
240	**Own debt securities issued other than own covered bonds or ABSs**	**0**	**0**

(c) Encumbered assets/collateral received and related liabilities

		2018	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**49,643**	**49,643**

(d) Information on the importance of encumbrance

The Bank's encumbered assets include investments in debt securities measured at fair value through other comprehensive income, or in debt securities measured amortised cost and held to maturity, and non-marketable assets (loans to the state).

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

RISK AND CAPITAL MANAGEMENT

(disclosures under Pillar 3 of the Basel Accord)

CONTENTS

1. INTRODUCTION

European banks have to disclose many types of information to enable stakeholders a more precise estimate of the risks the banks are exposed to in their operations. Part 8 of the Regulation on Prudential Requirements for Credit Institutions and Investment Firms (Regulation (EU) No 575/2013) provides minimum disclosure requirements for information concerning risk management and capital adequacy, and it is directly binding for all members states. Some disclosure requirements do not apply to the Group – because they refer to different approaches to calculating capital requirements, or because they refer to lines of business not conducted by the Group – and therefore they are not included in this report.

In calculating its regulatory capital requirements the Group uses the following approaches:

- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – simple approach.

2. SCOPE OF APPLICATION

Pursuant to the capital requirements legislation, the Group has to disclose information about its risk management and capital management on a consolidated basis. Calculations at Group level are based on prudential consolidation, which includes DBS d. d. and the subsidiaries DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. Subsidiaries are included in prudential consolidation using the full consolidation method.

Consolidation for accounting purposes includes DBS d. d., DBS Leasing d. o. o., DBS Nepremičnine d. o. o., DBS Adria d. o. o. and Semenarna Ljubljana, d. o. o.

The table below contains a list of Group companies, their main features and the method of consolidation. More on individual companies is available in the Business Report of the Annual Report under section IV.

Subsidiaries	Business activity	Group's share of voting rights	Registered office	Consolidation method for financial reporting	Prudential consolidation method
DBS Leasing d. o. o.	Finance	100%	Republic of Slovenia	Full	Full
DBS Nepremičnine d. o. o.	Buying and selling of own real estate	100%	Republic of Slovenia	Full	Full
Semenarna Ljubljana, d. o. o.	Wholesale trade	100%	Republic of Slovenia	Full	-
DBS Adria d. o. o.	Management of real estate	100%	Republic of Croatia	Full	-

Group statement of financial position as at 31 December 2018 – comparison of consolidation for accounting purposes, and prudential consolidation

Code	Items	Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
		2018	2017	2018	2017	2018	2017
1	Cash, balances at central banks, and sight deposits at banks	77,289	29,613	77,008	29,450	281	163
2	Financial assets held for trading	0	227	0	227	0	0
3	Non-trading financial assets mandatorily measured at fair value through profit or loss	2,519	-	2,519	-	0	0
4	Financial assets mesaured at fair value through other comprehensive income	2,994	-	2,993	-	1	0
5	Available-for-sale financial assets (IFRS 39)	-	3,753	-	3,751	0	2
6	Financial assets measured at amortised cost	859,755	-	858,890	-	865	0
	- Debt securities	107,748	-	107,748	-	0	0
	- Loans and advances to banks	6,698	-	6,698	-	0	0
	- Loans and advances to customers	741,836	-	742,986	-	(1,150)	0
	- Other financial assets	3,473	-	1,458	-	2,015	0
7	Loans and advances (IFRS 39)	-	718,912	-	718,042	0	870
	- Loans and advances to banks	-	4,914	-	4,914	0	0
	- Loans and advances to customers	-	710,040	-	712,277	0	(2,237)
	- Other financial assets	-	3,958	-	851	0	3,107
8	Held-to-maturity investments (IFRS 39)	-	123,572	-	123,572	0	0
	Long-term equity participation in subsidiaries, associates and joint ventures	-	-	4,025	5,533	(4,025)	(5,533)
9	Tangible assets	52,789	58,174	34,453	40,253	18,336	17,921
	- Property, plant and equipment	28,282	28,545	9,946	10,624	18,336	17,921
	- Investment property	24,507	29,629	24,507	29,629	0	0
10	Intangible assets	765	834	486	594	279	240
11	Income tax assets	5,104	5,608	4,613	5,106	491	502
	- Deferred tax assets	5,104	5,608	4,613	5,106	491	502
12	Other assets	13,296	13,311	6,103	4,738	7,193	8,573
13	Non-current assets held for sale, and discontinued operations	162	3,217	6	22	156	3,195
14	**TOTAL ASSETS** (from 1 to 13)	**1,014,673**	**957,221**	**991,096**	**931,288**	**23,577**	**25,933**
15	Financial liabilities held for trading	0	227	0	227	0	0
16	Financial liabilities measured at amortised cost	941,000	890,333	924,164	868,948	16,836	21,385
	- Deposits by banks and central banks	758	594	746	579	12	15
	- Deposits by customers	864,250	809,019	864,451	809,108	(201)	(89)
	- Borrowings from banks and central banks	64,660	72,995	53,758	54,927	10,902	18,068
	- Borrowings from customers	503	598	0	0	503	598
	- Debt securities	1,082	1,082	1,082	1,082	0	0
	- Other financial liabilities	9,747	6,045	4,127	3,252	5,620	2,793
17	Provisions	2,490	3,105	2,518	2,834	(28)	271
18	Income tax liabilities	1,750	1,352	511	177	1,239	1,175
	- Current tax liabilities	566	177	509	177	57	0
	- Deferred tax liabilities	1,184	1,175	2	0	1,182	1,175
19	Other liabilities	931	1,222	582	507	349	715
20	**TOTAL LIABILITIES** (from 15 to 19)	**946,171**	**896,239**	**927,775**	**872,693**	**18,396**	**23,546**
21	Share capital	17,811	17,811	17,811	17,811	0	0
22	Share premium	31,257	31,257	31,257	31,257	0	0
23	Accumulated other comprehensive income	(573)	(390)	(538)	(326)	(35)	(64)
24	Revenue reserves	11,701	7,230	11,701	7,230	0	0
25	Treasury shares	(612)	(657)	(601)	(645)	(11)	(12)
26	Retained earnings (including profit/loss for the year)	8,918	5,731	3,691	3,268	5,227	2,463
27	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 21 to 26)	**68,502**	**60,982**	**63,321**	**58,595**	**5,181**	**2,387**
28	TOTAL EQUITY (27)	68,502	60,982	63,321	58,595	5,181	2,387
29	**TOTAL EQUITY AND LIABILITIES** (20 + 28)	**1,014,673**	**957,221**	**991,096**	**931,288**	**23,577**	**25,933**

Group income statement as at 31 December 2018 – comparison of consolidation for accounting purposes, and prudential consolidation

Code	Items	Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
		1-12 2018	1-12 2017	1-12 2018	1-12 2017	1-12 2018	1-12 2017
1	Interest income	19,156	19,724	19,221	19,786	(65)	(62)
2	Interest expense	(2,029)	(2,219)	(1,656)	(1,788)	(373)	(431)
3	**Net interest income** (1 - 2)	**17,127**	**17,505**	**17,565**	**17,998**	**(438)**	**(493)**
4	Dividends	30	91	30	91	0	0
5	Fee (commission) income	9,589	9,339	9,614	9,372	(25)	(33)
6	Fee (commission) expense	(2,689)	(2,575)	(1,919)	(1,758)	(770)	(817)
7	**Net fee (commission) income** (5 - 6)	**6,900**	**6,764**	**7,695**	**7,614**	**(795)**	**(850)**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	5,666	2,020	5,697	2,102	(31)	(82)
9	Net gains/losses from financial assets and liabilities held for trading	139	347	140	347	(1)	0
10	Foreign exchange translation	(6)	(85)	(4)	(83)	(2)	(2)
11	Net gains/losses on derecognition of assets	9,106	7,690	209	300	8,897	7,390
12	Other net operating gains/losses	(1,428)	(975)	(1,476)	(1,358)	48	383
13	Administrative expenses	(23,354)	(22,844)	(16,779)	(16,774)	(6,575)	(6,070)
14	Depreciation and amortisation	(1,564)	(1,819)	(1,106)	(1,240)	(458)	(579)
15	Provisions	(68)	(822)	(3)	(930)	(65)	108
16	Impairment charge	(3,646)	(2,277)	(5,286)	(3,358)	1,640	1,081
17	Net gains/losses from non-current assets held for sale and related liabilities	19	20	19	20	0	0
18	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 17)	**8,921**	**5,615**	**6,701**	**4,729**	**2,220**	**886**
19	Tax	(1,349)	(858)	(1,281)	(857)	(68)	(1)
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (18 + 19)	**7,572**	**4,757**	**5,420**	**3,872**	**2,152**	**885**
21	**PROFIT/LOSS FOR THE YEAR** (20)	**7,572**	**4,757**	**5,420**	**3,872**	**2,152**	**885**

3. CAPITAL

3.1. The Group's capital adequacy

Pursuant to Regulation EU 575/2013 (Article 492.2) the Group has to disclose three different capital adequacy ratios, the minimum values[5] of which are the following:

- common equity tier 1 capital ratio: 4.5%, or 6.375% with the capital conservation buffer,
- tier 1 capital ratio: 6%, and
- total capital ratio: 8%.

Pursuant to Articles 437 (d) (e) of the Regulation, elements of capital are presented in the form stipulated by the EBA Implementing Technical Standard, published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014, along with the realised capital adequacy ratios.

[5] The supervisory authority has the discretionary power to impose, in the context of ICAAP–SREP, on a bank or banking group higher target values of capital adequacy ratios.

The Group calculates capital and capital adequacy ratios pursuant to the legislation. In 2018, the tier 1 capital ratio and common equity tier 1 capital ratio improved year-on-year, whereas the total capital adequacy ratio was lower due to subordinated debt having matured. The Group also met all requirements imposed by the Bank of Slovenia for 2018 in the context of the Supervisory Review and Evaluation Process (SREP).

For the period after 1 March 2019, the Bank of Slovenia imposed new minimum capital adequacy ratios for the Bank and the Group on the basis of the ICAAP/SREP process: the overall capital adequacy ratio of 14.00% and the common equity tier I capital adequacy ratio of 11.5%.

Elements of regulatory capital and capital adequacy:

		2018	2017	Reference to articles in Regulation (EU) 575/2013
COMMON EQUITY TIER I CAPITAL: INSTRUMENTS AND RESERVES				
1	Capital instruments and the related share premium account	17,811	17,811	26(1), 27, 28, 29, 26(3), EBA list
	of which: instrument type 1	17,811	17,811	26(3), EBA list
2	Retained earnings and revenue reserves	8,980	6,626	26(1)(c)
3	Accumulated other comprehensive income and other reserves	30,720	30,996	26(1)
4	**Common equity tier I capital before regulatory adjustments**	**57,511**	**55,434**	
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS				
	Additional fair value and credit risk adjustments	(16)	(424)	26(2), 34, 105, Delegated Regulation 183/2014
5	Intangible assets (deductions for associated tax liabilities)	(486)	(594)	36(1)(b), 37, 472(4)
6	Deferred tax assets associated with future profits and not arising out of temporary differences (deductions for associated tax liabilities if conditions from Article 38(3) are met)	(1,061)	(1,600)	36(1)(c), 38, 472(5)
7	Direct and indirect holdings in own common equity tier I capital instruments	(601)	(645)	36(1)(f), 42, 472(8)
8	Total regulatory adjustments to common equity tier I capital	(2,165)	(3,263)	
9	Common equity tier I capital	55,346	52,170	
10	**TIER I CAPITAL (common equity tier I + additional tier I)**	**55,346**	**52,170**	
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS				
11	Capital instruments and the related share premium account	5,971	7,781	62, 63
12	Tier II capital before regulatory adjustments	5,971	7,781	62, 63
13	**TIER II CAPITAL**	**5,971**	**7,781**	
14	**TOTAL CAPITAL (tier I + tier II)**	**61,317**	**59,951**	
15	Total risk-weighted assets	422,275	407,369	
CAPITAL RATIOS AND CAPITAL BUFFERS				
16	**Common equity tier I capital** (in %)	**13.11**	**12.81**	
17	**Tier I capital** (in %)	**13.11**	**12.81**	
18	**Total capital** (in %)	**14.52**	**14.72**	
19	Common equity tier I capital that qualifies as capital buffer (in %)	13.11	12.81	
20	Institution-specific buffer requirement	1.875	1.250	440
21	of which: capital conservation buffer requirement	1.875	1.250	440
22	Direct and indirect equity holdings in financial sector entities where the institution does not have a significant investment (amount below 10% threshold, reduced by permitted short positions)	2,849	2,995	36(1)(h), 45, 46, 472(10), 56(c), 59, 60, 475(4), 66(c), 69, 70, 477(4)
23	Deferred tax assets arising out of temporary differences (amount under 10% threshold, reduced by associated tax liabilities if conditions from Article 38(3) are met)	3,552	3,106	36(1)(c), 38, 48, 470, 472(5)

3.2. Reconciliation of regulatory capital to financial statements

Regulatory capital and capital adequacy ratios are calculated using data from the Group's financial statements. Disclosure on the reconciliation of regulatory capital to the balance sheet was prepared according to Articles 437 (a) (f) and 447 (e) of the Regulation (EU) No 575/2013. The Group's capital consists of the majority of capital items from the statement of financial position, and subordinated debt, and it is additionally lowered by deduction items. The table below shows the proportions of individual items that are included in the calculation of regulatory capital.

Reconciliation of statement of financial position items with regulatory capital for the purpose of the Group's capital adequacy as at 31 December 2018.

Code	Items	Prudential consolidation 2018	Inclusion into calculation of capital for the purpose of CA as at 31 December 2018	Note
1	Financial assets held for trading	77,008		
2	Non-trading financial assets mandatorily measured at fair value through profit or loss	0	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Financial assets measured at fair value through other comprehensive income	2,519		
4	Finančna sredstva, merjena po pošteni vrednosti prek drugega vseobsegajočega donosa	2,993	(3)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
5	Financial assets measured at amortised cost - Debt securities - Loans and advances to banks - Loans and advances to customers - Other financial assets	858,890 107,748 6,698 742,986 1,458		
6	Long-term equity participation in subsidiaries, associates and joint ventures	4,025	(4)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
7	Tangible assets - Property, plant and equipment - Investment property	34,453 9,946 24,507		
8	Intangible assets	486	(486)	deduction item Article 36 b - fully
9	Income tax assets	4,613		
	- Deferred tax assets	4,613		
	Depending on future profitability and not arising out of temporary differences	1,061	(1,061)	deduction item Article 36 c - 100% of item's value
	Depending on future profitability and arising out of temporary differences	3,552		
10	Other assets	6,103		
11	Non-current assets held for sale, and discontinued operations	6		
12	**TOTAL ASSETS** (from 1 to 11)	**991,096**		
13	Financial liabilities held for trading	0	0	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
14	Financial liabilities measured at amortised cost - Deposits by banks and central banks - Deposits by customers - Borrowings from banks and central banks - Debt securities - Other financial liabilities	924,164 746 864,451 53,758 1,082 4,127	 4,022 1,755 194	 included on the basis of Articles 62 and 63 included on the basis of Articles 62 and 63 included on the basis of Articles 62 and 63
15	Provisions	2,518		
16	Income tax liabilities - Current tax liabilities - Deferred tax liabilities	511 509 2		
17	Other liabilities	582		
18	**TOTAL LIABILITIES** (from 13 to 17)	**927,775**		
19	Share capital	17,811	17,811	fully included; Article 26
20	Share premium	31,257	31,257	fully included; Article 26
21	Accumulated other comprehensive income	(538)		
	Other revaluation surpluses	(538)	(538)	100% of unrealised losses included in 2018, Article 467
22	Revenue reserves	11,701	8,980	conditions for inclusion not yet met for the amount of EUR 2,721 thousand
23	Treasury shares	(601)	(601)	deduction item, Article 36 f - fully
24	Retained earnings (including profit/loss for the year)	3,691		
	Retained earnings	991		conditions for inclusion not yet met
	Profit for the period	2,700		conditions for inclusion not yet met
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**63,321**		
26	TOTAL EQUITY (25)	63,321		
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**991,096**		
			61,327	**Regulatory capital (sum of capital from SFP)**
			(9)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			61,317	**Regulatory capital**

3.3. Detailed presentation of items of regulatory capital

Pursuant to Articles 437 (d) (e) of the Regulation (EU) No 575/2013, this is a detailed presentation of regulatory capital items. The form of presentation is stipulated by the EBA Implementing Technical Standard published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014 (Annex VI – Transitional own funds disclosure template).

Differences between capital for accounting purposes, and capital in the calculation of the Group's capital adequacy as at 31 December 2018

Item in statement of financial position		Item in calculation of regulatory capital	
Share capital	17,811	17,811	Paid capital instruments
Share premium	31,257	31,257	Share premium
Accumulated other comprehensive income	(538)	(538)	Accumulated other comprehensive income
Revenue reserves, including retained earning	12,691	8,980	Reserves and retained earnings
Treasury shares	(601)	(601)	Treasury shares
Net profit for the year	2,700	0	Net profit for the year
		(1,061)	Deferred tax assets associated with future profits and not arising out of temporary differences
		(486)	Intangible assets
		(9)	Special credit risk adjustments
		(7)	Prudent valuation of financial assets in the banking and trading book
		55,346	**Common equity tier I (CET 1)**
		0	Additinal tier I (AT 1)
		55,346	**Total tier I**
		5,971	Tier II (T2)
Total capital for accounting purposes	**63,320**	**61,317**	**Total regulatory capital**

3.4. Capital instruments included in capital

In 2018, the Bank's regulatory capital consisted of common equity tier I capital and capital instruments that met the criteria for inclusion into tier II capital, for which the Bank obtained the relevant decisions from the Bank of Slovenia. As at 31 December 2018 the Bank did not have capital instruments meeting the criteria for inclusion into additional tier I capital. The tables below show the main features of capital instruments included into tier I and tier II capital, in accordance with Articles 437 (b) (c) of Regulation (EU) No 575/2013.

The table below shows the main features of the Group’s ordinary shares.

Main features of tier I capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	SZBR; ISIN SI0021110083
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Common equity tier I
Post-transitional CRR rules	Common equity tier I
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	Ordinary shares
Amount recognised in regulatory capital (as at the last reporting date)	Paid capital: EUR 17,811 thousand
Nominal amount of instrument	Par value shares; no.: 4,268,248
Issue price	NA
Redemption price	NA
Accounting classification	Shareholders' equity
Original date of issuance	16 April 1990 (Bank's entry in court register)
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	Dividend
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	Yes
Noncumulative or cumulative	NA
Convertible or non-convertible	NA
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First instrument to cover loss subordinated to all other instruments
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

The main features of the Group's tier II capital are presented in the following six tables. It is included in the calculation of regulatory capital on the date of maturity stipulated in the contracts.

Tier II capital paid in 2012 with date of maturity 20 December 2019

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand / EUR 1,000 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	20 December 2012
Perpetual or dated	Dated
Original maturity date	20 December 2019
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6-month Euribor + 6% / 8.20%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

Tier II capital paid in 2013 with date of maturity 3 November 2020

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 930 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	23 October 2013
Perpetual or dated	Dated
Original maturity date	3 November 2020
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6.20%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

Tier II capital paid in 2013 with date of maturity 10 November 2020

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 1,670 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	30 October 2013
Perpetual or dated	Dated
Original maturity date	10 November 2020
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6.20%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

Tier II capital paid in 2015 with date of maturity 30 September 2021

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 150 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	29 September 2015
Perpetual or dated	Dated
Original maturity date	30 September 2021
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	4.70%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

Tier II capital paid in 2015 with date of maturity 30 September 2022

Main features of tier II capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand / EUR 1,300 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	29 May 2015
Perpetual or dated	Dated
Original maturity date	30 September 2022
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6-month Euribor + 6% / 6.00%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

Tier II capital paid in 2015 with date of maturity 10 October 2025

Main features of tier II capital	
Main features of tier II capital	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Issuer	NA
Unique identifier (CUSIP, ISIN or Bloomberg code)	Slovene
Legislation governing instrument	
Regulatory treatment	Tier II capital
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Solo and consolidated
Eligible at solo / (sub)consolidated basis	EU 575/2013, Article 63
Instrument type (types specified by individual jurisdiction)	Tier II capital instruments
Amount recognised in regulatory capital (as at the last reporting date)	EUR 2,000 thousand
Nominal amount of instrument	NA
Issue price	NA
Redemption price	Subordinated liabilities
Accounting classification	9 October 2015
Original date of issuance	Dated
Perpetual or dated	10 October 2025
Original maturity date	No
Issuer call subject to prior supervisory approval	NA
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	
Fixed or variable dividend / coupon interest rate	6.00%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter "NA" if not applicable.

4. CAPITAL BUFFERS

Disclosure details for capital buffers are laid down in Articles 440 (a) (b) of Regulation (EU) No 575/2013 and in Commission Delegated Regulation (EU) No 1555/2015. EU capital requirements legislation introduced already in 2016 a system of capital buffers, which represent and additional requirement in determining the amount of regulatory capital. In addition to the requirements imposed to mitigate risks of Pillars I and II of the Basel Accord, banks' top quality capital – common equity tier I – must now also meet the capital buffer requirements.

(a) Capital conservation buffer

The capital conservation buffer rate imposed on the Group in 2018 was 1.875% (2017: 1.25%), which the Group had to provide, as required by the Bank of Slovenia, with common equity tier I capital.

(b) Countercyclical capital buffer

The Bank of Slovenia also introduced the countercyclical capital buffer in 2016. Commission Delegated Regulation (EU) No 2015/155 of 28 May 2015 stipulates the form of templates for disclosures in the annual report. The objective of the countercyclical capital buffer is to provide a buffer of capital to banks in periods of excess aggregate credit growth, which they can use in stress periods and periods of unfavourable lending conditions. When the defined buffer rate is higher than 0%, or when the set rate is raised, the new buffer rate enters into use 12 months after the announcement. Buffer rate values can range between 0% and 2.5% of the total amount of risk exposure. The value of the buffer for exposures in Slovenia, effective since 1 January 2017, is 0%. In defining the buffer rate, the Bank of Slovenia followed the methodology of the Basel Committee on Banking Supervision (BCBS) and the European Systemic Risk Board (ESRB), and used an assessment of the credit cycle status in Slovenia. Buffer rates for exposures in other countries of the European Economic Area are listed on the ESRB website, where they are updated quarterly. Buffer rates for credit exposures in countries not listed on the ESRB website and not defined by the Bank of Slovenia or a competent authority in the relevant country, are 0%.

Regulatory disclosures on the geographical distribution of credit exposures subject to the countercyclical buffer, capital requirements and levels of the bank-specific countercyclical buffer, have to be made on a quarterly basis. The information has to be publicly disclosed at least once a year in the annual report, the obligation effective from 1 January 2016.

The calculation of the bank-specific countercyclical buffer requirement is done on a standalone and consolidated basis: the bank geographically distributes credit exposures subject to the calculation of capital requirements for credit risk according to the standardised approach, and determines specific risk or default risk, and migrations of exposure from the trading book and capital requirements for securitisation.

The bank-specific countercyclical capital buffer rate consists of the weighted average countercyclical capital buffer rates used in countries in which the institution has the relevant credit exposure.

The table below shows the geographical distribution of credit exposures used in the computation of the countercyclical buffer for the Group in 2018.

	General credit exposures		Trading book exposure		Securitisation exposure		Capital requirements					
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading boo	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securiti-sation exposures	Total	Capital require-ments weights	Countercyclical capital buffer rate
Breakdown by country	010	020	030	040	050	060	070	080	090	100	110	120
ALGERIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
AUSTRIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
BELGIUM	5	0	0	0	0	0	0	0	0	0	0.00	0.0
BOSNIA AND HERZEGOVINA	2	0	0	0	0	0	0	0	0	0	0.00	0.0
BULGARIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
CROATIA	172	0	0	0	0	0	14	0	0	14	0.05	0.0
DENMARK	0	0	0	0	0	0	0	0	0	0	0.00	0.0
FRANCE	0	0	0	0	0	0	0	0	0	0	0.00	0.0
GERMANY	0	0	0	0	0	0	0	0	0	0	0.00	0.0
HUNGARY	6	0	0	0	0	0	0	0	0	0	0.00	0.0
ITALY	221	0	0	0	0	0	18	0	0	18	0.07	0.0
LATVIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
THE NETHERLANDS	20	0	0	0	0	0	2	0	0	2	0.01	0.0
ROMANIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
SAINT KITTS AND NEVIS	12	0	0	0	0	0	1	0	0	1	0.00	0.0
SERBIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
SLOVAKIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
SLOVENIA	321,013	0	0	0	0	0	25,681	0	0	25,681	99.80	0.0
SWITZERLAND	0	0	0	0	0	0	0	0	0	0	0.00	0.0
UNITED ARAB EMIRATES	187	0	0	0	0	0	15	0	0	15	0.06	0.0
UKRAINE	0	0	0	0	0	0	0	0	0	0	0.00	0.0
UNIT. KINGD. OF GREAT BRIT. AND NORTH. IRELAND	5	0	0	0	0	0	0	0	0	0	0.00	0.0
UNITED STATES OF AMERICA	7	0	0	0	0	0	1	0	0	1	0.00	0.0
KOSOVO	0	0	0	0	0	0	0	0	0	0	0.00	0.0

The table below shows the geographical distribution of credit exposures used in the computation of the countercyclical buffer for the Group in 2017.

	General credit exposures		Trading book exposure		Securitisation exposure		Capital requirements					
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading boo	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securiti-sation exposures	Total	Capital re-quirements weights	Countercyclical capital buffer rate
Breakdown by country	010	020	030	040	050	060	070	080	090	100	110	120
ARGENTINA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
AUSTRIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
BELGIUM	5	0	0	0	0	0	0	0	0	0	0.00	0.0
BOSNIA AND HERZEGOVINA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
BULGARIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
CROATIA	173	0	0	0	0	0	14	0	0	14	0.06	0.0
DENMARK	0	0	0	0	0	0	0	0	0	0	0.00	0.0
FRANCE	0	0	0	0	0	0	0	0	0	0	0.00	0.0
GERMANY	0	0	0	0	0	0	0	0	0	0	0.00	0.0
HUNGARY	3	0	0	0	0	0	0	0	0	0	0.00	0.0
ITALY	148	0	0	0	0	0	12	0	0	12	0.05	0.0
THE NETHERLANDS	23	0	0	0	0	0	2	0	0	2	0.01	0.0
SAINT KITTS AND NEVIS	16	0	0	0	0	0	1	0	0	1	0.00	0.0
SERBIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
SLOVAKIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
SLOVENIA	304,181	0	0	0	0	0	24,334	0	0	24,334	99.80	0.0
SWITZERLAND	0	0	0	0	0	0	0	0	0	0	0.00	0.0
UNITED ARAB EMIRATES	202	0	0	0	0	0	16	0	0	16	0.07	0.0
UKRAINE	0	0	0	0	0	0	0	0	0	0	0.00	0.0
MACEDONIA, FORM. YUGOSL. REP.	0	0	0	0	0	0	0	0	0	0	0.00	0.0
UNIT. KINGD. OF GREAT BRIT. AND NORTH. IRELAND	40	0	0	0	0	0	3	0	0	3	0.01	0.0
UNITED STATES OF AMERICA	7	0	0	0	0	0	0	0	0	0	0.00	0.0
KOSOVO	0	0	0	0	0	0	0	0	0	0	0.00	0.0

The table below shows the amount of the institution-specific countercyclical buffer; the Group-specific countercyclical buffer for 2018 was EUR 0 (the same as in 2017).

	2018	2017
Total risk exposure amount	422,275	407,369
Institution specific countercyclical buffer rate	0	0
Institution specific countercyclical buffer requirement	0	0

5. CAPITAL REQUIREMENTS

5.1. Summary of the Group's approach to assessing the adequacy of its internal capital to support current and future activities

Article 438 (a) of Regulation (EU) No 575/2013 requires that institutions disclose their approach to assessing the adequacy of their internal capital to support current and future activities. In determining its level of adequate internal capital (internal capital adequacy assessment process – ICAAP), the Group abides by the requirements of the Capital Requirements Regulation (CRR), recommendations of the Bank of Slovenia, and best banking practices.

For making an internal assessment of its risk-based capital requirements and internal capital adequacy, the Group employs an in-house methodology based on requisite internal instructions for implementing stress tests. These are used to assess the Group's risk-based capital requirements under Pillar II of the Basel Capital Accord, and are included in a collective risk assessment. The Group thereby takes into account the capital requirement for credit risk, which is not included in the calculation of the capital requirement for credit risk under Pillar I (portfolio downgrade risk due to changed economic conditions, concentration risk and remaining risk from hedging), as well as its requirement for interest rate, liquidity, market liquidity risk, equity risk, capital risk, reputation risk and profitability risk, strategic risk, Bank management risk, investment property requirements and additional requirements related to compliance with the Bank of Slovenia regulations. Once a year, the Group prepares stress test calculations according to the instructions of the Bank of Slovenia and EBA, and includes them into its calculation of internal capital requirements. Each calculation of capital adequacy includes an assessment of the impact of the planned volume of activities on the Group's future capital and capital ratios. On a monthly basis, the Group reports the internal capital adequacy assessment and capital adequacy ratios to the Asset Liability Management (ALM) Board, and quarterly also to the Management Board, the Audit and Risk Committee of the Supervisory Board and the Supervisory Board.

The Group maintains an adequate amount, type and allocation of requisite capital tailored to suit its risk profile, so it can discharge all its liabilities. Its risk profile is examined once a year and special attention is also devoted to the assessment of internal control areas.

Consistent with EBA guidelines, the Group also undertakes the internal liquidity adequacy assessment process (ILAAP), a comprehensive assessment of how well liquidity risk is controlled based on qualitative and quantitative criteria.

5.2. Result of the Bank's internal capital assessment process

Article 438 (b) of the Regulation requires that institutions disclose the result of their internal capital adequacy assessment process. The Bank of Slovenia imposed new minimum capital adequacy ratios for the Group on the basis of the ICAAP/SREP process for 2018: the capital adequacy ratio of 13.38% (2017: 12.75%), while the common equity tier I capital adequacy ratio was raised to 11.75%[6] (it includes the capital conservation buffer of 1.875%). The target level in 2017 was 11.5% for the Group.

5.3. Capital requirements

The Group's capital requirements are disclosed pursuant to Articles 438 (c) (e) (f) and 445 of Regulation No 575/2013. In calculating its regulatory capital requirements the Group uses the following approaches:

- credit risk – standardised approach,
- market risk – standardised approach,
- operational risk – simple approach.

[6] Common equity tier I capital and tier I capital are the same for the Group, because the Group does not have any additional tier I capital.

The capital requirement for individual risks totals 8% of the total exposure to a particular type of risk. The table below shows the breakdown of the Group's individual capital requirements at the year-ends of 2018 and 2017.

Table: Group's capital requirements

	2018	2017
Capital requirement for credit risk	**29,835**	**28,541**
Exposure to central government and central banks	710	621
Exposure to regional and local government	97	74
Exposure to public sector	940	776
Exposure to institutions	2,328	2,686
Exposure to corporate customers	1,706	1,807
Exposure to retail customers	9,829	8,445
Exposure secured by mortgages on residential property	9,347	9,410
Outstanding items	1,995	2,885
Regulatory high risk categories	1,375	181
Collective investment undertakings	27	25
Equity exposure	605	719
Other exposure	874	913
Capital requirement for the risk of credit valuation adjustment (CVA)	0	0
Capital requirement for market risk	**0**	**0**
Capital requirement for debts	0	0
Capital requirement for equities	0	0
Capital requirement for commodities	0	0
Capital requirement for foreign exchange risk	**0**	**0**
Capital requirement for operational risk	**3,947**	**4,049**
Total capital requirements	**33,782**	**32,590**
Total risk-weighted assets (RWA)	**422,275**	**407,369**

6. CREDIT RISK ADJUSTMENTS

The Group's credit risk policy derives from the regulatory framework – which consists of requirements and recommendations regarding risk-taking, measuring and controlling credit risk in banks, including hedging with financial instruments and loan commitments given – and the Group's aspirations to manage and control credit risk efficiently and rationally. The policy is tailored to the Group's size, and the nature and complexity of its activities.

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

The table below illustrates total exposure amounts, net exposure values, and average exposure amounts for credit risk as at 31 December 2018 and 31 December 2017, whereby not considering any collateral held by the Group or any other enhancements of credit quality, and broken down according to different categories of exposure.

The exposure levels for on-balance sheet and off-balance sheet assets are given on the basis of net carrying amounts as reported in the statement of financial position, including off-balance sheet figures, and grouped into categories of exposure pursuant to CRR/CRD IV.

Table: Group's exposure to credit risk: total exposure amounts, net exposure values, and average exposure amounts as at 31 December 2018 and 31 December 2017

		2018			2017		
	Exposure category	Total exposure	Net exposure	Average exposure	Total exposure	Net exposure	Average exposure
01	Central government and central banks	451,135	451,135	439,579	424,710	424,710	431,905
02	Regional and local government	6,091	6,089	5,532	4,674	4,632	5,834
03	Public sector entities	15,760	15,751	15,166	12,561	12,235	11,589
06	Institutions	36,025	36,024	37,527	39,176	39,171	43,472
07	Corporate	32,580	28,555	33,853	34,857	31,214	32,679
08	Retail exposures	199,803	198,353	194,074	173,561	171,455	167,873
09	Secured by mortgages of immovable properties	259,257	256,486	253,782	255,791	252,607	240,797
10	Exposures in default	27,943	20,731	22,701	52,268	32,015	33,032
11	Regulatory high risk categories	17,869	11,826	6,821	4,744	1,543	5,164
14	Investments in investment funds	2,698	2,698	2,023	2,699	2,699	2,698
15	Other exposure	22,784	22,785	22,444	20,083	20,083	19,659
16	Equity exposure	7,567	7,567	7,990	8,981	8,981	8,493
	As at 31 December	1,079,512	1,058,000	1,041,492	1,034,105	1,001,345	1,003,195

The Group controls and will continue to maintain credit risk exposure consistent with the Bank's strategy and in line with capital restrictions.

6.2. Risk concentration of financial assets exposed to credit risk

(a) Geographical distribution of exposure

The table below shows the Group's exposures at the year-ends of 2018 and 2017, given at their carrying value and broken down according to categories of exposure and geographical areas. Counterparties are grouped according to domicile. The table also provides amounts of impaired and past due exposure. The Group conducts its business primarily in Slovenia, as is shown clearly in the table.

Table: Geographical distribution of the Group's exposure broken down into major categories of exposure as at 31 December 2018 and 31 December 2017

		As at 31 December 2018				As at 31 December 2017			
	Exposure category	Slovenia	Other EU member states	Other countries	TOTAL	Slovenia	Other EU member states	Other countries	TOTAL
01	Central government and central banks	435,871	15,264	0	451,135	424,710	0	0	424,710
02	Regional and local government	6,089	0	0	6,089	4,632	0	0	4,632
03	Public sector entities	15,751	0	0	15,751	12,235	0	0	12,235
06	Institutions	32,826	3,198	0	36,024	38,855	316	0	39,171
07	Corporate	28,374	180	1	28,555	31,009	204	1	31,214
08	Retail exposures	197,990	202	161	198,353	171,151	123	181	171,455
09	Secured by mortgages of immovable properties	255,987	282	217	256,486	252,141	256	210	252,607
10	Exposures in default	20,719	0	12	20,731	32,000	0	15	32,015
11	Regulatory high risk categories	11,826	0	0	11,826	1,543	0	0	1,543
14	Investments in investment funds	2,698	0	0	2,698	2,699	0	0	2,699
15	Other exposure	22,785	0	0	22,785	20,083	0	0	20,083
16	Equity exposure	7,567	0	0	7,567	8,979	2	0	8,981
	As at 31 December	1,038,483	19,126	391	1,058,000	1,000,037	901	407	1,001,345
	Impaired exposure	20,415	7	156	20,578	32,605	2	152	32,759
	Past due exposure as at 31 December,	27,954	4	172	28,130	39,091	0	171	39,262
	of which impaired exposure as at 31 December.	9,202	0	158	9,360	17,040	0	153	17,193

At the year-end of 2018, the share of exposure to EU member states stood at 1.8%, up from 0.09% at the end of 2017. The share of exposure to other countries was even smaller, in both periods.

(b) Economy sectors – industries

The two tables below show the Group's exposures at the year-ends of 2018 and 2017, given at their carrying value and broken down according to categories of exposure and sectors of the economy. The tables also provide amounts of impaired and past due exposure.

Table: Group exposure according to economy sectors – industries, broken down into major exposure categories, as at 31 December 2018

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Publ. admin. and def.	Agric. and hunting	Transp. and ware-housing	Cuture, entert. &recreat. activi-ties	Other various busin. activities	Inform. & commu-nication activi-ties	Other activi-ties	House-holds	TOTAL
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01	Central government and central banks	67,545	0	0	0	0	0	0	0	383,590	0	0	0	0	0	0	0	451,135
02	Regional and local government	0	0	0	0	0	0	0	0	6,089	0	0	0	0	0	0	0	6,089
03	Public sector entities	0	603	0	0	324	0	25	3	241	4	0	3	0	66	14,482	0	15,751
06	Institutions	36,024	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	36,024
07	Corporate	2,844	11,636	4,067	3,959	623	0	339	140	56	1,665	135	81	71	2,270	669	0	28,555
08	Retail exposures	197	13,470	6,791	3,719	4,207	204	561	1,387	36	1,641	4,103	221	1,277	1,833	1,655	157,051	198,353
09	Secured by mortgages of immovable properties	460	38,968	19,683	4,318	3,133	282	7,691	6,302	726	6,860	2,391	3,441	877	1,253	5,976	154,125	256,486
10	Exposures in default	0	8,137	2,235	116	3,900	0	224	3,638	0	121	2	1	0	0	0	2,357	20,731
11	Regulatory high risk categories	3,539	885	733	1,892	1,741	0	2,721	21	0	266	0	0	0	0	28	0	11,826
14	Investments in investment funds	2,697	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	2,698
15	Other exposure	1	0	0	0	0	0	0	0	125	0	0	0	0	0	0	22,659	22,785
16	Equity exposure	131	4,025	0	0	54	0	0	0	3,247	0	0	0	0	21	89	0	7,567
	As at 31 December 2018	113,438	77,724	33,509	14,004	13,982	486	11,561	11,491	394,111	10,557	6,631	3,747	2,225	5,443	22,899	336,192	1,058,000
	Impaired exposure	1,612	5,841	877	2,572	4,848	0	1,899	830	83	343	73	8	16	149	48	1,379	20,578
	Past due exposures,	1,182	7,410	3,008	2,837	3,803	4	838	4,190	0	690	1,014	4	2	19	20	3,109	28,130
	of which impaired exposures	770	1,280	702	2,416	1,888	0	386	528	0	293	35	2	0	12	12	1,036	9,360

Table: Group exposure according to economy sectors – industries, broken down into major exposure categories, as at 31 December 2017

	Exposure category	Finances and insuran.	Trade industry	Manufa-cturing	Constru-ction	Expert, scient. & technical activities	Foreign persons	Real-estate services	Cater-ing	Publ. admin. and def.	Agric. and hunting	Transp. and ware-housing	Cuture, entert. &rec-reat. activi-ties	Other various busin. activities	Inform. & commu-nication activi-ties	Other activities	House-holds	TOTAL
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01	Central government and central banks	22,530	0	0	0	0	0	0	0	402,180	0	0	0	0	0	0	0	424,710
02	Regional and local government	0	0	0	0	0	0	0	0	4,632	0	0	0	0	0	0	0	4,632
03	Public sector entities	0	1,098	0	0	142	0	42	3	246	0	0	4	0	30	10,670	0	12,235
06	Institutions	39,171	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	39,171
07	Corporate	3,668	13,908	3,737	4,471	655	0	193	112	79	1,057	4	46	61	2,386	244	593	31,214
08	Retail exposures	96	11,230	7,198	3,332	4,096	123	1,990	1,361	37	1,897	2,145	188	848	2,186	2,705	132,023	171,455
09	Secured by mortgages of immovable properties	2,578	41,936	16,787	6,223	3,125	256	8,998	5,280	800	6,637	3,126	3,724	683	980	4,216	147,258	252,607
10	Exposures in default	1,703	11,069	4,380	646	5,994	0	1,829	3,711	0	589	4	0	0	0	0	2,090	32,015
11	Regulatory high risk categories	784	0	0	152	320	0	209	2	0	73	0	0	3	0	0	0	1,543
14	Investments in investment funds	2,699	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,699
15	Other exposure	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	20,082	20,083
16	Equity exposure	259	5,532	0	0	278	0	2	0	2,791	0	0	0	0	37	82	0	8,981
	As at 31 December 2017	73,489	84,773	32,102	14,824	14,610	379	13,263	10,469	410,765	10,253	5,279	3,962	1,595	5,619	17,917	302,046	1,001,345
	Impaired exposure	3,785	8,651	1,751	5,037	6,721	0	2,270	826	50	456	106	14	34	314	393	2,351	32,759
	Past due exposures,	1,096	8,880	4,835	5,631	6,055	0	2,946	4,438	2	924	81	10	4	31	23	4,306	39,262
	of which impaired exposures	959	2,290	1,458	4,938	3,546	0	873	642	0	372	34	0	3	29	12	2,037	17,193

In absolute terms, exposure towards the financial and insurance industry increased the most in 2018 as compared to 2017, while the most significant decrease was the exposure towards the public administration and defence.

7. LEVERAGE

The disclosure requirement regarding leverage is stipulated in Article 451 of Regulation (EU) No 575/2013 and in Commission Implementing Regulation (EU) No 200/2016. It was calculated under the provisions of the Capital Requirements Regulation and Directive (CRR/CRD IV) since 1 January 2014, and since January 2015 it is being calculated under supplements regarding computation as published in Commission Delegated Regulation (EU) No 2015/62; the disclosure requirement for the leverage ratio has been effective since 1 January 2015.

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

In compliance with transitional provisions, the Group was calculating the leverage ratio at the end of each quarter between 1 January 2014 and 31 December 2017. The objective of the leverage ratio is to limit the build-up of excessive on- and off-balance sheet leverage in the banking system, with a special emphasis on risk-weighted exposures not considered in the calculation of existing capital requirements.

The Group’s leverage ratio at the year-end of 2018 totalled 5.68% and thus exceeded the 3% threshold set by the BCBS.

Calculation of the leverage ratio

	2018	2017
Leverage ratio - using the definition of tier I capital without transitional provisions (in %)	5.68	5.35
Leverage ratio - using the definition of tier I capital with transitional provisions (in %)	5.68	5.40

The leverage ratio is disclosed pursuant to Commission Implementing Regulation (EU) No 2016/200 of 15 February 2016, and is displayed in tables LRSum, LRCom, LRSpl and LRQua.

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

LRSum	Summary reconciliation of accounting assets and leverage ratio exposures	2018	2017
1	Total assets as per published financial statements	991,096	931,288
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	30,775	34,623
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR")	0	0
4	Adjustments for derivatives	0	0
5	Adjustments for securities financing transactions "SFTs"	0	0
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	30,775	34,623
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	0	0
7	Other adjustments	0	0
8	Total leverage ratio exposure	1,021,871	965,911

Template LRCom: Leverage ratio common disclosure

LRCom: Leverage ratio common disclosure	2018	2017
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	994,024	932,384
(Asset amounts deducted in determining tier 1 capital)	(2,155)	(3,244)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	991,868	929,140
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	4,052	5,238
Counterparty credit risk exposure for SFT assets	287	1,231
Total securities financing transaction exposures	4,339	6,469
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	63,838	67,773
(Adjustments for conversion to credit equivalent amounts)	(38,175)	(37,471)
Other off-balance sheet exposures	25,663	30,302
Capital and total exposures		
Tier 1 capital	58,076	52,170
Total leverage ratio exposures	1,021,871	965,911
Leverage ratio		
Leverage ratio (in %)	5.68	5.40

Template LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs, and exempt exposures)

LRSpl:	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	2018	2017
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	994,024	932,384
EU-2	Trading book exposures	0	227
EU-3	Banking book exposures, of which:	994,024	932,157
EU-5	Exposures treated as sovereigns	459,500	431,102
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	6,567	4,514
EU-7	Institutions	35,864	39,025
EU-8	Secured by mortgages of immovable properties	250,106	237,355
EU-9	Retail exposures	163,292	137,369
EU-10	Corporate	18,228	15,179
EU-11	Exposures in default	21,031	31,547
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	39,435	36,067

Explanation of LRQua

Processes used to manage the risk of excessive leverage

In 2018, the Group calculated its leverage ratio on a monthly basis, together with the calculation of capital, capital requirements and capital adequacy ratios. An improvement in tier I capital adequacy ratio will improve the leverage ratio. Movements in the leverage ratio are monitored monthly by the ALM Board, and quarterly by the Management Board, the Risk Committee of the Supervisory Board and Supervisory Board. The leverage ratio is also assessed once a year as part of the internal capital adequacy assessment process (ICAAP), and the leverage ratio level is monitored as one of the indicators within the Restoration plan. The minimum leverage ratio level for 2018 was set at 3%, which is the threshold set by the BCBS. If the Group's leverage ratio does not meet target levels, remedial measures are adopted first by the ALM Board and then also by the Management Board and Supervisory Board. The leverage ratio can improve by increasing tier I capital or by decreasing risk-weighted assets.

Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers

In 2018, the monthly value of the leverage ratio ranged between 5.41% and 5.68%, thus exceeding the imposed value. As tier I capital increased higher than the risk-weighted assets, the value of the leverage ratio went up on a quarterly basis.

8. USE OF ECAI (Article 444 of CRR)

The Group uses the ECAI credit ratings pursuant to Article 114 (2) of CRR with regard to the ECAI long-term credit rating mapped to credit quality steps, and only for receivables in the category of exposure towards the central government. When defining risk weights in the calculation of capital requirements for the category of exposure towards the central government and to central banks, the Groups uses the credit ratings of Standard & Poor's. Pursuant to Article 114 (2) of CRR, the Bank should take into account a higher risk weight, however, due to complying with Article 114 (4) of CRR, it applied the risk weight of 0% to the exposures towards the central government and to central banks that have been denominated and financed in its domestic currency.

9. DISCLOSURE REQUIREMENTS, AS PROVIDED BY SECTION 8 OF REGULATION (EU) NO 575/2013

Article	Requirement	Published in AR section	Section
435.	**Risk management policies and objectives**		
1	**Risk management objectives and policies**		
	a. strategies and processes to manage risks	BR	VIII.1
	b. structure and organisation of the relevant risk management function including information on its authority and statute, or other appropriate arrangements	BR	VIII.1
	c. scope and nature of risk reporting and measurement systems	BR	VIII.1
	d. policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	BR	VIII.1
	e. declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	BR	VIII.2
	f. concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy; the statement includes key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body.	BR	VIII.3
2	**Information regarding governance arrangements**		
	a. number of directorships held by members of the management body	BR	VI.4
	b. recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	BR	IX.4
	c. policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved	BR	IX.4
	d. whether or not the institution has set up a separate risk committee, and the number of times the risk committee has met	BR	VIII.4
	e. description of the information flow on risk to the management body	BR	VIII.4
3	**Non-financial statement**	BR	VII.
436.	**Scope of application**		
	a. name of the institution to which the requirements of the Regulation apply	RCM	2.
	b. outline of the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are fully consolidated; proportionally consolidated; deducted from own funds; neither consolidated nor deducted	FS RCM	5. 2.
	c. any current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	/	/
	d. aggregate amount by which the actual own funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	/	/
	e. if applicable, the circumstances of making use of the provisions laid down in Articles 7 (Derogation to the application of prudential requirements on an individual basis) and 9 (Individual consolidation method)	/	/
437.	**Own funds**		
	a. full reconciliation of common equity tier 1 items, additional tier 1 items, tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution	FS RCM	5.6. 3.2.
	b. description of the main features of the common equity tier 1 and additional tier 1 instruments and tier 2 instruments issued by the institution	RCM	3.4.
	c. full terms and conditions of all common equity tier 1, additional tier 1 and tier 2 instruments	RCM	3.4.
	d. separate disclosure of the nature and amounts of the following:: 1. each prudential filter applied pursuant to Articles 32 to 35; 2. each deduction made pursuant to Articles 36, 56 and 66; 3. items not deducted in accordance with Articles 47, 48, 56, 66 and 79	FS RCM	5.6. 3.2.
	e. description of all restrictions applied to the calculation of own funds in accordance with the Regulation and the instruments, prudential filters and deductions to which those restrictions apply	FS RCM	5.6. 3.2.
	f. where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in the Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated	/	/

438	**Capital requirements**		
	a. summary of the institution's approach to assessing the adequacy of its internal capital to support current and future activities	RCM	5.1.
	b. upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process including the composition of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU	RCM	5.2.
	c. standardised approach for institutions calculating the risk-weighted exposure amounts in accordance with Chapter 2 of Part Three, Title II, 8% of the risk-weighted exposure amounts for each of the exposure classes specified in Article 112 (= standardised approach classes)	RCM	5.3.
	d. IRB approach	/	/
	e. own funds requirements calculated in accordance with items (b) and (c) of Article 92(3), (1) position risk; (2) large exposures exceeding the limits specified in Articles 395 to 401, to the extent an institution is permitted to exceed those limits; (3) foreign-exchange risk; (4) settlement risk; (5) commodities risk	RCM	5.3.
	f. own funds requirements calculated in accordance with Part Three, Title III, Chapters 2, 3 and 4 and disclosed separately (operational risk)	FS	5.5.
439	**Exposure to counterparty credit risk**	/	/
	Capital buffers		
440	Countercyclical buffers: a. geographical distribution of the institution's credit exposures relevant for the calculation of its countercyclical capital buffer	RCM	4.
	b. amount of institution specific countercyclical capital buffer	RCM	4.
441	G-SII buffers: 1. institutions identified as G-SIIs in accordance with Article 131 of Directive 2013/36/EU disclose, on an annual basis, the values of the indicators used for determining the score of the institutions in accordance with the identification methodology referred to in that Article	/	/
442	**Credit risk adjustments**		
	a. definitions for accounting purposes of 'past due' and 'impaired'	FS	5.1.3.
	b. description of the approaches and methods adopted for determining specific and general credit risk adjustments	FS	5.1.3.
	c. total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes	RCM	6.1.
	d. geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate	RCM	6.2.
	e. distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate	RCM	6.2.
	f. residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate	FS	5.1.4.
	g. by significant industry or counterparty type, the amount of: – impaired exposures and past due exposures, provided separately; – specific and general credit risk adjustments; – charges for specific and general credit risk adjustments during the reporting period	RCM	6.2.
	h. amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas including, if practical, the amounts of specific and general credit risk adjustments related to each geographical area	RCM	6.2.
	i. reconciliation of changes in the specific and general credit risk adjustments for impaired exposures, shown separately; the information comprises: – description of the type of specific and general credit risk adjustments; – opening balances; – amounts taken against the credit risk adjustments during the reporting period; – amounts set aside or reversed for estimated probable losses on exposures during the reporting period, any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments; – closing balances	RCM	6.2.
	Specific credit risk adjustments and recoveries recorded directly to the income statement are disclosed separately.	/	/
443	**Unencumbered assets**	FS	5.7.
444	**Use of ECAI**	RCM	8.
445	**Exposure to market risk**		
	separately for each risk; in addition, the own funds requirement for specific interest rate risk of securitisation positions is also disclosed separately	FS	5.2.

446	**Operational risk**		
	institutions disclose the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for; a description of the methodology set out in Article 312(2), if used by the institution, including a discussion of relevant internal and external factors considered in the institution's measurement approach, and in the case of partial use, the scope and coverage of the different methodologies used	FS	5.5.
447	**Exposures in equities not included in the trading book**		
	a. differentiation between exposures based on their objectives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices	FS	4.3.a,b, 2.3.b, 5.4.2.
	b. balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the fair value	FS	2.3.b, 5.4.2
	c. types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures	FS	4.3.a
	d. cumulative realised gains or losses arising from sales and liquidations in the period	FS	4.3.b
	e. total unrealised gains or losses, the total latent revaluation gains or losses, and any of these amounts included in the original or additional own funds	RCM	3.2.
448	**Exposure to interest rate risk on positions not included in the trading book**		
	a. nature of the interest rate risk and the key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits), and frequency of measurement of the interest rate risk	FS	5.2.4.
	b. variation in earnings, economic value or other relevant measure used by the management for upward and downward rate shocks according to management's method for measuring the interest rate risk, broken down by currency	FS	5.2.4.
449	**Securitisation**	/	/
450	**Remuneration policy**		
	for the categories of staff whose professional activities have a material impact on its risk profile: a. information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders	BR	IX.4.4.
	b. information on the link between pay and performance	BR	IX.4.4.
	c. the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria	BR	IX.4.4.
	d. ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU	BR	IX.4.4.
	e. information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based	BR	IX.4.4.
	f. the main parameters and rationale for any variable component scheme and any other non-cash benefits	BR	IX.4.4.
	g. aggregate quantitative information on remuneration, broken down by business area	BR	IX.4.4.
	h. aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types; (iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions; (iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments; (v) new sign-on and severance payments made during the financial year, and the number of beneficiaries of such payments; (vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person	BR	IX.4.4.
	i. number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500,000 and for remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million	BR	/
	j. upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	FS	4.32.d, e
451	**Leverage**		

	a. leverage ratio and how the institution applies Article 499(2) and (3)	RCM	7.
	b. breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements	RCM	7.
	c. where applicable, the amount of derecognised fiduciary items in accordance with Article 429(11)	RCM	7.
	d. description of the processes used to manage the risk of excessive leverage	RCM	7.
	e. description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	RCM	7.
452	**Use of the IRB approach to credit risk**	/	/
453	**Use of credit risk mitigation techniques**		
	a. policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting	/	/
	b. policies and processes for collateral valuation and management	FS	5.1.2.
	c. description of the main types of collateral taken by the institution	FS	5.1.2.
	d. main types of guarantor and credit derivative counterparty and their creditworthiness	/	/
	e. information about market or credit risk concentrations within the credit mitigation taken	FS	5.1.2., 5.2.
	f. for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, on- or off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral	/	/
	g. for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives; for the equity exposure class, this requirement applies to each of the approaches provided in Article 155	/	/
454	**Use of the advanced measurement approaches to operational risk**	/	/
455	**Use of internal market risk models**	/	/
492	**Transitional provisions for disclosure of own funds**		
4	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484 (capital instruments not meeting the criteria for inclusion into own funds under the new legislation; their removal may be gradual).	RCM	3.4.

Sections of the annual report (AR)
BR = Business Report
FS = Financial Statements of the Deželna banka Slovenije Group
RCM = Risk and Capital Management

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BANK'S BRANCH NETWORK

The Bank's branch network is spread all over Slovenia. In 2018 it operated under six branch units with 80 branches.

Bank's Branch Units

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