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2017
Annual Report

DEŽELNA BANKA SLOVENIJE

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DEŽELNA BANKA SLOVENIJE GROUP

2017

ANNUAL REPORT

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Sonja Anadolli

Ljubljana, February 2018

BUSINESS REPORT

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I. FINANCIAL HIGHLIGHTS AND INDICATORS

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

	Deželna banka Slovenije Group	2017	2016	2015
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	957,221	876,240	923,160
	Total deposits by non-banking sector measured at amortised cost	802,603	767,666	780,890
	- Corporates	146,796	132,046	170,678
	- Individuals	655,807	635,620	610,212
	Total loans to non-banking sector measured at amortised cost	710,040	599,627	620,211
	- Corporates	558,620	456,210	484,302
	- Individuals	151,420	143,417	135,909
	Total equity	60,982	56,503	53,570
	Impairments of financial assets and provisions	(40,487)	(45,590)	(50,391)
	Off-balance sheet operations (B.1. to B.4.)	68,106	60,852	77,593
2.	**Income statement** (in EUR thousand)			
	Net interest income	17,505	16,009	19,066
	Net non-interest income	15,852	14,891	14,998
	Employee benefits cost, overhead and administrative expenses	22,844	22,533	22,226
	Depreciation and amortisation	1,819	2,074	2,308
	Impairments and provisions	3,099	3,124	6,141
	Profit/loss from continuous and discontinued operations before tax	5,615	3,242	3,507
	Income tax	(858)	(495)	(426)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	4,609	2,444	2,434
4.	**No. of employees** (at end of period)			
	No. of employees	588	583	603
5.	**Shares**			
	No. of shareholders (at end of period)	304	318	322
	No. of shares (at end of period)*	4,228,995	4,228,995	4,228,995
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	13.800792	12.932528	12.424950
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	12.81	12.03	11.02
	Tier I capital ratio	14.72	12.03	11.02
	Total capital ratio	14.72	14.23	13.38
b)	**Quality of assets and commitments** (in %)			
	- Impairments of financial assets measured at amortised cost and provisions for commitments/Classified active balance sheet items and classified off-balance sheet items	3.40	4.01	4.39
c)	**Profitability** (in %)			
	Interest margin	1.83	1.75	2.03
	Financial intermediation margin	3.48	3.37	3.63
	Return on assets (ROA) after tax	0.50	0.30	0.33
	Return on equity (ROE) before tax	9.10	5.82	6.68
	Return on equity (ROE) after tax	7.71	4.93	5.87
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	2.57	2.68	2.61
e)	**Liquidity****			
	Liquidity coverage ratio (in %)			
	- January-March	305.14	-	-
	- April-June	278.85	-	-
	- July-September	262.05	-	-
	- October-December	240.94	-	-
	Liquidity buffer (in EUR thousand)			
	- January-March	166,751	-	-
	- April-June	162,863	-	-
	- July-September	157,161	-	-
	- October-December	153,580	-	-
	Net liquidity outflows (in EUR thousand)			
	- January-March	54,647	-	-
	- April-June	58,405	-	-
	- July-September	59,975	-	-
	- October-December	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 from item 6 (e) of Article 14 (4) of the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks with effect from 1 January 2018.

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

	Deželna banka Slovenije d. d.	2017	2016	2015
1.	**Statement of financial position** (in EUR thousand)			
	Total assets	931,030	845,862	892,393
	Total deposits by non-banking sector measured at amortised cost	802,871	767,963	781,946
	- Corporates	147,064	132,343	171,734
	- Individuals	655,807	635,620	610,212
	Total loans to non-banking sector measured at amortised cost	710,310	598,785	621,036
	- Corporates	561,645	458,015	487,791
	- Individuals	148,665	140,770	133,245
	Total equity	58,363	54,692	52,545
	Impairments of financial assets and provisions	(29,991)	(30,896)	(35,926)
	Off-balance sheet operations (B.1. to B.4.)	68,819	61,794	78,367
2.	**Income statement** (in EUR thousand)			
	Net interest income	17,813	16,552	19,671
	Net non-interest income	8,719	6,915	6,457
	Employee benefits cost, overhead and administrative expenses	16,441	15,988	15,534
	Depreciation and amortisation	1,089	1,237	1,396
	Impairments of financial assets measured at amortised cost, and provisions	4,339	3,300	6,780
	Profit/loss from continuous and discontinued operations before tax	4,663	2,942	2,418
	Income tax	(857)	(486)	(404)
3.	**Comprehensive income after tax** (in EUR thousand)			
	Comprehensive income for the year after tax	3,671	2,147	1,350
4.	**No. of employees** (at end of period)			
	No. of employees	348	348	354
5.	**Shares**			
	No. of shareholders (at end of period)	304	318	322
	No. of shares (at end of period)*	4,229,680	4,229,680	4,229,680
	Par value (in EUR)	4.172926	4.172926	4.172926
	Book value (in EUR)	13.798557	12.930433	12.422937
6.	**Selected indicators**			
a)	**Capital adequacy** (in %)			
	Common equity tier I capital ratio	12.77	11.99	10.87
	Tier I capital ratio	12.77	11.99	10.87
	Total capital ratio	14.68	14.19	13.22
b)	**Quality of assets and commitments** (in %)			
	- Impairments of financial assets measured at amortised cost and provisions for commitments/ Classified active balance sheet items and classified off-balance sheet items	2.93	3.45	3.76
c)	**Profitability (in %)**			
	Interest margin	1.93	1.88	2.15
	Financial intermediation margin	2.87	2.67	2.86
	Return on assets (ROA) after tax	0.42	0.28	0.22
	Return on equity (ROE) before tax	8.12	5.48	4.68
	Return on equity (ROE) after tax	6.63	4.57	3.90
d)	**Operating expenses** (in %)			
	Operating expenses/Average assets	1.90	1.95	1.85
e)	**Liquidity****			
	Liquidity coverage ratio (in %)			
	- January-March	305.29	-	-
	- April-June	278.41	-	-
	- July-September	261.24	-	-
	- October-December	239.68	-	-
	Liquidity buffer (in EUR thousand)			
	- January-March	166,751	-	-
	- April-June	162,863	-	-
	- July-September	157,161	-	-
	- October-December	153,163	-	-
	Net liquidity outflows (in EUR thousand)			
	- January-March	54,620	-	-
	- April-June	58,498	-	-
	- July-September	60,159	-	-
	- October-December	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 from item 6 (e) of Article 14 (4) of the Bank of Slovenia Regulation on the Books of Account and Annual Reports of Banks and Savings Banks with effect from 1 January 2018.

II. MANAGEMENT

II.1. MANAGEMENT BOARD

II.1.1. Report of the Management Board

Over the course of decades, Deželna banka Slovenije d. d., a universal and traditional bank, has become one of the pillars of the Slovene agriculture and countryside. Having more than 80 branch units, it is a bank with the third largest business network in Slovenia, providing services, and ensuring the latest marketing channels to customers across the country. Gaining around five thousand new customers each year, it maintains a stable market share.

For a number of years, cooperative ownership has proven to be a successful business model based on a stable source of funds and focusing on financing the local environment. We have been seeking to promote the economic, social and cultural development of local communities, and to maintain links with farmers, cooperatives, SMEs, associations, farmers as members of cooperatives, and food processing companies.

Our performance was again profitable in 2017, and our results even improved from the year before as we reported EUR 4,663 thousand of profit before tax.

Interest income in the banking system continued to decrease in 2017, however, the Bank managed to increase its net interest income by 8%, and net fees and commissions also grew from the previous year.

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 with a rise in the number of customers and a partial increase in non-interest income. Attention of all the Bank employees has to be devoted to improving business processes, streamlining operations and cost control.

As compared to 2016, total assets increased by more than 10% to EUR 931 million, whereas the interest margin, which was recorded at 1.93%, has ranked us among the better-performing Slovene banks for several years.

At the Bank we diligently monitor and control all financial risks we are exposed to, and continually upgrade risk management methodologies and approaches. Active and in-depth credit portfolio management has notably improved the portfolio's quality, substantially decreased the amount of non-performing exposures and minimised impairment charges against current transactions. Careful attention was invested in obtaining adequate collateral for credit transactions, both when entering into new credit arrangements and for existing ones.

Recorded at 14.72% on 31 December 2017, the Group's capital adequacy suffices to counterbalance all potential risks arising out of the operations of the DBS Group. Our capital adequacy ratios were above the requirements of the capital adequacy ratio imposed for the DBS Group by the Bank of Slovenia, specified at 12.75% for 2017.

In 2017, funds collected from households – the most important source of financing – were up 3% and loans to households increased by 9%.

Our aims for the Bank include a healthy growth, profitability and long-term viability, which we seek to fulfil by following the trends in banking. In our business model, we have been focusing on learning about and fulfilling the needs of customers whom we provide with quick, comprehensive, safe and affordable services despite the growing globalisation and major technological changes. The latter has also been confirmed in analyses performed by various media, where we again ranked among the most affordable banks.

Our target groups include the youth to whom we pay considerable attention, both in terms of our pricing policy and modern approaches to doing business: our bank is one of the most affordable to the youth, its services also presented to them in collaboration with the Slovenian Rural Youth Association and student employment agencies. Among rural youth, we have been successful in marketing the Transferee of a Farm Package, since generation shifts have recently been occurring at numerous farms in Slovenia. A breath of fresh air swept through Slovenian agriculture, bringing with it different approaches, entrepreneurship and innovation of young people who are brimming with knowledge in agronomy and entrepreneurship and wishing to realise their plans. This is where we enter to help them find the perfect solution.

We have preserved our traditional function of the authorised reseller of commemorative and collector coins.

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

With donations and sponsorships we support various agricultural, humanitarian, cultural, educational and sports events around Slovenia, thus supporting projects where positive values, tradition, and efforts for a better quality of life can be traced. As a socially responsible financial institution we wish to emphasise out connection to the environment, thus contributing to the development of society.

We are an active link in the Slovenian Countryside sustainable development chain. Through our products and services, we participate in numerous projects aimed at creating a better quality of life, new jobs, better use of renewable resources, emphasising the importance of green tourism, and ecological and local food production.

The Bank's Management Board thanks the Bank's customers for trust, business partners for perfect cooperation, and owners for supports, having built and created with all of them a business story of success in 2017. Thanks are also due to members of the Supervisory Board, who – by monitoring the Bank's operations, making proposals and giving ideas – have contributed to making the Bank strong, and to our employees, who have implemented the set objectives.

Ljubljana, 19 February 2018

II.2. SUPERVISORY BOARD

II.2.1. 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 bank's internal acts.

At the year-end of 2017, the Supervisory Board of Deželna banka Slovenije d. d. had three members. At the beginning of 2017, the Supervisory Board was composed of President Peter Vrisk and members Marjan Janžekovič, Bernarda Babič, Nikolaj Maver and Ivan Lenart. The term of Bernarda Babič as member of the Supervisory Board expired on 28 August 2017, and the term of Marjan Janžekovič expired on 4 August 2017.

In 2017, the Board met at 12 regular and one extraordinary meeting, and additionally convened one correspondence meeting. Regular reports and other pressing matters as well as major issues related to the Bank's operations were discussed. Decisions were made regarding transactions within the Board's competence.

The following are the main topics that the Supervisory Board discussed and made decisions on in 2017:

The Bank's financial operations

The Board regularly reviewed and discussed the Bank's financial operations, and reviewed periodic operations reports of the Bank and its subsidiaries in 2017. It approved the 2016 Deželna banka Slovenije d. d. and Deželna banka Slovenije Group Annual Report, gave consent to the Deželna banka Slovenije d. d. Plan for 2017 and the Bank's Projection of operations until 2022, and took note of the Bank's Strategy of Managing Non-performing exposures. It kept a close watch on the Management Board's activities aimed at cutting operations costs, and monitored the profitability of the Bank's branches. It analysed the Bank's performance indicators against the Slovene banking average and against peers. It took note of new taxation policies and their impact on the Bank's operation in 2017.

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 companies, reviewed stress test outcomes, and devoted special attention to the process of decreasing the Bank's past due defaulting receivables. It promptly monitored capital adequacy projections, compliance with capital guidelines and other capital management activities. It took note of the Independent auditor's report on an additional audit concerning compliance with risk management rules in Deželna banka Slovenije d. d. and Deželna banka Slovenije Group. It also addressed the Bank of Slovenia questionnaire concerning the performance of the compliance function related to banks and savings banks, focusing on the prevention of fraud, abuses and corruption, and adopted the annual report of the Operations Compliance Department.

Management of the Bank

Together with the Management Board, the Supervisory Board convened for 10 April 2017 the Bank's 33rd Annual General Meeting, which reviewed the 2016 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 the Management Board members and gave a positive assessment of the structure, size, composition and performance of the Management Board. It also confirmed as appropriate the evaluation of suitability of the Supervisory Board members, also in terms of their membership in various committees, and the evaluation of suitability of the Supervisory Board as a whole.

Internal audit of the Bank
The Supervisory Board reviewed the 2016 Annual Report and the Bank's Internal Audit Department half-year reports. It approved the Internal Audit Department annual work plan for 2018.

Operations of subsidiaries
The Supervisory Board monitored the financial performance of subsidiaries regularly.

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. 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, regularly monitored the enforcement of the Supervisory Board decisions and discharged other required tasks.

Internal organisation of the Supervisory Board
In 2017, 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 prior authorisation by the Bank of Slovenia, adopted a decision on merging the Audit Committee and Risk Committee into a single body. In 2017, it appointed an external specialist adviser to the Audit and Risk Committee.

Internal organisation of the Supervisory Board is presented in detail in the 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 it based on what is in 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 expert departments. All this has contributed to the Bank's stable operations and a favourable budget outturn.

As at 26 February 2018, the Management Board provided the Supervisory Board with the 2017 Deželna banka Slovenije d. d. and Deželna banka Slovenije Group Annual Report, which consists of the business report and financial report, the latter containing audited standalone financial statements of the Bank and consolidated statements of the Group, along with the auditor's report. The auditor believes the financial statements with notes give a true and fair view of the financial position of the Bank and the Group as at 31 December 2017, as well as profit or loss and cash flow for the financial year ended in accordance with the International Financial Reporting Standards.

At its meeting on 26 February 2018, the Supervisory Board unanimously confirmed the Deželna banka Slovenije Bank and Group 2017 Annual Report.

President of the Supervisory Board:
Peter Vrisk

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

Pursuant to the provisions of the Companies Act and Article 41 of the Deželna banka Slovenije d. d. Statutes, the DEŽELNA BANKA SLOVENIJE d. d. Supervisory Board adopted, at its 18th regular meeting held on 26 February 2018, the following

RESOLUTION

Based on its review, the Deželna banka Slovenije d. d. Supervisory Board hereby confirms the DEŽELNA BANKA SLOVENIJE GROUP 2017 Annual Report, and expresses its positive opinion of the Auditor's Report by Deloitte revizija d. o. o., Ljubljana, for financial year 2017.

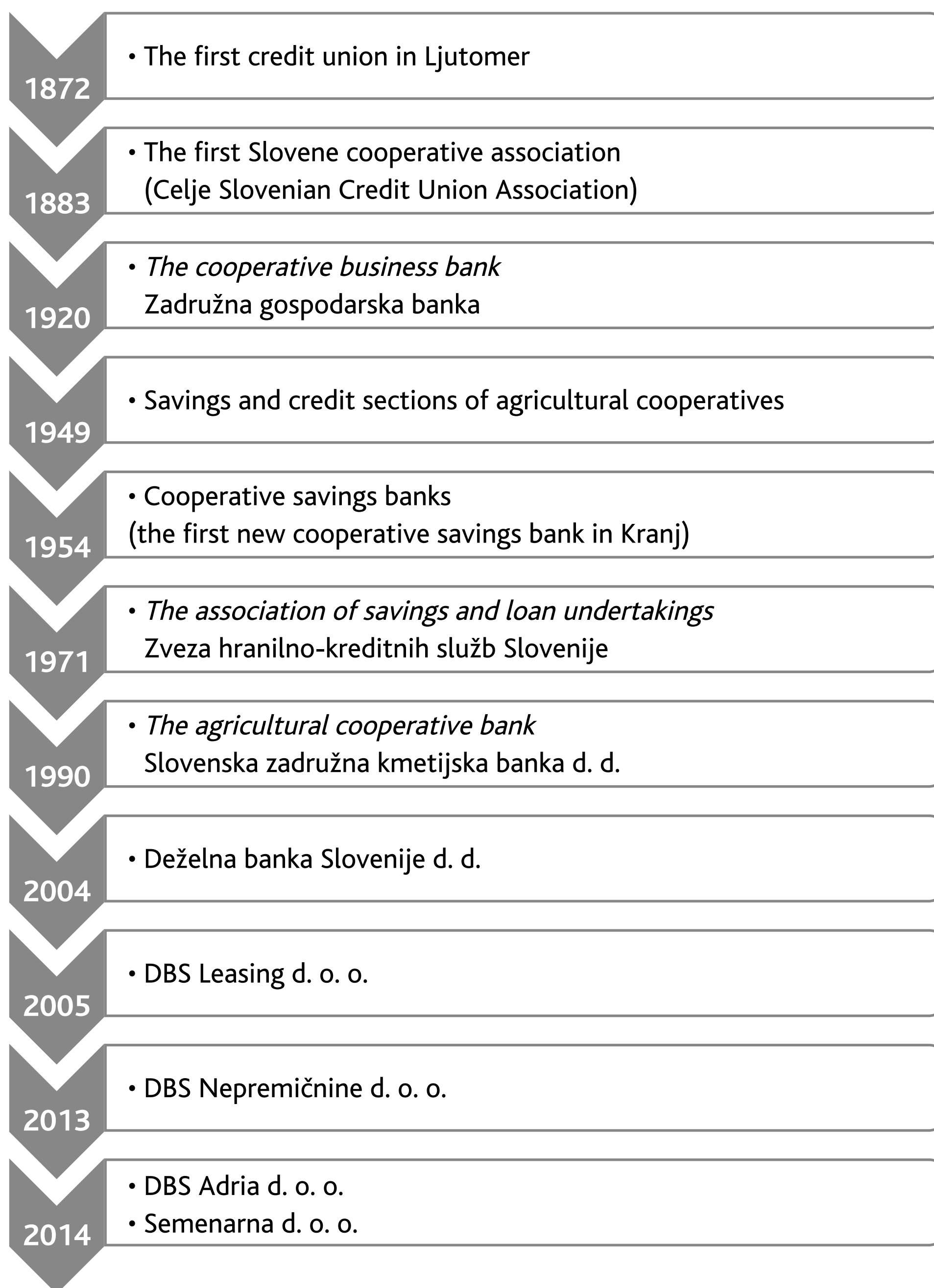
Ljubljana, 26 February 2018

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.



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 2017, 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 transmission of information on creditworthiness;
15. Investment services and operations, and ancillary investment services from Article 10 (1) of the Slovene Markets in Financial Instruments Act.

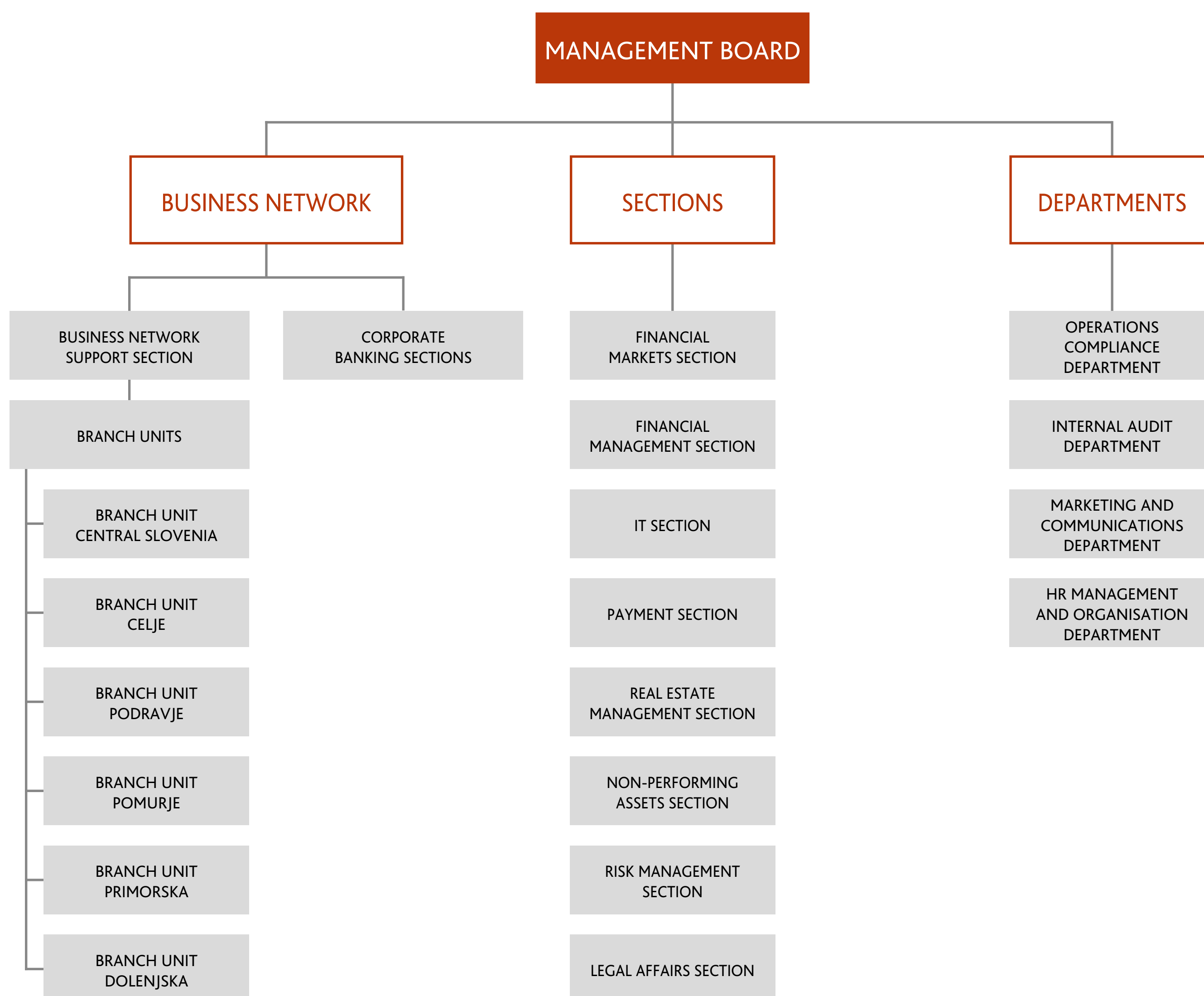
It was also licensed to provide the following ancillary financial services under Article 6 of ZBan-2:

Service

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

III.3. ORGANISATION CHART

Organisation chart as at 31 December 2017



The Bank's organisation structure having been established, the conditions have been created for implementing the bank's strategy, streamlining business processes and facilitating risk and staff management. Its organisation has been tailored to the planned scope of operations, taking into account the front- and back office as well as the management function.

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 2017 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 companies as at 31 December 2017:

	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 2017

Performance indicators of the Group's subsidiaries for 2017:

Company	DBS Leasing d. o. o.		DBS Nepremičnine d. o. o.		Semenarna Ljubljana, d. o. o.		DBS Adria d. o. o.	
	2017	2016	2017	2016	2017	2016	2017	2016
Total assets (in EUR thousand)	10,208	9,889	1,474	1,465	28,268	29,895	173	171
Equity (in EUR thousand)	2,691	2,686	1,473	1,464	2,567	870	2	7
Profit/loss before tax (in EUR thousand)	5	(66)	9	(28)	(360)	15	(5)	(5)
Income tax (in EUR thousand)	-	-	-	-	(4)	(2)	1	1
Profit/loss after tax (in EUR thousand)	5	(66)	9	(28)	(356)	13	(4)	(4)
Return on assets (ROA) before tax (in %)	0.05	(0.66)	0.61	(0.48)	(1.16)	0.05	(2.89)	(3.13)
Return on equity (ROE) before tax (in %)	0.19	(7.53)	0.61	(1.89)	(6.99)	0.83	-	-
No. of employees (at end of period)	5	6	0	0	235	229	0	0
Total assets/No. of employees (at end of period) (in EUR thousand)	2,042	1,648	-	-	120	131	-	-

DBS Leasing d. o. o.

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

DBS Leasing is a universal leasing company offering mainly movable property leases (for cars, machines, equipment and utility vehicles). It complements the range of the Bank's and Group's financial services especially by financing agricultural machinery and equipment. A gradual phasing-out immovable property leases continued in 2017, with operations increasingly focusing on movable property leases.

A profit of EUR 5 thousand was reported for financial year 2017. The company's total assets were up 3% in 2017, to EUR 10,208 thousand. The majority of investments are finance lease receivables. The main sources of assets are equity and owner's loans.

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 through a balanced application of the variable rate in the remuneration of assets and liabilities, and liquidity risk is controlled by balancing the maturity periods of liabilities and assets. The company also devotes numerous efforts to decreasing delinquency in lessees, and has reduced the volume of bad receivables, especially in the area of vehicle and equipment leases, by undertaking vigilant monitoring of missing payments.

DBS Nepremičnine d. o. o.

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

DBS Nepremičnine was founded in January 2013 and is wholly-owned by DBS d. d. In the past, the company's core businesses included selling the Group's property, renting and developing real estate projects, whereas in 2017, 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 sources of assets it is equity.

A profit of EUR 9 thousand was reported for financial year 2017.

Semenarna Ljubljana, d. o. o.

Registered address: Dolenjska cesta 242, 1000 Ljubljana, Slovenia
Registration number: 5005574
Business: 46.210 Wholesale of grain, unmanufactured tobacco, seeds and animal feeds
Initial capital: EUR 7,777 thousand
CEO: Aleš Šabeder, on 14 November 2017, Srečko Korber was appointed Holder of Procuration by the owner, and on 24 November 2017 he was appointed the company CEO.
President of the Supervisory Board: Peter Vrisk

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

Semenarna is the largest seed-producer, seed-wholesaler and seed-retailer, and seed exports company in Slovenia and the region, with a 110 year tradition. In 2017, the company generated EUR 29.9 million of sales revenues, which is up 2% from the previous year and a consequence of better results in wholesale and in Kalia retail stores. In 2017, it generated a loss totalling EUR 356 thousand, which results from a loss in the sales of property in Kaposvar amounting to EUR 461 thousand. Its result based on regular operations was positive; were it not for extraordinary occurrences, it would have generated a profit of approximately EUR 100 thousand. In 2016, it generated a profit totalling EUR 13 thousand. In December, the company signed a preliminary contract for the sale of the Ljubljana property, which will have a positive effect on the company's result in 2018.

On 2 February 2017, the company signed a new financial restructuring contract, which was the basis for a successful completion of compulsory composition. The owner converted its receivables from the company amounting to EUR 2.1 million into equity, whereas two of the creditor banks subordinated their claims in the total amount of EUR 2.1 million.

DBS Adria d. o. o.

Registered address: Cvjetno naselje 26, Samobor, Croatia
Registration number: 0103191000 (MBS 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 2017, the company reported EUR 4 thousand of loss for the year. Total assets were EUR 173 thousand at the end of 2017. The majority of investments were inventories of real estate abroad, while the majority of liabilities were borrowings from banks.

V. THE BANK'S PERFORMANCE IN 2017

V.1. GENERAL ECONOMIC ENVIRONMENT[1]

Favourable economic trends were forecast for the final quarter of 2017 and the two years to follow. Real GDP growth of 4.4% is expected for full-year 2017 (2016: 3.1%). In the next two years, the economic growth is expected to continue, ranging between 3 and 4%. The main driver of economic growth being exports and government investment, the latter decreased considerably in 2016, but is expected to grow in 2017. Economic growth is becoming broad-based as the contribution of domestic consumption gradually rises. Household consumption is expected to increase significantly, with a considerable improvement in labour market conditions and a high level of consumer confidence. Consumption of durables, now growing for the fourth year in a row, and consumption of other goods and services, which started recovering noticeably in 2016, are both on the rise. In 2017, consumer prices were on the increase as a consequence of higher prices of food and petroleum products. This fuelled inflation to 1.7% at the year-end of 2017 (2016: 0.5%).

In the final quarter of 2017, economic activity and sentiment indicators for the euro area show a continuation of economic growth: it will continue to rely mainly on growth in private consumption, boosted by a further improvement in labour market conditions. Alongside higher corporate gains, more favourable financing conditions and lower levels of indebtedness, recovery of investments is expected to continue. Favourable economic growth is also expected to continue among the major trading partners outside the euro area. Limitations that could affect the future economic growth are related to changes in political environments of certain developed economies (Spain, Brexit) and to geopolitical conditions in the Middle East, Ukraine and in the Korean Peninsula.

At the beginning of the last quarter of 2017, short-term indicators of economic activity continued to climb in Slovenia. An increase in foreign demand and a further improvement in competitiveness boosted value added in manufacturing. Prices are expected to grow in construction and in retail trade, where this will be accompanied by growth of sales. Exports remain the main driver of economic recovery. With growing demand for property, increasing household disposable income and favourable financing conditions, investment in housing has also increased. Confidence in the economy remained high in the last three months of 2017.

Improvements in labour market conditions also continued at the year-end of 2017. To a great deal, continued growth of the active working population results from continued widely present economic growth and favourable economic outlook. In the first six months of 2017, employment increased further in most private sector activities. Growth also continued in employment activities. Favourable employment trends continued in the second half of the year, Restrictions in new recruitment were relaxed in the beginning of 2016, which influenced the employment growth in the public sector.

Lending to enterprises began to grow in 2017, the volume of lending to households grew even further, with the borrowing capacity of borrowers also growing. It is mostly long-term loans that are on the rise, whereas the growth of short-term loans yet remains negative. Companies began to borrow funds to a greater degree to make investments and finance current operations, and less for refinancing their existing obligations. It is expected for companies to finance themselves by own funds to a greater extent than before the onset of the financial crisis. Loans to households are gradually increasing, mainly owing to more housing and also consumer loans.

The situation in the banking system has improved and IMAD expects a rebound in bank lending to the corporate sector. Although interest rates remain quite low, the decrease of net interest income began to slow down with

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

the increase in lending. The share of non-performing loans continues to decrease[2]. This year, the performance of Slovenia's banking system was slightly lower than was achieved in the same period last year. In recent months, the lag of interest and non-interest income began to slow down, which is due to a gradual growth in the volume of loans and a cost-effective financing structure as well as a somewhat more favourable trend of fee and commission income. The capital adequacy of Slovenia's banking system has been maintained at a sound level despite the slight decrease in recent quarters, which was mostly due to growing capital requirements resulting from an increase in the lending activity. The structure of banks' financial resources is still changing, with deposits of the non-banking sector yet on the rise. While exposure to foreign banks has decreased, deposits by the domestic non-banking sector continue to rise; however, since only overnight deposits are increasing, their maturity structure is not particularly favourable. Amidst low interest rates the maturity structure will continue to change in favour of sight deposits, which is decreasing the stability of banks' financial resources and is highlighting the importance of efficient liquidity management in the future.

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, the agro-food sector and SMEs. The Bank is boosting the utilisation of its business network and thereby strengthening marketing activities – customers are treated holistically, both individuals and corporates. The marketing of other financial services is also being accelerated, including insurance and leases of farming machines and equipment, with emphasis placed on increasing interest and all types of non-interest income. The Bank plans to develop banking products to service the financing of cooperatives, organic food production, renewable energy sources, green economy, increased food chain self sufficiency, and social entrepreneurship. Insurance services will be marketed together with Slovene insurers. In rendering services the Bank is striving for excellent responsiveness both in terms of quality and time. The Bank is devoted to preserving stability and an adequate maturity of 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. Its marketing activities will focus primarily on the agro-food sector and the rural areas: communication support will be provided to key products of the Bank, and synergies within the cooperative system will be emphasised in terms of joint promotional activities. The Bank will undertake an active recovery of non-performing loans. It will attend to the efficient management and accelerated marketing of properties held by the Bank or the Group. The streamlining of business processes and departments will continue, and operating efficiency will be enhanced across all segments of business. The Bank will be developing and rationalising its information support to existing and new services and processes, with a view to be more efficient and effective, and continuing with cost rationalisation measures across all areas. The Bank is leading a wise human resources policy and ensuring life-long education and training of employees.

By reaching its objectives, DBS d. d. will preserve its market share in Slovenia's banking system at the year-end of 2018, 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, and it will remain the leader in servicing the manufacturing sector, hi-tech industries, tourism, ecology-related disciplines, and energetics.

[2] The share of non-performing exposures of the banking system as at 30 November 2017 totalled 6.7% (source: Banka Slovenije, http://www.bsi.si).

V.3. THE BANK'S PERFORMANCE

V.3.1. CORPORATE BANKING

Corporate lending

Decreasing non-performing exposure and restructuring the corporate sector remain among the top priorities and challenges of banks in Slovenia. Corporate deleveraging and reduction of non-performing exposures are relevant factors conditioning the growth of corporate lending and thus the recovery of the (private) investment cycle.

The main principles used prior to signing with new customers are the following: the Bank obtains a good knowledge of the company and its operations as well as the risks it is exposed to in its operations, and identifies the company's needs for financing and other banking products. We cross-market all our services for corporate customers, including treasury, securities trading, payment transactions, modern banking solutions and insurance products.

The Bank pursued a conservative investment policy 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 446,403 thousand at the end of 2017. This is up EUR 90,568 thousand year-on-year, the majority due to an increase in loans to the state. In 2017, the Bank's non-performing exposures continued to decrease.

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

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

The number of active corporate transactional accounts increased by 16% in 2017, with almost 90% of its corporate customers that have an active transactional account with the Bank using DBS PRONET at the end of 2017.

Payment transactions

In 2017 the Bank followed trends in state-of-the-art developments in payment transactions and complied with legal requirements. In addition to individual credit transfers, we offer our customers SEPA mass payments, SEPA direct debit, payment cards, and the issuing and paying of e-invoices. We are integrated into modern payment systems due to extensive maintenance and upgrades of our information support, which we undertake to offer our customers high-quality services. The majority of payments transacted for our corporate customers in the

past year were internal and domestic transactions via the SEPA IKP payment scheme and via TARGET2, and international and cross-border transactions via the SEPA EKP system.

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

Corporate deposits

Corporate deposits, including deposits by the state, amounted to EUR 109,102 thousand as at 31 December 2017, up 14% compared to the previous year. The Bank adjusted its activity aimed at collecting corporate deposits to the liquidity situation, thereby monitoring markets and investment opportunities.

V.3.2. RETAIL BANKING AND BUSINESS NETWORK

The Bank's operations with households in 2017 benefited from the positive impact of the economic situation and public optimism, which boosted economic activities of households – the general public, farmers and private entrepreneurs.

Collected funds

The balance of collected funds from households, including foreign entities and non-profit institutions serving households, amounted to EUR 693,769 thousand at the end of 2017. This was up EUR 21,333 thousand, or 3%, compared to the end of 2016. Funds collected from households total EUR 655,807 thousand. An increase in collected assets was reported despite a continuing reduction in interest rates.

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

Lending

The balance of loans and advances to retail customers amounted to EUR 263,907 thousand at the end of 2017, an increase by EUR 20,957 thousand, or 9%, compared to the year-end of 2016.

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 2017. Expedient and intensified daily debtor treatment have helped the Bank keep the volume of overdue defaulting receivables from our retail customers at a manageable level. The Bank partially adapted to the trend of long-term fixed-rate borrowing with a supplemented offer of housing loans.

Transactional accounts

In 2017 the Bank continued implementing one of its key goals related to the operations of the business network, set in previous years. A continual increase in the number of household customer's transactional accounts, predominantly full-functionality accounts, is a priority that has been materialising fully. The opening of transactional accounts is closely related to the cross-marketing of products, which come in packages that enable customers to expand their cooperation with the Bank to several areas and banking services. In an effort

to increase the number of transactional accounts, the Bank continued marketing special offers, which included Sowing Package, Harvest Package, Secondary On-farm Activity Package, Transferee of a Farm Package, and Package for private entrepreneurs, associations and other legal persons governed by private law. The Bank's primary focus is with customers that ask for full-functionality accounts, and young customers. The growth trend and net increase in the number of transactional accounts continued in 2017.

Administering payment transactions via the business network

The total number of processed payment orders remained on a similar level year-on-year, with the contribution of E-banking on the rise, which is in line with the Bank's strategy. The share of payment orders processed via E-banking has increased and now represents 50%. In 2017, the Bank maintained the fee and commission income at the 2016 level. 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 decided to continue selling 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 2017, and two are also expected to be issued in 2018: the EUR 2 commemorative coin issue to celebrate the world bee day, and an issue of collector coins to mark the centenary of the end of World War I.

Marketing mutual funds

In 2017, 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 throughout the years.

Electronic banking for individuals – DBS NET

In 2017, the Bank again witnessed increases in both the number of transactional accounts with the E-banking functionality, and the number of E-bank users. This is the result of a larger number of younger customers, and of our actively redirecting existing customers to process payment transactions via the E-bank.

The number of mDBS mobile bank users was also up in 2017. This is an expected development, with the service being relatively new.

Insurance brokerage

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

The Bank's ATM network

As at the year-end of 2017, the Bank's ATM network consisted of 37 machines, there being 38 the year before.

Payment cards

The Bank's active marketing of a wide range of services related to transactional accounts resulted in an increase in the number of issued bank cards. Both the number of issued Activa Maestro debit cards and Activa MasterCard credit cards were up. We also witnessed rising interest in the pre-pay bank card in 2017.

Marketing UPN forms via outsourcers

In 2017, the Bank outsourced the marketing of standard payment order forms (so-called UPN forms) to eight providers, two of whom were cooperative stores. The number of contractors did not change in 2017, but the volume of transactions was up compared to 2016.

V.3.3. OPERATIONS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Operations with domestic and foreign banks in 2017 comprised borrowings, deposits received, deposits placed, conversions and operations in foreign exchange derivatives. A proportion of these operations included transactions with which the Bank managed net open foreign exchange positions.

The Bank's borrowings in the interbank money market were down EUR 4,947 thousand in 2017, which is attributable to an overall decrease in borrowings. 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 2017 was worth EUR 123,572 thousand. In line with its adopted strategy, the Bank partly replaced matured debt securities with new ones, focusing exclusively on top-rated securities that meet the criteria for eligible underlying assets of the Eurosystem.

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

Equity investments

The total value of equity investments as at 31 December 2017 amounted to EUR 13,440 thousand, of which investments in subsidiaries represented a 72% share.

V.3.5. PROPERTY MANAGEMENT

In 2017, the Bank reduced the volume of its investment property and inventories. 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 of recruitment and salaries.

V.4. FINANCIAL RESULT AND FINANCIAL POSITION

V.4.1. FINANCIAL RESULT

DEŽELNA BANKA SLOVENIJE GROUP

In 2017, the Group reported EUR 5,615 thousand of profit before tax, which is a 73% or EUR 2,373 thousand increase year-on-year (2016: EUR 3,242 thousand). After tax, net profit totalled EUR 4,757 thousand (2016: EUR 2,747 thousand). The result is mostly attributable to the reported profit of the Bank. Subsidiaries Semenarna and DBS Adria, on the other hand, ended the period with a loss.

Group net interest income amounted to EUR 17,505 thousand, an increase by EUR 1,496 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 308 thousand.

Net fee and commission income amounted to EUR 6,764 thousand, up EUR 29 thousand from a year earlier. The majority of fees and commissions refer to the operations of the Bank. The consolidation of Semenarna has upped fee and commission expense by EUR 817 thousand, arising mainly out of financial services and payment transaction services.

Net gains on the derecognition of assets totalled EUR 7,690 thousand (2016: EUR 8,996 thousand). The consolidation allocated to this item both Semenarna's revenues from the sale of goods, products and services, as well as non-financial income and costs of material.

Net impairment charges for loans and other assets amounted to EUR 2,277 thousand, of which impairment losses on loans totalled EUR 1,268 thousand, down EUR 1,276 thousand from the year before. Net provision expenses totalled EUR 822 thousand, an increase by EUR 858 thousand compared to 2016.

DEŽELNA BANKA SLOVENIJE d. d.

In 2017, the Bank improved its operating result as compared to the year before, reporting EUR 4,663 thousand of profit before tax, which is a 58% or EUR 1,721 thousand increase year-on-year (2016: EUR 2,942 thousand). After tax, net profit totalled EUR 3,806 thousand (2016: EUR 2,456 thousand). Comprehensive income was positive and totalled EUR 3,671 thousand. Operating profit before impairments and provisions, and before tax, was EUR 9,002 thousand (2016: EUR 6,242 thousand).

Net interest income in 2017 amounted to EUR 17,813 thousand, an increase by EUR 1,261 thousand year-on-year (2016: EUR 16,552 thousand). Interest income was down EUR 108 thousand particularly due to lower interest income on securities held to maturity issued by the state, on available-for-sale securities and securities held for trading, and on loans and advances to legal entities and the state. However, interest income on loans and advances to households and loans and advances to banks and the central bank increased. Interest expense was down EUR 1,369 thousand year-on-year, attributable to lower interest on household deposits.

Net fee and commission income totalled EUR 7,560 thousand, up EUR 85 thousand year-on-year (2016: EUR 7,475 thousand). Fee and commission income was up EUR 297 thousand. Fees and commissions on payment transactions, administrative services, and securities trading for customers, were up. Fee and commission

income was lower with regard to guarantees given, lending activities, agency transactions and commissionaire arrangements. Fee and commission paid was up EUR 212 thousand year-on-year.

Impairment charges on investments increased slightly from the previous year. Net impairments amounted to EUR 3,416 thousand (2016: EUR 3,282 thousand), of which impairment losses against loans totalled EUR 2,416 thousand.

There were EUR 923 thousand of net expenses for provisions formed in 2017 (2016: EUR 18 thousand of net expenses). Provisions for off-balance-sheet liabilities totalled EUR 435 thousand of net expenses, and other provisions amounted to EUR 488 thousand of net expenses. Provisions included expenses related to a lawsuit from 2015 for the claim for payment of a dividend as required by law, amounting to a total of EUR 423 thousand, and expenses associated with long-service awards and severance pays to employees amounting to a total of EUR 65 thousand.

Other net operating losses totalled EUR 1,596 thousand (2016: EUR 1,356 thousand). Gains included EUR 370 thousand of lease income. Losses included EUR 985 thousand paid into the deposit guarantee scheme, EUR 858 thousand of financial transaction tax (2016: EUR 819 thousand) and EUR 20 thousand paid into the common Bank Resolution Fund.

In 2017, the Bank reported EUR 33 thousand of net denationalisation income (2016: EUR 243 thousand).

The Bank's operating expenses in 2017 amounted to EUR 17,530 thousand (2016: EUR 17,225 thousand). Employee benefits cost totalled EUR 11,017 thousand, up EUR 78 thousand from 2016. Costs of material and services totalled EUR 5,424 thousand, up EUR 375 thousand from 2016. The costs that increased were especially those associated with advertising, auditing and property. Amortisation and depreciation expenses amounted to EUR 1,089 thousand, down EUR 148 thousand compared to 2016.

V.4.2. FINANCIAL POSITION

DEŽELNA BANKA SLOVENIJE GROUP

The Group's total assets amounted to EUR 957,221 thousand at the end of 2017, up EUR 80,981 thousand since the beginning of the year. The total assets of subsidiaries amounted to EUR 40,211 thousand, and represent 4% of the Group's total assets (31 December 2016: 5%). After the elimination of inter-company relationships, the Group's total assets exceeded the Bank's total assets by EUR 26,191 thousand, i.e. 3%. According to the balance as at 31 December 2017, the consolidation of Semenarna increased Group assets by EUR 25,930 thousand.

Loans and advances at Group level amounted to EUR 718,912 thousand at the end of December, up EUR 111,431 thousand, with loans and advances to banks down EUR 186 thousand to EUR 4,914 thousand, while loans and advances to customers (including the government) were up EUR 110,413 thousand to EUR 710,040 thousand. The consolidation of Semenarna increased loans and advances at Group level by 1,038 thousand, mainly attributable to trade receivables.

The carrying amount of property, plant and equipment totalled EUR 28,545 thousand as at 31 December 2017, down EUR 5,993 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 9,689 thousand.

The consolidation increased the item other assets, which totalled EUR 13,311 thousand at the year-end. The main increase is attributable to Semenarna's inventory of materials in the amount of EUR 8,574 thousand.

Financial liabilities measured at amortised cost (including deposits, loans, subordinated liabilities and other financial liabilities) totalled EUR 890,333 thousand at the end of December, up EUR 75,035 thousand. The consolidation of Semenarna increased liabilities measured at amortised cost by EUR 21,386 thousand, which includes financing sources outside the Group – borrowings from banks and trade payables. Deposits and borrowings from banks and the central bank were up EUR 43,333 thousand year-on-year, to EUR 69,473 thousand, and deposits from customers, including deposits from the state (but excluding subordinated liabilities), increased by EUR 34,937 thousand to EUR 802,603 thousand. Borrowings from customers totalled EUR 598 thousand at the end of December, a decrease by EUR 796 thousand.

DEŽELNA BANKA SLOVENIJE d. d.

The Bank's total assets amounted to EUR 931,030 thousand at the end of December 2017. This is an increase by EUR 85,168 thousand year-on-year, attributable to an increase in loans from the central bank and household deposits.

Corporate deposits, including state deposits, were up by EUR 13,575 thousand by the end of December. Deposits by the state increased by EUR 1,598 thousand, and corporate deposits by EUR 11,977 thousand. Under investments, loans and advances in this segment were up EUR 90,568 thousand,

Household deposits increased by EUR 21,333 thousand in 2017, with loans and advances to households up EUR 20,957 thousand.

On the equity and liabilities side of the balance sheet, the Bank decreased deposits and long-term borrowings from banks by EUR 4,788 thousand, and increased its borrowing from the central bank by EUR 50,000 thousand. Under investments, deposits with the central bank and banks were up EUR 4,114 thousand.

Equity investments in subsidiaries totalled EUR 9,689 thousand at the end of 2017, up EUR 1,860 thousand from the beginning of the year. In May, the Bank injected EUR 1,850 thousand of capital into the subsidiary Semenarna. At the end of 2017, the equity investment totalled EUR 5,531 thousand. The equity investment in the DBS Leasing d. o. o. subsidiary increased by EUR 5 thousand due to reversal of impairment, totalling EUR 2,683 thousand at the end of 2017. After the reversal impairment charge, the equity investment in DBS Nepremičnine increased by EUR 9 thousand and totalled EUR 1,473 thousand at the end of the year. After an impairment charge, the equity investment in DBS Adria d. o. o. decreased by EUR 5 thousand and totalled EUR 2 thousand at the end of 2017.

In 2017, the Bank's inventories of property and investment property were down EUR 6,623 thousand or 17% to EUR 32,171 thousand at the end of the year (2016: EUR 38,794 thousand).

V.5. SHAREHOLDERS' EQUITY

The Group's equity as at 31 December 2017 amounted to EUR 60,982 thousand, up EUR 4,479 thousand year-on-year.

The Bank's equity as at 31 December 2017 amounted to EUR 58,363 thousand, up EUR 3,671 thousand year-on-year. Profit for the year upped equity by EUR 3,806 thousand, of which EUR 761 thousand by forming statutory reserves.

The audited share book value as at 31 December 2017 was EUR 13.798557. 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 2017:

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

The Bank's share capital amounts to EUR 17,811,083.54 and is divided into 4,268,248 ordinary no par value shares of the same class. The KDD central securities register has on record 4,257,483 no par value shares. The difference of 10,765 shares is due to the fact that certain shareholders have not yet changed their paper stock into dematerialised securities. As at 31 December 2017 the Bank held 27,803 repurchased treasury shares, which is 0.65% of all issued shares.

VI. CORPORATE GOVERNANCE STATEMENT OF DEŽELNA BANKA SLOVENIJE d. d. FOR THE YEAR ENDED 31 DECEMBER 2017

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 arrangement, in conducting our operations we abide by, in particular:

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

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

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

[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

procedures to ensure and preserve timely, comprehensive and reliable data, reporting, limits restricting exposure to risk, and physical and automatic controls).

The Bank's objective is to ensure that its business objectives, strategies and policies are adequately balanced with its Risk-taking and Risk Management Strategy and with its policies of risk-taking and risk management for different types of risks that 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 A 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 its 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 per cent of net profits;
- growth of the dividend has to be stable, predictable and moderate.

VI.4. COMPOSITION AND OPERATIONS OF THE 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 2017 the Bank Management Board was composed of:
- Sonja Anadolli, President,
- Barbara Cerovšek Zupančič MSc, Member.

The Management Board runs and manages the Bank autonomously and at its own responsibility, which they have to perform with due professional care and ensure for the Bank to operate in compliance with the requirements of the Banking Act as well as with maximum ethical and professional standards of governance, while also being attentive to prevent 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 recalled 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 effective 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 in the Bank are also assigned to different boards and committees who make decisions in line with their respective powers and competences: Credit Board, Asset Liability Management Board, Non-performing Loans Board, Liquidity Committee, Property Board, Crisis Team.

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

Supervisory Board

In 2017, the Supervisory Board was composed of:
- Peter Vrisk, President,
- Marjan Janžekovič, Deputy President (until 4 August 2017),
- Ivan Lenart, member,
- Nikolaj Maver, member,
- Bernarda Babič, member (until 28 August).

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.

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 2017, the Committee met at six meetings.

In 2017, the Committee was composed of:
- Marjan Janžekovič, President (until 4 August 2017),
- Peter Vrisk, member (until 9 November 2017),
- Bernarda Babič, member (until 28 August 2017).

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 2017, the Committee met at six meetings.

In 2017, the Committee was composed of:
- Nikolaj Maver, President (until 9 November 2017),
- Peter Vrisk, member (until 9 November 2017),
- Ivan Lenart, member (until 9 November 2017).

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 Committee and Risk Committee, operational since 9 November 2017, is composed of:
- Nikolaj Maver, President,
- Peter Vrisk, member,
- Ivan Lenart, member.

On 9 November 2017, the Supervisory Board appointed Simon Kolenc an external specialist adviser to the Audit and Risk Committee.

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 2017, the Committee met at six meetings.

In 2017, the Committee was composed of:
- Marjan Janžekovič, President (until 4 August 2017),
- Peter Vrisk, member,
- Ivan Lenart, 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		
Sonja Anadolli	2	1
Barbara Cerovšek Zupančič	0	0
Supervisory Board		
Peter Vrisk	3	1
Nikolaj Maver	3	3
Ivan Lenart	1	1
Marjan Janžekovič (until 4 Aug 2017)	2	1
Bernarda Babič (until 28 Aug 2017)	3	3

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 2017, the Bank had four shareholders on qualified stakes (over 5%):

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

Special control rights

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

Restrictions related to voting rights

Pursuant to Article 8 of the Bank's Statutes, the shares of Deželna banka Slovenije d. d. have limited transferability. Any person acquiring shares needs a prior approval from the Bank's Management Board if their purchase is resulting in a holding of up to 5% and the prior approval of the Supervisory Board if their purchase is resulting in a holding of over 5%. Details on how and when voting rights can be exercised, are given in Chapter VI.3 Operations and key competences of the General Meeting, and a description of shareholders' rights and how they can be exercised, p 27.

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 the management and supervisory bodies and their committees, p 28.

Rules on amendments of the Statutes are given in Chapter VI.3 Operations and key competences of the General Meeting, and a description of shareholders' rights and how they can be exercised, p 27.

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, 26 February 2018

Management Board:

Sonja Anadolli
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 DEŽELNA BANKA SLOVENIJE GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

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

VII.1. BUSINESS MODEL

The Deželna banka Slovenije Group (hereafter Group) consists of the Bank and four subsidiaries. In the implementation of strategic orientation and sustainable development targets, the Group acts as one.

We are consistent in respecting our 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.

Deželna banka Slovenije d. d. is a universal bank with branches all over Slovenia, providing a wide range of banking and financial services. Its subsidiaries are active in leasing of moveable property, including farming machines and equipment, trading and management of immovable properties, and retail, wholesale and production of seeds based on own development.

Cooperative ownership of the Bank has proven to be a successful business model, the Bank having close links to the local, particularly rural environment. With cooperative banking, we are using mutual advantages and aiming at 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.

The bank provides a wide range of banking and financial services to individuals, SMEs, sole proprietors, cooperatives and farmers, the emphasis being on providing services to customers from the agro-food sector.

In order to achieve profitability and long-term Bank's performance, we are constantly upgrading our business model, adapting it to challenges of the external environment where we operate, and to expectations of all stakeholders integrated into 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, a group for digital transformation was established in the Bank. The major part of activities is being implemented in the area of improving the user experience, rationalising the Bank's business processes, introducing new products or services, while also using all opportunities provided by the latest information technology and ensuring safe banking operations.

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

VII.2. CONCERN FOR THE ENVIRONMENT

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 making organisations, projects, clubs, individuals and institutes. When making decisions to choose 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.

All employees in the Group abide by environmental regulations. We encourage our employees to have a positive attitude towards the natural environment, e.g. by recommending them to use the train to come to and from work and reimbursing the costs of such transport. To reduce the use of paper and thereby the environmental burden, we have centralised printing units to shared points. Employees are encouraged to use all kinds of electronic communication. Material costs decreased from EUR 583 thousand in 2016 to EUR 557 thousand in 2017. The Group has established a separate waste collection system at eco points, thereby 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.

VII.3. HUMAN RESOURCE MANAGEMENT

Number of employees in the Group as at 31 December 2017

Year	2017	2016	2015
Number of employees*	588	583	603

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

Staff education profile in the Group as at 31 December 2017

	Number of employees			
Staff education profiles	Semenarna Ljubljana, d. o. o.	DBS Leasing d. o. o.	Deželna banka Slovenije d. d.	Total
Level VIII/2	1	0	0	1
Level VIII/1	2	0	10	12
Level VII	0	0	61	61
Level VI/2	45	2	75	122
Level VI/1	33	1	46	80
Level V	98	2	146	246
Less than or level IV	56	0	10	66
Total	**235**	**5**	**348**	**588**

Staff age structure in the Group as at 31 December 2017

	Number of employees			
Age	Semenarna Ljubljana, d. o. o.	DBS Leasing d. o. o.	Deželna banka Slovenije d. d.	Total
Under 30	14	0	14	28
30 to 40	50	2	70	122
40 to 50	92	3	97	192
50 to 60	77	0	152	229
Over 60	2	0	15	17
TOTAL	**235**	**5**	**348**	**588**

All employees in the Group are responsible to work professionally and with due care, and to respect 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 cooperation, 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 of disrespect to the Group's values that might hurt 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 specialist adviser or external contractors who are invited to individual companies based on requirements. 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 is stated in Chapter IX.4. Human resource management, p 47.

VII.4. DIVERSITY POLICY

In the Group, we are aiming at an 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 guarantee to possess diverse knowledge and experience as required for efficient operation and long-term risk management.

At the year-end of 2017, the Bank's management body comprised three men and two women. The Policy for the selection of members of the management body prescribes for the 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 management body of the Bank is given in Chapter IX.4.2. Recruitment Policy, p 48.

The average age of employees in the Group is above 46, which is why the Group's HR policy aims at acquiring multiple younger employees in the future, who are trained for efficient performance, particularly in fields of new technologies and specialist knowledge. The fundamental aim, however, is to select employees who possess diverse knowledge, adequate qualifications and relevant experience.

VII.5. WORKING ENVIRONMENT

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

The Bank has adopted the programme of health promotion at the workplace, which enables employees to increase control of their health and related factors. To keep workplaces healthy and safe, the Bank has devised a plan of health promotion criteria, according to which employees are entitled to medical examination every three years, or each year in case of more demanding positions.

The following measures were introduced in the working process: flexible working hours at workplaces that should allow it, encouraging employees to take active breaks at workplaces, the option of working part-time, encouraging employees to drink a sufficient volume of soft drinks, participation at sports events held by ŠKD Zadružnik, socialising and joint activities at picnics and at the end of the year, participation at Bank's sports games and at winter and summer banking games.

VII.6. RESPECT FOR HUMAN RIGHTS

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

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

VII.7. PREVENTION OF CORRUPT ACTS AND FRAUD

Employees of each company in the Group are committed to protecting 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 unlawful conduct, which also includes fraud and corrupt acts.

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

Unlawful conduct, 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 2017 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. as one of a few companies in Slovenia, 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.

Ljubljana, 26 February 2018

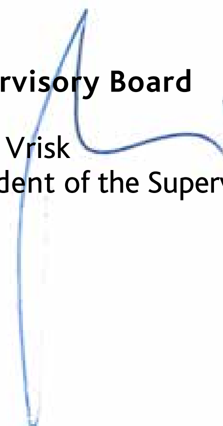
Management Board

Sonja Anadolli
President of the Management Board

Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board

Peter Vrisk
President of the Supervisory Board



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, profitability, reputation and 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, 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 facilitates a close monitoring of risks and their management.

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

The Bank's strategy for taking and managing liquidity risk is established in the Risktaking and Risk Management Policy for Liquidity Risk of Deželna banka Slovenije d. d. to comprise the introduction of an internal controls system. To manage liquidity risk, the Bank applies rules and measures to implement the procedures for mitigating and diversification of 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. In order to provide a basis for making management decisions related to liquidity risk, the Bank performs the following internal reporting forms 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 for exceptional scenarios, the 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. 2017	30. 6. 2017	30. 9. 2017	31. 12. 2017
	Number of data points used to calculate average values					7	10	12	12
21	LIQUIDITY BUFFER					167	163	157	153
22	TOTAL NET LIQUIDUTY OUTFLOWS					55	58	60	64
23	LIQUIDITY COVERAGE RATIO (in %)					305.29	278.41	261.24	239.68

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. 2017	30. 6. 2017	30. 9. 2017	31. 12. 2017
	Number of data points used to calculate average values					7	10	12	12
21	LIQUIDITY BUFFER					167	163	157	154
22	TOTAL NET LIQUIDUTY OUTFLOWS					55	58	60	64
23	LIQUIDITY COVERAGE RATIO (in %)					305.14	278.85	262.05	240.94

The major part of other risks is 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, Audit and Risk Committee of the Supervisory Board, and the Supervisory Board. For the Management Board, the Risk Management Section also prepares quarterly reports on overdrafts and on operational risk events, and proposes limits of large exposure and exposure to persons (and their groups) in a special relationship with the Group, doing so as required but at least once a year, to be reviewed by the Management Board and 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, Audit and 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 for activities associated with calculating the internal capital requirements assessment.

Regarding risk management, control environment and capital adequacy, the Group has adopted the following framework documents (that were 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 Approved by the Management Body,
- the Policy of Risk-taking and Risk Management for Credit Risk in Deželna banka Slovenije d. d. with the establishment of an internal controls system,
- the Policy of Risk-taking and Risk Management for Market Risk in Deželna banka Slovenije d. d. with the establishment of an internal controls system,
- the Policy of Risk-taking and Risk Management for Operational Risk in Deželna banka Slovenije d. d. with the establishment of an internal controls system,
- the Policy of Risk-taking and Risk Management for Interest Rate Risk in Deželna banka Slovenije d. d. with the establishment of an internal controls system,
- the Policy of Risk-taking and Risk Management for Liquidity Risk in Deželna banka Slovenije d. d. with the establishment of an internal controls system,
- 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. with the establishment of an internal controls system,
- 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. with the establishment of an internal controls system,
- the Policy of Risk-taking and Risk Management for Reputational Risk in Deželna banka Slovenije d. d. with the establishment of an internal controls system,
- the Policy of Risk-taking and Risk Management for Capital Risk in Deželna banka Slovenije d. d. with the establishment of an internal controls system,
- 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 for reestablishment and normalisation of its 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:

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

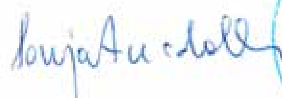
and the Supervisory Board:

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:

Sonja Anadolli
President of the Management Board



Barbara Cerovšek Zupančič MSc
Member of the Management Board

Supervisory Board:

Peter Vrisk
President of the Supervisory Board

Ljubljana, 26 February 2018

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 the regular monitoring and reporting of risks, enables timely responses upon predetermined levels of risk acceptability, even before the top limit value is reached. Risks are promptly presented to the management body, senior management, the Internal Audit Department and the Operations Compliance Department.

Within a prudent credit process, 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 customers does not, unless by way of exception, exceed 5% of the Bank's regulatory capital;
- adjusts its credit portfolio so that capital requirements and needs for credit risk as well as the expected losses are as low as possible, i.e. chiefly with the intention to:
  - increase exposure to individuals, farmers and SMEs, where exposure does not exceed EUR 1.5 million;
  - increase the quality of collateral and its adequacy for reducing capital requirements, whereby the Bank counts on loans to be repaid and therefore primarily examines the customers' liquidity – collected collateral only represents a secondary means of repayment;
  - 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 during the entire duration of the business relationship with a customer.

As a rule the Bank will avoid:
- financing acquisitions and new purchases of securities, business stakes and mutual fund shares 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 collateral.

In risk-taking and managing market risks, the Bank:
- is intensifying activities to solicit transactions that have a considerable impact on the Bank's non-interest income with 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 Deželna banka Slovenije Group Limit System;
- place liquidity surpluses into debt securities that require in the calculation of capital requirements a risk weight for credit risk of more than 20% and increase the capital requirement for credit risk.

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

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

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

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

In risk-taking and managing profitability risk, the Bank:
- makes sure income and expenses are structured and diversified so as to ensure the Bank's adequate profitability and consequently its capital adequacy;

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

In risk-taking and managing capital risk, the Bank:
- is maintaining such a volume of regulatory capital with which it 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;
- will maintain 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 the Bank's exposure to strategic risk.

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

In risk-taking and managing leverage risk, the Bank:
- maintains such a structure of financing that its 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 procedures and work procedures; it has also set up a system of reporting with internal controls in the area of reporting, and a limit system including measures in case of breaches;
- 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, based on which the Banks 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	%	11.95	11.75
Total capital ratio	Equity	%	13.20	13.00
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	1,000	2,000
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	800
Net interest margin	Profitability	%	1.80	1.58
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	300

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 (2) (e). 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 frequency of reporting. Efficient risk management that includes the regular monitoring and reporting of risks, enables timely responses upon predetermined levels of risk acceptability, thus even before the top limit value is reached. Risks are promptly presented to the management body, senior management, the Internal Audit Department and the Operations Compliance Department.

The 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 Risktaking 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 Board (ALM Board) and the Audit and 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 also ensures their coherence, and proportionality with regard to risks that the Group is or could be exposed to in its operation. 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.

Providing 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 a lot of attention to refurbishing our branches or moving them to technically and spatially more appropriate locations, as well as into making them compliant with security and other banking standards. The Bank fosters a level of security consistent with the security standards of the Bank Association of Slovenia.

In addition to relocating two branches, the most investment funds in 2017 were dedicated to IT. The Bank partly modernised its communication infrastructure, thereby achieving additional cost optimisation and consolidation of information communication technology at an alternate location. The Bank introduced additional measures, such as protection from cyber attacks, to strengthen information security, and staged test drills to confirm business continuity procedures. Tablet computers were introduced to increase the mobility and efficiency of the inventory being made and the application programme support was upgraded to comprise electronic delivery of payslips. Maintenance costs were optimised by establishing a new open code system for displaying exchange rates in the branch network. The project of introducing the QR UPN code reading at all cashier positions of the branch network has been completed. SWIFT KYC certification was executed and additional measures were introduced to increase the information safety of the area.

IX.2. INFORMATICS AND BANKING TECHNOLOGY

The internal bank portal has been upgraded to comprise the latest version of Microsoft SharePoint Portal Server 2016. The CRM application was complemented with added products for natural persons and will be supported in the same manner for the area of legal entities. The banking application has been optimised and complemented with regard to legal and regulatory requirements. Adjustments have been made to enable electronic data exchange on enforcements, and we have developed our own application for the model of calculating impairments pursuant to IFRS 9 and reporting pursuant to IFRS 9, and for preparation to make immediate payments.

IX.3. MARKETING AND COMMUNICATION

In 2017, the Bank devoted the majority of its marketing and sales activities to attracting new customers, while also informing our existing customers of our current offers, novelties and changes in the Bank's operations. We have been traditionally devoted to the agro-food sector and the countryside, and are still putting a particular emphasis on these sectors consistent with our strategic orientation. At the same time, we strengthened our profile of a universal bank based on our network of more than 80 branches across Slovenia, and increased our market share in major urban areas.

One of the information channels the Bank uses for external communication is its website, which the Marketing and Communications Department updates daily with relevant information regarding the Bank's operation. The Bank's existing and potential customers use this channel as well as the online bank to submit their questions, proposals, compliments and complaints to the Bank, which the Bank seeks to respond to promptly and expertly. An intranet portal is used for internal communication in the Bank.

Publications and analyses of individual media and institutions again ranked the Bank among the lowest-cost banking providers in Slovenia. According to research carried out by the Finance newspaper, we ranked 5th in

the list of Banks by the cost of banking services, which has confirmed our position among the most favourable banking providers in Slovenia. 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.

In 2017, we were traditionally part of the central agricultural and agro-food event in Slovenia, the International Agricultural and 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 2017, 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.

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 of 2017, we launched the national media campaign "Devoted to my land". It resulted in a greater visibility of the Bank, and presented the Bank as a safe and stable Slovenian-owned financial institution devoted to the Slovenian farmer and to rural areas. The Bank's reputation and visibility in the public eye improved, thus making a positive impact on public opinion of all members of the Group.

Coverage in various Slovenian media is monitored daily through the Kliping service provider. 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. In 2017, 670 items of media coverage were recorded, the majority related to the Bank's operation, DBS ownership, and the Bank as a sponsor of various events and projects.

IX.4. HUMAN RESOURCE MANAGEMENT

IX.4.1. HUMAN RESOURCE POLICIES

Due to rapid changes in the business environment, the Bank's needs for capabilities and knowledge change rapidly as well, which requires constant adaptations. In compliance with the Bank's development strategy, HR activities are coordinated and planned for the long-term, thus enabling the Bank to adapt to changes more rapidly.

The Bank has adopted the Policy of Risk-taking and Risk Management for HR Risk, which is adapted to the size of the Bank, taking into consideration the nature and complexity of our activities. Within this process, the Human Resources Management and Organisation Department continually assesses the competence, education and experience of staff with regard to the task they perform, defines key members of staff, proposes changes to the Remuneration Policy and records breaches of labour legislation and other acts. Together with the Management Board and managerial staff, the Department assesses the HR risk level by holding regular interviews with the employees.

As at 31 December 2017, the Bank had 348 employees, the same as in 2016. The Bank replaced absent staff selectively: hiring new staff from the market only happened when the Bank did not have suitable existing employees that could be reassigned to other posts. In 2018, the Bank will continue to implement a restrictive HR and remuneration policy, and its plans to optimise the working processes.

Employees by education profile:

31 December 2017	Less than or level IV	Level V	Level VI/1	Level VI/2	Level VII	Level VIII/1	Total
No. of staff	10	146	46	75	61	10	348
Share of staff (in %)	3	42	13	22	18	3	100
Average number of staff	10	150	45	75	61	10	351

31 December 2016	Less than or level IV	Level V	Level VI/1	Level VI/2	Level VII	Level VIII/1	Total
No. of staff	10	149	45	73	61	10	348
Share of staff (in %)	3	43	13	21	18	3	100
Average number of staff	10	154	45	72	61	10	352

Employees by gender:

31 December 2017	Women	Men	Total
No. of staff	278	70	348
Share of staff (in %)	80	20	100

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

The average age of employees as at 31 December 2017 was 46.0, whereby 4% of staff had limited capability for work.

As assessed by the Bank, the education profile of all employees in the Bank is adequate with regard to the needs of the business process: 55% of the Bank's employees having at least higher education, and 45% having 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 Bank's internal acts.

The Bank's Recruitment Policy for the Selection of Members of the Management Body lays down the criteria for the selection and appointment of members of the management body, a body which consists of the Bank's Management Board and Supervisory Board. The overall composition must ensure that members of the management body have the requisite expertise, skills and experience needed for an in-depth understanding of the Bank's operations and the risks it is exposed to. 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 comprise 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'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. EDUCATION AND TRAINING OF EMPLOYEES

In 2017, the Bank's employees attended various training and education courses to gain adequate expert competence. The major part of educations 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 cooperation with our expert colleagues, and external courses were held in cooperation with the Bank Association of Slovenia education centre and other expert 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 Rules on Employee Performance, Promotions and Remuneration of the Deželna banka Slovenije d. d. Each year, employees are rewarded for having worked in the bank continuously for a period of time by receiving performance bonuses. 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.

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

Its objective is to set up a remuneration framework defining remuneration types and the criteria and rules on the basis of which employees whose professional activities have a material impact on the group's risk profile (hereafter: 'staff with work of a special nature') receive payment.

The Supervisory Board has the authority to approve the Remuneration Policy once it is adopted by the Management Board, and it also has the competences that the Banking Act (ZBan-2) 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 managers and compliance officers.

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

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

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

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

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.

The Bank has determined – taking into account its size, nature, volume and complexity of its operations – that the total variable pay amount for all staff with work of a special nature, if not exceeding EUR 50,000 annually, does not represent variable remuneration for the purposes from Article 170 (1), items 7 and 8, of the Banking Act (ZBan-2).

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

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

The Remuneration Policy clearly differentiates between the criteria for determining:

- fixed remuneration, which should particularly reflect professional experience and level of the person's responsibility in the Bank, as laid down in the description of a person's duties, which constitute conditions of employment,
- variable remuneration, which must reflect sustainable and risk-weighted performance above the expected performance level, as laid down in the description of a person's duties, which constitute conditions of employment. 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 staff whose work is of a special nature may amount, in an assessment period, to a maximum of three average gross monthly salaries per employee. An individual's variable remuneration cannot exceed 100% of their fixed remuneration.

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

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

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 and internal control management, 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: whether the commercial plan and recovery plan have been fulfilled or exceeded, whether rationalisation of operations costs of the organisational unit has been effective, whether operations have been profitable.
b) Qualitative criteria: the criteria that are relevant to the Bank's generation of long-term value, including compliance with the valid rules and ethical standards, proposed innovations or their number, respect of internal controls, devotion to the Bank's strategy and policies, successful risk and internal control management, quality of cooperation, particularly with internal control functions, teamwork and motivation, concern for the transmission of knowledge, quality of written materials, respect for time limits, staff and customer satisfaction, concern for the Bank's reputation.

Control or oversight functions

a) Qualitative criteria: non-financial criteria, including compliance with the valid rules and ethical standards, proposed innovations or their number, respect of internal controls, devotion to the Bank's strategy and risk policies, successful risk and internal control management, quality of cooperation, teamwork and motivation, concern for the transmission of knowledge, quality of written materials, respect for time limits, staff and customer satisfaction, concern for the Bank's reputation.

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

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

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

Eligibility criteria for variable remuneration of staff with work of a special nature are stipulated in the Remuneration Policy. They are based on a combination of collective and individual performance criteria, taking into account the Bank's performance, the performance of an individual's organisational unit and the individual employee's performance. Criteria and their weight depend on whether an employee with work of a special nature has a commercial or control function.

Methodology for assessment of employees with work of a special nature is detailed in internal Rules on implementation of annual development interview and assessment of employees with work of a special nature.

	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 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 remuneration.

In case of an employee with work of a special nature, the remuneration condition is fulfilled 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 remuneration condition is fulfilled 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	Independent internal control functions	Other
Members (number of employees)	5	2						
Number of identified staff in terms of FTE			1.00	7.05		3.00	3.00	6.25
Number of identified staff in senior management positions			1	8		4	4	8
Total fixed remuneration (in EUR)	93,636.35	323,218.79	69,766.92	475,310.38		205,362.98	190,434.33	415,718.02
Total fixed in cash	93,636.35	323,218.79	69,766.92	475,310.38		205,362.98	190,434.33	415,718.02
Total fixed in equity								
Total fixed in other instruments								
Total variable remuneration (in EUR)			311.92	2,426.57		1,028.03	1,050.00	2,054.61
Total variable in cash			311.92	2,426.57		1,028.03	1,050.00	2,054.61
Total variable in equity								
Total variable in other instruments								
Total amount of variable remuneration deferred in year N (in EUR)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

The table shows remuneration amounts for 2017, 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 4.32. Related party transactions).

X. INTERNAL AUDIT DEPARTMENT

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

The Supervisory Board and its audit committee, i.e. The Audit and Risk Committee, which was appointed at the 1st correspondence meeting of the Supervisory Board on 9 November 2017, reviewed the Internal Audit Department report for the second half of 2016, for the full year 2016, and for the first half of 2017, and gave their consent to the prepared Internal Audit Department operations plan for 2018.

XI. EVENTS AFTER THE 2017 FINANCIAL YEAR

In January 2018, the shareholder KAPITALSKA ZADRUGA, zadruga za pospeševanje gospodarskih koristi članov, z. b. o. sold 25% plus one share to the group of companies SKUPINA PRVA, zavarovalniški holding, d. d. and PRVA OSEBNA ZAVAROVALNICA, d. d. Prior to the transaction, the purchaser has to acquire permission of supervisory authorities, which is expected to be granted in March 2018. When permissions have been acquired, the Bank will prepare a complement to its business strategy to include the new owner's synergy with the Bank's valid strategy.

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Deželna banka Slovenije Group

Consolidated financial statements under International Financial Reporting Standards for the year ended 31 December 2017

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 2017 (pages 68 to 71 of the Annual Report), along with the accounting principles used and notes to the financial statements (pages 72 to 138 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 2017, 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:

Ljubljana, 19 February 2018

INDEPENDENT AUDITOR'S REPORT

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

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

Opinion

We have audited the accompanying consolidated financial statements of the company DEŽELNA BANKA SLOVENIJE d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2017, and its consolidated financial performance and consolidated cash flow statement for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 current period. 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.

Key audit matter	How our audit addressed the key audit matter
Loan portfolio impairment	
Loan portfolio impairment is explained in Note 5.1.3 (accounting policies) and Note 4.5 (valuation and assumptions) The bank management's decision as to when and to what extent loan portfolio impairment should be recognised requires high level of judgement/assessment. Due to the importance of the said assessment and of the quantity of the loan portfolio and the respective	During the performance of our audit procedures, we examined the structure and efficiency of key controls regarding impairment of the loan portfolio: - Control over the classification of client; - control over timely assessment of the individual impairments; - control over the collateral valuation (with focus on having regularly updated valuations as the basis for determining the appropriate value of collateral).

Ime Deloitte se nanaša na Deloitte Touche Tohmatsu Limited, pravno osebo, ustanovljeno v skladu z zakonodajo Združenega kraljestva Velike Britanije in Severne Irske (v izvirniku »UK private company limited by guarantee«), in mrežo njenih članic, od katerih je vsaka ločena in samostojna pravna oseba. Podroben opis pravne organiziranosti združenja Deloitte Touche Tohmatsu Limited in njenih družb članic je na voljo na http://www2.deloitte.com/si/en/pages/about-deloitte/articles/about-deloitte.html

Družba članica Deloitte Touche Tohmatsu Limited.

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impairments for the consolidated financial statements, this accounting estimate is considered a key audit matter. As at 31 December 2017, the gross exposure of loan portfolio amounted to EUR 744.519 thousand, while the relevant impairment was recognised in the amount of EUR 34.479 thousand. The basis for impairment calculation and recognition is determined in the bank's accounting policies, i.e. financial assets arising from loans and guarantees are classified as individually or collectively impaired assets. The clients who are not recorded as delinquent are impaired collectively, whereas the Bank takes into account their classification by credit ratings. In order to calculate the need for collective impairments, management considers factors, such as loan quality, size of portfolio, and economic factors, including the analysis of past payment discipline in individual classes. Impairments regarding losses incurred but not reported (IBNR) are posted monthly and are created based on the portfolio quality. IBNR therefore represent general impairments. Individual impairments are recognised (at a client or operation level) by taking into account the following criteria: • In estimating cash flows, the Bank assesses both the client's financing activities ant its past payment (in)discipline and repayment method; • Potential breach of loan contracts or contractual terms; • Bankruptcy or other legal proceedings that can result in Bank's incurring losses from such investments; • Information with the potential impact on repayment shortfalls. The clients in corporate segment for which significant loan delinquency is recorded are impaired individually, while the retail segment clients with the same characteristics are impaired collectively, unless the Bank assesses that its exposure to such retail clients as significant. The Bank performs assessments of client quality and recognises impairments and provisions accordingly. This procedure is entirely subject to internal instructions and a proper IT support.	In line with the methodology, we analysed a sample of clients from the loan portfolio to assess if impairment occurred for those clients and if it was identified on time and in the right amounts. The adequacy of impairment methodology and policies was independently assessed for individually impaired exposures from the sample. We have prepared an independent assessment of impairment based on the information in respect of individual clients and on the applied impairment methodology (expected discounted cash flows from the operations or realisation of collateral). Where necessary, auditor's experts (certified appraisers) were engaged to assess the adequacy of provided collateral. During the procedures, we were focused also on any indicators of potential bias or errors on the side of management. For exposures subject to the group impairment, we examined if the methodology used to assess expected credit losses for the discussed portfolio was adequate. We examined internal policies, methodologies and work instructions. We analysed the sample to find out if the Bank had exercised the collective impairment policy consistently and if appropriate parameters had been used for the individual transactions. When assessing the adequacy of general collective impairments, we also checked the accuracy of key credit risk parameters. If the accuracy could not be assessed, benchmarks or system parameters were used.

Other Information

The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

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

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

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

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

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the 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.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity'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 entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the d 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 significant 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.

Among the matters we communicate with Supervisory Board and Audit Committee, we select those matters that were of most significance in our audit of the consolidated financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. 537/2014

In compliance with the Article 10(2) of EU Regulation No. 537/2014, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Group by the shareholders on General Shareholders' Meeting held on 21 March 2016. Our total uninterrupted engagement has lasted 7 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Group on 26 February 2018 in accordance with the 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 Group and its controlled undertakings, and which have not been disclosed in the Annual Report.

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 February 2018

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

I. Consolidated financial statements as at 31 December 2017

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	Note	1-12 2017	1-12 2016
1	Interest income		19,724	19,888
2	Interest expense		2,219	3,879
3	**Net interest income** (1 - 2)	3.1.	**17,505**	**16,009**
4	Dividends	3.2.	91	9
5	Fee (commission) income		9,339	9,113
6	Fee (commission) expense		2,575	2,378
7	**Net fee (commission) income** (5 - 6)	3.3.	**6,764**	**6,735**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3.4.	2,020	16
9	Net gains/losses from financial assets and liabilities held for trading	3.5.	347	143
10	Foreign exchange translation	3.6.	(85)	42
11	Net gains/losses on derecognition of assets	3.7.	7,690	8,996
12	Other net operating gains/losses	3.8.	(975)	(1,050)
13	Administrative expenses	3.9.	22,844	22,533
14	Depreciation and amortisation	3.10.	1,819	2,074
15	Provisions	3.11.	822	(36)
16	Impairment charge	3.12.	2,277	3,160
17	Net gains/losses from non-current assets held for sale and related liabilities	3.13.	20	73
18	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16 + 17)		**5,615**	**3,242**
19	Income tax	3.14.	858	495
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (18 - 19)		**4,757**	**2,747**
21	**PROFIT/LOSS FOR THE YEAR** (20)		**4,757**	**2,747**
	a) Attributable to owners of the parent		4,757	2,747

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	Note	1-12 2017	1-12 2016
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**4,757**	**2,747**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(148)**	**(303)**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1 + 3.2)		**(41)**	**(161)**
3.1	Actuarial gains/losses on defined benefit pension plans	4.26.	(44)	(176)
3.2	Income tax relating to components of items not be reclassified to profit or loss		3	15
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**(107)**	**(142)**
4.1	Gains/losses related to available-for-sale financial assets (4.1.1 + 4.1.2)	4.3. b	(134)	(166)
4.1.1	Valuation gains/losses taken to equity		(136)	(166)
4.1.2	Transferred to profit/loss		2	0
4.2	Income tax relating to components of items that may be reclassified to profit or loss	4.22. c	27	24
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**4,609**	**2,444**
	a) Attributable to owners of the parent		4,609	2,444

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

in EUR thousand

Code	Items	Note	2017	2016
1	Cash, balances at central banks, and sight deposits at banks	4.1.	29,613	24,687
2	Financial assets held for trading	4.2.	227	0
3	Available-for-sale financial assets	4.3.	3,753	8,348
4	Loans and advances		718,912	607,481
	- Loans and advances to banks	4.4.	4,914	5,100
	- Loans and advances to customers	4.5.	710,040	599,627
	- Other financial assets	4.6.	3,958	2,754
5	Held-to-maturity investments	4.7.	123,572	140,941
6	Non-current assets held for sale, and discontinued operations	4.8.	3,217	179
7	Property, plant and equipment	4.9.	28,545	34,538
8	Investment property	4.10.	29,629	26,442
9	Intangible assets	4.11.	834	970
10	Income tax assets	4.12.	5,608	6,076
	- Current tax assets		0	50
	- Deferred tax assets		5,608	6,026
11	Other assets	4.13.	13,311	26,578
12	**TOTAL ASSETS** (from 1 to 11)		**957,221**	**876,240**
13	Financial liabilities held for trading	4.14.	227	0
14	Financial liabilities measured at amortised cost		890,333	815,298
	- Deposits by banks and central banks	4.15.	594	448
	- Deposits by customers	4.16.	802,603	767,666
	- Borrowings from banks and central banks	4.17.	68,879	25,692
	- Borrowings from customers	4.18.	598	1,394
	- Subordinated liabilities	4.19.	11,614	11,615
	- Other financial liabilities	4.20.	6,045	8,483
15	Provisions	4.21.	3,105	2,336
16	Income tax liabilities	4.22.	1,352	1,218
	- Current tax liabilities		177	21
	- Deferred tax liabilities		1,175	1,197
17	Other liabilities	4.23.	1,222	885
18	**TOTAL LIABILITIES** (from 13 to 17)		**896,239**	**819,737**
19	Share capital	4.24.	17,811	17,811
20	Share premium	4.25.	31,257	31,257
21	Accumulated other comprehensive income	4.26.	(390)	(242)
22	Revenue reserves	4.27.	7,230	4,504
23	Treasury shares	4.28.	(657)	(657)
24	Retained earnings (including profit/loss for the year)	4.29.	5,731	3,830
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)		**60,982**	**56,503**
26	TOTAL EQUITY (25)		60,982	56,503
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)		**957,221**	**876,240**

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

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 attributable to owners of the parent** (from 3 to 8)	**Total equity** (9)
1	2	3	4	5	6	7	8	9	10
1	**OPENING BALANCE FOR THE PERIOD**	**17,811**	**31,257**	**(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**

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

in EUR thousand

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

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	2017	2016
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Interest received**	**20,821**	**22,204**
	Interest paid	(2,899)	(4,956)
	Dividends received	91	9
	Fee and commission received	9,352	9,083
	Fee and commission paid	(2,575)	(2,378)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	240	167
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	(36)	(38)
	Net trading income	347	143
	Cash payments to employees and suppliers	(21,982)	(22,409)
	Other income	1,326	1,123
	Other expenses	(2,300)	(2,157)
	Cash flows from operating activities before changes in operating assets and liabilities	**2,385**	**791**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**(109,684)**	**19,152**
	Net (increase)/decrease in financial assets held for trading	(240)	271
	Net (increase)/decrease in available-for-sale financial assets	4,132	1,328
	Net (increase)/decrease in loans and advances	(123,123)	1,413
	Net (increase)/decrease in non-current assets held for sale	0	1,461
	Net (increase)/decrease in other assets	9,547	14,679
c)	**Increases/(decreases) in operating liabilities**	**87,128**	**(43,532)**
	Net increase/(decrease) in liabilities with central bank	50,000	(30,400)
	Net increase/(decrease) in trading liabilities	229	3
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	36,637	(16,847)
	Net increase/(decrease) in other liabilities	262	3,712
č)	**Cash flows from operating activities** (a + b + c)	**(20,171)**	**(23,589)**
d)	**Income taxes (paid)/received**	**(249)**	**(348)**
e)	**Net cash from operating activities** (č + d)	**(20,420)**	**(23,937)**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Investing inflows**	**39,054**	**80,391**
	Proceeds from sale of property, plant and equipment, and investment property	7,056	8,673
	Proceeds from sale of held-to-maturity investments	31,998	71,718
b)	**Investing outflows**	**(10,353)**	**(64,293)**
	(Purchase of property, plant and equipment, and investment property)	(380)	(822)
	(Purchase of intangible long-term assets)	(83)	(111)
	(Purchase of held-to-maturity investments)	(9,890)	(63,360)
c)	**Net cash from investing activities** (a - b)	**28,701**	**16,098**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Inflows from financing activities**	**(2,936)**	**500**
	Issue of subordinated liabilities	0	500
b)	**Outflows from financing activities**	**0**	**(2,000)**
	(Repayment of subordinated liabilities)	0	(2,000)
	(Other outflows from financing activities)	(2,936)	0
c)	**Net cash from financing activities** (a - b)	**(2,936)**	**(1,500)**
D.	**Effects of exchange rates on cash and cash equivalents**	**(604)**	**98**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**5,345**	**(9,339)**
F.	**Opening balance of cash and cash equivalents** (Note 4.1. b)	**29,581**	**38,822**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 4.1. b)	**34,322**	**29,581**

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
Sonja Anadolli

Ljubljana, 19 February 2018

II. Notes to Consolidated Financial Statements for 2017

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 in July 2014 Semenarna's 100% owner. 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 EU No 575/2013 (CRR).

In 2017, the consumer price index was up 1.7% (2016: up 0.5%). From 1 January 2007, Slovenia's national currency has been the euro, which has thus also become the functional and presentation currency of the Bank's financial statements. All amounts in the financial statements and related notes are given in euro thousands, unless specified otherwise.

2. CRITICAL ACCOUNTING POLICIES

2.1. Basis for the presentation of financial statements

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

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

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

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

Changes in accounting policies

In financial year 2017, 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.

Initial use of new amendments of the valid standards, applicable in the current reporting period

The following standards, amendments of the valid standards, and interpretations, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, apply to the current reporting period:
- Amendments to IAS 7 „Cash Flow Statement" – Disclosure Initiative, adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 „Income Taxes" – Recognition of Deferred Tax Assets for Unrealised Losses, adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

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

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

The following new standards and amendments of the valid standards, as issued by the International Accounting Standards Board (IASB) and adopted by the EU, had already been issued but have not yet taken effect as at the date of these financial statements:
- *IFRS 9 „Financial Instruments"*, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- *IFRS 15 „Revenue from Contracts with Customers" and amendments to IFRS 15 „Effective Date of IFRS 15"*, adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to IFRS 15 „Revenue from Contracts with Customers"* – Notes to IFRS 15 Revenue from Contracts with Customers, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- *IFRS 16 „Leases"*, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- *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").

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

IFRS as adopted by the EU do currently not differ in any major respect from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments of the valid standards and new interpretations which were not yet approved for use in the EU on 31 December 2017 (effective dates given below apply to the entire IFRS):
- *IFRS 14 „Regulatory Deferral Accounts"* (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided to not commence the endorsement procedure for this interim standard

and rather wait for its final version;
- *IFRS 17 „Insurance Contracts"* (effective for annual periods beginning on or after 1 January 2021);
- *Amendments to IFRS 2 „Share-based Payment"* – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to IFRS 9 „Financial Instruments"* – „Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019);
- *Amendments to IFRS 10 „Consolidated Financial Statements" and IAS 28 „Investments in Associates and Joint Ventures"* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and subsequent amendments (the effective date has been deferred for an indefinite period until the equity method research project is completed);
- *Amendments to IAS 28 „Investments in Associates and Joint Ventures"* – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- *Amendments to IAS 40 „Investment Property"* – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to different standards „Improvements of IFRS (2014–2016 cycle)"*, issued under the annual improvements of IFRS (IFRS 1, IFRS 12 and IAS 28), mainly eliminating inconsistencies and interpreting the text (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018);
- *Amendments to different standards „Improvements of IFRS (2015–2017 cycle)"*, issued under the annual improvements of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly eliminating inconsistencies and interpreting the text (effective for annual periods beginning on or after 1 January 2019);
- *IFRIC 22 „Foreign Currency Transactions and Advance Consideration"* (effective for annual periods beginning on or after 1 January 2018);
- *IFRIC 23 „Uncertainty over Income Tax Treatments"* (effective for annual periods beginning on or after 1 January 2019).

The Group anticipates that the introduction of these new standards and amendments to valid standards will not have a significant impact on its financial statements during the initial period of application, except the introduction of IFRS 9, which is explained below under the heading Additional details on individual standards, their amendments and interpretations which could have a major impact on financial statements in the future.

The accounting principles for hedging against risk with respect to the portfolio of financial assets and liabilities, which the EU has not adopted yet, remain unregulated.

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

- *IFRS 9 „Financial Instruments"*, issued by IASB on 24 July 2014, 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 following section.
- *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 standard will affect customers and might, consequently, indirectly also impact the Group.

- *IFRS 16 „Leases",* published by the IASB on 13 January 2016. Under IFRS 16, the lessee recognises the right to use an asset and 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. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. The Group will make appropriate adjustments to the new standard.

Introducing the new standard IFRS 9 „Financial Instruments"

The application of IFRS 9 will become mandatory for annual periods beginning on or after 1 January 2018. Application before this date 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 will have a major impact on different areas of the Group's operations. It will affect 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 was 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. The current impairment requirements are based on the IAS 39 incurred loss model, which will be replaced by the expected credit loss model as introduced by IFRS 9. 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

The Group will classify all recognised financial assets subsequently and measure them at amortised cost or fair value, depending on cash flow characteristics and the business model for managing a financial instrument. Three business models will be 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 will be 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 will be classified under the relevant item of the statement of financial position. Depending on the classification item, after initial recognition financial assets will be 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 will be used to calculate the amortised cost of financial assets or liabilities and the distribution of income and expenditure over the relevant period. The accounting treatment of exposures upon changes in repayment terms or contractual cash flows will depend 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 changed terms, from time to time, 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 will modify the financial instrument. The modification effect will be 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 will transition 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".

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 stages

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 stages. Stage 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. Stage 2 financial instruments are those the credit risk of which has increased significantly since initial recognition. In this case, the allowance covers expected credit losses over the entire period of duration. Financial instruments for which there is objective evidence of impairment are classified as stage 3, 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.

For POCI assets, expected lifetime 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 does not have such assets in its portfolio.

The Group uses the following criteria in classifying financial instruments into the above stages:
- 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 stage 1 or 2, and on an individual basis for financial instruments classified as stage 3, except for limits that are subject to an action, service and payment guarantees, and non-credit transactions, for which, even if classified as stage 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 sovereign exposure are based on LGD values laid down in Article 161(1) of Regulation (EU) No 575/2013 (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 on the value of equity investments

To estimate 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 705 thousand; on the date of transition, the positive impact will be 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 as at 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 will be 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 519 thousand before tax and EUR 420 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 will therefore not apply a transitional arrangement to reduce the impact of introducing IFRS 9 on own funds. 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 increases by EUR 417 thousand, amounting to EUR 60,368 thousand. The Group's CET 1 and Tier 1 capital adequacy ratio increases 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%).

2.2. Consolidation

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

2.3. Critical accounting estimates

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

(a) Impairment losses on loans and receivables

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

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

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

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

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

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

(c) Held-to-maturity investments

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

(d) Fair value of investment property

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

(e) Tax

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

2.4. Segment reporting

As at 31 January 2017 the Group has no issued securities traded on a regulated capital market, therefore it does not prepare segment reporting.

2.5. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

The Group only holds financial assets held for trading.

(b) Loans and receivables

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

(c) Held-to-maturity investments

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

(d) Available-for-sale financial assets

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

(e) Measurement and recognition

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

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

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

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

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

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

2.9. Offsetting

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

2.10. Impairment of financial assets

(a) Assets carried at amortised cost

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

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

The Group first assesses whether objective evidence of impairment exists for financial assets that are significant individually (the customer's total exposure exceeds 0.5% of the Bank's capital), and individually or collectively

for financial assets that are not significant individually. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether individually significant or not, it includes the asset in a group of financial assets with similar credit risk characteristic and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included into the collective assessment of impairment. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the loss amount is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the cash flow discount rate and measurement of impairment losses are determined with the current effective interest rate, contractually stipulated.

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

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

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

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

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

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

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

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

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

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

(b) Available-for-sale financial assets

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

2.11. Property, plant and equipment, and intangible assets

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

Assessments are made each year whether there are indications that property, plant and equipment may be impaired. If any such indication exists, the Group estimates the recoverable amount. If value in use exceeds the carrying value, assets are not impaired. If the 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:

	2017	2016
	%	%
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	4.0-30.0

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

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

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

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

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

2.12. Investment property

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

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

In determining the fair value of investment property, 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. 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 available-for-sale 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 (in 2016: 17%).

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

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

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

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

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

2.20. Borrowings

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

2.21. Capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

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

(c) Treasury shares

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

2.22. Financial guarantee contracts

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

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

2.23. Fiduciary activities

The Group offers its customers, corporate as well as retail, the services of asset management and the services of lending under authorisation. For these services, customers are charged a fee. Details are explained in Note 4.31. 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

	2017	2016
Interest income		
Deposits at central bank	0	1
Financial assets held for trading	123	190
Available-for-sale financial assets	37	29
Loans to banks	0	1
Loans to customers	16,312	16,262
Held-to-maturity investments	2,924	3,079
Financial leasing	291	285
Other assets	37	41
TOTAL	**19,724**	**19,888**
Interest expense		
Deposits by banks and borrowings from banks	447	735
Borrowings from central bank	1	24
Deposits by customers	1,077	2,315
Borrowings from customers	13	43
Certificates of deposit	82	128
Subordinated liabilities	230	244
Subordinated deposits and loans	336	336
Other liabilities	33	54
TOTAL	**2,219**	**3,879**
NET INTEREST INCOME	**17,505**	**16,009**

3.2. Dividends

	2017	2016
Dividends on available-for-sale financial assets	91	9
TOTAL	**91**	**9**

3.3. Fee and commission income and expense

	2017	2016
Fee and commission income		
Payment transactions	4,642	4,433
Agency services	165	169
Administrative services	3,598	3,556
Guarantees issued	317	369
Securities trading	288	237
Credit operations	329	349
TOTAL	**9,339**	**9,113**
Fee and commission expense		
Banking services	797	760
Securities trading	154	120
Payment transactions	931	784
Commissions from Semenarna franchisors	441	438
Commissions from Semenarna commercial agents	237	268
Other services	15	8
TOTAL	**2,575**	**2,378**
NET FEE AND COMMISSION INCOME	**6,764**	**6,735**

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

	2017	2016
Realised gains	**133**	**48**
Gains from available-for-sale financial assets	133	48
Realised net gains/losses on loans	**(44)**	**5**
Gains on loans (financial lease and other financial assets included)	107	118
Losses on loans (financial lease and other financial assets included)	151	113
Realised gains/losses on financial assets as held to maturity	**1,816**	**0**
Gains on financial assets as held to maturity	1,816	0
Realised net gains/losses from financial liabilities measured at cost	**115**	**(37)**
Gains from financial liabilities measured at amortised cost	151	1
Losses from financial liabilities measured at amortised cost	36	38
REALISED GAINS/LOSSES	**2,020**	**16**

In 2017, the realised net gains amounted to EUR 2,020 thousand (2016: EUR 16 thousand), of which EUR 1,816 thousand were gains realised from the sale of sovereign debt as held to maturity, EUR 133 thousand were gains realised from the sale of equities, EUR 115 thousand were net gains on cleared deposits and transactional accounts, and EUR 44 thousand were net gains on loans. In 2017, an insignificant share of sovereign debt as held to maturity was sold.

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

	2017	2016
Net gains/losses from trading in equity instruments	0	2
Net gains/losses from foreign exchange trading	326	149
Net gains/losses from derivatives held for trading	21	(8)
TOTAL	**347**	**143**

3.6. Foreign exchange translation

	2017	2016
Positive translation differences	1,146	1,166
Negative translation differences	1,231	1,124
TOTAL	**(85)**	**42**

3.7. Net gains/losses on derecognition of assets

	2017	2016
Gains		
- Derecognition of property, plant and equipment	21	35
- Derecognition of investment property	234	296
- Sales revenue and other	29,746	30,109
TOTAL	**30,001**	**30,440**
Losses		
- Cost of goods sold	22,229	21,370
- Derecognition of investment property	82	0
- Derecognition of other assets, apart from assets held for sale	0	74
TOTAL	**22,311**	**21,444**
TOTAL NET GAINS/LOSSES	**7,690**	**8,996**

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

3.8. Other net operating gains/losses

	2017	2016
Gains		
Income from non-banking services	117	134
Leases and rents (Note 4.10. b)	322	148
Denationalisation income	36	261
Other	850	564
TOTAL	**1,325**	**1,107**
Losses		
Taxes	22	20
Contributions	275	249
Membership fees and similar	109	108
Financial services tax	862	819
Deposit guarantee scheme	985	839
Bank resolution fund	20	20
Other operating expenses	27	102
TOTAL	**2,300**	**2,157**
OTHER NET OPERATING GAINS/LOSSES	**(975)**	**(1,050)**

Denationalisation income refers to assets received from denationalisation procedures and lease payments for denationalised assets.

Denationalisation acquisitions by asset type

			2017			2016
	Income	Expense	**Total**	Income	Expense	**Total**
Buildings						
- Acquisitions - restitution in kind	0	0	**0**	208	0	**208**
- Leases and rents	36	0	**36**	53	0	**53**
- Revaluation of investment property	0	0	**0**	0	7	**(7)**
- Legal and consulting services, and duties	0	3	**(3)**	0	11	**(11)**
TOTAL	**36**	**3**	**33**	**261**	**18**	**243**

The direct and indirect net denationalisation income in 2017 amounted to a total of EUR 33 thousand (2016: EUR 243 thousand of net income).

3.9. Administrative expenses

	2017	2016
Employee benefits cost		
Gross wages	11,818	11,811
Social security contributions	852	856
Pension insurance contributions	1,048	1,055
Other contributions depending on gross wages	(7)	10
Severance pays and compensations	78	73
Other labour costs	2,119	2,176
TOTAL	**15,908**	**15,981**
Overhead and administrative expenses		
Costs of material	557	583
Costs of services	6,379	5,969
TOTAL	**6,936**	**6,552**
TOTAL	**22,844**	**22,533**

Costs of services for 2017 also include costs of audit services for the audit of companies' financial statements and of the Group's consolidated financial statements including the transition to IFRS 9 amounting to a total of EUR 73 thousand (2016: EUR 58 thousand), and for other assurance services in the amount of EUR 9 thousand (2016: EUR 8 thousand).

3.10. Depreciation and amortisation

	2017	2016
Property, plant and equipment (Note 4.9.)	1,594	1,822
Intangible assets (Note 4.11.)	225	252
TOTAL	**1,819**	**2,074**

3.11. Provisions

	2017	2016
Net provisions for off-balance sheet liabilities	**305**	**(141)**
Expenses for created provisions (Note 4.21. d)	3,078	2,859
Income from released provisions (Note 4.21. d)	2,773	3,000
Net other provisions		
Net provisions for pensions and other employee benefits	**94**	**111**
Expenses for created provisions	94	111
Net provisions for tax suits and other pending legal cases	**423**	**0**
Expenses for provisions created for dividend payments for 2015 (Note 4.21. e)	423	0
Net provisions for other provisions	**0**	**(6)**
Income from released provisions	0	6
NET PROVISIONS	**822**	**(36)**

Provisions included expenses related to the lawsuit from 2015 for the claim for payment of a dividend as required by law, amounting to a total of EUR 423 thousand.

3.12. Impairment charge

	2017	2016
Net impairments of financial assets not measured at fair value through profit or loss	**1,481**	**2,544**
Net impairments of financial assets measured at cost	**213**	**0**
Impairments of financial assets measured at cost	213	0
Net impairments of loans	**1,153**	**2,540**
Impairments of loans	11,815	11,692
Reversal of loan impairments	10,662	9,152
Net impairments of other financial assets	**115**	**4**
Impairments of other financial assets	220	165
Reversal of impairments of other financial assets	105	161
Net impairments of other assets	**796**	**616**
Net impairments (revaluations) of investment property	**796**	**238**
Impairment (revaluation) of investment property (Note 4.10. b)	1,144	772
Reversal of investment property impairments (revaluations) (Note 4.10. b)	348	534
Net impairments (revaluations) of other assets	**0**	**378**
Impairments (revaluations) of property inventories	0	378
NET IMPAIRMENTS	**2,277**	**3,160**

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

	2017	2016
Gains on non-current assets held for sale	20	73
TOTAL	**20**	**73**

3.14. Income tax

	2017	2016
Income tax	402	220
Deferred tax (Note 4.22. d)	456	275
TOTAL	**858**	**495**
Profit/loss before tax	5,615	3,242
Tax under the 19% tax rate	819	551
Non-taxable income	(52)	(16)
Non-deductible expense	617	327
Tax reliefs	(526)	(367)
TOTAL	**858**	**495**
Effective tax rate (in %)	15	15

* Tax for 2017 was charged at the tax rate of 19% (2016: 17%).
The last tax inspection was in 2005 for financial year 2004.

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

3.15. Earnings per share (EPS)

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

	2017	2016
Net profit (in EUR thousand)	4,757	2,747
Weighted average number of ordinary shares	4,228,995	4,228,995
Basic and diluted earnings per share (in EUR per share)	1.124854	0.649563

Basic EPS in 2017 amounts to EUR 1.124854 (2016: EUR 0.649563). The weighted average number of issued ordinary shares recorded in the KDD central securities register for 2017, with treasury shares and the shares held by Semenarna deducted, was 4,228,995 (2016: 4,228,995).

The Group's share book value as at 31 December 2017 was EUR 13.800792 (31 December 2016: EUR 12.932528). 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

	2017	2016
Cash		
Cash	8,649	7,605
Bank balances at central bank	17,446	12,753
Sight deposits at banks	3,518	4,329
TOTAL (Note 4.1. b)	**29,613**	**24,687**

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 2017 amounted to EUR 4,871 thousand on average per month, with excess reserves totalling a monthly EUR 5,415 thousand on average.

The annual interest rate for assets deposited on the minimum reserves account was 0.00% from 1 January to 31 December 2017. For excess assets deposited on the minimum reserves account, the annual interest rate was −0.40% from 1 January to 31 December 2017.

b) Movements

	As at 1 January 2017	Foreign exchange differences	Net increase/ (decrease)	As at 31 December 2017
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	24,687	(302)	5,228	29,613
Loans and advances to banks (Note 4.4. b)	4,894	(302)	117	4,709
TOTAL	**29,581**	**(604)**	**5,345**	**34,322**

4.2. Financial assets held for trading

a) Breakdown

	2017	2016
Loans held for trading	227	0
TOTAL	**227**	**0**

b) Movements

	2017	2016
Equities		
As at 1 January	0	216
- Reclassification	0	(216)
As at 31 December	**0**	**0**
Debt securities		
As at 1 January	0	42
- Sale/maturity	0	(42)
As at 31 December	**0**	**0**
Loans*		
As at 1 January	0	0
- Increase	22,994	0
- Sale	(22,767)	0
As at 31 December	**227**	**0**
TOTAL	**227**	**0**

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

4.3. Available-for-sale financial assets

a) Breakdown

	2017	2016
Equities		
- Unlisted	3,753	3,987
Bonds		
- Listed	0	4,361
TOTAL	**3,753**	**8,348**

The Group decreased the balance of available-for-sale securities in 2017 by EUR 4,595 thousand, of which debt instruments were down EUR 4,361 thousand, shares and stakes at cost were down EUR 231 thousand, and the balance in the Bank Resolution Fund was down EUR 3 thousand (2016: EUR 2,702 thousand).

b) Movements

	2017	2016
As at 1 January	8,348	9,926
Purchases	2	102
Debt-to-equity swap	0	608
Sale	(2,183)	(744)
Impairment of equity investments	(213)	0
Maturities	(2,067)	(1,426)
Margin	0	48
Fair value adjustment (Note 4.26.)	(134)	(166)
As at 31 December	**3,753**	**8,348**

4.4. Loans and advances to banks

a) Breakdown according to type

	2017	2016
Loans to the central bank	2,104	2,086
Loans to domestic banks	2,810	3,014
TOTAL	**4,914**	**5,100**

b) Breakdown according to maturity

	2017	2016
Short-term loans	4,709	4,894
Long-term loans	205	206
TOTAL	**4,914**	**5,100**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 4,709 thousand (2016: EUR 4,894 thousand) are recognised in the cash flow statement as cash equivalents (Note 4.1. b).

4.5. Loans and advances to customers

a) Breakdown according to type

	2017	2016
Loans and advances	714,755	608,494
Financial lease	10,970	10,798
Working capital loans	18,794	18,153
Revaluation allowance	(34,479)	(37,818)
TOTAL	**710,040**	**599,627**

b) Movements of revaluation allowance

	2017	2016
As at 1 January	37,818	44,506
Enhancements (through impairments)	11,815	11,692
Repayments (through impairments)	(10,662)	(8,457)
Transferred off the balance sheet (no write-downs)	(3,697)	(4,146)
Write-downs	(892)	(3,149)
Suspended interest (balance sheet receivables)	0	(2,628)
Debt-to-equity swap	97	0
As at 31 December	**34,479**	**37,818**

In 2017, EUR 3,697 thousand worth of 100%-impaired provisions were transferred off the balance sheet (2016: EUR 4,146 thousand).

c) Loans and advances to customers include financial lease receivables

	2017	2016
Gross financial lease receivables		
Past due up to 1 year	4,698	5,319
Past due from 1 to 5 years	4,293	3,173
Past due over 5 years	1,979	2,306
TOTAL	**10,970**	**10,798**
Revaluation allowances	(3,373)	(3,562)
Net financial lease receivables	**7,597**	**7,236**

4.6. Other financial assets

a) Breakdown

	2017	2016
Trade receivables	4,697	4,473
Interest receivable	2	2
Fee and commission due	147	134
Other receivables	1,951	747
Other prepayments and deferred income	64	298
Other financial assets revaluation allowance	(2,903)	(2,900)
TOTAL	**3,958**	**2,754**

b) Movements in revaluation allowance

	2017	2016
As at 1 January	2,900	3,195
Enhancements (through impairments)	220	165
Repayments (through impairments)	(105)	(161)
Transferred off the balance sheet	(33)	(57)
Write-downs	(79)	(242)
As at 31 December	**2,903**	**2,900**

4.7. Held-to-maturity investments

a) Breakdown

	2017	2016
Long-term government held-to-maturity debt securities	123,572	140,941
TOTAL	**123,572**	**140,941**

In 2017, an insignificant share of sovereign debt as held to maturity was sold.

b) Movements

	2017	2016
As at 1 January	140,941	157,090
Purchases	10,147	68,495
Sale	(6,817)	0
Maturities	(20,699)	(84,644)
As at 31 December	**123,572**	**140,941**

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

	2017	2016
Property, plant and equipment held for sale	3,217	179
TOTAL	**3,217**	**179**

In 2017, the net carrying value of real estate held for sale, pledged as collateral for loans is EUR 3,039 thousand.

4.9. Property, plant and equipment

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

The net carrying value of real estate held as collateral for loans is EUR 10,430 thousand.

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

4.10. Investment property

a) Breakdown

	2017	2016
Long-term investments into investment property		
- Land	13,215	12,460
- Buildings	16,414	13,982
TOTAL	**29,629**	**26,442**

b) Movements

	2017	2016
As at 1 January	26,442	15,675
Increase	1,045	1,568
Transferred from inventories	9,447	12,741
Decrease	(6,383)	(3,304)
Transferred to inventories	(126)	0
Enhancements (Note 3.12.)	348	534
Revaluation allowance (Note 3.12.)	(1,144)	(772)
As at 31 December	**29,629**	**26,442**

Operating lease contracts may be terminated during the lease period. A transfer of EUR 9,447 thousand was made from inventories to investment property in respect of property not sold within one year.

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

4.11. Intangible assets

			2017			2016
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	4,461	0	4,461	4,274	78	4,352
Increases	0	89	89	236	31	267
Decreases	(158)	(89)	(247)	(49)	(109)	(158)
Transfer from intangible assets under construction	89	0	89	0	0	0
As at 31 December	4,392	0	4,392	4,461	0	4,461
Revaluation allowance						
As at 1 January	3,491	0	3,491	3,240	0	3,240
Depreciation and amortisation	225	0	225	252	0	252
Decreases	(158)	0	(158)	(1)	0	(1)
As at 31 December	3,558	0	3,558	3,491	0	3,491
As at 1 January	**970**	**0**	**970**	**1,034**	**78**	**1,112**
As at 31 December	**834**	**0**	**834**	**970**	**0**	**970**

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

4.12. Income tax assets

	2017	2016
Tax assets	0	50
Deferred tax assets (Note 4.22. b)	5,608	6,026
TOTAL	**5,608**	**6,076**

Outstanding tax loss amounts to a total of EUR 34,819 thousand. Deferred tax assets were formed in the amount of EUR 10,758 thousand, impairments of deferred tax assets totalling EUR 5,150 thousand.

4.13. Other assets

	2017	2016
VAT refund receivables for the tax period	79	44
Accrued and short-term deferred costs	569	710
Long-term deferred operating costs	193	76
Materials inventory	8,190	8,060
Real estate inventory	3,849	13,566
Equipment inventory	0	93
Stock of coins held for sale	153	151
Prepayments to suppliers for current assets	159	208
Other prepayments	5	40
Other tax refund receivables	44	28
Advance suretyship, security receivables	4	4
Consideration receivable	64	3,594
Other	2	4
TOTAL	**13,311**	**26,578**

The net carrying value of inventories of property pledged as collateral for loans is EUR 1,289 thousand (2016: EUR 0 thousand). In 2017, there were no impairment charges against inventories of property (2016: EUR 378 thousand)(Note 3.12 .).

4.14. Trading liabilities

	2017	2016
Other trading liabilities	227	0
TOTAL	**227**	**0**

4.15. Deposits by banks and central banks

	2017	2016
Sight deposits by banks	594	448
TOTAL	**594**	**448**

4.16. Deposits by customers

	2017	2016
Sight deposits	569,658	486,241
Short-term deposits	82,613	95,152
Long-term deposits	150,332	186,273
TOTAL	**802,603**	**767,666**

4.17. Borrowings from banks and central banks

	2017	2016
Short-term borrowings from banks	15,810	19,934
Long-term borrowings from banks	3,069	5,758
Long-term borrowings from central bank	50,000	0
TOTAL	**68,879**	**25,692**

4.18. Borrowings from customers

	2017	2016
Long-term borrowings from customers	598	1,394
TOTAL	**598**	**1,394**

4.19. Subordinated liabilities

a) Breakdown

	2017	2016
Subordinated liabilities		
- To banks	4,116	4,117
- To non-financial institutions	2,866	2,866
- To other financial institutions	4,102	4,102
- To households	530	530
TOTAL	**11,614**	**11,615**

	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.

4.20. Other financial liabilities

	2017	2016
Profit sharing - dividend payments	6	6
Wages and salaries	931	771
Taxes and contributions	382	372
Suppliers	2,784	2,092
Other liabilities	1,304	4,343
Charges being collected	123	177
Accrued costs	312	539
Accrued expenses	96	91
Other accruals and income collected in advance	6	10
Other	101	82
TOTAL	**6,045**	**8,483**

4.21. Provisions

a) Breakdown

	2017	2016
Provisions for pensions and similar payables to employees (Note 4.21. b and c)	1,978	1,936
Provisions for off-balance sheet liabilities (Note 4.21. d)	704	400
Provisions for pending legal cases (Note 4.21. e)	423	0
TOTAL	**3,105**	**2,336**

Provisions included expenses related to a lawsuit from 2015 for the claim for payment of a dividend as required by law, amounting to a total of EUR 423 thousand.

b) Provisions for pensions and similar payables to employees

	2017	2016
Provisions for severance pays	1,773	1,722
Provisions for long-service awards	205	214
TOTAL	**1,978**	**1,936**

The actuarial calculation of provisions for severance pays and long-service awards to employees included the following assumptions: average earnings growth in the Republic of Slovenia is expected to total an annual 2.5% in 2018 and in subsequent years; the calculation of liabilities for severance pays takes into account an employee's period of employment; the selected discount factor is 1.15% 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

	2017	2016
As at 1 January	1,936	1,713
Provisions made during the year	138	288
Provisions released	0	(2)
Provisions utilised during the year	(96)	(63)
As at 31 December	**1,978**	**1,936**

Recalculated payables to employees total EUR 1,978 thousand, for which we had to form as at 31 December 2017 additional provisions of EUR 138 thousand. Higher provisions for severance pays, which represent costs for the period and an increase in provisions for long-service awards in the total amount of EUR 96 thousand, were charged to the income statement. The actuarial deficit for severance pays was formed in comprehensive income in the amount of EUR 44 thousand (Note 4.26.).

d) Movements in provisions for off-balance sheet liabilities

	2017	2016
As at 1 January	400	540
Provisions made during the year (Note 3.11.)	3,077	2,859
Provisions released during the year (Note 3.11.)	(2,773)	(2,999)
As at 31 December	**704**	**400**

e) Movements in provisions for pending legal cases

	2017	2016
As at 1 January	0	44
Provisions utilised during the year	0	(44)
Provisions created during the year for dividend payments for 2015	423	0
As at 31 December	**423**	**0**

f) Movements in other provisions

	2017	2016
As at 1 January	0	393
Transferred to short-term liabilities	0	(393)
As at 31 December	**0**	**0**

4.22. Tax liabilities

a) Breakdown

	2017	2016
Current tax liabilities	177	21
Deferred tax liabilities	1,175	1,197
TOTAL	**1,352**	**1,218**

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

	2017	2016
1. Deferred tax liabilities		
Available-for-sale financial assets	0	44
Land valuation	1,175	1,138
Depreciation and amortisation	0	15
TOTAL	**1,175**	**1,197**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	207	207
Available-for-sale financial assets	0	17
Impairment of securities	168	190
Impairment of equity participation	2,790	2,752
Tax loss	2,004	2,467
Valuation of buildings	439	393
TOTAL (Note 4.12.)	**5,608**	**6,026**
Net deferred tax (2 - 1)	**4,433**	**4,829**

Deferred tax assets arising from the impaired equity investment, assets, loans, financial leasing, unspent allowances and tax losses, were collectively impaired and the impairment charge totals EUR 5,150 thousand.

c) Movements in deferred taxes

	2017	2016
As at 1 January	4,829	5,074
Available-for-sale financial assets - fair value valuation (Note 4.26.)	27	24
Valuation of buildings	46	(24)
Land valuation	(22)	13
Depreciation and amortisation	0	(7)
Impairment of securities	(21)	0
Impairment of equity participation	38	19
Provisions for severance pays and long-service awards	(1)	14
Tax loss	(463)	(284)
As at 31 December	**4,433**	**4,829**

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

	2017	2016
Provisions for employee benefits	(3)	(1)
Other provisions	(22)	0
Tax loss	(463)	(284)
Depreciation and amortisation	(6)	(9)
Impairments	38	19
TOTAL (Note 3.14.)	**(456)**	**(275)**

Deferred tax assets and liabilities for 2017 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 19%.

4.23. Other liabilities

a) Breakdown

	2017	2016
Payments received in advance	611	238
Taxes payable	345	365
Accruals	266	282
TOTAL	**1,222**	**885**

4.24. Share capital

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 31 December 2016/1 January 2017	4,268,248	17,811
As at 31 December 2017	**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 2017, the Bank's share capital totals EUR 17,811,083.54.

b) Shareholders with over 5% of share capital

		2017
Shareholder	No. of shares	Stake in shareholders' equity in KDD
Kapitalska zadruga, z. b. o., Ljubljana	2,023,671	47.532
KD Kapital d. o. o., Ljubljana	377,181	8.859
KD Group d. d., Ljubljana	255,941	6.012
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2017, 304 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2016: 318), of which 101 were domestic corporate entities, 198 were domestic individuals, and five were foreign entities. The number of the Bank's shareholders decreased by 14 in 2017.

4.25. Share premium

	2017	2016
As at 1 January	31,257	31,257
As at 31 December	**31,257**	**31,257**

4.26. Accumulated other comprehensive income

	2017	2016
As at 1 January	(242)	61
Items not to be reclassified to profit or loss	**(41)**	**(161)**
Actuarial gains/losses on defined benefit pension plans	(44)	(176)
Income tax relating to components of items not be reclassified to profit or loss	3	15
Items that may be reclassified to profit or loss	**(107)**	**(142)**
Available-for-sale financial assets (Note 4.3. b)	(134)	(166)
Gains/losses due to changes in fair value of available-for-sale financial assets	(136)	(166)
Gains/losses transferred to profit or loss	2	0
Deferred taxes (Note 4.22. c)	27	24
As at 31 December	**(390)**	**(242)**

Items not restated in the income statements refer to the actuarial deficit for severance pays (Note 4.21. c).

4.27. Revenue reserves

a) Breakdown

	2017	2016
Reserves for treasury shares	645	645
Reserves under Statutes	1,924	1,163
Other revenue reserves	4,661	2,696
TOTAL	**7,230**	**4,504**

Pursuant to its Statutes, the Group allocated 20% of profit for the year, which amounted to EUR 761 thousand, to reserves under Statutes.

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

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

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

b) Reserves for treasury shares

	2017	2016
As at 1 January	645	645
As at 31 December	**645**	**645**

c) Reserves under Statutes

	2017	2016
As at 1 January	1,163	671
Transferred from net profit	761	492
As at 31 December	**1,924**	**1,163**

d) Other revenue reserves

	2017	2016
As at 1 January	2,696	1,085
Transferred from net profit	1,965	1,611
As at 31 December	**4,661**	**2,696**

4.28. Treasury shares

	2017	2016
Repurchase of treasury shares - ordinary	(657)	(657)
TOTAL	**(657)**	**(657)**

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

a) Breakdown

	2017	2016
Net profit/loss for the year	3,996	2,148
Retained earnings	1,735	1,682
TOTAL	**5,731**	**3,830**

Profit for the year amounts to EUR 4,757 thousand, whereas profit less the statutory reserves amounts to EUR 3,996 thousand.

b) Bank's distributable profit

	2017	2016
Net profit for the year	3,806	2,456
Utilisation of net profit for the year		
- Reserves under statutes	(761)	(491)
- Other revenue reserves	-	-
Retained earnings	-	-
TOTAL	**3,045**	**1,965**

The Bank's distributable profit as at 31 December 2017 amounts to EUR 3,045 thousand and consists of residual net profit for the year 2017 after the formation of statutory reserves in the amount of 20% net profit. The appropriation of distributable profit will be decided by the General Meeting. The Management Board and Supervisory Board recommend that EUR 846 thousand of distributable profit be used for dividend payments to shareholders for 2017, and the residual profit of EUR 2,199 thousand be appropriated to other revenue reserves.

4.30. Off-balance sheet liabilities

a) Breakdown by type of contingent liabilities and commitments

	2017	2016
Guarantees	27,520	24,907
Commitments to extend credit	40,586	35,945
TOTAL	**68,106**	**60,852**
Provisions (Note 4.21. a and d)	(704)	(400)

4.31. Fiduciary activities

The Group manages assets in the total amount of EUR 118,902 thousand (2016: EUR 88,258 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 2017 these fees amounted to EUR 285 thousand (2016: EUR 237 thousand). For acting as agent in the sale of numismatic values, the Group charged fees in the amount of EUR 15 thousand in 2017 (2016: EUR 17 thousand).

a) Investment and ancillary investment services for customers

	2017	2016
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**288**	**237**
Reception, transmission and execution of orders	288	231
Managing dematerialised securities accounts for clients	0	6
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**124**	**92**
Fees associated with KDD and similar organisations	110	76
Fees associated with the stock exchange and similar organisations	14	16

	2017	2016
ASSETS	**117,160**	**86,269**
Claims on settlement account and current accounts for clients' assets	116,578	85,933
- From financial instruments	116,534	85,365
- From the KDD or the Bank's settlement account for sold financial instruments	25	152
- From other settlement systems and institutions for sold financial instruments	19	416
Clients' cash	582	336
- On the settlement account for clients' assets	582	335
- On banks' current accounts	0	1
LIABILITIES	**117,160**	**86,269**
Liabilities of settlement account and of current accounts for clients' assets	117,160	86,269
- With clients from cash and financial instruments	116,982	85,746
- With KDD or the Bank's settlement account for purchased financial instruments	129	77
- With other settlement systems and institutions for purchased financial instruments	25	417
- With the Bank and the Bank's settlement account for fees, expenses, etc	24	29

b) Other agency services

The item other agency services includes EUR 1,612 thousand from other transactions for the clients’ account (2016: EUR 1,989 thousand), and EUR 129 thousand from settlement transactions with the KDD (2016: EUR 76 thousand).

4.32. Related party transactions

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

a) Volume of banking transactions among related parties

	Management Board/ CEO/Holder of Procuration		Senior management		Close family members of Management Board/CEO/Holder of Procuration, members of Supervisory Board		Companies related to members of Management Board/CEO/ Procurator, members of Supervisory Board and close family members		Bank's shareholders* (holders of qualifying stake in the Bank)		Supervisory Board members	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Loans and deposits												
As at 1 January	181	164	373	468	52	45	6,288	6,507	0	677	106	17
Increase	114	85	105	317	90	64	12,141	14,840	0	76	173	201
Decrease	(84)	(68)	(197)	(412)	(141)	(57)	(16,400)	(15,059)	0	(753)	(156)	(112)
As at 31 December	211	181	281	373	1	52	2,029	6,288	0	0	123	106
Interest income	4	4	7	12	1	1	150	259	0	0	2	0
Revaluation allowance	0	0	0	0	0	0	9	87	0	0	0	0
Deposits and borrowings												
As at 1 January	64	35	214	218	76	82	2,038	383	126	8,384	211	122
Increase	1,644	557	1,705	1,571	502	274	12,103	17,120	198	60,152	481	477
Decrease	(1,646)	(528)	(1,670)	(1,575)	(501)	(280)	(12,259)	(15,465)	(314)	(68,410)	(586)	(388)
As at 31 December	62	64	249	214	77	76	1,882	2,038	10	126	106	211
Interest expense	0	0	1	2	1	1	76	76	0	306	1	0
Fee and commission received	1	1	3	3	1	1	66	66	0	6	1	1
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	3	0	0	0	0	0
Increase	0	0	0	1	0	0	90	0	0	0	0	0
Decrease	0	0	0	(1)	0	0	(90)	0	0	0	0	0
As at 31 December	0	0	0	0	0	0	3	0	0	0	0	0
Lease income	0	0	0	1	0	0	70	0	0	0	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	144	177	0	0	0	0
Increase	0	0	0	0	0	0	14	36	0	165	0	0
Decrease	0	0	0	0	0	0	(157)	(69)	0	(165)	0	0
As at 31 December	0	0	0	0	0	0	1	144	0	0	0	0
Lease expense	0	0	0	0	0	0	56	69	0	165	0	0
Other receivables	0	0	0	0	0	0	12	0	0	0	0	0
Other income	0	0	1	1	0	0	281	1	0	0	0	0
Other liabilities	0	0	0	0	0	0	41	52	0	3	0	0
Other expenses	0	0	4	0	0	0	894	398	0	59	0	0

* Only the Bank's qualified shareholders are included.

b) Remuneration of senior management

	2017	2016
Wages and other short-term benefits	1,423	1,452
Performance bonuses	6	0
Severance pays	0	1
TOTAL	**1,429**	**1,453**

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

The Management Board and others on management contracts held 1,850 shares (0.04% of share capital) as at 31 December 2017. As at 31 December 2016 they held 1,872 shares (0.04% of share capital).

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

	2017	2016
Wages and other short-term benefits	118	121
TOTAL	**118**	**121**

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 Committee.

d) Remuneration of members of management and supervisory bodies in 2017

Position/Remuneration type	Fixed remuneration	Cost reimbursement	Supplement pension insurance	Other payments
Management Board of the Bank	**297**	**2**	**5**	**19**
- Sonja Anadolli, President	169	1	3	10
- Barbara Cerovšek Zupančič MSc, member	128	1	2	9
Supervisory Board of the Bank	**89**	**5**	**0**	**0**
- Peter Vrisk, President	28	0	0	0
- Marjan Janžekovič, Deputy President (up to 4 August 2017)	14	1	0	0
- Ivan Lenart, member	17	2	0	0
- Nikolaj Maver, member	18	1	0	0
- Bernarda Babič, member (up to 28 August 2017)	12	1	0	0
Supervisory Board/Board of Directors of subsidiaries	**24**	**0**	**0**	**0**
- Peter Vrisk, President	12	0	0	0
- Sonja Anadolli, Deputy President	12	0	0	0
Senior management in subsidiaries	**143**	**2**	**0**	**3**
- Srečko Korber, CEO	17	0	0	0
- Mojca Štajner, CEO	3	0	0	0
- Aleš Šabeder, CEO (up to 14 November 2017)	122	2	0	3
- Srečko Korber, from 14 November 2017 to 23 November 2017 Holder of Procuration, from 24 November 2017 CEO	1	0	0	0
TOTAL	**553**	**9**	**5**	**22**

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 specified in the Business Report, chapter VI.4. Composition and operations of the management and supervisory bodies and their committees.

e) Remuneration of staff whose professional activities have a material impact on the risk profile, in 2017

Position/Remuneration type	Number of beneficiaries	Fixed earnings	Variable remuneration	Cost reimbursement	Insurance premiums	Total
TOTAL REMUNERATION	**25**	**1,286**	**7**	**48**	**22**	**1,363**

4.33. Remuneration system and important business contacts

Remuneration system

The system of remuneration in the Group is based on the Remuneration Policy for Employees Whose Work is of a Specific Nature ("Remuneration Policy"), which lays down the system of remuneration and performance bonuses for the categories of staff having a material impact on the Group's risk profile by virtue of performing their work tasks and assignments: either by being risk takers, or by cooperating in risk management, or by having control and supervision functions.

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

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 2017 are published on the Bank's website www.dbs.si.

4.34. Events after the statement of financial position date

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

5. CONTROLLING RISK IN THE GROUP

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

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

The risks that the Group is exposed to are identified at the level of the Group, and the manner and intensity of their management depend on the risk profile of the Group and its environment. The Group's risk profile involves assessments of credit risk, market risk, interest rate risk, liquidity risk, operational 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 2017, the Group complied with the requirements of the capital accord and other requirements of the regulatory framework for banks. Risk management was additionally upgraded, especially the management of credit risk. The Group continued with the upgrade of its early warning system for increased credit risk for monitoring all customers, and carried out activities related to the implementation of IFRS 9. The Supervisory Board noted the Group risk profile and its risk-taking capacity, and promptly monitored its exposure to risks. All critical risk management internal acts were revised in 2017.

Under Directive 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. Semenarna is faced with liquidity problems and undergoing a restructuring process; the Bank, however, being its sole owner, i.e. the controlling undertaking, 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 will not demand for its liabilities to be repaid. 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 2017

Code	Items	Accounting consolidation 2017	Prudential consolidation 2017	Difference
1	Cash, balances at central banks, and sight deposits at banks	29,613	29,450	163
2	Financial assets held for trading	227	227	0
3	Available-for-sale financial assets	3,753	3,751	2
4	Loans and advances	718,912	718,042	870
	- Loans and advances to banks	4,914	4,914	0
	- Loans and advances to customers	710,040	712,277	(2,237)
	- Other financial assets	3,958	851	3,107
5	Held-to-maturity investments	123,572	123,572	0
6	Non-current assets held for sale, and discontinued operations	3,217	22	3,195
7	Property, plant and equipment	28,545	10,624	17,921
8	Investment property	29,629	29,629	0
9	Intangible assets	834	594	240
	Long-term equity participation in subsidiaries, associates and joint ventures	0	5,533	(5,533)
10	Income tax assets	5,608	5,106	502
	- Deferred tax assets	5,608	5,106	502
11	Other assets	13,311	4,738	8,573
12	**TOTAL ASSETS** (from 1 to 11)	**957,221**	**931,288**	**25,933**
13	Financial liabilities held for trading	227	227	0
14	Financial liabilities measured at amortised cost	890,333	868,948	21,385
	- Deposits by banks and central banks	594	579	15
	- Deposits by customers	802,603	802,692	(89)
	- Borrowings from banks and central banks	68,879	50,811	18,068
	- Borrowings from customers	598	0	598
	- Subordinated liabilities	11,614	11,614	0
	- Other financial liabilities	6,045	3,252	2,793
15	Provisions	3,105	2,834	271
16	Income tax liabilities	1,352	177	1,175
	- Current tax liabilities	177	0	177
	- Deferred tax liabilities	1,175	507	668
17	Other liabilities	1,222	507	715
18	**TOTAL LIABILITIES** (from 13 to 17)	**896,239**	**872,693**	**23,546**
19	Share capital	17,811	17,811	0
20	Share premium	31,257	31,257	0
21	Accumulated other comprehensive income	(390)	(326)	(64)
22	Revenue reserves	7,230	7,230	0
23	Treasury shares	(657)	(645)	(12)
24	Retained earnings (including profit/loss for the year)	5,731	3,268	2,463
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**60,982**	**58,595**	**2,387**
26	TOTAL EQUITY (25)	60,982	58,595	2,387
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**957,221**	**931,288**	**25,933**

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 rates changes affect the Group's revenues and expenses as well as the value of individual items and thus the economic value of equity. The Group measures, manages, oversees and monitors interest rate risk in line with its Risk Assessment Methodology and its Policy of Risk-taking and Risk Management for Interest Rate Risk. For measuring the risk of interest rates changing, the Group uses a gap analysis to calculate the potential impacts of interest rate shock scenarios on net interest income and the sensitivity of the banking book's economic value. Interest rate risk is measured for the entire banking book, separately for different currencies and applied reference interest rates. The analysis also looks as the distribution of sight deposits consistent with an internal model.

Liquidity risk

Liquidity risk is the risk of providing sources of liquidity in cases of potential loss when the Group is unable to discharge all its matured liabilities or when, due to its inability to provide sufficient funds to settle its matured liabilities, the Group is forced to obtain liquidity at significantly higher costs. 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, and the Bank's Management Board and Supervisory Board are informed at least quarterly in the context of a comprehensive risk analysis. One of their tasks is to monitor the implementation of measures for ensuring the Group meets the capital adequacy ratios imposed by the legislation and the Bank of Slovenia. The Group uses several internal acts in the process of 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, the amount of impairments against individual receivables, 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 impairment provisions for credit risk. In order to reduce capital requirements for credit risk, the Group only accepted first-class and appropriate guarantees in 2017, consistent with regulations.

5.1.1. Measuring credit risk

(a) Loans and receivables

In 2017, the Group determined credit risk pursuant to the valid regulations. To this end it drew up its credit portfolio quality analyses, into which it included data on:

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

More on forming provisions and impairments in Chapter 5.1.3.

(b) Debt securities

In assuming exposure to credit risk when buying debt securities in 2017, 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 Management Board and Supervisory Board. Limits of exposure are determined by considering the basic principles of banking, especially safety and liquidity.

(a) Collateral

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

Internal rules on collateral define:

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

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

The main types of collateral used by the Group are property as collateral and insurance covers, guarantees, bank deposits, 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 IFRS (particularly IAS 37 and IAS 39), the Group classifies financial assets and off-balance-sheet commitments (hereafter: exposures) into groups according to their risk profile, and assesses the amount of expected losses associated with these exposures where necessary.

Exposures are classified as i) credit risk-free in which case expected losses are not assessed, and ii) credit risk-prone, in which case expected losses are assessed. Expected losses are normally assessed using i) the method of collective assessment for non-defaulted obligors ii) the method of individual assessment for defaulted obligors. On the basis of assessed expected losses, the Group forms adequate impairments and provisions (hereafter: impairments). Exposures with high-quality collateral are not impaired nor are there provisions formed for them.

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

Degree of impairment is calculated by individual groups of customers and individual credit rating grades. It is calculated as the product of probability of default (PD) and loss given default (LGD). For each exposure, expected loss (EL) is then calculated as the product of the degree of impairment and individual exposure.

The PD parameter refers to the probability for a customer, a non-defaulted obligor, to migrate to the status of a defaulted obligor, and is calculated based on annual migration matrices. The annual PD is calculated by individual exposure groups and credit rating grades.

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

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

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

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

	2017		2016	
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	76.9	0.1	75.3	0.0
2. B	12.1	1.4	10.2	1.5
3. C	1.7	5.2	1.7	6.4
4. D	0.0	56.2	0.0	69.8
5. E	0.4	100.0	0.0	98.8
6. P	8.9	30.4	12.8	28.7
	100.0	3.4	100.0	4.0

Total receivables for classification were up 11.9% in 2017 compared to 2016, and total impairments and provisions decreased by 5.2% as a result of successfully completed cases of restructuring, repayments received for non-performing exposures, and also due to the transfer of 100%-impaired receivables off the balance sheet and the write-off of unrecoverable receivables. At the year-end of 2017, the majority, i.e. 76.9%, 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 12.1% of all receivables for classification, and individually impaired receivables from customers in category P, which represented 8.9% 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 2017 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

	2017		2016	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	277,137	4,914	178,360	5,100
Impaired	435,037	0	422,439	0
Gross amounts	**743,440**	**4,914**	**632,412**	**5,100**
Less impairment allowance	(31,163)	0	(30,927)	0
Net amounts	**712,277**	**4,914**	**601,485**	**5,100**

The total value of loans and receivables in financial year 2017 was up 17.4% from 2016, with loans to customers increasing and loans to banks slightly decreasing. The reported loan loss provisions totalled EUR 31,163 thousand (2016: EUR 30,927 thousand).

(b) Loans and receivables individually assessed as impaired

Loans and advances to customers (loans and receivables)

Individually impaired loans to customers and receivables from customers, without individually impaired loans to banks and before considering cash flows from collateral held by the Group, amount to EUR 78,471 thousand (2016: EUR 103,459 thousand). As opposed to 2016, exposure to the retail segment decreased the most in

2017, by 53.9%, and exposure to large corporate clients was down 45.0%. Exposure to micro, small and medium corporate clients decreased by 11.4% 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:

2017	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	4,819	14,336	59,316	6,474	84,945
- Past due up to 15 days	1,252	0	26,883	0	28,135
- Past due 16 to 30 days	53	0	0	0	53
- Past due 31 to 90 days	0	0	2,208	0	2,208
- Past due over 90 days	3,514	14,336	30,225	0	48,075
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.

2016	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	10,453	26,062	66,944	7,632	111,091
Impairment charge	3,548	10,206	17,969	0	31,723
Fair value of collateral	16,005	13,144	72,745	0	101,894

* Micro, small and medium enterprises.

Loans and advances to banks (loans and receivables)

The total gross amount of loans to and receivables from banks as at 31 December 2017 totalled EUR 6,474 thousand (2016: EUR 7,632 thousand), whereby no individually impaired loans were reported.

(c) Restructured loans and receivables

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

The gross value of exposure for which a new agreement on repayment conditions was reached and which could otherwise fall due, amounted to a total of EUR 64,884 thousand as at 31 December 2017 (2016: EUR 78,557 thousand).

	2017	2016
Retail loans and receivables		
– Loans and advances	64,884	78,557
Total	**64,884**	**78,557**

5.1.5. Debt securities and bills

To asses 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 2017 and 31 December 2016:

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	**123,572**	**0**	**0**	**123,572**

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

Both in 2017 and 2016, the largest proportion of our debts portfolio were Slovene state bonds, which totalled EUR 123 million (the year-end of 2016: EUR 143 million). The Group classified Republic of Slovenia bonds under held-to-maturity investments. The proportion of debt securities decreased in 2017, mainly the result of Republic of Slovenia debt securities reaching maturity. The Group's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

5.1.6. Collateral acquired by prescription

In 2017, the Group acquired assets by calling on the collateral held as guarantee, namely:

	Carrying amount	
	2017	2016
Property	3,987	8,601
Total	**3,987**	**8,601**

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

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

		Remaining maturity as at 31 December 2017			Remaining maturity as at 31 December 2016		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	28,674	396,036	424,710	46,856	298,037	344,893
02	Regional and local government	9	4,623	4,632	531	8,355	8,886
03	Public sector entities	4,292	7,943	12,235	3,731	7,421	11,152
06	Institutions	38,955	216	39,171	46,666	216	46,882
07	Corporate	19,873	11,341	31,214	21,642	14,903	36,545
08	Retail exposures	59,255	112,200	171,455	59,616	104,776	164,392
09	Secured by mortgages of immovable property	30,177	222,430	252,607	23,317	200,326	223,643
10	Exposures in default	24,042	7,973	32,015	28,661	8,656	37,317
11	Regulatory high risk categories	1,523	20	1,543	6,756	58	6,814
14	Investments in investment funds	0	2,699	2,699	2,702	0	2,702
15	Other exposure	19,697	386	20,083	19,290	386	19,676
16	Equity exposure	8,981	0	8,981	7,097	0	7,097
	As at 31 December	235,478	765,867	1,001,345	266,865	643,134	909,999

At the year-end of 2017, over 23.5% of the Group's exposure would mature within one year, and almost 76.5% in over one year. In terms of value, exposure decreased the most towards institutions, while it increased the most towards the central government and central banks. 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.

5.1.8. Capital requirements according to exposure categories

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

			2017		2016
	Exposure category	Net exposure	Capital requirement	Net exposure	Capital requirement
01	Central government and central banks	424,710	621	344,893	622
02	Regional and local government	4,632	74	8,886	141
03	Public sector entities	12,235	776	11,152	740
06	Institutions	39,171	2,686	46,882	3,227
07	Corporate	31,214	1,807	36,545	2,199
08	Retail exposures	171,455	8,445	164,392	8,024
09	Secured by mortgages of immovable property	252,607	9,410	223,643	8,250
10	Exposures in default	32,015	2,885	37,317	3,809
11	Regulatory high risk categories	1,543	181	6,814	803
14	Investments in investment funds	2,699	25	2,702	28
15	Other exposure	20,083	913	19,676	963
16	Equity exposure	8,981	719	7,097	569
	As at 31 December	1,001,345	28,542	909,999	29,375

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 Risktaking and Managing Market Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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 records of the bank's position, 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 2017, as in 2016, primarily included exposure to interest rate risk due to Euribor changes and, to a lesser degree, foreign exchange risk. In any case, the Group pursues a policy of portfolio diversification and 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 2017 and consequently did not have capital requirements for market risk.

	2017	2016
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 2017, 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 Risktaking 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 (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 2017, 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 2017, 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 2017, 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 2017 and 31 December 2016 according to currency:

FOREIGN EXCHANGE RISK as at 31 December 2017					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Cash, balances at central banks, and sight deposits at banks	25,449	96	3,516	389	29,450
Financial assets held for trading	0	17	197	13	227
Available-for-sale financial assets	3,751	0	0	0	3,751
Loans	715,204	1,919	233	686	718,042
- Loans to banks	2,309	1,919	0	686	4,914
- Loans to customers	712,044	0	233	0	712,277
- Other financial assets	851	0	0	0	851
Held-to-maturity investments	123,572	0	0	0	123,572
Non-current assets held for sale, and discontinued operations	22	0	0	0	22
Property, plant and equipment	10,624	0	0	0	10,624
Investment property	29,629	0	0	0	29,629
Intangible assets	594	0	0	0	594
Long-term equity participation in subsidiaries, associates and joint ventures	5,531	0	0	2	5,533
Income tax assets	5,106	0	0	0	5,106
- Deferred tax assets	5,106	0	0	0	5,106
Other assets	4,738	0	0	0	4,738
TOTAL ASSETS (1)	**924,220**	**2,032**	**3,946**	**1,090**	**931,288**
Financial liabilities held for trading	227	0	0	0	227
Financial liabilities measured at amortised cost	862,012	2,038	3,988	910	868,948
- Deposits by banks and central banks	579	0	0	0	579
- Deposits by customers	795,782	2,021	3,979	910	802,692
- Borrowings from banks and central banks	50,811	0	0	0	50,811
- Subordinated liabilities	11,614	0	0	0	11,614
- Other financial liabilities	3,226	17	9	0	3,252
Provisions	2,834	0	0	0	2,834
Income tax liabilities	177	0	0	0	177
- Current tax liabilities	177	0	0	0	177
Other liabilities	507	0	0	0	507
TOTAL LIABILITIES (2)	**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**

FOREIGN EXCHANGE RISK as at 31 December 2016					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	839,450	2,470	3,771	1,121	846,812
Total liabilities	784,714	2,469	3,746	1,026	791,955
MISMATCH (1) less (2)	**54,736**	**1**	**25**	**95**	**54,857**
Off-balance sheet liabilities	**61,335**	**0**	**0**	**40**	**61,375**

As at 31 December 2017, 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 Risktaking and Managing Interest Rate Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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. Reports on exposure to interest rate risk are reviewed by the Bank's ALM Board on a monthly basis, and quarterly by the Management Board and Supervisory Board in the context of a risk management analysis.

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

With the gap analysis the Group performs sensitivity tests to determine the effect of changes in market interest rates on the amount of net interest income in the following 12 months, as well as the exposure of the banking book economic value in the event of a standard parallel 200-basis-point interest rate shock. The latter result is used as the basis for computing the Group's additional capital requirement for interest rate risk under pillar II; it is computed as the 6-month mean exposure of the banking book economic value assuming a standard interest rate shock. For the purposes of 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 2017, 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 322 thousand as at 31 December 2017, which is 0.5% of the Bank's regulatory capital (2016: EUR 2,371 thousand). Lower exposure of the banking book economic value in 2017 results mainly from the changed methodology regarding the categorisation of sight deposits in longer Sight time periods according to their stability, i.e. from previous 5 to 10 years, with average maturity of their categorisation not exceeding 5 years.

Interest income sensitivity to interest rate movements as at 31 December 2017:

Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	17,998		
One-time curve shift (+2%) - immediate shock	24,491	6,494	36.08%
One-time curve shift (-2%) - immediate shock	7,749	(10,249)	(56.94%)
Curve shift (+2%) - gradually over 12 months	21,279	3,281	18.23%
Curve shift (-2%) - gradually over 12 months	12,895	(5,102)	(28.35%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	29,150	11,152	61.97%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	9,463	(8,535)	(47.42%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	23,608	5,611	31.17%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	13,650	(4,348)	(24.16%)

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

Assuming that the Group's investments and liabilities as at 31 December 2017 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 10 million decrease in net interest income over a one-year period (2016: almost EUR 9 million).

The following tables outline exposure to interest rate risk as at 31 December 2017 and 31 December 2016. 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 2017									
Balance sheet item	TOTAL	Non-interest	Total accrued	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	29,450	0	29,450	27,346	0	2,104	0	0	0
Financial assets held for trading	227	227	0	0	0	0	0	0	0
Available-for-sale financial assets	3,751	3,751	0	0	0	0	0	0	0
Loans	718,042	3,195	714,847	264,648	15,752	193,851	172,873	59,842	7,881
- Loans to banks	4,914	2	4,912	2,109	2,603	0	200	0	0
- Loans to customers	712,277	2,342	709,935	262,539	13,149	193,851	172,673	59,842	7,881
- Other financial assets	851	851	0	0	0	0	0	0	0
Held-to-maturity investments	123,572	2,754	120,818	0	0	0	3,608	79,410	37,800
Long-term equity participation in subsidiaries, associates and joint ventures	5,533	5,533	0	0	0	0	0	0	0
Other assets	4,738	4,738	0	0	0	0	0	0	0
TOTAL ASSETS	**885,313**	**20,198**	**865,115**	**291,994**	**15,752**	**195,955**	**176,481**	**139,252**	**45,681**
Financial liabilities held for trading	227	227	0	0	0	0	0	0	0
Financial liabilities measured at amortized cost	868,948	4,795	864,153	529,230	95,294	46,378	102,600	88,347	2,304
- Deposits by banks and central banks	579	0	579	579	0	0	0	0	0
- Deposits by customers	802,692	979	801,713	524,444	95,294	46,378	101,996	33,297	304
- Borrowings from banks and central banks	50,811	0	50,811	207	0	0	604	50,000	0
- Subordinated liabilities	11,614	564	11,050	4,000	0	0	0	5,050	2,000
- Other financial liabilities	3,252	3,252	0	0	0	0	0	0	0
Other liabilities	507	507	0	0	0	0	0	0	0
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**

INTEREST RATE RISK as at 31 December 2016									
Balance sheet item	TOTAL	Non-interest	Total accrued	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	802,780	32,799	769,981	290,962	18,015	101,549	180,714	92,082	86,659
Total liabilities	789,942	5,868	784,074	453,614	103,306	63,208	126,838	32,320	4,788
Net exposure to interest rate risk	**12,838**	**26,931**	**(14,093)**	**(162,652)**	**(85,291)**	**38,341**	**53,876**	**59,762**	**81,871**

The Group's largest exposure as at 31 December 2017 was in euro, with exposures in other currencies negligible and immaterial. Interest rate risk in 2017 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 2018, 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.

5.2.5. Average interest rates as at 31 December

		2017		2016
	EUR	USD	EUR	USD
Assets		%		%
Cash, balances at central banks, and sight deposits at banks	0.00	0.03	0.01	0.04
Loans to banks	1.16	1.18	0.53	0.30
Loans to customers	2.05	0.00	2.35	0.00
Investment securities - debt	3.13	0.00	2.99	0.00
Liabilities				
Borrowings from banks and central banks	0.00	0.00	0.76	0.00
Deposits by customers	0.11	0.01	0.20	0.01
Subordinated liabilities	6.16	0.00	6.19	0.00

5.3. Liquidity risk

In managing liquidity risk, the Group applies the Risktaking and Risk Management Policy for Liquidity Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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 2017, the Group had at its disposal an adequate pool of liquidity reserves, which can be utilised to settle any liabilities as well as off-balance sheet liabilities. In addition, it has at its disposal adequate secondary liquidity (liquid debt securities, domestic loans eligible as collateral with the European Central Bank, etc.) which it could easily and efficiently liquidate and use in case of a liquidity stress event that compromised the daily system of liquidity management, such as e.g. an unexpected large-scale withdrawal of deposits.

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 following restoration plan liquidity indicators were selected: first class liquidity ratio (KL-1), liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and indicator of wholesale funding costs (SGF). 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 Risktaking and Risk Management Strategy of Deželna banka Slovenije d. d.

In 2017, the Group complied with the regulations of the Bank of Slovenia regarding the minimum requirements to facilitate sufficient liquidity. As at 31 December 2017 and 31 December 2016, the first class liquidity ratio was 1.38 and 1.27 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% from 2018 onwards. As at 31 December 2017, the liquidity coverage ratio was 208%.

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

The following tables summarise the Group's exposure to liquidity risk as at 31 December 2017 and 31 December 2016. Financial instruments are recorded at undiscounted amounts according to remaining contractual maturity as at 31 December 2017, which in addition to the asset's carrying value includes expected future cash flows from interest.

LIQUIDITY RISK as at 31 December 2017							
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	27,346	0	2,105	0	0	0	29,451
Financial assets held for trading	227	0	0	0	0	0	227
Available-for-sale financial assets	3,751	0	0	0	0	0	3,751
Loans	30,894	7,392	25,845	97,726	221,713	414,181	797,751
- Loans to banks	2,109	2,606	0	12	243	0	4,970
- Loans to customers	27,934	4,786	25,845	97,714	221,470	414,181	791,930
- Other financial assets	851	0	0	0	0	0	851
Held-to-maturity investments	0	631	2,220	4,456	86,960	40,625	134,892
Long-term equity participation in subsidiaries, associates and joint ventures	5,533	0	0	0	0	0	5,533
Other assets	4,074	52	0	612	0	0	4,738
TOTAL ASSETS	**71,825**	**8,075**	**30,170**	**102,794**	**308,673**	**454,806**	**976,343**
Financial liabilities held for trading	227	0	0	0	0	0	227
Financial liabilities measured at amortized cost	527,837	95,826	46,786	103,290	95,595	2,799	872,133
- Deposits by banks and central banks	579	0	0	0	0	0	579
- Deposits by customers	524,552	95,402	46,501	102,565	34,358	346	803,724
- Borrowings from banks and central banks	0	0	207	604	50,000	0	50,811
- Subordinated liabilities	0	0	0	119	11,195	2,453	13,767
- Other financial liabilities	2,706	424	78	2	42	0	3,252
Other liabilities	502	5	0	0	0	0	507
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**

LIQUIDITY RISK as at 31 December 2016							
Balance sheet items	**Sight**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Total assets	85,965	10,437	28,409	114,518	257,358	392,428	889,115
Total liabilities	449,248	104,048	64,892	128,941	39,459	7,939	794,527
Net exposure to liquidity risk	**(363,283)**	**(93,611)**	**(36,483)**	**(14,423)**	**217,899**	**384,489**	**94,588**

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

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

As at 31 December 2017, the Group had EUR 316 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

					2017					2016
	Carrying amount	Fair value				Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Assets										
Loans and advances to banks	4,914	0	0	4,914	4,914	5,100	0	0	5,100	5,100
Loans and advances to customers	710,040	0	0	737,702	737,702	599,627	0	0	602,187	602,187
Held-to-maturity debt securities	123,572	133,911	0	0	133,911	140,941	153,655	0	0	153,655
Total assets	**838,526**	**133,911**	**0**	**742,616**	**876,527**	**745,668**	**153,655**	**0**	**607,287**	**760,942**
Liabilities										
Deposits by banks	594	0	0	594	594	448	0	0	448	448
Deposits by customers	802,603	0	0	802,603	802,603	767,666	0	0	767,666	767,666
Borrowings from banks and central banks	68,879	0	0	68,879	68,879	25,692	0	0	25,692	25,692
Borrowings from customers	598	0	0	598	598	1,394	0	0	1,394	1,394
Subordinated liabilities	11,614	0	0	11,614	11,614	11,615	0	0	11,615	11,615
Total liabilities	**884,288**	**0**	**0**	**884,288**	**884,288**	**806,815**	**0**	**0**	**806,815**	**806,815**

(a) Loans and advances to banks

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

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The 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 2017 as the best proxy for market rates.

(c) Held-to-maturity debt securities

Held-to-maturity debt securities are stated at amortised cost. Their fair value as at 31 December 2017 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

Financial instruments measured at fair value in the financial statements:

2017	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	227	**227**
Available-for-sale financial assets (Note 4.3. a)	0	0	3,751	**3,751**
Non-financial assets				
Investment property (Note 4.10. a)	0	0	29,629	**29,629**
Financial liabilities				
Financial liabilities held for trading (Note 4.14.)	0	0	227	227

2016	Level 1	Level 2	Level 3	**Total**
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	0	**0**
Available-for-sale financial assets (Note 4.3. a)	0	0	8,348	**8,348**
Non-financial assets				
Investment property (Note 4.10. a)	0	0	26,442	**26,442**
Financial liabilities				
Financial liabilities held for trading (Note 4.14.)	0	0	0	**0**

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

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

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

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

	2017	2016
Equities	3,751	3,987
Bank resolution fund	2,699	2,702
Equity investments at cost	1,052	1,285
Bonds	0	4,361
Lithuania	0	2,202
Republic of Slovenia	0	2,159
TOTAL	**3,751**	**8,348**

In 2017, the Bank Resolution Fund total amounted to EUR 2,699 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 into Level 3. The Group additionally categorises into Level 3 capital assets worth EUR 1.1 million for which market value does not exist and which are valued at cost.

There were no transfers between different valuation levels in 2016 and 2017.

5.5. Managing operational risk

In managing operational risk, the Group applies the Risktaking and Risk Management Policy for Operational Risk of Deželna banka Slovenije d. d. by establishing an internal controls system.
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 Risktaking 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. The new Resolution on Internal Governance, Governance Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks allows each employee of the Group to report a (loss) event into the loss events database. 284 (loss) events associated with operational risk were reported in this manner in 2017, which is more than in 2016 when there were 229. However, the realised net loss in 2017 was lower than in 2016. It totalled EUR 13.8 thousand in 2017, and EUR 37.6 thousand in 2016, testifying to the fact that the Group's awareness of operational risk is increasing, pushing the related loss down. The total reported net loss was relatively low considering the capital requirements for operational risk.

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

The Group calculates and reports capital requirements for operational risk using the simple approach. The capital requirement for operational risk is calculated as the average over three years of the sum of net interest income and net non-interest income, minus extraordinary income, the result then multiplied with the weight of 15%. Using the said simple approach, the 2017 capital requirement for operational risk totalled EUR 4,049 thousand.

In 2017, 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 Risktaking and Risk Management Policy for Capital Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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 Audit and Risk Committee of the 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 Risktaking 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 01 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[1] and an adjustment for prudent valuation of financial assets measured at fair value in the banking and trading book[2]. The following constitute deductions from common equity tier 1 capital: loss, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences[3], special credit risk adjustment and adjustment for prudent valuation of financial assets measured at fair value banking and trading book.

The Group did not have additional tier I capital neither according to the balance as at 31 December 2017 nor as at 31 December 2016.

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

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

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

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

		2017	2016
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	6,626	4,630
3	Accumulated other comprehensive income and other reserves	30,996	31,080
4	**Common equity tier I capital before regulatory adjustments**	**55,434**	**53,521**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS			
5	Additional fair value and credit risk adjustments	(424)	(320)
6	Intangible assets (deductions for associated tax liabilities)	(594)	(695)
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)	(1,600)	(1,479)
8	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(645)
9	Total regulatory adjustments to common equity tier I capital	(3,263)	(3,138)
10	Common equity tier I capital	52,170	50,382
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**52,170**	**50,382**
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS			
12	Capital instruments and the related share premium account	7,781	9,229
13	Tier II capital before regulatory adjustments	7,781	9,229
14	**TIER II CAPITAL**	**7,781**	**9,229**
15	**TOTAL CAPITAL (tier I + tier II)**	**59,951**	**59,611**
16	Total risk-weighted assets	407,369	418,898
CAPITAL RATIOS AND CAPITAL BUFFERS			
17	**Common equity tier I capital** (in %)	**12.81**	**12.03**
18	**Tier I capital** (in %)	**12.81**	**12.03**
19	**Total capital** (in %)	**14.72**	**14.23**
20	Common equity tier I capital that qualifies as capital buffer (in %)	12.81	12.03
21	Institution-specific buffer requirement (in %)	1.250	0.625
22	of which: capital conservation buffer requirement (in %)	1.250	0.625
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)	2,995	2,998
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)	3,106	3,111

The Group's regulatory capital as at 31 December 2017 amounted to EUR 59,951 thousand, up EUR 340 thousand year-on-year. The quality of capital structure improved at the year-end of 2017 as compared to 2016, the share of tier I capital having increased to 87.0% (from 84.5% in 2016). Total capital requirements at Group level totalled EUR 32,590 thousand at the year-end of 2017, down EUR 922 thousand year-on-year. Capital requirements for credit risk decreased due to lower exposure to institutions. In addition, the Group continued in 2017 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 2017, as in 2016, exposure decreased the most in terms of defaulting items. Because the reduction in capital requirements (especially for credit risk) was greater than the reduction in capital, the Group's capital adequacy ratio improved. The total capital ratio as at 31 December 2017 thus stood at 14.72%, up 0.49 of a percentage point year-on-year, and by 1.97 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 2017 were 12.81%, up 0.78 of a percentage point year-on-year, and by 0.53 of a percentage point higher than what had been imposed by the Bank of Slovenia.

Given the Group's internal capital adequacy assessment, we estimate the reported capital adequacy ratio as appropriate for managing the risk of potential losses. The Bank and the Group will continue to operate an adequate amount of capital to sustain their normal operations in the future. In 2017, 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 12.75% (in 2016 the target was 13.1%) and tier I capital adequacy ratio of 11.5% (in 2016 the target was 10.5%). At the year-end of 2017, the Group thus met all the capital adequacy ratios imposed by the Bank of Slovenia.

For 2018, the Bank of Slovenia imposed new minimum capital adequacy ratios for the Group on the basis of the ICAAP/SREP process: the capital adequacy ratio of 13.38% and the 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.

Code	Items	Prudential consolidation 2017	Inclusion into calculation of capital for the purpose of CA as at 31 December 2017	Full inclusion (without considering transitional provisions)	Note
1	Cash, balances at central banks, and sight deposits at banks	29,450			
2	Financial assets held for trading	227	(0)	(0)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Available-for-sale financial assets	3,751	(4)	(4)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
4	Loans and advances	718,042			
	- Loans and advances to banks	4,914			
	- Loans and advances to customers	712,277			
	- Other financial assets	851			
5	Held-to-maturity investments	123,572			
6	Non-current assets held for sale, and discontinued operations	22			
7	Property, plant and equipment	10,624			
8	Investment property	29,629			
9	Intangible assets	594	(594)	(594)	deduction item Article 36 b - fully
10	Long-term equity participation in subsidiaries, associates and joint ventures	5,533			
11	Income tax assets	5,106			
	- Deferred tax assets	5,106			
	Depending on future profitability and not arising out of temporary differences	2,000	(1,600)	(2,000)	deduction item Article 36 c - 80% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,106			
12	Other assets	4,738			
13	**TOTAL ASSETS** (from 1 to 12)	**931,288**			
14	Financial liabilities held for trading	227	(0)	(0)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
15	Financial liabilities measured at amortised cost	868,948			
	- Deposits by banks and central banks	579			
	- Deposits by customers	802,692			
	- Borrowings from banks and central banks	50,811			
	- Borrowings from customers	0			
	- Subordinated liabilities	11,614	7,781	7,781	included on the basis of Articles 62 and 63
	- Other financial liabilities	3,252			
16	Provisions	2,834			
17	Income tax liabilities	177			
	- Current tax liabilities	177			
18	Other liabilities	507			
19	**TOTAL LIABILITIES** (from 14 to 18)	**872,693**			
20	Share capital	17,811	17,811	17,811	fully included; Article 26
21	Share premium	31,257	31,257	31,257	fully included; Article 26
22	Accumulated other comprehensive income	(326)			
	From government debt securities	0	0	0	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	(1)	(1)	(1)	only 80% of unrealised losses included in 2017, Article 467 (transitional period)
	Other revaluation surpluses	(325)	(260)	(325)	only 80% of unrealised losses included in 2017, Article 467 (transitional period)
23	Revenue reserves	7,230	6,626	6,626	fully included; Article 26
24	Treasury shares	(645)	(645)	(645)	deduction item, Article 36 f - fully
25	Retained earnings (including profit/loss for the year)	3,268			
	Retained earnings	157			fully included; Article 26
	Profit for the period	3,111	3,872	3,872	conditions for inclusion not yet met
26	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 20 to 25)	**58,595**			
27	TOTAL EQUITY (26)	58,595			
28	**TOTAL EQUITY AND LIABILITIES** (19 + 27)	**931,288**	**60,370**	**59,905**	
					Regulatory capital (sum of capital from SFP)
			(419)	(419)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			59,951	**59,486**	**Regulatory capital**

5.7. Asset encumbrance

(a) Assets

				2017
	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	**63,222**	**-**	**868,066**	**-**
Equities	0	0	3,751	3,489
Debt securities	3,222	3,222	120,350	130,689
Other assets	0	-	64,858	-

(b) Collateral received

		2017
	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
Collateral received by the reporting institution	**0**	**0**
Equity instruments	0	0
Debt securities	0	0
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	**0**	**0**

(c) Encumbered assets/collateral received and related liabilities

		2017
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	010	030
Carrying amount of selected financial liabilities	**50,000**	**50,000**

(d) Information on the importance of encumbrance

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

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

Deželna banka Slovenije d. d.

Financial statements under International Financial Reporting Standards for the year ended 31 December 2017

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 2017 (pages 147 to 150 of the Annual Report), along with the accounting principles used and notes to the financial statements (pages 151 to 218 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 2017, 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:

Ljubljana, 19 February 2018

INDEPENDENT AUDITOR'S REPORT

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

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

Opinion

We have audited the accompanying financial statements of DEŽELNA BANKA SLOVENIJE d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of 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 2017, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

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 current period. 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.

Key audit matter	How our audit addressed the key audit matter
Loan portfolio impairment	
Loan portfolio impairment is explained in Note 5.1.3 (accounting policies) and Note 4.5 (value and assumptions) The bank management's decision as to when and to what extent loan portfolio impairment should be recognised requires high level of judgement/assessment. Due to the importance	During the performance of our audit procedures, we examined the structure and efficiency of key controls regarding impairment of the loan portfolio: - Control over the classification of client; - control over timely assessment of the individual impairments;

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of the said assessment and of the quantity of the loan portfolio and the respective impairments for the financial statements, this accounting estimate is considered a key audit matter. As at 31 December 2017, the gross exposure of loan portfolio amounted to EUR 737.282 thousand, while the relevant impairment was recognised in the amount of EUR 26.837 thousand. The basis for impairment calculation and recognition is determined in the bank's accounting policies, i.e. financial assets arising from loans and guarantees are classified as individually or collectively impaired assets. The clients who are not recorded as delinquent are impaired collectively, whereas the Bank takes into account their classification by credit ratings. In order to calculate the need for collective impairments, management considers factors, such as loan quality, size of portfolio, and economic factors, including the analysis of past payment discipline in individual classes. Impairments regarding losses incurred but not reported (IBNR) are posted monthly and are created based on the portfolio quality. IBNR therefore represent general impairments. Individual impairments are recognised (at a client or operation level) by taking into account the following criteria: • In estimating cash flows, the Bank assesses both the client's financing activities ant its past payment (in)discipline and repayment method; • Potential breach of loan contracts or contractual terms; • Bankruptcy or other legal proceedings that can result in Bank's incurring losses from such investments; • Information with the potential impact on repayment shortfalls. The clients in corporate segment for which significant loan delinquency is recorded are impaired individually, while the retail segment clients with the same characteristics are impaired collectively, unless the Bank assesses that its exposure to such retail clients as significant. The Bank performs assessments of client quality and recognises impairments and provisions accordingly. This procedure is entirely subject to internal instructions and a proper IT support.	- control over the collateral valuation (with focus on having regularly updated valuations as the basis for determining the appropriate value of collateral). In line with the methodology, we analysed a sample of clients from the loan portfolio to assess if impairment occurred for those clients and if it was identified on time and in the right amounts. The adequacy of impairment methodology and policies was independently assessed for individually impaired exposures from the sample. We have prepared an independent assessment of impairment based on the information in respect of individual clients and on the applied impairment methodology (expected discounted cash flows from the operations or realisation of collateral). Where necessary, auditor's experts (certified appraisers) were engaged to assess the adequacy of provided collateral. During the procedures, we were focused also on any indicators of potential bias or errors on the side of management. For exposures subject to the group impairment, we examined if the methodology used to assess expected credit losses for the discussed portfolio was adequate. We examined internal policies, methodologies and work instructions. We analysed the sample to find out if the Bank had exercised the collective impairment policy consistently and if appropriate parameters had been used for the individual transactions. When assessing the adequacy of general collective impairments, we also checked the accuracy of key credit risk parameters. If the accuracy could not be assessed, benchmarks or system parameters were used.

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. We obtained the other information before the auditor's report date except for the Supervisory Board report, which will be made available subsequently. Management is responsible for the other information.

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

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

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

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

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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

Supervisory Board and Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity'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 entity 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 significant 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.

Among the matters we communicate Supervisory Board and Audit Committee, we select those matters that were of most significance in our audit of the financial statements of the current period, and, therefore, represent key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter, or, in extremely rare circumstances, we determine that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligations as required by EU Regulation No. 537/2014

In compliance with the Article 10(2) of EU Regulation No. 537/2014, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were reappointed as the statutory auditor of the Company by the shareholders on General Shareholders' Meeting held on 21 March 2016. Our total uninterrupted engagement has lasted 7 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report issued to the Audit Committee of the Company on 26 February 2018 in accordance with the 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.

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 February 2018

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

III. Financial statements as at 31 December 2017

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	Note	1-12 2017	1-12 2016
1	Interest income		19,596	19,704
2	Interest expense		1,783	3,152
3	**Net interest income** (1 - 2)	3.1.	**17,813**	**16,552**
4	Dividends	3.2.	91	9
5	Fee (commission) income		9,310	9,013
6	Fee (commission) expense		1,750	1,538
7	**Net fee (commission) income** (5 - 6)	3.3.	**7,560**	**7,475**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	3.4.	2,102	35
9	Net gains (losses) from financial assets and liabilities held for trading	3.5.	347	143
10	Foreign exchange translation	3.6.	(83)	15
11	Net gains/losses on derecognition of assets	3.7.	298	594
12	Other net operating gains/losses	3.8.	(1,596)	(1,356)
13	Administrative expenses	3.9.	16,441	15,988
14	Depreciation and amortisation	3.10.	1,089	1,237
15	Provisions	3.11.	923	18
16	Impairment charge	3.12.	3,416	3,282
17	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16)		**4,663**	**2,942**
18	Income tax	3.13.	857	486
19	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (17 - 18)		**3,806**	**2,456**
20	**PROFIT/LOSS FOR THE YEAR** (19)		**3,806**	**2,456**

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

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	Note	1-12 2017	1-12 2016
1	**PROFIT/LOSS FOR THE YEAR AFTER TAX**		**3,806**	**2,456**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3 + 4)		**(135)**	**(309)**
3	**ITEMS NOT TO BE RECLASSIFIED TO PROFIT/LOSS** (3.1. + 3.2)	4.25.	**(28)**	**(167)**
3.1	Actuarial gains/losses on defined benefit pension plans		(31)	(182)
3.2	Income tax relating to components of items not be reclassified to profit or loss		3	15
4	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (4.1 + 4.2)		**(107)**	**(142)**
4.1	Gains/losses associated with available-for-sale financial assets (4.1.1 + 4.1.2)	4.3. b	(134)	(166)
4.1.1	Valuation gains/losses taken to equity		(136)	(166)
4.1.2	Transferred to profit/loss		2	0
4.2	Income tax relating to components of items that may be reclassified to profit or loss	4.21. c	27	24
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1 + 2)		**3,671**	**2,147**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

in EUR thousand

Code	Items	Note	2017	2016
1	Cash, balances at central banks, and sight deposits at banks	4.1.	29,450	24,115
2	Financial assets held for trading	4.2.	227	0
3	Available-for-sale financial assets	4.3.	3,751	8,348
4	Loans and advances		715,918	604,631
	- Loans and advances to banks	4.4.	4,914	5,100
	- Loans and advances to customers	4.5.	710,310	598,785
	- Other financial assets	4.6.	694	746
5	Held-to-maturity investments	4.7.	123,572	140,941
6	Property, plant and equipment	4.8.	9,728	10,440
7	Investment property	4.9.	29,629	26,442
8	Intangible assets	4.10.	576	678
9	Long-term equity participation in subsidiaries, associates and joint ventures	4.11.	9,689	7,829
10	Income tax assets	4.12.	5,106	5,614
	- Current tax assets		0	39
	- Deferred tax assets		5,106	5,575
11	Other assets	4.13.	3,384	16,824
12	**TOTAL ASSETS** (from 1 to 11)		**931,030**	**845,862**
13	Financial liabilities held for trading	4.14.	227	0
14	Financial liabilities measured at amortised cost		869,086	788,709
	- Deposits by banks and central banks	4.15.	579	420
	- Deposits by customers	4.16.	802,871	767,963
	- Borrowings from banks and central banks	4.17.	50,811	5,758
	- Subordinated liabilities	4.18.	11,614	11,615
	- Other financial liabilities	4.19.	3,211	2,953
15	Provisions	4.20.	2,822	1,941
16	Income tax liabilities	4.21.	177	66
	- Current tax liabilities		177	22
	- Deferred tax liabilities		0	44
17	Other liabilities	4.22.	355	454
18	**TOTAL LIABILITIES** (from 13 to 17)		**872,667**	**791,170**
19	Share capital	4.23.	17,811	17,811
20	Share premium	4.24.	31,257	31,257
21	Accumulated other comprehensive income	4.25.	(335)	(200)
22	Revenue reserves	4.26.	7,230	4,504
23	Treasury shares	4.27.	(645)	(645)
24	Retained earnings (including profit/loss for the year)	4.28.	3,045	1,965
25	**TOTAL EQUITY** (from 19 to 24)		**58,363**	**54,692**
26	**TOTAL EQUITY AND LIABILITIES** (18 + 25)		**931,030**	**845,862**

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

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**

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

in EUR thousand

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

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

in EUR thousand

Code	Items	2017	2016
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	**Interest received**	**20,688**	**22,010**
	Interest paid	(2,448)	(4,229)
	Dividends received	91	9
	Fee and commission received	9,324	8,929
	Fee and commission paid	(1,750)	(1,538)
	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	198	101
	Realised losses on financial assets and liabilities not measured at fair value through profit or loss	(36)	(38)
	Net trading income	347	138
	Cash payments to employees and suppliers	(16,168)	(16,275)
	Other income	534	391
	Other expenses	(2,130)	(1,956)
	Cash flows from operating activities before changes in operating assets and liabilities	**8,650**	**7,542**
b)	**(Increases)/decreases in operating assets (no cash equivalents)**	**(112,645)**	**12,182**
	Net (increase)/decrease in financial assets held for trading	(240)	271
	Net (increase)/decrease in available-for-sale financial assets	4,134	1,376
	Net (increase)/decrease in loans and advances	(127,522)	3,074
	Net (increase)/decrease in other assets	10,983	7,461
c)	**Increases/(decreases) in operating liabilities**	**81,683**	**(42,467)**
	Net increase/(decrease) in liabilities with central bank	50,000	(30,400)
	Net increase/(decrease) in trading liabilities	229	3
	Net increase/(decrease) in deposits and borrowings measured at amortised cost	31,588	(12,400)
	Net increase/(decrease) in other liabilities	(133)	330
č)	**Cash flows from operating activities** (a + b + c)	**(22,312)**	**(22,743)**
d)	**Income taxes (paid)/received**	**(249)**	**(336)**
e)	**Net cash from operating activities** (č + d)	**(22,560)**	**(23,079)**
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	**Investing inflows**	**38,501**	**80,588**
	Proceeds from sale of property, plant and equipment, and investment property	6,503	8,125
	Disposal of associates, joint ventures and subsidiaries	0	745
	Proceeds from sale of held-to-maturity investments	31,998	71,718
b)	**Investing outflows**	**(10,187)**	**(65,881)**
	(Purchase of property, plant and equipment, and investment property)	(232)	(376)
	(Purchase of intangible long-term assets)	(65)	(109)
	(Investments into associates, joint ventures and subsidiaries)	0	(2,036)
	(Purchase of held-to-maturity investments)	(9,890)	(63,360)
c)	**Net cash from investing activities (a - b)**	**28,314**	**14,707**
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	**Inflows from financing activities**	**0**	**500**
	Issue of subordinated liabilities	0	500
b)	**Outflows from financing activities**	**0**	**(2,000)**
	(Repayment of subordinated liabilities)	0	(2,000)
c)	**Net cash from financing activities** (a - b)	**0**	**(1,500)**
D.	**Effects of exchange rates on cash and cash equivalents**	**(604)**	**98**
E.	**Net increase in cash and cash equivalents** (Ae + Bc + Cc)	**5,754**	**(9,872)**
F.	**Opening balance of cash and cash equivalents** (Note 4.1. b)	**29,009**	**38,783**
G.	**Closing balance of cash and cash equivalents** (D + E + F) (Note 4.1. b)	**34,159**	**29,009**

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

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

BANK MANAGEMENT BOARD:

Member of the Management Board
Barbara Cerovšek Zupančič MSc

President of the Management Board
Sonja Anadolli

Ljubljana, 19 February 2018

IV. Notes to financial statements for 2017

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 68–71 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 2017, the consumer price index was up 1.7% (2016: 0.5%). From 1 January 2007, Slovenia's national currency has been the euro, which has thus also become the functional and presentation currency of the Bank's financial statements. All amounts in the financial statements and related notes are given in euro thousands, unless specified otherwise.

2. CRITICAL ACCOUNTING POLICIES

2.1. Basis for the presentation of financial statements

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

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

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

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

Changes in accounting policies

In financial year 2017, the Bank did not adopt or apply accounting policies different from those applied in previous periods which would have a material effect on the financial statements of the current year.

Initial use of new amendments of valid standards, applicable in the current reporting period

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:

- *Amendments to IAS 7 „Cash Flow Statement"* – Disclosure Initiative, adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017);
- *Amendments to IAS 12 „Income Taxes"* – Recognition of Deferred Tax Assets for Unrealised Losses, adopted by the EU on 6 November 2017 (effective for annual periods beginning on or after 1 January 2017).

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

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

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

- *IFRS 9 „Financial Instruments"*, adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- I*FRS 15 „Revenue from Contracts with Customers" and amendments to IFRS 15 „Effective Date of IFRS 15"*, adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to IFRS 15 „Revenue from Contracts with Customers"* – Notes to IFRS 15 Revenue from Contracts with Customers, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- *IFRS 16 „Leases"*, adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- *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").

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

IFRS as adopted by the EU do currently not differ in any major respect from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments of valid standards and new interpretations which on 31 December 2017 (effective dates given below apply to the entire IFRS) were not yet approved for use in the EU :

- *IFRS 14 „Regulatory Deferral Accounts"* (effective for annual periods beginning on or after 1 January 2016) – the European Commission decided to not commence the endorsement procedure for this interim standard and rather wait for its final version;
- *IFRS 17 „Insurance Contracts"* (effective for annual periods beginning on or after 1 January 2021);
- *Amendments to IFRS 2 „Share-based Payment"* – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to IFRS 9 „Financial Instruments"* – „Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019);
- *Amendments to IFRS 10 „Consolidated Financial Statements" and IAS 28 „Investments in Associates and Joint Ventures"* – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture, and subsequent amendments (the effective date has been deferred for an indefinite period until the equity method research project is completed);

- *Amendments to IAS 28 „Investments in Associates and Joint Ventures"* – Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- *Amendments to IAS 40 „Investment Property"* – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- *Amendments to different standards „Improvements of IFRS (2014–2016 cycle)"*, issued under the annual improvements of IFRS (IFRS 1, IFRS 12 and IAS 28), mainly eliminating inconsistencies and interpreting the text (amendments to IFRS 12 apply to annual periods beginning on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 apply to annual periods beginning on or after 1 January 2018);
- *Amendments to different standards „Improvements of IFRS (2015–2017 cycle)",* issued under the annual improvements of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), mainly eliminating inconsistencies and interpreting the text (effective for annual periods beginning on or after 1 January 2019);
- *IFRIC 22 „Foreign Currency Transactions and Advance Consideration"* (effective for annual periods beginning on or after 1 January 2018);
- *IFRIC 23 „Uncertainty over Income Tax Treatments"* (effective for annual periods beginning on or after 1 January 2019).

The Bank anticipates that the introduction of these new standards and amendments to valid standards will not have a significant impact on its financial statements during the initial period of application, except the introduction of IFRS 9, which is explained below under the heading Additional details on individual standards, their amendments and interpretations which could have a major impact on financial statements in the future.

The accounting principles for hedging against risk with respect to the portfolio of financial assets and liabilities, which the EU has not adopted yet, remain unregulated.

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

- *IFRS 9 „Financial Instruments"*, issued by IASB on 24 July 2014, 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 following section.
- *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 standard will affect customers and might, consequently, indirectly also impact the Bank.
- *IFRS 16 „Leases"*, published by the IASB on 13 January 2016. Under IFRS 16, the lessee recognises the right to use an asset and 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. A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis. The Bank will make appropriate adjustments to the new standard.

Introducing the new standard IFRS 9 „Financial Instruments"

The application of IFRS 9 will become mandatory for annual periods beginning on or after 1 January 2018. Application before this date was allowed. The Bank 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 will have a major impact on different areas of the Bank's operations. It will affect 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 was 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. The current impairment requirements are based on the IAS 39 incurred loss model, which will be replaced by the expected credit loss model as introduced by IFRS 9. 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

The Bank will classify all recognised financial assets subsequently and measure them at amortised cost or fair value, depending on cash flow characteristics and the business model for managing a financial instrument. Three business models will be 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 will be 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 will be classified under the relevant item of the statement of financial position. Depending on the classification item, after initial recognition financial assets will be 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 will be used to calculate the amortised cost of financial assets or liabilities and the distribution of income and expenditure over the relevant period. The accounting treatment of exposures upon changes in repayment terms or contractual cash flows will depend 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 changed terms, from time to time, 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 will modify the financial instrument. The modification effect will be 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 will transition 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".

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 stages

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 stages. Stage 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. Stage 2 financial instruments are those the credit risk of which has increased significantly since initial recognition. In this case, the allowance covers expected credit losses over the entire period of duration. Financial instruments for which there is objective evidence of impairment are classified as stage 3, 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.

For POCI assets, expected lifetime 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 does not have such assets in its portfolio.

The Bank uses the following criteria in classifying financial instruments into the above stages:
- 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 stage 1 or 2, and on an individual basis for financial instruments classified as stage 3, except for limits that are subject to an action, service and payment guarantees, and non-credit transactions, for which, even if classified as stage 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 about 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 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 sovereign exposure are based on LGD values laid down in Article 161(1) of Regulation (EU) No 575/2013 (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 book value of the asset 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 on the value of equity investments

To calculate 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 will be 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 will be 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 equity 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 will therefore not apply a transitional arrangement to reduce the impact of introducing IFRS 9 on own funds. The effects of impact on equity 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 increases by EUR 480 thousand, amounting to EUR 60,277 thousand. The Bank's CET 1 and Tier 1 capital adequacy ratio increases by 0.12 percentage points to 12.89% (31 December 2017: 12.77%), and the total capital ratio also by 0.12 percentage points to 14.80% (31 December 2017:14.68%).

2.2. Investments in subsidiaries

Subsidiaries

The Group has four subsidiaries. In November 2005 the Bank incorporated a subsidiary, DBS Leasing, in which it holds a 100% ownership stake. At the beginning of 2013 DBS Leasing incorporated a real estate company, DBS Nepremičnine, which in April 2013 the Bank purchased and became its 100% owner.

Following a debt-to-equity conversion in January 2014, the Bank acquired Semenarna and became its majority owner. After purchasing all its shares in June 2014, the Bank became its 100% owner. DBS Adria was incorporated in April 2014 and is 100%-owned by the Bank.

Investments in subsidiaries are measured at cost.

2.3. Critical accounting estimates

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

(a) Impairment losses on loans and receivables

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

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

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

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

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

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

(c) Held-to-maturity investments

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

(d) Fair value of investment property

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

(e) Impairment charge on investments in subsidiaries

In assessing impairments against its investments the Bank considers objective evidence of impairment and indications that an investment may be impaired. If any such indication exists, the Bank determines the

impairment charge as the difference between the investments' carrying value and its recoverable amount. The recoverable amount is fair value less the cost of disposal, or value in use, whichever is higher, whereby value in use is the present value of the future cash flows expected to be derived from the respective investment, discounted at current market returns for similar financial assets. If future cash flows cannot be estimated, the impairment charge is calculated using the subsidiary net asset value method (asset accumulation method) or as the difference between the asset's carrying amount and the carrying amount of the subsidiary's equity, proportionate to participation in equity.

(f) Tax

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

2.4. Segment reporting

As at 31 December 2017 the Bank has no issued securities traded on a regulated capital market, therefore it does not prepare segment reporting.

2.5. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

The Bank only holds financial assets held for trading.

(b) Loans and receivables

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

(c) Held-to-maturity investments

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

(d) Available-for-sale financial assets

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

(e) Measurement and recognition

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

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

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

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

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

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

2.9. Offsetting

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

2.10. Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- delinquency in contractual payments of principal or interest,
- cash flow difficulties experienced by the borrower,

- breach of loan covenants or clauses,
- initiation of bankruptcy proceedings or compulsory composition,
- deterioration of a borrower's competitive position.

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

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

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

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

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

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

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

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

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

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

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

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

(b) Available-for-sale financial assets

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

2.11. Property, plant and equipment, and intangible assets

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

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

The following are the annual depreciation and amortisation rates used:

	2017	2016
	%	%
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	4.0-30.0

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

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

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

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

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

2.12. Investment property

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

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

In determining the fair value of investment property, 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. 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 available-for-sale 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. All gains and losses are recognised in the income statement, apart from actuarial gains and losses, which are included in the accumulated other comprehensive income.

2.19. Income tax

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

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

Pursuant to the Slovenian Corporate Income Tax Act, current corporate income tax is charged at the rate of 19% off the established tax (2016: 17%).

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

The most important temporary differences arise from tax loss, impairment of investments in subsidiaries, valuation of available-for-sale financial assets, and provisions. An estimation of the amount of taxable profit for the future period is made at least once a year.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary deductible differences can be utilised.

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

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

The competent tax office may conduct a tax inspection of the current accounting period any time within the following five years, and in this connection impose additional taxes and penalties. The Bank management knows of no circumstances that could give rise to additional liabilities in this regard.

2.20. Borrowings

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

2.21. Capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

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

(c) Treasury shares

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

2.22. Financial guarantee contracts

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

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

2.23. Fiduciary activities

The Bank offers its customers, corporate as well as retail, the services of asset management and the services of lending under authorisation. For these services, customers are charged a fee. Details are explained in Note 4.30 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

	2017	2016
Interest income		
Financial assets held for trading	0	1
Available-for-sale financial assets	123	190
Loans to banks	37	29
Loans to the central bank	0	1
Loans to customers	16,508	16,400
Held-to-maturity investments	2,924	3,079
Other financial assets	4	4
TOTAL	**19,596**	**19,704**
Interest expense		
Deposits by banks and borrowings from banks	24	66
Borrowings from banks and central bank	1	24
Deposits by customers	1,077	2,300
Certificates of deposit	82	128
Subordinated liabilities	230	244
Subordinated deposits and loans	336	336
Other liabilities	33	54
TOTAL	**1,783**	**3,152**
NET INTEREST INCOME	**17,813**	**16,552**

3.2. Dividends

	2017	2016
Dividends on available-for-sale financial assets	91	9
TOTAL	**91**	**9**

3.3. Fee and commission income and expense

	2017	2016
Fee and commission income		
Payment transactions	4,658	4,449
Agency services	157	163
Administrative services	3,543	3,434
Guarantees issued	317	369
Securities trading	288	237
Services to subsidiaries	18	12
Credit operations	329	349
TOTAL	**9,310**	**9,013**
Fee and commission expense		
Banking services	784	756
Securities trading	154	120
Payment transactions	803	656
Other services	9	6
TOTAL	**1,750**	**1,538**
NET FEE AND COMMISSION INCOME	**7,560**	**7,475**

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

	2017	2016
Realised gains/losses from available-for-sale financial assets	**133**	**48**
Gains from available-for-sale financial assets	133	48
Realised net gains/losses on loans	38	24
Gains on loans (financial lease and other financial assets included)	65	52
Losses on loans (financial lease and other financial assets included)	27	28
Realised gains/losses on financial assets as held to maturity	**1,816**	**0**
Gains on financial assets as held to maturity	1,816	0
Realised net gains/losses from financial liabilities measured at cost	115	(37)
Gains from financial liabilities measured at amortised cost	151	1
Losses from financial liabilities measured at amortised cost	36	38
REALISED GAINS/LOSSES	**2,102**	**35**

In 2017, the realised net gains amounted to EUR 2,102 thousand (2016: EUR 35 thousand), of which EUR 1,816 thousand were gains realised from the sale of sovereign debt as held to maturity, EUR 133 thousand were gains realised from the sale of equities, EUR 115 thousand were net gains on cleared deposits and transactional accounts, and EUR 38 thousand were net gains on loans. In 2017, an insignificant share of sovereign debt as held to maturity was sold.

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

	2017	2016
Net gains/losses from trading in equity instruments	0	2
Net gains/losses from foreign exchange trading	326	149
Net gains/losses from derivatives held for trading	21	(8)
TOTAL	**347**	**143**

3.6. Foreign exchange translation

	2017	2016
Positive translation differences	1,145	1,141
Negative translation differences	1,228	1,126
TOTAL	**(83)**	**15**

3.7. Net gains/losses on derecognition of assets

	2017	2016
Gains		
- Derecognition of property, plant and equipment	0	2
- Derecognition of investment property	234	296
- Derecognition of other assets, apart from assets held for sale	150	370
TOTAL	**384**	**668**
Losses		
- Derecognition of property, plant and equipment	4	0
- Derecognition of investment property	82	0
- Derecognition of other assets, apart from assets held for sale	0	74
TOTAL	**86**	**74**
TOTAL GAINS/LOSSES	**298**	**594**

3.8. Other net operating gains/losses

	2017	2016
Gains		
Income from non-banking services	24	31
Leases and rents (Note 4.9. b)	334	161
Denationalisation income	36	261
Other	140	147
TOTAL	**534**	**600**
Losses		
Taxes	17	11
Contributions	151	115
Membership fees and similar	95	98
Financial services tax	858	819
Deposit guarantee scheme	985	839
Bank resolution fund	20	20
Other operating expenses	4	54
TOTAL	**2,130**	**1,956**
OTHER NET OPERATING GAINS/LOSSES	**(1,596)**	**(1,356)**

Denationalisation income refers to assets received from denationalisation procedures and lease payments for denationalised assets. Initially these assets are recognised at fair value.

Denationalisation acquisitions by asset type

			2017			2016
	Income	Expense	**Total**	Income	Expense	**Total**
Buildings						
- Acquisitions - restitution in kind	0	0	**0**	208	0	**208**
- Leases and rents	36	0	**36**	53	0	**53**
- Revaluation of investment property	0	0	**0**	0	7	**(7)**
- Legal and consulting services, and duties	0	3	**(3)**	0	11	**(11)**
TOTAL	**36**	**3**	**33**	**261**	**18**	**243**

The direct and indirect net denationalisation income in 2017 amounted to a total of EUR 33 thousand (2016: EUR 243 thousand of net income).

3.9. Administrative expenses

	2017	2016
Employee benefits cost		
Gross wages	8,257	8,138
Social security contributions	593	591
Pension insurance contributions	730	727
Other contributions depending on gross wages	(10)	7
Severance pays and compensations	3	22
Other employee benefits cost	1,444	1,454
TOTAL	**11,017**	**10,939**
Overhead and administrative expenses		
Costs of material	452	467
Costs of services	4,972	4,582
TOTAL	**5,424**	**5,049**
TOTAL	**16,441**	**15,988**

Costs of services for 2017 also include EUR 66 thousand for costs of audit services related to the audit of the annual report (2016: EUR 50 thousand). Costs of services for 2017 also include costs of audit services related to the audit of companies' financial statements and of the Group's consolidated financial statements including the transition to IFRS 9 amounting to a total of EUR 58 thousand (2016: 42 thousand EUR), and for other assurance services in the amount of EUR 8 thousand (2016: EUR 8 thousand).

3.10. Depreciation and amortisation

	2017	2016
Property, plant and equipment (Note 4.8.)	923	1,051
Intangible assets (Note 4.10.)	166	186
TOTAL	**1,089**	**1,237**

3.11. Provisions

	2017	2016
Net provisions for off-balance sheet liabilities	**435**	**(63)**
Expenses for created provisions (Note 4.20. d)	4,206	3,105
Income from released provisions (Note 4.20. d)	3,771	3,168
Net other provisions	**488**	**81**
Net provisions for pensions and other employee benefits	**65**	**81**
Expenses for created provisions	65	81
Net provisions for tax suits and other pending legal cases	**423**	**0**
Expenses for provisions created for dividend payments for 2015 (Note 4.20. e)	423	0
NET PROVISIONS	**923**	**18**

Provisions included expenses related to the lawsuit from 2015 for the claim for payment of a dividend as required by law, amounting to a total of EUR 423 thousand.

3.12. Impairment charge

	2017	2016
Net impairments of financial assets not measured at fair value through profit or loss	**2,629**	**2,562**
Net impairments of financial assets measured at cost	**213**	**0**
Impairments of financial assets measured at cost	213	0
Net impairments of loans	**2,298**	**2,565**
Impairments of loans	13,296	11,956
Reversal of loan impairments	10,998	9,391
Net impairments of other financial assets	**118**	**(3)**
Impairments of other financial assets	209	153
Reversal of impairments of other financial assets	91	156
Net impairments of equity investments in subsidiaries (Note 4.11.)	**(9)**	**108**
Impairment of equity investments in subsidiaries	5	108
Reversal of impairment of equity investments in subsidiaries	14	0
Net impairments of other assets	**796**	**612**
Net impairments (revaluations) of investment property (Note 4.9. b)	**796**	**238**
Impairment (revaluation) of investment property	1,144	772
Reversal of investment property impairments (revaluations)	348	534
Net impairments (revaluations) of other assets	**0**	**374**
Impairments (revaluations) of property inventories (Note 4.13. b)	0	374
NET IMPAIRMENTS	**3,416**	**3,282**

3.13. Income tax

	2017	2016
Income tax	402	220
Deferred tax (Note 4.21. d)	455	266
TOTAL	**857**	**486**
Profit/loss before tax	4,663	2,942
Tax under the 19% tax rate	886	500
Non-taxable income	(45)	(2)
Non-deductible expense	541	338
Tax reliefs	(525)	(350)
TOTAL	**857**	**486**
Effective tax rate (in %)	18	17

* Tax for 2017 was charged at the tax rate of 19% (2016: 17%).
The last tax inspection was in 2005 for financial year 2004.

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

3.14. Earnings per share (EPS)

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

	2017	2016
Net profit (in EUR thousand)	3,806	2,456
Weighted average number of ordinary shares	4,229,680	4,229,680
Basic and diluted earnings per share (in EUR per share)	0.899832	0.580659

Basic earnings per share in 2017 amounts to EUR 0.899832 (2016: EUR 0.580659). The weighted average number of issued ordinary shares recorded in the KDD central securities register for 2017, with treasury shares deducted, was 4,229,680 (2016: 4,229,680).

The Bank's share book value as at 31 December 2017 was EUR 13.798557 (31 December 2016: EUR 12.930433). It is calculated as follows: share capital less treasury shares, divided by the number of shares in the KDD securities register, less treasury shares.

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

4. NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

a) Breakdown

	2017	2016
Cash		
Cash	8,612	7,577
Bank balances at central bank	17,320	12,209
Sight deposits at banks	3,518	4,329
TOTAL (Note 4.1. b)	**29,450**	**24,115**

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 2017 amounted to EUR 4,871 thousand on average per month, with excess reserves totalling a monthly EUR 5,415 thousand on average.

The annual interest rate for assets deposited on the minimum reserves account was 0.00% from 1 January to 31 December 2017. For excess assets deposited on the minimum reserves account, the annual interest rate was –0.40% from 1 January to 31 December 2017.

b) Movements

	As at 1 January 2017	Foreign exchange differences	Net increase/ (decrease)	As at 31 December 2017
Cash and balances at central banks, and sight deposits at banks (Note 4.1. a)	24,115	(302)	5,637	29,450
Loans and advances to banks (Note 4.4. b)	4,894	(302)	117	4,709
TOTAL	**29,009**	**(604)**	**5,754**	**34,159**

4.2. Financial assets held for trading

a) Breakdown

	2017	2016
Loans held for trading	227	0
TOTAL	**227**	**0**

b) Movements

	2017	2016
Equities		
As at 1 January	0	216
- Reclassification	0	(216)
As at 31 December	**0**	**0**
Debt securities		
As at 1 January	0	42
- Sale/maturity	0	(42)
As at 31 December	**0**	**0**
Loans*		
As at 1 January	0	0
- Increase	22,994	0
- Sale	(22,767)	0
As at 31 December	**227**	**0**
TOTAL	**227**	**0**

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

4.3. Available-for-sale financial assets

a) Breakdown

	2017	2016
Equities		
- Unlisted	3,751	3,987
Bonds		
- Listed	0	4,361
TOTAL	**3,751**	**8,348**

The Bank decreased the balance of available-for-sale securities in 2017 by EUR 4,597 thousand, of which debt instruments were down EUR 4,361 thousand, shares and stakes at cost were down EUR 233 thousand, and the balance in the Bank Resolution Fund was down EUR 3 thousand (2016: EUR 2,702 thousand).

b) Movements

	2017	2016
As at 1 January	8,348	9,926
Purchases	0	102
Debt-to-equity swap	0	608
Sale	(2,183)	(744)
Impairment of equity investments	(213)	0
Maturities	(2,067)	(1,426)
Margin	0	48
Fair value adjustment (Note 4.25.)	(134)	(166)
As at 31 December	**3,751**	**8,348**

4.4. Loans and advances to banks

a) Breakdown according to type

	2017	2016
Loans to the central bank	2,104	2,086
Loans to domestic banks	2,810	3,014
TOTAL	**4,914**	**5,100**

b) Breakdown according to maturity

	2017	2016
Short-term loans	4,709	4,894
Long-term loans	205	206
TOTAL	**4,914**	**5,100**

Loans and advances to banks with the original maturity of up to three months, in the amount of EUR 4,709 thousand (2016: EUR 4,894 thousand) are recognised in the cash flow statement as cash equivalents (Note 4.1. b).

4.5. Loans and advances to customers

a) Breakdown according to type

	2017	2016
Loans and advances	717,583	608,892
Working capital loans	19,700	18,735
Revaluation allowance	(26,973)	(28,842)
TOTAL	**710,310**	**598,785**

b) Movements in revaluation allowance

	2017	2016
As at 1 January	28,842	33,967
Enhancements (through impairments)	13,296	11,956
Repayments (through impairments)	(10,998)	(9,391)
Reversed off-balance sheet impairments	312	695
Transferred off the balance sheet (no write-downs)	(3,697)	(4,146)
Write-downs	(780)	(2,255)
Suspended interest (balance sheet receivables)	(435)	(1,984)
Debt-to-equity swap	336	0
Increase from compulsory composition	97	0
As at 31 December	**26,973**	**28,842**

In 2017, EUR 3,697 thousand worth of 100%-impaired provisions were transferred off the balance sheet (2016: EUR 4,146 thousand).

4.6. Other financial assets

a) Breakdown

	2017	2016
Trade receivables	125	50
Interest receivable	0	2
Fee and commission due	147	134
Other receivables	567	387
Retail receivables in the course of collection	11	286
Other prepayments and deferred income	40	0
Other financial assets revaluation allowance	(196)	(113)
TOTAL	**694**	**746**

b) Movements in revaluation allowance

	2017	2016
As at 1 January	113	183
Increases (through impairments)	209	153
Decreases (through impairments)	(90)	(156)
Transferred off the balance sheet	(33)	(57)
Write-downs	(3)	(10)
As at 31 December	**196**	**113**

4.7. Held-to-maturity investments

a) Breakdown

	2017	2016
Long-term government held-to-maturity debt securities	123,572	140,941
TOTAL	**123,572**	**140,941**

In 2017, an insignificant share of sovereign debt as held to maturity was sold.

b) Movements

	2017	2016
As at 1 January	140,941	157,090
Purchases	10,147	68,495
Sale	(6,817)	0
Maturities	(20,699)	(84,644)
As at 31 December	**123,572**	**140,941**

4.8. Property, plant and equipment

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

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

2016	Land and buildings	Computers	Furniture and other equipment	Motor vehicles	PPE under construction	Total
Cost						
As at 1 January	12,542	3,204	11,314	34	0	27,094
Increases	0	0	0	0	377	377
Transfer from PPE under construction	0	225	53	99	(377)	0
Decreases	0	(146)	(8)	(36)	0	(190)
As at 31 December	12,542	3,283	11,359	97	0	27,281
Revaluation allowance						
As at 1 January	3,554	2,947	9,443	4	0	15,948
Decreases	0	(144)	(8)	(6)	0	(158)
Depreciation and amortisation	333	124	585	9	0	1,051
As at 31 December	3,887	2,927	10,020	7	0	16,841
Net carrying value						
As at 1 January	8,988	257	1,871	30	0	11,146
As at 31 December	8,655	356	1,339	90	0	10,440

4.9. Investment property

a) Breakdown

	2017	2016
Long-term investments into investment property		
- Land	13,215	12,460
- Buildings	16,414	13,982
TOTAL	**29,629**	**26,442**

b) Movements

	2017	2016
As at 1 January	26,442	15,675
Increase	1,045	1,568
Transferred from inventories	9,447	12,741
Decrease	(6,383)	(3,304)
Transferred to inventories	(126)	0
Enhancements (Note 3.12.)	348	534
Revaluation allowance (Note 3.12.)	(1,144)	(772)
As at 31 December	**29,629**	**26,442**

Operating lease contracts may be terminated during the lease period. A transfer of EUR 9,447 thousand was made from inventories to investment property in respect of property not sold within one year.

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

4.10. Intangible assets

			2017			2016
	Intangible assets	Intangible assets under construction	Total	Intangible assets	Intangible assets under construction	Total
Cost						
As at 1 January	3,282	0	3,282	3,173	0	3,173
Increases	65	65	130	109	0	109
Decreases	(148)	(65)	(213)	0	0	0
As at 31 December	3,199	0	3,199	3,282	0	3,282
Revaluation allowance						
As at 1 January	2,604	0	2,604	2,418	0	2,418
Depreciation and amortisation	166	0	166	186	0	186
Decreases	(147)	0	(147)	0	0	0
As at 31 December	2,623	0	2,623	2,604	0	2,604
As at 1 January	**678**	**0**	**678**	**755**	**0**	**755**
As at 31 December	**576**	**0**	**576**	**678**	**0**	**678**

The Bank holds no intangible assets received as guarantee for liabilities, and holds no assets with limited ownership rights. Intangible assets do not include licences under lease.

4.11. Long-term equity investments in subsidiaries, associates and joint ventures

	2017	2016
Long-term equity investments in other domestic financial institutions		
As at 1 January	2,678	749
Capital increase	0	2,000
Impairments	0	(71)
Reversal of impairment	5	0
As at 31 December	**2,683**	**2,678**
Long-term equity investments in domestic non-financial institutions		
As at 1 January	5,144	5,173
Capital increase	1,850	0
Impairments	0	(29)
Reversal of impairment	10	0
As at 31 December	**7,004**	**5,144**
Long-term equity investments in foreign non-financial institutions		
As at 1 January	7	0
Capital increase	0	15
Impairments	(5)	(8)
As at 31 December	**2**	**7**
TOTAL	**9,689**	**7,829**

Equity investments in subsidiaries totalled EUR 9,689 thousand at the end of 2017, up EUR 1,860 thousand from the beginning of the year. In May, the Bank injected EUR 1,850 thousand of capital into the subsidiary Semenarna Ljubljana, d. o. o. At the end of 2017, the equity investment totalled EUR 5,531 thousand. In December, the equity

investment in the DBS Leasing d. o. o. subsidiary increased by EUR 5 thousand due to reversal of impairment, totalling EUR 2,683 thousand at the end of 2017. In December, the equity investment in DBS Nepremičnine d. o. o. increased by EUR 9 thousand due to reversal of impairment, totalling EUR 1,473 thousand at the end of 2017. After an impairment charge of EUR 5 thousand in December, the equity investment in DBS Adria d.o.o. totalled EUR 2 thousand at the end of 2017.

4.12. Income tax assets

	2017	2016
Tax assets	0	39
Deferred tax assets (Note 4.21. b)	5,106	5,575
TOTAL	**5,106**	**5,614**

The Bank made EUR 20 thousand of monthly advance payments for income tax in 2017 due to the positive tax base for 2016. Outstanding tax loss amounts to EUR 20,345 thousand. Deferred tax assets were formed in the amount of EUR 7,450 thousand, impairments of deferred tax assets totalling EUR 2,345 thousand.

4.13. Other assets

a) Breakdown

	2017	2016
Accrued and short-term deferred costs	540	660
Long-term deferred operating costs	25	23
Property inventory (Note 4.13. b)	2,542	12,259
Equipment inventory	0	93
Stock of coins held for sale	153	151
Other prepayments	5	41
Other tax refund receivables	51	0
Advance suretyship, security receivables	2	2
Consideration receivable	64	3,594
Other	2	1
TOTAL	**3,384**	**16,824**

b) Movements in property inventories

	2017	2016
As at 1 January	12,259	21,840
Increase	3,704	9,399
Transferred to inventories	126	0
Transferred to investment property	(9,730)	(12,733)
Decrease	(3,817)	(5,873)
Revaluation	0	(374)
As at 31 December	**2,542**	**12,259**

The Bank recorded no impairment charges against property inventories in 2017 (2016: EUR 374 thousand) (Note 3.12.).

4.14. Trading liabilities

	2017	2016
Other trading liabilities	227	0
TOTAL	**227**	**0**

4.15. Deposits by banks and central banks

	2017	2016
Sight deposits by banks	579	420
TOTAL	**579**	**420**

4.16. Deposits by customers

	2017	2016
Sight deposits	569,885	486,497
Short-term deposits	82,629	95,152
Long-term deposits	150,357	186,314
TOTAL	**802,871**	**767,963**

4.17. Borrowings from banks and central banks

	2017	2016
Long-term borrowings from banks	811	5,758
Long-term borrowings from central banks	50,000	0
TOTAL	**50,811**	**5,758**

4.18. Subordinated liabilities

a) Breakdown

	2017	2016
Subordinated liabilities		
- To banks	4,116	4,117
- To non-financial institutions	2,866	2,866
- To other financial institutions	4,102	4,102
- To households	530	530
TOTAL	**11,614**	**11,615**

	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.

4.19. Other financial liabilities

	2017	2016
Profit sharing - dividend payments	6	6
Wages and salaries	656	512
Taxes and contributions	276	275
Suppliers	503	376
Other liabilities	1,154	924
Charges being collected	123	177
Accrued costs	296	511
Accrued expenses	96	91
Funds for remittance transactions abroad	56	76
Other	45	5
TOTAL	**3,211**	**2,953**

4.20. Provisions

a) Breakdown

	2017	2016
Provisions for pensions and similar payables to employees (Note 4.20. b and c)	1,451	1,428
Provisions for off-balance sheet liabilities (Note 4.20. d)	948	513
Provisions for pending legal cases (Note 4.20. e)	423	0
TOTAL	**2,822**	**1,941**

Provisions included expenses related to a lawsuit from 2015 for the claim for payment of a dividend as required by law, amounting to a total of EUR 423 thousand.

b) Provisions for pensions and similar payables to employees

	2017	2016
Provisions for severance pays	1,249	1,217
Provisions for long-service awards	202	211
TOTAL	**1,451**	**1,428**

The actuarial calculation of provisions for severance pays and long-service awards to employees included the following assumptions: average earnings growth in the Republic of Slovenia is expected to total an annual 2.5% in 2018 and in subsequent years; the calculation of liabilities for severance pays takes into account an employee's period of employment; the selected discount factor is 1.15% 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

	2017	2016
As at 1 January	1,428	1,199
Provisions made during the year	96	264
Provisions utilised during the year	(73)	(35)
As at 31 December	**1,451**	**1,428**

Recalculated payables to employees total EUR 1,451 thousand, for which we had to form as at 31 December 2017 additional provisions of EUR 96 thousand. The increase in payables for severance pays comprising EUR 58 thousand of costs for the period and EUR 7 thousand of long-service awards, was charged to profit and loss, whereas the proportion associated with the actuarial deficit for severance pays, totalling EUR 31 thousand, was charged to comprehensive income (Note 4.25.).

d) Movements in provisions for off-balance sheet liabilities

	2017	2016
As at 1 January	513	577
Provisions made during the year (Note 3.11.)	4,206	3,105
Provisions released during the year (Note 3.11.)	(3,771)	(3,169)
As at 31 December	**948**	**513**

e) Movements in provisions for pending legal cases

	2017	2016
As at 1 January	0	0
Provisions created during the year for dividend payments for 2015	423	0
As at 31 December	**423**	**0**

4.21. Tax liabilities

a) Breakdown

	2017	2016
Current tax liabilities	177	22
Deferred tax liabilities	0	44
TOTAL	**177**	**66**

Pursuant to the Corporate Income Tax Act (ZDDPO-2), the income tax payable for 2017, applying the 19% tax rate, amounts to EUR 177 thousand.

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

	2017	2016
1. Deferred tax liabilities		
Available-for-sale financial assets	0	44
TOTAL	**0**	**44**
2. Deferred tax assets		
Provisions for severance pays and long-service awards	148	152
Available-for-sale financial assets	0	16
Impairment of securities	168	190
Impairment of equity participation	2,790	2,753
Tax loss	2,000	2,464
TOTAL (Note 4.12.)	**5,106**	**5,575**
NET DEFERRED TAX (2 - 1)	**5,106**	**5,531**

In 2017, impairments of deferred tax assets were reversed, referring to impairments of securities and totalling EUR 4 thousand.

c) Movements in deferred taxes

	2017	2016
As at 1 January	5,531	5,757
Available-for-sale financial assets - fair value valuation (Note 4.25.)	27	24
Impairment of securities	(21)	0
Impairment of equity participation	38	19
Provisions for severance pays and long-service awards	(5)	16
Tax loss	(464)	(285)
As at 31 December	**5,106**	**5,531**

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

	2017	2016
Provisions for employee benefits	(7)	0
Other provisions	(22)	0
Tax loss	(464)	(285)
Impairment of equity participation	38	19
TOTAL (Note 3.13.)	**(455)**	**(266)**

Deferred tax assets and liabilities for 2017 were calculated using the tax rate expected to apply in the period a particular receivable is collected, which is 19%.

4.22. Other liabilities

a) Breakdown

	2017	2016
Payments received in advance	5	107
Taxes payable	285	290
Accruals	65	57
TOTAL	**355**	**454**

4.23. Share capital

a) Breakdown

	No. of ordinary shares	Subscribed value
As at 31 December 2016/1 January 2017	4,268,248	17,811
As at 31 December 2017	**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 2017, the Bank's share capital totals EUR 17,811,083.54.

b) Shareholders with over 5% of share capital

		2017
Shareholder	No. of shares	Stake in shareholders' equity in KDD
Kapitalska zadruga, z. b. o., Ljubljana	2,023,671	47.532
KD Kapital d. o. o., Ljubljana	377,181	8.859
KD Group d. d., Ljubljana	255,941	6.012
Banca Popolare di Cividale S.C.p.A., Cividale del Friuli	228,289	5.362

At year-end 2017, 304 holders of the shares of Deželna banka Slovenije d. d. were recorded in the KDD register (2016: 318), of which 101 were domestic corporate entities, 198 were domestic individuals, and five were foreign entities. The number of the Bank's shareholders decreased by 14 in 2017.

4.24. Share premium

	2017	2016
As at 1 January	31,257	31,257
As at 31 December	**31,257**	**31,257**

4.25. Accumulated other comprehensive income

	2017	2016
As at 1 January	(200)	109
Items not to be reclassified to profit or loss	**(28)**	**(167)**
Actuarial gains/losses on defined benefit pension plans	(31)	(182)
Income tax relating to components of items not be reclassified to profit or loss	3	15
Items that may be reclassified to profit or loss	**(107)**	**(142)**
Available-for-sale financial assets (Note 4.3. b)	(134)	(166)
Valuation gains/losses taken to equity	(136)	(166)
Transferred to profit/loss	2	0
Deferred taxes (Note 4.21. c)	27	24
As at 31 December	**(335)**	**(200)**

Items not restated in the income statements refer to the actuarial deficit for severance pays (Note 4.21. c).

4.26. Revenue reserves

a) Breakdown

	2017	2016
Reserves for treasury shares	645	645
Reserves under Statutes	1,924	1,163
Other revenue reserves	4,661	2,696
TOTAL	**7,230**	**4,504**

Pursuant to its Statutes, the Bank allocated 20% of the profit for the year, which amounts to EUR 761 thousand, to reserves under Statutes. Statutory and other revenue reserves can only be formed from profits for the year and retained earnings.

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

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

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

b) Reserves for treasury shares

	2017	2016
As at 1 January	645	645
As at 31 December	**645**	**645**

c) Reserves under Statutes

	2017	2016
As at 1 January	1,163	671
Transferred from net profit	761	492
As at 31 December	**1,924**	**1,163**

d) Other revenue reserves

	2017	2016
As at 1 January	2,696	1,085
Transferred from net profit	1,965	1,611
As at 31 December	**4,661**	**2,696**

4.27. Treasury shares

	2017	2016
Repurchase of treasury shares - ordinary	(645)	(645)
TOTAL	**(645)**	**(645)**

Treasury shares were bought back due to: employee share remuneration, protection from hostile takeovers, and reasons from indents 1 and 2 of Article 247 (1) of the Companies Act.

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

a) Breakdown

	2017	2016
Net profit for the year	3,045	1,965
TOTAL	**3,045**	**1,965**

b) Distributable profit

	2017	2016
Net profit for the year	3,806	2,456
Utilisation of net profit for the year		
- Reserves under statutes	(761)	(491)
- Other revenue reserves	-	-
Retained earnings	-	-
DISTRIBUTABLE PROFIT	**3,045**	**1,965**

Profit for the year amounts to EUR 3,806 thousand. The Bank's distributable profit as at 31 December 2017 amounts to EUR 3,045 thousand and consists of residual net profit for the year 2017 after the formation of statutory reserves in the amount of 20% net profit. The appropriation of distributable profit will be decided by the General Meeting. The Management Board and Supervisory Board recommend that EUR 846 thousand of distributable profit be used for dividend payments to shareholders for 2017, and the residual profit of EUR 2,199 thousand be appropriated to other revenue reserves.

4.29. Off-balance sheet liabilities

a) Breakdown by type of contingent liabilities and commitments

	2017	2016
Guarantees	28,093	25,388
Commitments to extend credit	40,726	36,406
TOTAL	**68,819**	**61,794**
Provisions (Note 4.20. a and d)	(948)	(513)

4.30. Fiduciary activities

The Bank manages assets in the total amount of EUR 118,902 thousand (2016: EUR 88,258 thousand) in the name and for the accounts of third parties. Assets under management are accounted for separately from the Bank's assets. Income and expenses from operations in the name of third parties and for the accounts of third parties are credited or charged to the originator, therefore no liabilities arise for the Bank from these operations. For performing their services, the Bank charges fees to the originator. In 2017 these fees amounted to EUR 285 thousand (2016: EUR 237 thousand). For acting as agent in the sale of numismatic values, the Bank charged fees in the amount of EUR 15 thousand in 2017 (2016: EUR 17 thousand).

a) Investment and ancillary investment services for customers

	2017	2016
Fee (commission) income associated with investment and ancillary investment services and transactions for clients	**288**	**237**
Reception, transmission and execution of orders	288	231
Managing dematerialised securities accounts for clients	0	6
Fee (commission) expense associated with investment and ancillary investment services and transactions for clients	**124**	**92**
Fees associated with KDD and similar organisations	110	76
Fees associated with the stock exchange and similar organisations	14	16

	2017	2016
ASSETS	**117,160**	**86,269**
Claims on settlement account and current accounts for clients' assets	116,578	85,933
- From financial instruments	116,534	85,365
- From the KDD or the Bank's settlement account for sold financial instruments	25	152
- From other settlement systems and institutions for sold financial instruments	19	416
Clients' cash	582	336
- On the settlement account for clients' assets	582	335
- On banks' current accounts	0	1
LIABILITIES	**117,160**	**86,269**
Liabilities of settlement account and of current accounts for clients' assets	117,160	86,269
- With clients from cash and financial instruments	116,982	85,746
- With KDD or the Bank's settlement account for purchased financial instruments	129	77
- With other settlement systems and institutions for purchased financial instruments	25	417
- With the Bank and the Bank's settlement account for fees, expenses, etc	24	29

b) Other agency services

The item other agency services includes EUR 1,612 thousand from other transactions for the clients' account (2016: EUR 1,989 thousand), and EUR 129 thousand from settlement transactions with the KDD (2016: EUR 76 thousand).

4.31. Related party transactions

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

a) Volume of banking transactions among related parties

	Management Board		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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Loans and deposits placed												
As at 1 January	48	61	373	457	52	45	6,288	6,507	0	677	106	17
Increase	6	6	105	328	90	64	12,141	14,840	0	76	173	201
Decrease	(17)	(19)	(197)	(412)	(141)	(57)	(16,400)	(15,059)	0	(753)	(156)	(112)
As at 31 December	37	48	281	373	1	52	2,029	6,288	0	0	123	106
Interest income	1	1	7	12	1	1	150	259	0	0	2	0
Revaluation allowance	0	0	0	0	0	0	9	87	0	0	0	0
Deposits and borrowings												
As at 1 January	63	35	214	218	76	82	2,038	364	126	8,384	211	122
Increase	1,318	459	1,705	1,572	502	274	12,103	17,121	198	60,152	481	477
Decrease	(1,366)	(431)	(1,670)	(1,576)	(501)	(280)	(12,259)	(15,447)	(314)	(68,410)	(586)	(388)
As at 31 December	15	63	249	214	77	76	1,882	2,038	10	126	106	211
Interest expense	0	0	1	2	1	1	76	76	0	306	1	0
Guarantees issued	0	0	0	0	0	0	0	0	0	0	0	0
Fee and commission received	0	0	3	3	1	1	66	66	0	6	1	1
Full operational lease granted												
As at 1 January	0	0	0	0	0	0	0	0	0	0	0	0
Increase	0	0	0	1	0	0	51	0	0	0	0	0
Decrease	0	0	0	(1)	0	0	(51)	0	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	1	0	0	42	0	0	0	0	0
Full operational lease received												
As at 1 January	0	0	0	0	0	0	144	1	0	0	0	0
Increase	0	0	0	0	0	0	15	212	0	165	0	0
Decrease	0	0	0	0	0	0	(158)	(69)	0	(165)	0	0
As at 31 December	0	0	0	0	0	0	1	144	0	0	0	0
Lease expense	0	0	0	0	0	0	56	69	0	165	0	0
Other income	0	0	0	1	0	0	0	1	0	0	0	0
Other liabilities	0	0	0	0	0	0	41	52	0	3	0	0
Other expenses	0	0	4	0	0	0	237	398	0	59	0	0

* Only the Bank's qualified shareholders are included.

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

	Subsidiaries - DBS Leasing, DBS Nepremičnine, Semenarna, DBS Adria Subsidiary		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	
	2017	2016	2017	2016	2017	2016
Loans and deposits placed						
As at 1 January	7,941	8,048	132	103	0	0
Increase	17,987	23,242	109	79	0	0
Decrease	(16,395)	(23,349)	(67)	(50)	0	0
As at 31 December	9,533	7,941	174	132	0	0
Interest income	220	164	3	3	0	0
Revaluation allowance	1,608	664	0	0	0	0
Deposits and borrowings						
As at 1 January	299	1,058	1	0	0	19
Increase	6,765	6,562	327	99	0	0
Decrease	(6,794)	(7,321)	(280)	(98)	0	(19)
As at 31 December	270	299	48	1	0	0
Interest expense	1	1	0	0	0	0
Guarantees issued	573	481	0	0	0	0
Fee and commission received	44	34	1	0	0	0
Full operational lease granted						
As at 1 January	0	0	0	0	0	0
Increase	12	12	0	0	0	0
Decrease	(12)	(12)	0	0	0	0
As at 31 December	0	0	0	0	0	0
Lease income	12	12	0	0	0	0
Full operational lease received						
As at 1 January	0	3	0	0	0	0
Increase	4	20	0	0	0	0
Decrease	(4)	(23)	0	0	0	0
As at 31 December	0	0	0	0	0	0
Lease expense	4	0	0	0	0	0
Other income	12	3	0	0	0	0
Other liabilities	12	13	0	0	0	0
Other expenses	13	23	0	0	0	0

c) Remuneration of senior management

	2017	2016
Wages and other short-term benefits	1,276	1,314
Performance bonuses	5	0
Severance pays	0	1
TOTAL	**1,281**	**1,315**

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

The Management Board and others on management contracts held 1,850 shares (0.04% of share capital) as at 31 December 2017. As at 31 December 2016 they held 1,872 shares (0.04% of share capital).

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

	2017	2016
Wages and other short-term benefits	94	97
TOTAL	**94**	**97**

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 Committee.

e) Remuneration of members of management and supervisory bodies in 2017

Position/Remuneration type	Fixed remuneration	Cost reimbursement	Supplement pension insurance	Other payments
Management Board of the Bank	**297**	**2**	**5**	**19**
- Sonja Anadolli, President	169	1	3	10
- Barbara Cerovšek Zupančič MSc, member	128	1	2	9
Supervisory Board of the Bank	**89**	**5**	**0**	**0**
- Peter Vrisk, President	28	0	0	0
- Marjan Janžekovič, Deputy President (up to 4 August 2017)	14	1	0	0
- Ivan Lenart, member	17	2	0	0
- Nikolaj Maver, member	18	1	0	0
- Bernarda Babič, member (up to 28 August 2017)	12	1	0	0
TOTAL	**386**	**7**	**5**	**19**

The amount includes the earnings of individual 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 staff whose professional activities have a material impact on the risk profile, in 2017

Position/Remuneration type	Number of beneficiaries	Fixed earnings	Variable remuneration	Cost reimbursements	Insurance premiums	**Total**
TOTAL REMUNERATION	**23**	**1,266**	**7**	**48**	**22**	**1,343**

4.32. Remuneration system and important business contacts

Remuneration system

The system of remuneration in the Bank is based on the Remuneration Policy for Staff whose Professional Activities have a Material Impact on the Bank's Risk Profile ("Remuneration Policy"), which lays down the system of remuneration and performance bonuses for the staff having a material impact on the Bank's risk profile by virtue of performing their work tasks and assignments: either by being risk takers, cooperating in risk control, or by having control and supervision functions. The necessary preconditions for variable pay are the Bank's reporting a profit for the assessment period and its reaching and exceeding all basic objectives. No funds have been allocated in 2014 for variable pay to employees whose work is of a specific nature.

Important business contacts

A significant indirect business contact exists if a member of the Management Board or Supervisory Board or their close family member is a business partner, holder of a qualifying stake, managing director or member of the senior management in a company or organisation that is in a business relationship with the Bank. In this respect the Bank promotes the culture of avoiding significant direct and indirect business contacts.

4.33. Events after the statement of financial position date

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

5. RISK CONTROL

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

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

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

In 2017, the Bank complied with the requirements of the capital accord and other requirements of the regulatory framework for banks. Risk management was additionally upgraded, especially the management of credit risk. The Bank continued with the upgrade of its early warning system for increased credit risk for monitoring all customers, and carried out activities related to the implementation of IFRS 9. The Supervisory Board noted the Bank risk profile and its risk-taking capacity, and promptly monitored its exposure to risks. All critical risk management internal acts have been revised in 2017.

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 on-balance sheet and off-balance sheet assets.

In order to control 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 regulating 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 rates changes affect the Bank's revenues and expenses as well as the value of individual items and thus the economic value of equity. The Bank measures, manages, oversees and monitors interest rate risk in line with its Risk Assessment Methodology and its Policy of Risk-taking and Risk Management for Interest Rate Risk. For measuring the risk of interest rates changing, the Bank uses a gap analysis to calculate the potential impacts of interest rate shock scenarios on net interest income and the sensitivity of the banking book's economic value. Interest rate risk is measured for the entire banking book, separately for different currencies and applied reference interest rates. The analysis also looks as the distribution of sight deposits consistent with an internal model.

Liquidity risk

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

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

Operational risk

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

Capital risk

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

5.1. Credit risk

The Bank estimates its largest exposure to be associated with credit risk. Credit risk is determined and measured by analysing data on exposures causing credit risk. Factors taken into account are the classification of on-balance sheet and off-balance sheet assets, the amount of impairments against individual receivables, migrations among credit rating grades, operations and the financial standing of customers to which the Bank has 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 customer, as expressed by their credit rating, and the risk of a particular business, which is also influenced by the guarantees provided, appropriate impairment provisions are formed for credit risk. In order to reduce capital requirements for credit risk, the Bank only considered first-class and appropriate guarantees in 2017, consistent with regulations.

5.1.1. Measuring credit risk

(a) Loans and receivables

In 2017 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 2017, 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 total exposure of the Bank towards a corporate customer is defined by the Risk Management Section. When the threshold of large exposure is greatly exceeded and in case of clients in a special relationship with the Bank, the proposed level of permissible exposure must also be approved by the Bank's Management Board and Supervisory Board. Limits of exposure are determined by considering the basic principles of banking, especially safety and liquidity.

(a) Collateral

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

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

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

The main types of collateral used by the Bank are property as collateral and insurance covers, guarantees, bank deposits, 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 IFRS (particularly IAS 37 and IAS 39), the Bank classifies financial assets and off-balance-sheet commitments (hereafter: exposures) into groups according to their risk profile, and assesses the amount of expected losses associated with these exposures where necessary.

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

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

Degree of impairment is calculated by individual groups of customers and individual credit rating grades. It is calculated as the product of probability of default (PD) and loss given default (LGD). For each exposure, expected loss (EL) is then calculated as the product of the degree of impairment and individual exposure.

The PD parameter refers to the probability for a customer, a non-defaulted obligor, to migrate to the status of a defaulted obligor, and is calculated based on annual migration matrices. The annual PD is calculated by individual exposure groups and credit rating grades.

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

The Bank regularly examines the methodology of assessing credit risk losses and assumptions used in assessing losses.

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

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

	2017		2016	
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	77.0	0.1	75.5	0.0
2. B	12.7	1.5	10.8	1.5
3. C	1.6	5.2	1.7	6.3
4. D	0.0	56.1	0.0	69.9
5. E	0.0	99.7	0.0	98.3
6. P	8.6	30.2	12.0	25.8
	100.0	2.9	100.0	3.4

At the year-end of 2017 individually impaired receivables for classification were considerably down compared to 2016, 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 2017, the majority, i.e. 77.0%, 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 12.7% of all receivables for classification, and individually impaired receivables from customers in category P, which represented 8.6% 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 2017 the Bank focused on banking for the retail segment, farmers and SMEs, and groups with good credit ratings. Those customers were prioritised which, in addition to exhibiting creditworthiness, provided adequate collateral, so as to minimise the possible increase in the Bank's exposure to credit risk.

(a) Loans and receivables non past due and not impaired and loans and receivables collectively assessed as impaired

	2017		2016	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks
Non past due and not impaired	277,137	4,914	178,360	5,100
Impaired	432,981	0	420,347	0
Gross amounts	**737,283**	**4,914**	**627,627**	**5,100**
Less impairment allowance	(26,973)	0	(28,842)	0
Net amounts	**710,310**	**4,914**	**598,785**	**5,100**

The total value of loans and receivables in financial year 2017 was up 17.3% from 2016, with loans to customers increasing and loans to banks slightly decreasing. The reported loan loss provisions totalled EUR 26,973 thousand (2016: EUR 28,842 thousand).

(b) Loans and receivables individually assessed as impaired

Loans and advances to customers (loans and receivables)

Individually impaired loans to customers and receivables from customers, without individually impaired loans to banks and before considering cash flows from collateral held by the Bank, amount to EUR 75,692 thousand (2016: EUR 96,168 thousand). As opposed to 2016, exposure to the retail segment decreased the most in 2017,

by 54.8%, and exposure to large corporate clients was down 45.0%. Exposure to micro, small and medium corporate clients decreased by 6.1% 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:

2017	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	4,157	14,324	57,211	6,474	82,166
- Past due up to 15 days	1,252	8,322	26,855	0	36,429
- Past due 31 to 90 days	0	0	2,206	0	2,206
- Past due over 90 days	2,905	6,002	28,150	0	37,057
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.

2016	Retail	Corporate		Banks	Total
	Loans and receivables	Large	SME*		
Individually impaired loans	9,186	26,055	60,927	7,632	103,800
Impairment charge	2,998	10,204	13,458	0	26,660
Fair value of collateral	14,726	13,144	67,222	0	95,092

* Micro, small and medium enterprises.

Loans and advances to banks (loans and receivables)

The total gross amount of loans to and receivables from banks as at 31 December 2017 totalled EUR 6,474 thousand (2016: EUR 7,632 thousand), whereby no individually impaired loans were reported.

(c) Restructured loans and receivables

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

The gross value of exposure for which a new agreement on repayment conditions was reached and which could otherwise fall due, amounted to a total of EUR 64,884 thousand as at 31 December 2017 (2015: EUR 78,557 thousand).

	2017	2016
Retail loans and receivables		
– Loans and advances	64,884	78,557
Total	**64,884**	**78,557**

5.1.5. Debt securities and bills

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

The table below shows the Bank's exposure with respect to its debt securities according to Standard & Poor's ratings, as at 31 December 2017 and 31 December 2016:

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**

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

Both in 2017 and 2016, the largest proportion of our debts portfolio were Slovene state bonds, which totalled EUR 123 million (the year-end of 2016: EUR 143 million). The Bank classified Republic of Slovenia bonds under held-to-maturity investments. The proportion of debt securities decreased in 2017, mainly the result of Republic of Slovenia debt securities reaching maturity. The Bank's proprietary portfolio did not include subordinated, structured and non-investment grade debt securities.

5.1.6. Collateral acquired by prescription

In 2017 the Bank acquired assets by calling on the collateral held as guarantee, namely:

	Carrying amount	
	2017	2016
Property	3,987	8,601
Total	3,987	8,601

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

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

		Remaining maturity as at 31 December 2017			Remaining maturity as at 31 December 2016		
	Exposure category	Up to 1 year	Over 1 year	TOTAL	Up to 1 year	Over 1 year	TOTAL
01	Central government and central banks	28,666	396,036	424,702	46,801	298,037	344,838
02	Regional and local government	9	4,623	4,632	531	8,355	8,886
03	Public sector entities	4,292	7,939	12,231	3,730	7,418	11,148
06	Institutions	38,955	216	39,171	46,667	216	46,883
07	Corporate	18,482	15,466	33,948	20,615	18,153	38,768
08	Retail exposures	59,290	107,283	166,573	59,145	100,934	160,079
09	Secured by mortgages of immovable property	31,294	221,747	253,041	23,424	199,180	222,604
10	Exposures in default	23,124	7,851	30,975	28,660	8,656	37,316
11	Regulatory high risk categories	914	20	934	6,150	0	6,150
14	Investments in investment funds	0	2,699	2,699	2,702	0	2,702
15	Other exposure	18,782	380	19,162	18,486	381	18,867
16	Equity exposure	13,137	0	13,137	11,238	0	11,238
	As at 31 December	236,945	764,260	1,001,205	268,149	641,330	909,479

At the year-end of 2017, 23.7% of the Bank's exposure would reach maturity within one year and 76.3% in over one year. In terms of value, exposure decreased the most towards institutions, while it increased the most towards the central government and central banks. 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.

5.1.8. Capital requirements according to exposure categories

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

			2017		2016
	Exposure category	Net exposure	Average exposure	Net exposure	Average exposure
01	Central government and central banks	424,702	431,859	344,838	372,306
02	Regional and local government	4,632	5,834	8,886	12,505
03	Public sector entities	12,231	11,584	11,148	12,177
06	Institutions	39,171	43,469	46,883	36,670
07	Corporate	33,948	35,555	38,768	42,099
08	Retail exposures	166,573	163,520	160,079	159,526
09	Secured by mortgages of immovable property	253,041	240,929	222,604	214,089
10	Exposures in default	30,975	32,081	37,316	48,086
11	Regulatory high risk categories	934	4,575	6,150	6,681
14	Investments in investment funds	2,699	2,698	2,702	2,703
15	Other exposure	19,162	18,794	18,867	31,332
16	Equity exposure	13,137	12,638	11,238	10,031
	As at 31 December	1,001,205	1,003,536	909,479	948,205

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

5.2. Market risk

In managing market risk, the Bank relies on the Policy of Risktaking and Managing Market Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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 2017, as in 2016, 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 2017 and consequently did not have capital requirements for market risk.

	2017	2016
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 2017, 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 Risktaking 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 2017 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 2017 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 2017, 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 2017 and 31 December 2016 according to currency:

FOREIGN EXCHANGE RISK as at 31 December 2017					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Cash, balances at central banks, and sight deposits at banks	25,449	96	3,516	389	29,450
Financial assets held for trading	0	17	197	13	227
Available-for-sale financial assets	3,751	0	0	0	3,751
Loans	713,046	1,919	267	686	715,918
- Loans to banks	2,309	1,919	0	686	4,914
- Loans to customers	710,043	0	267	0	710,310
- Other financial assets	694	0	0	0	694
Held-to-maturity investments	123,572	0	0	0	123,572
Property, plant and equipment	9,728	0	0	0	9,728
Investment property	29,629	0	0	0	29,629
Intangible assets	576	0	0	0	576
Long-term equity participation in subsidiaries, associates and joint ventures	9,687	0	0	2	9,689
Income tax assets	5,106	0	0	0	5,106
- Deferred tax assets	5,106	0	0	0	5,106
Other assets	3,384	0	0	0	3,384
TOTAL ASSETS (1)	**923,928**	**2,032**	**3,980**	**1,090**	**931,030**
Financial liabilities held for trading	227	0	0	0	227
Financial liabilities measured at amortised cost	862,149	2,039	3,988	910	869,086
- Deposits by banks and central banks	579	0	0	0	579
- Deposits by customers	795,961	2,021	3,979	910	802,871
- Borrowings from banks and central banks	50,811	0	0	0	50,811
- Subordinated liabilities	11,614	0	0	0	11,614
- Other financial liabilities	3,184	18	9	0	3,211
Provisions	2,822	0	0	0	2,822
Income tax liabilities	177	0	0	0	177
- Current tax liabilities	177	0	0	0	177
Other liabilities	355	0	0	0	355
TOTAL LIABILITIES (2)	**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**

FOREIGN EXCHANGE RISK as at 31 December 2016					
Balance sheet items	**EUR**	**USD**	**CHF**	**OTHER**	**TOTAL**
Total assets	838,500	2,470	3,771	1,121	845,862
Total liabilities	783,929	2,469	3,746	1,026	791,170
Mismatch (1) less (2)	**54,571**	**1**	**25**	**95**	**54,692**
Off-balance sheet liabilities	**61,754**	**0**	**0**	**0**	**61,754**

As at 31 December 2017 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 Risktaking and Managing Interest Rate Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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. Reports on exposure to interest rate risk are reviewed by the Bank's ALM Board on a monthly basis, and quarterly by the Management Board and Supervisory Board in the context of a risk management analysis.

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

With the gap analysis the Bank performs sensitivity tests to determine the effect of changes in market interest rates on the amount of net interest income in the following 12 months, as well as the exposure of the banking book economic value in the event of a standard parallel 200-basis-point interest rate shock. The latter result is used as the basis for computing the Bank's additional capital requirement for interest rate risk under pillar II; it is computed as the 6-month mean exposure of the banking book economic value assuming a standard interest rate shock. For the purposes of managing interest rate risk on the banking book, the Bank has in place a two-stage system of limits for each interest rate gap. The first stage is a position limit for each established gap, calculated using a proprietary methodology, while the second is a limit for the total exposure of the banking book economic value with the final risk limit set at 10% of the Bank's capital.

According to the balance as at 31 December 2017 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 almost EUR 257 thousand as at 31 December 2017, which is 0.4% of the Bank's regulatory capital (2016: EUR 2,371 thousand). Lower exposure of the banking book economic value in 2017 results mainly from the changed methodology regarding the categorisation of sight deposits in longer Sight time periods according to their stability, i.e. from previous 5 to 10 years, with average maturity of their categorisation not exceeding 5 years.

Interest income sensitivity to interest rate movements as at 31 December 2017:

Scenario*	Expected net interest	Absolute change in baseline scenario	Relative change in baseline scenario
Baseline scenario	17,813		
One-time curve shift (+2%) - immediate shock	24,265	6,452	36.22%
One-time curve shift (-2%) - immediate shock	7,606	(10,207)	(57.30%)
Curve shift (+2%) - gradually over 12 months	21,071	3,258	18.29%
Curve shift (-2%) - gradually over 12 months	12,734	(5,079)	(28.51%)
Curve shift (+2%) - immediate shock, only money market interest (EURIBOR)	28,899	11,086	62.24%
Curve shift (-2%) - immediate shock, only money market interest (EURIBOR)	9,345	(8,468)	(47.54%)
Curve shift (+2%) - gradually over 12 months, only money market interest (EURIBOR)	23,388	5,575	31.30%
Curve shift (-2%) - gradually over 12 months, only money market interest (EURIBOR)	13,501	(4,312)	(24.21%)

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

Assuming that the Bank's investments and liabilities as at 31 December 2017 remained unchanged and held-to-maturity, and that the Bank did not actively influence the structure of investments and liabilities in order to modify exposure to interest rate risk, a 2% drop in market interest rates (immediate shock) would cause a more than EUR 10 million decrease in net interest income over a one-year period (2016: almost EUR 9 million).

The following tables outline exposure to interest rate risk as at 31 December 2017 and 31 December 2016. 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 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
Cash, balances at central banks, and sight deposits at banks	29,450	0	29,450	27,346	0	2,104	0	0	0
Financial assets held for trading	227	227	0	0	0	0	0	0	0
Available-for-sale financial assets	3,751	3,751	0	0	0	0	0	0	0
Loans	715,918	3,030	712,888	261,122	16,948	194,222	172,873	59,842	7,881
- Loans to banks	4,914	2	4,912	2,109	2,603	0	200	0	0
- Loans to customers	710,310	2,334	707,976	259,013	14,345	194,222	172,673	59,842	7,881
- Other financial assets	694	694	0	0	0	0	0	0	0
Held-to-maturity investments	123,572	2,754	120,818	0	0	0	3,608	79,410	37,800
Long-term equity investments in subsidiaries, associates and joint ventures	9,689	9,689	0	0	0	0	0	0	0
Other assets	3,384	3,384	0	0	0	0	0	0	0
TOTAL ASSETS	**885,991**	**22,835**	**863,156**	**288,468**	**16,948**	**196,326**	**176,481**	**139,252**	**45,681**
Financial liabilities held for trading	227	227	0	0	0	0	0	0	0
Financial liabilities measured at amortised cost	869,086	4,754	864,332	529,409	95,294	46,378	102,600	88,347	2,304
- Deposits by banks and central banks	579	0	579	579	0	0	0	0	0
- Deposits by customers	802,871	979	801,892	524,623	95,294	46,378	101,996	33,297	304
- Borrowings from banks and central banks	50,811	0	50,811	207	0	0	604	50,000	0
- Subordinated liabilities	11,614	564	11,050	4,000	0	0	0	5,050	2,000
- Other financial liabilities	3,211	3,211	0	0	0	0	0	0	0
Other liabilities	355	355	0	0	0	0	0	0	0
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**

INTEREST RATE RISK as at 31 December 2016									
Balance sheet items	TOTAL	Non-interest bearing	Total accrued interest	Sight	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Total assets	802,688	35,387	767,301	283,249	19,127	101,549	181,021	93,609	88,746
Total liabilities	789,163	5,615	783,548	453,088	103,306	63,208	126,838	32,320	4,788
Net exposure to interest rate risk	**13,525**	**29,772**	**(16,247)**	**(169,839)**	**(84,179)**	**38,341**	**54,183**	**61,289**	**83,958**

The Bank's largest exposure as at 31 December 2017 was in euro, with exposures in other currencies negligible and immaterial. Interest rate risk in 2017 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 2018, 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.

5.2.5. Average interest rates as at 31 December

		2017		2016
	EUR	USD	EUR	USD
Assets		%		%
Cash, balances at central banks, and sight deposits at banks	0.00	0.03	0.01	0.04
Loans to banks	1.16	1.18	0.53	0.30
Loans to customers	2.05	0.00	2.35	0.00
Investment securities - debt	3.13	0.00	2.99	0.00
Liabilities				
Borrowings from banks and central banks	0.00	0.00	0.76	0.00
Deposits by customers	0.11	0.01	0.20	0.01
Subordinated liabilities	6.16	0.00	6.19	0.00

5.3. Liquidity risk

In managing liquidity risk, the Bank applies the Risktaking and Risk Management Policy for Liquidity Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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 required cash flows, and on the availability of liquid assets that at all times ensure that outstanding financial obligations can immediately be discharged. For this purpose the Bank holds on its portfolio adequate amounts of cash and highly liquid securities that can be liquidated immediately and without loss in carrying value.

The Bank maintains a diversified pool of liquidity reserves in the form of cash and other highly liquid assets that are free from encumbrances and at the Bank's disposal at any time. To this end the Bank continually monitors the amount and composition of its liquidity reserves, preparing a list of all liquid assets, the proportion of their collectability and of their encumbrances or their being free from encumbrances.

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

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

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

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

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 2017, the Bank had at its disposal an adequate pool of liquidity reserves, which can be utilised to settle any liabilities as well as off-balance sheet liabilities. In addition, it has at its disposal adequate secondary liquidity (liquid debt securities, domestic loans eligible as collateral with the European Central Bank, etc.) which it could easily and efficiently liquidate and use in case of a liquidity stress event that compromised the daily system of liquidity management, such as e.g. an unexpected large-scale withdrawal of deposits.

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 following restoration plan liquidity indicators were selected: first class liquidity ratio (KL-1), liquidity coverage ratio (LCR), net stable funding ratio (NSFR), and indicator of wholesale funding costs (SGF). 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 Risktaking and Risk Management Strategy of Deželna banka Slovenije d. d.

In 2017, the Bank complied with the regulations of the Bank of Slovenia regarding the minimum requirements to facilitate sufficient liquidity. As at 31 December 2017 and 31 December 2016, the first class liquidity ratio was 1.38 and 1.27 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% from 2018 onwards. As at 31 December 2017, the liquidity coverage ratio was 212%.

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

The following tables summarise the Bank's exposure to liquidity risk as at 31 December 2017 and 31 December 2016. Financial instruments are recorded at undiscounted amounts according to remaining contractual maturity as at 31 December 2017, which in addition to the asset's carrying value includes expected future cash flows from interest.

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**
Cash, balances at central banks, and sight deposits at banks	27,346	0	2,105	0	0	0	29,451
Financial assets held for trading	227	0	0	0	0	0	227
Available-for-sale financial assets	3,751	0	0	0	0	0	3,751
Loans	30,694	7,323	25,640	96,944	219,805	415,198	795,604
- Loans to banks	2,109	2,606	0	12	243	0	4,970
- Loans to customers	27,891	4,717	25,640	96,932	219,562	415,198	789,940
- Other financial assets	694	0	0	0	0	0	694
Held-to-maturity investments	0	631	2,220	4,456	86,960	40,625	134,892
Long-term equity investments in subsidiaries, associates and joint ventures	0	0	0	0	0	9,689	9,689
Other assets	2,720	52	0	612	0	0	3,384
TOTAL ASSETS	**64,738**	**8,006**	**29,965**	**102,012**	**306,765**	**465,512**	**976,998**
Financial liabilities held for trading	227	0	0	0	0	0	227
Financial liabilities measured at amortised cost	527,796	95,826	46,786	103,290	95,595	2,799	872,092
- Deposits by banks and central banks	579	0	0	0	0	0	579
- Deposits by customers	524,552	95,402	46,501	102,565	34,358	346	803,724
- Borrowings from banks and central banks	0	0	207	604	50,000	0	50,811
- Subordinated liabilities	0	0	0	119	11,195	2,453	13,767
- Other financial liabilities	2,665	424	78	2	42	0	3,211
Other liabilities	350	5	0	0	0	0	355
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**

LIQUIDITY RISK as at 31 December 2016							
Balance sheet items	**Sight**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Total assets	84,306	9,296	28,229	113,719	255,345	397,700	888,595
Total liabilities	449,094	104,005	64,721	128,703	38,914	7,729	793,166
Net exposure to liquidity risk	**(364,788)**	**(94,709)**	**(36,492)**	**(14,984)**	**216,431**	**389,971**	**95,429**

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

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

As at 31 December 2017, the Bank had EUR 316 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

					2017					2016
	Carrying amount	Fair value				Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
Assets										
Loans and advances to banks	4,914	0	0	4,914	4,914	5,100	0	0	5,100	5,100
Loans and advances to customers	710,310	0	0	737,972	737,972	598,785	0	0	601,344	601,344
Held-to-maturity debt securities	123,572	133,911	0	0	133,911	140,941	153,655	0	0	153,655
Total assets	**838,796**	**133,911**	**0**	**742,886**	**876,797**	**744,826**	**153,655**	**0**	**606,444**	**760,099**
Liabilities										
Deposits by banks	579	0	0	579	579	420	0	0	420	420
Deposits by customers	802,871	0	0	802,871	802,871	767,963	0	0	767,963	767,963
Borrowings from banks and central banks	50,811	0	0	50,811	50,811	5,758	0	0	5,758	5,758
Subordinated liabilities	11,614	0	0	11,614	11,614	11,615	0	0	11,615	11,615
Total liabilities	**865,875**	**0**	**0**	**865,875**	**865,875**	**785,756**	**0**	**0**	**785,756**	**785,756**

(a) Loans and advances to banks

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

(b) Loans and advances to customers

Loans and advances are net of provisions for impairment. The 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 2017 as the best proxy for market rates.

(c) Held-to-maturity debt securities

Held-to-maturity debt securities are stated at amortised cost. Their fair value as at 31 December 2017 was calculated using market prices formed in the markets where they are listed.

(d) Deposits and borrowings

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

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

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

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

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

Financial instruments measured at fair value in the financial statements:

2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	227	**227**
Available-for-sale financial assets (Note 4.3. a)	0	0	3,751	**3,751**
Non-financial assets				
Investment property (Note 4.9. a)	0	0	29,629	**29,629**
Financial liabilities				
Financial liabilities held for trading (Note 4.14.)	0	0	227	**227**

2016	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets held for trading (Note 4.2. a)	0	0	0	**0**
Available-for-sale financial assets (Note 4.3. a)	0	0	8,348	**8,348**
Non-financial assets				
Investment property (Note 4.9. a)	0	0	26,442	**26,442**
Financial liabilities				
Financial liabilities held for trading (Note 4.14.)	0	0	0	**0**

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

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

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

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

	2017	2016
Equities	3,751	3,987
Bank resolution fund	2,699	2,702
Equity investments at cost	1,052	1,285
Bonds	0	4,361
Lithuania	0	2,202
Republic of Slovenia	0	2,159
TOTAL	**3,751**	**8,348**

In 2017, the Bank Resolution Fund total amounted to EUR 2,699 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 into Level 3. The Bank additionally categorises into Level 3 capital assets worth EUR 1.1 million for which market value does not exist and which are valued at cost.

There were no transfers between different valuation levels in 2016 and 2017.

5.5. Managing operational risk

In managing operational risk, the Bank applies the Risktaking and Risk Management Policy for Operational Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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 Risktaking 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 01 April 2007. The Bank has proprietary application support for systematic monitoring of loss events arising out of operational risk, which is regularly updated and upgraded. The new Resolution on Internal Governance, Governance Body and Internal Capital Adequacy Assessment Process for Banks and Savings Banks allows each employee of the Bank to report a (loss) event into the loss events database. 284 (loss) events associated with operational risk were reported in this manner in 2017, which is more than in 2016 when there were 229, and the realised net loss was also lower than in 2016. It totalled EUR 13.8 thousand in 2017, and EUR 37.6 thousand in 2016, testifying to the fact that the Bank's awareness of operational risk is increasing, pushing the related loss down. The total reported net loss was relatively low considering the capital requirements for operational risk.

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

In 2017 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 2017, the Bank staged 13 BCP I tests, 21 BCP II tests and six 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 2017 capital requirement for operational risk totalled EUR 3,975 thousand.

In 2017, 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 Risktaking and Risk Management Policy for Capital Risk of Deželna banka Slovenije d. d. by establishing an internal controls system. 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.

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. 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 Audit and Risk Committee, 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 Risktaking 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[4] and an adjustment for prudent valuation of financial assets measured at fair value in the banking and trading book[5]. The following constitute deductions from common equity tier 1 capital: loss, treasury shares, intangible assets, deferred tax assets associated with future returns and not arising out of temporary differences[6], 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 2017 nor as at 31 December 2016.

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 Slovenian Banking Act ZBan-1 and must always equal minimally the sum of minimum capital requirements.
The table below shows the calculation of the Bank's capital and capital adequacy ratios.

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

		2017	2016
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	6,469	4,504
3	Accumulated other comprehensive income and other reserves	30,989	31,075
4	**Common equity tier I capital before regulatory adjustments**	**55,269**	**53,390**
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS			
5	Additional fair value and credit risk adjustments	(431)	(318)
6	Intangible assets (deductions for associated tax liabilities)	(576)	(678)
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)	(1,600)	(1,479)
8	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(645)
9	Total regulatory adjustments to common equity tier I capital	(3,253)	(3,119)
10	Common equity tier I capital	52,017	50,270
11	**TIER I CAPITAL (common equity tier I + additional tier I)**	**52,017**	**50,270**
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS			
12	Capital instruments and the related share premium account	7,781	9,229
13	Tier II capital before regulatory adjustments	7,781	9,229
14	**TIER II CAPITAL**	**7,781**	**9,229**
15	**TOTAL CAPITAL (tier I + tier II)**	**59,797**	**59,499**
16	Total risk-weighted assets	407,311	419,427
CAPITAL RATIOS AND CAPITAL BUFFERS			
17	**Common equity tier I capital** (in %)	**12.77**	**11.99**
18	**Tier I capital** (in %)	**12.77**	**11.99**
19	**Total capital** (in %)	**14.68**	**14.19**
20	Common equity tier I capital that qualifies as capital buffer (in %)	12.77	11.99
21	Institution-specific buffer requirement (in %)	1.250	0.625
22	of which: capital conservation buffer requirement (in %)	1.250	0.625
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)	2,995	2,998
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)	4,155	4,141
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)	3,106	3,111

The Bank's regulatory capital as at 31 December 2017 amounted to EUR 59,797 thousand, up EUR 298 thousand year-on-year. The quality of capital structure improved at the year-end of 2017 as compared to 2016, the share of tier I capital having increased to 87.0% (from 84.5% in 2016). Total capital requirements at the level of the Bank totalled EUR 32,585 thousand at the year-end of 2017, down EUR 969 thousand year-on-year. Capital requirements for credit risk decreased due to lower exposure to institutions. In addition, the Bank continued in 2017 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 2017, as in 2016, the Bank's exposure decreased the most in terms of defaulting items. On account of the capital increase and reduction in capital requirements (especially for credit risk), the Bank's capital adequacy ratio improved. The total capital ratio as at 31 December 2017 thus stood at 14.68%, up 0.49 of a percentage point year-on-year, and by 1.93 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 2017 were 12.77%, up 0.78 of a percentage point year-on-year, and by 1.27 of a percentage point higher than what had been imposed by the Bank of Slovenia.

Given the Bank's internal capital adequacy assessment, we estimate the reported capital adequacy ratio as appropriate for controlling the risk of potential losses. The Bank and the Group will continue to operate an adequate amount of capital to sustain their normal operations in the future. In 2017, 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 12.75% (in 2016 the target was 13.1%) and tier I capital adequacy ratio of 11.5% (in 2016 the target was 10.5%). At the year-end of 2017 the Bank thus met all the capital adequacy ratios imposed by the Bank of Slovenia.

For 2018, 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 capital adequacy ratio of 13.38% and the tier I capital adequacy ratio of 11.50%.

As at 31 December 2017 the Bank's equity holdings in financial sector entities where it had a significant investment (100% of capital), were DBS Leasing d. o. o. and DBS Nepremičnine d. o. o. The equity investment in DBS Leasing totalled EUR 2,683 thousand as at 31 December 2017; consistent with Article 49(2) of the Regulation it was not deduced from capital, but was included in the calculation of the capital requirement for credit risk. The equity investment in DBS Nepremičnine d. o. o. totalled EUR 1,473 thousand as at 31 December 2017; 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 2 thousand and in Semenarna Ljubljana, d. o. o. with EUR 5,531 thousand. These investments were not included in prudential consolidation and were not deduced from capital per Article 89 of the Regulation. They were therefore included in the calculation of the capital requirement for credit risk.

The table below shows the balancing of the Bank's items of capital with its financial statements.

Code	Items	2017	Inclusion into calculation of capital for the purpose of CA as at 31 December 2017	Full inclusion (without considering transitional provisions)	Explanation from Regulation 575/2013
1	Cash, balances at central banks, and sight deposits at banks	29,450			
2	Financial assets held for trading	227	(0)	(0)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Available-for-sale financial assets	3,751	(4)	(4)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
4	Loans and advances	715,918			
	- Loans and advances to banks	4,914			
	- Loans and advances to customers	710,310			
	- Other financial assets	694			
5	Held-to-maturity investments	123,572			
6	Property, plant and equipment	9,728			
7	Investment property	29,629			
8	Intangible assets	576	(576)	(576)	deduction item Article 36 b - fully
9	Long-term equity participation in subsidiaries, associates and joint ventures	9,689			
10	Income tax assets	5,106			
	- Deferred tax assets	5,106			
	Depending on future profitability and not arising out of temporary differences	2,000	(1,600)	(2,000)	deduction item Article 36 c - 80% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,106			
11	Other assets	3,384			
12	**TOTAL ASSETS** (from 1 to 11)	**931,030**			
13	Financial liabilities held for trading	227	(0)	(0)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
14	Financial liabilities measured at amortised cost	869,086			
	- Deposits by banks and central banks	579			
	- Deposits by customers	802,871			
	- Borrowings from banks and central banks	50,811			
	- Subordinated liabilities	11,614	7,781	7,781	included on the basis of Articles 62 and 63
	- Other financial liabilities	3,211			
15	Provisions	2,822			
16	Income tax liabilities	177			
	- Current tax liabilities	177			
17	Other liabilities	355			
18	**TOTAL LIABILITIES** (from 13 to 17)	**872,667**			
19	Share capital	17,811	17,811	17,811	fully included; Article 26
20	Share premium	31,257	31,257	31,257	fully included; Article 26
21	Accumulated other comprehensive income	(335)			
	From government debt securities	0	0	0	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	(1)	(1)	(1)	only 80% of unrealised losses included in 2017, Article 467 (transitional period)
	Other revaluation surpluses	(334)	(268)	(334)	only 80% of unrealised losses included in 2017, Article 467 (transitional period)
22	Revenue reserves	7,230	6,469	6,469	fully included; Article 26
23	Treasury shares	(645)	(645)	(645)	deduction item, Article 36 f - fully
24	Retained earnings (including profit/loss for the year)	3,045			
	Retained earnings				fully included; Article 26
	Profit for the period	3,045	3,806	3,806	conditions for inclusion not yet met
25	**TOTAL EQUITY** (from 19 to 24)	**58,363**			
26	**TOTAL EQUITY AND LIABILITIES** (18 + 25)	**931,030**			
			60,223	**59,757**	**Regulatory capital (sum of capital from SFP)**
			(426)	(426)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			59,797	**59,330**	**Regulatory capital**

5.7. Asset encumbrance

(a) Assets

					2017
		Carrying amount of encumbered assets	Fair value of encumbered assets"	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**63,222**	**-**	**867,808**	**-**
030	Equities	0	0	3,751	3,489
040	Debt securities	3,222	3,222	120,350	130,689
120	Other assets	0	-	66,725	-

(b) Collateral received

			2017
		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

			2017
		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**	**50,000**	**50,000**

(d) Information on the importance of encumbrance

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

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

RISK AND CAPITAL MANAGEMENT (disclosures under Pillar 3 of the Basel Accord)

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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.

Regulatory consolidation includes DBS d. d., DBS Leasing d. o. o., DBS Nepremičnine d. o. o., DBS Adria d. o. o. and Semenarna Ljubljana, d. o. o.

The table below 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 2017 – comparison of regulatory consolidation and prudential consolidation

		Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
Code	**Items**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
1	Cash, balances at central banks, and sight deposits at banks	29,613	24,687	29,450	24,115	163	572
2	Financial assets held for trading	227	0	227	0	0	0
3	Available-for-sale financial assets	3,753	8,348	3,751	8,348	2	0
4	Loans and advances	718,912	607,481	718,042	607,506	870	(25)
	- Loans and advances to banks	4,914	5,100	4,914	5,100	0	0
	- Loans and advances to customers	710,040	599,627	712,277	601,485	(2,237)	(1,858)
	- Other financial assets	3,958	2,754	851	921	3,107	1,833
5	Held-to-maturity investments	123,572	140,941	123,572	140,941	0	0
6	Non-current assets held for sale, and discontinued operations	3,217	179	22	26	3,195	153
7	Property, plant and equipment	28,545	34,538	10,624	11,244	17,921	23,294
8	Investment property	29,629	26,442	29,629	26,442	0	0
9	Intangible assets	834	970	594	695	240	275
	Long-term equity participation in subsidiaries, associates and joint ventures	0	0	5,533	3,688	(5,533)	(3,688)
10	Income tax assets	5,608	6,076	5,106	5,625	502	451
	- Current tax assets	0	50	0	50	0	0
	- Deferred tax assets	5,608	6,026	5,106	5,575	502	451
11	Other assets	13,311	26,578	4,738	18,182	8,573	8,396
12	**TOTAL ASSETS** (from 1 to 11)	**957,221**	**876,240**	**931,288**	**846,812**	**25,933**	**29,428**
13	Financial liabilities held for trading	227	0	227	0	0	0
14	Financial liabilities measured at amortised cost	890,333	815,298	868,948	789,313	21,385	25,985
	- Deposits by banks and central banks	594	448	579	420	15	28
	- Deposits by customers	802,603	767,666	802,692	767,864	(89)	(198)
	- Borrowings from banks and central banks	68,879	25,692	50,811	5,758	18,068	19,934
	- Borrowings from customers	598	1,394	0	625	598	769
	- Subordinated liabilities	11,614	11,615	11,614	11,615	0	0
	- Other financial liabilities	6,045	8,483	3,252	3,031	2,793	5,452
15	Provisions	3,105	2,336	2,834	1,947	271	389
16	Income tax liabilities	1,352	1,218	177	66	1,175	1,152
	- Current tax liabilities	177	21	177	22	0	(1)
	- Deferred tax liabilities	1,175	1,197	0	44	1,175	1,153
17	Other liabilities	1,222	885	507	629	715	256
18	**TOTAL LIABILITIES** (from 13 to 17)	**896,239**	**819,737**	**872,693**	**791,955**	**23,546**	**27,782**
19	Share capital	17,811	17,811	17,811	17,811	0	0
20	Share premium	31,257	31,257	31,257	31,257	0	0
21	Accumulated other comprehensive income	(390)	(242)	(326)	(192)	(64)	(50)
22	Revenue reserves	7,230	4,504	7,230	4,504	0	0
23	Treasury shares	(657)	(657)	(645)	(645)	(12)	(12)
24	Retained earnings (including profit/loss for the year)	5,731	3,830	3,268	2,122	2,463	1,708
25	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 19 to 24)	**60,982**	**56,503**	**58,595**	**54,857**	**2,387**	**1,646**
26	TOTAL EQUITY (25)	60,982	56,503	58,595	54,857	2,387	1,646
27	**TOTAL EQUITY AND LIABILITIES** (18 + 26)	**957,221**	**876,240**	**931,288**	**846,812**	**25,933**	**29,428**

Group income statement as at 31 December 2017 – comparison of regulatory consolidation and prudential consolidation

		Accounting consolidation		Prudential consolidation		Difference between accounting and prudential consolidation	
Code	Items	1-12 2017	1-12 2016	1-12 2017	1-12 2016	1-12 2017	1-12 2016
1	Interest income	19,724	19,888	19,786	19,886	(62)	2
2	Interest expense	2,219	3,879	1,788	3,195	431	684
3	**Net interest income** (1 - 2)	**17,505**	**16,009**	**17,998**	**16,691**	**(493)**	**(682)**
4	Dividends	91	9	91	9	0	0
5	Fee (commission) income	9,339	9,113	9,372	9,139	(33)	(26)
6	Fee (commission) expense	2,575	2,378	1,758	1,542	817	836
7	**Net fee (commission) income** (5 - 6)	**6,764**	**6,735**	**7,614**	**7,597**	**(850)**	**(862)**
8	Realised gains/losses from financial assets and liabilities not measured at fair value through profit or loss	2,020	16	2,102	15	(82)	1
9	Net gains/losses from financial assets and liabilities held for trading	347	143	347	143	0	0
10	Foreign exchange translation	(85)	42	(83)	13	(2)	29
11	Net gains/losses on derecognition of assets	7,690	8,996	300	621	7,390	8,375
12	Other net operating gains/losses	(975)	(1,050)	(1,358)	(1,063)	383	13
13	Administrative expenses	22,844	22,533	16,774	16,369	6,070	6,164
14	Depreciation and amortisation	1,819	2,074	1,240	1,443	579	631
15	Provisions	822	(36)	930	15	(108)	(51)
16	Impairment charge	2,277	3,160	3,358	3,199	(1,081)	(39)
17	Net gains/losses from non-current assets held for sale and related liabilities	20	73	20	73	0	0
18	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS BEFORE TAX** (3 + 4 + 7 + 8 + 9 + 10 + 11 + 12 - 13 - 14 - 15 - 16 + 17)	**5,615**	**3,242**	**4,729**	**3,073**	**886**	**169**
19	Tax	858	495	857	486	1	9
20	**PROFIT/LOSS FROM CONTINUOUS OPERATIONS AFTER TAX** (18 - 19)	**4,757**	**2,747**	**3,872**	**2,587**	**885**	**160**
21	**PROFIT/LOSS FOR THE YEAR** (20)	**4,757**	**2,747**	**3,872**	**2,587**	**885**	**160**

3. CAPITAL

3.1. The Group's capital adequacy

Pursuant to Regulation (EU) No 575/2013 (Article 492.2), the Group has to disclose three different capital adequacy ratios, the minimum values[7] of which are the following:

- common equity tier 1 capital ratio: 4.5%, or 5.75% with the capital conservation buffer,
- tier 1 capital ratio: 6%, and
- total capital ratio: 8%.

Pursuant to Article 437 (d) (e) of the Regulation, elements of capital are presented in the form stipulated by the EBA Implementing Technical Standard, published as Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2014, along with the realised capital adequacy ratios.

The Group calculates capital and capital adequacy ratios pursuant to the legislation. Capital adequacy ratio improved in 2017 year-on-year, and the Group met all requirements imposed by the Bank of Slovenia for 2017 in the context of the Supervisory Review and Evaluation Process (SREP).

[7] The supervisory authority has the discretionary power to impose, in the context of ICAAP–SREP, on a bank or banking group higher target values of capital adequacy ratios.

Elements of regulatory capital and capital adequacy:

		2017	2016	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	6,626	4,630	26(1)(c)
3	Accumulated other comprehensive income and other reserves	30,996	31,080	26(1)
4	**Common equity tier I capital before regulatory adjustments**	**55,434**	**53,521**	
COMMON EQUITY TIER I CAPITAL: REGULATORY ADJUSTMENTS				
	Additional fair value and credit risk adjustments	(424)	(320)	26(2), 34, 105, Delegated Regulation 183/2014
5	Intangible assets (deductions for associated tax liabilities)	(594)	(695)	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)	(1,600)	(1,479)	36(1)(c), 38, 472(5)
7	Direct and indirect holdings in own common equity tier I capital instruments	(645)	(645)	36(1)(f), 42, 472(8)
8	Total regulatory adjustments to common equity tier I capital	(3,263)	(3,138)	
9	Common equity tier I capital	52,170	50,382	
10	**TIER I CAPITAL (common equity tier I + additional tier I)**	**52,170**	**50,382**	
TIER II CAPITAL: INSTRUMENTS AND PROVISIONS				
11	Capital instruments and the related share premium account	7,781	9,229	62, 63
12	Tier II capital before regulatory adjustments	7,781	9,229	62, 63
13	**TIER II CAPITAL**	**7,781**	**9,229**	
14	**TOTAL CAPITAL (tier I + tier II)**	**59,951**	**59,611**	
15	Total risk-weighted assets	407,369	418,898	
CAPITAL RATIOS AND CAPITAL BUFFERS				
16	**Common equity tier I capital** (in %)	**12.81**	**12.03**	
17	**Tier I capital** (in %)	**12.81**	**12.03**	
18	**Total capital** (in %)	**14.72**	**14.23**	
19	Common equity tier I capital that qualifies as capital buffer (in %)	12.81	12.03	
20	Institution-specific buffer requirement	1.250	0.625	440
21	of which: capital conservation buffer requirement	1.250	0.625	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)	2,995	2,998	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)	3,106	3,111	36(1)(c), 38, 48, 470, 472(5)

3.2. Reconciliation of regulatory capital to financial statements

Regulatory capital and capital adequacy ratios are calculated using data from the Group's financial statements. Disclosure on the reconciliation of regulatory capital to the balance sheet was prepared according to Articles 437 (a) (f) and 447 (e) of the Regulation (EU) No 575/2013. The Group's capital consists of the majority of capital items from the statement of financial position, and subordinated debt, and it is additionally lowered by deduction items. The table below shows the proportions of individual items that are included in the calculation of regulatory capital. In addition to the amounts that were actually included in regulatory capital as at the year-end of 2017 (second column), the table shows the full amounts of these items, i.e. the amounts that would be taken into account in the calculation of capital were it not for allowances from the transitional period (third column).

Due to the gradual implementation of certain provisions, the amount of the Group's capital that is presently considered in the calculation of capital adequacy, is higher by EUR 465 thousand than it would be if all requirements had already been fully implemented. The difference is mainly due to two deduction items: deferred tax, of which only 80% is deducted in 2017 but upon full implementation it will be deduced completely, and accumulated comprehensive income, which now includes 80% of other revaluation gains but will include their full amount upon full implementation.

Reconciliation of statement of financial position items with regulatory capital for the purpose of the Group's capital adequacy as at 31 December 2017.

Code	Items	Prudential consolidation	Inclusion into calculation of capital for the purpose of CA as at 31 December 2017	Full inclusion (without considering transitional provisions)	Note
		2017			
1	Cash, balances at central banks, and sight deposits at banks	29,450			
2	Financial assets held for trading	227	(0)	(0)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
3	Available-for-sale financial assets	3,751	(4)	(4)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
4	Loans and advances	718,042			
	- Loans and advances to banks	4,914			
	- Loans and advances to customers	712,277			
	- Other financial assets	851			
5	Held-to-maturity investments	123,572			
6	Non-current assets held for sale, and discontinued operations	22			
7	Property, plant and equipment	10,624			
8	Investment property	29,629			
9	Intangible assets	594	(594)	(594)	deduction item Article 36 b - fully
10	Long-term equity participation in subsidiaries, associates and joint ventures	5,533			
11	Income tax assets	5,106			
	- Deferred tax assets	5,106			
	Depending on future profitability and not arising out of temporary differences	2,000	(1,600)	(2,000)	deduction item Article 36 c - 80% of item's value during transitional period
	Depending on future profitability and arising out of temporary differences	3,106			
12	Other assets	4,738			
13	**TOTAL ASSETS** (from 1 to 12)	**931,288**			
14	Financial liabilities held for trading	227	(0)	(0)	deduction item Article 34 - additional value adjustments, 0.1% of carrying amount
15	Financial liabilities measured at amortised cost	868,948			
	- Deposits by banks and central banks	579			
	- Deposits by customers	802,692			
	- Borrowings from banks and central banks	50,811			
	- Subordinated liabilities	11,614	7,781	7,781	included on the basis of Articles 62 and 63
	- Other financial liabilities	3,252			
16	Provisions	2,834			
17	Income tax liabilities	177			
	- Current tax liabilities	177			
18	Other liabilities	507			
19	**TOTAL LIABILITIES** (from 14 to 18)	**872,693**			
20	Share capital	17,811	17,811	17,811	fully included; Article 26
21	Share premium	31,257	31,257	31,257	fully included; Article 26
22	Accumulated other comprehensive income	(326)			
	From government debt securities	0	0	0	not included in capital under discretion of BS, Article 467 (transitional period)
	From non-government equities	(1)	(1)	(1)	only 80% of unrealised losses included in 2017, Article 467 (transitional period)
	Other revaluation surpluses	(325)	(260)	(325)	only 80% of unrealised losses included in 2017, Article 467 (transitional period)
23	Revenue reserves	7,230	6,626	6,626	fully included; Article 26
24	Treasury shares	(645)	(645)	(645)	deduction item, Article 36 f - fully
25	Retained earnings (including profit/loss for the year)	3,268			
	Retained earnings	157			fully included; Article 26
	Profit for the period	3,111	3,872	3,872	conditions for inclusion not yet met
26	**EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** (from 20 to 25)	**58,595**			
27	TOTAL EQUITY (26)	58,595			
28	**TOTAL EQUITY AND LIABILITIES** (19 + 26)	**931,288**			
			60,370	**59,905**	**Regulatory capital (sum of capital from SFP)**
			(419)	(419)	deduction item Article 26(2) and Delegated Regulation No 183/2014
			59,951	**59,486**	**Regulatory capital**

3.3. Detailed presentation of items of regulatory capital

Pursuant to Article 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 2017

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	(326)	(261)	Accumulated other comprehensive income
Revenue reserves, including retained earning	7,387	6,626	Reserves and retained earnings
Treasury shares	(645)	(645)	Treasury shares
Net profit for the year	3,111	0	Net profit for the year
		(1,600)	Deferred tax assets associated with future profits and not arising out of temporary differences
		(594)	Intangible assets
		(419)	Special credit risk adjustments
		(4)	Prudent valuation of financial assets in the banking and trading book
		52,170	**Common equity tier I (CET 1)**
		0	Additinal tier I (AT 1)
		52,170	**Total tier I**
		7,781	Tier II (T2)
Total capital for accounting purposes	**58,595**	**59,951**	**Total regulatory capital**

3.4. Capital instruments included in capital

In 2017 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 2017 the Bank did not have capital instruments meeting the criteria for inclusion into additional tier I capital. Tables below show the main features of capital instruments included into tier I and tier II capital, pursuant to Article 437 (b) (c) of Regulation (EU) No 575/2013.

The table below shows the main features of the Group's ordinary shares.

Main features of tier I capital	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	SZBR; ISIN SI0021110083
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Common equity tier I
Post-transitional CRR rules	Common equity tier I
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	Ordinary shares
Amount recognised in regulatory capital (as at the last reporting date)	Paid capital: EUR 17,811 thousand
Nominal amount of instrument	Par value shares; no.: 4,268,248
Issue price	NA
Redemption price	NA
Accounting classification	Shareholders' equity
Original date of issuance	16 April 1990 (Bank's entry in court register)
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	Dividend
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	Yes
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	Yes
Noncumulative or cumulative	NA
Convertible or non-convertible	NA
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	First instrument to cover loss subordinated to all other instruments
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

The main features of the Group's tier II capital are presented in the following six tables. It is included in the calculation of regulatory capital 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	
Issuer	DEŽELNA BANKA SLOVENIJE d. d., Ljubljana
Unique identifier (CUSIP, ISIN or Bloomberg code)	NA
Legislation governing instrument	Slovene
Regulatory treatment	
Transitional CRR rules	Tier II capital
Post-transitional CRR rules	Tier II capital
Eligible at solo / (sub)consolidated basis	Solo and consolidated
Instrument type (types specified by individual jurisdiction)	EU 575/2013, Article 63
Amount recognised in regulatory capital (as at the last reporting date)	Tier II capital instruments
Nominal amount of instrument	EUR 2,000 thousand
Issue price	NA
Redemption price	NA
Accounting classification	Subordinated liabilities
Original date of issuance	9 October 2015
Perpetual or dated	Dated
Original maturity date	10 October 2025
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	NA
Subsequent call dates, if applicable	NA
Coupons / dividends	
Fixed or variable dividend / coupon interest rate	6.00%
Coupon interest rate and any related index	NA
Possibility of unpaid earnings	NA
Fully discretionary, partially discretionary or mandatory (in terms of timing)	NA
Fully discretionary, partially discretionary or mandatory (in terms of amount)	NA
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	NA
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	NA
If convertible, fully or partially	NA
If convertible, conversion rate	NA
If convertible, mandatory or optional conversion	NA
If convertible, specify instrument type convertible into	NA
If convertible, specify issuer of instrument it converts into	NA
Write-down features	No
If write-down, write-down trigger(s)	NA
If write-down, full or partial	NA
If write-down, permanent or temporary	NA
If temporary write-down, description of write-down mechanism	NA
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all unsubordinated creditors
Non-compliant transitioned features	No
If yes, specify non-compliant features	NA

Enter „NA" if not applicable.

4. CAPITAL BUFFERS

Disclosure details for capital buffers are laid down in Article 440 (a) (b) of Regulation (EU) No 575/2013 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 2017 was 1.25% (2016: 0.625%), 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 level is higher than 0%, or when the set level is raised, the new buffer level 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 rates of the bank-specific countercyclical buffer, have to be made on a quarterly basis. The information has to be publicly disclosed at least once a year in the annual report, the obligation effective from 1 January 2016.

The calculation of the bank-specific countercyclical buffer requirement is done on a standalone and consolidated basis: the bank geographically distributes credit exposures subject to the calculation of capital requirements for credit risk according to the standardised approach, and determines specific risk or default risk, and migrations of exposure from the trading book and capital requirements for securitisation.

The bank-specific countercyclical capital buffer rate consists of the weighted average countercyclical capital buffer rates used in countries in which the institution has the relevant credit exposure.

The table below shows the geographical distribution of credit exposures used in the computation of the countercyclical buffer for the Group 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 book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securi-tisation exposures	Total	Capital require-ments weights	Counter-cyclical 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 geographical distribution of credit exposures used in the computation of the countercyclical buffer for the Group in 2016.

	General credit exposures		Trading book exposure		Securitisation exposure		Capital requirements					
	Exposure value for SA	Exposure value IRB	Sum of long and short position of trading book	Value of trading book exposure for internal models	Exposure value for SA	Exposure value IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Capital requirements weights	Countercyclical capital buffer rate
Breakdown by country	010	020	030	040	050	060	070	080	090	100	110	120
ARGENTINA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
AUSTRIA	2	0	0	0	0	0	0	0	0	0	0.00	0.0
BELGIUM	6	0	0	0	0	0	0	0	0	0	0.00	0.0
BOSNIA AND HERZEGOVINA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
BULGARIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
CHINA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
CROATIA	180	0	0	0	0	0	14	0	0	14	0.06	0.0
CYPRUS	0	0	0	0	0	0	0	0	0	0	0.00	0.0
DENMARK	0	0	0	0	0	0	0	0	0	0	0.00	0.0
FRANCE	0	0	0	0	0	0	0	0	0	0	0.00	0.0
GERMANY	1	0	0	0	0	0	0	0	0	0	0.00	0.0
HUNGARY	6	0	0	0	0	0	0	0	0	0	0.00	0.0
ITALY	216	0	0	0	0	0	17	0	0	17	0.07	0.0
LITHUANIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
THE NETHERLANDS	26	0	0	0	0	0	2	0	0	2	0.01	0.0
SAINT KITTS AND NEVIS	26	0	0	0	0	0	2	0	0	2	0.01	0.0
SERBIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
SLOVAKIA	0	0	0	0	0	0	0	0	0	0	0.00	0.0
SLOVENIA	307,107	0	0	0	0	0	24,569	0	0	24,569	99.70	0.0
SPAIN	0	0	0	0	0	0	0	0	0	0	0.00	0.0
UNITED ARAB EMIRATES	489	0	0	0	0	0	39	0	0	39	0.16	0.0
MACEDONIA, FORM. YUGOSL. REP.	0	0	0	0	0	0	0	0	0	0	0.00	0.0
UNIT. KINGD. OF GREAT BRIT. AND NORTH. IRELAND	2	0	0	0	0	0	0	0	0	0	0.00	0.0
UNITED STATES OF AMERICA	4	0	0	0	0	0	0	0	0	0	0.00	0.0
KOSOVO	0	0	0	0	0	0	0	0	0	0	0.00	0.0

The table below shows the amount of the institution-specific countercyclical buffer; the Group-specific countercyclical buffer for 2017 was EUR 0 (the same as in 2016).

	2017	2016
Total risk exposure amount	407,369	418,898
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 into the calculation of the capital requirement for credit risk under pillar I (portfolio downgrade risk due to changed economic conditions, concentration risk and remaining risk from hedging), as well as its risk-based 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 2017: the capital adequacy ratio of 12.75% (2016: 13.1%), while the common equity tier I capital adequacy ratio was raised to 11.5%[8] (it includes the capital conservation buffer of 1.25%). The target level in 2016 was 10.5% 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.

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 2017 and 2016.

Table: Group's capital requirements

	2017	2016
Capital requirement for credit risk	**28,541**	**29,375**
Exposure to central government and central banks	621	622
Exposure to regional and local government	74	141
Exposure to public sector	776	740
Exposure to institutions	2,686	3,227
Exposure to corporate customers	1,807	2,199
Exposure to retail customers	8,445	8,024
Exposure secured by mortgages on residential property	9,410	8,250
Outstanding items	2,885	3,809
Regulatory high risk categories	181	803
Collective investment undertakings	25	28
Equity exposure	719	569
Other exposure	913	963
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	**4,049**	**4,137**
Total capital requirements	**32,590**	**33,512**
Total risk-weighted assets (RWA)	**407,369**	**418,898**

[8] 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.

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 2017 and 31 December 2016, 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 2017 and 31 December 2016

				2017			2016
	Exposure category	Total exposure	Net exposure	Average exposure	Total exposure	Net exposure	Average exposure
01	Central government and central banks	424,710	424,710	431,905	344,893	344,893	372,399
02	Regional and local government	4,674	4,632	5,834	8,913	8,886	12,505
03	Public sector entities	12,561	12,235	11,589	11,263	11,152	12,182
06	Institutions	39,176	39,171	43,472	46,897	46,882	36,670
07	Corporate	34,857	31,214	32,679	42,348	36,545	37,789
08	Retail exposures	173,561	171,455	167,873	167,448	164,392	163,439
09	Secured by mortgages of immovable properties	255,791	252,607	240,797	226,664	223,643	215,498
10	Exposures in default	52,268	32,015	33,032	55,435	37,317	48,133
11	Regulatory high risk categories	4,744	1,543	5,164	11,234	6,814	7,321
14	Investments in investment funds	2,699	2,699	2,698	2,702	2,702	2,703
15	Other exposure	20,083	20,083	19,659	19,677	19,676	32,237
16	Equity exposure	8,981	8,981	8,493	7,097	7,097	7,315
	As at 31 December	1,034,105	1,001,345	1,003,195	944,571	909,999	948,191

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 2017 and 2016, given at their carrying value and broken down according to categories of exposure and geographical areas. Counterparties are grouped according to domicile. The table also provides amounts of impaired and past due exposure. Information in the table clearly shows that the Group does business mainly in Slovenia and that exposure to other countries arises mainly in treasury transactions and investment banking.

Table: Geographical distribution of the Group's exposure broken down into major categories of exposure as at 31 December 2017 and 31 December 2016

	Exposure category	As at 31 December 2017				As at 31 December 2016			
		Slovenia	Other EU member	Other countries	TOTAL	Slovenia	Other EU member	Other countries	TOTAL
01	Central government and central banks	424,710	0	0	424,710	342,691	2,202	0	344,893
02	Regional and local government	4,632	0	0	4,632	8,886	0	0	8,886
03	Public sector entities	12,235	0	0	12,235	11,152	0	0	11,152
06	Institutions	38,855	316	0	39,171	44,929	1,952	1	46,882
07	Corporate	31,009	204	1	31,214	36,372	172	1	36,545
08	Retail exposures	171,151	123	181	171,455	164,198	187	7	164,392
09	Secured by mortgages of immovable properties	252,141	256	210	252,607	223,334	309	0	223,643
10	Exposures in default	32,000	0	15	32,015	36,894	1	422	37,317
11	Regulatory high risk categories	1,543	0	0	1,543	6,814	0	0	6,814
14	Investments in investment funds	2,699	0	0	2,699	2,702	0	0	2,702
15	Other exposure	20,083	0	0	20,083	19,676	0	0	19,676
16	Equity exposure	8,979	2	0	8,981	7,090	7	0	7,097
	As at 31 December	1,000,037	901	407	1,001,345	904,738	4,830	431	909,999
	Impaired exposure	32,605	2	152	32,759	34,434	1	135	34,570
	Past due exposure as at 31 December,	39,091	0	171	39,262	50,849	2	170	51,021
	of which impaired exposure as at 31 December.	17,040	0	153	17,193	17,782	0	143	17,925

At the year-end of 2017, the share of exposure to EU member states stood at 0.09%, down from 0.53% at the end of 2016. 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 2017 and 2016, 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 2017

Exposure category	Finances and insuran.	Trade indus-try	Manu-facturing	Con-struc-tion	Expert, scient. & technical activities	For-eign per-sons	Real-estate services	Cater-ing	Publ. admin. and def.	Agric. and hunt-ing	Transp. and ware-housing	Cuture, entert. &recreat. activi-ties	Other various busin. activities	Inform. & commu-nication activities	Other activi-ties	House-holds	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01 Central government and central banks	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

Table: Group exposure according to economy sectors – industries, broken down into major exposure categories, as at 31 December 2016

Exposure category	Finances and insuran.	Trade indus-try	Manu-facturing	Con-struc-tion	Expert, scient. & technical activities	For-eign per-sons	Real-estate services	Cater-ing	Publ. admin. and def.	Agric. and hunt-ing	Transp. and ware-housing	Cuture, entert. &recreat. activi-ties	Other various busin. activities	Inform. & commu-nication activities	Other activi-ties	House-holds	TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
01 Central government and central banks	17,408	0	0	0	0	0	0	0	327,485	0	0	0	0	0	0	0	344,893
02 Regional and local government	0	0	0	0	0	0	0	0	8,886	0	0	0	0	0	0	0	8,886
03 Public sector entities	0	1,371	0	0	456	0	64	3	301	0	0	178	0	306	8,473	0	11,152
06 Institutions	46,882	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	46,882
07 Corporate	3,717	15,671	2,986	6,125	1,387	0	404	90	103	1,200	105	44	40	1,511	2,849	313	36,545
08 Retail exposures	714	12,568	8,006	3,711	3,156	187	499	1,327	25	1,298	1,803	193	1,233	2,060	1,601	126,011	164,392
09 Secured by mortgages of immovable properties	734	37,500	14,807	4,702	3,382	309	8,110	5,133	200	7,337	2,921	2,509	667	1,554	4,630	129,148	223,643
10 Exposures in default	2,455	7,053	7,791	6,004	4,126	0	2,702	3,827	0	719	5	0	5	0	1	2,629	37,317
11 Regulatory high risk categories	778	172	0	164	5,236	0	308	6	0	130	0	0	0	20	0	0	6,814
14 Investments in investment funds	2,702	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,702
15 Other exposure	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	19,676	19,676
16 Equity exposure	259	3,681	0	0	278	0	7	0	2,753	0	0	0	0	37	82	0	7,097
As at 31 December 2016	75,650	78,018	33,593	20,710	18,026	502	12,101	10,394	339,762	10,694	4,845	2,936	1,958	5,502	17,651	277,793	909,999
Impaired exposure	4,287	7,016	2,771	5,985	6,308	0	1,943	863	30	466	221	16	129	452	169	3,914	34,570
Past due exposures,	4,334	6,447	8,348	5,302	13,536	0	2,274	3,678	400	1,107	210	10	35	19	8	5,313	51,021
of which impaired exposures	2,676	1,523	1,940	3,045	4,651	0	90	431	1	327	191	8	27	1	2	3,012	17,925

Exposure to the public administration and defence – compulsory social security increased the most at the end of 2017 year-on-year, while exposure to construction services was down the most.

7. LEVERAGE

The disclosure requirement regarding leverage is stipulated in Article 451 of Regulation (EU) No 575/2013 and in 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 2017 totalled 5.40% (subject to transitional provisions) and 5.35% (full implementation – disregarding transitional provisions), and thus exceeded the 3% threshold set by the BCBS.

Calculation of the leverage ratio:

	2017	2016
Leverage ratio - using the definition of tier I capital without transitional provisions (in %)	5.35	5.64
Leverage ratio - using the definition of tier I capital with transitional provisions (in %)	5.40	5.75

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	2017	2016
1	Total assets as per published financial statements	931,288	846,811
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	34,623	29,042
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429 (13) of Regulation (EU) No 575/2013 "CRR")	0	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)	34,623	29,042
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	0	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	965,911	875,853

Template LRCom: Leverage ratio common disclosure

LRCom: Leverage ratio common disclosure	2017	2016
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	932,384	846,802
(Asset amounts deducted in determining tier 1 capital)	(3,244)	(3,812)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	929,140	842,989
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	5,238	5,754
Counterparty credit risk exposure for SFT assets	1,231	1,335
Total securities financing transaction exposures	6,469	7,090
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	67,773	60,868
(Adjustments for conversion to credit equivalent amounts)	(37,471)	(35,094)
Other off-balance sheet exposures	30,302	25,774
Capital and total exposures		
Tier 1 capital	52,170	49,382
Total leverage ratio exposures	965,911	875,853
Leverage ratio		
Leverage ratio (in %)	5.40	5.64

Template LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs, and exempt exposures)

LRSpl:	Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)		
		2017	2016
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	932,384	846,802
EU-2	Trading book exposures	227	0
EU-3	Banking book exposures, of which:	932,157	846,802
EU-5	Exposures treated as sovereigns	431,102	356,019
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	4,514	6,485
EU-7	Institutions	39,025	46,492
EU-8	Secured by mortgages of immovable properties	237,355	210,785
EU-9	Retail exposures	137,369	129,443
EU-10	Corporate	15,179	22,184
EU-11	Exposures in default	31,547	36,858
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	36,067	38,536

Explanation of LRQua

Processes used to manage the risk of excessive leverage

Pursuant to transitional provisions, the Group calculated its leverage ratio on a monthly basis in 2017, 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 Audit and 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 2017 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 2017, the monthly value of the leverage ratio ranged between 5.17% and 5.40%, thus exceeding the imposed value. As tier I capital increased and risk-weighted assets decreased, the value of the leverage ratio went up on a quarterly basis.

8. DISCLOSURE REQUIREMENTS, AS PROVIDED BY SECTION 8 OF REGULATION (EU) NO 575/2013

Article	Requirement	Published in AR section	Article
435	**Risk management policies and objectives**		
1	**Risk management objectives and policies**		
	a. strategies and processes to manage risks	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 level 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 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**	/	/
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**	/	/

Article	Requirement	Location	Section
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**		
3	During the period from 1 January 2014 to 31 December 2017, institutions shall disclose the following additional information about their own funds: a. the nature and effect on common equity tier 1 capital, additional tier 1 capital, tier 2 capital and own funds of the individual filters and deductions applied in accordance with Articles 467 to 470, 474, 476 and 479 b. the amounts of minority interests and additional tier 1 and tier 2 instruments, and related retained earnings and share premium accounts, issued by subsidiaries that are included in consolidated common equity tier 1 capital, additional tier 1 capital, tier 2 capital and own funds in accordance with Section 4 of Chapter 1 c. the effect on common equity tier 1 capital, additional tier 1 capital, tier 2 capital and own funds of the individual filters and deductions applied in accordance with Article 481 d. the nature and amount of items that qualify as common equity tier 1 items, tier 1 items and tier 2 items by virtue of applying the derogations specified in Section 2 of Chapter 2	RCM	3.2.
4	During the period from 1 January 2014 to 31 December 2021, institutions shall disclose the amount of instruments that qualify as Common Equity Tier 1 instruments, Additional Tier 1 instruments and Tier 2 instruments by virtue of applying Article 484 (capital instruments not meeting the criteria for inclusion into own funds under the new legislation; their removal may be gradual).	RCM	3.4.

Sections of the annual report (AR)
BR = Business Report
FS = Financial Statements of the Deželna banka Slovenije Group
RCM = Risk and Capital Management

DEŽELNA BANKA SLOVENIJE d. d.

Kolodvorska ulica 9, 1000 Ljubljana, Slovenia
Tel.: +386 1 4727 100
Fax: +386 1 4727 405
Telex: 39154 ZBANKA SI
Swift: SZKBSI2X
http://www.dbs.si/
E-mail: info@dbs.si

MANAGEMENT BOARD

President of the Management Board

Sonja Anadolli
Tel.: +386 1 4727 120

Member of the Management Board

Barbara Cerovšek Zupančič MSc
Tel.: +386 1 4727 438

Management Board Advisers

Simon Petrič
Tel.: +386 1 4727 119

Teodor Žepič
Tel.: +386 1 4727 102

Marija Glavač
Tel.: +386 2 5214 902

SECTIONS AND DEPARTMENTS UNDER THE MANAGEMENT BOARD

Management Board Secretariat

Tina Lazar

Tel.: +386 1 4727 111
Fax: +386 1 4727 405
tina.lazar@dbs.si

Risk Management Section

Marko Rozman
Director
Tel.: +386 1 4727 335
Fax: +386 1 4727 417
marko.rozman@dbs.si

Internal Audit Department

Boža Ušaj
Director
Tel.: +386 1 4727 114
Fax: +386 1 4727 405
boza.usaj@dbs.si

Marketing and Communications Department

Saša Vidmar
Head
Tel.: +386 1 4727 473
Fax: +386 1 4727 405
sasa.vidmar@dbs.si

Operations Compliance Department

Edi Abram
Head
Tel.: +386 1 4727 130
Fax: +386 1 4727 418
edi.abram@dbs.si

Corporate Banking Section

Helena Čampelj
Director
Tel.: +386 1 4727 113
Fax: +386 1 4727 406
helena.campelj@dbs.si

Branch Network Support Section

Helena Čampelj

Tel.: +386 1 4727 113
Fax: +386 1 4727 406
helena.campelj@dbs.si

Financial Markets Section

Elizabeta Tavčer Jurček
Director
Tel.: +386 1 4727 170
Fax: +386 1 4727 407
elizabeta.tavcerjurcek@dbs.si

Financial Management Section

Mateja Tavčar
Director
Tel.: +386 1 4727 330
Fax: +386 1 4727 412
mateja.tavcar@dbs.si

Payments Section

Tatjana Bole Pirc
Director
Tel.: +386 1 4727 234
Fax: +386 1 4727 411
tatjana.bolepirc@dbs.si

Human Resources Management and Organisation Department

Teodor Žepič
Head
Tel.: +386 1 4727 102
Fax: +386 1 4727 418
teodor.zepic@dbs.si

Non-Performing Assets Section

Jožef Berdnik
Director
Tel.: +386 1 4727 296
Fax: +386 1 4727 406
jozef.berdnik@dbs.si

Real Estate Management Section

Mojca Štajner
Director
Tel.: +386 1 4727 489
Fax: +386 1 4727 418
mojca.stajner@dbs.si

IT Section

Dejan Tomažič
Director
Tel.: +386 1 4727 335
Fax: +386 1 4727 410
dejan.tomazic@dbs.si

Legal Affairs Section

Maša Grgurevič Alčin
Director
Tel.: +386 1 4727 486
Fax: +386 1 4727 425
masa.grgurevicalcin@dbs.si

BANK'S BRANCH NETWORK

The Bank's branch network is spread all over Slovenia. In 2017 it operated under six branch units with 81 branches.

Bank's Branch Units

Branch Unit Central Slovenia

Srečko Korber
Director
Kolodvorska ulica 9, 1000 Ljubljana
Tel.: +386 1 4727 283
Fax: +386 1 4727 424
srecko.korber@dbs.si

Branch Unit Podravje

Aleš Viher
Director
Ulica Eve Lovše 15, 2000 Maribor
Tel.: +386 2 3302 853
Fax: +386 2 3302 858
ales.viher@dbs.si

Branch Unit Primorska

Tomaž Slokar
Director
Tolminskih puntarjev 2, 5000 Nova Gorica
Tel.: +386 5 3303 695
Fax: +386 5 3303 698
tomaz.slokar@dbs.si

Branch Unit Celje

Jure Ročnik
Director
Kocbekova 5, 3000 Celje
Tel.: +386 3 4251 361
Fax: +386 3 4251 364
jure.rocnik@dbs.si

Branch Unit Pomurje

Mihael Janžekovič
Director
Staneta Rozmana 11a, 9000 Murska Sobota
Tel.: +386 2 5449 243
Fax: +386 2 5214 906
mihael.janzekovic@dbs.si

Branch Unit Dolenjska

Drago Cerovšek MSc
Director
Šentjernejska 6, 8000 Novo mesto
Tel.: +386 7 3935 184
Fax: +386 7 3935 185
drago.cerovsek@dbs.si