Annual Report 2013

ABANKA

Your friendliest bank

Introduction

One year.
A whole made up of innumerable particles.

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The Abanka Group Annual Report 2013 is a translation of the original Abanka Group Annual Report 2013 issued in Slovene. This translation is provided for reference purpose only.

Business Report

One year.
A sphere of pictures, words, feelings and actions.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2011
Total assets	**3,048,403**	3,614,012	4,258,192
Total amount of deposits of the non-banking sector, measured at amortised cost	**1,886,057**	2,139,636	2,422,234
Total amount of loans and advances to the non-banking sector, measured at amortised cost	**1,809,717**	2,515,942	2,998,904
Total equity	**212,139**	165,644	231,356

INCOME STATEMENT (EUR thousand)	2013	2012	2011
Net interest income	**54,099**	71,096	79,748
Net non-interest income	**138,809**	33,143	20,867
Labour costs, general and administration costs	**(54,068)**	(53,498)	(53,340)
Depreciation	**(5,774)**	(5,939)	(5,708)
Impairments and provisions	**(410,935)**	(129,426)	(180,094)
Profit or loss from ordinary operations before tax	**(277,869)**	(84,624)	(138,527)
Corporate income tax on ordinary operations	**(28,644)**	3,559	28,871

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2013	2012	2011
Other comprehensive income before tax	**6,167**	18,883	(18,560)
Income tax relating to components of other comprehensive income	**(1,165)**	(3,540)	3,711

INDICATORS	2013	2012	2011
Capital adequacy	**9.5%**	9.5%	9.9%
Performance (in %)			
– return on assets after tax(1)	**(8.87)**	(2.02)	(2.46)
– return on equity after tax(2)	**(191.80)**	(38.12)	(34.37)

Notes:

Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Books of Account and Annual Reports of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 17/12).

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

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

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA VIPA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2013	31 Dec. 2012	31 Dec. 2011
Total assets	**3,036,473**	3,597,986	4,215,263
Total amount of deposits of the non-banking sector, measured at amortised cost	**1,894,139**	2,144,129	2,424,278
– from legal and other persons, who pursue a business activity[1]	**792,948**	957,790	1,213,734
– retail	**1,101,191**	1,186,339	1,210,544
Total amount of loans and advances to the non-banking sector, measured at amortised cost	**1,820,677**	2,527,155	2,989,685
– from legal and other persons, who pursue a business activity[1]	**1,305,005**	2,000,735	2,467,359
– retail	**515,672**	526,420	522,326
Total equity	**212,694**	168,558	228,689
Impairments of financial assets and provisions	**754,798**	423,238	355,592
Off-balance sheet items (B.1 to B.4)	**918,340**	1,122,164	1,435,830

INCOME STATEMENT (EUR thousand)	2013	2012	2011
Net interest income	**52,559**	69,448	76,038
Net non-interest income	**134,572**	31,588	18,385
Labour costs, general and administration costs	**(50,207)**	(49,153)	(48,727)
Depreciation	**(5,064)**	(5,167)	(5,068)
Impairments and provisions	**(413,555)**	(127,216)	(188,444)
Profit or loss before tax from ordinary operations	**(281,695)**	(80,500)	(147,816)
Corporate income tax from ordinary operations	**(27,182)**	4,806	28,667

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2013	2012	2011
Other comprehensive income before tax	**6,170**	19,084	(18,615)
Income tax relating to components of other comprehensive income	**(1,163)**	(3,531)	3,723

NUMBER OF EMPLOYEES	31 Dec. 2013	31 Dec. 2012	31 Dec. 2011
	881	880	878

SHARES	31 Dec. 2013	31 Dec. 2012	31 Dec. 2011
Number of shareholders	**1**	1,115	1,130
Number of shares	**15,000,000**	7,200,000	7,200,000
Proportion of par-value shares in share capital (in EUR)	**10.00**	4.17	4.17
Book value per share (in EUR)	**14.18**	23.44	31.80

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

INDICATORS	2013	2012	2011
Capital adequacy ratio	**9.6%**	9.6%	9.9%
– Capital of the Bank - for capital adequacy purposes (in thousand of EUR)	**201,857**	281,686	349,905
Quality of assets and contingent liabilities (in %)			
Impairments of financial assets at amortised cost and provisions	**21.40**	11.12	8.64
Performance (in %)			
– interest margin(1)	**1.51**	1.74	1.74
– financial intermediation margin(2)	**5.36**	2.53	2.16
– return on assets before tax(3)	**(8.07)**	(2.01)	(3.38)
– return on equity before tax(4)	**(182.77)**	(37.61)	(44.52)
– return on equity after tax(5)	**(200.40)**	(35.36)	(35.89)
Operational costs (in %)			
– operational costs/average assets	**1.58**	1.36	1.23
Liquidity (in %)			
– liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost	**62.86**	49.15	36.56*
– liquid assets/average assets	**26.27**	18.58	12.85

Notes:
Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Books of Account and Annual Reports of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 17/12).

(1) The indicator equals the ratio **net interest income/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(2) The indicator equals the ratio **(net interest income+net non-interest income)/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

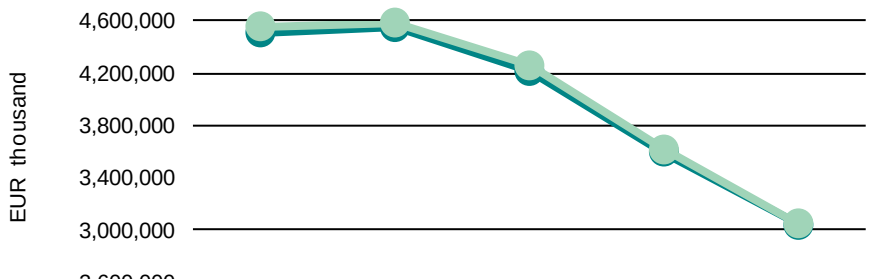
(3) The indicator equals the ratio **profit or loss before tax/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(4) The indicator equals the ratio **profit or loss before tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

(5) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

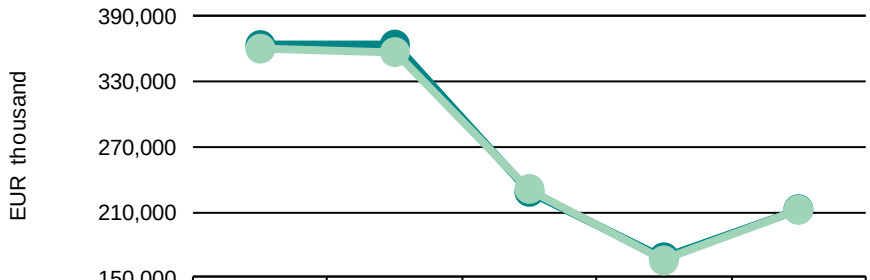
* In accordance with the Decision on Books of Account and Annual Reports of Banks and Savings Banks, the Bank of Slovenia published an amendment to the Guidelines for Compiling the Statement of Financial Position, the Income Statement and the Statement of Comprehensive income, and for Calculating Performance Indicators of Banks and Savings Banks, which entered into force on 1 November 2012 and changed the methodology for calculating certain data and performance indicators for 2011.

TOTAL ASSETS



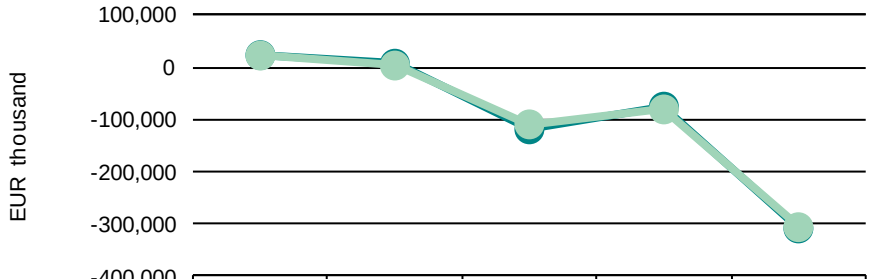
	2009	2010	2011	2012	2013
Abanka	4,510,472	4,551,169	4,215,263	3,597,986	3,036,473
Abanka Group	4,557,476	4,586,218	4,258,192	3,614,012	3,048,403

TOTAL EQUITY



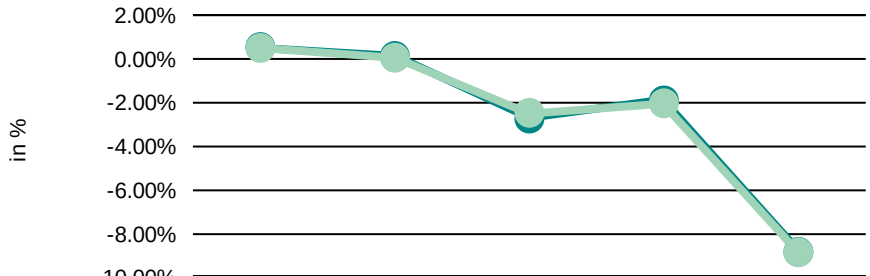
	2009	2010	2011	2012	2013
Abanka	363,577	364,003	228,689	168,558	212,694
Abanka Group	360,277	357,134	231,356	165,644	212,139

PROFIT/LOSS AFTER TAX



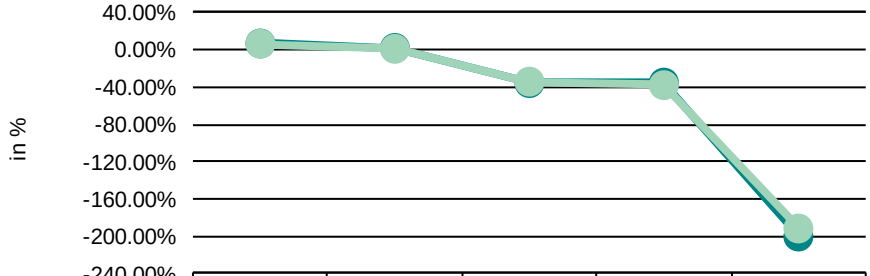
	2009	2010	2011	2012	2013
Abanka	22,925	6,566	-119,149	-75,694	-308,877
Abanka Group	22,119	2,991	-109,656	-81,065	-306,513

RETURN ON AVERAGE ASSETS (neto ROAA)



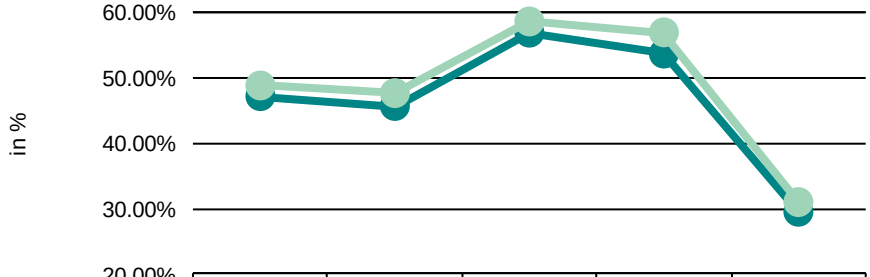
	2009	2010	2011	2012	2013
Abanka	0.56%	0.15%	-2.72%	-1.89%	-8.85%
Abanka Group	0.52%	0.07%	-2.46%	-2.02%	-8.87%

RETURN ON AVERAGE EQUITY (net ROAE)



	2009	2010	2011	2012	2013
Abanka	6.58%	1.79%	-35.89%	-35.36%	-200.40%
Abanka Group	6.35%	0.82%	-34.37%	-38.12%	-191.80%

COST TO INCOME RATIO (CIR)



	2009	2010	2011	2012	2013
Abanka	47.25%	45.74%	56.97%	53.76%	29.54%
Abanka Group	48.88%	47.71%	58.69%	57.02%	31.02%

MANAGEMENT

MANAGEMENT BOARD OF THE BANK

Management Board

Igor STEBERNAK
Member of the Management Board

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

Report of the Management Board

Dear business partners and colleagues of the Abanka Group,

The past year has proven very intense and full of challenges. The economic and financial crisis continued into 2013, therefore the stability and safety of operations remained the Group's basic guideline for decision making. Many activities were focused on the strengthening of the Bank's capital base. After the release of stress test results and the receipt of a provisional decision of the European Commission at the end of December, Abanka determined which steps would be taken in the future.

On the basis of the provisional decision of the European Commission, which approved the first tranche of recapitalisation, on 18 December 2013 the Republic of Slovenia increased the Bank's capital by EUR 348 million. The remaining tranche of recapitalisation and the actual transfer of non-performing loans to the Bank Asset Management Company will be completed after a final favourable opinion is received from the European Commission.

Taking into account gains from financial liabilities related to the derecognition of liabilities arising from a non-cumulative subordinated loan, from extraordinary expenses associated with the costs of an independent external asset quality review and the consolidation of the Bank's capital, operating profit of the Bank totalled EUR 131.9 million in 2013. The operating profit from ordinary activities of the Bank was consistent with the plan. The Bank formed EUR 413.6 million of impairments and provisions and, as a result, in the 2013 financial year recorded a loss of EUR 308.9 million.

Despite the tight economic environment in 2013, Abanka performed well in several areas. By adapting its lending activity and reducing its credit portfolio, the Bank's assets and liabilities were effectively managed while maintaining an acceptable level of income. The loan-to-deposit ratio was significantly improved; fees and commissions were good; the branch network was strengthened; bad loans were being resolved with greater success and assets acquired through collateral foreclosure are being sold. Owing to successfully implemented projects, the Bank is able to better meet user expectations and enhance its efficiency. Abanka is active in bancassurance and the brokerage of precious metals, and is the leading Slovene bank in custody and administrative services for investment funds. It successfully introduces technologically advanced services and expands partnership relations, offering user friendly and helpful services to customers, such as payment order executions through retail chains.

In 2014, Abanka continues to actively pursue its goals of solid performance, following the strategy of stronger retail and SME banking operations. In banking with large corporate customers, Abanka places special focus on those using a wider range of services and generating additional non-interest income.

In 2014 the set projects will be finalised in parallel with further business process optimisation so as to continue to achieve the required cost-efficiency of the Bank into the future. By transferring the Bank's bad debt to the Bank Asset Management Company, the quality of the credit portfolio will be improved and the share of non-performing loans will be decreased.

The Bank will continue with assets and liabilities management, further reduce operating costs, adapt its lending activity and improve the quality of corporate governance. Furthermore, reorganisation of the Bank's operations has been commenced, pursuing further modernisation; new products and services have been and will continue to be developed and launched; the Bank's marketing and sales activities will continue to be targeted at individual segments; the existing new sales channels will be improved and new ones opened. Important goals include fostering the existing customer base and attracting new customers by offering them a broader range of services. Strong focus will be placed on services generating non-interest income. Abanka has maintained its position as number one bank in custody and administrative services for investment funds in Slovenia, is a recognised and respected partner on the international interbank market and is a trustworthy banking partner for retail and corporate customers.

In 2014 the Bank's business focus will be:

- strengthening of retail and SME operations,
- discontinuation of unprofitable or non-strategic business segments,
- cost efficiency,
- launching of new products and finding new sources of income,
- reorganisation,
- process changes and process efficiency and
- upgrading of risk management models and practices.

Abanka achieves its business objectives through its loyal customers and business partners, its highly qualified and motivated employees and through the support of its shareholder. In cooperation with the Group companies, the Bank offers its customers a comprehensive range of financial services, further expanded by insurance products, while an extensive branch network makes its services available across Slovenia.

The Abanka Group is accomplishing its mission "UNITING WITH EXCELLENCE IN FINANCIAL SERVICES". This shows its commitment to meet customer expectations and seek the right solutions in order to adapt own banking operations to customer demands. Abanka has always been and will remain the bank of the Slovene corporate sector and a visible retail bank. The Bank will continue to assure its customers that it really is a bank of friendly people, and one which pursues excellence in business, services and personal relations.

According to forecasts, 2014 will be another very difficult year, with many challenges. Nevertheless, with the transfer of a significant portion of bad debt to the Bank Asset Management Company, additional capital increase by the Republic of Slovenia and the implementation of the strategic objectives set in the restructuring plan, the Bank plans to create conditions for stable and profitable operations. Rest assured that in 2014, Abanka will focus on maintaining a wide range of high-quality banking services, thus deserving your trust. Our business decisions will be responsible and wise, and our activities geared towards the safety and stability of the Bank.

The Management Board hereby thanks the Supervisory Board members for monitoring its work and offering ideas and proposals on how to improve operations. It also offers its appreciation to all of the employees who, through their dedicated work and positive attitude, have contributed to the business results achieved in 2013. We are convinced that close mutual cooperation will help us attain the goals set out for 2014.

Management Board

Igor STEBERNAK
Member of the Management Board

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

SUPERVISORY BOARD

As at 31 December 2013

Janko GEDRIH	• retired • JAGE, poslovne storitve d.o.o., Authorised Officer
Andrej SLAPAR	• Zavarovalnica Triglav d.d., President of the Management Board • Jedrski pool GIZ, Chairman of the Supervisory Board • Triglav INT d.d., President of the Management Board • Pozavarovalnica Triglav Re d.d., Chairman of the Supervisory Board • Triglav Osiguranje d.d., Sarajevo, Chairman of the Supervisory Board
Vladimir Mišo ČEPLAK, M.Sc.	• Zavarovalnica Triglav d.d., Deputy President of the Management Board
Franci STRAJNAR, M.Sc.	• NFD Holding d.d., Assistant to the Management Board • Istrabenz, holdinška družba d.d, Member of the Supervisory Board
Kristina Ana DOLENC	• retired
Snežana ŠUŠTERŠIČ	• Re-forma, raziskave in razvoj d.o.o., Authorised Officer
Aljoša URŠIČ	• Skupna pokojninska družba d.d., President of the Management Board • NLB Nov penziski fond a.d., Skopje, Chairman of the Supervisory Board
Aleš ABERŠEK	• Sava, družba za upravljanje in financiranje d.d., Member of the Management Board • RSG Kapital, družba za upravljanje tveganega kapitala d.o.o., Member of the Supervisory Board

Report of the Supervisory Board

As at 31 December 2013, the Supervisory Board of Abanka was composed of eight members. In 2013, the composition of the Supervisory Board changed. Until 8 January 2013, Andrej Andoljšek served as Chairman of the Supervisory Board, Andrej Slapar as its Vice-Chairman, and Branko Pavlin, Vladimir Mišo Čeplak, Franci Strajnar, Slaven Mićković, Kristina Ana Dolenc and Janko Gedrih as members of the Supervisory Board.

On 8 January 2013, Slaven Mićković resigned as member of the Supervisory Board. The terms of office of Branko Pavlin and Vladimir Mišo Čeplak, members of the Supervisory Board, ended on 29 May 2013.

The 27th General Meeting of Shareholders held on 29 May 2013 appointed Aleš Aberšek, Aljoša Uršič and Snežana Šušteršič as new members of the Supervisory Board with a four-year term of office, beginning as of 30 May 2013, whilst Vladimir Mišo Čeplak was reappointed for another four years.

At its 16th regular session on 20 June 2013, the Supervisory Board appointed Janko Gedrih its Chairman succeeding the outgoing Chairman Andrej Andoljšek, who was a member of the Supervisory Board until his resignation on 26 August 2013.

As at 31 December 2013, Janko Gedrih was Chairman of the Supervisory Board, Andrej Slapar was Vice-Chairman, and Vladimir Mišo Čeplak, Franci Strajnar, Kristina Ana Dolenc, Snežana Šušteršič, Aljoša Uršič and Aleš Aberšek its members. The Banking Act specifically and in detail stipulates the conditions and requirements for supervisory board members of banks and does not prohibit members who have an economic, personal or other close relationship with bank's major shareholders or their Management Board from serving as Supervisory Board members. In cases when the Supervisory Board discusses issues related to persons linked to members of the Supervisory Board, the latter are regularly excluded from the discussion and voting on those issues, with the Chairman of the Supervisory Board paying special attention to the exclusion of these members. In case the Chairman is excluded, the session is chaired by the Vice-Chairman. Any such exclusion is entered into the minutes.

The Supervisory Board has three committees:

- **The Audit Committee**, which had the following composition: Vladimir Mišo Čeplak as Chairman, and Franci Strajnar, Tina Cvar, Jasmina Kovačič and Snežana Šušteršič as members. In 2013, the Audit Committee held seven meetings, one by correspondence. The main purpose of the Audit Committee is to assist the Supervisory Board in discharging its supervision duties regarding the reliability of financial statements, financial reports and other financial information that the Bank provides to its shareholders and other members of the public concerning the qualifications, effectiveness and independence of the external auditor, the functioning of the internal audit system and the Bank's compliance with legal requirements.
- **The Compensation and Human Resource Committee**, which was composed of Janko Gedrih as Chairman, and Andrej Slapar, Tomaž Kuntarič and Aleš Aberšek as members. The Committee held four meetings in 2013. The main purpose of this committee is to help the Supervisory Board exercise its supervisory responsibilities with regard to preparing decisions related to remunerations, including those having an impact on risks and risk management in the Bank, as well as help by decisions on staffing issues related to the Management Board and Supervisory Board membership.
- **The Risk Management and Assets Liability Management Committee**, which was composed of Andrej Slapar as Chairman, and Aljoša Uršič, Kristina Ana Dolenc, Franci Strajnar and Aleš Aberšek as members at the 2013 year-end. The main purpose of this committee is to support the Supervisory Board in the execution of its supervisory responsibilities in preparing decisions related to the risk management function, risk profile and ALM control in the Bank. In 2013, the committee held five meetings.

With the exception of the above-stated committees, the Supervisory Board has no other division of duties among its members.

The self-assessment of the Supervisory Board in 2013 was positive and in accordance with expectations. The assessment of the Supervisory Board's work is based on the conclusion that the Supervisory Board is composed of a suitable group of experts. The professional qualifications of the Supervisory Board members cover a broad spectrum of expertise in finance, marketing, law, organisation and other fields. The organisation and functioning of Board members as a team is effective, as they facilitate the on-going monitoring and supervision of the Bank's operations as well as initiatives and guidelines for its development. The Supervisory Board's self-assessment results positively affected and encouraged its work and confirmed that the Board has properly implemented its activities.

Review of the Supervisory Board's activities in 2013

In accordance with the competencies and obligations defined in the Banking Act, the Companies Act, the Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, and the Bank's Articles of Association, the Supervisory Board operated pursuant to the principles of modern corporate governance and thus, through its supervisory function, contributed to the efficiency and transparency of the Bank's operations. The Supervisory Board at its

sessions received regular reports on the work of the Risk Management Division and paid special attention to capital, credit and liquidity risk management in the Bank.

In 2013, the Supervisory Board held fourteen regular sessions, one extraordinary session and two sessions by correspondence. The absences from the Supervisory Board's session for legitimate reasons were as follows: Janko Gedrih at the 10th regular session; Franci Strajnar at the 11th regular session, Janko Gedrih at the 14th regular session, Andrej Slapar, Vladimir Mišo Čeplak and Franci Strajnar at the 17th regular session, Vladimir Mišo Čeplak at the 1st extraordinary session, Andrej Slapar and Snežana Šušteršič at the 19th regular session, Andrej Slapar at the 21st regular session, Snežana Šušteršič, Aleš Aberšek and Vladimir Mišo Čeplak at the 22nd regular session, and Snežana Šušteršič at the 23rd regular session. The Management Board was present at all regular sessions of the Supervisory Board, except for Igor Stebernak who was absent at the 17th regular session. The Management Board was not present at the 1st extraordinary session of the Supervisory Board.

The Supervisory Board's regular sessions lasted 36 hours and 57 minutes in total, which is 41.8% less than in 2012 (63:28).

At its sessions in 2013, the Supervisory Board:

- approved and adopted the audited Annual Report of Abanka for 2012, including the auditors' report by KPMG Slovenija d.o.o., and the Statement of Compliance with the Corporate Governance Code;
- discussed reports on financial operations of Abanka and the Abanka Group in 2013;
- examined the proposed revisions of limit exposures per customer and gave relevant approvals pursuant to Article 167 of the Banking Act, took note of large exposures on an individual and consolidated basis in compliance with Article 67 of the Banking Act as well as of the Abanka's exposures to groups of related parties and persons in special relationship with the Bank in line with Article 261 of the Companies Act, and discussed proposals of reducing large exposure limits to certain customers;
- discussed comprehensive reports on banking risks together with reports on internal capital adequacy assessment process and approved amendments to the Risk Management Strategy and the related policies;
- in view of a failed capital increase, took note of a time schedule of activities planned for increasing the Bank's capital through paying in new shares, approved the proposed method for covering the net loss sustained in 2012 and approved draft resolutions for the 26th General Meeting of Shareholders to decide on the capital increase through paying in new shares;
- currently took note of activities related to capital alliances between banks and Abanka's recapitalisation and of further activities for consolidating the capital base of Abanka on on-going basis;
- approved the proposed agenda and draft resolutions of the 27th General Meeting of Shareholders of Abanka held on 29 May 2013;
- discussed internal audit reports, issued an opinion on the annual internal audit report and adopted amendments to the Rules of the Internal Audit Department;
- was briefed that the Management Board selected the companies Houlihan Lokey (Europe) Limited and Alta Skupina to act as its consultants in the capital increase process;
- took note of the preliminary estimate of effects caused by a potential transfer of bad debt to the Bank Asset Management Company, and of the Management Board's proposal to file an initiative to apply measures for transferring bad debt to the Bank Asset Management Company and assessed that this could have a positive bearing on the process of capital strengthening of the Bank;
- took note of the fact that at its regular session on 18 July 2013 the Government of the Republic of Slovenia, as proposed by the Inter-Ministerial Committee, established that Abanka Vipa d.d. met the conditions for applying measures for strengthening bank stability and the Bank started the activities to transfer its bad debt to the Bank Asset Management Company. On 30 July 2013, the Bank of Slovenia approved an extension of the deadline for the payment of new in-cash contributions to the share capital of Abanka Vipa d.d. to 31 December 2013, and required the Bank to provide an adequate level of capital by no later than 31 December 2013 in order to achieve a Tier 1 capital ratio of no less than 9.5% and an overall capital adequacy ratio (CAR) of no less than 11.8% on a consolidated basis;
- was in favour of continued asset quality review procedures as foreseen and further activities to attract potential investors for capital strengthening of the Bank;
- was briefed on programme of cost reducing and increasing bank revenues and of new business forecast for the 2013–2018 period, including the effects of a bad debt transfer to the Bank Asset Management Company, based on the then known facts related to the transfer of a portion of bad debt to the Bank Asset Management Company;
- was promptly informed of the external independent asset quality review and stress test;
- took note of amendments to implementing regulations: the Decision Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks and the Decision Regulating Risk Management and the Implementation of the Adequate Internal Capital Procedure for Banks and Savings Banks;
- approved the Assessment Policy of the Qualifications of the Management and Supervisory Board Members in accordance with EBA guidelines and implementing regulations of the Bank of Slovenia;
- gave its approval to increase the share capital of subsidiaries Anepremičnine d.o.o. and Argolina d.o.o., by up to EUR 5 million each;

- approved the Abanka Vipa Group's 2014 Annual Plan (Financial and Business Plan) and the Abanka Group's Strategy for the 2013–2018 period;
- approved Abanka's Investment and Trading Strategy for 2014, including the organisational set-up of the internal control system in the trading and the Internal Audit Department's draft annual audit plan for the trading, and gave its consent to the 2014 plan of the Internal Audit Department;
- took note of the time schedule of regular sessions of Abanka's Supervisory Board planned for 2014;
- took note of the resignation of Slaven Mićković as a member of the Supervisory Board of Abanka Vipa d.d. as of 8 January 2013 and of Andrej Andoljšek as a member of the Supervisory Board of Abanka Vipa d.d. as of 26 August 2013;
- approved the apointment of the director of the Internal Audit Department for the next term of office and the selection of an external independent expert for IAD's quality assessment;
- discussed other issues related to the operations of the Bank and the Group.

Based on up-to-date materials prepared by the Management Board, reports made by specialised in-house departments and its own findings, the Supervisory Board responsibly monitored the Bank's operations and the work of the Internal Audit Department, also supervising the management of the Bank. In this process the Supervisory Board requested the Management Board to take measures and activities necessary for improving banking operations and reducing risks. The Supervisory Board considers its cooperation with the Management Board as good; the Management Board reported on all relevant circumstances in a timely and complete manner, provided answers to the questions received, and duly discharged the duties imposed by the Supervisory Board. The Supervisory Board has concluded that its regular and comprehensive monitoring of Abanka's operations, its guidance towards the best possible decisions in a particular situation, coupled with appropriate supervision of the Bank's governance, contributed to safe and stable operations of the Bank.

Annual Report 2013

At its session on 27 March 2014, the Supervisory Board discussed the 2013 Annual Report of Abanka, including the KPMG Slovenija's audit report. Cooperation with the audit company was of high quality; the auditors responsible took part in the sessions of the Supervisory Board and the Audit Committee and participated in resolving the outstanding issues. The Supervisory Board confirmed that the Annual Report is a true and fair presentation of the Bank's and the Group's position, gives a comprehensive view of operations in 2013 and thus complements the information it received during the financial year. Comparing the Annual Report with the audited financial statements for the 2013 financial year, the Supervisory Board established that the financial results presented in the Annual Report match the audit report. In its opinion, the Supervisory Board, together with the Management Board, fulfilled all their legal requirements for the 2013 financial year.

The Supervisory Board hereby establishes that the certified external auditor, in its report, issued a positive opinion of the financial statements, which present a true and fair view of the Bank's and the Group's financial position in all material aspects. The Supervisory Board has no comments on the audit report by KPMG Slovenija d.o.o. and believes the Bank's operations in 2013 were carried out in accordance with the legal requirements. Based on its insights into the Bank's operations during the year and following a careful examination of the audited Annual Report and the positive opinion issued by the certified auditor in its audit report, the Supervisory Board hereby without objections approves and adopts the Annual Report of Abanka for the 2013 financial year.

The Supervisory Board hereby thanks the Management Board and all employees for their work in 2013.

Janko GEDRIH
Chairman of the Supervisory Board

PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

ABOUT THE BANK

Abanka Vipa d.d. (hereinafter: Abanka) is a bank with long tradition in the Slovene banking sector. The origins of Abanka date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was reorganised as a joint-stock company. On 31 December 2002, Banka Vipa merged with Abanka. Since then, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. The shares of Abanka were listed on the Ljubljana Stock Exchange from October 2008 to December 2013, when on the basis of the Decision of the Bank of Slovenia on Extraordinary Measures, all qualified liabilities of the Bank on 18 December 2013 ceased in full. On 18 December 2013, the Republic of Slovenia subscribed to and fully paid up all 15,000,000 new Abanka shares, thus becoming a 100% owner of the Bank. As at 31 December 2013, Abanka's market share in terms of total assets was 7.5%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through its extensive network of 42 branches across Slovenia, e-banking, advisory services and personal approach, the Bank provides integrated financial services, ranging from traditional banking, bancassurance to investment banking. In the scope of investment banking, Abanka also manages AIII mutual retirement fund.

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

Abanka's range of services includes also financial counselling, factoring, project financing, leasing, asset management and real property management and are complemented through subsidiaries in Slovenia: AB58 d.o.o., Afaktor d.o.o. with two subsidiaries in Serbia and Croatia (Afaktor – faktoring finansiranje d.o.o. and Afaktor – faktoring d.o.o. respectively), Argolina d.o.o., Aleasing d.o.o. with two associated companies in Bosnia and Herzegovina (ASA Aleasing d.o.o. and Agradnja d.o.o.), Analožbe d.o.o. and Anepremičnine d.o.o.

7.5%

market share of Abanka as at the end of 2013

SERVICES OF THE BANK

As at 31 December 2013 Abanka was authorised to provide the following mutually recognised financial services under Article 10 of the Banking Act (ZBan-1):

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

Abanka is also authorised to provide the following other financial services under Article 11 of the Banking Act:

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

BANK PROFILE

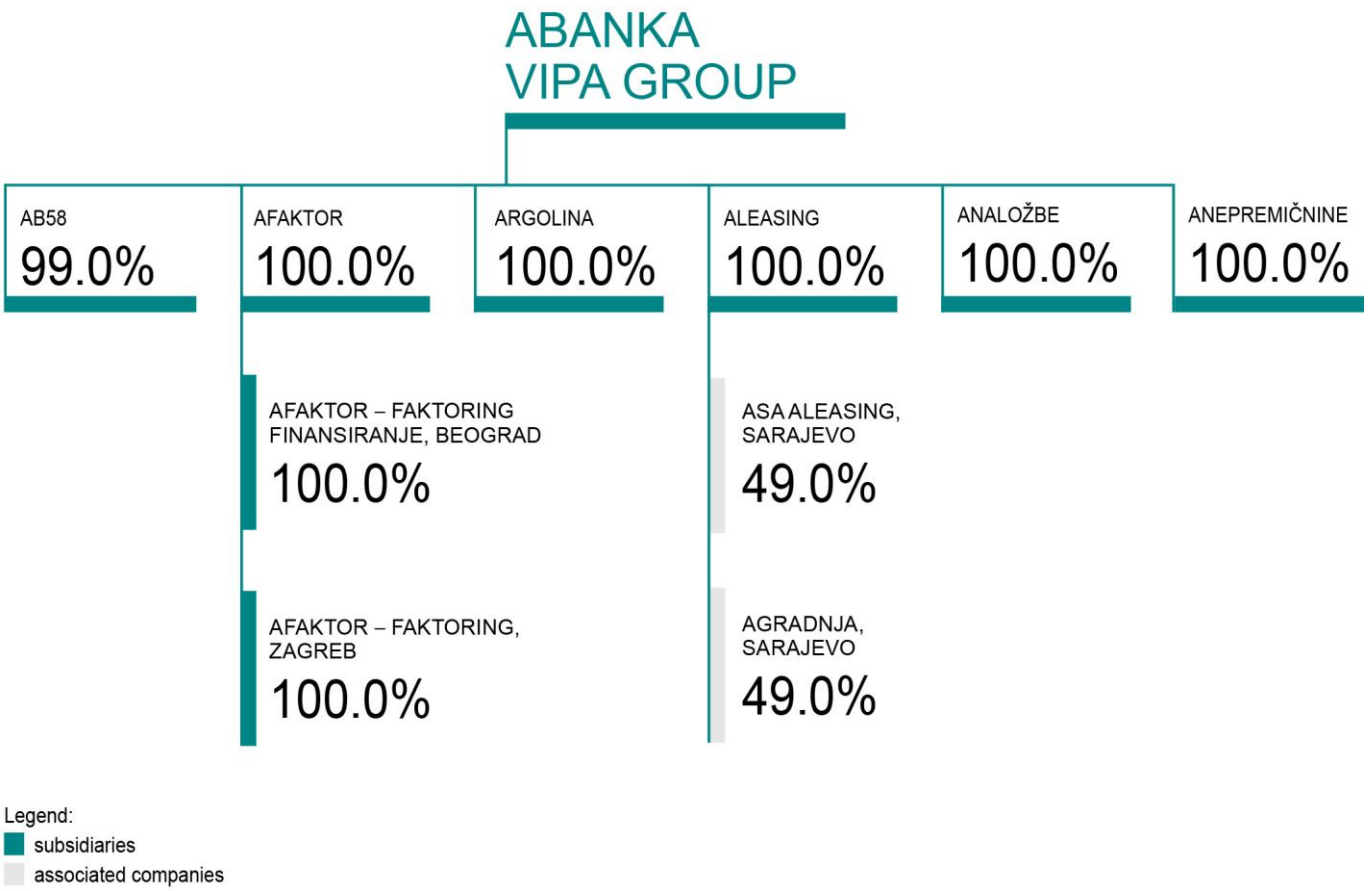
Abanka is entered in the Companies Register kept by the District Court in Ljubljana under registration no. 1/02828/00.

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

ABOUT THE GROUP

As at 31 December 2013, in addition to Abanka Vipa as the parent company, the Abanka Vipa Group (hereinafter: the Abanka Group) included the following:

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



Structure as at 31 December 2013

The following table indicates the year the subsidiaries and the joint venture company were included in the Abanka Group, their activities and the Abanka Group's equity shareholding as at 31 December 2013.

Company	Included in Abanka Group	Activity	Equity Share-holding	Nominal Value of Capital Stakes as at 31 December 2013 (in EUR thousand)
AB58 d.o.o.*	2013	financial counselling	99.0%	842
Afaktor d.o.o.	2002	factoring	100.0%	1,505
Argolina d.o.o.	2003	project financing	100.0%	1,682
Aleasing d.o.o.	2003	leasing	100.0%	4,902
Analožbe d.o.o.	2006	investment management	100.0%	100
Anepremičnine d.o.o.	2013	real property management	100.0%	3,639

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

In 2013, the nominal value of Abanka's equity stake in Argolina d.o.o. increased by EUR 630 thousand (EUR 1,052 thousand in 2012), while it decreased in Aleasing d.o.o. by EUR 500 thousand (EUR 5,402 thousand in 2012) as a result of the demerger and transfer a part of its equity stake to Anepremičnine d.o.o. The Abanka's equity stake in the latter increased by EUR 3,639 thousand in total.

Activities of Subsidiaries

AB58 d.o.o.

AB58, finančno svetovanje d.o.o. (short company name: AB58 d.o.o.) is the legal successor of Abanka Skladi d.o.o. established on 9 May 1994. The company is based in Ljubljana.

In September 2013, the change of the company name from Abanka Skladi, družba za upravljanje d.o.o. to AB58, finančno svetovanje d.o.o. and the change of the business address from Pražakova ulica 8 in Ljubljana to Slovenska cesta 58 in Ljubljana were entered in the Companies Register.

Its ownership remained the same as in 2013 and at the 2013 year-end it was as follows:
- Abanka Vipa d.d. – 99%; and
- Mateja Gubanec – 1%.

Abanka Skladi d.o.o., as AB58 d.o.o. was named before 12 September 2013, was granted a licence to manage investment funds by the Securities Market Agency on 27 October 1994. Its activity was investment fund management comprising of:
- managing the assets of investment funds;
- marketing investment funds, selling investment coupons or shares of investment funds; and
- administrative services.

Abanka Skladi d.o.o. managed investment funds pursuant to the Investment Trusts and Management Companies Act. Until 9 September 2013, it was managing twelve subfunds under the ABANKA SKLADI umbrella fund:
- ABANKA SKLADI AKTIVNI, global equity subfund;
- ABANKA SKLADI SVETOVNI, global equity subfund;
- ABANKA SKLADI EVROPA, equity subfund;
- ABANKA SKLADI ZDA, equity subfund;
- ABANKA SKLADI AZIJA, equity subfund;
- ABANKA SKLADI EVROPSKI TRGI V RAZVOJU, equity subfund;
- ABANKA SKLADI BALTINORD, equity subfund;
- ABANKA SKLADI AFRIKA IN SREDNJI VZHOD, equity subfund;
- ABANKA SKLADI FLEKSIBILNI, mixed subfund;
- ABANKA SKLADI URAVNOTEŽENI RAZVITI TRGI, mixed subfund;
- ABANKA SKLADI OBVEZNIŠKI, general bond subfund;
- ABANKA SKLADI DENARNI EURO, money market subfund.

The umbrella fund was set up in accordance with the legislation of the Republic of Slovenia regulating investment funds. The umbrella fund is not a legal entity, but represents the assets under the management of a fund management company in line with the risk spreading principles and in the sole interest of the subfund investment coupon holders, defined by a special investment objective and investment policy. The assets and liabilities of individual subfunds were separated from the assets and liabilities of other investment funds and subfunds as well as from the assets and liabilities of the management company and those of the custodian of the umbrella fund.

In June 2013, Abanka Skladi, družba za upravljanje d.o.o. and Triglav Skladi, družba za upravljanje d.o.o. concluded the Agreement on the Transfer of Fund Management of the ABANKA SKLADI umbrella fund to Triglav Skladi d.o.o. Pursuant to the Investment Trusts and Management Companies Act Triglav skladi had to obtain a relevant approval from the Securities Market Agency prior to the transfer. In September 2013, Triglav Skladi d.o.o. took full control of the management of the ABANKA SKLADI umbrella fund. After the transfer of the fund management business, Abanka Skladi no longer performed this activity. Therefore, the General Meeting of Shareholders adopted a resolution to change the company name and transform the company into a conventional company under the name AB58, finančno svetovanje d.o.o.

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

The two-member Management Board was led by Gregor Žvipelj as its President and Andrej Petek as a member. The company's Supervisory Board, comprised of Gregor Hudobivnik as its Chairman and Nataša Damijanovič and Boštjan Herič as its members. In September 2013 the change in the management occured. From 14 September 2013 the company has been led by Gregor Hudobivnik.

Afaktor Group

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

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

Afaktor d.o.o. Ljubljana has successfully grown through the years since its establishment and broadened its range of factoring services, becoming one of the three largest factoring companies in Slovenia. In line with its business strategy, Afaktor d.o.o. Ljubljana established the subsidiaries Afaktor – faktoring finansiranje, Belgrade for operations in Serbia at the end of 2007 and in April 2010 Afaktor – faktoring, Zagreb for operations in Croatia. Based on that, it acts as a group specialised in factoring, managed and controlled by the parent company Afaktor d.o.o. Ljubljana as the sole owner of both subsidiaries. All companies in the group are factoring specialists. The largest volume is in international factoring services in Slovenia. The bulk of the business comes from export factoring, mostly within the FCI[1] association, of which Afaktor d.o.o. Ljubljana has been a member since 2007. Both companies were established to provide domestic factoring services in their own market. Afaktor in Ljubljana is responsible for the entire strategic and technological development of operations of the Afaktor Group's subsidiaries as well as for the supervision over their operations. Matjaž Kaštrun manages Afaktor in Slovenia, Bojan Šuštar in Croatia and Igor Vukotić in Serbia as directors. As at the 2013 year-end, the Supervisory Board of Afaktor in Ljubljana comprised of Barbara Jagodič as its Chairwoman, Gregor Hudobivnik as its Vice-Chairman and Kristjan Hvala as a member.

The general economic situation further deteriorated in 2013. As a result, most companies found themselves in an even worse situation as they could not raise new loans or renew the existing ones. However, such conditions were favourable for factoring, especially of export receivables. Factoring is also a form of financial services that does not increase corporate borrowing as a substitute for short-term banking loans in their absence. As such for companies it became a visible and increasingly used financial service. This has been evident worldwide as the volume of factoring has been on a constant rise for the past decade.

In Serbia, a new law on factoring entered into force, regulating factoring services and providing a legal framework for the provision of international factoring services. In Slovenia, there were no significant legislative changes, except at the end of 2013 when the legislation governing bankruptcy and compulsory composition was amended. The effects of these amendments will be visible in the future.

[1] Factors Chain International.

Due to a decreased value of real property, banks imposed stricter requirements for credit risk protection when pledged receivables or assigned receivables are provided as collateral, which increased operational risk in factoring transactions. Due to higher risks in Slovenia and in the countries in which the Group's companies operate, the Group implemented a strategy of a gradual volume reduction of the business in Croatia and Serbia and shifted its focus mainly on export factoring in Slovenia.

In 2013, Afaktor in Croatia ceased to operate and the volume of financial investments in Afaktor in Serbia was decreased leading to the shrinkage of business. In Slovenia, the parent company Afaktor Ljubljana mostly provided international export factoring of receivables to buyers abroad. Due to increased risks, factoring decreased in the construction and trade industries compared to previous years, the Group's volume of factoring and market shares in all three markets were lower. As the popularity of factoring was increasing so was the number of factoring providers in these three markets. Main competitors are foreign banks and new factoring companies owned by foreign banks, which see factoring as a promising and competitive financial service.

Nevertheless, performance in 2013 was good, as in a given situation the Group recorded a growth in international (export) factoring and acquired new customers, mainly exporters. International factoring was and remains the main factoring service in Slovenia. Mostly two-factor export factoring is provided, based on inter-factoring agreements concluded with factors who are members of FCI (Factors Chain International). Export factoring is provided in the form of proper factoring without recourse and with a 100% risk assumption in the event of the buyer's default.

The business of the Afaktor Group's companies in 2013 was predominantly comprised of long-term (annual) factoring agreements concluded with companies, on the basis of which these companies assigned receivables to one or several buyers on an on-going basis. With such a form of factoring they gained access to pre-financing for the factored receivables.

Internal synergies of the Afaktor Group within the Abanka Group were achieved in operations with shared customers, especially by cross-referencing customers between Afaktor companies and the Bank. The biggest synergy effects with the Bank were achieved in the segment of factoring services for Abanka account holders, primarily in order to improve their liquidity and service their debt to the Bank.

In 2013, new strategic objectives of reducing financial investments in South-Eastern European markets began to be implemented. Companies will continue to rationalise their operations and expenses.

Argolina d.o.o.

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

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

The onset of the economic crisis in 2008 adversely affected the implementation of the project, as the foreseen construction on the land owned by Argolina d.o.o. requires specific investors from the international tourism market, who have been very prudent in recent years when investing in Slovene companies.

Argolina d.o.o. is currently not actively operating, as all of its business activities will begin only with the start of project implementation. All activities in recent years were performed only to ensure property maintenance and compliance with municipal and national legislation.

Further business activities of Argolina largely depend upon factors that go beyond its sphere of influence. The predominant factor will be the urban development policy of the municipal authorities and decision-making bodies in Izola, which has been drafted for several years and is expected to be finalised by the end of 2015.

Analožbe d.o.o.

Analožbe, upravljanje z naložbami d.o.o. (short company name: Analožbe d.o.o.) was established in accordance with its Articles and Memorandum of Association on 26 October 2006 for the purpose of providing financial intermediation in both Slovenia and abroad. In its first two years, the company's core business provided credit to foreign investment institutions and forward dealing in the domestic market. In 2009, Analožbe expanded its operations to precious metal trading at the retail level. For that purpose, it started business co-operation with the internationally renowned Swiss refiner, Valcambi SA, which meets the Good Delivery standard – an international standard for bullion. As at the end of the business year 2010, Analožbe stopped precious metal trading business, as in December 2010 its parent company Abanka expanded its operations to precious metal trading at the customer level.

In 2013, as well as in 2012 and 2011, Analožbe d.o.o. was focused on the management of own assets, simultaneously making efforts to lower and control the operating costs. Its main source of revenue was financial income from interest. In 2013 the company had no employees. Analožbe is led by Tone Pekolj as General Manager and Gorazd Knavs as specially authorised representative.

Anepremičnine d.o.o.

Anepremičnine was founded by assuming a portion of assets from Aleasing d.o.o., which were transferred in accordance with a demerger plan. On 31 May 2013 the demerger was entered in the Companies Register, the new company assumed a portion of the assets of the transferring company, Aleasing d.o.o., and as its successor entered all legal relations concerning the demerged assets, previously held by Aleasing d.o.o. Its core business is trading in own real property, with its headquarters in Ljubljana. The company’s current operations are geographically limited to Slovenia.

Gregor Žvipelj is the General Manager; Boštjan Herič is the Chairman of the Supervisory Board, Gregor Hudobivnik Vice-Chairman and Miha Štepec member of the Supervisory Board.

Anepremičnine was established with the purpose of concentrating the management of both seized real property and that owned by the Abanka Group in order to accelerate the sale of individual assets, taking into account the current market situation. Another purpose was to merge the activities of the Abanka Group so as to coordinate the implementation of the real property strategy and optimally utilise human and technical resources within the Group. The idea was also to provide real property agency services so as to speed up the sale of not yet seized properties, to generate added value through active management of the existing and future portfolio and to create attractive investments.

The company’s main task is to manage the real property portfolio in a more uniform, transparent and predictable manner that will enable value maximisation and adequate profitability. Anepremičnine actively sells the seized real property as well as other assets seized in the process (equipment, inventory). If necessary, as an investor or financier it participates in the completion of unfinished projects.

In 2013, downward trends continued in the Slovene real property market in terms of trading and real property prices, mainly affected by a harsh financial and economic situation, the credit crunch and falling purchasing power. According to the latest data and analyses of developments on the residential property market – which in Slovenia represents the largest and most important market and which largely dictates the activity on the commercial property market – the situation in both the residential and commercial property markets could deteriorate further in 2014. Given the uncertain market conditions, the demand for purchasing or renting business premises and the demand for investment property are both increasingly lower.

Anepremičnine is focused on speedy and efficient sale of seized property. In 2013, the company realised the activities planned in its 2013 Business Plan, which included setting up an organisational structure, cooperation with organisational units in the Abanka Group, drawing up a budget for 2013, ensuring stable funding, setting up and standardising a central real property register of the company, drafting and implementing an annual divestment plan and a divestment policy, specifying a cost schedule for real property appraisals required for property valuations for the market purpose, active selling of seized real property and cooperation with Abanka in the activities related to enforcement and bankruptcy proceedings with an aim to secure the most favourable rate of recovery.

At its session on 25 September 2013, the Supervisory Board of Anepremičnine took note of the company’s activities and a planned assets transfer. Furthermore, it approved the Business Plan for 2014 together with the plan of the income statements and balance sheets for 2013 and 2014. In addition, the Supervisory Board gave consent to the management’s proposal to increase capital by up to EUR 5 million with in-cash or non-cash contributions by the end of December 2013, which was successfully completed.

Anepremičnine is closely involved in the part of the process of real property business of the Abanka Group which relates to commercial transactions. This entails acquisition of real property within the Group, property selling, development, investment, attracting tenants, real property management, divestment and operational marketing of real property.

One of the important goals successfully attained by the company was the development of a marketing approach to sell not yet seized real property, whose debtors are in bankruptcy or enforcement proceedings. From the Group's point of view, Anepremičnine's operations have a positive financial impact when, in its decisions, the company pursues the interests of the financial group and the goal of optimising real property acquisition at auctions, where the Bank is involved in enforcement proceedings.

Aleasing d.o.o.

Aleasing, financiranje, svetovanje, trženje d.o.o. (short company name: Aleasing d.o.o.) started its operations on 11 February 2000. It is 100% owned by Abanka and has business units in Ljubljana, Celje and Šempeter pri Gorici. In 2012, the company relocated its headquarters from Celje to Ljubljana.

The purpose of establishing Aleasing was to sell lease-financing services in Slovenia. Leasing completes the sales range of the Abanka Group. Aleasing d.o.o. sells financial and operational leasing products in all business segments, i.e. vehicles, machinery, equipment and real property. In the framework of its core business, the company is active in selling insurance and its own residential and commercial real property. Aleasing sets and follows business development trends and tailors its offering to the needs of its business partners.

Tight economic conditions in 2013 negatively impacted the company's operations. The continuation of the financial crisis decreased Aleasing's possibilities for raising additional sources of funds with financial institutions outside the Abanka Group. Effective demand for Aleasing services in 2013 surpassed the supply. According to statistical data gathered by the Bank Association of Slovenia, Aleasing was ranked 10th among the leasing providers in Slovenia by realised transactions (excluding floor plan financing).

Assets not directly used in the core business were demerged in 2013, mostly consisting of real property. Simultaneously with the asset demerger, a new company Anepremičnine d.o.o. was established, to which the demerged assets were transferred.

In line with the general corporate governance policy of the Abanka Group, the Supervisory Board of Aleasing d.o.o. was established in 2013, consisting of Matej Golob Matzele as its Chairman, Gregor Hudobivnik as Vice-Chairman and Jure Poljšak as member. Aleasing is led by Nikolaj Fišer as General Manager.

Aleasing adapted its operations to the economic situation and limited possibilities of borrowing on the financial market. According to statistical data for 2013, the Aleasing's volume of new financing operations decreased by 6.0% compared to 2012. Decreased economic activity and reduced liquidity of economic entities caused an increasing number of insolvency procedures, adversely affecting the solvency of customers. Operations of Aleasing were made compliant with the Abanka Group's policies by fully observing the recommendations arising from internal and external audits. The loss in 2013 is to the greatest extent a consequence of impairments of assets from the previous years and of the increase in interest rate on loans taken. With proactive and preventive measures, Aleasing managed to neutralise the majority of the negative economic trends. Decreased liquidity in the economy and diminished investment activity caused a decline in the demand for lease items, especially real property and production equipment, which the company discloses as inventory. The company adapted to the changed economic realities by changing its business operations: it paid more attention to decreasing due receivables and value of inventories and further optimised its business processes.

In line with the Abanka Group's business policy, Aleasing continued implementing the strategy of reducing the volume of operations and consolidating the existing portfolio of assets. Special attention was dedicated to increasing the quality of provided services and their upgrading through advice to customers on how to find the most suitable financial solutions. The company's operations were focused on maintaining business with strategically important partners, speedy debt recovery, selling off the inventory of leased items and finalisation of unfinished projects.

Synergistic effects between the company and the Bank are visible in the area of sales, with Abanka offering leasing services in its branch offices and in joint management of entities in rehabilitation. Aleasing exploits its potential and synergies in the sale of real property owned by the Abanka Group's companies. Possibilities for synergy also exist in the credit rating department.

Strategic policies and goals of the company are based on and comply with those of the Abanka Group. In order to streamline its operations and achieve adequate profitability, the company drafted a plan for additional demerger of the assets that are not part of its core business. Aleasing responded to tight economic conditions by diversifying its range of services, organising on-going training courses and increasing the competences of its employees. Special attention is paid to risk management and the safety of investments. The company continuously upgrades its risk management system, adapting it to the situation in the environment in which it operates.

ASA Aleasing d.o.o.

In 2013, ASA Aleasing d.o.o. became an associated company of the subsidiary Aleasing d.o.o. In 2012, ASA Aleasing was the joint venture company of the subsidiary Aleasing d.o.o. Ljubljana and ASA Finance d.d. Sarajevo. The underlying Joint Venture Agreement was concluded in 2007 between Abanka and ASA Holding Sarajevo.

Current ownership structure is as follows: Aleasing d.o.o. (49.0%), ASA Auto d.o.o. (33.8%) and ASA Finance d.d. (17.2%). Alma Kadrić is the new General Manager, Radovan Jereb is the Chairman of the Supervisory Board and Miha Štepec (replacing Anica Vehovar), Vesna Babić Hodović, Peter Kroyer and Senad Olovčić serve as members of the Supervisory Board.

In March 2010, ASA Aleasing was issued a licence to carry out leasing operations in accordance with the law regulating leasing operations in Bosnia and Herzegovina.

In 2013, the company held a 6% market share in terms of financing operations volume (excluding real property) and a 7% market share in the number of concluded contracts (compared to 6% and 9% in 2012 respectively). The market share in the segment of vehicle leasing was 11% at the 2013 year-end.

Agradnja d.o.o.

Agradnja d.o.o. is an engineering, construction and real property company based in Sarajevo. It was established with an aim to build a business and residential complex in the vicinity of Sarajevo. In the first half of 2013, Agradnja d.o.o. became an associated company of the subsidiary Aleasing d.o.o. with an ownership structure consisting of Aleasing d.o.o. (49%) and ASA Finance d.d. (51%). Sanin Granov is the General Manager.

ABANKA'S VISION AND MISSION

Abanka pursues its vision in its relations with customers, shareholders and employees, in providing quality banking services. The mission of the Abanka Group is "**UNITING WITH EXCELLENCE IN FINANCIAL SERVICES**". This mission is carried out on the basis of the Group's values, core competencies and comparative advantages.

The Group's **values** are:
1. **f**riendliness, 2. **e**xcellence, 3. **p**artnership, 4. **c**ompetence and 5. **i**nnovation.

The Group's ***core competencies*** are:
- a strong culture of customer focus, awareness of customer role, entrepreneurship and adaptability;
- a culture of prudence, cost awareness and diligence;
- niche innovation;
- staff loyalty and a good organisational climate.

The Group's core competencies are mirrored in the following ***comparative advantages*** on the market:
- efficient sales network;
- above-average level of responsiveness to customers;
- cost efficiency;
- a leading position in custody and administrative services for investment funds;
- well-developed card operations and trade finance;
- active in bancassurance through the partnership with Zavarovalnica Triglav;
- a leading position in assure banking with Zavarovalnica Triglav.

Abanka is a customer-oriented, safe and stable bank, renowned for its flexible and diverse services, whose goal is to achieve a rate of return on equity that will be attractive to investors. The market share is not increased at the expense of profitability and asset quality. Its market share grows primarily in the retail and SME segments; such growth represents the Group's main strategic guideline. Abanka attains a market share in retail operations that equals its combined market share. In the segment of large companies, the Bank is focused on offering non-interest products (payment transactions, guarantees, card operations, etc.). Particular attention is dedicated to acquiring primary sources of funds and improving the loan-to-deposit ratio. The market share in fees and commissions remains above the market share in terms of total assets. Abanka is the leader of a successful banking group, in which subsidiaries and associates are at least as profitable as the Bank itself. Quality governance of the bank-lead Group is guaranteed with professional and ethical standards, risk management process and strengthening of internal controls. Abanka is also active in bancassurance and assure banking.

THE ABANKA GROUP'S MISSION

Uniting with excellence in financial services

ABANKA'S STRATEGY

In 2013, the guidelines were followed as set out in the medium-term strategy, which was reviewed in 2011 for the period to 2014 on the basis of the information on the economic environment and future year forecasts available at the time.

Abanka's ***key strategic objectives*** in 2013 (strategic themes):

- increasing capital strength for development and stable banking operations, including the possibility of linking with other banks,
- strengthening the retail and SME banking segments;
- cost and process efficiency.

A new strategy was drafted in autumn 2013 as a result of major changes in the economic and banking environment. In December 2013, the Supervisory Board approved the implementation of the 2013–2018 Strategy of the Abanka Group, which includes its vision, key strategic policies and a financial scenario for the achievement of strategic goals.

After failed attempts in 2013 to raise the capital needed for the long-term capital adequacy of Abanka, the Bank of Slovenia imposed an extraordinary measure on the Bank to increase its capital through the payment of new shares by cash contribution paid in by the Republic of Slovenia. On the basis of the interim decision of the European Commission approving the first tranche of recapitalisation, the Republic of Slovenia increased the Bank's capital by EUR 348 million on 18 December 2013. The remaining tranche of recapitalisation and the actual transfer of non-performing loans to the Bank Asset Management Company will be completed after a final favourable opinion is received from the European Commission, to be drafted on the basis of a restructuring plan, already drawn up on 18 February 2014.

The restructuring programme has been drafted for the 2014–2018 period and submitted within the deadline.

FINANCIAL PLAN FOR 2014

The financial plan for 2014 was prepared in autumn 2013 on the basis of the then available macroeconomic forecasts and expectations; in December 2013, it was approved by the Supervisory Board.

In 2014, the Abanka Group will focus primarily on expanding retail and SME banking, improving cost and process efficiency, ensuring effective bad debt management, optimising assets and liabilities management, improving the existing and introducing innovative sales channels, strengthening the partnership with Zavarovalnica Triglav, optimising the management of subsidiaries and increasing their competitiveness.

> In 2014, the Abanka Group will focus on strengthening retail and SME banking, improving cost and process efficiency, ensuring effective bad debt management, optimising assets and liabilities management, improving the existing and introducing innovative sales channels, strengthening the partnership with Zavarovalnica Triglav and optimising the management of subsidiaries.

In the chapter Strategy it is stated that a restructuring plan was submitted in February, based on which the implementation of the plan will be monitored after receiving a final favourable opinion from the European Commission, reasons behind any deviations from the achieved and planned results will be identified, and appropriate and rapid action taken in response to trends in the business environment. The Bank's assessment is that by achieving the set financial objectives in the restructuring plan preconditions will be created for future stable and profitable operations of Abanka.

MAJOR BUSINESS EVENTS IN 2013 AND 2014

Major Business Events in 2013

Major business events in 2013 included:

- **Activities for capital strengthening of the Bank**
  - On 18 February 2013, the three-round public share offering, based on a resolution passed at the 25th regular General Meeting of Shareholders of Abanka, was concluded. A total of 8,662,980 shares worth EUR 36,384,516 were subscribed and paid in, representing 40.43% of all newly issued Abanka shares. Out of that total, 8,648,689 shares worth EUR 36,324,493.80 and accounting for 40.36% of all newly issued shares were subscribed and paid in, based on subscription certificates that include conditions and limitations set out in the Prospectus. As less than 11,904,762 of newly issued shares were subscribed and paid in, the public offering failed according to the Prospectus.
  - On 19 February 2013, Abanka was served a Decree of the Bank of Slovenia on Additional Measures to Increase Capital, whereby the Bank of Slovenia required from the Bank's Management Board to convene a general meeting of shareholders no later than 30 April 2013 and propose at that meeting a share capital increase under new conditions. In response to that, the Management Board proposed to the Supervisory Board convening another general meeting of shareholders to decide on the share capital increase under such conditions which the Management and Supervisory Boards deem appropriate for strengthening the capital base of the Bank. The proposed recapitalisation totalled EUR 90 million, at a price of no less than EUR 1 per share and with the pre-emptive rights of the existing shareholders excluded. Not only the present major shareholders but also other interested and potentially interested investors were to be invited to subscribe to shares.
  - On 8 March 2013, the Supervisory Board took note of a time schedule of activities planned for increasing the Bank's capital through paying in new shares and approved the proposed method for covering the net loss generated in 2012. Furthermore, it approved draft resolutions for the General Meeting of Shareholders, which would decide on the capital increase through paying in EUR 90 million for new shares.
  - On 8 April 2013, the General Meeting of Shareholders voted in favour of reducing share capital, which as at the day the resolution was adopted, amounted to EUR 30,045,067.60. The share capital was decreased to cover part of the loss posted for 2012 and amounting to EUR 22,845,067.60 and after the decrease totalled EUR 7,200,000.00. The General Meeting of Shareholders voted in favour of a EUR 90 million share capital increase, at a price of no less than EUR 1 per share and with the exclusion of the existing shareholders' pre-emptive rights.
  - Pursuant to the resolution of the 26th General Meeting of Abanka Vipa d.d. of 8 April 2013, the Ljubljana District Court entered the simplified reduction of the Bank's share capital from EUR 30,045,067.60 to EUR 7,200,000 in the Companies Register on 21 May 2013. The simplified reduction of share capital was part of preparations for a share capital increase and related to changing ratios between individual bookkeeping components of Tier 1 capital while keeping the same volume. The share capital reduction in no way affected the capital adequacy of Abanka.
  - On 13 June 2013, the Supervisory Board of Abanka was briefed, that the Management Board selected the companies Houlihan Lokey (Europe) Limited and Alta Skupina to act as its consultants in the capital increase process. It was estimated, that after two failed capital increase attempts, the Bank will not be able to attract foreign investors without transferring bad debts to the Bank Asset Management Company.
  - On 10 July 2013, the Supervisory Board took note of the Management Board's proposal to file an initiative to apply measures for transferring bad debt to the Bank Asset Management Company and assessed that this would have a positive bearing on the process of capital strengthening of the Bank.
  - After informing the Supervisory Board, the Bank, in accordance with the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability, sent to the Inter-Ministerial Committee at the Ministry of Finance an initiative to take measures under the Decree on the Implementation of Measures to Strengthen Bank Stability. The Bank received a decision of the Government of the Republic of Slovenia saying that at its 18th regular session, held on 18 July 2013, the Government of the Republic of Slovenia, as proposed by the Inter-Ministerial Committee, established that Abanka Vipa d.d. met the conditions for applying measures for strengthening bank stability.
  - On 19 July 2013, the Ministry of Finance notified Abanka that pursuant to the recommendation of the Council of the EU in connection with the national reform programme of the Republic of Slovenia for 2013, an independent external asset quality review and a stress test must be carried out at the Bank prior to the application of measures on the basis of the Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act (ZUKSB).

- In view of facts related to the transfer of bad debt to the Bank Asset Management Company, Abanka asked the Bank of Slovenia to extend the deadline for the payment of new in-cash contributions towards its share capital, set out in the decree of 19 February 2013. On 30 July 2013, the Bank of Slovenia approved an extension of the deadline for the payment of new in-cash contributions to the share capital of Abanka Vipa d.d. to 31 December 2013, and required the Bank to ensure an adequate level of capital by no later than 31 December 2013 in order to achieve a Tier 1 capital ratio of no less than 9.5% and an overall capital adequacy ratio (CAR) of no less than 11.8% on a consolidated basis.
- On 19 August 2013, the Bank of Slovenia, in cooperation with the Ministry of Finance and in compliance with recommendations of the European Council, commissioned a system-wide asset quality review (AQR) and stress testing. In addition to three banks of systemic importance (NLB, Nova KBM and Abanka), the following banks were covered by AQR under special criteria: Banka Celje, Gorenjska banka, Probanka, Factor banka, UniCredit Banka Slovenija, Hypo Alpe Adria Bank and Raiffeisen banka. In early September 2013, Probanka and Factor banka were excluded from AQR due to an orderly wind-down process. The Bank of Slovenia appointed Oliver Wyman to perform stress testing and Deloitte and EY to carry out AQR, while real estate valuation for the purpose of stress testing or AQR was conducted by several independent real estate appraisers. AQR included a verification of data completeness and integrity, a review of individual loans and collateral valuations, and an identification of the adequacy of impairment. The goal of stress testing was to assess potential capital needs for a three-year projection period (2013–2015) under baseline and adverse scenarios. Stress testing and AQR were supervised by a Steering committee consisting of representatives of the Bank of Slovenia and the Ministry of Finance and observers from the European Commission, the European Central Bank and the European Banking Authority.
- Abanka was served a decision of the Ljubljana Stock Exchange that as of 2 December 2013 trading in regular ABKN shares of Abanka Vipa d.d. had been temporarily suspended on the Standard Market to protect the security of investors. Due to the announced release of the banks' stress test results, conducted within the framework of the banking system restructuring, and media speculation regarding the amount of the capital increase that will be necessary for maintaining the stability of the financial system, the Ljubljana Stock Exchange, in order to protect the interests of investors, assessed the need for temporary suspension of trading in listed securities issued by banks.
- Following an independent external quality review of the Bank's assets and a stress test, conducted by independent external consultants from August to December 2013, the Bank of Slovenia and the Government of the Republic of Slovenia on 12 December 2013 jointly presented the stress test results. They showed that in case of an unfavourable macroeconomic scenario, the capital deficit of reviewed banks would amount to EUR 4.778 billion. Based on these tests, it was estimated that Abanka requires a capital increase of EUR 591 million in the form of state aids: EUR 348 million as cash contribution and EUR 243 million in government securities. The Republic of Slovenia filled an application with the European Commission requesting approval for a capital increase in Abanka.
- The Bank of Slovenia on 17 December 2013 set out the Decision on Extraordinary Measures and adopted a decision that as of 18 December 2013 all qualified liabilities of the bank cease in full as follows: the Bank's share capital in the amount of EUR 7,200,000, divided into 7,200,000 ordinary, registered, freely transferable, no-par-value shares, with the ticker symbol ABKN, and the Bank's liabilities of EUR 120,000,000 under a non-cumulative subordinated loan, for which funds were raised through the issuance of an innovative instrument. In order to achieve the long-term capital adequacy of Abanka, the Bank of Slovenia issued an extraordinary measure of capital increase through the payment of new shares by an in-cash contribution by the Republic of Slovenia in the amount of EUR 348,000,000. After the entry and payment of new shares on 18 December 2013 and the entry of the capital increase in the Companies Register, the share capital of the Bank amounted to EUR 150,000,000, and the total capital increase was EUR 348,000,000. A restructuring plan of Abanka was prepared in accordance with expectations of the European Commission and upon its temporary decision from 18 December 2013 which had approved the first part of the capital increase of Abanka by the Republic of Slovenia. The restructuring plan also included the transfer of non-performing assets to the Bank Asset Management Company and a further capital increase, to be carried out by the Republic of Slovenia pending the final decision of the European Commission.
- On 18 December 2013, the Bank of Slovenia issued a decision to Abanka on the termination of extraordinary measures determining that the reasons for the implementation of the said measures ceased to exist at Abanka following the implementation of the said measures on the basis of the this Decision. Under the Decision of the Bank of Slovenia on Extraordinary Measures, the Republic of Slovenia subscribed and fully paid up all 15,000,000 new shares of the bank in a total amount of EUR 348,000,000.00 on 18 December 2013. The increase in share capital was also entered in the Companies Register on 18 December 2013.
- On 20 December 2013, the Bank was served a decision of the Ljubljana Stock Exchange on delisting 7,200,000 Abanka's shares with the ticker symbol ABKN from the Standard Market. A total of 15,000,000 new ordinary, non-par value shares with the ticker symbol ABKS were issued by their entry into the Central Securities Depository of securities in dematerialised form, kept by the Centralna klirinško depotna družba d.d., Ljubljana, and not listed on the Official Market. Prior to the change on 17 December 2013, Abanka held 9,213 own ordinary shares or 0.128% of all issued shares. After the deletion of ABKN shares, the Bank holds no own shares.

- **Changes to the Supervisory Board**
  - On 8 January 2013, Slaven Mićković resigned as member of the Supervisory Board.
  - The 27th General Meeting of Shareholders, held on 29 May 2013, appointed Aleš Aberšek, Aljoša Uršič and Snežana Šušteršič members of the Supervisory Board with a four-year term of office. They took office on 30 May 2013, whilst Vladimir Mišo Čeplak was reappointed for another four-year term.
  - At its 16th regular session on 20 June 2013, the Supervisory Board appointed Janko Gedrih its Chairman, succeeding the outgoing Chairman Andrej Andoljšek, who remained a member of the Supervisory Board until his resignation on 26 August 2013.

- **Activities related to the Abanka Group's subsidiaries**
  - The changed corporate status of the subsidiary Aleasing, financiranje, svetovanje, trženje d.o.o., arising from the demerger plan of 14 March 2013, was entered in the Companies Register on 31 May 2013. Aleasing d.o.o. (as a transferring company) demerged a portion of its assets by establishing a new company Anepremičnine, trgovanje z lastnimi nepremičninami d.o.o. On the day the demerger was entered in the Companies Register, the newly established company Anepremičnine d.o.o. assumed a portion of the assets of the transferring company, Aleasing d.o.o., and as its successor entered all legal relations concerning the demerged assets, previously held by Aleasing d.o.o.
  - Abanka Skladi, družba za upravljanje d.o.o. and Triglav Skladi, družba za upravljanje d.o.o. on 13 June 2013 concluded an Agreement on the Transfer of Fund Management, whereby management of the sub-funds of the ABANKA SKLADI umbrella fund were transferred to Triglav Skladi d.o.o. In accordance with the Investment Funds and Management Companies Act, Triglav Skladi had to obtain an approval of the Securities Market Agency prior to the agreed transfer. Parallel to this, Abanka Vipa d.d. and Triglav Skladi d.o.o. signed an Agreement on the Provision of Services Related to Mutual Fund Investment Coupons, which stipulates their long-term cooperation in the marketing of mutual funds.
  - In December 2013, Abanka with the agreement of the Supervisory Board increased the share capital of its subsidiaries Anepremičnine d.o.o. and Argolina d.o.o. by in-kind contributions, each in the amount of EUR 5 million.

- **Ratings by Fitch Ratings**
  - On 5 April 2013, the following ratings of Abanka were affirmed by the Fitch Ratings international rating agency: Long-term IDR at "B-", Short-term IDR at "B", Support Rating at "5" and Support Rating Floor at "B-". Abanka's Viability Rating was downgraded to "cc" and the Hybrid capital instrument rating to "C". Abanka's Long-term IDR maintained a negative outlook. According to the agency's expectations Abanka needed additional capital. The capital position of the Bank could also be adversely affected by further deterioration in the asset quality due to the weak operating environment in Slovenia.
  - The international ratings agency Fitch Ratings on 30 april 2013 affirmed hybrid capital instrument at "C" due to the Abanka's notice of the cancellation of interest payment published on 26 April 2013 on the website of Ljubljana Stock Exchange – Seonet.
  - On 23 December 2013, the Fitch Ratings affirmed Abanka's Long-Term IDR at "B-" which was placed on Rating Watch Positive (RWP). The Viability Rating of the bank was upgraded to b- (from "cc" it was firstly downgraded to "f" and subsequently upgraded to "b-") and also placed on Rating Watch Positive (RWP). Other bank ratings remain unchanged – Short-Term IDR at "B", Support Rating at "5", and Support Rating Floor at "B-". The rating of Hybrid capital instrument was affirmed at "C" and withdrawn at the same time. The rating changes of Abanka followed the announced and carried out measures of the Government of the Republic of Slovenia for strengthening the Slovene banking sector. Long-Term IDR and Viability Rating of Abanka were placed on Rating Watch Positive (RWP), which reflects further possibilities for the rating to be upgraded after final approval of the European Commission regarding the proposed final implementation of all measures of the Republic of Slovenia.

- **Ratings by Moody's Investors Service**
  - On 22 February 2013, the international rating agency Moody's changed Abanka's Long-Term Deposit Rating to "Caa3" and its Preferred Stock Non-Cumulative Rating to "C". while Abanka's Bank Financial Strength Rating was affirmed at "E". The Outlook remains negative. The agency stated that the downgrades reflect Abanka's failure to carry out the capital increase as planned.

- **Other events**
  - Abanka was served an action by the Ljubljana District Court, filed on 6 May 2013 by the shareholder PanSlovenian Shareholders' Association, requesting the annulment of resolutions no. 2 (amendments to the Articles of Association), 3 (share capital reduction) and 4 (share capital increase through monetary contributions) adopted at the 26th General Meeting of Shareholders on 8 April 2013.
  - In accordance with the terms and conditions of the Subordinated Loan Agreement, Abanka exercised its right to a full cancellation of interest payment relating to the innovative instrument due on 3 May 2013, 3 August 2013 and 3 November 2013.

Events After the Date of the Statement of Financial Position

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

- At the end of January 2014, the international rating agency Moody's upgraded Abanka's Long-Term Deposit Rating to "Caa2" and assigned it a positive Outlook. At the same time, Abanka's Bank Financial Strength Rating "E" was affirmed. The rating changes of Abanka followed the announced and carried out measures of the Government of the Republic of Slovenia for strengthening the Slovene banking sector in terms of capital increase and the forthcoming transfer of debt to the Bank Asset Management Company. Moody's expects some degree of further systemic support for the Slovene banks.

- Submission of the restructuring plan within the deadline.

THE ECONOMIC AND BANKING ENVIRONMENT IN 2013 AND OUTLOOK FOR 2014

The Economic Environment in 2013

The real growth of global gross domestic product (hereinafter: GDP) slightly increased in 2013. Growth in advanced economies gained some momentum, while growth in emerging markets slowed down, mainly due to weaker domestic demand.[2] After six quarters of negative economic growth, the euro area GDP increased in the last three quarters of 2013 (q-o-q), but the annual growth rate of GDP decreased.

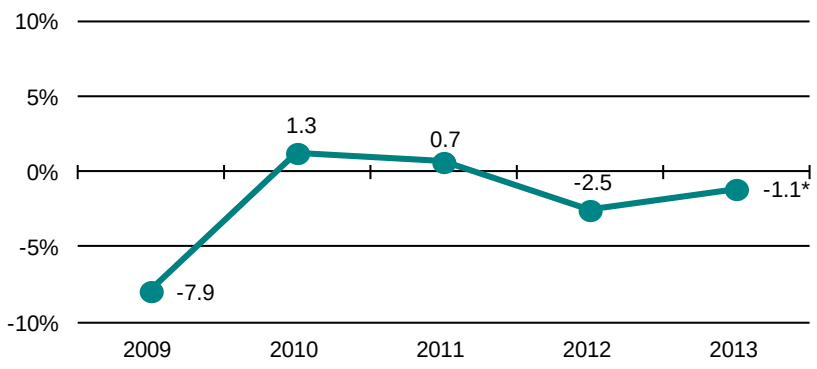
After eight quarters of negative economic growth, Slovenia's GDP rose by 2.1% in the last quarter of 2013 compared to the respective period in 2012. According to the initial estimate of the Statistical Office of the Republic of Slovenia[3], Slovenia's GDP fell by 1.1%. Price growth in 2013 was mainly marked by tax effects; however, as a result of the contraction in the economic activity inflation was lower than in 2012, despite higher VAT. Due to the difficult economic situation in Slovenia in 2013, employment rate continued to decline.

MAJOR MACROECONOMIC INDICATORS

	2009	2010	2011	2012	2013
GDP, EUR million (current prices, current exchange rates)	35,420	35,485	36,150	35,319	34,908**
GDP growth (%)	-7.9	1.3	0.7	-2.5	-1.1*
GDP per capita, EUR (current prices, current exchange rates)	17,349	17,320	17,610	17,172	16,942**
Labour productivity (GDP per employee, %)	-6.2	3.5	2.4	-1.7	-0.1**
Unemployment (registered, %)	9.1	10.7	11.8	12.0	13.3**
Unemployment (ILO methodology, %)	5.9	7.3	8.2	8.9	10.7**
Inflation, year-end (%)	1.8	1.9	2.0	2.7	0.7
Inflation, average (%)	0.9	1.8	1.8	2.6	1.8

Note: * estimation, ** forecast
Source: Slovenian Economic Mirror, December 2013. Ljubljana: Institute of Macroeconomic Analysis and Development, January 2014, and Statistical Office of the Republic of Slovenia.

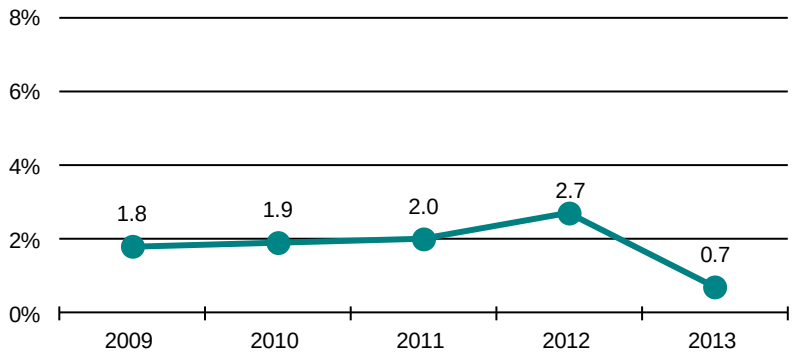
GROSS DOMESTIC PRODUCT REAL GROWTH RATES IN THE 2009-2013 PERIOD



Note: * estimation
Source: Slovenian Economic Mirror, December 2013. Ljubljana: Institute of Macroeconomic Analysis and Development, January 2014, and Statistical Office of the Republic of Slovenia.

[2] Source: ECB Monthly Bulletin, December 2013. Ljubljana: Bank of Slovenia, January 2014.
[3] Source: Gross domestic product, Slovenia, Q4 2013. Ljubljana: Statistical Office of the Republic of Slovenia, February 2014.

CUMULATIVE INFLATION IN THE 2009-2013 PERIOD



Source: Statistical Office of the Republic of Slovenia.

Banking Environment in 2013

According to the European Central Bank[4] (hereinafter: ECB), in 2013 the monetary policy of the euro area continued to be geared towards maintaining the degree of monetary accommodation warranted by the outlook for price stability and promoting stable money market conditions. The ECB thereby provided support to a gradual recovery in economic activity in euro area. With regard to money market conditions, these were also influenced by a gradual reduction in excess liquidity. Furthermore, improvements in financial market confidence are evident as is some reduction in financial market fragmentation and ongoing deleveraging by euro area banks. Since the summer of 2012, reportedly in several countries in difficulties substantial progress was made in improving banks' access to funding and, particularly, in strengthening the domestic deposit base. In order to ensure an adequate transmission of monetary policy to the financing conditions in euro area countries, it is essential by the ECB opinion that the fragmentation of euro area credit markets declines further and that the resilience of banks is strengthened where needed. The ECB added that further decisive steps to establish a banking union would help to accomplish this objective. Despite improvements in financial markets and better funding conditions for banks, these did not lead to increases in loans to the non-financial private sector. The decline in loans primarily reflects weak economic activity in a context of tight bank lending conditions in parts of the euro area.

The Institute of Macroeconomic Analysis and Development (hereinafter: IMAD) concluded that in 2013 liquidity pressure on the Slovene banking system somewhat decreased, but still remained at a high level. In 2013, banks in Slovenia continued to discharge their net debt to foreign creditors. According to the available data, around 10% of all debt of Slovene banks to foreign creditors will fall due in 2014. Towards the end of 2014 it is expected that liquidity pressure on Slovene banks will again considerably increase when three-year longer term refinancing operations of the ECB will began to reach maturity, and in 2015 another 25% of all banks' debt to foreign creditors will fall due. [5] Based on this, the Bank of Slovenia[6] (hereinafter: BS) observed that debt to foreign creditors reaching maturity and uncertain access to new sources of funding force Slovene banks to restructure their financial liabilities and assets. This is reflected in a low lending activity and high interest rates. Additionally, a smaller volume of loans in 2013 was under a strong impact of deteriorating credit portfolios and high impairment and provision expenses of Slovene banks.

In early 2013, loans payable of Slovene **companies** increased as a result of higher borrowing abroad. The volume of domestic loans to companies again decreased. Less accessible and more expensive sources of bank funding in Slovenia, high impairment expenses and the related need to maintain net interest income are reflected in high interest rates also on corporate loans. Moreover, access to sources of funding is limited also by relatively high indebtedness of the corporate sector, additionally inhibiting the investment activity of Slovene companies. [7] IMAD[8] added that both demand and supply were the reasons for further deterioration of the credit activity.

[4] Source: ECB Monthly Bulletin, September 2013. Ljubljana: Bank of Slovenia.
[5] Source: Autumn Forecast of Economic Trends 2013, September 2013. Ljubljana: Institute of Macroeconomic Analysis and Development.
[6] Source: Macroeconomic Developments and Projections, October 2013. Ljubljana: Bank of Slovenia.
[7] Source: Macroeconomic Developments and Projections, October 2013. Ljubljana: Bank of Slovenia.
[8] Source: Autumn Forecast of Economic Trends 2013, September 2013. Ljubljana: Institute of Macroeconomic Analysis and Development.

Due to stagnating disposable income, high unemployment rate and uncertainty with regard to the future financial situation, **households** exercise great caution as their indebtedness decreased. Despite tight conditions in the labour market and state consolidation measures, households with a minimum share of non-performing loans remain among minimum risk customer groups.[9]

The results of the review of the situation in the Slovene banking system and stress tests showed that in case the unfavourable macroeconomic scenario were realised the capital deficit of reviewed banks would amount up to EUR 4.8 billion (13.7% of GDP). Given the results published in December 2013, the Slovene Government carried out part of the capital increase of banks. The first effects of the restructuring of the Slovene banking system were also visible on international financial markets, where Slovenia's position has somewhat improved resulting in lower required rate of return for Eurobonds, which decreased to around 4.5% as at the end of 2013.[10]

Outlook for 2014

The global economic recovery remains subdued and diverse across economic regions, with growth dynamics gradually shifting in favour of advanced economies. In the medium term prospects are expected to improve in advanced economies, but remain muted in emerging markets relative to long-term trends. World trade is gradually strengthening, but rates of growth remain much lower than before the global financial crisis.[11] At the same time, the medium-term outlook in advanced economies continues to be restrained by a number of factors, such as weak labour markets, ongoing private sector deleveraging and continued fiscal consolidation.[12]

The ECB's inflation expectations[13] for the euro area over the medium to long term continue to be firmly anchored in line with the Governing Council's aim of maintaining inflation rates below, but close to, 2%. The projections for the euro area foresee annual inflation at 1.4% in 2013 and at 1.1% in 2014. Economic activity in 2014 is expected to recover at a slow pace, in particular owing to some improvement in domestic demand supported by the accommodative monetary policy stance. Euro area economic activity should, in addition, encourage from a gradual strengthening of demand for exports. Furthermore, the overall improvements in financial markets appear to be working their way through to the real economy. It is foreseen that annual real GDP in the euro area will decline by 0.4% in 2013 before increasing by 1.1% in 2014. In the euro area, significant progress in improving bank access to financing has been made since the summer of 2012. In order to ensure an adequate transmission of monetary policy to the financing conditions in euro area countries, it is essential that the fragmentation of euro area credit markets declines further and that the resilience of banks is strengthened when needed.[14]

Forecasts indicate that in 2014 economic conditions in **Slovenia** are not expected to improve yet. Despite the first signs of recovery in the euro area, domestic factors are expected to continue to hinder the recovery of the Slovene economy.

According to estimates and projections prepared in autumn 2013 by various (research) institutions (IMAD, BS, OECD), economic activity (GDP), domestic demand, government expenditure and fixed capital formation will decline in Slovenia in 2014 as well. With the gradual improvement of conditions in the international environment, only export growth is expected in Slovenia, although it will be rather weak compared to other countries. Given the measures adopted in the field of taxation and the absence of price shocks from abroad, the inflation is foreseen to be low also in 2014. It is expected that due to adverse economic conditions the number of registered unemployed will increase slightly in 2014 as well. The Bank of Slovenia[15] states that the adverse situation in the labour market has an extremely negative impact on the economic activity in Slovenia, consequently also reducing the government revenues.

According to the estimates of domestic and foreign (research) institutions, a slow recovery of the economic activity in Slovenia is expected in 2015, while permanently high unemployment rates may remain (relatively) high even as economic conditions improve gradually.

[9] Source: Macroeconomic Developments and Projections, October 2013. Ljubljana: Bank of Slovenia.
[10] Source: Slovenian Economic Mirror, December 2013. Ljubljana: Institute of Macroeconomic Analysis and Development.
[11] Source: ECB Monthly Bulletin, December 2013. Ljubljana: Bank of Slovenia.
[12] Source: ECB Monthly Bulletin, September 2013. Ljubljana: Bank of Slovenia.
[13] Source: ECB Monthly Bulletin, December 2013. Ljubljana: Bank of Slovenia.
[14] Source: ECB Monthly Bulletin, December 2013. Ljubljana: Bank of Slovenia.
[15] Source: Macroeconomic Developments and Projections, October 2013. Ljubljana: Bank of Slovenia.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

The consolidated financial statements of the Abanka Group for 2013 include the subsidiaries AB58 (Abanka Skladi in 2012), Afaktor, Analožbe, Argolina, Anepremičnine and Aleasing, alongside Abanka as the parent bank. The participations in the associated companies ASA Aleasing and Agradnja of the Aleasing subsidiary are consolidated under the equity method.

The consolidated financial statements of the Abanka Group for 2012 include the Abanka Skladi, Afaktor, Analožbe, Argolina and Aleasing, alongside Abanka as the parent bank. The participation of Aleasing in the joint venture ASA Aleasing was also consolidated under the equity method.

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

In 2013, **the Abanka Group** recorded **interest income** of EUR 127,137 thousand, down 28.6% on the previous year. **The Group's interest expenses** amounted to EUR 73,038 thousand or 31.7% less than in 2012. **The Abanka Group's net interest income** was EUR 54,099 thousand or 23.9% below the amount reported for 2012.

Abanka's interest income in 2013 was EUR 124,751 thousand; a decrease of 28.8% compared to the previous year, whilst its **interest expenses** totalled EUR 72,192 thousand and were 31.7% below the amount reported for 2012. **Abanka's net interest income** amounted to EUR 52,559 thousand, which was 24.3% below the 2012 level.

In 2013, **the Abanka Group** posted EUR 29,119 thousand in **net fee and commission income** or 2.3% less than the year before. **Abanka** contributed EUR 28,798 thousand to **net fee and commission income**, which was 1.1% less than in 2012.

8.5%

market share of Abanka in net fee and commission income in 2013

Other net non-interest income (excluding net fee and commission income) of **the Abanka Group** in 2013 amounted to EUR 109,690 thousand, whereas in the corresponding period previous year it equalled EUR 3,351 thousand. **Other net non-interest income** (excluding net fee and commission income) **of Abanka** in 2013 amounted to EUR 105,774 thousand (excluding gains from financial liabilities related to the derecognition of liabilities arising from a non-cumulative subordinated loan in the amount of EUR 118,925 thousand would be negative totalling EUR 13,151 thousand), whereas in 2012 it reached EUR 2,478 thousand.

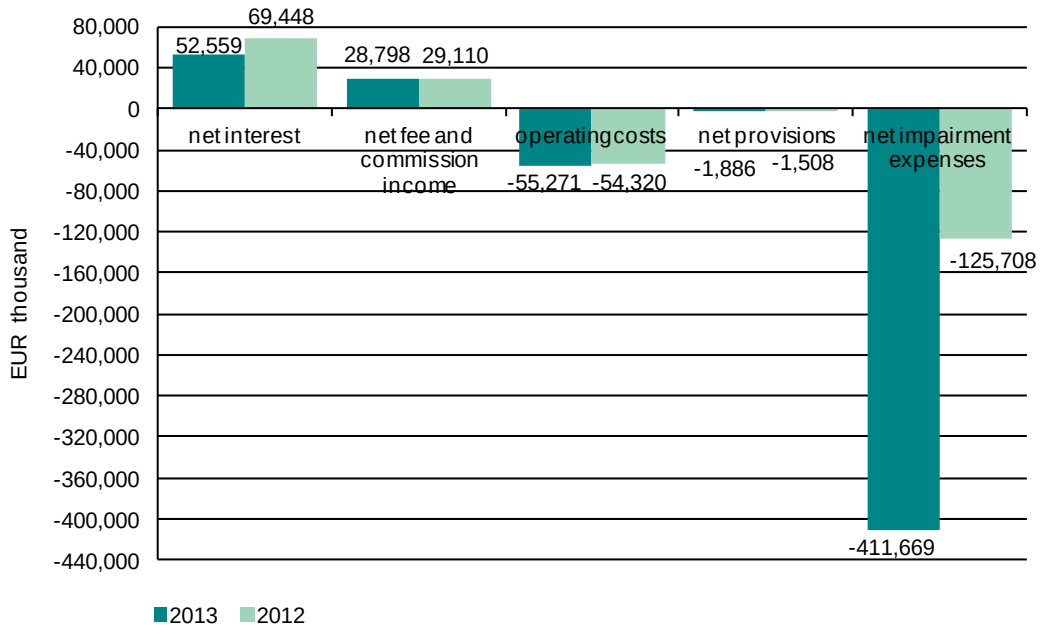
The Abanka Group's operating costs totalled EUR 59,842 thousand in 2013 and were 0.7% more than in 2012. Labour costs of EUR 30,987 thousand were 4.4% below the 2012 level, whilst general and administrative expenses rose by 9.4% to EUR 23,081 thousand in the reporting year. Depreciation expenses in 2013 amounted to EUR 5,774 thousand and were 2.8% lower than the year before. **Abanka's operating costs** in 2013 were EUR 55,271 thousand in total and 1.8% higher than in 2012. Compared to the year before, labour costs were 3.7% lower and totalled EUR 28,971 thousand, whereas general and administrative expenses equalled EUR 21,236 thousand and were 11.4% above the amount reported for 2012. Depreciation expenses of EUR 5,064 thousand were 2.0% lower than in 2012. Costs of external independent asset quality review and strengthening the Bank's capital base had a significant impact on the growth of general and administrative expenses, compared to the corresponding period last year. Excluding the above-stated costs, Abanka's operating expenses in 2013 would be 2.7% lower compared to the same period last year. At 52.4%, labour costs accounted for the largest part of total expenses (55.4% in 2012), followed by general and administrative expenses at 38.4% (35.1% in 2012) and depreciation expenses, which made up 9.2% of the total (9.5% in 2012) .

The Abanka Group incurred EUR 410,935 thousand of **net provisioning and impairment expenses**, of which **net impairment expenses** totalled EUR 407,542 thousand, which was EUR 279,996 thousand or 219.5% more than in 2012. **Abanka's net provisioning and impairment expenses** reached EUR 413,555 thousand, of which **Abanka's net impairment expenses** equalled EUR 411,669 thousand, representing an increase of EUR 285,961 thousand or 227.5% compared to the previous year.

In 2013, **the Abanka Group** recorded a loss. **Loss before tax** was EUR 277,869 thousand and **consolidated loss after tax** equalled EUR 306,513 thousand; in 2012, the Abanka Group operated at a loss after tax which amounted to EUR 81,065 thousand.

Loss before tax of Abanka totalled EUR 281,695 thousand, whilst **loss after tax** was EUR 308,877 thousand; in 2012, **Abanka** operated at **a loss after tax** in the amount of EUR 75,694 thousand.

NET INTEREST, NET FEE AND COMMISSION INCOME, OPERATING COSTS AND NET PROVISIONS AND NET IMPAIRMENT EXPENSES OF ABANKA IN 2013 COMPARED TO 2012



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 31 December 2013 amounted to EUR 3,048,403 thousand, which was EUR 565,609 thousand or 15.7% below the level posted at the end of 2012. The combined balance sheet assets of consolidated subsidiaries, amounting to EUR 108,091 thousand, accounted for 3.5% of consolidated total assets (compared to 3.6% in 2012). After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group exceeded Abanka's total assets by 0.4% or EUR 11,930 thousand.

Total assets of Abanka as at the end of 2013 amounted to EUR 3,036,473 thousand, which was EUR 561,513 thousand or 15.6% below the level posted at the end of 2012. As at 31 December 2013, Abanka's market share stood at 7.5%.

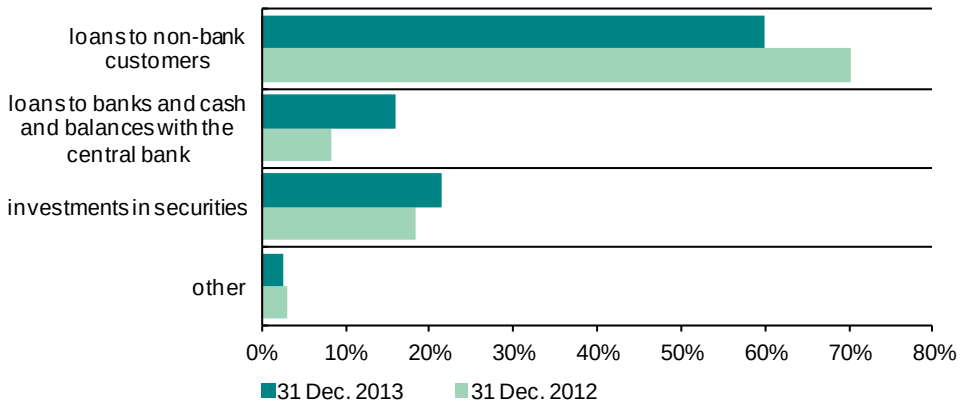
Loans and receivables to non-bank customers accounted for the largest proportion of **consolidated balance sheet assets**, amounting to EUR 1,809,717 thousand at the end of 2013 and representing 59.4% of the total consolidated amount. Compared to 2012, they decreased by 28.1%. As at the 2013 year-end, **Abanka's loans and receivables to non-bank customers** totalled EUR 1,820,677 thousand and accounted for 60.0% of its total balance sheet assets. Compared to the previous year, this represents a 28.0% decrease or EUR 706,478 thousand in nominal terms. This decline was in nominal terms mostly the result of a smaller volume of loans to domestic and foreign corporate entities and sole proprietors who, with a total share of 61.0%, accounted for the largest proportion of lending to non-bank customers, followed by lending to the public sector at 10.7% and by loans to domestic and foreign retail customers at 28.3%. Gross loans to non-bank customers in 2013 were down by EUR 310,874 thousand.

As at 31 December 2013, **loans and receivables to banks and cash and balances with the central bank of the Abanka Group** totalled EUR 484,546 thousand and represented 15.9% of consolidated balance sheet assets. Compared to 2012, they increased by 63.3%. **Loans and receivables to banks, cash and balances with the central bank of the Abanka** amounted to EUR 482.854 thousand as at the end of 2013 and accounted for 15.9% of total balance sheet assets, having risen by 63.4% over the end of 2012. The Bank's total primary sources of liquidity increased as a result of higher cash and cash balances with the central bank, which rose from EUR 214,708 thousand as at the end of 2012 to EUR 375,581 thousand at the 2013 year-end, mainly due to the capital increase of the Bank. In the same period, loans and receivables to banks grew from EUR 80,864 thousand as at the end of 2012 to EUR 107,273 at the 2013 year-end.

Investments by the Abanka Group in securities as at the reporting date amounted to EUR 654,151 thousand and were 1.3% or EUR 8,338 thousand lower in comparison with the end of 2012. Their share in total consolidated balance sheet assets grew from 18.3% at the end of 2012 to 21.5% as at the reporting date. As at the end of 2013, **investments by Abanka in securities** totalled EUR 654,151 thousand and accounted for 21.5% of balance sheet assets. Compared to the end of 2012, they dropped by EUR 7,958 thousand or 1.2%. Equity securities, with a total value of EUR 19,137 thousand, represented 2.9% of total securities held by Abanka. They experienced a year-on-year decrease of 27.9% or EUR 7,423 thousand in nominal terms. Debt securities amounted to EUR 635,014 thousand and were 0.1% or EUR 535 thousand below the 2012 level.

Abanka's equity investments in subsidiaries as at the end of 2013 totalled EUR 12,670 thousand and accounted for 0.4% of total assets. Over the reporting year, this represents an increase of EUR 3,769 thousand.

ASSET STRUCTURE AS AT 31 DEC. 2013 AND 31 DEC. 2012



As at 31 December 2013, **consolidated balance sheet liabilities** were 93.0% of total liabilities or EUR 2,836,264 thousand nominally and accounted for 7.0% of total equity or EUR 212,139 thousand in nominal terms. As at the balance sheet date**, the Bank's balance sheet liabilities** were 93.0% composed of liabilities (EUR 2,823,779 thousand) and accounted for 7.0% of total equity or EUR 212,694 thousand in nominal terms.

Deposits from non-bank customers represented the bulk of **Abanka Group's total liabilities.** By the end of 2013, these decreased by 11.9% or EUR 253,579 thousand and reached EUR 1,886,057 thousand. As at the end of 2013, **deposits from non-bank customers in Abanka** amounted to EUR 1,894,139 thousand, after having decreased by 11.7% or EUR 249,990 thousand. Compared to 2012, deposits from domestic corporate customers decreased by 22.0%, deposits from the public sector by 15.3%, deposits from sole proprietors by 1.6%, deposits from domestic and foreign retail customers by 7.2%, while deposits from foreign corporate customers increased by 10.6%. In total deposits from non-bank customers, the largest share was accounted for by domestic and foreign retail customers (58.1%), followed by deposits from the public sector (26.6%) and deposits from domestic and foreign corporate customers and sole proprietors (15.2%).

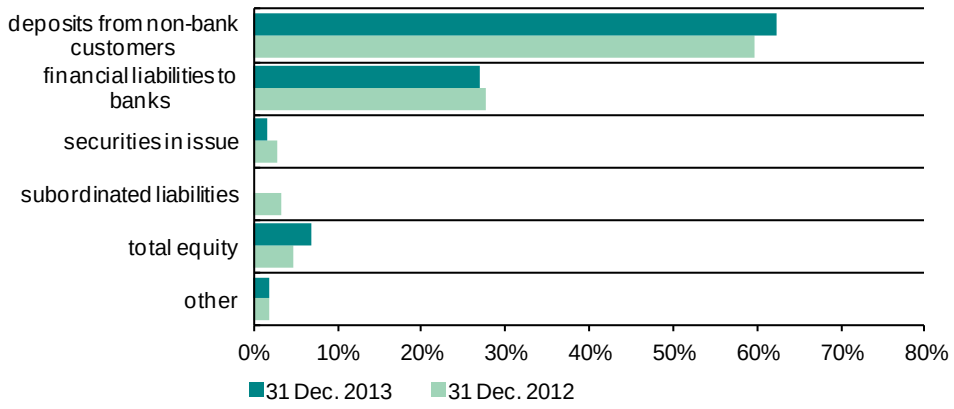
The Abanka Group's financial liabilities to banks, including also the financial liabilities to the central bank, amounted to EUR 834,459 thousand as at the end of 2013, which was 18.1% less than the year before. **Financial liabilities to banks by Abanka** as at the end of 2013, including also the financial liabilities to the central bank, totalled EUR 818,995 thousand and were 18.0% lower than at the end of the previous year. This had an impact on their proportion in total liabilities, which decreased from 27.8% at the end of 2013 to 27.0% at the end of 2012. As at the reporting date, financial liabilities to the central bank totalled EUR 456.213 thousand or 14.5% less than at the 2012 year-end.

Securities in issue of the Abanka Group equal those of Abanka. In 2013, they decreased by EUR 53,648 thousand and by the end of 2013 reached EUR 50,560 thousand. As at the end of 2013, securities in issue represented 1.7% of total liabilities, having decreased from 2.9% as at the end of 2012.

On the basis of the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, as of 18 December 2013 all qualified liabilities of the Bank ceased in full, arising from the Bank's liabilities under a non-cumulative subordinated loan. Consequently, **the Abanka Group** and **Abanka** as at 31 December 2013 have no **subordinated liabilities**, whereas as at the 2012 year-end they amounted to EUR 119,050 thousand.

The total equity of the Abanka Group at the end of the reporting year equalled EUR 212,139 thousand, which was 28.1% more compared to the end of 2012, whereas **the total equity of Abanka** amounted to EUR 212,694 thousand and rose by 26.2% compared to the end of 2012.

STRUCTURE OF LIABILITIES AS AT 31 DEC. 2013 AND 31 DEC. 2012



PERFORMANCE OF THE GROUP IN 2013

Corporate Banking

The difficult conditions of the Slovene economy that the banking system has been facing since 2008, continued in 2013. Beside problems accumulated over previous years, predominantly reflected in the construction and financial sectors, the situation deteriorated also in other branches, particularly in trade. For heavily indebted Slovene companies it is still difficult to deleverage, as disinvestment is problematic due to the illiquid domestic real-property market. This is particularly true of investment property and non-core assets and less in the core business which generates cash flow. A fact of concern is the declining activity of export-oriented companies, which were despite the crisis in a better position than domestic consumption-driven companies.

The lower sovereign rating of Slovenia in 2013 caused negative responses of foreign banking institutions – also in terms of limits for guarantees and letters of credit. In the first half of 2013, this additionally hindered the Bank's crediting of export-oriented companies, which they required to complete already started projects and remain competitive in acquiring new business. In the second half of 2013 the situation became even worse, as foreign banking institutions no longer accepted guarantees issued by Slovene banks, particularly not for new business. A downward trend in corporate sector investment activity persevered in 2013, whereas in the public sector the investment activity was slightly stronger, mostly at the level of municipalities and local government. However, the Bank was not competitive in this segment.

In 2013, Abanka decreased exposure to corporates. Moreover, the Bank actively participated in measures for the financial restructuring of companies – not only in those requiring disinvestment of non-core assets but also in business restructuring exercises requiring active participation of company owners.

The year 2013 also saw a continued rise in the number of company insolvency procedures, which resulted in an increased volume of overdue claims on borrowers. The Abanka's Investments Under Special Treatment Department provided systematic and professional support for addressing more complex cases of restructuring and debt recovery from companies in insolvency proceedings. In the first half of 2013, this Department was moved from Corporate Banking Division to Risk Management Division. At the same time, in order to preserve or to improve the Bank's financial position, intensive collection procedures were carried out to recover overdue claims at all levels. This was done in parallel with continued monitoring of the credit portfolio quality and values of all types of collateral.

In 2013, the Bank significantly reorganised the Corporate Banking Division. The main purpose was to improve business processes, operational efficiency and customer relationship management (CRM). In this way Abanka integrated CRM of micro companies in its branch network, which additionally increased the accessibility of its services and products to customers. The relationship management with large, medium-sized and small companies was organised in three regional departments – Central Slovenia, Eastern Slovenia and Western Slovenia – which effectively cater to corporate customers in the regions they cover. The Bank was particularly focused on improving services for the strategic segment of SMEs.

> The relationship management with large, medium-sized and small companies was organised in three regional departments – Central, Eastern and Western Slovenia.

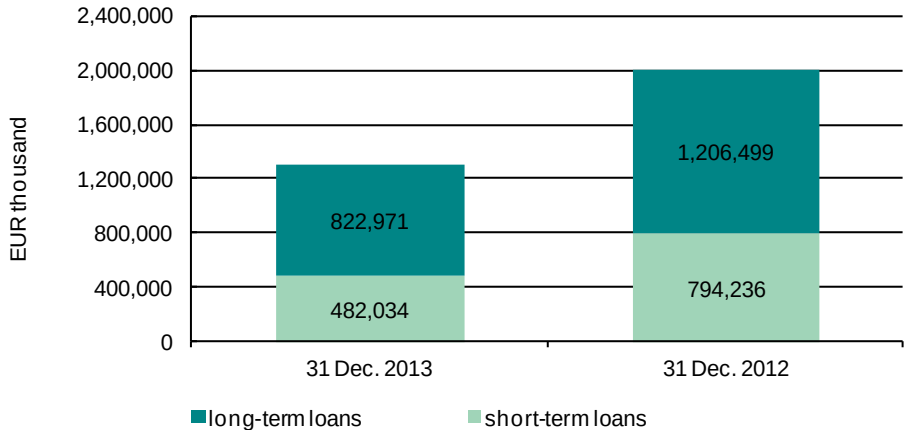
In 2013, Abanka actively worked on meeting the conditions for transferring its bad debt to the newly established Bank Asset Management Company. The latter was established in 2013 as a positive response of the government to the problems in the banking system, for several years witnessing continually decreasing quality of investment portfolios. Nevertheless, Abanka believes that the recent amendments to the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act will help towards more effective company restructuring.

> 7.9%
> market share of Abanka in loans to corporate customers as at the end of 2013

As at the end of 2013, **loans to corporate customers and sole proprietors of the Abanka Group** reached EUR 1,274,348 thousand after decreasing by 35.1%. **Abanka's loans to corporate customers and sole proprietors** amounted to EUR

1,305,005 thousand as at the end of 2013, after having gone down by EUR 695,730 thousand or 34.8% since the end of the previous year. The market share of loans to corporate customers equalled 7.9% at the end of 2013, whereas one year earlier it was 8.8%. The share of loans to corporate customers in total assets decreased from 55.6% at the end of 2012 to 43.0% at the 2013 year end. In 2013, the maturity structure of corporate lending continued to be dominated by long-term loans, which accounted for 63.1% of total corporate lending. Loans to domestic corporate customers in 2013 decreased by 36.9% or EUR 591,640 thousand, loans to the public sector by 15.8% or EUR 36,631 thousand, loans to sole proprietors by 16.8% or EUR 6,514 thousand, and loans to foreign corporate customers by 48.3% or EUR 60,945 thousand, mostly as a result of capital constraints that the Bank faced in the reporting period.

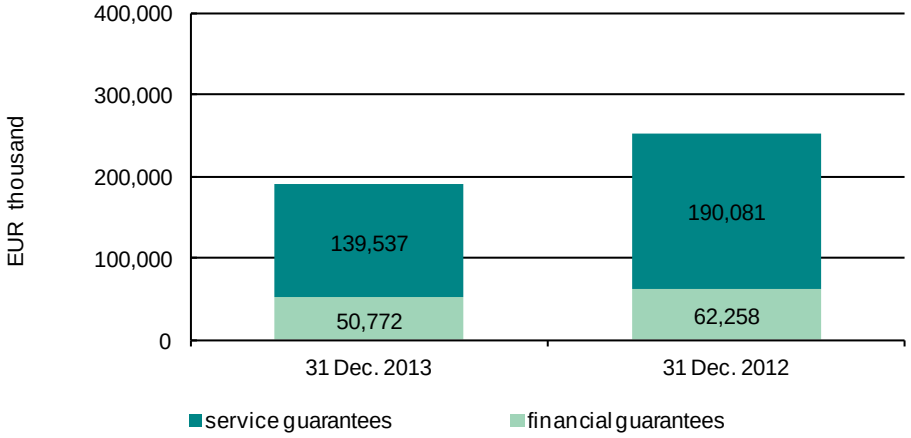
LOANS TO CORPORATE CUSTOMERS AND SOLE PROPRIETORS



Due to difficult economic and financial conditions the down trend in the volume of **guarantee operations** recorded in the last few years continued in 2013. Low levels of investment activity, in recent years mostly characteristic of the construction sector, was in 2013 also registered in other industries and, consequently, it resulted in further lower demand for guarantees, especially from the service guarantees. A significant influence on the reduction in the volume of guarantee operations also came from the downgrade of the Republic of Slovenia, since it caused negative responses of foreign banking institutions in terms of limits for guarantees. In the second half of 2013, the situation became even worse, as foreign banking institutions no longer accepted guarantees issued by Slovene banks, particularly not for new business.

Guarantees issued by Abanka stood at EUR 190,309 thousand at the end of 2013 and were 24.6% below the amount reported at the end of 2012. Service guarantees in 2013 decreased by 26.6% and financial guarantees by 18.4%. Thus, at the end of 2013, the share of service guarantees in total guarantees was 73.3%, compared to 75.3% at the 2012 year end.

ABANKA'S GUARANTEES

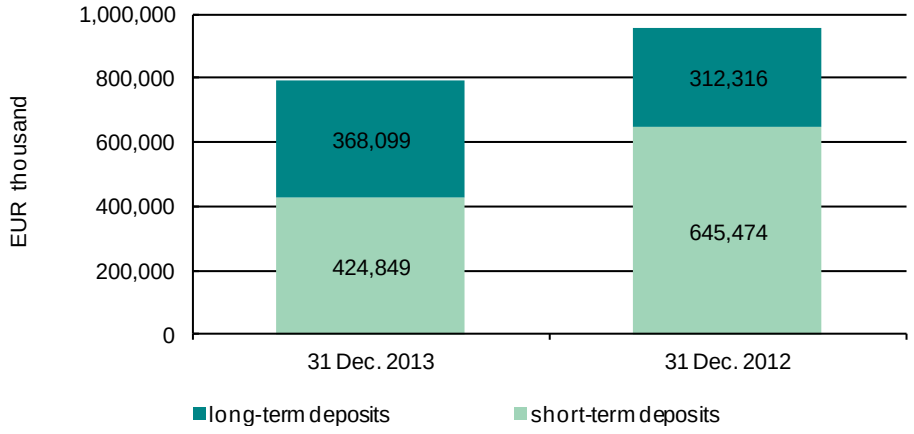


9.6%

market share of Abanka in deposits from corporate customers as at the end of 2013

In 2013**, deposits from corporate customers and sole proprietors in the Abanka Group** (including deposits of the Ministry of Finance) decreased by 17.7%, reaching EUR 784,866 thousand**. Deposits from corporate customers and sole proprietors in Abanka** at the end of 2013 totalled EUR 792,948 thousand and were 17.2% or EUR 164,842 thousand lower than at the end of 2012. The market share of deposits from corporate customers declined to 9.6% at the end of 2013 from 10.7% at the end of 2012. The highest decrease was recorded in deposits from the public sector, which dropped by 15.3% or EUR 91,090 thousand. In total balance sheet liabilities, the share of deposits from corporate customers by the end of 2013 went down to 26.1% from 26.6% one year earlier. The currency structure of deposits from corporate customers changed slightly, as foreign currency deposits by the end of 2013 accounted for 3.8% of the total, compared to 2.7% at the end of 2012. The maturity structure of deposits from corporate customers changed to a greater degree; at the end of 2013 the share of short term deposits was 53.6%, whilst at the 2012 year-end it equalled 67.4%.

DEPOSITS BY CORPORATE CLIENTS AND SOLE PROPRIETORS



Retail Banking

Retail banking faced numerous challenges in 2013. Continued contraction of domestic spending, which additionally affected the downward trend in economic growth, was followed by reduced household demand and diminished private consumption. The number of unemployed persons in Slovenia further increased.

One of the priorities in 2013 was acquiring deposits from customers and increasing their share in the Bank's sources of funding. With diverse, segment-tailored activities for attracting new accounts and by encouraging less active existing customers to expand their banking with Abanka, 12,532 new customer accounts were opened.

Despite the reduced private consumption and the fact that the volume of loan servicing exceeded the volume of newly approved credit, the Bank kept offering attractive credit facilities to its customers, especially long-term. To limit the risks for both customers and the Bank, special attention was devoted to borrowers' creditworthiness, the quality of provided collateral and, consequently, the safety of the Bank's placement.

To attain the set goals, further improve the results, increase the quality of banking services and raise customer satisfaction, particular attention was paid to important customers. They were addressed by personal bankers in a professional, quality and personalised manner. In private banking great attention was dedicated to well-off customers, striving to optimise the diversification of their asset in view of thir expectations and, at the same time, provide top-quality and discrete services.

The Bank realizes that the quality of the banking services provided to customers is of crucial importance for having a comparative advantage. Therefore, 2013 saw a number of improvements in this area. Customer complaints and comments were processed in a centralised manner within a contact centre and findings were systematically used to improve the Bank's processes and services. The user experience with the Abanet web bank was evaluated. Moreover, customer satisfaction was again measured and very good results were achieved compared to rival banks.

The Bank realizes that the quality of the banking services provided to customers is of crucial importance for having a comparative advantage.

In 2013, in line with the branch network optimisation plan and following a redesigned concept, a new outlet was opened in Trnovo, offering a high number of modern safe deposit boxes for rent. All branches are equipped with ATMs, which enable not only basic services but also payment order processing and money transfers between customer accounts.

A concept of comprehensive banking traning was designed for branch managers. Training consists of different modules, covering necessary know-how for successful branch managment, provision of financial services to customers and maintaining the quality of services at a high level. Moreover, throughout the year professional training courses were organised for branch network employees in order to help them better understand the operation and functioning of individual business segments, processes and services.

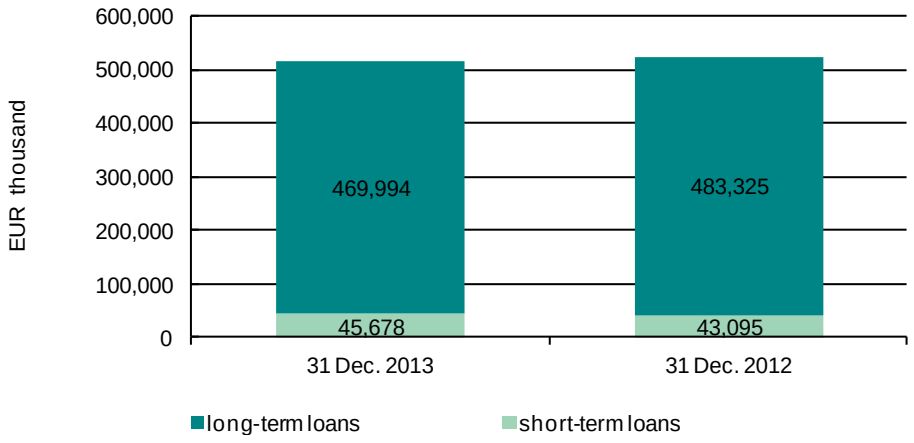
In 2013, the optimisation of retail debt recovery was continued and despite a reduced solvency an acceptable level of recovery was preserved. It is important that the principle of business process automation and optimisation is consistently followed, enabling employees in the branch network to devote their time to the implementation of sales activities and raising the quality of customer service. This substantially contributes to cost optimisation and, indirectly, to increasing operating profit.

Loans to retail customers by the Abanka Group went down by 3.1% and amounted to EUR 535,369 thousand at the end of 2013. **Loans to retail customers by Abanka** at the 2013 year end amounted to EUR 515,672 thousand, in which the major part was loans to domestic retail customers. In 2013, retail loans decreased by 2.0% or EUR 10,748 thousand nominally, whilst their share in balance sheet assets increased from 14.6% at the end of 2012 to 17.0% at the end of the reporting year. The market share of retail lending was as the end of 2013 6.5%, the same as at the end of 2012. The percentage of short term loans at the end of 2013 was 8.9%, and only 1.8% of total retail lending was denominated in foreign currencies.

6.5%

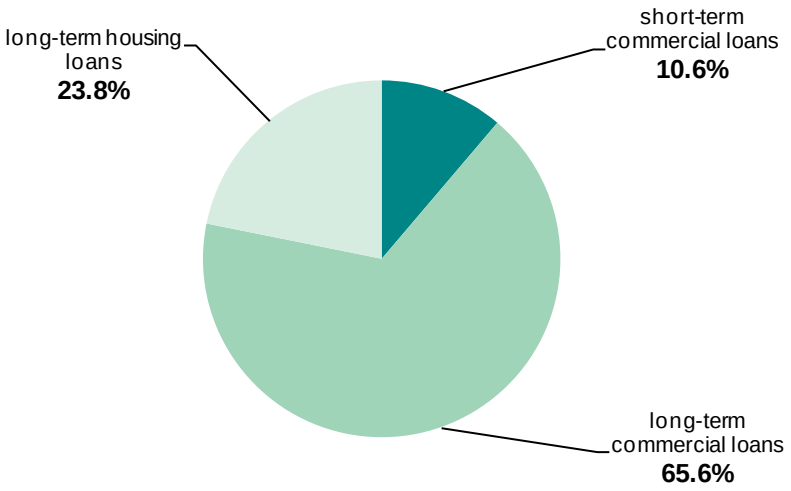
market share of Abanka's loans
to retail customers as at the end of 2013

ABANKA'S LOANS TO RETAIL CLIENTS



The graph below shows the structure of Abanka's loans to retail customers as at the end of 2013.

ACCOUNT STRUCTURE OF LOANS AS AT 31 DEC. 2013

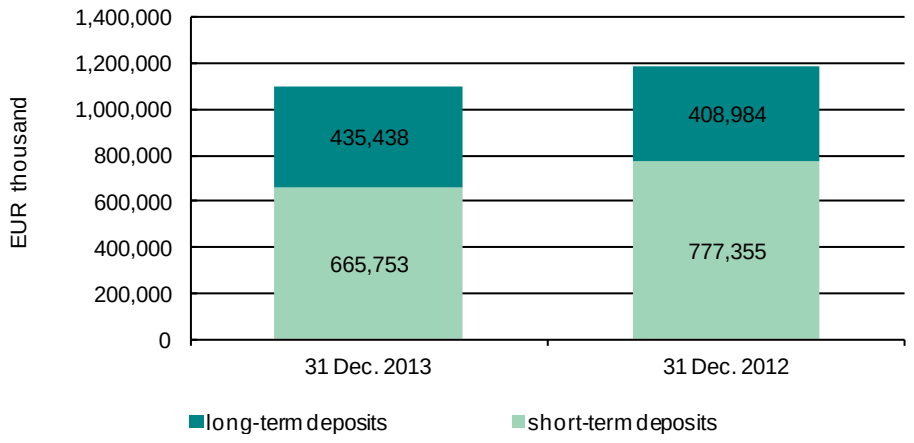


Deposits from retail customers in the Abanka Group and in **Abanka** at the end of 2013 equalled EUR 1,101,191 thousand, of which deposits from foreign retail customers amounted to only EUR 37,160 thousand. In 2013, deposits from retail customers decreased by 7.2% in total - those from domestic customers by 7.0%, or EUR 80,282 thousand in nominal terms, and those from foreign customers by 11.6%, or EUR 4,866 thousand. The market share of deposits from retail customers went down to 7.7% by the end of 2013 from 8.0% one year earlier. As at the end of 2013, deposits from retail customers represented 36.3% of total balance sheet liabilities, after having increased from 33.0% as at the end of 2012. Their currency structure remained practically unchanged as the share of retail deposits in the domestic currency increased from 96.6% at the end of 2012 to 97.3% at the end of the reporting year. The maturity structure of deposits from retail customers changed in favour of long-term deposits, which at the end of 2013 accounted for 39.5% of total retail deposits, as shown below.

7.7%

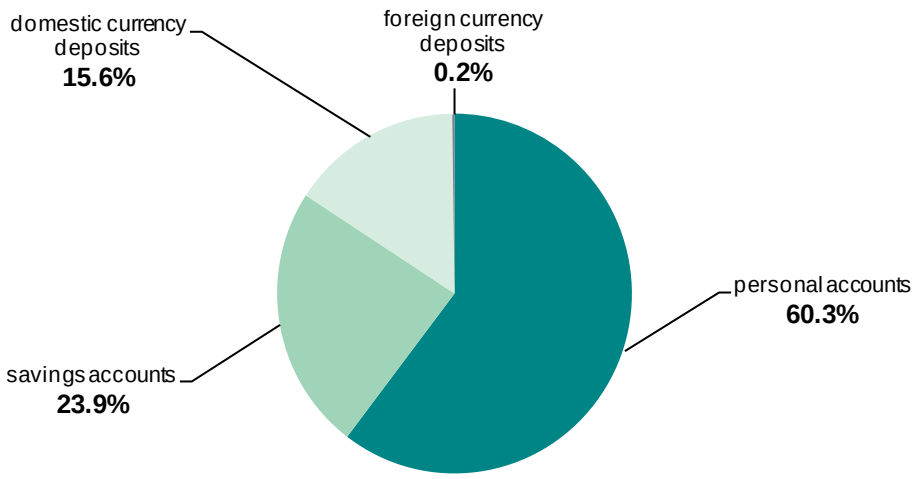
market share of Abanka in deposits from retail customers at the 2013 year-end

ABANKA'S DEPOSITS BY RETAIL CLIENTS



The graph below shows the deposit structure as at 31 December 2013.

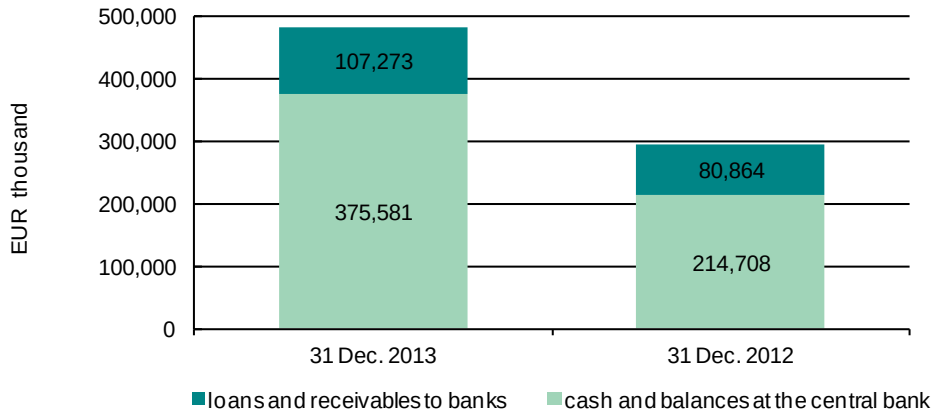
ACCOUNT STRUCTURE OF DEPOSITS AS AT 31 DEC. 2013



Operations with Other Banks

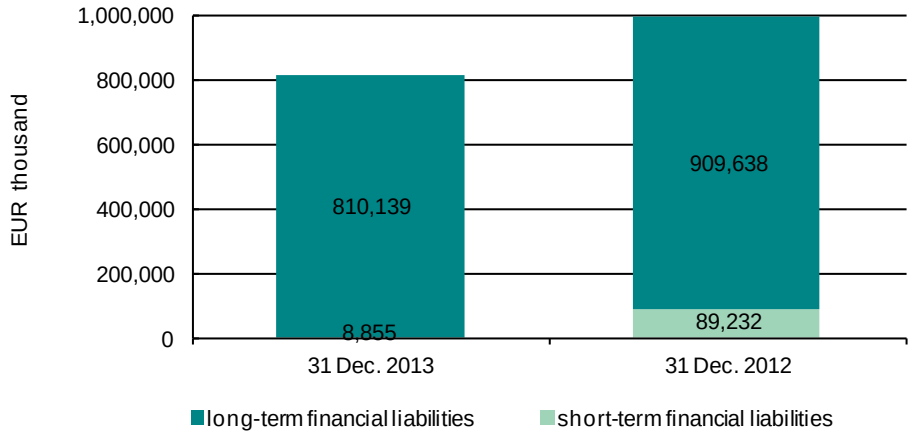
Loans and receivables to banks, cash and balances with the central bank of the Abanka Group include deposits with banks as well as loans and receivables to banks; as at the end of 2013 they totalled EUR 484,546 thousand. At the end of 2013 **loans and receivables to banks, cash and balances with the central bank of the Abanka** amounted to EUR 482,854 thousand or 63.4% more compared to the 2012 year-end, with cash and balances with the central bank having increased by 74.9% and loans and receivables to banks by 32.7%. On 30 December 2013, the Bank participated in the fine-tuning operation by the Bank of Slovenia with the amount of EUR 150,000 thousand with the aim of placement of surplus liquid funds. The operation expired on 8 January 2014. As a result the structural share of cash and balances with the central bank at the end of 2013 increased from 6% to 12.4% compared to one year earlier.

ABANKA'S LOANS AND RECEIVABLES TO BANKS AND CASH AND BALANCES AT THE CENTRAL BANK OF SLOVENIA



Abanka Group's financial liabilities to banks at the end of 2013 amounted to EUR 834,459 thousand and **those of Abanka** at the end of 2013 to EUR 818,995 thousand. The latter were 18.0% or EUR 179,875 thousand lower compared to the 2012 year-end. At the end of 2013, the structural share of financial liabilities to banks represented 27.0% of total balance sheet liabilities, after having decreased from 27.8% since the end of 2012. Short-term financial liabilities to banks in the reporting year fell by EUR 80,377 thousand or 90.1%, also long-term ones decreased by EUR 99,499 thousand or 10.9%. As a result, long-term financial liabilities to banks in total liabilities increased from 91.1% at the end of 2012 to 98.9% at the end of 2013.

ABANKA'S FINANCIAL LIABILITIES TO BANKS

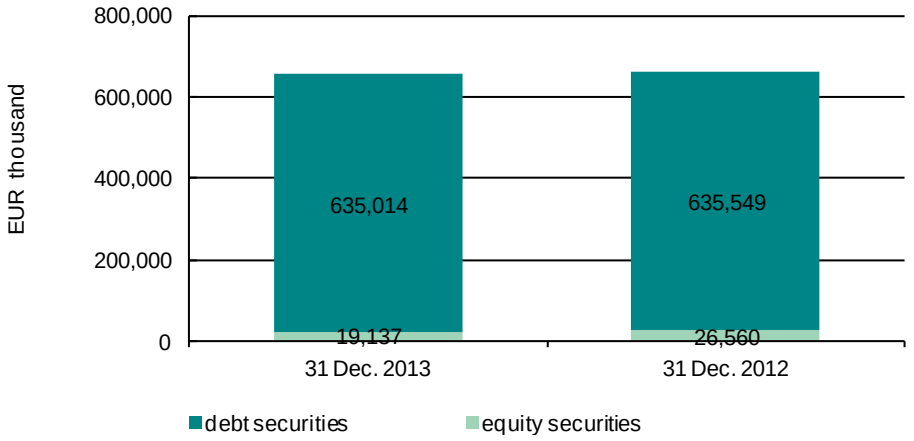


Securities

Investments by the Abanka Group in securities equalled those of **Abanka**. As at the 2013 year-end, investments in securities stood at EUR 654,151 thousand and were 1.2% lower than at the end of 2012. In total balance sheet assets they represented 21.5%, which is more than 18.4% recorded at the end of 2012. The securities portfolio included both equity and debt securities.

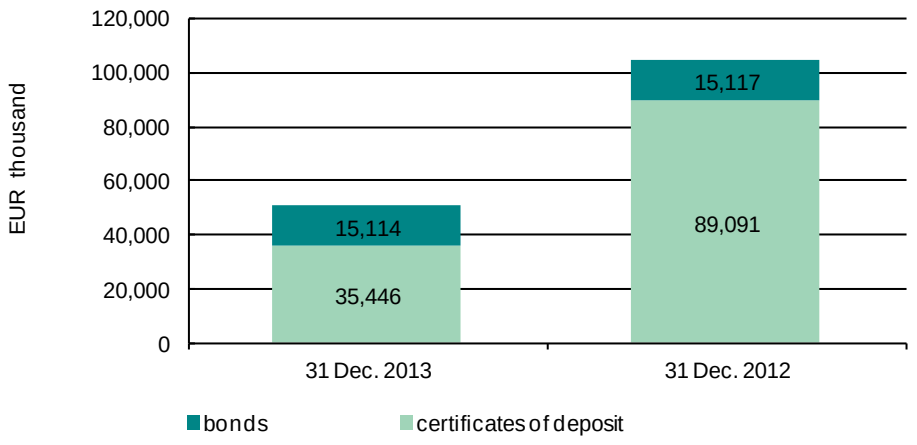
At the end of 2013, **the equities portfolio of Abanka** was worth EUR 19,137 thousand, which represented a 27.9% decrease (EUR 7,423 thousand) compared to the 2012 year-end. **The debt securities portfolio of Abanka** as at the end of the reporting year totalled EUR 635,014 thousand and accounted for 97.1% of the total securities held by the Bank. Compared to the 2012 year-end, debt securities decreased by 0.1% or nominally by EUR 535 thousand.

ABANKA'S INVESTMENTS IN SECURITIES



Securities in issue of the Abanka Group equalled **those of Abanka**. They included **debt securities in issue** (i.e. bonds and certificates of deposit). Total securities in issue at the end of 2013 amounted to EUR 50,560 thousand, which was 51.5% or nominally EUR 53,648 thousand less compared to the year before. In total balance sheet liabilities, their structural share decreased from 2.9% to 1.7%. Certificates of deposit at the end of 2013 amounted to EUR 35,446 thousand (the 2012 year-end: EUR 89,091 thousand), whereas bonds in issue totalled EUR 15,114 thousand (the 2012 year-end: EUR 15,117 thousand).

ABANKA'S SECURITIES IN ISSUE



Equity Investments

Long-term equity investments in subsidiaries as at 31 December 2013 amounted to EUR 12,670 thousand and were EUR 3,769 thousand higher compared to the 2012 year-end.

Equity Investments (in EUR thousand)	31 Dec. 2013	31 Dec. 2012	Indeks 13/12
Subsidiaries	12,670	8,901	142.3
Total Equiy Investments	**12,670**	**8,901**	**142.3**

Payment Transactions

As regards domestic and cross-border payment transactions, in 2013 Abanka processed 35,412 orders in the Target system, worth EUR 44,558,380 thousand, which accounted for an 8.0% market share of the total number of processed orders and a 15.1% market share of their total value. The volume of domestic and cross-border payment orders decreased by 18.4% compared to 2012; however, their value was on the level of year 2012.

Through the small-value payment system (SIMP), as many as 10,792,336 orders were processed in the domestic payment system using internal credit transfers (ICT), which resulted in a 10.7% market share. Nominally this represented a 9.4% market share or EUR 4,011,810 thousand. The volume of payments in this system increased by as much as 14.4%, whilst their value decreased by 9.9%.

The bulk of cross-border payments was performed in the SEPA infrastructure for external payments, of which 292,885 orders were processed in the external credit transfer (ECT) system, representing a 8.3% increase and amounting to EUR 2,009,215 thousand, which is a 4.8% drop compared to 2012.

In addition to domestic and cross-border payment transactions to SEPA countries, 93,511 orders were executed through the extended network of correspondence banks abroad and totalled EUR 1,471,018 thousand. The number of orders fell by 9.1% and the value of payments by 24.0%, mainly as a result of Croatia becoming an EU member state, which enabled payments to be made via the SEPA ECT system.

In 2013, Abanka recorded international payment transactions, which include international and cross-border payments of sums above EUR 50 thousand, worth EUR 3,333,163 thousand and its 6.4% market share placed it seventh among banks in Slovenia. Consequently, the value of payments decreased by 20.6%.

At the beginning of 2013 Abanka, along with other banks, the Bank of Slovenia and the processing centre, concluded the demanding SEPA direct debit migration (SEPA DD) project. In 2013, Abanka processed 8.8 million transactions worth EUR 313,127 thousand through this payment system, accounting for a 32.6% market share.

Card and ATM Operations

By 31 December 2013, 262,937 cards were issued, i.e. 4.5% more than in 2012. The bulk was accounted for by BA Maestro (as much as 58.4%), which functions as a personal account card. The biggest contributors to the increased number of issued cards were Visa Electron card, placed second in the total number of issued cards (20.8%), and new Visa debit card, which enables payment in instalments. The latter was launched in the second half of 2013 and reached the number of 4,296 issued cards by the end of the reporting year.

The new Visa debit card, which enables payment in instalments was launched in the second half of 2013.

In 2013, at points of sale, 12.7 million transactions were recorded with cards issued by Abanka, i.e. 6.3% more than in the previous year. These nominally amounted to EUR 582,470 thousand and were EUR 1.7% above the level reported for 2012.

Abanka has an extensive network of points of sale for all types of card products, which enable transactions via Abanka-held POS terminals or through terminals of other banks. On the basis of agreements with merchants transactions were being carried out at 17,887 Abanka points of sale. At the latter, 21.8 million transactions with all types of cards were recorded in 2013, or 0.4% more than in the same period of 2012. This nominally amounted to EUR 922,987 thousand or 0.4% more than in 2012.

274

ATMs owned by Abanka as at the end of 2013

One of Abanka's current sales channels is its extensive ATM network. In 2013 Abanka operated 274 ATMs and its ATM network became the second biggest. The number of bank-owned ATMs fell from 277 at the end of 2012 to 274 at the end of 2013, the Bank's market share as at the end of 2013 was 15.5%. Abanka's ATMs processed 6.6 million cash withdrawals worth EUR 638.9 thousand, as well as 2,066 thousand other transactions, such as account balance checks, cash deposits, payments of invoices with payment orders, etc. The number of ATM withdrawal transactions increased by 5.6% and the value of withdrawals grew by 9.0%. In terms of other transactions, the biggest growth was recorded in the number of payments via the universal payment order, having increased by 6.0%, whereas the number of account balance checks decreased by 2.0% compared to the same period of the previous year.

Investment Brokerage and Precious Metals

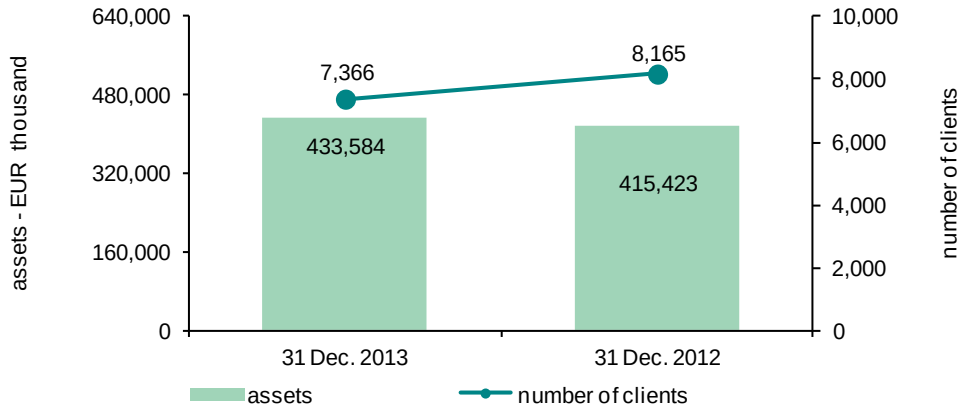
The total volume of trading generated by members of the Ljubljana Stock Exchange in 2013 was EUR 783,518 thousand. Abanka contributed EUR 30,355 thousand to this, achieving a 3.87% market share among stock exchange members. Total trading of Abanka in foreign markets amounted to EUR 62,640 thousand.

At the end of 2013, the Bank had 7,366 customers using brokerage services in the domestic market, while in foreign markets brokerage services were provided to 638 domestic corporate and retail customers. Customers' assets in domestic and foreign capital markets as at the end of 2013 amounted to EUR 433,584 thousand and EUR 20,923 thousand respectively.

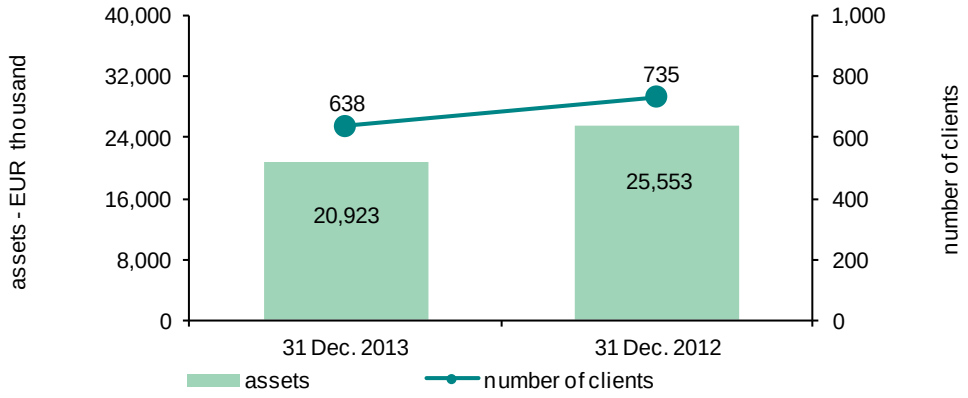
In 2013, 179.3 kg of gold bars and coins were sold at the headquarters and 19 branch offices of Abanka for EUR 6,625 thousand.

At the end of 2013, the financial instrument under management portfolio was worth EUR 11,699 thousand. The value of assets under management increased due to various factors. This was partly because the value of assets increased owing to the growth in some major global markets and partly due to cash payments to portfolios under management and newly concluded contracts. Based on better prospects on foreign and domestic markets, favourable trends can also be expected in the future.

INVESTMENT BROKERAGE ON THE DOMESTIC MARKET



INVESTMENT BROKERAGE ON FOREIGN MARKETS



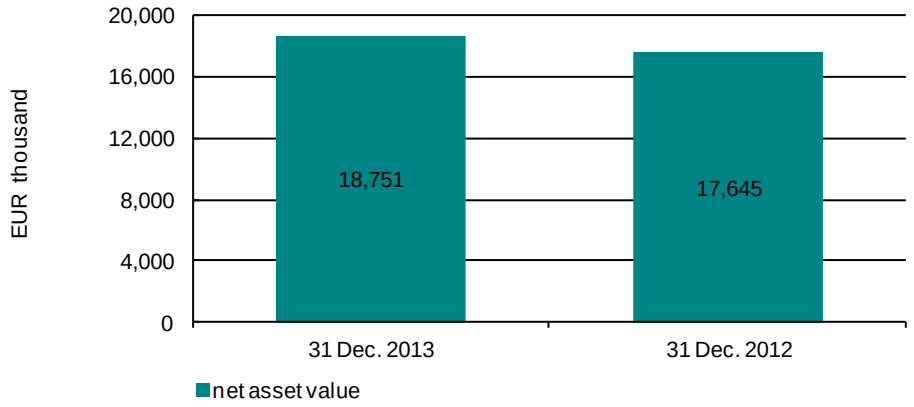
AIII Mutual Pension Fund

The net asset value of the Fund as at the end of 2013 was 18,751 EUR thousand, compared to EUR 17,645 thousand one year earlier. The net asset value of the Fund in 2013 grew by 6.3% compared to 2012.

> The 1.97% return of the fund in 2013 was above the minimum guaranteed rate of return.

Throughout 2013, the investment policy adapted to macroeconomic instability. Relatively low percentages of equities and debt securities with short maturities in the Fund's portfolio were the reason why security was placed before yield in the first half of 2013. In the second half of 2013, the share of holdings of bonds issued by the Republic of Slovenia increased, whilst maturity of securities was extended. Amidst the uncertainty characteristic of 2013, the return of the fund was 1.97% and above the minimum guaranteed rate of return of 1.88%.

NET ASSET VALUE OF AIII MUTUAL PENSION FUND



Custody and Administrative Services

Abanka was able to keep the leading market share in 2013 in the segment of custody and administrative services for investment funds. For 2014, the Bank plans to adapt to the current market conditions and considers potential re-expansion in the segment of custody services pursuant to the Financial Instruments Market Act (ZTFI) and the Pension and Disability Insurance Act (ZPIZ-2). Successful transition to a new software base strengthened Abanka's lead as the only provider of custody and administrative services pursuant to the Investment Trusts and Management Companies Act (ZISDU-2), ZPIZ-2 and ZTFI. In 2014, the cooperation with institutions will be continued in drafting new implementing acts for the operation of investment and pension funds.

The Custody and Administrative Services Department celebrates its 10th anniversary in 2014 as a provider of custody services and its 20th anniversary as a provider of administrative services – an additional guarantee of quality in this segment.

> Abanka remains the leading Slovene bank in custody and administrative services for funds.

Bancassurance

In the previous decade, bancassurance was an important strategic orientation for financial institutions, enabling both banks and insurance companies to design integrated financial services following the one-stop shop concept.

> Abanka is an agent in the insurance market.

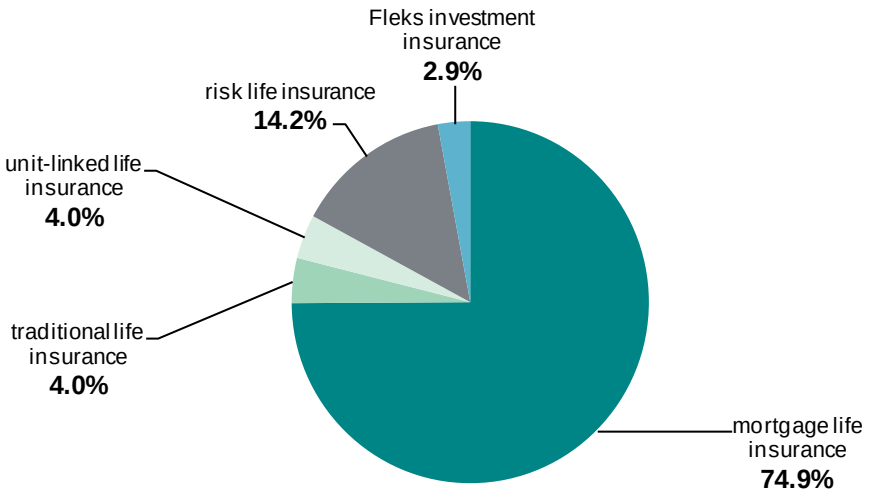
It is important to strengthen cooperation between banks and insurance companies, mainly with a view to introduce a new sales channel that follows the requirements of a developed insurance and financial market on the one hand, and, on the other, the needs of individuals looking for opportunities to invest their savings on the market and seeking easier access to various services. Bancassurance enables both banks and insurance companies to increase their capacities and design a range of integrated financial services according to the one-stop shop concept. Abanka and Zavarovalnica Triglav jointly follow all above mentioned modern trends.

Abanka has acted as a broker in the insurance market since November 2003. In conjunction with Zavarovalnica Triglav, it offers the following bancassurance products:

- **accident insurance** as a supplementary facility for holders of Aračun accounts, Premium personal accounts and Akeš personal accounts (the first bancassurance product);
- **endowment life insurance**, a type of insurance where the investment risk is carried by the insurer;
- **unit-linked life insurance**, which combines life insurance and investment linked to the unit prices of selected mutual funds and the investment fund of Zavarovalnica Triglav;
- **single premium unit-linked life insurance**, which combines life insurance and investment elements, linked to the unit prices of selected mutual funds, with the insurance premium being paid in a lump sum when the policy is taken out;

- **supplemental health insurance**, which is a type of voluntary health insurance available to holders of personal and savings accounts with Abanka who are covered by compulsory health insurance and obliged to make supplementary payments;
- **various types of risk life insurance** without investment elements; throughout the duration of the insurance policy, the sum insured remains the same;
- **mortgage life insurance**, which is taken out in combination with a mortgage, housing or consumer loan (with a term above 2 years) and provides a diminishing pay-out in the event of death, with the pay-out reaching zero when the policy expires;
- **ABAFLEKS investment insurance – ABAFLEKS investment insurance for adults and FLEKS investment insurance for young people**; these products are a combination of life insurance and investment linked to investment funds; the policyholders assume the investment risk but at the same time have a choice among different investment strategies (financial objectives strategy related to funds);
- **ABC life insurance**, which is in essence similar to all unit-linked life insurance products, but offers lower premiums and an open-ended term of insurance;
- **supplementary loss of employment insurance** for borrowers taking a mortgage, housing or consumer loan;
- **card insurance** of personal account holders is designed for the holders of ordinary or Premium personal accounts with Abanka and their authorised signatories;
- **Triglav package home insurance**, which is a type of property insurance;
- **Triglav zaščita life insurance**, which is a type of insurance against death, full and permanent incapacity for work in serious conditions due to an accident or illness.

BREAKDOWN OF LIFE INSURANCE BY NUMBER OF POLICIES AS AT 31 DEC. 2013



Total Equity and Ownership Structure

As at the end of 2013, the total equity of the Abanka Group and Abanka amounted to EUR 212,139 thousand and EUR 212,694 thousand respectively, having increased by 26.2% or EUR 44,136 thousand in nominal terms in 2013. This was mainly a result of the Bank's capital increase amounting to EUR 348,000 thousand by the Republic of Slovenia on the basis of the interim decision of the European Commission, approving the first tranche of recapitalisation. On 31 December 2013, total equity accounted for 7.0% of total balance sheet liabilities (2012: 4.7%).

According to the Decision of the Bank of Slovenia all qualified liabilities of Abanka Vipa fully ceased to exist as of 18 December 2013, including the share capital amounting to EUR 7,200 thousand (transferred to capital reserves). On 18 December 2013, the Republic of Slovenia subscribed and fully paid up all 15,000,000 new shares of the bank in a total amount of EUR 348,000,000.00. The share capital increase in the amount of EUR 150,000 thousand was entered into the Companies Register on 18 December 2013, whilst the capital reserves on that basis grew by EUR 198,000 thousand. Capital revaluation surplus increased by EUR 5,007 thousand. Abanka established a treasury share fund for redeemed own shares totalling EUR 240 thousand, which was terminated following the full cessation of the Bank's qualified liabilities. According to a resolution of the General Meeting, EUR 6 thousand from unpaid dividends was transferred to reserves from profit. Abanka covered its net loss in the amount of 308.877 thousand for 2013 with capital reserves in the amount of EUR 308,871 thousand and with reserves from profit in the amount of EUR 6 thousand.

As at 31 December 2013, the share book value was EUR 14.18, calculated on the basis of 15,000,000 shares.

TEN LARGEST SHAREHOLDERS OF THE BANK

31 Dec. 2013

Rank		Number of shares	Holding in %
1	REPUBLIKA SLOVENIJA	15,000,000	100.0
	All shareholders	15,000,000	100.0

17 Dec. 2013 and 31 Dec. 2012

Rank		Number of shares	Holding in %
1	ZAVAROVALNICA TRIGLAV d.d.	1,843,377	25.6
2	SAVA d.d.	1,715,841	23.8
3	GORENJSKA BANKA d.d.	1,061,220	14.7
4	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER GLOBAL	527,258	7.3
5	HIT d.d.	442,705	6.1
6	VIPA HOLDING d.d. – in liquidation	266,896	3.7
7	DAIMOND d.d. – in bankruptcy proceedings*	255,907	3.6
8	ZVON ENA HOLDING d.d. – in bankruptcy proceedings	174,331	2.4
9	SLOVENSKA ODŠKODNINSKA DRUŽBA d.d.	161,119	2.2
10	NFD 1, mešani fleksibilni podsklad - Jugovzhodna Evropa**	106,000	1.5
	Ten largest	6,554,654	91.0
	Other shareholders	645,346	9.0
	All shareholders	7,200,000	100.0

Note:
* DAIMOND d.d. – in bankruptcy proceedings, was at the 2012 year-end DAIMOND d.d.
** NFD 1, mešani fleksibilni podsklad – Jugovzhodna Evropa, was NFD 1, delniški podsklad as at 31 December 2012.

Until 17 December 2013, as well as at the 2012 year-end, the ten largest shareholders held 6,554,654 shares or 91.0% of Abanka's share capital. On 17 December 2013, Zavarovalnica Triglav d.d. participated in Abanka's equity with 25.6%, Sava d.d. with 23.8%, Gorenjska banka d.d. with 14.7% and Delniški vzajemni sklad Triglav Steber Global with 7.3%. As at that day, the Bank had 1,058 shareholders (compared to 1,115 as at the 2012 year-end), whilst the number of redeemed own shares (i.e. treasury shares) was 9,213 both as at 17 December 2013 and at the end of 2012, which accounted for 0.1% of the Bank's share capital. On 17 December 2013, foreign entities held 102,694 shares of Abanka, which accounted for 1.4% of the Bank's share capital.

The share capital of Abanka entered in the Companies Register as at 31 December 2013 amounted to EUR 150,000,000.00. The 26th General Meeting of Shareholders of the Bank, held on 8 April 2013, approved the reduction of the Bank's share capital, so that the share capital of the Bank, which on 8 April 2013 amounted to EUR 30,045,067.60 and was divided into 7,200,000 ordinary, registered, no-par-value shares, was reduced through a simplified procedure by EUR 22,845,067.60, such that upon reduction it amounted to EUR 7,200,000. This reduction was carried out in order to cover a part of the loss in the 2012 financial year in the amount of EUR 22,845,067.60 charged to the Bank's share capital. Pursuant to the resolution of the General Meeting of Abanka, the entry of the simplified reduction of the Bank's share capital from EUR 30,045,067.60 to EUR 7,200,000 was made in the Companies Register on 21 May 2013. According to the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, all qualified liabilities of Abanka Vipa d.d. fully ceased as of 18 December 2013, including the share capital comprising all the shares of Abanka Vipa d.d. with ticker symbol ABKN. On the same day, respective entries were made in the Companies Register and, consequently, the above mentioned shares were deleted from the Central Securities Depository of securities issued in dematerialised form, kept by KDD, d.d.

Simultaneously with reduction of the share capital of Abanka Vipa d.d. to zero on 18 December 2013, in accordance with the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, and the Decision of the Bank of Slovenia approving the increase of the share capital of the Abanka Vipa d.d. of 18 December 2013, the Bank's capital share was increased to EUR 150,000,000 with an issue of 15,000,000 new ordinary registered no-par value voting shares. On the same day the respective entries were made in the Companies Register and, consequently, the above mentioned shares were entered into the Central Securities Depository of dematerialised securities. Since 18 December 2013, the new total number of shares with voting rights into which the share capital of Abanka Vipa d.d. is divided has been 15,000,000. After the subscription

of new ABKS shares, the Republic of Slovenia holds 15,000,000 ABKS shares, which is 100% of all issued shares of Abanka Vipa d.d. The proportion of par-value shares in the share capital was EUR 10.00 as at the end of 2013.

Prior to the enforcement of the Book Entry Securities Act in 1999, three issues of 3,162,362 bonds were placed amounting to EUR 13,196,302.79, after which capital was again raised (in 2002 the 536,038 shares due to the merger by acquisition of Banka Vipa d.d. were not included): in 2001 by 337,638 shares totalling to EUR 5,752,695.52; in 2003 by 763,962 shares in the amount of EUR 15,206,554.58; in 2005 by 700,000 shares equalling EUR 26,289,434.15 and in 2008 by 1,700,000 shares amounting to EUR 102,000,000.00.

Until 17 December 2013 (that is to the issue of the Decision of the Bank of Slovenia of 17 December 2013) the Bank's share capital amounted to EUR 7,200,000.00 and was divided into 7,200,000 ordinary, freely transferable, registered, no-par value shares (ABKN), of which 7,198,874 were in dematerialised form and 1,126 in materialised form, the latter not yet submitted to the Central Securities Clearing Corporation (KDD). Voting rights were attached to 4,676,340 shares. In January 2011, the voting rights attached to 2,513,321 shares owned by Zavarovalnica Triglav d.d., HIT d.d., SOD, d.d. and Mobitel d.d. were suspended in accordance with a decision of the Securities Market Agency. All issued shares were fully paid in.

Transparency of financial relations between state authorities and self-governing local community authorities and public corporations

Coverage of operating losses and provision of capital

On the basis of the Decision of the Bank of Slovenia, the Republic of Slovenia subscribed and fully paid-in 15,000,000 new shares of the Bank in a total amount of EUR 348,000 thousand on 18 December 2013. Abanka covered its net loss for the 2013 financial year totalling EUR 308,877 thousand with its capital reserves in the amount of EUR 308,871 thousand and other reserves from profit in the amount of EUR 6 thousand.

THE BANK'S DEVELOPMENT AND ITS GOALS

DEVELOPMENT AND MARKETING COMMUNICATIONS IN 2013

In 2013 the situation on the domestic and foreign financial markets remained uncertain. Present economic and market conditions strongly influence the mindset and trust of customers, and consequently their financial behaviour. Therefore, the main goal of Abanka remains to preserve trust and retain, in some cases even increase, the current market shares in individual customer segments and banking products.

More attention was paid to the family segment. Throughout particular stress was placed on the segment of more sophisticated customers, both in personal banking and in private banking.

Besides higher sales of predominantly savings products, in the credit segment focus was on the individual marketing of long-term loans that simultaneously influence the acquisition of new customers and the opening of new personal accounts with sight deposits. Individual approach also raises the satisfaction level of existing customers as a result of increased business volumes and cross-selling of services with a high added value.

The quality of provided services was measured by observing sales processes, monitoring sales results, measuring of customer loyalty index or the level of recommendations (NPS – net promoter score) as well as with the method of mystery shopping and systemic following of complaints and their handling. To increase the quality of provided services, customers' comments and complaints were addressed in a centralised manner, resulting in findings that were systematically used to continuously improve business processes and individual banking solutions.

Corporate banking

The Abacom electronic bank enables its users to electronically exchange data in an increasing number of banking services. In 2013, Abacom was adjusted to the requirements brought about with the introduction of the Single Euro Payment Area (SEPA), SEPA direct debits and modifications of standards on the exchange of data between the customer and the bank.

New issuers are gradually joining the e-invoices platform via Abacom. The increase in volume is slow due to substantial adjustments required from e-invoice issuers and appropriate promotion necessary to make users opt for receiving invoices in an electronic form.

In 2013, direct debits for loans, guarantees and other trade finance operations were also made available to corporate customers and sole proprietors. This enables customers to follow direct debiting on their statements of account per transaction account as well as via received bank and other itemised statements. This service is available to all customers having a transaction account with Abanka.

For payment transactions or transaction account debits of corporate customers and sole proprietors, a new payment instrument – SEPA direct debit – is available, enabling the payee to send a direct debit order debiting the payer's account based on the authorisation of the latter.

Already two years earlier agents were involved in the execution of payment services. At the points of sale of merchants, i.e. agents, which were collectively called the Abatočka network – the acceptance of payment orders was introduced, enabling automatic data capture using an OCR line. In 2013, the Abatočka network expanded to include over 50 new points of sale. Negotiations for its further expansion are underway.

Merchants and other legal entities cooperate with the Bank in the segment of loans retail. At the point of sale of a merchant contracted by the Bank to provide Abakredit, a buyer may arrange everything necessary to get a loan from Abanka. In 2013, the documentation exchange procedure for granting Abakredit was updated and the exchange now goes out via the Abakredit web application. All credit agents have already started using new, upgraded technological support.

To strengthen cooperation with small and micro companies and sole proprietors, the Bank continually introduces tailored offerings for this segment, aimed at new and existing customers. Occasionally, special campaigns are prepared, sometimes together with other institutions.

Marketing and communication support was provided for special offers for both asset and liability side. Direct marketing with personal selling remained the main tool for sales and marketing activities. Customer care, particularly in the SME segment, was provided through educational and promotional events for customers in four regions. After micro companies were moved to the branch network, it became obvious that an even closer approach to customers is necessary in the field. The year 2013 also saw the issue of 4 electronic bulletins for corporate customers. Their popularity was measured and improvements were foreseen to further increase circulation in 2014. Editing the website business pages is a regular task of the Marketing Department. In the second half of 2013, start-ups were, in a limited scope but constantly, addressed, also on the web, in order to convince them to bank with Abanka.

Retail Banking

In 2013, the functions of the existing Visa Electron credit card were expanded to include instalment payments, which enable cardholders simple and very discrete shopping at all Visa Electron points of sale in Slovenia and abroad.

The network of Abatočka points of sale for payment transactions was expanded with the existing agents. At Abatočka points of sale users of payment services can submit payment orders (also outside branch working hours). The volume of payment orders submitted via this sales channel is on a rise.

With the merchants contracted to provide Abakredit, buyers can complete all formalities necessary to get a loan from Abanka at merchants' points of sale.

Abanet e-banking was upgraded to enable management of dedicated savings accounts. The e-bank started providing specific notices for users that previously received them by mail (notices on interest paid out, loan instalment changes, non-executed SDDs, etc.).

The cooperation with Zavarovalnica Triglav as a strategic partner is constantly being strengthened and Abanka's customers are offered the full range of insurance products, including personal, health, accident and non-life insurance. In the reporting year the Bank was particularly successful in marketing health insurance products.

In 2013 Abanka Skladi and Triglav Skladi concluded an agreement on fund management transfer, according to which the management of subfunds was transferred from the ABANKA SKLADI umbrella fund to Triglav Skladi. With this transfer, the existing investors of the Bank will gain from a broader set of investment opportunities and possibilities for increasing investment potential as well as a more diverse and attractive range of products and services. Customers were offered a special new bundled product (combining a deposit with Abanka with an investment in Triglav Skladi), which represents a new type of joint market penetration.

The key business goals of the Bank in 2013 were raising primary sources and increasing both interest and non-interest income. To acquire new customers and extend cooperation with the existing ones, special offerings were regularly aimed at new and existing transaction account holders and other customer segments (high school and university students, retired persons, families, etc.).

Marketing and communication activities followed one of the main business goals of Abanka: a truly customer-focused approach at the core of the Bank's business. Therefore, the majority of marketing campaigns were segment-based, covering sales promotion of insurance products and housing loans as well as increased use of Abatočka and other modern sales channels. In 2013 two marketing campaigns were added to promote the use of cards in the segments of less active card holders and personal banking customers. An advertising campaign was prepared and realised in parallel with launching new Abanka products – the instalment credit card in 2013. At the same time, in 2013 the marketing campaign preparations were completed for the launch of mobile banking application called Abamobi, which included name selection and its successful registration.

The activities for achieving another important marketing objective, i.e. the rejuvenation of customer segments in Abanka, successfully continued via two marketing and advertising campaigns aimed at promoting sales of personal accounts to younger generations (Akeš), and additionally through direct marketing of the family package. On top of this, the family users of banking products were addressed with a rerun of a puppet show and introducing the Ježek mascot at major events organised for families across Slovenia. Activities designed for retaining and increasing the segment of retired persons were regularly performed throughout the year by advertising the Aračun senior personal account; whereas certain marketing activities aimed at boosting the Aračun personal account also covered the segment of active working population.

Greater customer activity and higher average number of banking products per customer were the main goals of marketing activities performed in 2013 at the regional level, where regional and local dialogue developed with success as planned continued. Local advertising activities accompanied also the opening of new branches (in Trnovo and Novo mesto at the end of 2012), successfully continuing the practice of making branch managers the forefront promoters of advertising and marketing at the local level.

Editing of the Abanka and Akeš websites, editing of the Akeš and Abanka Facebook profiles (the latter was added in 2013), producing and editing of e-news for (retail) customers, uniform design of Abanka's offices and other points of sale, as well as awareness raising of the internal public about the Bank's range of products and services continue to be regular tasks of the Marketing Department.

Financial Markets

In 2013, in terms of liquidity management and asset liability management, the treasury:

- continued with the centralised liquidity management process and upgraded the software for monitoring the implementation of plans and cash flow realisations;
- continued restructuring the banking book in compliance with the Basel III Accord requirements and provided an adequate volume and structure of the banking book portfolio.

By successfully introducing the flexible forward product in 2013, the Bank adapted to the demand of companies requiring protection against foreign exchange risks. The product is intended for corporate customers, especially small and medium-sized enterprises, and will be marketed together with other instruments for the protection against foreign exchange and interest risks also in the future. Moreover, much effort was put into the implementation of the European Market Infrastructure Regulation (EMIR[16]) which regulates derivatives and in the case of Abanka requires substantial adjustments to its IT infrastructure and method of work.

In 2013, the numbers of customers and transactions in bond trading additionally increased.

The year 2013 was marked by the launch of a gold coin, bearing an image of a stork that was offered as a niche product. It was accompanied by a very limited advertising campaign that was locally supported by donations to selected maternity hospitals and mothers of newborns in those hospitals. In autumn 2013, the already traditional and much-noticed training event organised for the users of Abanka's treasury services. Communication support was provided to significant special offers aimed at both the existing and potential customers.

[16] European Market Infrastructure Regulation

DEVELOPMENT, MARKETING COMMUNICATIONS, AND GOALS IN 2014

When developing and providing services in the future, trends and competitive environment will be followed to ensure innovative solutions and strengthen the perception of Abanka as the bank of innovative solutions. In 2014, particular stress will be placed on the segment of more demanding customers, both in personal banking and in private banking.

E-banking will be further upgraded to increase the flexibility of operations and new innovative sales channels for different segments will be introduced.

To win over new customers and expand business with the existing ones, special offers will be regularly generated for new and existing transaction account holders and individual customer segments (high school and university students, retired persons, families, etc.). Also in 2014 business with the segment of micro companies and sole proprietors will be improved by continuing special offers aimed at new and existing customers.

Good practice developed in marketing in 2013 will also continue in the year to follow. In 2014, essential user experience will be even more precisely measured (by segment, customer, process, service and/or product) and improvements will be made in the areas where higher levels of added value are perceived by customers. Sales promotion activities will take place where the market and the competitive environment are susceptible to them. The rejuvenation of customer segments will be continued to remain the most recognisable banking brand among young generations in Slovenia. The family segment will stay in the forefront. Selected marketing activities in the future will again focus on demanding customers, both in personal banking and in private banking. From the aspect of communications all customers will be effectively reached by taking approaches most suited to individual segments (at the national, regional and local levels).

Sales promotion activities in corporate banking will rest on the verified best marketing approaches, to be upgraded when required.

The measurement of results of marketing activities, the maximisation of those results and the optimisation of processes will be continued and upgraded. In this way, the set marketing and sales objectives will be reached by optimising the planning and implementation of marketing activities and advertising campaigns in a fast and effective manner that saves time and money.

The measurement of results of marketing activities, the maximisation of those results and the optimisation of processes will be continued and upgraded.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Code

The Bank signed the Corporate Governance Code adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 8 December 2009. The Code is available on the website of the Ljubljana Stock Exchange at http://www.ljse.si/ in Slovene and English.

In its operations Abanka abides by the Code, with the exceptions and differences disclosed in **the Statement of Compliance with the Corporate Governance Code**, published in the Business Report. The governance practices of Abanka are accessible on its website at http://www.abanka.si/. Apart from the Corporate Governance Code, in the 2014 business year the Bank will, in its operations, strive to follow to the greatest possible extent the Code of Management of Equity Investments of the Republic of Slovenia adopted by the Management and Supervisory Boards of Slovenska odškodninska družba d.d. dated 15 March 2013 and published on the website of Slovenska odškodninska družba d.d.

Description of the Main Features of the Internal Controls and Risk Management in the Bank, in Connection with the Accounting Reporting Procedure

The Bank manages all types of risks in accordance with the Risk Management Strategy of Abanka Vipa d.d. Risks are controlled according to risk management policies by risk type. In line with the operational risk management policy, the Bank establishes procedures for reducing risk and limiting the occurrence of any losses from operational risks of the Bank's individual organisational units and the Bank as a whole. It actively plans and implements measures to reduce the frequency and severity of losses arising from operational risks.

The main objectives of internal controls in risk management in terms of accounting reporting are the effective administration of tasks, the efficient use of funds and their protection against loss due to negligence, abuse, misadministration, default, fraud and other errors, compliance with primary and secondary legislation and instructions by the Management Board and senior management of the Bank, the provision and maintenance of timely, integrated and reliable data and information and their fair disclosure in internal and external reports.

Monitoring the effectiveness of risk hedging methods arising from accounting reporting and risk reduction is a process based on an internal control system consisting of internal controls, the activities of the Internal Audit Department and compliance activities.

Information Required under Article 70, §6, items 3, 4, 6, 8 and 9 of the Companies Act

- **Holdings of the Bank's shares in terms of achieving the qualified holding according to the Takeover Act**
  Until 17 December 2013 the following shareholders were achieving the qualified holding according to the Takeover Act:

Company	Number of shares	%
Zavarovalnica Triglav d.d.	1,843,377	25.6
Sava d.d.	1,715,841	23.8
Gorenjska banka d.d.	1,061,220	14.7
Delniški vzajemni sklad Triglav Steber Global	527,258	7.3
HIT d.d.	442,705	6.1

According to the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, as of 18 December 2013 all qualified liabilities of Abanka Vipa d.d. fully ceased, including the share capital comprising all the shares of Abanka Vipa d.d. with ticker symbol ABKN, ISIN Code SI0021108608. On the same day, respective entries were made in the Companies Register and, as a result, the above mentioned shares were deleted from the Central Securities Depository of securities issued in dematerialised form, kept by KDD d.d.

Simultaneously with the cessation of the share capital of Abanka Vipa d.d., i.e. its reduction to zero, on 18 December 2013, in accordance with the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013, and the Decision of the Bank of Slovenia approving the increase of the share capital of the Abanka Vipa d.d., dated 18 December 2013, the

Bank's capital share was increased to EUR 150,000,000 with an issue of 15,000,000 new ordinary registered no-par value voting shares. On the same day respective entries were made in the Companies Register. Relevant entries were made in the Companies Register and the above mentioned shares with ticker symbol ABKS, ISIN Code SI0021116510 were entered into the Central Securities Depository of dematerialised securities, kept by KDD d.d.

Since 18 December 2013, the new total number of shares with voting rights into which the share capital of Abanka Vipa d.d. is divided (new total number of voting rights) has been 15,000,000.

After the subscription of new ABKS shares, the Republic of Slovenia holds 15,000,000 ABKS shares, which is 100% of all issued shares of Abanka Vipa d.d.

- **Special controlling rights**
  None of the Bank's shareholders have special controlling rights.

- **Voting right restrictions**
  According to the Articles of Association, voting rights are not restricted to a certain holding or to a certain number of shares. Detailed information on the exercise of voting rights is contained in the chapter "Functioning of the General Meeting of shareholders, its key competencies, a description of shareholders' rights and the manner in which they are exercised", which is part of this statement.

  In accordance with the Decision No. 0600-46/2010-12 of the Securities Market Agency, dated 13 January 2011 (the Decision), as of the day the Decision becomes final, the following companies were prohibited from exercising their voting rights in the target company Abanka Vipa d.d., Slovenska cesta 58, Ljubljana:
  1. Zavarovalnica Triglav d.d., Miklošičeva cesta 19, Ljubljana, was prohibited from exercising voting rights attached to 1,843,377 ABKN shares or 25.60% of the voting shares issued by Abanka Vipa d.d.;
  2. Slovenska odškodninska družba d.d., Mala ulica 5, Ljubljana, was prohibited from exercising voting rights attached to 161,119 ABKN shares or 2.24% of the voting shares issued by Abanka Vipa d.d.;
  3. HIT, hoteli, igralnice, turizem d.d., Delpinova ulica 7a, Nova Gorica, was prohibited from exercising voting rights attached to 442,705 ABKN shares or 6.15% of the voting shares issued by Abanka Vipa d.d.;
  4. Telekom Slovenije d.d., Cigaletova 15, Ljubljana (as the offeree for Mobitel, telekomunikacijske storitve, d.d., Vilharjeva cesta 23, Ljubljana) was prohibited from exercising the voting rights attached to 66,120 shares, with the ticker symbol ABKN and accounting for 0.92% of the voting shares issued by Abanka Vipa d.d.;

  until the above mentioned companies either jointly, individually on behalf and on account of all, or severally on behalf of and on account of them all, make a takeover bid for the shares of the target company Abanka Vipa d.d. in accordance with the Takeover Act or until these companies, which have voting rights in the target company, dispose of their ABKN shares, so that they no longer reach the takeover threshold either jointly, individually or severally.

  On 4 April 2013, Abanka Vipa d.d. was served a Securities Market Agency's decision, with which the latter decided that the Zavarovalnica Triglav d.d., holding 1,843,377 no-par value shares of Abanka Vipa d.d., is pursuant to Article 59.a of the Banking Act (ZBan-1) entitled to exercise their voting rights attached to the shares at the 26th General Meeting of Abanka Vipa d.d. on 8 April 2013, despite the denial of these voting rights based on a decision of the Securities Market Agency, dated 13 January 2011.

  As of 18 December 2013, the Republic of Slovenia holds 100% shares of Abanka Vipa d.d.

  The Bank is unaware of any agreements according to which the financial rights attached to securities are through the involvement of the Bank separated from the rights attached to the holding of such securities.

- **The Bank's rules on the appointment or replacement of members of the management or supervisory bodies and amendments to the Articles of Association**
  The rules on the appointment or replacement of members of the management or supervisory bodies are presented in the section "Composition and Functioning of Management or Supervisory Bodies and Their Committees/Commissions", which is part of this statement. The rules regarding amendments to the Articles of Association are disclosed in the section "Functioning of the General Meeting of Shareholders, Its Key Competencies, a Description of Shareholders' Rights, and the Manner in which They are Exercised", which is part of this statement.

- **Authorisations of the management, especially share purchase and share issuing options**
  Subject to the prior approval of the Supervisory Board, the Management Board was authorised to raise the share capital of the Bank in the period until 13 June 2013 by issuing new ordinary shares payable in cash or in kind up to EUR 15,022,533.80 (authorised capital) or 50% of the share capital of Abanka. New shares shall be issued against contributions in kind only if the shares are paid in by the Republic of Slovenia against its receivables and on the basis of the realisation of the guarantee referred to in Article 86(a) of the Public Finance Act. The auditor shall not be obliged to audit the issue of shares against contributions in kind if the respective legal provisions have been met. In the event new shares are issued against contributions in kind, the pre-emptive right to the new shares shall be excluded.

Functioning of the General Meeting of Shareholders, Its Key Competencies, a Description of Shareholders' Rights and the Manner in which They are Exercised

The General Meeting of Shareholders consists of the Bank's shareholders. The General Meeting of Shareholders decides on the following matters: the distribution of the balance-sheet profit on the proposals of the Management and Supervisory Boards; the adoption of the Annual Report, should the Supervisory Board fail to approve the Annual Report or should the Management and Supervisory Boards leave it to the General Meeting of Shareholders to decide on the approval of the Annual Report; the annual report on internal audits (with the opinion of the Supervisory Board); the adoption of an amendment to the Articles of Association; measures to increase or decrease capital, excluding those which according to the Articles of Association fall within the competence of the Management Board; the winding-up of the Bank and status-related changes; the appointment and dismissal of Supervisory Board members; a vote of no confidence in the Management Board members; granting discharge to members of the Management and Supervisory Boards, the appointment of the certified auditor; the Rules of Procedure of the General Meeting of Shareholders; and other matters determined by the Articles of Association and by the law.

The General Meeting of Shareholders is convened at least once a year by the Management Board. It can also be convened by the Supervisory Board. Shareholders holding a total of one-twentieth of the share capital may require that a General Meeting of Shareholders be convened. The Management Board publishes the announcement of a General Meeting of Shareholders in the daily newspaper Delo, in the SEO-net information system of the Ljubljana Stock Exchange, and on the website of the Bank.

Only those shareholders holding ordinary shares who were entered in the Shareholders Register no later than by the end of the fourth day before the date of the General Meeting of Shareholders and who announced their attendance to the Management Board no later than by the end of the fourth day prior to the date of the General Meeting of Shareholders are entitled to participate in and vote at the General Meeting of Shareholders. Shareholders may exercise their rights at the General Meeting of Shareholders in person or through a proxy.

Each ordinary share carries one vote at the General Meeting of Shareholders. The Bank has not issued any shares with restricted rights. The General Meeting of Shareholders shall adopt decisions by a majority of votes cast, unless otherwise stipulated by the Articles of Association or by the law. A three-quarters majority of the represented share capital is required for the General Meeting of Shareholders to adopt decisions on raising or reducing capital, amendments to the Articles of Association, the denial of pre-emption rights to purchase shares in raised share capital, the winding-up of the Bank, status-related changes of the Bank, the dismissal of a member of the Supervisory Board, and a vote of no confidence in members of the Management Board.

On 19 February 2013, Abanka was served a Decree of the Bank of Slovenia on Additional Measures to Increase Capital, whereby the Bank of Slovenia required from the Abanka's Management Board to convene a general meeting of shareholders by no later than 30 April 2013 and propose at that meeting a share capital increase b a draft resolution stipulating:

a) a share capital increase by issuing new no-par value shares, so that the amount of paid-in share capital and any paid-in capital in exceess of par total no less than EUR 90 million and be paid up by no later than by 31 July 2013;
b) the exclusion of the pre-emptive right of the existing shareholders, so that the Management Board is allowed to increase share capital by issuing and offering new shares to a select group of investors, without any public offering; and
c) the information to shareholders regarding the rules for conducting a general meeting in accordance with Article 249.b of the Banking Act (ZBan-1).

At the 26th General Meeting of Shareholders on 8 April 2013, shareholders adopted the following resolutions:

- amendments to Abanka Vipa d.d.'s Articles of Association, by adding Article 19.a which stipulates that the Bank shall create legal reserves in such an amount that the sum of legal reserves and capital reserves represented by (i) amounts the Bank receives from payments that exceed the lowest emission amounts of shares or amounts of subscribed contributions (paid capital surplus), (ii) amounts that the Bank obtains in issuing convertible bonds or

bonds with a share purchase option above the nominal amount of the bonds, and (iii) amounts paid additionally by shareholders to obtain additional rights from their stakes, shall be equal to twenty-five times the Bank's share capital;

- reduction of the Bank's share capital, so that the share capital of the Bank, which on 8 April 2013 amounts to EUR 30,045,067.60 and is divided into 7,200,000 ordinary registered no-par-value shares, is to be reduced through a simplified procedure by EUR 22,845,067.60, such that upon reduction it shall amount to EUR 7,200,000. This reduction shall be carried out in order to cover part of the loss in the 2012 financial year in the amount of EUR 22,845,067.60 charged to the Bank's share capital.
- The General Meeting was informed that the capital increase at the Bank on the basis of the resolution of the 25th regular General Meeting of the Bank on a share capital increase via cash contributions was not successful, and it passed a resolution to increase the share capital of EUR 7,200,000.00 through cash contributions by an amount equal to the product of (i) the pertaining stake of each share in the share capital, which is EUR 1.00, and (ii) the number of newly issued shares, a total of at least 9,009,010 and at most 90,100,000 new ordinary registered freely convertible no-par-value shares (hereinafter: "newly issued shares"), which create the same class with existing shares, such that the share capital of Abanka Vipa d.d. shall amount following the increase from EUR 16,209,010.00 to EUR 97,300,000.00.
- The emission amount (sale price) of one newly issued share is at least EUR 1.00 and at most EUR 9.99 and must be rounded up to at least a whole cent; the emission amount of one newly issued share shall be determined by the Management Board of Abanka Vipa d.d., with the agreement of the Supervisory Board, after conducting a competitive procedure of collecting offers, where it shall take into account that the total emission value of all newly issued shares must amount to a minimum of EUR 90,000,000.00 and a maximum of EUR 90,100,000.00. The final number of newly issued shares depends on the issue amount of shares and ranges between 9,009,010 shares, in the event of the subscription of all new shares at the highest possible issue amount, and 90,100,000.00 shares, in the event of subscription at the lowest possible issue amount;
- the pre-emptive right of existing shareholders to subscribe to new shares is entirely denied. The resolution also precisely defined the invitation to subscribe new shares, the subcription procedure and the share selling procedure.

Pursuant to a resolution of the 26th General Meeting of Abanka Vipa d.d. of 8 April 2013, the Ljubljana District Court on 21 May 2013 entered in the Companies Register the simplified reduction of share capital of Abanka Vipa d.d. from EUR 30,045,067.60 to EUR 7,200,000.00.

The 27th General Meeting of Shareholders on 29 May 2013 took note of the Abanka Vipa's Annual Report for 2012, the remuneration of the Management and Supervisory Board members for 2012, the balance-sheet profits for 2012 equalling EUR 0.00, granted a discharge to the Management and Supervisory Board members for 2012 and adopted the 2012 Internal Audit Report of Abanka Vipa d.d., including the opinion of the Supervisory Board. Furthermore, the General Meeting of Shareholders appointed Aleš Aberšek, Vladimir Mišo Čeplak, Aljoša Uršič and Snežana Šušteršič as members of the Supervisory Board and KPMG Slovenija, podjetje za revidiranje, d.o.o. as auditors of the Annual Report for 2013 and adopted amendments to the Articles of Association of Abanka Vipa d.d.

Composition and Functioning of Management or Supervisory Bodies and Their Committees/Commissions

Abanka uses a two-tier management system. The Bank is run by the Management Board, whose work is supervised by the Supervisory Board. The governance of the Bank is based on the law, the Articles of Association, internal documents, generally accepted good business practices and the Corporate Governance Code (with the exceptions and differences disclosed in the Statement of Compliance with the Corporate Governance Code).

The Management Board

The Management Board runs the Bank's operations independently, for which it is fully responsible. In legal transactions, the Bank is always jointly represented by two members of the Management Board who are entitled to sign on its behalf.

The Management Board may have no more than five members, of whom one acts as its President. The number of Management Board members is determined by the Supervisory Board. Since 1 July 2012, the Management Board has been made up of the following two members:

- Jože Lenič, President, term starting on 17 January 2011 and expiring on 17 January 2016;
- Igor Stebernak, member, term starting on 1 July 2012 and expiring on 1 July 2017.

The Supervisory Board appoints and dismisses the President and the members of the Management Board. The members of the Management Board are appointed and dismissed on the proposal of the President of the Management Board. The President and members of the Management Board are appointed for a five-year term with the possibility of reappointment. Any individual member or President of the Management Board may be dismissed by the Supervisory Board if legal grounds for their dismissal have been established.

The Management Board reports regularly but at least four times a year to the Supervisory Board on the planned business policy of the Bank and other material issues regarding the Bank's operations, the performance of the Bank, particularly return on equity, business, especially transactions and the financial position of the Bank and operations that may materially affect the performance or solvency of the Bank.

The Rules of Procedure of the Management Board stipulate the methods of its work, and distribute the areas of work and tasks among its members. The Management Board puts its individual members in charge of individual organisational units and makes them responsible for their management and coordination.

The Management Board may transfer certain decision-making rights to collective decision-making bodies. The following bodies assist the Management Board in its work:

- **Assets and Liabilities Management Committee**
  The Committee manages the Bank's liquidity, currency and interest risks, capital and capital adequacy, sets internal transfer rates, approves special terms and conditions for certain customers, as well as sets interest rates and tariff charge system applicable to customers. As a rule, the Committee meets once a month. At the end of 2013, the Assets and Liabilities Management Committee had seven members. The Management Board appoints the Chairman, Deputy Chairman and members of the Committee. The Committee members are appointed from among the Bank’s employees with special authorisations.

- **Assets and Liabilities Management Commission**
  This Commission decides on special terms for certain customers and sets interest rates and tariff charge system for customers. As a rule, the Commission regularly meets once a week. The Management Board appoints the Chairman, Deputy Chairman and members of the Commission. The Commission members are appointed from among the Bank’s employees with special authorisations. At the 2013 year-end, the Commission had six members.

- **The Bank’s Credit Committee**
  The Credit Committee decides on the approval of loans, guarantees, sureties, avals, factoring, inflow purchases, opening letters of credit and all investments, which result in a receivable or contingent receivable of the Bank, excluding investments whose approval falls within the competence of the Loan Watch Committee, all within given limits. The Committee is authorised to decide on the abovementioned investments if they have not been decided on in the framework of individual authorisations, within exposure limits to individual customers and taking into account large exposure limits. The Committee manages credit risk and exercises the following competences and authorities with regard to the Bank's investment management: it decides on borrowings to customers (including bilateral and syndicated loans), validates credit limits for transactions with derivative financial instruments and with temporary sell/purchase of securities, decides on accepting syndicated loan agent services, project financing and other financial services, manages financial restructuring plans or loan restructuring proposals, discusses risk management reports, discusses LTV ratio reports, monitors how individual authorisations for decision-making are exercised by the employees with special authorisations and other employees as set out in Management Board resolutions on individual authorisations, and decides on other matters. Regular meetings of the Committee are convened once a week, extraordinary and correspondence meetings may be held several times a week. The Committee may have between five and eight members, the exact number being decided by the Management Board. At the end of 2013, the Committee had five members.

- **Liquidity Commission**
  The Commission designs the current liquidity, exchange and interest policies of the Bank. As a rule, the Commission has regular daily meetings or correspondence meeting if necessary. The Bank’s Management Board adopts a resolution on the Commission’s composition, appointing its members and substitutes. At the end of 2013, the Commission had nine members.

- **Risk Management Committee and the Operational Risk Commission**
  The Committee monitors, directs and supervises risk management in the Bank, ensures adequate limit systems as well as monitors and harmonises the ICAAP process, including the risk management strategy and policies. The Management Board appoints the Chairman, Deputy Chairman and members of the Committee. The Committee holds regular meetings once a month. The number of the Committee members is determined by the Management Board. At the end of 2013, the Committee

had nine members. **The Operational Risk Commission** is a working body of the Risk Management Committee responsible for developing an operational risk management system within the Bank. It reports to the Committee on important findings and proposes measures to it that require a decision or confirmation by a competent decision-making body. The basic purpose of operational risk management is to establish procedures for reducing risk and limiting the occurrence of any losses from operational risks borne by the Bank as a whole or its individual organisational units. It is also to actively plan and implement measures to reduce the frequency and severity of losses arising from operational risks and other incidents, thereby improving the operational risk profile or reducing the difference between the targeted and actual operational risk profile of the Bank.

- **Loan Watch Committee**
  The Committee decides on the Bank's investments included on the watch list (these are investments whose trustee is the Investments Under Special Treatment Department, all non-performance loans above EUR 3,000,000 and all investments under bankruptcy procedure above EUR 100,000 and other investments stipulated by the Credit Committee or the Management Board. The Committee decides on the approval of loans, guarantees, sureties, avals, factoring, inflow purchases, opening letters of credit and all investments which result in a receivable or contingent receivable of the Bank. Regular meetings of the Committee are convened once a week, extraordinary and correspondence meetings may be held several times a week. The Committee has four to six members. The Management Board appoints Committee members and substitutes. At the end of 2013, the Committee had five members.

- **Commission for Abanka's Customer Complaints regarding Payment Cards and Abanet e-Banking Usage**
  The Commission considers customer complaints that refer to payment cards and the usage of Abanet e-banking. It is authorised to decide on compensation for losses up to EUR 2,000, while in cases exceeding EUR 2,000 it provides an expert opinion and grounds for decision-making by the Assets and Liabilities Management Committee. As a rule, the Commission holds regular meetings once a month. At the end of 2013, the Commission had three members.

- **Development Committee**
  The Committee is a collective decision-making body in charge of directing and supervising the development and capacity building of the Bank. As a rule, the Committee's regular meetings are held once a month. It may have up to fifteen members and up to forty in an extended composition, the exact number being decided by the Management Board. At the end of 2013, the Committee had eight members.

The Supervisory Board

The Supervisory Board oversees the management of the Bank's business operations. It may have between seven and nine members, who are appointed and dismissed by the General Meeting of Shareholders. The members of the Supervisory Board are appointed for a four-year term with the possibility of reappointment.

The Supervisory Board is responsible for the following: deciding on the appointment and dismissal of Management Board members and their remuneration; deciding on granting loans to Management Board members, procurators and other persons stipulated by law; approving the agreements between Supervisory Board members and the Bank; deciding on granting loans to Supervisory Board members; reviewing and providing a written opinion on the Annual Report and the profit distribution to the General Meeting of Shareholders; adopting the Annual Report; reviewing and providing opinions on financial and other reports by the Management Board; supervising the adequacy of the procedures of the internal audit department and for the control of the Bank; proposing nominees for the Supervisory Board to the General Meeting of Shareholders; submitting proposals to the General Meeting of Shareholders for the appointment of the certified auditor; proposing profit distribution to the General Meeting of Shareholders, together with the Management Board; providing an opinion on the annual internal audit report to the General Meeting of Shareholders, reporting on the annual audit and auditing costs of the Bank to the General Meeting of Shareholders; approving the operations of the Bank if such approval is required in the Articles of Association; deciding on amendments to the Articles of Association but only to the extent so as to adjust the wording of the Articles of Association to validly adopted decisions; adopting its own Rules of Procedure; and has other competencies determined by the law or the Articles of Association.

The Supervisory Board gives its approval to the Management Board's long-term capital investments in other legal entities exceeding 1% of the bank capital – made up of Tier 1, Lower Tier 2 and Upper Tier 2 net of deductible items in accordance with the Banking Act and the relating secondary legislation – to strategic business alliances, the Bank's corporate policy, the Bank's budget, organisation of an internal control system, draft annual work programme of the Internal Audit Department, rules of the Internal Audit Department, conclusion of any legal transaction that in consideration of the overall exposure of the Bank would result in the Bank's large exposure to an individual customer, conclusion of any legal transaction due to which the large exposure of the Bank to an individual customer would rise to equal or exceed 15% or 20% of the bank capital, conclusion of any legal transaction which would result in the Bank's exposure to the members of the Management Board and/or the Supervisory

Board, authorised officers of the Bank and parties related to these persons as well as other matters stipulated by law or the Articles of Association.

The Supervisory Board discharges its duties and responsibilities at regular and correspondence sessions. The quorum of the Supervisory Board is constituted if a majority of members is present at a session. Decisions are adopted according to the majority of votes cast. Where a vote is equal, the Chairman shall hold the deciding vote.

As at 31 December 2013, the Supervisory Board had the following composition:

- Janko Gedrih, Chairman, term starting on 19 November 2012 and expiring on 19 November 2016;
- Andrej Slapar, Deputy Chairman, term starting on 30 May 2012 and expiring on 30 May 2016;
- Vladimir Mišo Čeplak, member, term starting on 30 May 2013 and expiring on 30 May 2017;
- Franci Strajnar, member, term starting on 21 June 2011 and expiring on 21 June 2015;
- Kristina Ana Dolenc, member, term starting on 30 May 2012 and expiring on 30 May 2016;
- Aleš Aberšek, member, term starting on 30 May 2013 and expiring on 30 May 2017;
- Aljoša Uršič, member, term starting on 30 May 2013 and expiring on 30 May 2017;
- Snežana Šušteršič, member, term starting on 30 May 2013 and expiring on 30 May 2017.

In 2013, the terms of office of Andrej Andoljšek as Chairman of the Supervisory Board and of Branko Pavlin and Slaven Mićković as its members ended. The term of office of Vladimir Mišo Čeplak expired on 29 May 2013 and was extended for a new four-year term.

Supervisory Board Committees

The Supervisory Board has three committees:

- **The Audit Committee**, composed of Vladimir Mišo Čeplak as Chairman, and Franci Strajnar, Tina Cvar, Jasmina Kovačič and Snežana Šušteršič as members. In 2013, the Audit Committee held seven meetings. One was a correspondence meeting. The main purpose of the Audit Committee is to assist the Supervisory Board in discharging its supervision duties regarding the reliability of financial statements, financial reports and other financial information that the Bank provides to its shareholders and other members of the public concerning the qualifications, effectiveness and independence of the external auditor, the functioning of the internal audit system and the Bank's compliance with legal and regulatory requirements.
- **The Compensation and Human Resources Committee**, composed of Janko Gedrih as Chairman, and Andrej Slapar, Tomaž Kuntarič in Aleš Aberšek as members. The Committee held four meetings in 2013. The main purpose of the Committee is to help the Supervisory Board exercise its supervisory responsibilities with regard to preparing decisions related to remunerations, including those having an impact on risks and risk management in the Bank, as well as decisions on staffing issues related to the Management Board and Supervisory Board Membership.
- **The Risk Management and Assets Liability Management Committee**, as at the 2013 year-end composed of Andrej Slapar as Chairman, and Aljoša Uršič, Kristina Ana Dolenc, Franci Strajnar and Aleš Aberšek as members. The main purpose of the Committee is to support the Supervisory Board in the execution of its supervisory responsibilities in relation to preparing decisions related to the risk management function, risk profile and control over the assets and liabilities management in the Bank. In 2013, the Committee held five meetings.

RISK MANAGEMENT

Conditions in the economy and financial markets, and particularly the escalating debt crisis, call for an effective identification, measuring, monitoring and control of risks and, accordingly, an adequate allocation of capital. The Abanka Group elaborated a risk management strategy, derived directly from its business policy. This strategy has been approved by the Management Board and the Supervisory Board.

The risk management strategy determines that the Abanka Group needs to manage risks so that an adequate risk-bearing capacity is ensured at all times. The risk-bearing capacity is assessed quarterly according to the internal methodology, which is based primarily on the volume, quality and openness to external capital increase and profitability. Based on the risk profile assessment, resulting from the Bank's risk matrix and estimated risk-bearing capacity, Abanka determines the adequacy of the ratio between the assumed risks and the risk-bearing capacity.

The Group uses the expected loss as a measure of credit risk. When calculating the expected loss, the risk assessment of the credit portfolio, the amount and quality of collateral and the maturity of the exposure are taken into account, with statistical procedures reflecting the risk characteristics of various types of exposure.

The Bank carries out stress tests to determine the vulnerability to exceptional but contingent events related to credit risk. Based on the results of such stress tests, the Bank is, in due time, able to identify the areas where it is most vulnerable, gain a better understanding of its own risk profile, and at the same time better assess the impact of different exceptional circumstances on its performance, which at the same time enables it to take appropriate measures.

The Group manages risks and capital by applying a set of principles, based on an appropriate organisational structure and measuring and monitoring processes which are closely associated with its business.

The key principles of risk assumption and management include:

- the participation of the members of the management and supervisory bodies in the risk management process,
- a clear organisational structure and adequate corporate culture,
- appropriate staffing and technological support of the risk management function,
- the implementation of good banking practices and compliance with regulatory requirements and auditors' recommendations,
- monitoring of the external environment.

The Risk Management Department, which is independent from front-end units, is in charge of the risk management function. The Risk Management Department is responsible for the development and use of risk management techniques (identification, measurement/ assessment, control and monitoring/reporting) at the Group level in the most reliable, integrated, systemic, transparent and understandable manner. It is also responsible for raising awareness/culture of the importance of risk management for the long-term stability and safety of the Group's operations within the scope of risk tolerance/appetite as set in the business strategy.

The Risk Management Strategy covers all major risks and, if required, in detail specifies individual risk types in the form of partial risk strategies, which are at an operational level translated into policies, guidelines and work instructions. Integrity and adequacy of the Risk Management Strategy are reviewed through the annual risk assessment in order to ensure that it includes each and every material risk to which the Group is exposed.

In 2013 the following changes to the risk management function were made:

- the Risk Management Division was established and the management of bad debts was transferred to the Investments Under Special Treatment Department,
- the Control Centre was transferred from the Finance and Process Support Division to the Risk Management Division,
- the Assets and Liability Management Department was established as separated organizational unit,
- the Risk Management Committee was set up,
- the Loan Watch Committee was established (a body deciding on loan proposals for delinquents),
- the composition of the Credit Committee was changed in order to ensure a balanced structure when deciding on loan proposals,
- relevant departments started producing opinions on individual loan applications examined by the Credit Committee (an opinion of the Legal Department and an opinion of the Risk Management Department).

In 2013, the Investments Under Special Treatment Department took over the debt collection process. An inventory of the process was taken. The launching of the Debt Collection Management project is planned for 2014 in order to establish an integrated, transparent and application-supported debt collection process.

In 2013, bank stability strengthening activities began to be implemented (the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability – the ZUKSB). In 2014, the Investments Under Special Treatment Department will be actively involved in and/or manage the transfer of the Bank's risk exposure items to the Bank Asset Management Company (BAMC). With respect to other debtors who are in bankruptcy proceedings or whose loans are classified as non-performing that will not be transferred to the BAMC, the Investments Under Special Treatment Department will continue to be intensely involved in debt restructuring or liquidation of debtors' assets. It is expected that the transfer of bad debts to the BAMC will be fully completed in the first half of 2014. A selective approach to the approval of (new) loan exposures will be applied to maintain adequate coverage of non-performing and bad debt exposures by making impairments and provisions.

In 2013, bank stability strengthening activities began to be implemented.

In 2014, the activities of the Risk Management Division will primarily focus on the following segments:

- credit risk management,
- concentration risk management arising from banking transactions,
- liquidity risk management,
- operational risk management,
- more integrated management of the above-mentioned risks at the Group level and
- building a suitable risk management culture, improving the existing one and incorporating it in the business processes of the Bank.

In 2014, great emphasis will be placed on the quality of assets pledged as collateral and acceptance of adequate forms of loan collateral, which should not only improve the enforceability of due receivables but also decrease capital requirements. An appropriate centralised system for valuation and regular monitoring of loan collateral and loan-to-value ratios is planned to be set up. With respect to credit risk management, the Control Centre will begin to regularly control the credit exposure to companies and groups of related parties in the credit exposure approval process and in verifying compliance with internal rules in making use of loan-approval authorisations.

CREDIT RISK

The risk that a debtor or counterparty will cause a loss by failing to discharge an obligation is the major risk in the Abanka Group. It includes country risk, concentration risk, dilution risk and the risk of less effective credit protection.

In credit risk management the following is considered:
- a detailed definition of internal responsibilities,
- the definition of the approach to risk assumption and its limits,
- the definition of efficient procedures of credit risk identification, measurement, management and monitoring,
- the definition of an appropriate internal control system that includes adequate administrative and accounting procedures,
- the definition of a suitable internal assessment of capital needs for credit risk.

The Bank's exposure to credit risk depends on the following three credit risk components:
1. a debtor's default probability reflected in his credit rating,
2. the loss or recovery ratio on defaulted obligations,
3. the amount of exposure in the case of a default.

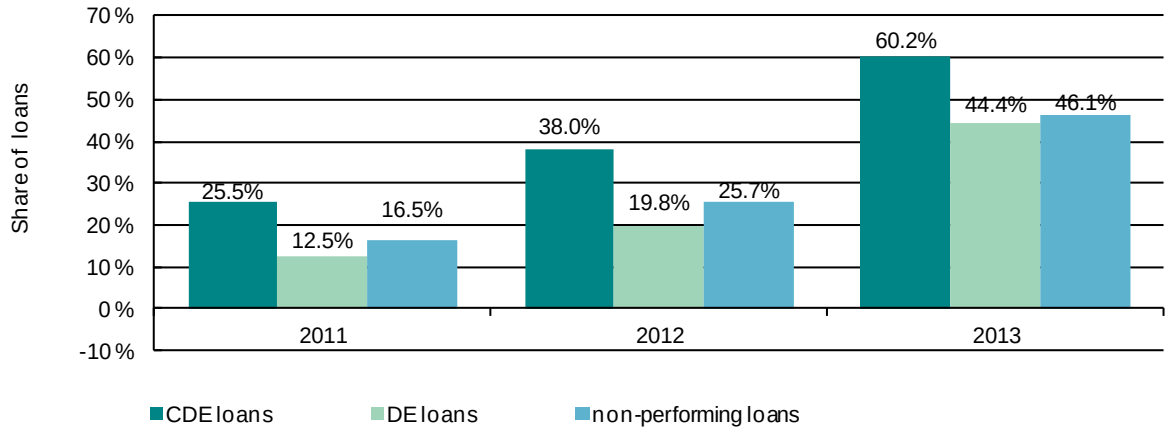
In order to measure credit risk, a computerised expert credit-scoring model for corporate customers was set up in 2013.The model is based on quantitative and qualitative criteria and takes into account the key characteristics of any individual debtor and/or exposure. The credit rating scale consists of nine grades and is calibrated using the default probability, calculated on the basis of statistical analysis of actual defaults in the Group's portfolio. In credit risk assessment, the volume and concentration of assets are taken into account in addition to asset quality.

In the process of credit risk measurement, the Bank currently assesses credit risk losses, forms provisions and discloses impairments in accordance with the Bank of Slovenia's regulations, International Financial Reporting Standards and own internal rules. On the basis of assessed credit risk losses, financial assets are impaired and/or required provisions are set aside off the balance sheet for commitments and contingencies.

In 2013, the credit risk exposure continued to increase. As at 31 December 2013, the share of repaid NPLs (excludings banks) in total outstanding claims was EUR 1,170.7 million. The share of NPLs in total loans of non-banking sector increased by 20.4 percentage points in 2013 and reached 46.1% at the end of 2013. As at the end of 2013 the non-performing loan coverage ratio stood at 54.9%, which is 11.2 percentage points more than as at the end of 2012. In the reporting year the Bank rapidly impaired NPLs, particularly those involving high risk. A share of non-performing loans to non-bank customers after the transfer of bad debt to the BAMC will drop significantly.

Trends in the shares of CDE loans, DE loans and non-performing loans in Abanka Group's credit portfolio, excluding exposures to banks, are presented in the graph below.

TRENDS IN THE SHARES OF CDE LOANS, DE LOANS, AND NON-PERFORMING LOANS (EXCLUDING BANKS)



Note:
Shares of CDE loans, DE loans and non-performing loans are reported taking into account impaired interest and fees.

The Abanka Group reacted to the deterioration of the business environment and of the credit portfolio quality in the past years by taking numerous measures. Some additional measures introduced by the Group in 2012 and continued in 2013 are presented below:

- the system of individual authorisations was changed (greater individual responsibility, introduction of additional limiting factors/criteria) and multi-level decision-making was introduced based on the four-eyes principle and the principle of double voting (approval by a representative of the Risk Management Department),
- additional restrictions on loan approval were introduced for loans creating new exposures above a certain amount,
- restriction was introduced on exposures to risky industries where the Group has excessive exposures and which represent risky lending (e.g. the construction industry),
- prior verification of compliance of loan proposals with the existing credit limits was introduced,
- the content of loan proposals was changed (more standardised, inclusion of relevant information in a concise form) and traceability of changes to loan agreements was made possible,
- a guideline was given regarding additional collateralisation in the case of inadequate loan-to-value ratios (LTV) for already approved exposures (in individual transactions and total exposure to a customer).

An important contribution to more efficient credit risk management is the implementation of the computerised expert credit-scoring model for corporate customers in January 2013. Aside from financial data, the model takes into account qualitative factors, which makes borrower classification more objective and consistent. In addition, this model simplifies and accelerates the corporate credit scoring procedure and generates more up-to-date information on shifting between credit rating groups, based on which percentage losses due to credit risk is determined per group.

An important contribution to more efficient credit risk management is the implementation of the computerised expert credit-scoring model for corporate customers.

In 2014, with regard to credit risk the Risk Management Department will primarily focus on activities related to measures for strengthening bank stability (ZUKSB) and asset quality review. The Bank will continue to upgrade the credit risk management process, develop the necessary software applications, set up a model for assessing the loss given default (LGD) and establish a system for early detection of increased credit risk. The emphasis will also be on organising training courses for employees at all levels, focusing on strengthening the credit risk management culture and raising the awareness of individuals regarding their responsibility in the credit process.

After the transfer of bad debts to the BAMC, the quality of the Group's credit portfolio is expected to significantly improve, as the amount of NPLs will decrease for just over a billion euros, reducing the share of NPLs.

Such a "cleansed" portfolio will enable Abanka to better adhere to the Bank of Slovenia's guidelines in the internal capital adequacy assessment process (ICAAP). The link between the risk profile and the volume of capital needs will be established to the greatest extent possible. The methodology for determining the weight of individual risks will be upgraded, so that assessed capital requirements for an individual risk will even better indicate the Bank's exposure to such a risk. Special attention will be paid to a prudent credit/lending policy, debt collection procedures and collateral management. The basic goal to be achieved by developing software support for collateral management is an automated collateral management process, resulting in better risk and capital management.

OPERATIONAL RISK

Operational risk is defined as a risk of losses due to fraud, illicit actions and procedures, errors, omissions, inefficiency, system errors and external factors and/or events. The definition includes legal risk and outsourcing risk, but excludes strategic risk and reputational risk. However, the realisation of operational risk may, as a consequence, influence the Bank's reputation.

The Group regularly identifies and qualitatively assesses operational risk, while also taking stock of preventive and corrective measures in the case of realisation of potential loss events. The system of reporting the occurrence of loss events in the Abanka Group involves the entire staff and enables a quick reaction in the event of problems, as the Management Board and senior management are involved in such reporting if necessary. The occurrence and frequency of loss events — financial, non-financial and contingent — are quarterly discussed by both the Operational Risk Committee, established in 2013 and responsible for the development of the operational risk management system, and the Risk Management Committee (hereinafter: the Committee), which is a collective decision-making body responsible for monitoring, directing and controlling operational risk management. The Committee is promptly informed of all significant operational risks and major losses. It monitors the operational risk exposure and takes the necessary risk management measures, monitors their implementation and discusses operational risk profiles (assessed, realised, targeted). Abanka has prepared business continuity plans and disaster recovery plans, which are regularly updated and tested.

Also in 2013, special emphasis was placed on operational risk management in harsh circumstances and crises, mainly frauds as the most topical form of risk in such periods. The aim is their reduction and a quick and effective reaction in the event of occurrence. In line with the Fraud Risk Management Policy, the Bank drafted rules and guidelines for employees for dealing with suspected or detected in-house fraud. A database of the loss events that occurred in 2013 was created, which (similar to previous years) showed that human factors remain the major source of operational risks and consequently the main reason for operational losses. Compared to previous two years, 2013 saw an increase in losses arising from operational risk. Action plans were prepared for all significant types of loss events, aimed at their prevention or reducing the likelihood of their occurrence.
In 2013, the Group upgraded its business continuity system, specifically to provide business continuity in the case of critical events. A new form of business continuity plans was drafted and updated. IT business continuity plans were subjected to integrated testing.

In 2013, the Group upgraded its business continuity system, specifically to provide business continuity in the case of critical events.

In 2014, the Group will actively continue to upgrade the operational risk management system, focusing on quick risk identification and the prevention of the most relevant outstanding risks in recent periods and critical events that might jeopardise the business continuity of the Bank.

MARKET RISKS

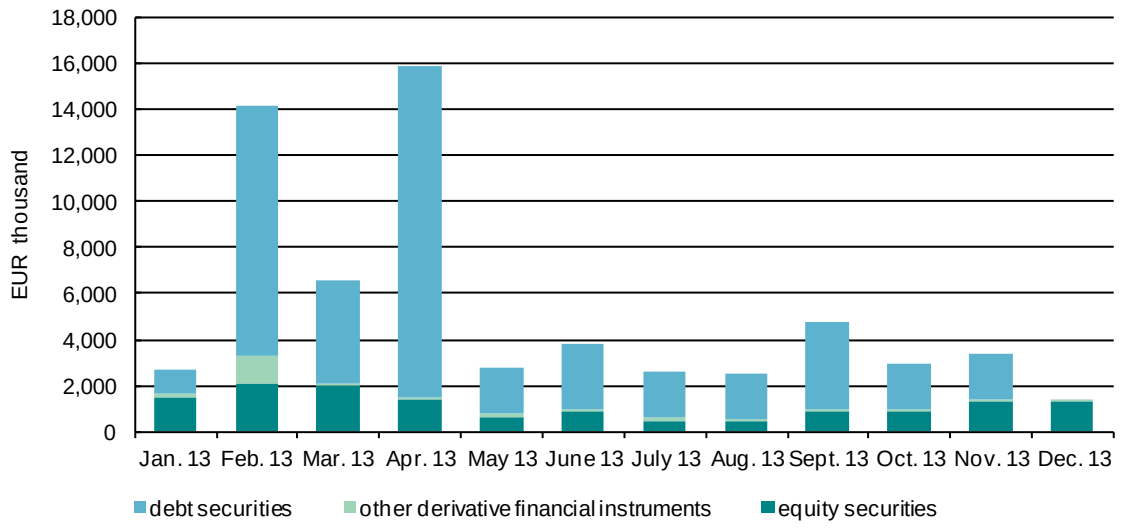
Market risk is the risk of loss due to the reduced value of a financial instrument. It is caused by an adverse movement of risk factors, including interest rates, exchange rates, credit spreads, the prices of shares, commodity prices and other important factors. The Group separately monitors its market risk exposure to financial instruments according to its trading and banking books. Market risk primarily arises from the activities performed in Investment Banking and Treasury.

The main purpose of market risk management is to achieve a balance between the return and the acceptable risk level, taking into account the Group's risk appetite and risk-bearing capacity, macroeconomic environment factors, legal restrictions and the corporate policy in force. In the Group, trading units are operationally and organisationally separated from the Risk Management Department and other supporting departments. The Management Board authorised the Risk Management Committee to approve market risk exposure limits.

Market risk is regularly measured and assessed by means of the Value-at-Risk method (VaR), which, in combination with stress testing and sensitivity analyses, enables estimating the likelihood of a potential event's occurrence and the level of its consequences. The Management Board, senior management and the Supervisory Board are regularly informed of the market risk analysis results.

In 2013, the Group maintained a smaller trading portfolio as shown in the graph below. The trading securities portfolio includes liquid domestic and foreign financial investments.

TRADING BOOK SECURITIES PORTFOLIO

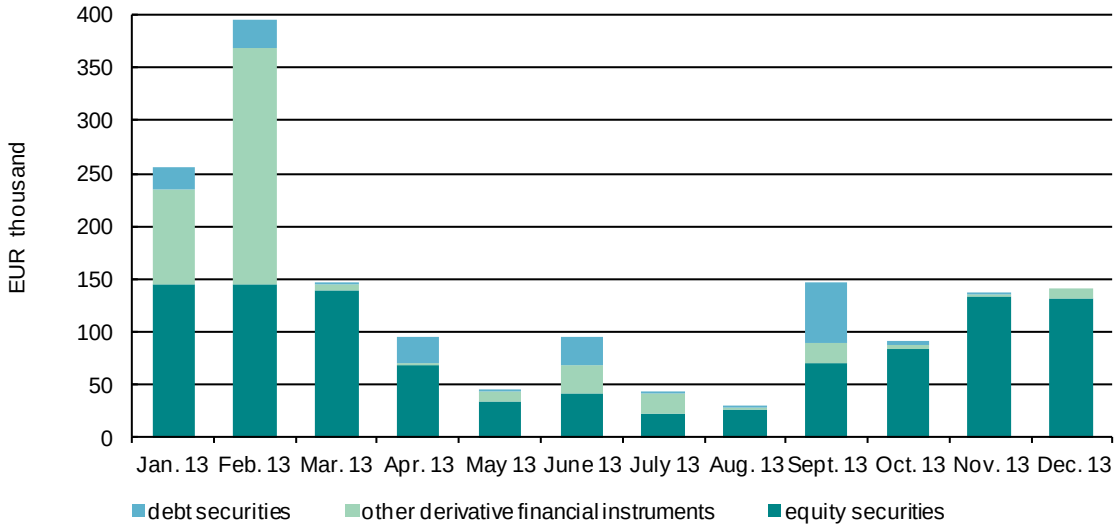


The banking book portfolio includes both equity and debt securities, which are not held for trading. The banking book portfolio volume remains at a relatively unchanged level and consists of mostly domestic and foreign government debt instruments and bonds of European banks, since the Group pursues investments that meet the adequacy criteria for security of Eurosystem claims.

To measure market risks, the Group applies Value at Risk (VaR): a quantitative measure used for assessing potential loss in the value of a position caused by adverse risk factor changes over a given future period at a given level of confidence in normal market conditions. The Group calculates VaR based on a historical simulation at a 95% and 99% confidence level and with a 10-day holding period.

The graph on the following page shows a downward trend in VaR on the trading book over 2013, caused by the shrinking of the trading portfolio.

10-DAY VaR OF FINANCIAL INSTRUMENTS IN THE TRADING BOOK AT THE 99% CONFIDENCE LEVEL IN 2013



At a 99% confidence level, with a 10-day holding period and under the assumption of normal market conditions, the Group could not have incurred more than EUR 142 thousand of loss from trading book as at the end of 2013.

A limit system is the basic tool for successful market risk management, arising from the Group's appetite to bear market risk. The Group has established a limit system, including credit and position limits, stop loss limits, market rate compliance limits, VaR limits and limits per single authorised person. In setting limits in the trading and banking book of financial instruments, the Abanka Group follows the principles of prudence and increased portfolio diversification to minimise the exposure to credit and market risks.

In 2013, the Group tightened the limit systems restricting market risk exposures of the Bank and terminated the trading activity of its other subsidiaries. Trading in derivative financial instruments was based on a policy of back-to-back trading and taking into account the more conservative policy of credit risk management. Trading in derivative financial instruments was performed with companies mostly to hedge positions against interest and currency risks. Trading in more complex derivatives was not allowed.

> In 2013, the Group tightened the limit systems restricting large market risk exposures.

According to forecasts, 2014 will witness greater growth of the global economy. Key interest rates are anticipated to remain at low levels. The euro area, which was very severely hit by the crisis, is expected to record modest recovery of the economic activity. The situation in Slovenia remains serious, because a modest economic growth rate is forecast for no earlier than in 2015.

The Group plans to maintain a low appetite for market risk in the future through restrictive limit systems for high liquidity of the Bank's trading portfolio, debt financial instruments of high credit quality, and effective portfolio diversification. A great potential threat is the possibility that portfolios will deteriorate and expand due to the possible realisation of collaterals in lending operations or due to potential debt-to-equity swaps, which will increase the Groups market risk exposure. A potential increased exposure of the Group to market risk can also be caused by a counterparty's failure to meet its obligations from transactions in derivatives, which the Group is closing with high-street European banks.

INTEREST RATE RISK

Interest rate risk is the risk arising from the exposure to unfavourable changes in levels of market interest rates. Fluctuations in the levels of prevailing market interest rates have an impact on the value of financial instruments and the future cash flows. As a consequence of these changes, interest margins and profits change as well.

For interest rate risk management, an effective interest rate risk management process is in place, which keeps risks at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the interest rate risk management policy. In terms of organisation, interest rate risk limitation and control are separated from operational interest rate risk management and the fulfilment of requirements.

The Group monitors interest rate risk arising from trading in the framework of monitoring market risks. The interest rate risk arising from the banking book is measured by gap analyses. Interest rate gaps show the difference between the cash flows of interest-sensitive assets and liabilities by different time (maturity) buckets. The extent of interest rate risk is restricted by a limit system and different scenarios are given for measuring the impact of yield curve changes on interest rate risk. The basis risk (arising from various types of variable interest rates) and the risk of embedded options are also taken into account when interest rate risk measuring is implemented. The Group regularly performs stress tests and calculates the effect of interest rate fluctuations on its income and economic value of the Bank's equity.

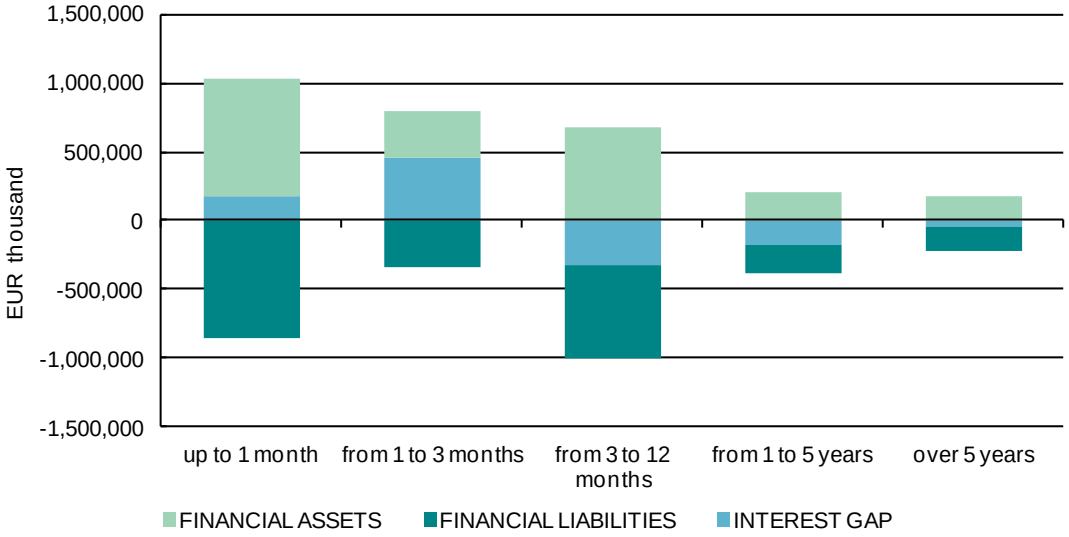
The year 2013 was marked by insecurity with regard to interest rate movements. Credit rating downgrades further caused a widening of credit spreads of indebted European countries, while the Euribor reference interest rates remained at historical lows. The required rate of return on ten-year government bond of peripheral countries decreased mainly on account of the measures taken by the European Central Bank and other measures for bailing out over-indebted European countries. The required rate of return on Slovene government bond also decreased, mostly due to resolving the problems of the Slovene banking system which began in December 2013.

The Abanka Group continuously adapted its interest rate policy to the conditions in the domestic and international markets in order to retain a competitive position in raising primary sources of funds. Insecurity with regard to interest rate movements was reduced by closing out interest rate positions by individual time buckets. Also in 2013, due to the specific situation in the Slovene market, euro interest rates on loans and deposits, especially on those with longer maturity period, were higher than in other countries of the euro area.

The Abanka Group continuously adapted its interest rate policy to the conditions in the domestic and international markets in order to retain a competitive position in raising primary sources of funds.

The graph on the following page shows interest rate gaps by time bucket at the end of 2013.

INTEREST RATE GAPS



In the framework of the banking book interest rate management, in 2014 the Bank will continue to strive for a balance of interest gaps by time bucket, paying more attention to longer maturity time buckets. Moreover, the Group will monitor basis risk and the impact of embedded option risk on interest rate risk.

LIQUIDITY RISK

Liquidity risk is the risk that the Group might not be able to meet its payment obligations when due, associated with its financial liabilities and contractual obligations arising from lending. Consequently, this may mean late disbursement of funds to depositors and non-fulfilment of lending commitments. Liquidity risk includes market liquidity risk, i.e. the risk of loss arising from the impossibility of selling or replacing certain financial instruments in a short period of time without a significant impact on the market price.

The Abanka Group has developed its own methodology for identifying, measuring, managing and monitoring liquidity, which enables it to match the actual and potential sources of liquidity with the actual and potential uses of such liquid assets over certain time periods.

The Abanka Group has developed its own methodology for identifying, measuring, managing and monitoring liquidity, which enables it to match the actual and potential sources of liquidity with the actual and potential uses of such liquid assets over certain time periods.

The liquidity risk management process consists of:

- planning and monitoring future cash flows, which include day-to-day funding to ensure that requirements are met, as well as structural assets and liabilities management,
- maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen cash flow trends,
- monitoring balance sheet liquidity ratios against the Group's internal and regulatory requirements, and
- managing the concentration and profile of debt maturities.

In order to reduce the liquidity risk, the Group established a limit system that includes compliance with the Bank of Slovenia's requirements, internally defined limits and the monitoring of target structural liquidity ratios. The limit setting and liquidity risk monitoring are, in terms of organisation, separated from daily operational liquidity management.

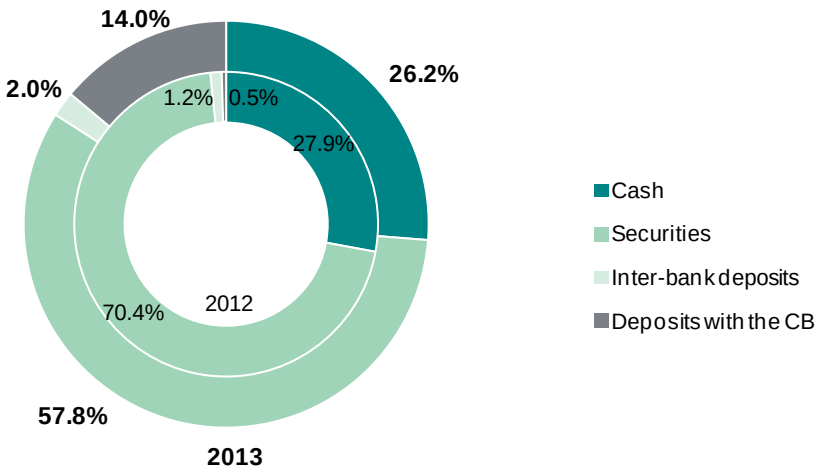
Different stress scenarios are prepared by the Group for the purpose of liquidity management in extreme situations. A scenario of particular relevance is one of taking into account a liquidity crisis of the Bank and a general liquidity crisis in financial and capital markets. Moreover, in order to hedge liquidity risk, the Group defined procedures for minimising the occurrence of crises that would prevent it from duly and promptly discharging its obligations as they fell due. Early crisis detection is conducted during daily monitoring of the Group's liquidity position.

In view of the sustained tight conditions in the international financial markets in 2013, special attention was devoted to liquidity risk management. Current business decisions included an on-going concern for maintaining primary liquidity. Compared to the year before, liquidity conditions deteriorated, which was (in addition to unfavourable conditions in international financial markets) to a great extent a consequence of the general decline in Slovenia’s economic situation and the credit downgrades of the country and the Bank. This caused the credit portfolio to further deteriorate and prevented the Bank from raising sources of funds from the international financial market. In order to maintain an adequate liquidity position, the Group pursued a range of activities for raising primary sources of funds and reducing the volume of its credit portfolio. After the capital of Abanka was increased by the Republic of Slovenia, the Bank’s liquidity as at the end of 2013 significantly improved on account of both the maturity structure of liabilities and greater customers confidence.

As at the end of 2013, cash and cash equivalents, securities, short-term interbank deposits and deposits with the central bank accounted for 30.5% of the Group’s total assets. The share increased slightly over the end of 2012, equalling 24.7% at the 2012 year-end. Part of these assets is pledged for borrowings from the central bank, so that liquid assets account for 21.1% of total assets.

The structure of these assets is shown on the following page.

LIQUIDITY RESERVE STRUCTURE AS AT 31 DECEMBER 2013



It is expected that unfavourable conditions in international financial markets will gradually improve in 2014. Abanka will continue to implement an active policy of raising primary sources of funds and carry out capital strengthening measures of the Group. Through intensive asset liability management in line with the latest market conditions, the Group will maintain an appropriate liquidity position as well as ensure an adequate volume of liquidity reserves and compliance with all regulatory requirements on liquidity management.

THE ICAAP PROCESS

The Group started preparing its Internal Capital Adequacy Assessment Process (hereinafter: ICAAP) in 2007 by defining the risk profile assessment, which is shown in the risk profile matrix. In 2013, this process was used to identify the material risks arising from the Group's core business and to establish controls with the purpose of risk mitigation. Risk profile monitoring allows timely identification of key movements in the risk profile and provides the basis for taking necessary measures. The Group compares its risk profile with its risk bearing capacity, assessed according to its own methodology. Based on the results of analyses, appropriate measures are taken, which enable the Group to assume risks within its risk bearing capacity.

The Group evaluates (at least quarterly) the adequacy of its capital level and quality in relation to its risk profile by calculating internal capital needs. This calculation not only takes into account the capital requirements for credit, market and operational risks (calculated according to the applicable rules set out in Pillar 1 of the Basel II banking accord), but also identifies internal capital needs (under Pillar 2) for all other risks not fully or not at all included in Pillar 1 (e.g. concentration risk, interest rate risk, liquidity risk, reputational risk, profitability risk, strategic risk, etc.).

In light of the uncertainty in financial markets, in the ICAAP process, the Bank places more emphasis on regular stress testing, which is performed to identify the vulnerability of the Bank in the event of less likely, but still possible, changes regarding various risk factors. The results of the stress tests were included in the calculation of internal capital needs.

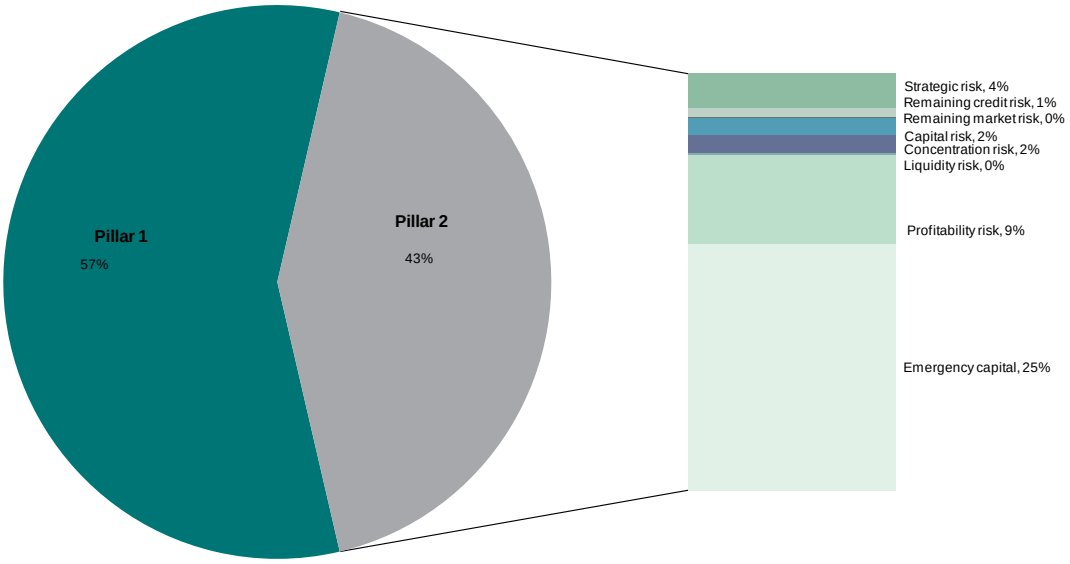
The internal capital adequacy assessment process is defined by two variables. The first variable is the risks to which the Group is exposed, going beyond the first pillar of capital requirements; the second variable is the capital held by the Group for covering risks and potential losses arising from such risks. A comparison of the assessed internal capital requirements and the assessed internal capital indicates the Group's ability to cover all the risks to which it is exposed. The capital adequacy ratios expected by the Bank of Slovenia, which were calculated under a simulated adverse scenario, taking into account the impacts from the environment linked to the economic crisis, were higher than those achieved by the Group at the end of 2013. The Group has already taken appropriate measures to strengthen the capital ratios and improve protection against risks related to Pillar 2 regime. These two-way measures include capital-raising activities as well as activities for decreasing capital requirements and needs (especially for credit risk).

On 18 December 2013, the Republic of Slovenia provided EUR 348 million in cash as the first part of the capital increase process of Abanka Vipa d.d.. Under the extraordinary decision on the termination of qualified liabilities, the Bank of Slovenia decided that all qualified liabilities of the Bank, representing the Bank's share capital and subordinated liabilities to creditors, shall be fully terminated as at the given date. The remaining part of the capital increase (expected in government securities amounting to EUR 243 million) which Abanka requires for its long-term sustainable operation, will be completed after receiving a final favourable opinion from the European Commission, to be drafted on the basis of a restructuring plan.

In 2013, the Bank made a calculation of additional capital requirements for credit, market, capital, concentration, liquidity and profitability risks as well as additional capital needs for external environment risks (emergency capital).

In the reporting year, the in-house assessment of capital requirements was structured as follows:

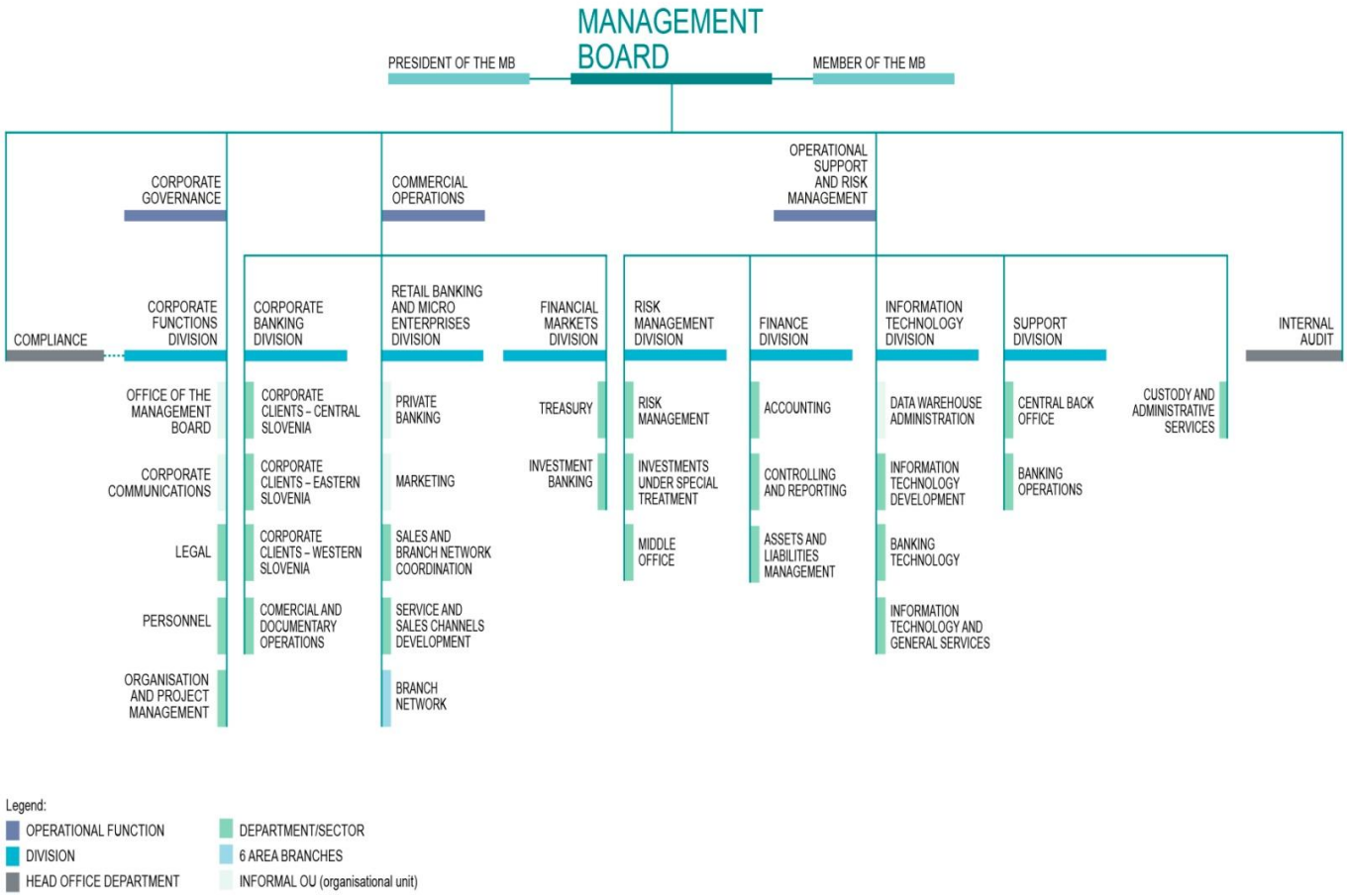
INTERNAL ASSESSMENT OF CAPITAL REQUIREMENTS



In 2013, the ICAAP process continued to be upgraded as one of the key pillars of the capital directive in force. This upgrading consisted of reviewing the adequacy of and redefining the parameters for identifying and measuring the weight of individual risk categories and the parameters taken into account in calculating internal capital needs by individual risk categories.

ORGANISATION

ORGANISATIONAL CHART AS AT 31 DECEMBER 2013



A new organisational structure introduced on 1 April 2013, will enable the Bank to most effectively materialise its vision as well as fulfil its strategic and business objectives by improving sales efficiency, client relationship management, management of risks and non-performing assets, achieving more efficient implementation and management of business processes and cost-efficiency.

In 2014, the Bank will continue to implement activities in the following areas:

1. Optimisation of the Bank's organisational structure will continue based on the guidelines set during the 2013 reorganisation and considering changes in the Bank's operations caused by the transfer of bad debts to the BAMC. The goal is to set up an efficient organisational structure adapted to the planned volumes of business not only in the front office but also in the back office and in management. Optimisation of the organisational structure will continue so as to centralise back office functions, ensure more efficient collection and improve customer servicing.
2. Process architecture management and business process upgrading will continue with an aim to reduce risks, achieve higher efficiency and lower costs. The emphasis will be on process redesigning with the aim of providing higher quality of services, tailored to various customer segments. Special attention will be paid to the planning of collection process, redesigning of back office process behind corporate and retail lending activities, optimisation of payment transaction processes and processes helping raise the quality of customer service.
3. Measuring effectiveness and efficiency of processes will start so as to ensure their optimal management. By establishing pilot process indicators (metrics) of business process, the project aims to provide the basis and tools that will enable process owners and participants more effective management of business processes and more efficient operational risk management. By implementing the project, process metrics will be set up and measured in a pilot process of retail loans sale and a pilot process of interest rate changes.

PROJECTS PLANNED FOR 2014

In 2014, Abanka will continue to implement the projects for strengthening its income-earning capacity, increasing its cost-efficiency and improving its risk management systems. In strengthening the Bank's income-earning capacity, the focus will be on efficient project implementation pertaining to retail banking and the segments of micro, small and medium-sized companies. In order to improve its cost-efficiency, Abanka will carry out various projects for increasing process efficiency and information system flexibility. Apart from that, emphasis will be on the implementation of risk management projects.

Among the more important projects to be undertaken in 2014 in the scope of **product development, customer services and sales channels**, aimed at increasing non-interest income, the following should be mentioned: launch of mobile banking, upgrade of electronic banking for retail and corporate customers and development of new functions for personal accounts.

Regarding **risk management and legal compliance**, the key projects in 2014 will be automation of operational processes associated with credit risk management, implementation of reporting compliance projects based on the requirements of BASEL III or CRD IV, EBA and Bank of Slovenia respectively, and preparations for the introduction of changes due to the compliance with FATCA requirements.

Improvements to the processes aimed to enhance process efficiency are planned on the basis of projects for upgrading application support to customer business and the introduction of process efficiency measurement on a sample process.

With the purpose of increasing information system flexibility, **information system development** will focus on projects of redesigning IT solutions for front office support and on continuing the projects of transition to new technologies and data consolidation in various central code lists.

EMPLOYEES

PERSONNEL POLICY AND THE EDUCATIONAL STRUCTURE OF EMPLOYEES

Efficient, motivated and dedicated employees are crucial to achieving the strategic and business objectives of the Bank. Abanka affords its employees opportunities to enhance their competences in a timely and relevant manner. By using transparent communication, the Bank creates a working environment that offers a pleasant atmosphere and encourages employee loyalty.

In 2013, Abanka continued to follow its **Human Resource, Recruitment and Remuneration Policy**, which had been adapted to uncertain terms of business. The Bank intensified its internal labour market, selectively replaced employees on longer leaves and recruited new employees only when no appropriate personnel was available in-house. Abanka will continue with its restrictive Human Resource, Recruitment and Remuneration Policy in human resource management also in 2014.

As at the 2013 year-end, the Bank had 881 employees, one more than at the end of 2012.

Other disclosures about human capital of Abanka in 2013 are shown in the table below:

Total employees as at 31 December 2013	881
Average number of employees during the year	887
New recruits in 2013	43
Employees leaving in 2013	42
Employees – permanent work contract	837
Employees – fixed-term work contract	44
Employees with disabilities	23

881

employees of Abanka as at the 2013 year end

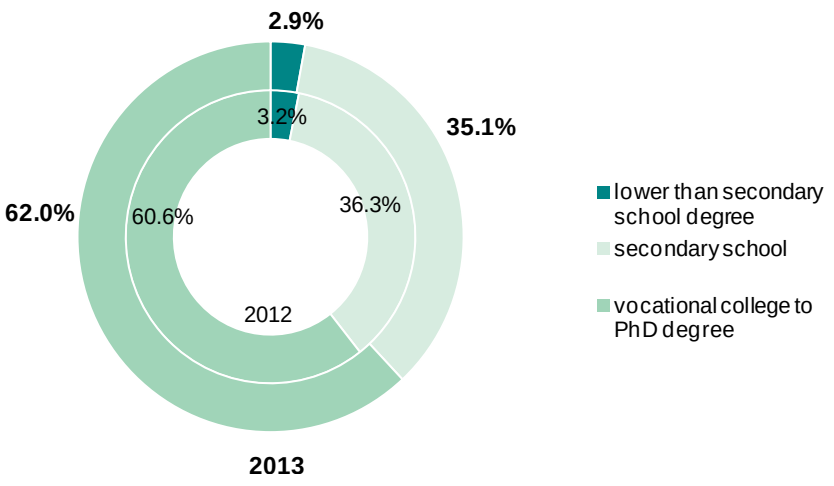
As required by law, the **Assessment Policy of the Suitability of Management and Supervisory Board Members' of Abanka Vipa d.d.** and the **Assessment Policy of the Suitability of Key Office Holders in the Abanka Vipa Group** were adopted in 2013, setting out the key guidelines for the verification of adequacy of the above mentioned employees.

At the end of 2013, the **General Personnel Policy on the Abanka Vipa Group Employees** was formulated as personnel guidelines and uniform personnel standards in the areas where this is sensible and necessary.

In the scope of the personnel policy in 2013, the **personnel restructuring and improving employee educational structure** was continued. In the Bank the number of posts requiring a secondary school degree is declining due to the needs of the work process, while demand for staff with higher education levels and their recruitment is rising.

In 2014, the policy of recruiting staff with higher levels of education will continue alongside with employee training for obtaining higher degrees of education and additional competences in accordance with the requirements and needs of the Bank.

EMPLOYEE EDUCATIONAL STRUCTURE IN ABANKA IN 2013 AND 2012



STAFF TRAINING AND DEVELOPMENT

Employee education and training are of even greater importance at a time when the Bank faces uncertain external market conditions. Upgrading the competences of employees is an important comparative advantage in the job market – both internal and external.

Abanka is dedicated to promoting the internal transfer of knowledge. As in previous years, most training programmes in 2013 were in-house, carried out by either bank employees or external providers.

> Abanka is dedicated to promoting the internal transfer of knowledge.

All staff performing **management duties** were trained to acquire or enhance their managerial skills, team building skills, communication skills in the banking environment as well as to foster mutual trust and motivate other employees.

Abanka organised **training programmes for new banking services**, various programmes and courses tailored to the Bank's needs and **English language courses**.

In 2013, Abanka proceeded with its **e-courses** on the prevention of money laundering and terrorist financing, which were available to all branch network employees in need of such training. Moreover, new e-courses were introduced in 2013 in safety and health at work, fire safety and computer skills – Excel and protection system in Abanka.

In 2013, framework curriculum for an **in-house college for branch managers** was finalised and the project is planned to be put into effect in 2014.

In 2013, the number of employees included in education and training was 857 or 97.2% of total staff, which was more than in 2012. The average number of education and training hours per employee was 24.8 hours (2012: 19.6 hours), and 9 hours for managerial staff (2012: 7 hours).

As in previous years, **work study** of the employees selected in an internal call was co-financed in 2013.

Abanka follows the **development of its employees** systematically, by using various tools, including **annual personal meetings**, which have been conducted in Abanka since 2000 and serve to establish a development schedule and goal plan for each individual employee.

By establishing career plans, Abanka systematically manages the **key staff development** in terms of their expertise and succession potential.

STAFF REMUNERATION

Employees who achieve above-average results at work are rewarded through a **performance-related bonus** in accordance with the Promotion and Remuneration Rules.

> Employees who achieve above-average results at work are rewarded through a performance-related bonus.

In December 2013 a **meeting of the Bank's Management Board and jubilarians for 2013** was organised.

In the reporting year, **promotions** based on criteria stipulated in the Promotion and Remuneration Rules were limited in line with the personnel policy, but nevertheless partly carried out in mid-2013.

The Bank has established a **scholarship system for the children of deceased employees.** Three scholarship agreements were concluded in 2013, which will continue in 2014.

Accident insurance for posts with increased risk exposure is provided to employees at the work posts exposed to risks defined in the Risk Assessment.

In accordance with the guidelines of the previously adopted Remuneration Policy for Employees Whose Work is of Specific Nature, the **Remuneration System for Employees of Abanka Vipa d.d.** was adopted in 2013, summarising the key provisions and rules of employee remuneration.

DEVELOPMENT OF THE ORGANISATIONAL CULTURE

The Bank's values and organisational culture are based on different activities. They serve to promote Abanka as a successful and employee-friendly employer offering high-quality job opportunities and the possibility of further career development.

> In 2013, Abanka was awarded a full "Family Friendly Company" certificate.

In 2013, Abanka was awarded a full **"Family Friendly Company"** certificate and continued to implement measures designed to help its staff reconcile their professional and family life.

REMUNERATION POLICY

At the end of 2011, Abanka regulated its remuneration policy pursuant to the Banking Act, applicable decisions of the Bank of Slovenia, the CRD Directive[17] and the relevant CEBS Guidelines[18].

The Remuneration policy of the Bank is based on the balance between remuneration and prudent risk-taking. The Bank ensures that relation with appropriate ratios between the fixed and the variable remuneration component for various categories of employees, whereby the total remuneration of an employee may not significantly depend on the variable component. The remuneration policy and the relevant internal rules of the Bank regulate the ratios between the fixed and the variable component of managers' salaries, the mode of payment of the managers' variable remuneration component, and the period of deferred and retained variable remuneration of managers.

The Remuneration policy of the Bank is based on the balance between remuneration and prudent risk-taking.

Abanka has defined that "employees whose work is of a specific nature"[19] denote the Management Board, executive directors of divisions and the directors of the Risk Management and Internal Audit Departments.

The Remuneration policy of Abanka is in compliance with the Bank's mission, the business strategy of the Bank, its strategy of risk management, the Bank's corporate culture, the values of the Bank and its set goals. The remuneration policy and practice is strictly focused on the fulfilment of the Bank's business strategy objectives and adjusted to the risk profile of the Bank and its risk-taking capacity.

Remuneration on the basis of manager employment contracts with variable remuneration components is linked to the fulfilment of objectives, measures and criteria in compliance with the Bank's strategy and business plan. The amount of variable remuneration can increase by achieving better concrete business and financial results. Such a remuneration policy provides performance incentives, while simultaneously containing corrective measures in case of critical deviations from the set goals. Appropriately set decision-taking processes and implemented business policies shall prevent any generation of improper risks in the business operations of the Bank.

The variable component of the remuneration of the Management Board and senior management depends on the conditions and criteria of the Bank's performance. These conditions and criteria are specifically defined. Preconditions include the target net profit for any year and a certain level of impairments and provisions, whereas additional criteria include targets set for the Bank's return on equity after tax, the first maturity bucket liquidity ratio and the capital adequacy ratio.

[17] CRD stands for Capital Requirements Directive.
[18] CEBS stands for Committee of European Banking Supervisors.
[19] Employees whose work tasks and activities could have a material impact on a bank's risk profile.

INFORMATION TECHNOLOGY

The Information Technology Division covers three areas: business software development and support, information technology with all general services and information system security. The role of the Information Technology Division in Abanka is to continuously provide available, integrated, safe and user-friendly information and technological support for the Bank's operations at minimum cost and with maximum reliability. It is also in charge of maintaining the real property of the Bank, facilitating investments and general services and ensuring the security of the information system. Abanka has striven to build an information system which will meet all of the Bank's business needs, which will be safe and simultaneously flexible as well as easy to operate in terms of managing constant changes.

> The role of the Information Technology Division is to provide available, integrated, safe and user-friendly information and technological support for the Bank's operations.

The core of Abanka's information system is developed and maintained in-house, whereas the sub-systems which do not interact directly with the core are provided primarily by Slovene suppliers. If a product is not available in the Slovene market, the Bank purchases foreign application software.

Regarding **in-house software development** most attention was paid to consolidation tasks, the replacement of obsolete IT systems and the development of IT systems for business segment products. In addition, systems supporting the Bank's operations were also upgraded. The support system for custody and administrative services for funds was successfully replaced, support for the "instalment card" was introduced, new viewing of bank statements was enabled in the online e-banking services, the tariff system was redefined and centralised in parallel with the support for individual tariffs, a new retail loan management system was set up, and a new technological platform for controlling and a support system for the Bank's bodies were established. The outstanding disputable receivables were migrated into the new information system for disputable receivables.

The development project of a bank data warehouse (BDW) for the needs of controlling and credit limit usage monitoring continued in 2013. A mobile e-banking application (mobiAbanet) was developed and made ready for launching, and a support application for trade finance was set up (currently only for nostro letters of credit).

In the IT segment, considerable effort was invested in the development of the risk management systems (automatic calculation of impairment, actual losses records).

Within the consolidation and modernisation of the IT system, the first phase of transition to a service-oriented architecture was completed, its key goal being to enable efficient, flexible and rapid development of IT support for business processes. The service-oriented architecture makes the maintenance of IT solutions more efficient by increasing responsiveness, reducing coupling and enabling faster adjustments to changing requirements. In the first phase of the project the infrastructure was set up, a pilot project was completed, training courses for technologists and developers were carried out and reference samples were defined.

Regarding outsourced software development in 2013, the focus was on the development of the following systems: the Bank's portal (Abanka's website), electronic banking (Abanet, Abacom), AIII Mutual Pension Fund IT support, reporting systems (risks, asset liability management and liquidity management), treasury banking operations (AG Quantum and Risk systems), and back office systems (finance, salaries, invoice settlement). Key projects in 2013 included: compliance of electronic channels with new SEPA rules, development of mobile banking, replacement of the application supporting assets and liabilities management of the Bank's mutual pension fund (MPF), launching of the *eSeje* application and modifications of the application Centralni trezor.

The tasks of the External Administration Department also include the coordination of IT system development for subsidiaries i.e. for the subsidiary Aleasing, for Abanka Skladi until September 2013 and after that for the company AB58.

In **banking technology**, apart from project-related tasks, development tasks and other activities arising from the external environment, time and effort were devoted also to the work on internal processes with an aim to improve the efficiency and effectiveness of undergoing activities. The IT staff actively participated in the internal project ITPM (IT Project Management), which was implemented in the second half of 2013 within the IT Division and whose goal was to improve the software development process. This concerned the part of development projects which is usually supervised by the IT Division. It comprises phases ranging from the capture of detailed user requirements to the making of use cases and producing technical-technological documentation, the final result being developed and tested software. In 2013 a working group focused mostly on the first part, i.e. phases up to the drafting of an implementation plan, which are based on banking technology. This activity is planned to continue in 2014, when greater emphasis will be given to the development of software solutions.

Apart from the activity described above, much effort was put into taking inventory of tasks and duties of individual employees in the department and identifying the areas that banking technologists should be covering but are not, for various reasons. Considering the options available, attempts were made to optimise segregation of duties so as to improve the coverage of individual areas by banking technologists. Application solution developers and IT staff attended a series of training courses in service-oriented architecture (SOA) and business process management (BPM) that will in the future become dominant in the application support development in Abanka.

In **IT management**, the greatest amount of resources and attention in 2013 were devoted to business projects undertaken by the Bank and its subsidiaries, for which the Bank provides IT management services. Major activities related to the IT infrastructure itself included: moving the IT Centre from Trubarjeva street to the safe room in Slovenska street 58 in Ljubljana, setting up a less expensive connection with greater capacity between both IT Centres, introducing disk encryption for laptops, upgrading Windows XP to Windows 7 operating system at workstations in most of the branch offices, replacing hardware and software on all production virtual servers and setting up the IBM WAS development, testing and production environment within the framework of introducing SOA. All ATMs were transferred to IP technology. A business continuity test was repeated by running all banking operations in the backup IT Centre for several weeks. In addition, the department regularly updated both the system and application software of servers, workstations and communication equipment.

In **technical support and general services**, in 2013 the department focused on internal user assistance requests, data processing and system operation control, installations of new hardware and software – including new ATMs, installations and maintenance of other equipment, assistance in the relocation of employees due to reorganisation, office building maintenance, refurbishment projects for business premises and post room management.

Physical and technical protection of the Bank was also provided. In accordance with the investment plan, technical and mechanical protection systems were partly upgraded in order to ensure complete and adequate technical protection of property and people in the Bank. In line with legislation, the provision of protection was controlled, carried by an outsorced certified security provider, focusing on protection of branch offices and outdoor ATMs. As a result, in 2013 more than 40 inspections were performed, accompanied by employee training on how to behave in exceptional situations, such as robbery or burglary. Good practice of regular employee training will continue in the future. In 2014 e-courses in protection were introduced for all bank employees, which will become part of regular annual employee training.

In information system protection and safety, Abanka continued to implement an electronic training system for personnel, performed IT risk analyses and risk analyses in subsidiaries, took part in IT audits and inspections, implemented more extensive controls over the functioning of security mechanisms and participated in planning and implementing security modifications to the Bank's information system. Other tasks included incident management and co-operation with external institutions (the Bank Association of Slovenia), associations (ISACA, the Slovenian Institute of Auditors) and other banks in the promotion and advancement of information security. Special attention was devoted to the testing of security settings by means of vulnerability testing and penetration tests, and, within major project assignments, to the implementation of a uniform system of audit trail management, user identity management and protection management system.

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

Abanka is committed to sustainable business development, not only due to the financial crisis and the unstable economic and financial environment, but also due to the key idea behind sustainable development, which states that economic prosperity is only possible if the environment is preserved and protected for future generations.

ECONOMIC DEVELOPMENT

Abanka believes it can be both profitable and sustainable, play an important role in achieving that and lead the way to a new era of progress and sustainability. In business development Abanka endeavours to combine business requirements with the principles of sustainable development as well as utilise the power of its human and financial capital in order to connect its customers and partners so as to enable them to take full advantage of new sustainable environmental economics. Transition to an environmentally sustainable economy will affect us all, directly or indirectly. The Bank is aware that future business success will increasingly depend on the ability of economic entities to adapt their business to global climate changes and challenges brought by these changes.

> Abanka believes it can be both profitable and sustainable.

Through various activities Abanka strives to support sustainable development and create potential for business performance and economic growth:

- As a bank, Abanka obtains sources of funds, primarily in order to promote competition and global entrepreneurship, to finance projects and investments in infrastructure, the environment as well as regional and social development.
- As a company with a strong presence in the social environment of Slovenia, Abanka is forging innovative partnerships with governmental and non-governmental organisations to preserve natural resources, while promoting greater energy efficiency and environmental responsibility.
- As “the bank of friendly people”, Abanka strengthens the confidence and satisfaction of its customers. The Bank listens to financial needs of its customers and aims to promote the business of successful innovative companies which have a vision, develop renewable sources of energy and create new environmentally friendly jobs.
- As a retail and corporate bank, Abanka offers a range of products and services tailored to specific customer segments, provides advice to customers on a whole range of environmentally friendly products and services, such as ecological loans promoting energy savings as well as various electronic invoicing options available on Abanet that encourage cutting down on paper waste, etc.
- Abanka has been continuously developing and upgrading innovative banking products which are tailored to customer needs, facilitate their banking operations and increase their performance (e.g. electronic banking upgrades, launching of mobile banking, opening of new Abatočka points of sale for executing payment orders, etc.).
- As a major employer with an extended branch network and other facilities, for many years Abanka has been striving for greater energy efficiency. The Bank has been continuously implementing various measures to achieve energy savings (e.g. investing in better insulation of buildings and more energy efficient lighting) and cut down on paper waste (e.g. electronic archiving, streamlining of paper-based processes, etc.).

Abanka is aware that the path to sustainable development is not without obstacles. One of the important challenges is global climate change. The necessary transition from the existing technologies based on fossil fuels to clean technologies based on renewable resources that do not pollute the environment will be multifaceted and involve everybody in one way or another. Abanka has recognised its commitment to this transformation in its business strategy. The Bank is focused on a business model that, with generated profits, helps take advantage of the existing financial opportunities and creates new ones for an environmentally and economically healthy future.

SOCIAL DEVELOPMENT

Internal Communication

With responsible and ethical **internal communication** Abanka supports the attainment of its business goals and operations in compliance with the guidelines and values laid down in the Bank's strategy. In 2013 Abanka continued with activities that increased employee information, enabled the flow of information and created employee loyalty. Due to the geographical dispersion, important internal information and/or responses to topical issues were rapidly disseminated, mainly via e-mail as personal messages, messages of the Management Board or corporate communication messages, as well as via the Intrabanka intranet portal. Hierarchical transfer of information among employees during major events took place in the form of personal meetings within their organisational units.

> With responsible and ethical internal communication Abanka supports the attainment of its business goals and operations in compliance with the guidelines and values laid down in the Bank's strategy.

Upon important and high-profile events, employee responses to media reporting on Abanka were prepared, thus supporting transparent communication of employees and customers.

Proactive communication emphasised employee information, joint efforts in achieving common goals and promotion of loyalty and motivation for continuing successful work.

In 2013, four issues of the in-house magazine **"View from the Inside"** were produced to inform the staff of innovations in the operations of Abanka, its new products and to give in-depth information on expert topics. **Anovice (Anews),** a set of short notices and useful advice on Abanka's services, was sent to the employees more than once a month.

Communication with the Media

Information communicated through media contribute to proper information of the general public and to formulation of views and positions. The public image of Abanka is created also in close cooperation with journalists. The majority of questions daily addressed to the Bank refer to various banking services provided and the Bank's activities in all areas of its business operations. The major source of corporate information is the legally required disclosure of information on the websites of Ljubljana Stock Exchange and of Abanka, which is simultaneously published in the Slovene and English languages.

> The major source of corporate information is the legally required disclosure of information on the websites of Ljubljana Stock Exchange and of Abanka.

Media publications on Abanka are followed by clippings and evaluated in depth in semi-annual and annual Media Coverage Analyses. On that basis the Bank plans its corporate communication and assesses some parameters of the reputation risks. In 2013, the number of publications slightly fell to 3,963 annually or to the monthly average of 330, whereas their volume increased. In the last three months of 2013, the number of publications significantly increased in connection with the activities related to the capital increase of banks. The general assessment of Abanka's media presence remained positive, although more publications were neutral in 2013.

Sponsorships and Donations

Abanka performs the mission and values as a bank and implements its vision of a long-term relationship through its **sponsorship and donation programme**. Due to difficult economic conditions in 2013, less funds was earmarked for these activities than in previous years. **Sponsorship** mainly served to support the efforts of Abanka to promote its visibility among the existing and potential service users.

> Abanka's Sponsorship mainly served to support the efforts of Abanka to promote its visibility among the existing and potential service users. Donations were used for the purchase of medical equipment in some Slovene hospitals.

Donations were used for the purchase of medical equipment in some Slovene hospitals and socially disadvantaged children received their traditional New Year's humanitarian presents.

PROTECTION OF THE ENVIRONMENT

Abanka is aware of the impact its operations have on the environment and supports the principles of sustainable development. In terms of technical equipment for many years already the Bank has been striving to ensure appropriate working conditions by installing air conditioning systems with energy recovery. They use environmentally sound technologies for cooling, heating and ventilation and thus ensure high efficiency and reduced energy consumption. All of Abanka's premises are being fitted with energy-efficient lighting, which further contributes towards a more rational use of electricity. Already in the planning phase of refurbishments and renovations of existing buildings or in the case of new constructions, appropriate materials are selected (suitable glass panes, insulation, etc.). Modernisation projects and new investments in new and more modern equipment for heating, cooling and ventilation are made in compliance with the annual investment plan. In choosing new equipment, not only price but also technical adequacy and environmental acceptability are taken into account.

Strong emphasis is placed on training and raising employee awareness about the rational use of the cooling/heating systems, which along with computer hardware are the largest consumers of electricity in the Bank. To this end, instructions have been issued. They include practical advice and guidelines for employees and define the rational use of air conditioning and ventilation systems.

> Strong emphasis is placed on training and raising employee awareness about the rational use of the cooling/heating systems.

Waste sorting is being practiced throughout the Bank, fully and smoothly just over a year since it was introduced. The introduction of waste sorting had a favourable financial impact as waste disposal costs decreased in 2013.

INTERNAL AUDIT

ORGANISATIONAL POSITION OF THE INTERNAL AUDIT DEPARTMENT

The task of the Internal Audit Department (IAD) is to perform **constant and overall control over the operations of the Bank and subsidiaries within the Abanka Group** in relation to:

- evaluation of management, risk management efficiency and internal control systems;
- evaluation of the internal capital adequacy assessment process (ICAAP) with respect to risk assessment;
- assessment of the reliability of the IT system, including the electronic information system and e-banking services;
- assessment of the accuracy and reliability of accounting records and financial reports; and
- verification of reporting and compliance of the Group's operations with internal rules and external regulations.

The IAD is **organised as an independent department** directly accountable to the Management Board. Its authorisations, responsibilities, tasks and methods of operating are defined in detail in the Rules of the Internal Audit Department, which were adopted by the Management Board with the agreement of the Supervisory Board/the Audit Committee. The audit work plan, which is based on a global risk profile assessment of the Abanka Group, is approved annually by the Management Board in agreement with the Supervisory Board/the Audit Committee, whereas the IAD's operating work plan is approved on a quarterly basis for the next quarter. To provide for professional and quality implementation of its tasks, the IAD drew up operational documents for internal auditing, planning of work, and quality assurance and improvement.

In 2013, activities for improving the IAD staffing were carried out. As of 1 January 2014, **eight internal auditors have been employed in the IAD.** Three internal auditors are licensed as "certified internal auditors" or "auditors" by the Slovenian Institute of Auditors, and one IT auditor holds a valid CISA licence[20]. On 1 January 2014 the IAD employed an auditor licensed as "certified auditor" and in January 2014 another auditor obtained the CISA licence. Information technology and information system audits performed by the IAD in 2013 also included outsourced certified IT auditors.

OPERATIONS AND CONTROL OF THE GOVERNANCE SYSTEM

The Management Board in agreement with the Supervisory Board/the Audit Committee adopted the IAD's Annual Audit Work Plan for 2013. Implementation of the Plan or IAD's operations accounted for new risks identified in the external and internal environments as well as additional requirements of the Management Board, supervisory and other institutions and guidelines set out in the business strategy. On the amendments to or modifications of the Annual Audit Work Plan, the IAD quarterly reported to the Management Board and the Supervisory Board/the Audit Committee.

In 2013, the IAD focused largely on auditing the credit process and credit operations. By conducting a due diligence investigation of the quality of collaterals provided by corporate customers in line with the Republic of Slovenia Guarantee Scheme Act (ZJShema RS), it complied with the requirement of SID banka d.d.

The IAD audited a new application development project for retail lending support, project for setting up actual losses records, internal rules for the capture of documentation and storage in electronic form and compliance of its deposit guarantee scheme with the Bank of Slovenia's regulations. The fulfilment of conditions was verified for the introduction of a new product "instalment card" as well as compliance with security requirements of the international organisation VISA Inc. in credit card processing.

Following the adoption of the Regulation on the Minimum Scope and Content of the Additional Audits Review of Compliance with Risk Management Rules at Banks and Savings Banks, the IAD, in cooperation with the external auditor, participated in the review of the key business risk management process. Following the adoption of the Regulation on Disclosures by Banks and Savings Banks, the IAD, working with the Chief Compliance Officer, verified the public disclosures in the 2012 Annual Report.

The IAD performed a review of the Abanka Skladi d.o.o. subsidiary, implementation of requirements of the Prevention of Money Laundering and Terrorist Financing Act (hereinafter: ZPPDFT), treatment of personal data and classified information, and of security and cash operations in one of the more risky branch offices. At the request of the Management Board and due to a suspected case of violation/fraud, the IAD carried out an extraordinary audit in one of the branch offices. Based on its findings, it gave recommendations for the development of a control environment.

[20] CISA stands for Certified Information Systems Auditor.

Through advisory services, the IAD took part in setting up a management system for fraud, Internet fraud and other extraordinary events and incidents. It reviewed the internal rules in cash operations, risk management, IT security and remuneration system for employees, whose work is of a specific nature.

The IAD cooperated with the Bank of Slovenia's inspectors in reviewing the implementation of regulations setting out the procedures for the verification of authentication and suitability of euro banknotes and coins in Abanka's branch offices and monitored the execution of warnings and recommendations given by the Bank of Slovenia following a review of security and cash operations and the implementation of the ZPPDFT.

The IAD performed audits and consulting services, monitored the implementation of recommendations and requirements made by supervisory institutions to evaluate the elements of the governance system (organisational setup, risk management, internal control system and remuneration system), and recommended an upgrade of adequate and efficient risk management and the internal control system, aimed at achieving strategic goals, effective and efficient operations, reliable and credible reporting, and compliance with rules and regulations.

Due to emergency and priority tasks, certain audits were not performed. The planned auditing fields that were assessed as more risky, but were not yet audited, were included in the IAD's Annual Audit Plan for 2014. These include: expense and investment management, human resource management, liquidity risk management and key business process IT system. The conclusion of the audits of launching new products, managing investments under special treatment, business process involving sole proprietors and quality assessment of the Group's control environment for 2013 was postponed to the beginning of 2014.

REPORTING ON PERFORMED WORK

All management levels, including the Management Board, were **informed in writing** of the findings of the audits performed by the IAD. A summary of major audit findings and recommendations as well as the realisation of the Annual Audit Work Plan for 2013 were reported to the Management Board and Supervisory Board/the Audit Committee on a quarterly basis. Based on a review of the response reports of individuals responsible and re-verifications, the IAD monitored the implementation of remedial measures and reported on this to the Management Board and Supervisory Board/the Audit Committee.

THE INTERNAL AUDIT QUALITY

On the basis of Quality Assurance and Improvement Programme, the IAD performed a periodic internal quality assessment in 2013 according to a balanced scorecard model and adopted improvement measures to be implemented in 2014 and in the medium term.

In 2013, the selection procedure for an external assessor of the IAD review was conducted. The IAD's external assessment performed in February 2014 covered an assessment of its compliance with the Definition of Internal Auditing, directly accepted International Standards for the Professional Practice of Internal Auditing (in force as of 1 January 2013), the Code of Ethics, the Code of International Auditing Principles and the Code of Ethics of Internal Auditors. An internal audit of the Bank and the Abanka Group as well as of the IAD's operations for 2013 was conducted. The overall assessment of the internal audit activities shows that they generally complied with the standards.

SENIOR MANAGEMENT

MANAGEMENT BOARD	Jože Lenič, M.Sc. Econ.	President of the Management Board
	Igor Stebernak	Member of the Management Board
Internal Audit Department	Klavdija Markič	Director of the Internal Audit Department
Custody and Administrative Services Department	Jasmin Furlan, M.Sc.	Director of the Custody and Administrative Services Department
CORPORATE FUNCTIONS DIVISION	Nevenka Črnko	Division Executive Director
	Tomaž Marinček	Director of the Legal Department
	Mateja Sedej	Director of the Personnel Department
	Franc Bračun, Ph.D.	Director of the Organisation and Project Management Department
CORPORATE BANKING DIVISION	Matej Golob Matzele	Division Executive Director
	Barbara Jagodič	Director of the Corporate Clients Department – Central Slovenia
	Janja Podvršnik Vrabič	Director of the Corporate Clients Department – Eastern Slovenia
	Davorina Mrevlje	Director of the Corporate Clients Department – Western Slovenia
	Nataša Velunšek Golčer	Director of the Commercial and Documentary Operations Department
RETAIL BANKING AND MICRO ENTERPRISES DIVISION	Nataša Damjanovič	Division Executive Director
	Julija Šušmelj Stevanovič	Director of the Sales and Branch Network Coordination
	Jasna Kajtazović	Director of the Service and Sales Channels Development Department
	Bojan Stanković	Director of Ljubljana Regional Office
	Tatjana Ahačič	Director of Kranj Regional Office
	Tatjana Škrinjar, M.Sc.	Director of Maribor Regional Office
	Alenka Kikec	Director of Celje Regional Office
	Branko Hočevar	Director of Koper Regional Office
	Radovan Jereb, M.Sc.	Director of Nova Gorica Regional Office
FINANCIAL MARKETS DIVISION	Boštjan Herič, M.Sc.	Division Executive Director
	Jure Gedrih	Director of the Treasury Department
	Uroš Vejnović	Director of the Investment Banking Department
RISK MANAGEMENT DIVISION	Kristijan Hvala, M.Sc.	Director of the Risk Management Department
	Miha Štepec, M.Sc.	Director of the Investments Under Special Treatment Department
	Boštjan Rupar	Director of the Middle Office Department
FINANCE DIVISION	Alenka Plut, M.Sc.	Division Executive Director
	Irena Rojc	Director of the Accounting Department
	Silva Matko Gosak, M.Sc.	Director of the Controlling and Reporting Department
	Andrej Petek	Director of the Assets and Liabilities Management Department
INFORMATION TECHNOLOGY DIVISION	Nada Mertik	Division Executive Director
	Janez Krašovec, M.Sc.	Director of the Information Technology Development Department
	Davor Hvala, M.Sc.	Director of the Banking Technology Department
	Matej Jereb	Director of the Information Technology and General Services Department
SUPPORT DIVISION	Alenka Plut, M.Sc.	charge in for the division
	Mojca Žlak, M.Sc.	Director of the Central Back Office
	Marija Kordiš	Director of the Banking Operations Department

Senior management organisational chart as at 31 December 2013.

BRANCH NETWORK

Regional and branch offices of Abanka

Ljubljana Regional Office

Slovenska 50 Branch Office	Slovenska 50	Ljubljana
Šiška Branch Office	Celovška 106	Ljubljana
Pražakova Branch Office	Kolodvorska 9	Ljubljana
Bežigrad Branch Office	Dunajska 48	Ljubljana
Njegoševa Branch Office	Njegoševa 8	Ljubljana
Loterija Slovenije Branch Office	Gerbičeva 99	Ljubljana
Smelt Branch Office	Dunajska 160	Ljubljana
Vič Branch Office	Tržaška 87	Ljubljana
Šmartinska Branch Office	Šmartinska 102–104	Ljubljana
Logatec Branch Office	Tržaška 50 a	Logatec
Domžale Branch Office	Ulica Nikole Tesle 19	Domžale
Novo mesto Branch Office	Rozmanova 40	Novo mesto
Novo mesto Mercator center Branch Office	Ljubljanska c. 47	Novo mesto
Krško Branch Office	Cesta krških žrtev 135 B	Krško
Trnovo Branch Office	Ziherlova 4	Ljubljana

Kranj Regional Office

Kranj Branch Office	Nazorjeva 1	Kranj
Jesenice Branch Office	Maršala Tita 39 A	Jesenice
Tržič Branch Office	Cankarjeva 1 A	Tržič

Maribor Regional Office

Maribor I Branch Office	Glavni trg 18	Maribor
Maribor II Branch Office	Cankarjeva 6 B	Maribor
Maribor III Branch Office	Kardeljeva 61	Maribor
Poslovalnica Murska Sobota Branch Office	Kocljeva 16	Murska Sobota
Ptuj Branch Office	Osojnikova 9	Ptuj
Slovenj Gradec Branch Office	Ronkova 4 A	Slovenj Gradec
Prevalje Branch Office	Trg 12	Prevalje
Tezno Branch Office	Prvomajska 26	Maribor

Celje Regional Office

Celje I Branch Office	Aškerčeva 10	Celje
Celje II Branch Office	Miklošičeva 1	Celje
Žalec Branch Office	Celjska 8b	Žalec
Velenje Branch Office	Kersnikova 1	Velenje

Koper Regional Office

Koper Branch Office	Ferrarska 12	Koper
Lucija Branch Office	Obala 112	Lucija
Izola Branch Office	Sončno nabrežje 6	Izola
Sežana Branch Office	Partizanska 41	Sežana

Nova Gorica Regional Office

Nova Gorica Erjavčeva Branch Office	Erjavčeva 2	Nova Gorica
Šempeter pri Gorici Branch Office	C. Prekomorskih brigad 2c	Šempeter
Nova Gorica Kidričeva Branch Office	Kidričeva 18	Nova Gorica
Ajdovščina Branch Office	Goriška 25 A	Ajdovščina
Idrija Branch Office	Lapajnetova 47	Idrija
Tolmin Branch Office	Mestni trg 5	Tolmin
Kobarid Branch Office	Markova 16	Kobarid
Postojna Branch Office	Titov trg 1	Postojna

Branch network overview as at 31 December 2013.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Abanka Vipa d.d. (hereinafter: Abanka) in 2013 accepts and abides by the **Corporate Governance Code** (hereinafter: the Code), adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 8 December 2009.

The Code applied by Abanka in 2013 is also available on the website of the Ljubljana Stock Exchange, at http://www.ljse.si/ in Slovene and English.

The statement applies to the 2013 financial year.

The Management and Supervisory Boards of Abanka hereby declare that they comply with the Code in their work, with certain derogations from the provisions, as disclosed hereinafter.

Code provision 1:
The key objective of a joint-stock company engaged in a revenue-generating business is to maximise the company's value. This, as well as the company's other objectives pursued in the course of its business, such as the long-term value creation for shareholders and the social and environmental aspects ensuring a sustainable development of its business, is stated in the company's articles of association.

The Articles of Association of Abanka state that Abanka is a joint-stock company which operates independently according to the principles of liquidity, prudence and profitability with the purpose of making profit. The defined goals include achieving an adequate return on equity, a competitive position in the market, and ensuring the capital strength of the Bank. On top of that, Abanka continually pursues the goal set out in the Code: the maximisation of its value.

Code provision 4.2:
The company encourages all significant shareholders, institutional investors and the state in particular, to publicly disclose their investment policy with respect to the stake they hold in the company concerned, i.e. their voting policy, the type and frequency of their engagement in the company's governance, and the dynamics of their communication with the respective company's managerial or supervisory bodies. The company is considered to have called its shareholders to make such a disclosure pursuant to this Principle if the convocation of the meeting includes the respective invitation.

Abanka is of the view that providing information to the public via its shareholders about their investment policy is primarily at the shareholders' discretion and depends on their public communications policy. No encouragement by Abanka can specifically influence its shareholders' decisions to inform the public. Abanka's main concern is to treat all of its shareholders equally.

Code provision 6.2:
In the proposed new composition of the supervisory board at least a half of the members are independent. Members that act and adopt decisions independently are taken to be independent supervisory board members. A supervisory board member is always taken to be dependent if he has close business ties with the company, its management or significant shareholders. In the event of changed circumstances that affect the member's meeting the criteria of independence, such a member immediately informs the supervisory board. The obligation to appoint independent members applies both to shareholders as well as works councils.

Until 17 December 2013, the Supervisory Board of Abanka had several members who may be deemed to have an economic, personal or other close relationship with the Bank's major shareholder or its Management Board. Pursuant to the Banking Act and the Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, which very specifically and in detail stipulate the conditions and requirements for banks' supervisory board members, those members were not prohibited from serving as supervisory board members. The Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks is a regulation applicable only to banks and sufficiently covers the management of conflict of interest of members, and the independence of the Supervisory Board. No employee-elected representatives sit on the Supervisory Board as the legal provision regarding workers' participation in Supervisory Boards is not applicable to banks.

Code provision 22.7:

The company discloses the gross and net remuneration of each member of the management board and of the supervisory board. Such a disclosure is clear and comprehensible to an average investor, and includes aside from statutorily-imposed content:

- *an explanation how the choice of performance criteria contributes to the company's long-term interests,*
- *an explanation of the methods applied to determine whether the performance criteria have been met,*
- *precise information on the deferment periods with regard to variable components of remuneration,*
- *information on the policy regarding termination payments, including the criteria conditioning termination payments and the amounts of termination payments,*
- *information with regard to vesting periods for share-based remuneration,*
- *information on the policy regarding the retention of shares after vesting,*
- *information on the composition of peer groups in companies that have been studied with respect to their remuneration policies in the course of setting up a remuneration policy in the company concerned.*

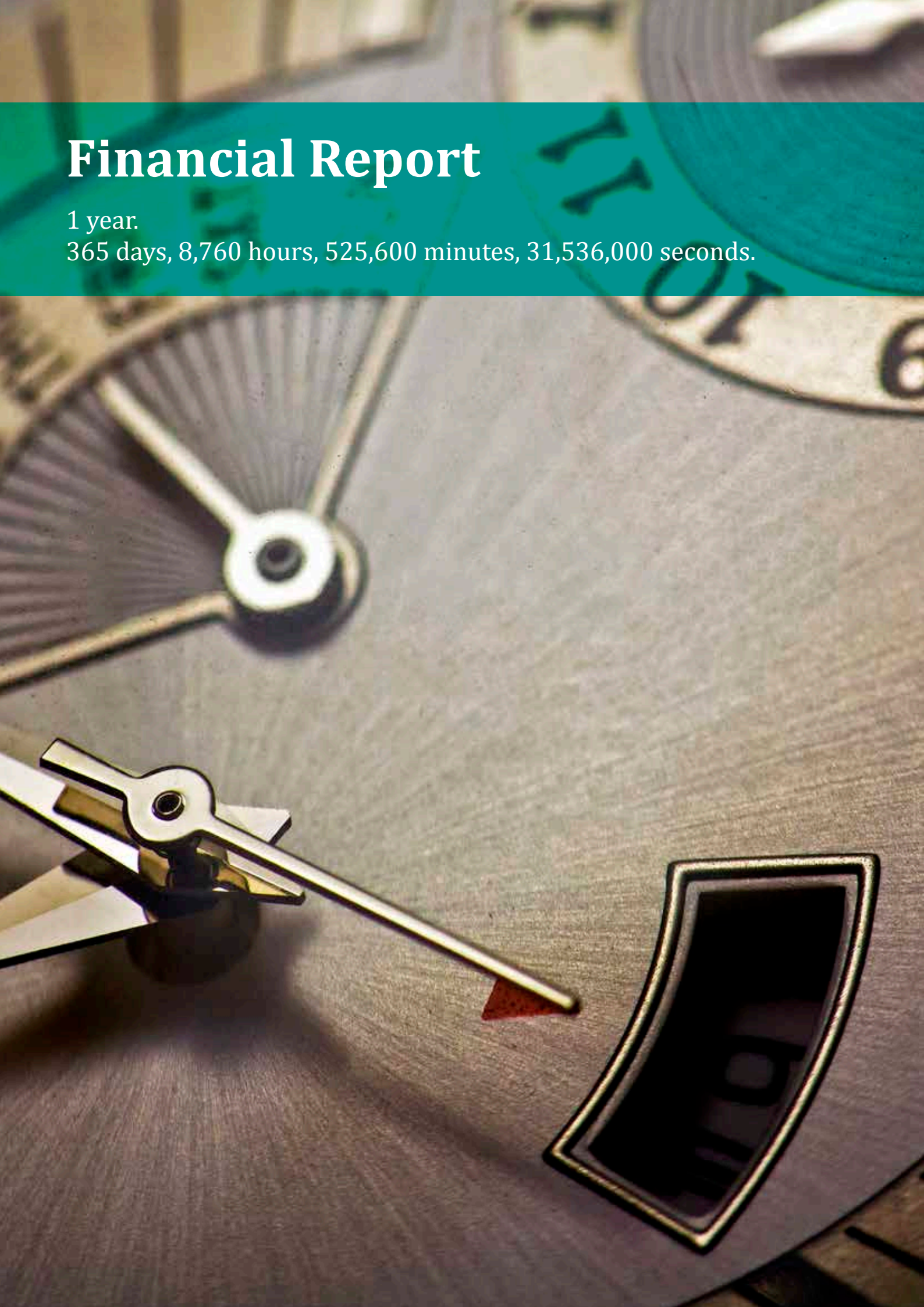
Regarding remuneration of the members of the Management and the Supervisory Boards, the Bank discloses the information required by law and related secondary legislation.

Ljubljana, 27 March 2014

Management Board		**Supervisory Board**	
Jože LENIČ, M.Sc. Econ. President of the Management Board		**Janko GEDRIH** Chairman of the Supervisory Board	
Igor STEBERNAK Member of the Management Board			

Financial Report

1 year.
365 days, 8,760 hours, 525,600 minutes, 31,536,000 seconds.



STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Management Board of the Bank has approved the financial statements of ABANKA VIPA d.d. and the consolidated financial statements of the ABANKA VIPA GROUP for the year ended 31 December 2013 (pages 99 to 112 of the Annual Report), the applied accounting policies, and the notes to the financial statements (pages 113 to 224 of the Annual Report).

The Management Board is responsible for preparing the Annual Report, which gives a true and fair representation of the financial position of the Bank and the Group as at 31 December 2013, and the results of their operations for the year then ended.

The Management Board confirms that accepted accounting policies have been used on a consistent basis, and that the accounting estimates have been made in compliance with the principles of prudence and good management. The Management Board also confirms that the financial statements with the accompanying notes have been prepared on the assumption of a going concern for the Bank and the Group and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

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

In the year ended 31 December 2013, Abanka Vipa d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 14 March 2014

Management Board

Igor STEBERNAK
Member of the Management Board

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

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INCOME STATEMENT OF ABANKA VIPA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	**2**		**3**	**4**
1	Interest income	5	124,751	175,220
2	Interest expenses	5	(72,192)	(105,772)
3	**Net interest income (1+2)**		**52,559**	**69,448**
4	Dividend income	6	720	1,454
5	Fee and commission income	7	41,410	41,915
6	Fee and commission expenses	7	(12,612)	(12,805)
7	**Net fee and commission income (5+6)**		**28,798**	**29,110**
8	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	8	121,982	5,367
9	Net gains on financial assets and liabilities held for trading	9	2,560	819
10	Losses on financial assets and liabilities designated at fair value through profit or loss	10	(407)	(1,705)
11	Exchange differences		(145)	282
12	Net gains/(losses) on derecognition of assets other than held for sale		6	(219)
13	Net other operating expenses	11	(17,918)	(3,514)
14	Administration costs	12	(50,207)	(49,153)
15	Depreciation and amortisation	13	(5,064)	(5,167)
16	Provisions	14	(1,886)	(1,508)
17	Impairment	15	(411,669)	(125,708)
18	Total loss from non-current assets held for sale		(1,024)	(6)
19	TOTAL LOSS BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18)		(281,695)	(80,500)
20	Tax (expense)/income related to loss from continuing operations	16	(27,182)	4,806
21	TOTAL LOSS AFTER TAX FROM CONTINUING OPERATIONS (19+20)		(308,877)	(75,694)
22	**NET LOSS for the financial year (21)**		**(308,877)**	**(75,694)**
				in EUR
23	Basic earnings per share	17	(41.35)	(10.53)
24	Diluted earnings per share	17	(41.35)	(10.53)

These financial statements were approved for issue by the Management Board on 14 March 2014 and signed on its behalf by:

Management Board

Igor STEBERNAK
Member of the Management Board

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

The notes on pages 113 to 224 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME OF ABANKA VIPA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	2		3	4
1	**NET LOSS FOR THE FINANCIAL YEAR AFTER TAX**		**(308,877)**	**(75,694)**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3)		**5,007**	**15,553**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (3.1+3.2)		**5,007**	**15,553**
3.1	Available-for-sale financial assets (3.1.1+3.1.2)		6,170	19,084
3.1.1	Net valuation (losses)/gains taken to equity	21	(8,978)	16,000
3.1.2	Net losses transferred to profit or loss		15,148	3,084
3.2	Income tax relating to items that may be reclassified to profit or loss	36	(1,163)	(3,531)
4	**TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**(303,870)**	**(60,141)**

These financial statements were approved for issue by the Management Board on 14 March 2014 and signed on its behalf by:

Management Board

Igor STEBERNAK
Member of the Management Board

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

The notes on pages 113 to 224 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF ABANKA VIPA D.D.

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2013	2012
1	**2**		**3**	**4**
1	Cash and cash balances w ith the central bank	18	375,581	214,708
2	Financial assets held for trading	19	13,994	20,469
3	Financial assets designated at fair value through profit or loss	20	2,436	11,515
4	Available-for-sale financial assets	21	506,684	496,132
5	Loans and receivables		1,933,427	2,613,727
	– loans to banks	22	107,273	80,864
	– loans to non-bank customers	23	1,820,677	2,527,155
	– other financial assets	24	5,477	5,708
6	Held-to-maturity investments	25	143,458	152,982
7	Non-current assets held for sale	26	59	1,938
8	Property and equipment	26	33,878	35,136
9	Investment property	26	74	78
10	Intangible assets	26	4,470	3,755
11	Investments in subsidiaries	27	12,670	8,901
12	Tax assets		7,605	36,086
	– deferred tax assets	36	7,605	36,086
13	Other assets		2,137	2,559
14	**TOTAL ASSETS** (from 1 to 13)		**3,036,473**	**3,597,986**

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2013	2012
1	**2**		**3**	**4**
15	Deposits and loans from the central bank	29	456,213	533,857
16	Financial liabilities held for trading	19	11,174	17,931
17	Financial liabilities designated at fair value through profit or loss	30	8,842	8,760
18	Financial liabilities measured at amortised cost		2,317,799	2,841,626
	– deposits from banks	31	10,855	11,263
	– deposits from non-bank customers	31	1,894,043	2,134,035
	– loans from banks	31	351,927	453,750
	– loans from non-bank customers		96	10,094
	– debt securities issued	32	50,560	104,208
	– subordinated liabilities	33	–	119,050
	– other financial liabilities	34	10,318	9,226
19	Provisions	35	28,086	26,248
20	Tax liabilities		90	226
	– deferred tax liabilities	36	90	226
21	Other liabilities		1,575	780
22	TOTAL LIABILITIES (from 15 to 21)		2,823,779	3,429,428
23	Share capital	37	150,000	7,200
24	Share premium	37	39,617	143,288
25	Revaluation reserves	37	9,854	4,847
26	Reserves from profit	37	13,223	13,463
27	Treasury shares	37	–	(240)
28	TOTAL EQUITY (from 23 to 27)		212,694	168,558
29	**TOTAL LIABILITIES AND EQUITY** (22+28)		**3,036,473**	**3,597,986**

These financial statements were approved for issue by the Management Board on 14 March 2014 and signed on its behalf by:

Management Board

Igor STEBERNAK
Member of the Management Board

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

The notes on pages 113 to 224 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF ABANKA VIPA D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2013

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Loss from the current year	Treasury shares (equity deduction item)	**Total equity** (from 3 to 8)
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**7,200**	**143,288**	**4,847**	**13,463**	**–**	**(240)**	**168,558**
2	**Comprehensive loss for the financial year after tax**	**–**	**–**	**5,007**	**–**	**(308,877)**	**–**	**(303,870)**
3	Termination of the Bank's qualified liabilities (Note 37)	(7,200)	7,200	–	(240)	–	240	–
4	New share capital subscribed (paid) (Note 37)	150,000	198,000	–	–	–	–	348,000
5	Covering of the loss from the current year (Note 38)	–	(308,871)	–	(6)	308,877	–	–
6	Other	–	–	–	6	–	–	6
7	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5+6)**	**150,000**	**39,617**	**9,854**	**13,223**	**–**	**–**	**212,694**

STATEMENT OF CHANGES IN EQUITY OF ABANKA VIPA D.D. FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2012

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Loss from the current year	Treasury shares (equity deduction item)	**Total equity** (from 3 to 8)
1	2	3	4	5	6	7	8	9
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**30,045**	**153,117**	**(10,706)**	**56,473**	**–**	**(240)**	**228,689**
2	**Comprehensive loss for the financial year after tax**	**–**	**–**	**15,553**	**–**	**(75,694)**	**–**	**(60,141)**
3	Covering of the loss from the current year	(22,845)	(9,829)	–	(43,020)	75,694	–	–
4	Other	–	–	–	10	–	–	10
5	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4)**	**7,200**	**143,288**	**4,847**	**13,463**	**–**	**(240)**	**168,558**

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Management Board

Igor STEBERNAK
Member of the Management Board

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

The notes on pages 113 to 224 are an integral part of these financial statements.

CASH FLOW STATEMENT OF ABANKA VIPA D.D.

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	2		3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total loss before tax		(281,695)	(80,500)
	Depreciation and amortisation	13	5,064	5,167
	Impairments of financial assets available for sale	15	16,013	8,784
	Impairments of loans and receivables	15	395,603	116,905
	Impairments of other assets/intangible assets	15	53	19
	Net losses/(gains) from exchange differences		145	(282)
	Net (gains) from financial assets held to maturity		(21)	–
	Net (gains)/losses from sale of tangible assets		(6)	21
	Other (gains) from investing activities	39	(5,654)	(5,010)
	Other (gains)/losses from financing activities	39	(118,414)	3,478
	Net unrealised losses from non-current assets held for sale		1,024	6
	Other adjustments to total profit or loss before tax	39	2,243	2,653
	Cash flow from operating activities before changes in operating assets and liabilities		**14,355**	**51,241**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**		**302,693**	**417,284**
	Net decrease in financial assets held for trading		6,477	10,732
	Net decrease in financial assets designated at fair value through profit or loss		9,079	11,316
	Net (increase)/decrease in financial assets available for sale		(20,614)	56,728
	Net decrease in loans and receivables		307,401	335,359
	Net (increase) in non-current assets held for sale		(19)	(6)
	Net decrease in other assets		369	3,155
c)	**(Decreases) in operating liabilities**		**(485,732)**	**(558,049)**
	Net (decrease)/increase in financial liabilities to central bank		(77,644)	333,795
	Net (decrease)/increase in financial liabilities held for trading		(6,757)	2,789
	Net increase in financial liabilities designated at fair value through profit or loss		82	497
	Net (decrease) in deposits and loans measured at amortised cost		(348,560)	(461,483)
	Net (decrease) in debt instruments issued measured at amortised cost		(53,648)	(431,955)
	Net increase/(decrease) in other liabilities		795	(1,692)
d)	**Cash flow from operating activities (a+b+c)**		**(168,684)**	**(89,524)**
e)	**Income taxes (paid)/refunded**		**–**	**1,824**
f)	**Net cash flow from operating activities (d+e)**		**(168,684)**	**(87,700)**

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

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	2		3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**161,418**	**49,692**
	Receipts from the sale of tangible assets		11	26
	Receipts from the sale of financial assets held to maturity	25	161,407	49,666
b)	**Cash payments on investing activities**		**(152,789)**	**(101,408)**
	(Cash payments to acquire tangible assets and investment properties)		(2,023)	(3,538)
	(Cash payments to acquire intangible assets)		(2,517)	(1,877)
	(Cash payments for the investment in subsidiaries)		–	(1,139)
	(Cash outflow to non-current assets or liabilities held for sale)		(2,040)	–
	(Cash payments to acquire held to maturity investments)		(146,209)	(94,854)
c)	**Net cash flow from investing activities (a+b)**		**8,629**	**(51,716)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**348,000**	**–**
	Cash proceeds from issuing shares and other equity instruments	37	348,000	–
b)	**Cash payments on financing activities**		**(636)**	**(3,488)**
	(Cash repayments of subordinated liabilities)	33	(636)	(3,488)
c)	**Net cash flow from financing activities (a+b)**		**347,364**	**(3,488)**
D.	Effects of change in exchange rates on cash and cash equivalents		(2,411)	(362)
E.	**Net increase/(decrease) in cash and cash equivalents (Af+Bc+Cc)**		**187,309**	**(142,904)**
F.	**Opening balance of cash and cash equivalents**		**278,635**	**421,901**
G.	**Closing balance of cash and cash equivalents (D+E+F)**	**39**	**463,533**	**278,635**

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Management Board

Igor STEBERNAK
Member of the Management Board

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

The notes on pages 113 to 224 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT OF THE ABANKA VIPA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	**2**		**3**	**4**
1	Interest income	5	127,137	177,961
2	Interest expenses	5	(73,038)	(106,865)
3	**Net interest income (1+2)**		**54,099**	**71,096**
4	Dividend income	6	723	1,470
5	Fee and commission income	7	42,027	42,887
6	Fee and commission expenses	7	(12,908)	(13,095)
7	**Net fee and commission income (5+6)**		**29,119**	**29,792**
8	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	8	122,006	5,406
9	Net gains on financial assets and liabilities held for trading	9	2,577	835
10	Losses on financial assets and liabilities designated at fair value through profit or loss	10	(407)	(1,705)
11	Exchange differences		(52)	554
12	Net gains/(losses) on derecognition of assets other than held for sale		22	(225)
13	Net other operating expenses	11	(12,817)	(2,461)
14	Administration costs	12	(54,068)	(53,498)
15	Depreciation and amortisation	13	(5,774)	(5,939)
16	Provisions	14	(3,393)	(1,880)
17	Impairment	15	(407,542)	(127,546)
18	Share of loss of associates and joint ventures accounted for using the equity method		(1,134)	(517)
19	Total loss from non-current assets held for sale		(1,228)	(6)
20	TOTAL LOSS BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)		(277,869)	(84,624)
21	Tax (expense)/income related to loss from continuing operations	16	(28,644)	3,559
22	TOTAL LOSS AFTER TAX FROM CONTINUING OPERATIONS (20+21)		(306,513)	(81,065)
23	**NET LOSS for the financial year (22)**		**(306,513)**	**(81,065)**
	a) Loss attributable to owners of the parent		(306,534)	(81,063)
	b) Profit/(loss) attributable to non-controlling interests		21	(2)
				in EUR
24	Basic earnings per share	17	(41.04)	(11.27)
25	Diluted earnings per share	17	(41.04)	(11.27)

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE ABANKA VIPA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	2		3	4
1	**NET LOSS FOR THE FINANCIAL YEAR AFTER TAX**		**(306,513)**	**(81,065)**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX** (3)		**5,002**	**15,343**
3	**ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS** (3.1+3.2+3.3)		**5,002**	**15,343**
3.1	Foreign currency translation (3.1.1)		(20)	(237)
3.1.1	Translation losses taken to equity		(20)	(237)
3.2	Available-for-sale financial assets (3.2.1+3.2.2)		6,187	19,120
3.2.1	Net valuation (losses)/gains taken to equity	21	(8,984)	15,989
3.2.2	Net losses transferred to profit or loss		15,171	3,131
3.3	Income tax relating to items that may be reclassified to profit or loss	36	(1,165)	(3,540)
4	**TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**(301,511)**	**(65,722)**
	a) Loss attributable to owners of the parent		(301,532)	(65,720)
	b) Profit/(loss) attributable to non-controlling interests		21	(2)

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ABANKA VIPA GROUP

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2013	2012
1	**2**		**3**	**4**
1	Cash and cash balances with the central bank	18	375,581	214,708
2	Financial assets held for trading	19	13,994	20,641
3	Financial assets designated at fair value through profit or loss	20	2,436	11,515
4	Available-for-sale financial assets	21	506,684	496,340
5	Loans and receivables		1,924,473	2,603,881
	– loans to banks	22	108,965	81,970
	– loans to non-bank customers	23	1,809,717	2,515,942
	– other financial assets	24	5,791	5,969
6	Held-to-maturity investments	25	143,458	152,982
7	Non-current assets held for sale	26	59	1,938
8	Property and equipment	26	50,512	54,692
9	Investment property	26	1,050	809
10	Intangible assets	26	4,710	4,105
11	Tax assets		7,958	37,476
	– current tax assets		–	38
	– deferred tax assets	36	7,958	37,438
12	Other assets		17,488	14,925
13	**TOTAL ASSETS** (from 1 to 12)		**3,048,403**	**3,614,012**

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

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2013	2012
1	**2**		**3**	**4**
14	Deposits and loans from the central bank	29	456,213	533,857
15	Financial liabilities held for trading	19	11,174	17,931
16	Financial liabilities designated at fair value through profit or loss	30	8,842	8,760
17	Financial liabilities measured at amortised cost		2,327,132	2,859,253
	– deposits from banks	31	10,855	11,263
	– deposits from non-bank customers	31	1,886,057	2,129,631
	– loans from banks	31	367,391	473,862
	– loans from non-bank customers		–	10,005
	– debt securities issued	32	50,560	104,208
	– subordinated liabilities	33	–	119,050
	– other financial liabilities	34	12,269	11,234
18	Provisions	35	30,474	27,131
19	Tax liabilities		454	226
	– current tax liabilities		364	–
	– deferred tax liabilities	36	90	226
20	Other liabilities		1,975	1,210
21	TOTAL LIABILITIES (from 14 to 20)		2,836,264	3,448,368
22	Share capital	37	150,000	7,200
23	Share premium	37	39,617	143,288
24	Revaluation reserves	37	9,551	4,549
25	Reserves from profit	37	13,398	13,638
26	Treasury shares	37	–	(240)
27	Retained earnings (including loss from the current year)		(456)	(2,799)
28	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (from 22 to 27)		212,110	165,636
29	Equity attributable to non-controlling interests		29	8
30	TOTAL EQUITY (28+29)		212,139	165,644
31	**TOTAL LIABILITIES AND EQUITY** (21+30)		**3,048,403**	**3,614,012**

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA VIPA GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2013

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including loss from the current year)	Treasury shares (equity deduction item)	**Equity attributable to owners of the parent** (from 3 to 8)	Equity attributable to non-controlling interests	**Total equity** (9 + 10)
1	2	3	4	5	6	7	8	9	10	11
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**7,200**	**143,288**	**4,549**	**13,638**	**(2,799)**	**(240)**	**165,636**	**8**	**165,644**
2	**Consolidated comprehensive loss for the financial year after tax**	**–**	**–**	**5,002**	**–**	**(306,534)**	**–**	**(301,532)**	**21**	**(301,511)**
3	Termination of the Bank's qualified liabilities (Note 37)	(7,200)	7,200	–	(240)	–	240	**–**	–	**–**
4	New share capital subscribed (paid) (Note 37)	150,000	198,000	–	–	–	–	**348,000**	–	**348,000**
5	Covering of the loss from the current year (Note 38)	–	(308,871)	–	(6)	308,877	–	**–**	–	**–**
6	Other	–	–	–	6	–	–	**6**	–	**6**
7	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5+6)**	**150,000**	**39,617**	**9,551**	**13,398**	**(456)**	**–**	**212,110**	**29**	**212,139**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE ABANKA VIPA GROUP FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2012

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves	Reserves from profit	Retained earnings (including loss from the current year)	Treasury shares (equity deduction item)	**Equity attributable to owners of the parent** (from 3 to 8)	Equity attributable to non-controlling interests	**Total equity** (9 + 10)
1	2	3	4	5	6	7	8	9	10	11
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**30,045**	**153,117**	**(10,794)**	**57,556**	**1,662**	**(240)**	**231,346**	**10**	**231,356**
2	**Consolidated comprehensive loss for the financial year after tax**	**–**	**–**	**15,343**	**–**	**(81,063)**	**–**	**(65,720)**	**(2)**	**(65,722)**
3	Covering of the loss brought forward	–	–	–	(731)	731	–	**–**	–	**–**
4	Covering of the loss from the current year	(22,845)	(9,829)	–	(43,197)	75,871	–	**–**	–	**–**
5	Other	–	–	–	10	–	–	**10**	–	**10**
6	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5)**	**7,200**	**143,288**	**4,549**	**13,638**	**(2,799)**	**(240)**	**165,636**	**8**	**165,644**

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Member of the Management Board

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

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CONSOLIDATED CASH FLOW STATEMENT OF THE ABANKA VIPA GROUP

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	2		3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total loss before tax		(277,869)	(84,624)
	Depreciation and amortisation	13	5,774	5,939
	Impairments of financial assets available for sale	15	16,013	8,858
	Impairments of loans and receivables	15	385,775	117,794
	Impairments of tangible assets, investment property and other assets	15	5,754	894
	Share of the loss of associates accounted for using the equity method		1,134	517
	Net losses/(gains) from exchange differences		52	(554)
	Net (gains) from financial assets held to maturity		(21)	–
	Net (gains)/losses from sale of tangible assets and investment properties		(22)	27
	Other (gains) from investing activities	39	(5,654)	(5,010)
	Other (gains)/losses from financing activities	39	(118,414)	3,478
	Net unrealised losses from non-current assets held for sale		1,228	6
	Other adjustments to total profit or loss before tax	39	3,747	3,007
	Cash flow from operating activities before changes in operating assets and liabilities		**17,497**	**50,332**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**		**310,197**	**438,786**
	Net decrease in financial assets held for trading		6,649	10,728
	Net decrease in financial assets designated at fair value through profit or loss		9,079	11,316
	Net (increase)/decrease in financial assets available for sale		(20,389)	56,846
	Net decrease in loans and receivables		316,320	357,597
	Net decrease/(increase) in non-current assets held for sale		2,916	(6)
	Net (increase)/decrease in other assets		(4,378)	2,305
c)	**(Decreases) in operating liabilities**		**(494,074)**	**(579,741)**
	Net (decrease)/increase in financial liabilities to central bank		(77,644)	333,795
	Net (decrease)/increase in financial liabilities held for trading		(6,757)	2,789
	Net increase in financial liabilities designated at fair value through profit or loss		82	497
	Net (decrease) in deposits and loans measured at amortised cost		(356,854)	(483,494)
	Net (decrease) in debt instruments issued measured at amortised cost		(53,648)	(431,955)
	Net increase/(decrease) in other liabilities		747	(1,373)
d)	**Cash flow from operating activities (a+b+c)**		**(166,380)**	**(90,623)**
e)	**Income taxes (paid)/refunded**		**(64)**	**1,783**
f)	**Net cash flow from operating activities (d+e)**		**(166,444)**	**(88,840)**

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

Designation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2013	2012
1	2		3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**161,922**	**50,230**
	Receipts from the sale of tangible assets		515	564
	Receipts from the sale of financial assets held to maturity	25	161,407	49,666
b)	**Cash payments on investing activities**		**(155,188)**	**(102,092)**
	(Cash payments to acquire tangible assets and investment properties)		(3,267)	(5,307)
	(Cash payments to acquire intangible assets)		(2,538)	(1,931)
	(Cash payments for the investment in associates)		(1,134)	–
	(Cash outflow to non-current assets or liabilities held for sale)		(2,040)	–
	(Cash payments to acquire held to maturity investments)		(146,209)	(94,854)
c)	**Net cash flow from investing activities (a+b)**		**6,734**	**(51,862)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**348,000**	**–**
	Cash proceeds from issuing shares and other equity instruments	37	348,000	–
b)	**Cash payments on financing activities**		**(636)**	**(3,488)**
	(Cash repayments of subordinated liabilities)	33	(636)	(3,488)
c)	**Net cash flow from financing activities (a+b)**		**347,364**	**(3,488)**
D.	Effects of change in exchange rates on cash and cash equivalents		(2,411)	(362)
E.	**Net increase/(decrease) in cash and cash equivalents (Af+Bc+Cc)**		**187,654**	**(144,190)**
F.	**Opening balance of cash and cash equivalents**		**279,189**	**423,741**
G.	**Closing balance of cash and cash equivalents (D+E+F)**	**39**	**464,432**	**279,189**

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Management Board

Igor STEBERNAK
Member of the Management Board

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

The notes on pages 113 to 224 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity

Abanka Vipa d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the year ended 31 December 2013 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interests in the associated companies. The Group is primarily involved in corporate, retail and investment banking, and in providing asset management services.

1.1 Basis of preparation

(a) Basis of preparation

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

Facts and circumstances

After two unsuccessful attempts to increase its capital in February and July 2013, and according to the estimation that the Bank will not be able to attract any foreign investor without the transfer of non-performing assets to the Bank Asset Management Company (BAMC), in accordance with the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability (ZUKSB), on 10 July 2013, Abanka sent to the Interdepartmental Commission an initiative to take measures under the Decree on the Implementation of Measures to Strengthen Bank Stability, i.e. for transferring its bad debt to the Bank Asset Management Company (BAMC).

On 18 July 2013, the Government of the Republic of Slovenia adopted the decision stating that Abanka, defined as a bank of systemic importance for the Slovene banking system in the decision of the Bank of Slovenia dated 4 October 2011, had met the requirements to apply the measures for strengthening bank stability, which resulted in the performance of an independent external review of the quality of the Bank's assets and a stress test conducted by external independent consultants from August to December 2013.

On 12 December 2013, the Bank of Slovenia and the Ministry of Finance (press release available at http://www.bsi.si/iskalniki/sporocila-za-javnost-en.asp) presented the results of stress tests conducted at banks, including Abanka, showing (among other things) that the estimated capital increase needed in Abanka amounted to EUR 591 million. On 12 December 2013, the Government of the Republic of Slovenia adopted the decision to increase Abanka's capital by EUR 348 million in cash, the amount that, according to the independent review of the Bank's assets quality and the stress test performed, was considered necessary for the operation of Abanka in the period to the receipt of the final favourable opinion by the European Commission on the compliance of the measures for strengthening the Abanka's stability with the EU state aid rules. The remaining part of the capital increase that Abanka requires for its long-term sustainable operation is conditional upon receiving a final favourable opinion from the European Commission.

According to the Decision of the Bank of Slovenia on Extraordinary Measures, dated 17 December 2013 (summary available in a press release at http://www.bsi.si/iskalniki/sporocila-za-javnost-en.asp), as at 18 December 2013, all qualified liabilities of the Bank (as stated in Article 261.a of the Banking Act) fully ceased to exist (Notes 33 and 37) and the Bank's capital increased through EUR 348 million paid in for new shares. As a result, the Republic of Slovenia now holds 100% of the share capital. On 18 December 2013, the European Commission issued an interim decision regarding the state aid to Abanka ((SA.37690 (13/N)) and approved the first part of the Abanka's capital increase to the Republic of Slovenia. The European Commission will issue its final decision after the restructuring plan has been approved. Following the effected capital increase, as at 31 December 2013

NOTES TO THE FINANCIAL STATEMENTS (continued)

the consolidated total capital adequacy ratio[1] reached 9.47% (non-consolidated 9.57%), whilst the consolidated Tier 1 and Core Tier 1 capital ratios amounted to 9.30% (non-consolidated 9.40%) as explained in detail in Note 2.4.

A restructuring plan of Abanka was prepared by 18 February 2014, as expected by the European Commission and based on the Commission's interim decision that had approved the capital increase of Abanka by the Republic of Slovenia. The restructuring plan also included the transfer of non-performing assets to the Bank Asset Management Company (BAMC) (Note 2.1.4e) and a further capital increase (expected in government securities in the estimated amount of EUR 243 million) to be carried out by the Republic of Slovenia after the receipt of the final decision of the European Commission, which the Management Board expects will be favourable. After the capital increase process has been completed, the Core Tier 1 capital ratio of the Bank will be approximately 15%. A restructuring plan of the Bank was submitted to the European Commission. The Management Board estimates that the plan is realistic and feasible, which has also been confirmed by business operations analysis after the reporting date. To the date of this report, the European Commission has not yet issued its final decision, and there is uncertainty as to when this will be received.

Conclusion
On the basis of the above, the Management Board, according to its knowledge about the facts and circumstances on the date of approval of these financial statements, believes that it is appropriate to prepare the financial statements on a going concern basis, having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

(b) Statement of compliance
The financial statements of the Bank and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

The scope of information and notes included in the Group's Annual Report and the breakdown of financial statements are also prescribed in the Companies Act and in the Decision on the Books of Account and Annual Reports of (Savings) Banks issued by the Bank of Slovenia.

(c) Basis of measurement
The financial statements of the Bank and the consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:
• derivative financial instruments are measured at fair value;
• financial instruments at fair value through profit or loss are measured at fair value;
• available-for-sale financial assets are measured at fair value.

(d) Functional and presentation currency
The financial statements of the Bank and the consolidated financial statements are presented in euros, which is the Bank's functional currency. All financial information presented in euros has been rounded to the nearest thousand unless otherwise stated.

(e) Use of estimates and judgements
The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information on critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 3 – Critical accounting estimates and judgments in applying accounting policies.

[1] In accordance with Bank of Slovenia's Regulation on the Calculation of the Capital of Banks and Savings Banks (in force untill 31 December 2013)

NOTES TO THE FINANCIAL STATEMENTS (continued)

(f) Standards, interpretations and amendments issued but not yet effective

The Group has chosen not to early adopt the following standards and interpretations that have been issued and endorsed by EU, but which have not yet taken effect for accounting periods beginning on 1 January 2013:

- IAS 27 (revised) "Separate Financial Statements" (effective 1 January 2014);
  IAS 27 (2011) includes the existing requirements of IAS 27, IAS 28 and IAS 31. The standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.
- IAS 28 (revised) "Investments in Associates and Joint Ventures" (effective 1 January 2014);
  The main change is that for any retained portion of the investment that has not been classified as held for sale, the equity method is applied until the disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture. In the case of the cessation of significant influence or joint control when significant influence was succeeded by joint control, the retained interest in the investment is not re-measured.
- Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2014);
  The Amendments do not introduce new rules for offsetting financial assets and liabilities; in fact, they clarify the offsetting criteria to address inconsistencies in their application.
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" (effective 1 January 2014);
  The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generating units for which an impairment loss was recognised or reversed during the period.
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" (effective 1 January 2014);
  The Amendments allows hedge accounting to continue in a situation in which a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met: the novation is made as a consequence of laws or regulations; a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument; changes to the terms of the derivative are limited to those necessary to replace the counterparty.
- IFRS 9 "Financial Instruments";
  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and to add new requirements to address the impairment of financial assets.
  The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.
  The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.
  IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.
  IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.
The Group has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2014);
  The standard provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduced new requirements to assess control that are different from the existing requirements in IAS 27 (2008).
- IFRS 11 "Joint Arrangements" (effective 1 January 2014);
  The standard supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2014);
  The standard requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.
- IFRIC 21 "Levies" (effective 1 January 2014);
  The interpretation defines levy as an outflow of cash from the company required by the government in accordance with the law. The interpretation requires that an entity recognises the liability for paying the levy when, and only when a trigger event occurs.

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

In 2013, the Group applied for the first time IFRS 13 "Fair value measurement", effective for the annual period beginning on 1 January 2013. The standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. Accordingly, the scope of disclosure was significantly expanded (Note 3(d)).

1.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

In the separate financial statements of the Bank, investments in subsidiaries are measured at cost.

(b) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(c) Associates
Associates are all entities in which the Group has between 20% and 50% of the voting rights and over which the Group has significant influence, but does not control. In the consolidated financial statements, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified upon acquisition.

The Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associate.

In the separate financial statements of the Bank, investments in associates are measured at cost.

1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board of the Bank.

In accordance with IFRS 8, the Group has the following business segments: retail banking, corporate banking and financial markets.

1.4 Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Bank and its subsidiaries in Slovenia is the euro, whereas the functional currency of two of the Group's subsidiaries is the national currency of Serbia, i.e. the Serbian dinar (RSD), and the national currency of Croatia, i.e. the Croatian kuna (HRK). The functional currency of associates is the Bosnia and Herzegovina convertible mark (BAM).

(a) Transactions and balances
Foreign currency transactions are translated into the respective functional currency of the operation, using the spot exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the ECB reference rate as at that date. The foreign exchange gains and losses on monetary items are the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate as at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate as at the date that fair value was determined. Foreign currency differences arising from retranslation are recognised in profit or loss, except for differences arising from the retranslation of available-for-sale equity instruments that are recognised directly in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of the historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

(b) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euros at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euros at spot exchange rates as at the dates of the transactions.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income in the translation reserve, which is part of the revaluation reserves. However, if the operation is not wholly owned, the relevant proportional share of the difference is instead allocated to the non-controlling interest. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss upon disposal. When the Group disposes of only

NOTES TO THE FINANCIAL STATEMENTS (continued)

part of its interest in a subsidiary that includes a foreign operation, whilst retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate that includes a foreign operation, whilst retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve, which is part of the revaluation reserves.

1.5 Financial assets and financial liabilities

The Group initially recognises loans and receivables, debt securities and given deposits on the date that they originate. Regular purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchasing and selling the asset.

A financial asset is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset in the statement of financial position. Upon the de-recognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition. Reclassifications after initial recognition are also possible under certain circumstances.

Borrowings are recognised initially at the fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss.

Deposits from banks and non-bank customers are measured at amortised cost.

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

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading, unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:
- doing so significantly reduces measurement inconsistencies that would arise if the related instruments were classified in different groups of financial instruments and therefore valued differently; or
- financial instruments containing one or more embedded derivatives that significantly modify the cash flows are designated at fair value through profit or loss; or

NOTES TO THE FINANCIAL STATEMENTS (continued)

- certain instruments, such as equity investments, which are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit or loss.

The payments of the structured deposits are equity-indexed, which results in dissimilar risks inherent in the host and embedded derivative. The Group therefore designates the compound financial instruments as financial liabilities at fair value through profit or loss.

Interest income and expenses, and dividend income on financial assets at fair value through profit or loss are included in "Net interest income" or "Dividend income", respectively.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held-for-trading and those that the entity designates at fair value through profit or loss upon initial recognition; (b) those that the entity designates as available for sale upon initial recognition; or (c) those for which the holder may not substantially recover all of its initial investment, other than because of credit deterioration.

(c) Held-to-maturity financial assets
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

(d) Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets can be reclassified to loans and receivables category if they can be classified as loans and receivables at the moment of reclassification, and the Group has the ability and intent to hold the financial asset for the foreseeable future or until maturity.

Amortised cost measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. The method is explained in Note 1.8 Interest income and expenses.

Fair value measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Interest earned whilst holding trading securities is reported as interest income. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

Fair value measurement, valuation methods and the assumptions applied are additionally disclosed in Note 3(d). The fair value hierarchy is described and disclosed in the same note.

Impairment of financial assets is described in Note 1.11.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.6 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The ISDA (International Swaps and Derivatives Association) and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group or the counterparties or following other predetermined events. In addition, the Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

1.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

All derivatives of the Group are classified as held-for-trading (Note 19). Changes in the fair value of derivative instruments are recognised immediately in the income statement.

Past due receivables from derivatives remain recorded under the same item of financial assets (derivatives) and are not reclassified under other receivables. When objective evidence of the possible impairment of derivative financial assets due to credit risk exists, the Group assesses the impairment loss and recognises it in the valuation of the derivative.

1.8 Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised within “interest income” and “interest expenses” in the income statement, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.9 Fee and commission income and expenses

Fees and commissions received are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct cost) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed, and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating or participating in the negotiation of a transaction for a third party (e.g. the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses) are recognised upon completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Fees and commissions paid that are mostly related to payment transactions are recognised as the Group's expenses as they arise.

1.10 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

1.11 Impairment of financial assets

(a) Assets carried at amortised cost

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are recognised if there is objective evidence of impairment of a financial asset as a result of one or more events that occurred after the initial recognition of the asset and have an impact on the future cash flows that can be reliably estimated. The Group first estimates whether there is an impartial evidence of the impairment or possibility of loss, such as: significant financial difficulties for the debtor; an actual breach of contract (such as a failure to pay interest, the principal, fees and commissions); restructuring of financial assets; the existence or probability of bankruptcy or financial reorganisation; a measurable decline in the projected cash flows of a group of financial assets from the initial recognition of those assets, even though the decline cannot yet be allocated to individual assets in the group, including negative changes when settling debts in the group of financial assets, or national or local economic conditions associated with the failure to settle financial assets in the group.

The Group first assesses whether objective evidence of impairment exists for individually significant financial assets. If the Group determines that no objective evidence of impairment exists for an individually significant financial asset, such asset is included in a group of financial assets exposed to similar credit risks. The group of financial assets is then examined for signs of impairment. The assets that have been individually assessed for impairment and for which any signs of impairment loss have been established are excluded from a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or held-to-maturity financial asset has been incurred, the amount of the 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) discounted at the contractual interest rate which does not substantially differ from the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the impairment of a financial asset carried at amortised cost may be measured at the asset's fair value, using a market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the present value of expected cash flows resulting from the foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

NOTES TO THE FINANCIAL STATEMENTS (continued)

When assessing collective impairments, financial assets are grouped on the basis of similar credit risk characteristics that indicate the debtor's ability to pay all amounts due according to the contractual terms. Such homogenous groups are formed according to the following criteria: the type of debtor; the debtor's credit rating; stability of the debtor's operations; the credit rating of the financial asset; the type of collateral.

Exposures to companies are grouped according to the credit rating of individual debtor. Credit risk loss is calculated for any individual group of companies on the basis of an aggregate unweighted transition matrix and calculated average debt un-recovery rate of defaulters. The aggregate unweighted transition matrix, composed of annual unweighted transition matrices, sets out the probability of debtor transfers from one credit group to another credit group over one year. Past experiences with losses and factors indicating the current state are taken into account when evaluating losses. Percentages of loss from credit risk for the collective assessed companies are calculated once per year or during the year if there are significant changes in circumstances within the Group and/or in the market.

Exposures to individuals are grouped according to the credit rating of the financial assets. Classification of the financial assets of individuals is based on objective criteria, such as the regularity of settling liabilities to the Group. Any necessary impairment is formed on the basis of the assessed loss that corresponds to the credit rating of the financial asset.

Non-risky balance sheet items are not assessed for impairments. Exposures secured with best-quality collateral are not impaired.

The Group regularly checks the methodology and assumptions used when assessing losses. The assessment of loss must be brought into line with the changed circumstances, both in the Group and in the market, or with changes in legislation.

If the Bank, in its debt collection process, assesses that a financial asset measured at amortised costs will not be recovered and the conditions for its de-recognition from the statement of financial position have been fulfilled, the Bank writes it off through the use of the previously established allowance account and keeps it in the off-balance sheet records until the legal basis for the completion of the collection process has been obtained, also observing the provisions of the Decision on Estimating Credit Risk Losses of Banks and Savings Banks.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance for impairment. The amount of the reversal is recognised in the income statement in impairment losses.

Restructuring of loans

Restructuring of financial assets includes activities pursued by the Group in relation to borrowers on whom it has outstanding claims due to a default. The Group assesses whether the restructuring of a debtor's exposure is reasonable. If the restructuring is reasonable, the Group forms an adequate restructuring plan and monitors its implementation and effects.

The restructuring of these claims may include one or several activities that would not have been pursued had the defaulter been in a normal economic and financial position. Restructuring activities include:

- grace period and/or principal repayment rescheduling;
- partial write-off;
- interest rate change; and
- other adequate measures.

When the Group decides for individual debt restructuring, such debt remains classified as restructured until fully recovered.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Assets carried at fair value

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group carries out an assessment of whether there is objective evidence of impairment of the equity and debt instruments classified as available-for-sale financial assets, whose fair value reserve is negative (deficit). Evidence for impairment of an available-for-sale equity investment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environments in which the issuer of the equity instrument operates, which indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also regarded by the Group as objective evidence of impairment. During the period of a significant or prolonged decline in the fair value, the Group continuously recognises a loss in fair value reserve in relation to the relevant equity security.

The key indicator for debt securities impairment is the issuer's performance, i.e. its credit rating and the breach of contractual obligations. If there is objective evidence of impairment of an available-for-sale debt instrument, such an instrument has to be impaired.

Upon the impairment of available-for-sale financial assets, the amount of the cumulative revaluation loss (difference between the current fair value and the acquisition cost for equity instruments or amortised cost for debt instruments), recognised directly in equity, is removed from equity and recognised in profit or loss.

Impairment losses recognised in the income statement on equity instruments are not 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, the impairment loss is reversed through the income statement.

1.12 Property and equipment, intangible assets, investment property and non-current assets held for sale

Land and buildings mainly comprise investments in branches and offices. All property and equipment is stated at the historical cost less depreciation and impairment loss. The historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to administration costs during the financial period in which they are incurred.

The Group includes licences and software among its intangible assets. Intangible assets are valued at historical cost upon initial recognition. Subsequent valuation is made using the historical cost model. All intangible assets have finite useful lives. In line with the historical cost model, intangible assets are recorded at the historical cost less amortisation and the accumulated impairment loss.

Investment property includes land and buildings leased out under an operating lease. Investment property is valued at the historical cost upon initial recognition. Subsequent valuation is made using the historical cost model, as made for property and equipment. The same accounting treatment that applies to property and equipment is applied to investment property.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

	2013	2012
Buildings	2–3%	2–3%
Equipment	14–20%	14–20%
Computers	10–50%	10–50%
Intangible assets	25–33.3%	25–33.3%

The residual values and useful lives of assets are reviewed and adjusted if appropriate at each reporting date. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on the disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in gains and losses upon the de-recognition of assets other than those held for sale in the income statement.

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for the sale of such assets. Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of the carrying amount or the fair value less costs to sell, and reported within “Non-current assets held for sale”.

1.13 Impairment of investments in subsidiaries and associates

In line with IAS 36, when assessing the impairment of investments in subsidiaries and associates, the Group reviews not only objective evidence of impairment, but also any indication that an investment in a subsidiary or associate may be impaired. In addition to indications from external and internal sources of information, the Group takes into account other indications of possible impairment, such as the decision of a company’s management to wind the company up or underperformance.

If there is objective evidence or an indication that an investment in a subsidiary or associate may be impaired, according to IAS 36 the Group calculates the impairment amount as the difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is the higher of an investment’s:

- fair value less costs to sell; or
- value in use, which equals the present value of the future cash flows expected to arise from this investment, discounted at the current market rate of return on a similar financial asset.

If any of these amounts exceeds the carrying value, the financial asset is not impaired, and the other amount need not be assessed. If expected future cash flows cannot be estimated to calculate the value in use, the Group calculates the necessary impairments using the net asset value method (the asset accumulation method), or as the difference between the carrying amount of a financial asset and the equity book value of the company into which the Group has invested, and does so by reference to its proportional share in equity.

At each reporting date, an assessment is made whether previous impairments of non-financial assets may be reversed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1.14 Leases

A group company is the lessor

A lease is classified as a finance lease if it transfers all the substantial risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer all the substantial risks and rewards incidental to ownership.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is treated as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Aleasing is the only subsidiary company in the Group that provides assets under finance lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as costs. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as costs over the lease term on the same basis as the lease income.

A group company is the lessee

The leases entered into by the Group are primarily operating leases. The Group rents business premises, equipment, cars and locations for cash machines. The total payments made under operating leases are charged to administration costs. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as a cost in the period in which termination takes place.

1.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with the central bank, amounts due from other banks and ECB eligible securities held for trading, designated at fair value through profit or loss and available-for-sale.

1.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small (Note 40b).

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

1.17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs, because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise the fee income earned on a straight line basis over the life of the guarantee and contingent liability or provision in accordance with IAS 37, which presents the best estimate of the expenditure required to

NOTES TO THE FINANCIAL STATEMENTS (continued)

settle any financial obligation existing as at the statement of financial position date. These estimates are determined based on the experience of similar transactions and a history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is recorded in the income statement under provision charges.

1.18 Employee benefits

The Group provides benefits to employees as a legal obligation, including jubilee benefits and retirement bonuses. Employee benefits are included in staff costs and provisions for employee benefits. The Group sets aside such provisions based on actuarial calculations. The major assumptions used in these calculations are the following: the discount rate, the number of employees eligible for benefits, the rate of labour turnover and the average annual salary growth.

Employees retire once they meet the requirements of the old-age pension scheme in accordance with the relevant Slovene legislation. In accordance with the legislation, employees may retire after 37 years and 9 months to 40 years of service, at which time (if they meet certain conditions) they become eligible for full retirement benefits. Furthermore, pursuant to the collective agreement, employees are also entitled to jubilee payments.

Defined contributions to state social security are deducted each month from the payroll, expensed as incurred and included in administration costs.

1.19 Taxation

Taxation is provided for in the financial statements in accordance with the Slovene legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year using the tax rates in effect at the statement of financial position date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date, and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The Group has created deferred taxes on the temporary differences arising from the impairment of tangible and intangible assets, from different depreciation rates for accounting and tax purposes, from the revaluation and impairment of available-for-sale securities, from the provisions created for employee benefits and for the repayment of premiums under the national housing savings scheme, from the impairment of loans and receivables in subsidiaries, and from tax losses carried forward.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Current income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised.

Deferred tax related to the fair value re-measurement of available-for-sale investments, which is charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently (upon de-recognition or impairment) recognised in the income statement, together with the deferred gain or loss.

1.20 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(c) Treasury shares
Where the Bank or other members of the Group purchase the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

1.21 Managed funds

The Group manages a significant amount of assets on behalf of legal entities and natural persons, and fees are charged for this service. These assets are not shown in the consolidated financial statements of the Group or in the financial statements of the Bank.

1.22 Fiduciary activities

The Group acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements as they are not assets of the Group or the Bank.

1.23 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are classified in the financial statements as held-for-trading financial assets, available-for-sale financial assets or held-to-maturity financial assets, even though the transferee has the right by contract or custom to sell or re-pledge them as collateral. The counterparty liability is included in financial liabilities linked to transferred assets. Securities purchased under agreements to resell ("reverse repos") are recorded as loans to banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

1.24 Precious metals

The Group carries precious metals among other assets. Although precious metals are not considered to be financial assets, they are recognised, measured and derecognised in compliance with IAS 39. This means that the stock of precious metals held for trading is measured at fair value through profit or loss. Gains and losses from the valuation and sales are recognised in net other operating income or expenses.

1.25 Comparatives

Since the Bank of Slovenia changed the format of the cash flow statement using the indirect method (Note 39), the Group accordingly adjusted its comparative figures in both the Bank's cash flow statement and the consolidated cash flow statement for 2012.

1.26 Amendments of the financial statements after issue

The Bank's shareholders and management have the power to amend the financial statements after issue.

1.27 Information in the notes to the financial statements

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 RISK MANAGEMENT

Effective risk management is one of the cornerstones of the safe and stable operations of the Group and its strategic development. In this framework the Group promotes good practices and applies the general standards of risk management. The management and supervisory bodies and senior management of the Bank actively participate in risk management processes. The risk management function is independent from operational functions. The Supervisory Board approves the risk management strategy, strategic decisions and accompanying policies and monitors the efficacy and adequacy of the risk management system at the Group level. The Group is exposed daily to various risks in its operations, which can be broadly divided into credit risk, market risk, interest rate risk, foreign exchange risk, liquidity risk, operational risk, capital risk, business risk and reputational risk. The ability to manage and appropriately control risks has a direct impact on the Group's long-term stability and performance. Therefore, the Group pays heightened attention to the risk management function, which includes risk identification, risk measurement or assessment, risk control, risk monitoring and risk reporting procedures.

This chapter includes a description of individual types of risks; in addition to these, the operations of the Group may also be affected by other risks that are not yet recognised as significant by the Group, or which are insignificant at present, but could grow in significance in the future. Risk management is disclosed only on the consolidated basis, as there are no significant differences between the Bank and the Group in the treatment of individual risks; the total assets of Abanka account for 99.6% (in 2012 99.6%) of the total consolidated assets of the Group.

The Group's operations in 2013 were again marked by serious challenges, due to problems in the Slovene banking industry, primarily resulting from deteriorated economic and funding conditions. The Group's risk exposure was considerable, particularly to credit risk, reflected in increased volume of bad debt and additional impairments and provisions. In the first half of 2013, the Group started with intense preparations for the transfer of bad debt to the Bank Asset Management Company (BAMC), scheduled to take place in 2014. Risky financial assets as defined in the Decree on the implementation of measures to strengthen bank stability will be transferred to Bank Asset Management Company. The Risk Management Division was established in spring 2013 to include the Risk Management Department, Controlling Centre and the Loan Recovery and Restructuring Department. As a result, bad debt management was moved from front-end business to the risk management function. The Group continued to implement proactive measures and to adapt its credit/lending policy to the changed realities. Increased credit risk was primarily mitigated by the prudent credit rating of customers, accepting appropriate forms and volume of collateral and by limiting the level of credit risk exposure through the credit limit system. Temporary limits were introduced in the process of granting loans, which lead to new exposures above a set ceiling. The Group limited the crediting of high-risk industry sectors (mostly construction) where it has significant exposures. In recent years the Group introduced a system of formalised procedures to enable in-depth monitoring of borrowers' operations. In the reporting year, significant attention was again paid to improving credit risk management procedures, both in the credit rating assignment process and credit approval process as in the process of monitoring and debt collection. In 2013 an expert credit scoring model for corporate customers was introduced, including a quantity and quality model. A software application was introduced for calculating the necessary impairment of individualy assessed exposures to borrowers. A record of actual credit risk losses of defaulted exposures to corporate customers and sole proprietors was established. This can be used for calculating loss given default (LGD), used in the collective assessment of credit risk losses of exposures to corporate clients and in defining the level of internal capital requirements for credit risk.

In 2013, the Group continued to maintain conservative market risk appetite. However, the global economy was recovering in 2013, as reflected in rising indices of major stock exchanges. Nevertheless, Slovenia still had negative economic growth. Slovenia's 10-year government bond yield approached the psychological level of 7% at the end of March. The yield fell below 5% after bank recapitalisation in December. The volume of trading on the Ljubljana Stock Exchange experienced moderate growth throughout the year. The SBITOP index rose by 3.2%, whilst total trading volume increased by 8.7%.

The Group continued with an even stricter system of limits for trading in financial instruments to reduce its market risk exposure. The Group limited its trading in securities to liquid positions of higher credit quality. The already decreased volume of securities trading was further considerably diminished in 2013, which made the Group's trading activity relatively insignificant.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The uncertainly on the financial markets, tight economic conditions and the consequent credit downgrading of many sovereigns, banks and companies were the main factors influencing liquidity conditions in 2013. Raising primary sources of funds was made even more difficult due to the uncertainty of the Slovene banking system and the manner of solving the Cypriot financial crisis. The European Central Bank stuck to its expansive monetary policy, most immediately reflected in a decreased key interest rate, which dropped to a record low 0.25%. The reporting year witnessed numerous measures aimed at assisting overly highly indebted countries and reducing system risks in the European banking sector, where major steps were taken towards creating a European banking union.

In 2013, the Group's borrowings from the European Central Bank decreased, whilst the volume of total wholesale liabilities simultaneously decreased. In order to ensure an adequate liquidity position, the Group was very active in raising primary sources of funds and, in accordance with lower level of liabilities, reduced the volume of its credit portfolio.

In 2013, the Group complied with the regulatory requirements for the category one liquidity ratio and amount of the required reserves. In comparison to the previous year, the liquidity ratio rose mostly as a consequence of the capital increase at the 2013 year-end. The Group performed test reporting on a new liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The former two ratios were introduced in order to standardise liquidity maintenance requirements within the European Monetary Union.

Serious uncertainties with regard to interest rate movements persisted in 2013. Credit rating downgrades continued to widen credit spreads on securities issued by overly highly indebted European countries, whilst the Euribor reference interest rates remained at record lows. The required rate of return on ten-year government bonds of euro area periphery countries decreased mainly on account of the measures taken by the European Central Bank and other measures for bailing out overly highly indebted European countries. The required rate of return on Slovene government bonds also decreased, which is mainly related to the beginning of the problem solving process in the Slovene banking system, that began in December 2013.

The Group actively adjusted its range of products and adapted its interest rate policy to the market situation. On the liabilities side, interest rates were affected mostly by increased competition in collecting deposits from non-bank customers. On the assets side, the levels and structure of interest rates were defined by deteriorated credit portfolio quality and a changed structure of assets held as core liquidity.

In order to reduce interest rate risks, the Group followed an active policy of closing interest rate gaps according to time bucket and interest rate type, and thus managed to maintain this risk at a relatively low and stable level.

Regarding operational risk management, regular preventive activities were carried out in order to decrease the occurrence of loss events, whilst corrective activities were conducted so as to reduce the reoccurrence of loss events arising from operational risk. Moreover, a database of the loss events that occurred in 2013 was created. It showed that the human factor remains the main source of losses arising from operational risk, whereas influence of external factors remains high. This was the main reason that the Group placed special emphasis on operational risk management in harsh and extreme circumstances and crises in 2013. It mainly concentrated on fraud as the most relevant risks in such periods, aiming to reduce them and enable a quick and effective reaction in the event of their occurrence. In 2013, the Group upgraded its business continuity system, in particular to provide business continuity in the case of extreme events. It also redrafted the existing business continuity plans and then updated them at later stage. Furthermore, IT disaster plans were subject to comprehensive testing.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group applied the existing methods for the assessment of internal capital requirements, continued to regularly monitor its risk profile and evaluate its risk-bearing capacity, designed and performed stress tests, and calculated the amount of its internal capital assessment and internal capital requirement assessment on a quarterly basis. In the context of ICAAP, the Group identified higher risk profiles, reduced its risk-bearing capacity and the need for raising additional capital, which spurred the adoption of capital-strengthening measures.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1 Credit risk

Credit risk is the risk that a debtor or counterparty will cause a financial loss for the Group by failing to discharge an obligation. This risk represents the potential unwillingness or inability of the debtor to fully meet its contractual obligations within the agreed period and/or amount. It includes country risk, concentration risk, dilution risk and residual risk.

Country risk is the risk of a loss arising from lending to borrowers in foreign countries. It is linked to the economic, social and political environment of the debtor country. Specific kinds of country risk include transfer risk and sovereign risk. Transfer risk exists when a debtor's obligation is not denominated in a local currency. Sovereign risk arises from the default of a foreign sovereign entity acting as a debtor.

Concentration risk is the risk of a loss arising from being overexposed to a single individual, groups of related parties and parties connected by common risk factors, such as the same economic sector or geographical area or transactions of the same type. Concentration risk also arises from using credit protection.

Dilution risk is the risk that the amount of receivables to which the Group is entitled might be reduced due to successful objections by the debtor arising from the legal relationship with the previous creditor that gave rise to such receivables.

Residual risk is the risk of less effective credit protection than expected.

Credit risk arises in all areas of banking involving risk-bearing balance sheet asset items and risk-bearing off-balance sheet items. Credit risk is the most important risk in the Group's operations and, therefore, is given high priority by the management.

2.1.1 The credit risk management process

The main objective of **credit risk management** is to achieve and maintain the quality and diversification of the credit portfolio that provides for stable and sound operations and target capital adequacy as well as the maximisation of risk-adjusted returns. The strategy and policy of assuming and managing credit risk complies with general credit risk management standards, defining the following key objectives to be achieved in the operations of the Group: focus on lower risk customers, industries and countries; obtaining appropriate credit protection (collateral and guarantees), with an emphasis on the quality and value of credit protection; diversification of the credit portfolio and intensive resolution of problem loans.

The credit risk management process includes the identification, measurement, control and monitoring of credit risk, including reporting credit risks to which the Group is or might be exposed in its operations.

Credit risk is managed at the level of individual transactions and debtors, as well as at the level of the overall credit portfolio.

The Group has an established **structure and organisation of appropriate functions for credit risk management**. The Management Board and senior management are responsible for efficient credit risk management. The Management Board transferred some of its competencies in this area to senior management and collective decision-making bodies (the Risk Management Committee, the Credit Committee, the Committee for Special Loan Treatment, the Assets and Liabilities Committee, the Assets and Liabilities Commission). Within the scope of its powers and through working groups the Loan Recovery and Restructuring Department not only processes problem loans but is also closely involved in their recovery. The credit risk management function is coordinated at the Group level so as to provide compliance and maximise standardisation in all subsidiaries.

The Group has clearly delimited competencies and tasks between commercial divisions and the Risk Management Division, which is organisationally independent of the front-end units, where credit risk is assumed. Furthermore, competencies and tasks are also clearly delimited between commercial units and the back office, including management.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The extent and features of internal reporting on credit risk allow an appropriate flow of information up- and down-stream, as well as between organisational units. This enables timely decision-making at all managerial levels of the Group with regard to measures for mitigating credit risk and for monitoring the results of these measures. There is an established practice of producing periodic and, when appropriate, extraordinary reports on assumed credit risk. The Risk Management Committee, the Management Board, the Risk Management and Assets Liability Management Commission and the Supervisory Board discuss and review quarterly risk reports focusing primarily on credit risk.

2.1.1.1 Credit risk measurement

a) Loans

The Group's exposure to credit risk depends on the following three credit risk components: exposure amount, a debtor's default probability reflected in its credit rating, and the recovery ratio on defaulted obligations, which is dependent on collateral and debt collection.

The Group has set up its own internal methodologies for measuring credit risk, which serve as the basis for the process of classifying borrowers and exposures into credit rating categories: A, B, C, D and E, in accordance with Regulation on the assessment of credit risk losses of banks and savings banks issued by the Bank of Slovenia.

Credit rating "A" denotes the lowest credit risk and is assigned to borrowers with the highest creditworthiness, those who are assessed as being able to regularly settle their liabilities when they fall due. Credit rating "B" is assigned to borrowers whose financial position is somewhat weaker, yet the Group does not expect any significant difficulties in them being able to service their obligations. Credit rating "C" is assigned to borrowers whose cash flows are estimated to be insufficient for the regular settlement of all due liabilities and/or who are either undercapitalised and/or who lack sufficient long-term sources of funds to finance long-term investments. Credit rating "D" is assigned to borrowers who are insolvent or undergoing rehabilitation or compulsory settlement and for whom there is a substantial probability of default, but the Group has reason to expect that their loans will be repaid, at least in part. Credit rating "E" denotes the highest credit risk and is assigned to borrowers who are in bankruptcy proceedings and borrowers for whom it is assessed that they will not be able to repay their due obligations from their operating cash flow. Country risk is also taken into account when assigning credit ratings to foreign borrowers.

Corporates are classified into nine credit rating grades (credit rating categories from A to D are subdivided into two credit rating grades). The assignment of credit ratings to customers and exposures is based on quantitative and qualitative criteria, such as an assessment of the borrowers' financial position, the ability to provide sufficient cash flow for future debt servicing, the borrower's loan servicing track record, and the quality and amount of credit protection.

The Group also performs its own credit risk analyses of foreign banks and countries, taking into account *inter alia* credit ratings and credit reports by external credit assessment institutions, as well as export credit agencies' ratings in the case of country credit risk analyses.

Prior to credit approval, all debtors have to be classified into the appropriate rating category. Throughout the duration of the legal relationship underlying credit exposure, the Group monitors the borrower's operations and the quality of credit protection. The Group also regularly evaluates the level of expected credit losses and creates the necessary impairments and provisions in accordance with the International Financial Reporting Standards.

b) Debt securities

Credit risk arising from investments in debt securities is managed by a limit system, which is based on internal and external ratings (Fitch Ratings and Moody's Investors Service) of securities and their issuers. The limit system ensures investments mostly in debt securities of high credit quality. Investing in debt securities issued by foreign issuers without an external credit rating is not allowed. The Group avoids investments in both subordinated and structured debt financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Credit-related commitments and contingent liabilities

Credit-related commitments and contingent liabilities represent guarantees, letters of credit and undrawn portions of granted loans, overdrafts and credit lines. The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which are written undertakings by the Group to pay in the event of the customer's default on its obligations to a third party, potentially carry the same credit risk for the Group as loans. Credit-related commitments and contingent liabilities represent potential credit risk for the Group. The same methodology as for loans is used to measure the credit risk arising from these instruments.

d) Derivatives

In case of derivative instruments, which are traded over-the-counter (OTC), the Group is exposed to counterparty credit risk, i.e. the risk that the counterparty may not fulfil their underlying contractual payment obligations. Counterparty credit risk from positions in derivatives equals the credit exposure value of these transactions. The exposure on a specific transaction is calculated as the sum of the current market value of the transaction and potential credit exposure.

The Group avoids transactions involving counterparties with lower credit ratings. For transactions that involve counterparties with such a credit rating, the Group insists on adequate collateral.

2.1.1.2 Credit risk mitigation

a) Credit limits

The Group mitigates credit risk by setting and monitoring credit limits at the level of individual borrowers or counterparties and groups of related counterparties. Structural limits are also established for industries, geographical regions and for specific products within the credit limits for banks. For the purpose of effectively managing the concentration risk arising from loans collateralised by securities, the Group has established a system of limits on both the amount of such loans and the amount of pledged securities. The system of credit limits is also the basic tool for the successful management of the credit risk arising from positions in debt securities, derivatives, REPO and reverse transactions. Credit risk exposure limits ensure that the Group's credit portfolio is adequately diversified.

Credit limits are set and monitored according to the internal methodologies. The Risk Management Department proposes credit limits, taking into account the limits prescribed by law. Credit limits are approved by the Risk Management Committee or the Credit Committee, depending on the type of credit limit. Large exposure limits are set for every exposure to an individual customer or a group of connected clients that represents a large exposure (i.e. exposure after impairments and provisions equals or exceeds 10% of the capital of the Bank or Group) or is very likely to represent a large exposure in the near future. Large exposure limits are also set for every exposure to entities with a special relationship with the Bank, which is subject to previous approval by the Supervisory Board.

The Bank and the Group comply with regulatory requirements on the large exposure limit to individual clients or a group of related parties (after taking into account regulatory prescribed exemptions and the effect of eligible credit protection) which is set at 25% of the capital of the Bank or Group.

b) Credit protection (collateral and guarantees)

In addition to the risk limit system, the Group also requires credit protection in order to reduce credit risk. A credit protection policy was developed for this purpose, defining the types of funded and unfunded credit protection that the Group accepts, as well as the procedures for assessing and monitoring the adequacy and value of credit protection. The most common forms of credit protection are real-estate collateral, guarantees and securities collateral.

As funded credit protection, the Group primarily accepts collateral in the form of real estate, other physical collateral, receivables, cash on deposit held by a credit institution, and securities. As unfunded credit protection, the Group mainly accepts joint and several guarantees from corporate and retail customers, guarantees of the Republic of Slovenia, and guarantees issued by insurance companies and banks.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In granting credit, the most important for the Group is a borrower's creditworthiness, enabling the settlement of all its obligations, whilst accepted credit protection serves as a secondary source of loan repayment. The quality of collateral and the loan-to-value ratio required by the Group depend on a borrower's credit rating and the loan maturity. Credit protection instruments (CRM techniques) mitigate credit risk losses, improve the recovery of past-due receivables and decrease capital requirements on the condition they are compliant with minimum requirements in terms of their adequacy defined in banking regulation.

The Group mitigates credit risk by applying credit protection, but this may simultaneously trigger or increase other risks (such as legal risk, operational risk, liquidity risk or market risk); therefore, the Group pays due attention to residual risk in applying credit protection. This risk arises, for example, when the property provided as collateral is overvalued or when the liquidation of the collateral in reasonable time is either problematic or implausible.

c) Master netting agreements

The Group further reduces its exposure to credit risk by entering into master netting agreements that cover repurchase transactions, OTC derivatives contracts and other capital market instruments. These transactions can be carried out only with the counterparties who have concluded master netting agreements with the Group. These arrangements are usually settled on a gross basis, but in the case of a default they are settled on a net basis.

d) Financial covenants and other contractual provisions in credit agreements

The Group additionally mitigates credit risk exposure by including financial covenants and other contractual provisions in credit agreements. Pari passu[2] and negative pledge[3] provisions are some of the most commonly used provisions in a contract. Moreover, agreements usually stipulate additional reporting requirements. Financial covenants consist of a set of financial categories or financial ratios that a borrower must maintain at an agreed level throughout the term of the loan. They most often refer to the funding structure and income statement. Compliance with these provisions is regularly monitored within the Group.

2.1.1.3 Credit risk management in extreme situations

The Group performs activities to reduce credit risk and mitigate the impact of extreme situations on its operations. The Supervisory Board is regularly informed of the course of developments.

In a difficult economic and financial situation, the Group took measures based on stricter credit standards. By using a stricter system of credit limits, it better restricted its exposure to more risky borrowers, industries and countries. In case of deteriorated creditworthiness of borrowers, increased delays in payment and insolvency proceedings of borrowers, some downgrading to lower rating categories were made. According to expected losses arising from credit risk and considering the given collateral adequate impairments and provisions were formed. The Group intensively monitored the borrowers' operations, especially in terms of their cash flow adequacy. Given the options, it obtained additional collateral in cases of deteriorated quality or insufficient volume of the existing credit protection. In addition, it regularly followed-up the fulfilment of financial and other commitments made in loan agreements as well as improved the procedures for the efficient collection of receivables. Where required, the Group opted for debt restructuring. The Group has not only effectively resolved problem loans, but is paying increasing attention to mechanisms designed to promptly detect increased credit risk.

[2] The pari passu clause defines the Bank's requirement of the borrower to guarantee to the Bank at least the same status as to the borrower's other creditors and to refrain from any activity that may result in the disproportionate satisfaction of creditors or in a preferential status of the borrower's other creditors, unless the borrower simultaneously guarantees the Bank at least the same status in a form and with a substance acceptable to the Bank.

[3] The negative pledge clause defines the Bank's requirement on the borrower, until full repayment of the loan, to refrain from taking out a mortgage, creating a land charge, instituting a lien, granting a right of retention, entering into an assignment (of receivables) or providing collateral by way of title transfer and to refrain from encumbering the borrower's movable, immovable or other property, receivables or other assets in any other way to the benefit of third parties without prior approval of the Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.2 Impairment and provisioning policies

In accordance with the International Financial Reporting Standards, the Group regularly assesses whether there is objective evidence of financial asset impairment or possible losses from off-the-balance-sheet commitments and contingencies, defined in Chapter 1.11. Impairment of financial assets. When there is objective evidence of impairment or possible losses, the Group creates impairments of financial assets or provisions for off-the-balance-sheet commitments and contingencies on the basis of an individual or collective assessment. For the purpose of assessing the credit risk losses, the Group individually assesses its significant exposures to corporate customers where there is objective evidence of the impairment or possibility of a loss.

Individual impairments of financial assets are calculated as the difference between the carrying amount and recoverable amount. The latter is calculated by discounting estimated future cash flows, which include cash flows from the foreclosure of collateral, if certain required conditions are met.

For the purpose of calculating collective impairments, homogenous groups of debtors are formed according to similar credit risk characteristics that reflect the debtor's ability to meet its contractual obligations. The Group estimates the impairments and provisions for any homogenous groups of exposures on the basis of available historical default data and credit losses.

The following table shows the structure of the loan portfolio and the average percentages of impairment according to internal credit ratings.

STRUCTURE OF LOANS AND THE AVERAGE PERCENTAGE OF IMPAIRMENT BY INTERNAL CREDIT RATING

As at 31 December	2013		2012	
Internal credit rating	Loans (%)	Average % of impairment	Loans (%)	Average % of impairment
A	31.18	0.76	38.38	0.86
B	11.04	3.78	24.71	4.47
C	15.22	18.91	17.63	13.23
D	19.05	41.63	5.77	32.36
E	23.51	68.28	13.51	58.99
	100.00	**27.51**	**100.00**	**13.60**

Note: This excludes other financial assets disclosed under loans in the statement of financial position.

The quality of the loan portfolio further deteriorated in 2013 compared to 2012. The proportion of loans classified into A and B categories decreased, whereas the share of loans with lower credit ratings increased.

In 2013, the Group significantly increased the impairments, mostly of individually assessed customers, due to deteriorated financial standing of its debtors, prolonged procedures for the realisation of collaterals from real property and a general decrease in their value, and enhanced the probability of transfer of the Bank's non-performing loans to the Bank Asset Management Company (BAMC) after the receipt of the European Commission's interim decision on state aid to the bank. Consequently, the average percentage of impairments increased for the entire credit portfolio, which in part also resulted from a reduced risk exposure to higher quality customers.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.3 Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk from the balance sheet items and off-balance sheet items, without taking collateral or other credit protection into account.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT PROTECTION

As at 31 December		Maximum exposure	
		2013	2012
	Credit risk exposures relating to on-balance sheet assets:	**2,906,458**	**3,427,375**
1.	Cash and cash balances with the central bank	346,970	187,941
2.	Financial assets held for trading	1	4
	– loans and other financial assets	1	4
3.	Financial assets designated at fair value through profit or loss	–	8,760
	– debt securities	–	8,760
4.	Available-for-sale financial assets	491,556	473,807
	– debt securities	491,556	473,807
5.	Loans and receivables	1,924,473	2,603,881
	– debt securities	–	0
	– loans to banks	108,965	81,970
	– loans to non-bank customers	1,809,717	2,515,942
	– loans and receivables to retail customers	535,369	553,323
	– loans and receivables to corporate entities	1,274,348	1,962,619
	– other financial assets	5,791	5,969
6.	Held-to-maturity investments	143,458	152,982
	– debt securities	143,458	152,982
	Credit risk exposures relating to commitments and contingencies (note 2.3.6):	**309,144**	**424,351**
	– financial guarantees	41,060	59,154
	– other commitments and contingencies	268,084	365,197
	Total credit risk exposure	**3,215,602**	**3,851,726**

The exposure arising from balance sheet assets and commitments and contingencies shown above is based on carrying values as shown in the statement of financial position and in commitments and contingencies (Note 2.3.6). Balance sheet assets are disclosed based on carrying amounts (after impairment) and off-the-balance-sheet commitments and contingencies at nominal value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.4 Loans to non-bank customers and loans to banks

The following tables show loans by their overdue status, loan impairments and fair value of collateral.

LOANS TO NON-BANK CUSTOMERS AND LOANS TO BANKS

As at 31 December 2013	Loans to non-bank customers	Loans to banks	Total loans
Neither past due nor impaired loans	998,044	108,815	**1,106,859**
Past due but not impaired loans	148,886	57	**148,943**
Individually impaired loans	1,391,068	93	**1,391,161**
– of which D and E loans	1,058,711	–	**1,058,711**
Gross loans	**2,537,998**	**108,965**	**2,646,963**
Less: total impairments	(728,281)	–	**(728,281)**
– individual impairments	(675,533)	–	**(675,533)**
– of which impairments of D and E loans	(604,822)	–	**(604,822)**
– collective impairments	(52,748)	–	**(52,748)**
Net loans	**1,809,717**	**108,965**	**1,918,682**
Fair value of collateral	**2,861,727**	**–**	**2,861,727**
– of which fair value of collateral for individually impaired D and E loans	924,748	–	**924,748**

As at 31 December 2012	Loans to non-bank customers	Loans to banks	Total loans
Neither past due nor impaired loans	1,598,405	81,919	**1,680,324**
Past due but not impaired loans	345,371	51	**345,422**
Individually impaired loans	981,899	–	**981,899**
– of which D and E loans	446,234	–	**446,234**
Gross loans	**2,925,675**	**81,970**	**3,007,645**
Less: total impairments	(409,733)	–	**(409,733)**
– individual impairments	(335,295)	–	**(335,295)**
– of which impairments of D and E loans	(273,875)	–	**(273,875)**
– collective impairments	(74,438)	–	**(74,438)**
Net loans	**2,515,942**	**81,970**	**2,597,912**
Fair value of collateral	**3,165,985**	**–**	**3,165,985**
– of which fair value of collateral for individually impaired D and E loans	443,509	–	**443,509**

Note: This excludes other financial assets disclosed under loans in the statement of financial position.

Among non-impaired loans, which are divided into past due and non-past due loans, the Group classifies collectively assessed impaired and non-impaired loans, individually assessed non-impaired loans, loans collateralised with the best-quality collateral and other loans that are not subject to impairments. The largest item represents neither past due nor impaired loans. The bulk of non-impaired loans represent loans collectively assessed for impairment, of which EUR 877,576 thousand are represented by neither past due nor impaired loans and EUR 119,044 thousand by past due but not impaired loans.

The disclosed fair value of collateral includes deposits, residential and commercial real estate and securities. Residential and commercial real estate is evaluated by independent external appraisers. Marketable securities are designated at their market value. Valuation models or book value are applied when their fair value cannot be reliably estimated. Deposits pledged as collateral are carried at their book value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

a) Loans neither past due nor impaired

LOANS NEITHER PAST DUE NOR IMPAIRED

As at 31 December 2013

												Total loans
										Total loans to non-bank customers		
	Loans and receivables to retail customers					Loans and receivables to corporate customers						
Internal credit rating	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other			**Loans to banks**	
A	23,826	8,558	319,746	162,821	514,951	156,307	52,929	2,477	211,713	**726,664**	**92,322**	**818,986**
B	–	122	189	57	368	116,541	103,656	1,557	221,754	**222,122**	**16,078**	**238,200**
C	–	30	1,652	1,331	3,013	21,836	18,194	478	40,508	**43,521**	**415**	**43,936**
D	–	15	–	37	52	3,049	2,517	0	5,566	**5,618**	**–**	**5,618**
E	–	3	–	7	10	1	97	11	109	**119**	**–**	**119**
Total	**23,826**	**8,728**	**321,587**	**164,253**	**518,394**	**297,734**	**177,393**	**4,523**	**479,650**	**998,044**	**108,815**	**1,106,859**
Fair value of collateral	–	–	573,227	66,816	640,043	283,234	340,384	13,363	636,981	**1,277,024**	**–**	**1,277,024**

As at 31 December 2012

												Total loans
										Total loans to non-bank customers		
	Loans and receivables to retail customers					Loans and receivables to corporate customers						
Internal credit rating	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other			**Loans to banks**	
A	24,205	7,173	319,229	175,290	525,897	367,427	125,192	11,340	503,959	**1,029,856**	**66,292**	**1,096,148**
B	–	2	202	858	1,062	354,949	172,468	9,531	536,948	**538,010**	**15,391**	**553,401**
C	–	–	1,997	1,604	3,601	3,845	13,924	6,247	24,016	**27,617**	**236**	**27,853**
D	–	–	–	–	–	38	2,236	0	2,274	**2,274**	**–**	**2,274**
E	–	–	–	58	58	2	417	171	590	**648**	**–**	**648**
Total	**24,205**	**7,175**	**321,428**	**177,810**	**530,618**	**726,261**	**314,237**	**27,289**	**1,067,787**	**1,598,405**	**81,919**	**1,680,324**
Fair value of collateral	–	–	552,004	69,051	621,055	675,608	518,967	63,195	1,257,770	**1,878,825**	**–**	**1,878,825**

Note: This excludes other financial assets disclosed under loans in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

b) Loans past due but not impaired

LOAN PAST DUE BUT NOT IMPAIRED

As at 31 December 2013

	Total loans to non-bank customers									
	Loans and receivables to retail customers					Loans and receivables to corporate customers				
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	337	3	1,620	3,893	**5,853**	3,551	5,682	10	**9,243**	**15,096**
Past due 31 to 60 days	–	1	1,587	1,661	**3,249**	467	5,331	24	**5,822**	**9,071**
Past due 61 to 90 days	6,680	1	–	4,510	**11,191**	3,593	18,188	816	**22,597**	**33,788**
Past due over 90 days	1,061	6	3,980	11,924	**16,971**	33,724	38,844	1,392	**73,960**	**90,931**
Total	**8,078**	**11**	**7,187**	**21,988**	**37,264**	**41,335**	**68,045**	**2,242**	**111,622**	**148,886**
Fair value of collateral	–	–	15,722	9,229	**24,951**	58,529	127,845	4,532	**190,906**	**215,857**

As at 31 December 2012

	Total loans to non-bank customers									
	Loans and receivables to retail customers					Loans and receivables to corporate customers				
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	6,574	55	–	8,799	**15,428**	57,140	40,966	4,194	**102,300**	**117,728**
Past due 31 to 60 days	424	17	1,369	4,845	**6,655**	27,786	17,176	8,355	**53,317**	**59,972**
Past due 61 to 90 days	–	2	1,323	2,628	**3,953**	13,776	11,743	1,325	**26,844**	**30,797**
Past due over 90 days	1,915	15	2,762	10,707	**15,399**	46,873	67,619	6,983	**121,475**	**136,874**
Total	**8,913**	**89**	**5,454**	**26,979**	**41,435**	**145,575**	**137,504**	**20,857**	**303,936**	**345,371**
Fair value of collateral	–	–	11,227	6,724	**17,951**	185,637	200,024	25,665	**411,326**	**429,277**

Note: This excludes other financial assets disclosed under loans in the statement of financial position.

Past due loans are loans for which the debtor has failed to make a payment when contractually due in part or in the total amount. “Past due” means one or more days overdue. Past due loans include the total amount of exposure under a single loan agreement and not merely the instalment not paid when contractually due. Exposures from other loan agreements to the same debtor not in arrears are not included among past due loans.

The amount of past due but not impaired loans, which include loans collectively assessed for impairment and loans individually assessed but not impaired, dropped by 56.9% in 2013 (vs. an increase of 36.5% in 2012), mainly as a reflection of a decrease in non-impaired loans that are past due up to 30 and more than 60 days. At the same time, the fair value of collateral in 2013 decreased by 49.7% (vs. an increase of 81.5% in 2012).

NOTES TO THE FINANCIAL STATEMENTS (continued)

c) Individually impaired loans

INDIVIDUALLY IMPAIRED LOANS

As at 31 December 2013	Loans and receivables to corporate entities				Loans to banks	Total loans
	Large corporates	SMEs	Other			
Individually impaired loans	842,715	546,423	1,930	**1,391,068**	**93**	**1,391,161**
Fair value of collateral	777,896	590,757	193	**1,368,846**	**–**	**1,368,846**

As at 31 December 2012	Loans and receivables to corporate entities				Loans to banks	Total loans
	Large corporates	SMEs	Other			
Individually impaired loans	524,567	453,534	3,798	**981,899**	**–**	**981,899**
Fair value of collateral	403,691	448,154	6,038	**857,883**	**–**	**857,883**

Note: This excludes other financial assets disclosed under loans in the statement of financial position. Impaired loans to retail customers are not included because they are impaired collectively.

d) Renegotiated loans

The renegotiation of financial assets can also be explained as activities performed by the Group in relation to customers who have not met or will not be able to meet their contractual financial obligations. The Group assesses whether the renegotiation of a borrower's exposure is reasonable. If it is reasonable, the Group forms an adequate restructuring plan and monitors its implementation as well as its effects.

The Group classifies outstanding claims on a borrower (financial assets) to be renegotiated by carrying out one or more activities that the Group would not undertake if the borrower's economic and financial position were normal. Possible activities involved in restructuring claims are as follows:

- extending the term for the repayment of the principal, individual instalments and/or interest due to the inability to make payment by the due date;
- declaring a moratorium on the repayment of the principal and/or interest;
- decreasing the amount of claims;
- changing the interest rate; on a basis other than upgrading of the borrower or interest cuts in response to market conditions; and
- other adequate measures.

According to the definition of restructuring, when claims fall due they are to be posted as past due if not restructured or renegotiated, based on the borrower's inability to meet their underlying contractual payment obligations as a result of their difficult economic and/or financial position. Should after an agreed restructuring the customer fail to settle their obligations to the Group in compliance with the agreed and new repayment terms, the claims that fall due and are not paid by the contractually agreed due dates are carried as outstanding overdue claims.

NOTES TO THE FINANCIAL STATEMENTS (continued)

RENEGOTIATED LOANS

As at 31 December 2013	Loans to retail customers			Loans to corporates			Total renegotiated loans
	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Neither past due nor impaired loans	1,035	2,161	**3,196**	5,357	2,193	**7,550**	**10,746**
Past due but not impaired loans	1,155	1,594	**2,749**	9,341	17,232	**26,573**	**29,322**
Individually impaired loans	–	–	**–**	237,087	307,604	**544,691**	**544,691**
– of which D and E loans	–	–	**–**	182,539	249,188	**431,727**	**431,727**
Gross loans	**2,190**	**3,755**	**5,945**	**251,785**	**327,029**	**578,814**	**584,759**
Less: total impairments	(797)	(1,779)	**(2,576)**	(134,701)	(133,373)	**(268,074)**	**(270,650)**
– individual impairments	–	–	**–**	(133,336)	(132,195)	**(265,531)**	**(265,531)**
– of which impairments of D and E loans	–	–	**–**	(121,934)	(118,737)	**(240,671)**	**(240,671)**
– collective impairments	(797)	(1,779)	**(2,576)**	(1,365)	(1,178)	**(2,543)**	**(5,119)**
Net loans	**1,393**	**1,976**	**3,369**	**117,084**	**193,656**	**310,740**	**314,109**

Share of renegotiated gross loans and receivables in total gross loans and receivables to non-bank customers	**23.04%**
Share of renegotiated net loans and receivables in total net loans and receivables to non-bank customers	**17.36%**

As at 31 December 2012	Loans to retail customers			Loans to corporates			Total renegotiated loans
	Loans without mortgage collateral	Collateralised mortgage loans		Loans without mortgage collateral	Collateralised mortgage loans		
Neither past due nor impaired loans	1,114	1,826	**2,940**	14,306	43,941	**58,247**	**61,187**
Past due but not impaired loans	1,370	331	**1,701**	11,719	25,748	**37,467**	**39,168**
Individually impaired loans	–	–	**–**	161,735	136,678	**298,413**	**298,413**
– of which D and E loans	–	–	**–**	71,783	51,387	**123,170**	**123,170**
Gross loans	**2,484**	**2,157**	**4,641**	**187,760**	**206,367**	**394,127**	**398,768**
Less: total impairments	(763)	(560)	**(1,323)**	(51,806)	(40,133)	**(91,939)**	**(93,262)**
– individual impairments	–	–	**–**	(50,020)	(36,407)	**(86,427)**	**(86,427)**
– of which impairments of D and E loans	–	–	**–**	(41,061)	(24,526)	**(65,587)**	**(65,587)**
– collective impairments	(763)	(560)	**(1,323)**	(1,786)	(3,726)	**(5,512)**	**(6,835)**
Net loans	**1,721**	**1,597**	**3,318**	**135,954**	**166,234**	**302,188**	**305,506**

Share of renegotiated gross loans and receivables in total gross loans and receivables to non-bank customers	**13.63%**
Share of renegotiated net loans and receivables in total net loans and receivables to non-bank customers	**12.14%**

Note: This excludes other financial assets disclosed under loans in the statement of financial position.

Gross loans renegotiated during 2013 amounted to EUR 301,222 thousand. A dominant share of the loans renegotiated in 2013 is (as in 2012) represented by loans to corporates in the process of financial-business restructuring. The companies whose loans have been renegotiated, resulting from a variety of economic activities.

The increase in renegotiated loans by 2.8% in 2013 compared to 2012 (2012: 21.5%) was mainly the result of the further deterioration of financial circumstances particularly, in the construction, trade, industrial, financial activities and real-estate management sectors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

e) Non-performing loans

The Group regularly monitors the amount of non-performing loans (hereinafter: NPLs), internally defined as loans to D- and E-rated debtors and loans to C-rated debtors that are more than 90 days overdue. NPLs include principal amounts, accrued interest, and fees and commissions. In case that a debtor's payments fall into arrears with only part of its loan, the total amount of the loan is classified as NPL, not merely the overdue part of the loan. Non-performing loans include individually and collectively impaired loans.

NON-PERFORMING LOANS

As at 31 December 2013	Loans to non-bank customers	Loans to banks	Total loans
Non-performing loans (NPLs)	1,170,708	–	**1,170,708**
Share of NPLs in total loans	46.13%	–	**44.23%**

As at 31 December 2012	Loans to non-bank customers	Loans to banks	Total loans
Non-performing loans (NPLs)	751,920	–	**751,920**
Share of NPLs in total loans	25.70%	–	**25.00%**

Note: This excludes other financial assets disclosed under loans in the statement of financial position.

Due to the continuing difficult economic conditions (which triggered insolvency proceedings of certain major Group customers and, among others, reduced customer solvency) the quality of the credit portfolio deteriorated in 2013. In the reporting year, the share of non-performing loans increased by 19.2 percentage points, having climbed from 25% at the 2012 year-end to 44.2% one year later. Credit risk is concentrated mainly in the credit exposure to companies. In 2014, after transferring its non-performing loans to the Bank Asset Management Company (BAMC), the credit portfolio quality is expected to improve, due to a decreased volume of non-performing loans. As a result, the holdings of BAMC-issued bonds will increase. The Bank will prevent future growth of non-performing loans with a proactive approach to its borrowers.

2.1.5 Debt securities

The following table presents the Group's exposure to debt securities, classified according to the purpose of their acquisition and credit quality, taking into account credit ratings by the agencies Fitch Ratings and Moody's Investors Service.

NOTES TO THE FINANCIAL STATEMENTS (continued)

DEBT SECURITIES BY CREDIT RATING

As at 31 December 2013	Debt securities held for trading (note 19)	Debt securities designated at fair value through profit or loss (note 20)	Available-for-sale debt securities (note 21)	Held-to-maturity debt securities (note 25)	Debt securities reclassified to loan category (note 22)	Total
Non-past due debt securites at fair valute / at amortised cost						
AAA	–	–	128,937	–	–	**128,937**
AA- do AA+	–	–	68,217	–	–	**68,217**
A- do A+	–	–	83,604	–	–	**83,604**
Low er than A-	–	–	196,288	143,458	–	**339,746**
Unrated	–	–	14,510	–	–	**14,510**
Total non-past due debt securities	**–**	**–**	**491,556**	**143,458**	**–**	**635,014**
Total debt securities	**–**	**–**	**491,556**	**143,458**	**–**	**635,014**

As at 31 December 2012						
Non-past due debt securites at fair valute / at amortised cost						
AAA	–	–	154,642	–	–	**154,642**
AA- do AA+	–	–	16,866	–	–	**16,866**
A- do A+	–	8,760	213,284	147,937	–	**369,981**
Low er than A-	–	–	62,694	5,045	–	**67,739**
Unrated	–	–	26,321	–	–	**26,321**
Total non-past due debt securities	**–**	**8,760**	**473,807**	**152,982**	**–**	**635,549**
Total debt securities	–	**8,760**	**473,807**	**152,982**	–	**635,549**

Among unrated debt securities the Group classifies bonds issued by issuers registered in the Republic of Slovenia that do not have external credit ratings; consequently, the Group considers their internal credit rating. The Group does not invest in subordinated debt securities. In 2013, the credit quality of the bond portfolio deteriorated, Slovene government bonds in particular, due to the downgrade of the Republic of Slovenia. Similarly as in 2012, the Group did not have any overdue debt securities in the portfolio as at the 2013 year-end.

As at the 2013 year-end, Slovene government bonds accounted for the largest share of the bond portfolio, amounting to EUR 334 million (at the end of 2012: 278 million), followed by the government bonds issued by Austria amounting to EUR 20 million (at the end of 2012: 16 million), Slovakia 14 million (at the end of 2012: 15 million), Germany EUR 13 million (at the end of 2012: 0) and France EUR 9 million (at the end of 2012: 6 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.6 Assets seized for debt repayment

In 2013, the value of the real estate aquired for debt repayment decreased by 76.2% compared to 2012. Decrease was due to the transfer of real estate to the subsidiary Anepremičnine d.o.o., founded in 2013, as a contribution in the process of capital increase.

The Group acquired the following assets through the seizure of real estate as collateral:

REAL ESTATE HELD BY TAKING POSSESSION OF COLLATERAL (note 26)

	Carrying amount	
As at 31 December	2013	2012
Commercial real estate	59	1,925
Residential real estate	525	525
Total	**584**	**2,450**

The value of the real estate (market value or certified assessor's valuation in the case of execution) together with any costs arising from property in hand (valuation costs, real estate sales tax, if applicable, etc.) acquired by the Group for the purpose of debt settlement is deducted from the outstanding claims on the borrower. The acquired real estate is sold as soon as feasible. Until such real estate remains unsold, it is disclosed in the statement of financial position as non-current assets held for sale.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.7 Credit risk exposure by industry sector

The following table shows the credit risk exposure of financial assets by industry sector.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS ACCORDING TO INDUSTRY SECTOR

	Financial assets	Manufac-turing	Construc-tion	Trade	Financial and insurance activities	Profes-sional, scientific and technical activities	Public admin-istration and defence activities	Other	Retail customers	Foreign entities*	Total
1.	Cash and cash balances with the central bank	–	–	–	346,970	–	–	–	–	–	**346,970**
2.	Financial assets held for trading	–	–	–	–	–	–	–	–	1	**1**
	– loans and other financial assets	–	–	–	–	–	–	–	–	1	**1**
3.	Financial assets designated at fair value	–	–	–	–	–	–	–	–	–	**–**
4.	Available-for-sale financial assets	–	–	–	19,601	–	189,712	1,484	–	280,759	**491,556**
	– debt securities	–	–	–	19,601	–	189,712	1,484	–	280,759	**491,556**
5.	Loans and receivables	352,482	128,814	225,348	178,157	71,931	3,261	245,838	532,654	185,988	**1,924,473**
	– loans to banks	–	–	–	5,483	–	–	–	–	103,482	**108,965**
	– loans to non-bank customers	352,117	128,644	224,748	169,641	71,842	3,135	245,628	532,528	81,434	**1,809,717**
	– loans and receivables to retail customers	–	–	–	–	–	–	–	532,528	2,841	**535,369**
	– loans and receivables to corporate entities	352,117	128,644	224,748	169,641	71,842	3,135	245,628	–	78,593	**1,274,348**
	– other financial assets	365	170	600	3,033	89	126	210	126	1,072	**5,791**
6.	Held-to-maturity investments	–	–	–	–	–	143,458	–	–	–	**143,458**
	– debt securities	–	–	–	–	–	143,458	–	–	–	**143,458**
	Total financial assets as at 31 December 2013	**352,482**	**128,814**	**225,348**	**544,728**	**71,931**	**336,431**	**247,322**	**532,654**	**466,748**	**2,906,458**
	Total financial assets as at 31 December 2012	**504,577**	**215,830**	**342,335**	**592,533**	**98,101**	**281,854**	**343,634**	**550,038**	**498,473**	**3,427,375**

Note: *Item “Foreign entities” includes corporate entities and retail customers domiciled outside of the Republic of Slovenia. Foreign corporate entities are not classified by industry sectors.

The Group was the most exposed to the borrowers registered for performing financial and insurance activities, which also include activities of holding companies. Exposure to borrowers in manufacturing was the second largest exposure. The structure of the credit risk exposure by industry sector reveals that in 2013 exposures to borrowers in manufacturing, trade and construction decreased the most, whereas exposures to borrowers in public administration and defence industries increased.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1.8 Credit risk exposure by geographical area

The following table shows the credit risk exposure of financial assets by geographical area.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS BY GEOGRAPHICAL AREA

	As at 31 December 2013	Slovenia	Other EU member states	SE and Eastern Europe (without EU member states)	Other countries	Total
	Financial assets					
1.	Cash and cash balances with the central bank	346,970	–	–	–	**346,970**
2.	Financial assets held for trading	–	1	–	–	**1**
3.	Financial assets designated at fair value through profit or loss	–	–	–	–	**–**
4.	Available-for-sale financial assets	210,797	275,513	–	5,246	**491,556**
5.	Loans and receivables	1,738,485	93,039	61,427	31,522	**1,924,473**
	– loans to banks	5,483	71,671	933	30,878	**108,965**
	– loans to non-bank customers	1,728,283	20,396	60,398	640	**1,809,717**
	– other financial assets	4,719	972	96	4	**5,791**
6.	Held-to-maturity investments	143,458	–	–	–	**143,458**
	Total financial assets	**2,439,710**	**368,553**	**61,427**	**36,768**	**2,906,458**

	As at 31 December 2012	Slovenia	Other EU member states	SE and Eastern Europe (without EU member states)	Other countries	Total
	Financial assets					
1.	Cash and cash balances with the central bank	187,941	–	–	–	**187,941**
2.	Financial assets held for trading	–	3	–	1	**4**
3.	Financial assets designated at fair value through profit or loss	–	8,760	–	–	**8,760**
4.	Available-for-sale financial assets	217,616	245,250	–	10,941	**473,807**
5.	Loans and receivables	2,370,363	87,709	126,850	18,959	**2,603,881**
	– loans to banks	397	62,774	849	17,950	**81,970**
	– loans to non-bank customers	2,364,483	24,594	125,879	986	**2,515,942**
	– other financial assets	5,483	341	122	23	**5,969**
6.	Held-to-maturity investments	152,982	–	–	–	**152,982**
	Total financial assets	**2,928,902**	**341,722**	**126,850**	**29,901**	**3,427,375**

The Group's geographical exposure is based on the domicile or head office of the counterparties.

The Group conducts its business primarily in Slovenia. The largest foreign exposures from a regional perspective were in EU member states, primarily Germany, Austria, Luxemburg, the Netherlands and France.

As at 31 December 2013, the same as at the 2012 year-end, the Group had no sovereign debt exposure to the following euro area periphery countries: Portugal, Ireland, Italy, Greece, Cyprus, Spain and Hungary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 Market risk

Market risk is the uncertainty that an adverse change in risk factors, including interest rates, exchange rates, credit spreads, prices of financial instruments, commodity prices and other relevant parameters, may unfavourably affect the value of a financial instrument and/or consequently lead to a loss.

The Group monitors its market risk exposure in its trading and banking books. Market risks primarily arise from the activities performed in investment banking and treasury departments. The trading book positions include mainly positions in equity and debt instruments that the Group intends to sell at a profit in the short run. Part of the trading book also consists of financial derivatives that the Group sells to its customers to hedge against interest rate and foreign exchange risk. These positions are closed according to the Group's back-to-back policy. The banking book positions include positions in debt instruments, foreign exchange instruments and financial derivatives held for asset and liability management purposes of the Bank, equity instruments (acquired through collateral foreclosures and/or debt to equity swaps) and strategic positions.

2.2.1 Market risk management process

The market risk management strategy is based on the Group's market risk-bearing capacity, the existing and expected market conditions, realised and projected financial data, regulations in force and the existing risk management systems. In 2013, the Group's market risk appetite was low. The Group restricted trading activities to the Bank and discontinued them in all other subsidiaries. The Group pursued a policy of modest trading activity in debt and equity financial instruments, highly liquid financial investments whilst simultaneously avoiding investments with speculative credit ratings. The Group's trading in derivative financial instruments is based on a policy of back-to-back trading and the involvement of counterparties with higher credit ratings. Such trades are concluded mostly to hedge against financial risks.

The purpose of **the market risk management process** is to minimise losses from positions in trading and banking books. Simultaneously, it takes into account business policies, balance sheet structure, capital adequacy and opportunities in capital markets. The Group aspires to achieve the most favourable ratio between generated return and assumed risk and it manages market risk pursuant to the Market Risk Policy of the Group.

The market risk management process comprises:

- procedures of market risk identification, measurement/assessment, monitoring, control, and
- internal reporting on market risk.

Identification procedures are used to define existing and potential risks that arise from trading and banking book positions. Risks and a risk management process need to be defined before launching new services or entering new markets. The Trading Strategy, which presents potential risks and the way they will be managed, is formulated on an annual basis and approved by the Supervisory Board.

The system of limits for trading in financial instruments enables keeping market risk appetite at low levels. This system also requires investing in highly liquid positions whilst maintaining an adequate risk diversification. The Risk Management Department sets a limit system primarily based on the Group's market risk appetite and capital adequacy. The limit system includes credit and position limits, stop loss limits, market rates compliance limits, VaR limits and limits per single authorised person.

The Group has also established a system of limits for debt financial instruments in the banking book through which it implements its policy of investing in bonds of high credit quality pledgeable as collateral to the European Central Bank, while following the goal of credit diversification and maximum loss limitation.

The structure and organisation of appropriate functions for market risk management are the responsibility of the Management Board and senior management. The Management Board authorised the Risk Management Committee to approve market risk exposure limits.

The competencies and responsibilities are clearly delimited between trading units (treasury, investment banking), the back office, the middle office and the Risk Management Department, which is organisationally independent of the units that assume market risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The extent and features of internal reporting: the middle office is responsible for the daily calculating of exposures from financial instruments in trading and in the banking book and reporting to the Management Board, senior management, trading units and the Risk Management Department. Quarterly reports on market risk exposure, the utilisation of limits, the size of Value-at-Risk and stress-testing results for trading and the banking book are presented to the Risk Management Committee. The Supervisory Board discusses and review a report on Group's exposure to various types of risks, including market risk, on a quarterly basis.

2.2.1.1 Market risk measurement techniques

Market risk measurement techniques comprise risk analyses and validation. This includes assessing the possible frequency of a potential event and the size of its consequences. Market risk is regularly measured by:

- the Value-at-Risk method (i.e. VaR);
- stress testing;
- sensitivity analysis; and
- calculating market risk capital requirements, using the standardised approach.

The Group is aware of the limitations of the VaR method in cases of extreme market conditions, which is why the Group performs stress testing as a supplement to VaR. Stress testing assesses potential impacts of extraordinary, yet plausible, events in financial markets on the value of financial instruments.

Market risk is also measured with sensitivity analyses to determine the impact of changes in different risk factors and their influence on the Group's profit and equity levels.

2.2.1.2 Market risk mitigation

An adequate limit system, in line with the conservative market risk policy, is the basic tool of effective risk management. For the purpose of **hedging and reducing market risk**, a system of trading limits is in place alongside a system of limits on the banking book operations with debt financial instruments. The market risk regime is implemented daily through systems of limits and clear guidelines on responsibilities and competencies in assuming risk.

For the main part of trading in derivative financial instruments, exposures to position risk, interest rate risk and currency risk are reduced by pursuing a back-to-back policy. Market risks are hedged by counter transactions.

2.2.1.3 VaR of the trading book

Value-at-risk assessment (VaR assessment) is a quantitative measure used for assessing potential loss in the value of positions caused by adverse risk factor changes over a given future period at a given confidence level. The Group calculates value-at-risk (VaR) by applying the historical simulation approach and in compliance with the standards set by the Bank of Slovenia. The model assumes the following:

- a 10-day holding period, meaning that within 10 days all the positions included in the calculation can be liquidated, i.e. sold off. This assumption does not necessarily always hold true for all positions, i.e. not in a period of general illiquidity of financial markets. Expanding the daily VaR to a longer period is based on the assumption of a static portfolio;
- a 1-year observation period, meaning that the most recent year should sufficiently reflect the market situation changes that influence the business of the Group. In fact, historical data do not necessarily represent a good indicator of potential future risk factors. This is especially true in periods of extreme market conditions;
- the 99% level of confidence, meaning that on any one day of one hundred trading days the Group would suffer a loss from trading activity exceeding the calculated value. The amount of such excessive losses cannot be measured with VaR.

NOTES TO THE FINANCIAL STATEMENTS (continued)

VaR measuring shows that the Group's potential loss on one day out of one hundred trading days will at least equal the calculated VaR on an individual trading day, under the assumption that positions can be sold over the following 10-day period.

In 2013 the Republic of Slovenia witnessed difficult macroeconomic conditions, although leading global stock indices faced growth. Owing to the reduced capital adequacy of the Group and a changed strategy of the Bank, the Group's market risk appetite additionally decreased. As the equities portfolio in the trading book contracted, the VaR risk measure decrease accordingly. The system of limits enables prudent market risk management.

The following table presents the VaR value of the trading book.

VaR OF THE TRADING BOOK

2013	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	10	16	73	1
Interest rate risk	0	76	265	0
Equity risk	133	88	146	24
Commodity risk	1	1	1	0

2012	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	56	74	419	10
Interest rate risk	16	25	61	16
Equity risk	123	203	357	80
Commodity risk	0	1	5	0

As at 31 December 2013, maximum value of the trading book VaR arose from the equity portfolio. The Group estimates with 99% probability that it will lose no more than EUR 133 thousand over the following ten days.

2.2.1.4 VaR of the banking book

The market risk of banking book portfolios of securities and financial derivatives is also determined using a value-at-risk (VaR) model.

VaR OF THE BANKING BOOK

2013	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	240	285	346	240
Interest rate risk	7,575	6,052	7,575	3,910
Equity risk	1,662	2,318	2,645	1,662
Commodity risk	–	–	–	–

2012	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	327	274	1,548	43
Interest rate risk	2,735	3,783	4,714	2,735
Equity risk	2,135	3,898	5,079	2,030
Commodity risk	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

In the reporting year, the banking book VaR that arises from interest rate risk increased due to larger volumes of domestic government securities in the portfolio. The economically precarious position of the Republic of Slovenia was reflected in an increased required rate of return on government securities and consequently higher VaR. As at the reporting date, the Group estimates with 99% probability it will lose no more than EUR 7,575 thousand over the following ten days due to the interest rate risk of the banking book. As the equities portfolio in the banking book contracted, the VaR risk measure related to the risk of changes in equity prices continued to decrease accordingly. On that basis the Group as at the reporting date estimates with 99% probability that any loss will not exceed EUR 1,662 thousand over the next ten days.

2.2.2 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

2.2.2.1 Foreign exchange risk management process

The foreign exchange risk strategy focuses on risk exposure in accordance with set limits and the Group's risk capacity in view of its income and capital adequacy. Foreign exchange risk is identified, measured, controlled and monitored in line with the Group's established foreign exchange risk management policy. **The foreign exchange risk management process** is based on the procedures for identifying, measuring, monitoring and managing foreign exchange risk and includes internal reporting.

The structure and organisation of appropriate functions for foreign exchange risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system of foreign exchange risk management is monitored by the Risk Management Committee. The implementation of the relevant policy is monitored and controlled by the Assets and Liabilities Management Committee, foreign exchange risk management is the responsibility of the Assets and Liabilities Management Department, whereas the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

The extent and features of internal reporting: it is an established practice to produce daily reports on foreign exchange exposures, including daily calculations of maximum potential losses arising from net foreign exchange positions. Regular monthly reports on foreign exchange exposures are also produced for the Assets and Liability Committee. The Supervisory Board quarterly discusses and reviews a report on a Group's exposure to various types of risks, including foreign exchange risk.

The foreign exchange measurement system covers the daily monitoring of net foreign exchange positions per currency and currency groups, as well as the daily calculation of maximum loss limits associated with foreign exchange risk by using the Value-at-Risk method. Foreign exchange risk is measured and assessed in accordance with the internal methodology. This defines the stress testing used by the Group to evaluate potential losses resulting from foreign exchange rate fluctuations.

The Group **hedges and reduces foreign exchange rate risk,** since fluctuations in the prevailing foreign currency exchange rates have an impact on its financial position and cash flows. In 2013, the gaps between foreign currency inflows and outflows, which mostly arose from payment transactions, were managed by arbitrage. These exposures associated with financial instruments in foreign currencies were low and well within the set limits.

The following table presents the Group's foreign exchange risk exposure and includes the Group's financial instruments at their carrying amounts by currency.

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2013

		EUR	USD	CHF	GBP	Other	Total
	Financial assets						
1.	Cash and cash balances with the central bank	374,897	151	164	79	290	**375,581**
2.	Financial assets held for trading	13,344	614	–	–	36	**13,994**
3.	Financial assets designated at fair value through profit or loss	2,436	–	–	–	–	**2,436**
4.	Available-for-sale financial assets	500,683	5,890	–	–	111	**506,684**
5.	Loans and receivables	1,862,398	32,223	14,308	3,579	11,965	**1,924,473**
	– loans to banks	59,866	31,439	2,123	3,579	11,958	**108,965**
	– loans to non-bank customers	1,796,817	780	12,120	–	–	**1,809,717**
	– other financial assets	5,715	4	65	–	7	**5,791**
6.	Held-to-maturity investments	143,458	–	–	–	–	**143,458**
	Total financial assets	**2,897,216**	**38,878**	**14,472**	**3,658**	**12,402**	**2,966,626**
	Financial liabilities						
1.	Deposits and loans from the central bank	456,195	6	–	12	–	**456,213**
2.	Financial liabilities held for trading	11,095	32	–	–	47	**11,174**
3.	Financial liabilities designated at fair value through profit or loss	8,842	–	–	–	–	**8,842**
4.	Financial liabilities measured at amortised cost	2,261,852	37,989	14,564	3,541	9,186	**2,327,132**
	– deposits from banks	5,233	3,978	1,461	50	133	**10,855**
	– deposits from non-bank customers	1,826,601	33,896	13,100	3,491	8,969	**1,886,057**
	– loans from banks	367,391	–	–	–	–	**367,391**
	– loans from non-bank customers	–	–	–	–	–	**–**
	– debt securities issued	50,560	–	–	–	–	**50,560**
	– subordinated liabilities	–	–	–	–	–	**–**
	– other financial liabilities	12,067	115	3	–	84	**12,269**
	Total financial liabilities	**2,737,984**	**38,027**	**14,564**	**3,553**	**9,233**	**2,803,361**
	Net on-balance sheet position	**159,232**	**851**	**(92)**	**105**	**3,169**	**163,265**
	Loan commitments	**109,994**	**828**	**–**	**–**	**541**	**111,363**

The Group's foreign currency exposure in other currencies in balance sheet items amounted to EUR 3,169 thousand of net long position in 2013 (2012: EUR 884 thousand). To hedge against foreign exchange risk the Group among other instruments uses foreign exchange derivatives.

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2012

		EUR	USD	CHF	GBP	Other	Total
	Financial assets						
1.	Cash and cash balances with the central bank	213,879	177	299	69	284	**214,708**
2.	Financial assets held for trading	20,201	101	280	1	57	**20,640**
3.	Financial assets designated at fair value through profit or loss	11,515	–	–	–	–	**11,515**
4.	Available-for-sale financial assets	488,877	7,356	–	–	107	**496,340**
5.	Loans and receivables	2,537,131	32,215	20,789	4,848	8,898	**2,603,881**
	– loans to banks	31,107	31,215	6,120	4,848	8,680	**81,970**
	– loans to non-bank customers	2,500,084	975	14,669	–	214	**2,515,942**
	– other financial assets	5,940	25	–	–	4	**5,969**
6.	Held-to-maturity investments	152,982	–	–	–	–	**152,982**
	Total financial assets	**3,424,585**	**39,849**	**21,368**	**4,918**	**9,346**	**3,500,066**
	Financial liabilities						
1.	Deposits and loans from the central bank	533,851	3	–	3	–	**533,857**
2.	Financial liabilities held for trading	17,797	107	4	3	20	**17,931**
3.	Financial liabilities designated at fair value through profit or loss	8,760	–	–	–	–	**8,760**
4.	Financial liabilities measured at amortised cost	2,784,528	40,179	21,543	4,561	8,442	**2,859,253**
	– deposits from banks	7,815	1,758	1,408	95	187	**11,263**
	– deposits from non-bank customers	2,063,550	38,306	15,165	4,466	8,145	**2,129,632**
	– loans from banks	468,802	–	4,970	–	90	**473,862**
	– loans from non-bank customers	10,005	–	–	–	–	**10,005**
	– debt securities issued	104,208	–	–	–	–	**104,208**
	– subordinated liabilities	119,049	–	–	–	–	**119,049**
	– other financial liabilities	11,099	115	–	–	20	**11,234**
	Total financial liabilities	**3,344,936**	**40,289**	**21,547**	**4,567**	**8,462**	**3,419,801**
	Net on-balance sheet position	**79,649**	**(440)**	**(179)**	**351**	**884**	**80,265**
	Loan commitments	**150,084**	**721**	**–**	**–**	**2,242**	**153,047**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2.2.2 Foreign exchange sensitivity analysis

The following table shows a foreign exchange sensitivity analysis and the impact of changes on profit and equity due to depreciation.

THE IMPACT OF FOREIGN CURRENCY (DEPRECIATION) EXCHANGE RATES ON PROFIT AND EQUITY

As at 31 December 2013

Currency	Depreciation of foreign currency against EUR	Effect on after-tax result of income statement	Effect on equity
USD	10%	(76)	–
CHF	5%	4	–
GBP	10%	(9)	–
Other	10%	(274)	(11)
Total		**(356)**	**(11)**

As at 31 December 2012

Currency	Depreciation of foreign currency against EUR	Effect on after-tax result of income statement	Effect on equity
USD	10%	151	(100)
CHF	5%	9	–
GBP	10%	(37)	–
Other	10%	(81)	(11)
Total		**42**	**(111)**

In the event of the appreciation of the foreign currency against the euro (and considering the same scenario as above), the impact on profit and equity would be exactly the opposite.

2.2.3 Interest rate risk

Interest rate risk is the risk arising from the exposure of the Group's financial position to unfavourable changes in interest rate levels in the market. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on fair value risk and cash flow risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As a consequence of these changes, interest margins and the Group's income also change.

2.2.3.1 Interest rate risk management process

In accordance with **the interest rate risk management strategy,** the Group has limited the size of interest rate risk by setting up a limit system and by defining the amount of required internal capital. The Group monitors interest risk through assets and liabilities management in terms of their maturity, amount and interest rate setting method and through the application of derivative financial instruments. The Group also regularly calculates the impact of interest rate changes on net interest income and the economic value of capital by applying various interest rate variation scenarios.

The Group performs an efficient **interest rate risk management process,** which enables the risk to remain at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the established interest rate risk management policy. The interest rate risk management process is based on the procedures involving the identification, measurement, assessment and management of interest rate risk. The process is supported by efficient internal reporting.

The structure and organisation of appropriate interest rate risk management functions are set out in the relevant policy, which put the Risk Management Committee in charge of monitoring adequacy of the strategy, policies and limit system of interest rate risk management. The implementation of the policy is monitored and controlled by the Assets and Liabilities Management Committee, interest rate risk management is the responsibility of the Assets and Liabilities Management Department, whereas the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

As required by its **internal reporting,** the Group monitors interest rate risk arising from trading in the framework of global market risk control and uses the Value-at-Risk method, stress testing, and sensitivity analysis to measure it. The level of exposure to the interest rate risk in the banking book is controlled by the Assets and Liabilities Committee on a monthly basis, whilst quarterly reports on interest rate risk exposure are submitted to the Supervisory Board.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

Interest rate risk, arising from mismatches in the banking book, **is measured** by means of gap analysis. Gap analysis comprises aggregating cash flows into different maturity buckets, categorised by the earlier of contractual re-pricing or maturity dates. To classify non-maturing items, the Group uses an internal methodology. Open positions are monitored and reported on a monthly basis.

The Group takes on exposure to the effects of interest rate fluctuations. It is therefore important for the Group to measure its interest rate sensitivity and manage its assets and liabilities in accordance therewith. The Group regularly calculates the effect of interest rate fluctuations on its profit and equity.

For the purpose of monitoring the effectiveness of **interest rate risk hedging and reduction,** the Group regularly assesses its risk capacity in line with the set methodology. The Group also uses derivatives to hedge against interest rate risk.

Serious uncertainties with regard to interest rate movements persisted in 2013. Credit rating downgrades continued to widen credit spreads on securities issued by overly highly indebted European countries, whilst the Euribor reference interest rates remained at record lows. The required rate of return on ten-year government bonds of euro area periphery countries decreased mainly on account of the measures taken by the European Central Bank and other measures for bailing out overly highly indebted European countries. The required rate of return on Slovene government bonds also decreased, mostly due to resolving the problems of the Slovene banking system, which began in December 2013.

In the interest rate structure of the Group's liabilities, the share of sources of funds received with a fixed interest at the 2013 year-end remained the same as one year earlier. Through proactive asset and liability management, the Bank keeps the interest rate gaps in longer time buckets at relatively low and stable levels, which were slightly higher as at the 2013 year-end compared to one year earlier.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The following table summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates.

CONCENTRATION OF INTEREST RATE RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2013

		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total
	Financial assets							
1.	Cash and cash balances with the central bank	346,971	–	–	–	–	28,610	**375,581**
2.	Financial assets held for trading	26	3,419	698	6,253	740	2,858	**13,994**
3.	Financial assets designated at fair value through profit or loss	–	–	–	–	–	2,436	**2,436**
4.	Available-for-sale financial assets	25,250	35,204	116,951	154,031	160,119	15,129	**506,684**
5.	Loans and receivables	652,573	738,988	443,000	35,427	11,472	43,013	**1,924,473**
	– loans to banks	106,920	2,043	2	–	–	–	**108,965**
	– loans to non-bank customers	545,329	736,902	442,948	35,427	11,472	37,639	**1,809,717**
	– other financial assets	324	43	50	–	–	5,374	**5,791**
6.	Held-to-maturity investments	–	8,729	110,318	14,767	9,644	–	**143,458**
	Total financial assets	**1,024,820**	**786,340**	**670,967**	**210,478**	**181,975**	**92,046**	**2,966,626**
	Financial liabilities							
1.	Deposits and loans from the central bank	456,198	–	1	6	8	–	**456,213**
2.	Financial liabilities held for trading	–	3,419	690	6,262	724	79	**11,174**
3.	Financial liabilities designated at fair value through profit or loss	–	–	8,842	–	–	–	**8,842**
4.	Financial liabilities measured at amortised cost	399,876	329,849	987,702	379,009	220,329	10,367	**2,327,132**
	– deposits from banks	1,832	115	2,717	2,745	3,425	21	**10,855**
	– deposits from non-bank customers	378,428	250,424	688,374	362,017	206,718	96	**1,886,057**
	– loans from banks	3,163	60,434	293,922	–	9,872	–	**367,391**
	– loans from non-bank customers	–	–	–	–	–	–	**–**
	– debt securities issued	15,323	18,113	2,563	14,247	314	–	**50,560**
	– subordinated liabilities	–	–	–	–	–	–	**–**
	– other financial liabilities	1,130	763	126	–	–	10,250	**12,269**
	Total financial liabilities	**856,074**	**333,268**	**997,235**	**385,277**	**221,061**	**10,446**	**2,803,361**
	Interest rate sensitivity gap	**168,746**	**453,072**	**(326,268)**	**(174,799)**	**(39,086)**		
	Loan commitments	**39,505**	**9,188**	**11,081**	**35**	**51,554**	**–**	**111,363**

NOTES TO THE FINANCIAL STATEMENTS (continued)

CONCENTRATION OF INTEREST RATE RISK: ON- AND OFF- BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2012

		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total
	Financial assets							
	Cash and cash balances with the central bank	187,941	–	–	–	–	26,767	**214,708**
2.	Financial assets held for trading	172	4,908	33	10,496	1,186	3,846	**20,641**
3.	Financial assets designated at fair value through profit or loss	–	–	8,760	–	–	2,755	**11,515**
4.	Available-for-sale financial assets	4,365	9,300	65,572	277,347	117,223	22,533	**496,340**
5.	Loans and receivables	817,871	940,265	731,624	39,220	26,010	48,891	**2,603,881**
	– loans to banks	81,464	298	207	–	–	1	**81,970**
	– loans to non-bank customers	736,093	939,935	731,371	39,208	26,010	43,325	**2,515,942**
	– other financial assets	314	32	46	12	–	5,565	**5,969**
6.	Held-to-maturity investments	12,000	8,750	91,730	25,502	15,000	–	**152,982**
	Total financial assets	**1,022,349**	**963,223**	**897,719**	**352,565**	**159,419**	**104,792**	**3,500,067**
	Financial liabilities							
1.	Deposits and loans from the central bank	533,853	–	–	2	2	–	**533,857**
2.	Financial liabilities held for trading	2	5,830	33	10,857	1,074	135	**17,931**
3.	Financial liabilities designated at fair value through profit or loss	–	–	8,760	–	–	–	**8,760**
4.	Financial liabilities measured at amortised cost	579,960	526,902	1,149,135	380,646	213,360	9,250	**2,859,253**
	– deposits from banks	2,401	1,045	2,129	2,519	3,149	20	**11,263**
	– deposits from non-bank customers	532,155	391,110	641,116	365,136	200,042	72	**2,129,631**
	– loans from banks	5,346	105,120	353,527	–	9,869	–	**473,862**
	– loans from non-bank customers	–	–	10,094	(89)	–	–	**10,005**
	– debt securities issued	38,825	28,835	23,168	13,080	300	–	**104,208**
	– subordinated liabilities	–	–	119,050	–	–	–	**119,050**
	– other financial liabilities	1,233	792	51	–	–	9,158	**11,234**
	Total financial liabilities	**1,113,815**	**532,732**	**1,157,928**	**391,505**	**214,436**	**9,385**	**3,419,801**
	Interest rate sensitivity gap	**(91,466)**	**430,491**	**(260,209)**	**(38,940)**	**(55,017)**		
	Loan commitments	**59,480**	**11,951**	**23,426**	**–**	**58,190**	**–**	**153,047**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2.3.2 Interest rates by currency

The Group monitors interest rates by currency for financial instruments. Average interest rates are shown in the following table.

AVERAGE INTEREST RATES BY CURRENCY FOR FINANCIAL INSTRUMENTS

		2013			2012		
		EUR	USD	CHF	EUR	USD	CHF
	Financial assets						
1.	Cash and cash balances with the central bank	0.12%	–	–	0.08%	–	–
2.	Financial assets held for trading	–	–	–	–	–	–
3.	Financial assets designated at fair value through profit	–	–	–	0.00%	–	–
4.	Available-for-sale financial assets	2.79%	3.81%	–	3.79%	4.05%	–
5.	Loans and receivables	4.52%	0.18%	1.89%	4.56%	0.29%	1.63%
	– loans to banks	0.13%	0.07%	0.00%	0.22%	0.16%	0.00%
	– loans to non-bank customers	4.62%	4.95%	2.19%	4.63%	4.47%	2.30%
6.	Held-to-maturity investments	3.93%	–	–	3.77%	–	–
	Financial liabilities						
1.	Deposits and loans from the central bank	0.55 %	0.00%	–	0.75%	–	–
2.	Financial liabilities held for trading	–	–	–	0.00%	–	–
3.	Financial liabilities measured at amortised cost	2.43%	0.08%	0.02%	2.58%	0.16%	0.43%
	– deposits from banks	2.15%	0.00%	0.00%	3.01%	–	0.01%
	– deposits from non-bank customers	2.32%	0.09%	0.02%	2.51%	0.16%	0.02%
	– loans from banks	2.72%	–	–	2.64%	–	1.65%
	– loans from non-bank customers	–	–	–	0.69%	–	–
	– debt securities issued	4.43%	–	–	4.40%	–	–
	– subordinated liabilities	–	–	–	2.10%	–	–

2.3 Liquidity risk

Liquidity risk is the risk that includes the risk of failing to provide liquidity sources and market liquidity risk.

The risk of failing to provide liquidity sources is the risk that the Group might not be able to meet its payment obligations when due, and/or that as a consequence of its inability to provide sufficient funding to meet payment obligations by the due date, the Group might be forced to provide the required funding at costs significantly above usual.

Market liquidity risk is the risk of loss arising from the impossibility of selling or replacing positions (in financial instruments) in a short period of time without this bearing a significant impact on the market price, due to insufficient market depth, market imbalances or other reasons.

2.3.1 Liquidity risk management process

The liquidity risk management strategy is based on prudent and stable operations, and includes the careful management of assets and liabilities (both on- and off-balance sheet) as well as a balanced borrowing strategy, which enables the Group to meet its financial obligations as they fall due (liquidity) and to sustainably meet all its financial obligations (solvency).

The Group provides for an adequate amount and structure of high quality liquid assets. It takes into account market liquidity risk, i.e. the risk of loss arising from the impossibility of selling or replacing a position (in financial instruments) in a short period of time without a significant impact on the market price.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The liquidity risk management process follows the established liquidity risk management policy. This process includes implementation procedures and rules on measures for identifying, assessing, monitoring, reporting on and minimising risk exposure.

The liquidity risk management process consists of:

- integrated planning and monitoring future cash flows, which include day-to-day funding, with a view to ensuring that requirements are met and sources are replenished as they mature;
- maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen cash flow trends;
- assessing market liquidity risk;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- managing the concentration and profile of debt maturities;
- liquidity management in different scenarios, and liquidity stress tests in extreme situations;
- monitoring the liquidity position of the banking system and the national economy;
- adopting adequate liquidity policies in view of the given circumstances; and
- establishing an adequate relationship between the costs, benefits and risks involved in providing liquidity.

The structure and organisation of appropriate functions for liquidity risk management are set out in the relevant policy. The adequacy of the strategy, policies and limit system of liquidity risk management is monitored by the Risk Management Committee. The implementation of the relevant policy is jointly controlled by the Assets and Liabilities Management Committee and the Liquidity Commission, liquidity risk management lies within the competence of the Treasury Department and the Assets and Liabilities Management Department, whilst the Treasury Department and other divisions are in charge of the operationalisation of policies and guidelines.

Internal reporting takes the form of cash flow measurement and projections for the next day, week and month, as these are key periods for operational liquidity management. Furthermore, liquidity measurements for longer periods are carried out to monitor liquidity exposure in those periods, and to manage potential liquidity crises. The starting point for those projections is the contractual maturity of financial liabilities, the expected recovery date of financial assets and the assessment of the expected movement of unstable sources. Liquidity risk exposure is followed and controlled by the Liquidity Committee on a daily basis and by the Assets and Liabilities Committee on a monthly basis. The Supervisory Board quarterly discusses a report on the Group's exposure to various types of risks, including liquidity risk.

2.3.1.1 Liquidity risk measurement

The procedures for **measuring liquidity risk** include quality and quantity assessments for risk measurement. The Group developed its own methods for establishing, measuring, managing and monitoring liquidity, which enable matching the actual and potential liquid funds to the actual and potential use of such funds over certain time periods. The Group evaluates the adequacy of liquid assets and their availability. When an assessment of liquidity is made, the Group primarily takes into account the possibility of obtaining liquidity in the short run on the basis of these funds. The Group also monitors the distribution of costs, benefits and risks involved in providing liquidity. A methodology has been developed for this purpose, which covers important assets and liability items, off-balance items and all liquidity maintenance costs. This methodology is regularly upgraded by the Group.

The Group regularly upgrades its methodology for calculating cash flows based on expected maturity. Discrepancies between expected and contractual cash flows are assessed using the assumptions that are based on historical data. Calculated assumptions are tested regularly.

2.3.1.2 Liquidity risk mitigation

With the aim of **hedging and reducing liquidity risk,** the Group implements prudent assets and liabilities management, which is the foundation of stable operations; therefore, the following objectives are pursued:

- to be able to meet all short-term financial obligations arising from on- and off-balance-sheet cash flows;
- to minimise the costs of liquidity maintenance; and
- to anticipate potential extraordinary circumstances or crisis situations and to implement contingency plans in the event of the latter.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In order to reduce liquidity risk, the Group uses a limit system, which includes compliance with the Bank of Slovenia's requirements, internally defined limits and the monitoring of target structural liquidity ratios. In 2013, the Group tightened its limit system requirements by changing the allowable levels of certain liquidity indicators.

For the purpose of liquidity risk hedging, a method for identifying and measuring liquidity risk is applied, and a contingency plan is in place in the event of a liquidity crisis. The Group is hedged against liquidity risk through careful management of the high quality liquid assets portfolio and by ensuring an appropriate level of adequately diversified funding sources.

In order to monitor the effectiveness of hedging and minimise liquidity risk, the Group regularly assesses its risk capacity in accordance with the established methodology.

2.3.1.3 Liquidity management scenarios in extreme situations

The Group prepares various liquidity scenarios in extreme situations with the aim of identifying potential weaknesses and vulnerabilities in its liquidity position. These scenarios assume worsened liquidity conditions due to credit rating downgrades of the Bank and a diminished reputation domestically and internationally. Moreover, the Group prepares scenarios assuming extreme liquidity situations in domestic and foreign financial markets, a reduced confidence in the banking system, and a decline in economic activity.

The Group performs combined scenarios in extreme situations, including both Group-specific and market-wide stress scenarios, and regularly revises the system of assumptions used for all types of potential liquidity crises.

In these scenarios, the Group determined the impact on maintaining an adequate amount of available liquid assets for covering past due liabilities. On the basis of liquidity stress tests conducted for different degrees of extreme liquidity situations, the Group forms and adjusts own high quality liquid assets and manages their volume and structure.

2.3.1.4 Contingency plan

In order to hedge liquidity risk, procedures are defined for minimising the occurrence of crisis situations that would prevent the Group from duly and promptly discharging its obligations. Early crisis detection is carried out during the daily monitoring of the Group's liquidity position.

The contingency plan of the Group defines the indicators that point to a liquidity crisis, measures for improving the liquidity position and the competences and responsibilities for actions to be taken in the event of a liquidity crisis.

2.3.2 Liquidity ratios and structural liquidity indicators

Liquidity ratios and structural liquidity indicators are based on compliance with the Bank of Slovenia's regulations regarding the minimum requirements for ensuring an adequate liquidity position. This regulation prescribes the ratio of financial assets to financial liabilities according to residual maturity. For this purpose, the following prescribed ratios are calculated and monitored:

- the liquidity ratio with a residual maturity of assets and liabilities of up to 30 days. The value of this ratio may not be less than 1; and
- the liquidity ratio with a residual maturity of assets and liabilities of up to 180 days. This ratio is calculated for information purposes.

As at the reporting date, both liquidity ratios increased, mostly as a result of the capital increase in 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

PRESCRIBED LIQUIDITY RATIOS (ASSETS/LIABILITIES)

	Average 2013	As at 31 December 2013	Average 2012	As at 31 December 2012
Maturity of up to 30 days	1.47	2.05	1.31	1.43
Maturity of up to 180 days	0.91	1.12	0.97	0.90

The Group also monitored the liquidity situation by the continuously calculating structural liquidity indicators. Cash and cash equivalents, securities, short term interbank deposits and deposits with the central bank constitut Group's core liquidity. In 2013, the two indicators (core liquidity to total assets and core liquidity to short-term deposits of the non-banking sector) improved in comparison to the preceding year. This improvement was due to a greater volume of assets that constitute both core liquidity as well as declining total assets and short-term deposits of the non-banking sector. The loan-to-deposit ratio for the non-banking sector including issued certificates of deposits improved as outstanding loans to the non-banking sector decreased more than total deposits.

STRUCTURAL LIQUIDITY INDICATORS (%)

	Average 2013	As at 31 December 2013	Average 2012	As at 31 December 2012
Core liquidity/total assets	27.6	33.4	22.4	22.9
Core liquidity/short-term deposits of the non-banking sector	109.4	168.6	93.9	89.9
Loans to non-banking sector/deposits of the non-banking sector	101.9	94.2	115.7	112.9

2.3.3 Funding approach

The Group keeps its funding sources at an adequate level and appropriately diversifies them by currency, lender/creditor, banking product, and maturity. In the reporting year, the Group's borrowings from the European Central Bank decreased, whilst the volume of total wholesale liabilities simultaneously decreased. In order to ensure an adequate liquidity position, the Group was extraordinarily active in raising primary sources of funds and reduced the volume of its credit portfolio given a lower level of funding.

2.3.4 Non-derivative cash flows

2.3.4.1 Non-derivative cash flows from liabilities based on contractual maturity

The following table shows non-derivative cash flows according to their remaining contractual maturity as at the date of the statement of financial position. On-balance sheet items disclosed in the maturity table represent undiscounted cash flows including future interest payments. Off-balance sheet items are included in the time bucket containing the earliest date on which loan commitments could be drawn down (according to IFRS7 amendments: B11C(b)), or on which financial guarantees could be called (according to IFRS7 amendments: B11C(c)).

Foreign currency cash flows are converted into euros using the spot exchange rate as at the date of the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON CONTRACTUAL MATURITY

As at 31 December 2013		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1.	Deposits and loans from the central bank	6,213	–	–	457,472	–	**463,685**
2.	Financial liabilities held for trading	14	–	–	–	–	**14**
3.	Financial liabilities designated at fair value through profit or loss	–	–	8,842	–	–	**8,842**
4.	Financial liabilities measured at amortised cost	884,841	256,009	688,866	489,972	102,305	**2,421,993**
	– deposits from banks	8,637	–	2,281	–	–	**10,918**
	– deposits from non-bank customers	869,284	247,514	588,418	225,943	4,070	**1,935,229**
	– loans from banks	–	5,109	91,670	227,166	80,405	**404,350**
	– loans from non-bank customers	–	–	–	–	–	**–**
	– debt securities issued	1,150	3,386	2,968	36,863	14,860	**59,227**
	– subordinated liabilities	–	–	–	–	–	**–**
	– other financial liabilities	5,770	–	3,529	–	2,970	**12,269**
	Total potential future payments for financial liabilities	**891,068**	**256,009**	**697,708**	**947,444**	**102,305**	**2,894,534**
	Loan commitments and financial guarantees	**152,424**	**–**	**–**	**–**	**–**	**152,424**

As at 31 December 2012		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial liabilities						
1.	Deposits and loans from the central bank	53,952	30,061	–	460,922	–	**544,935**
2.	Financial liabilities held for trading	10	–	–	–	–	**10**
3.	Financial liabilities designated at fair value through profit or loss	–	–	–	8,760	–	**8,760**
4.	Financial liabilities measured at amortised cost	1,056,788	413,915	713,335	677,323	123,567	**2,984,928**
	– deposits from banks	9,196	726	1,958	–	–	**11,880**
	– deposits from non-bank customers	1,016,715	390,447	517,358	254,347	5,657	**2,184,524**
	– loans from banks	1,126	5,388	155,263	257,829	99,345	**518,951**
	– loans from non-bank customers	–	–	10,045	–	–	**10,045**
	– debt securities issued	23,384	14,126	24,170	38,312	18,565	**118,557**
	– subordinated liabilities	391	629	1,887	126,835	–	**129,742**
	– other financial liabilities	5,976	2,599	2,654	–	–	**11,229**
	Total potential future payments for financial liabilities	**1,110,750**	**443,976**	**713,335**	**1,147,005**	**123,567**	**3,538,633**
	Loan commitments and financial guarantees	**212,201**	**–**	**–**	**–**	**–**	**212,201**

The largest part of liquidity reserves held by the Group in 2013 to meet balance sheet and off-balance sheet obligations was composed of debt securities, whilst the second largest liquidity reserve item as at the reporting date was cash and cash equivalents. The Group does not have any commitments and contingencies that would exceed the contractually determined amount of obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3.4.2 Non-derivative cash flows based on expected maturity

The following table shows on- and off-balance non-derivative cash flows according to their expected maturity as at the date of the statement of financial position.

Expected cash flows from on-balance sheet items also include estimated loan prepayments based on historical statistical data. Demand deposits are classified into different time buckets according to an internal methodology. Demand deposits are divided into stable and unstable sources, using a statistical method based on a multi-annual time series. Stable sources are subsequently dispersed into different long-term time buckets.

Expected cash flows from off-balance sheet items are classified into different time buckets according to an internal methodology based on historical data, and also taking into account the credit rating of the customers to which the Group has a potential off-balance sheet exposure.

The Group carries out measures for maintaining the level of liquidity gaps within internally defined limits. These measures include activities for raising long-term funds, maturity matching of assets and liabilities and ongoing adjustments of the interest rate policy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON EXPECTED MATURITY

As at 31 December 2013		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1.	Cash and cash balances with the central bank	375,590	–	–	–	–	**375,590**
2.	Financial assets held for trading	1,574	–	–	–	–	**1,574**
3.	Financial assets designated at fair value through profit or loss	–	–	–	–	2,436	**2,436**
4.	Available-for-sale financial assets	28,679	40,243	124,661	188,022	198,266	**579,871**
5.	Loans and receivables	630,977	137,713	488,027	559,481	245,601	**2,061,799**
	– loans to banks	88,962	5	707	120	19,414	**109,208**
	– loans to non-bank customers	536,325	137,673	487,309	559,308	226,185	**1,946,800**
	– other financial assets	5,690	35	11	53	2	**5,791**
6.	Held-to-maturity investments	219	9,364	111,614	18,497	10,519	**150,213**
	Total financial assets	**1,037,039**	**187,320**	**724,302**	**766,000**	**456,822**	**3,171,483**
	Financial liabilities						
1.	Deposits and loans from the central bank	6,198	–	1	457,478	8	**463,685**
2.	Financial liabilities held for trading	14	–	–	–	–	**14**
3.	Financial liabilities designated at fair value through profit or loss	–	–	8,842	–	–	**8,842**
4.	Financial liabilities measured at amortised cost	385,428	264,881	728,772	702,446	341,722	**2,423,249**
	– deposits from banks	1,836	115	2,795	2,745	3,427	**10,918**
	– deposits from non-bank customers	376,672	256,271	627,810	435,672	240,060	**1,936,485**
	– loans from banks	–	5,109	91,670	227,166	80,405	**404,350**
	– loans from non-bank customers	–	–	–	–	–	**–**
	– debt securities issued	1,150	3,386	2,968	36,863	14,860	**59,227**
	– subordinated liabilities	–	–	–	–	–	**–**
	– other financial liabilities	5,770	–	3,529	–	2,970	**12,269**
	Total financial liabilities	**391,640**	**264,881**	**737,615**	**1,159,924**	**341,730**	**2,895,790**
	Net liquidity gap	**645,399**	**(77,561)**	**(13,313)**	**(393,924)**	**115,092**	**275,693**
	Loan commitments and financial guarantees	**49,896**	**3,489**	**6,562**	**1,359**	**91,118**	**152,424**

NOTES TO THE FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON EXPECTED MATURITY

As at 31 December 2012		Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
	Financial assets						
1.	Cash and cash balances with the central bank	214,708	–	–	–	–	**214,708**
2.	Financial assets held for trading	1,656	–	–	–	–	**1,656**
3.	Financial assets designated at fair value through profit or loss	–	–	281	8,760	2,474	**11,515**
4.	Available-for-sale financial assets	5,393	13,082	73,758	317,361	155,667	**565,261**
5.	Loans and receivables	842,436	207,785	547,665	880,037	291,753	**2,769,676**
	– loans to banks	66,135	302	129	42	16,792	**83,400**
	– loans to non-bank customers	770,425	207,474	547,526	879,921	274,961	**2,680,307**
	– other financial assets	5,876	9	10	74	–	**5,969**
6.	Held-to-maturity investments	12,219	9,350	92,860	29,738	16,513	**160,680**
	Total financial assets	**1,076,412**	**230,217**	**714,564**	**1,235,896**	**466,407**	**3,723,496**
	Financial liabilities						
1.	Deposits and loans from the central bank	53,948	30,061	–	460,924	2	**544,935**
2.	Financial liabilities held for trading	10	–	–	–	–	**10**
3.	Financial liabilities designated at fair value through profit or loss	–	–	–	8,760	–	**8,760**
4.	Financial liabilities measured at amortised cost	559,900	423,116	754,987	898,167	351,611	**2,987,781**
	– deposits from banks	2,950	831	2,431	2,519	3,149	**11,880**
	– deposits from non-bank customers	526,073	399,543	558,537	472,672	230,552	**2,187,377**
	– loans from banks	1,126	5,388	155,263	257,829	99,345	**518,951**
	– loans from non-bank customers	–	–	10,045	–	–	**10,045**
	– debt securities issued	23,384	14,126	24,170	38,312	18,565	**118,557**
	– subordinated liabilities	391	629	1,887	126,835	–	**129,742**
	– other financial liabilities	5,976	2,599	2,654	–	–	**11,229**
	Total financial liabilities	**613,858**	**453,177**	**754,987**	**1,367,851**	**351,613**	**3,541,486**
	Net liquidity gap	**462,554**	**(222,960)**	**(40,423)**	**(131,955)**	**114,794**	**182,010**
	Loan commitments and financial guarantees	**72,041**	**4,081**	**6,847**	**527**	**128,705**	**212,201**

2.3.5 Derivative cash flows

2.3.5.1 Derivatives settled on a net basis

The Group's derivatives that are settled on a net basis include:

- foreign exchange derivatives: over-the-counter (OTC) currency options; and
- interest rate derivatives: interest rate swaps and interest rate options.

The following table shows an analysis of the Group's derivative financial instruments with negative fair value, which are settled on a net basis, arranged in groups according to maturity on the basis of the outstanding contractual maturity on the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE SETTLED ON A NET BASIS

As at 31 December 2013	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	–	–	–	–	**–**
– interest rate derivatives	(309)	(1,743)	(2,327)	(4,672)	(141)	**(9,192)**
Total	**(309)**	**(1,743)**	**(2,327)**	**(4,672)**	**(141)**	**(9,192)**

As at 31 December 2012	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	(302)	(905)	–	–	**(1,207)**
– interest rate derivatives	(270)	(1,334)	(2,277)	(7,984)	(212)	**(12,077)**
Total	**(270)**	**(1,636)**	**(3,182)**	**(7,984)**	**(212)**	**(13,284)**

2.3.5.2 Derivatives settled on a gross basis

The Group's derivatives that are settled on a gross basis include:

- foreign exchange derivatives: currency forwards and currency swaps.

The following table shows an analysis of the Group's derivative financial instruments with a negative fair value settled on a gross basis and arranged in logical groups according to maturity on the basis of the outstanding contractually determined maturity on the date of the statement of financial position. Items shown in the table represent the contractually determined undiscounted cash flows.

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE SETTLED ON A GROSS BASIS

As at 31 December 2013	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	2,247	918	508	–	–	**3,673**
– outflows	2,293	939	511	–	–	**3,743**
Total inflows	**2,247**	**918**	**508**	**–**	**–**	**3,673**
Total outflows	**2,293**	**939**	**511**	**–**	**–**	**3,743**

As at 31 December 2012	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	3,826	2,229	1,516	108	–	**7,679**
– outflows	3,859	2,280	1,579	114	–	**7,832**
Total inflows	**3,826**	**2,229**	**1,516**	**108**	**–**	**7,679**
Total outflows	**3,859**	**2,280**	**1,579**	**114**	**–**	**7,832**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3.6 Commitments and contingencies

Items referring to potential obligations are presented off-balance sheet. The triggering events for these obligations have not occurred and these facilities are not yet due. Those obligations for which trigger events have already occurred are presented in the statement of financial position.

a) Loan commitments

The following table shows a summary of the contractually determined values of loan commitments (overdrafts and credit lines, granted undrawn loans, revolving loans) that oblige the Group to provide loans to customers.

b) Guarantees and other financial facilities

The following table also includes guarantees and other financial facilities, arranged according to contractually determined maturity dates.

COMMITMENTS AND CONTINGENCIES

(Notes 2.1.3, 2.2.2.1, 2.2.3.1, 2.3.4.1, 2.3.4.2, 40)

As at 31 December 2013	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	92,289	2,972	16,102	**111,363**
Guarantees and other financial facilities	95,611	78,376	23,794	**197,781**
– financial guarantees	27,954	7,818	5,288	**41,060**
– performance guarantees	47,122	64,279	14,347	**125,748**
– letters of credit	–	–	–	**–**
– avals	196	–	–	**196**
– derivatives	1,982	6,279	4,159	**12,420**
– other	18,357	–	–	**18,357**
Total	**187,900**	**81,348**	**39,896**	**309,144**

As at 31 December 2012	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	131,744	3,070	18,233	**153,047**
Guarantees and other financial facilities	138,558	96,453	36,293	**271,304**
– financial guarantees	38,152	11,903	9,099	**59,154**
– performance guarantees	79,509	74,054	21,787	**175,350**
– letters of credit	205	–	–	**205**
– avals	258	–	–	**258**
– derivatives	3,365	10,496	5,407	**19,268**
– other	17,069	–	–	**17,069**
Total	**270,302**	**99,523**	**54,526**	**424,351**

Commitments and contingencies are reduced by the provisions for guarantees and commitments, and by the other provisions (Note 40).

Commitments and contingencies are carried at nominal value; the only exception is derivative financial instruments carried at market value. The counterparty credit risk exposure amounted to EUR 15,182 thousand at the end of 2013 (at the end of 2012: EUR 23,258 thousand) is the sum of the market value (current exposure) and the potential exposure of derivative financial instruments.

The item “other” mainly includes mainly potential liabilities for the National Housing Savings Scheme (NHSS (Note 35)).

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4 Capital management

Capital management is an on-going process of decision-making and of maintaining the required level and quality of the Group's capital.

Capital risk arises from an inadequate level of capital, an inadequate capital structure in view of the scope and manner of business or in relation to difficulties in raising new capital. The Group has established procedures and mechanisms for ensuring an adequate structure and amount of capital.

Capital risk management comprises monitoring the level of capital, capital adequacy ratios, drafting guidelines for achieving the planned capital adequacy ratios and following the implementation of measures aimed at keeping at least minimum capital adequacy ratios in compliance with the respective business policy of the Group.

The management and supervisory bodies regularly monitor and assess the effectiveness of the capital management system. The Group calculates its regulatory capital and capital adequacy at least quarterly.

The Group's capital has to be at least equal the total sum of minimum capital requirements at all times.

2.4.1 Regulatory capital and capital adequacy

The regulatory capital and capital adequacy of the Group are calculated on the basis of the Group's consolidated financial statements in accordance with the Decision on the Supervision of Banks and Savings Banks on a Consolidated Basis. The Group's regulatory capital calculation takes into account capital components, restrictions and deductible items pursuant to the Decision Regulating Bank and Savings Banks' Capital Calculation. In calculating the capital adequacy of the Group, relevant decisions which regulate the calculation of capital adequacy levels for risks of banks and savings banks are applied.

Regulatory capital of the Group consists of original own funds (Tier 1) and additional own funds I (Tier 2).

Original own funds (Tier 1 capital) comprise:

- paid-up share capital and share premium,
- reserves and retained profits,
- non-controlling interest,
- adjustments to valuation differences eligible as original own funds, i.e. prudential filters, and
- deduction items from Tier 1 capital (own shares, intangible assets and assessment of adjustments on financial assets measured at fair value).

Additional own funds I (Tier 2 capital) include:

- adjustments to valuation differences in available-for-sale equities (equities and equities holdings); prudential filters.

In 2011, the calculation of the Group's regulatory capital included the hybrid instrument from a transitional period with incentives to redeem, i.e. a subordinated loan of EUR 120 million under the loan agreement, dated 18 January 2007 and concluded between Abanka as the borrower and VTB Bank Europe plc., 81 King William Street, London EC4N 7BG., Great Britain as the lender. On 17 December 2013, Abanka received the Decision of the Bank of Slovenia on Extraordinary Measures pursuant to Article 261.a of the Banking Act (ZBan-1), stipulating that as at 18 December 2013 all qualified liabilities of the Bank under the above subordinated loan ceased and as a consequence the loan should no longer be included in the calculation of the regulatory capital of the Group.

The credit risk capital requirement of the Group is calculated by applying the Standardised Approach. Consequently, the Group discloses no **deduction items from Tier 1 capital and Tier 2 capital arising from the IRB** (Internal Ratings-Based) approach.

Tier 1 capital and Tier 2 capital are **decreased by equity investments** in other credit and financial institutions and investment fund companies that individually exceed 10% of the other institution's share capital to establish the actual amount of capital to be further used for the capital adequacy calculation, taking capital requirements for credit, market and operational risks into account.

The following table shows regulatory capital components and capital adequacy ratios.

NOTES TO THE FINANCIAL STATEMENTS (continued)

REGULATORY CAPITAL AND CAPITAL ADEQUACY

As at 31 December	2013	2012
Paid up share capital	150,000	7,200
(-) own shares	(29)	(432)
Share premium	39,617	143,288
Reserves	10,295	9,213
Non-controlling interest	9	9
Interim profits (audited)	–	–
Adjustments to valuation differences eligible as original own funds – prudential filters	(2)	(786)
Hybrid instruments	–	120,000
(-) hybrid instruments with incentive to redeem and subject to limit	–	120,000
(-) Other deductions from original own funds	(4,733)	(96,932)
(-) intangible assets	(4,710)	(4,105)
(-) excess on limits for hybrid instruments	–	(92,766)
(-) adjustments of financial assets measured at fair value	(23)	(61)
(-) difference between the reported impairments and provisions according to IFRS and the BoS regulations on loss assessment	–	–
Original own funds (Tier 1)	**195,157**	**181,560**
Excess on limits for original own funds transferred to additional own funds I (hybrid instruments)	–	92,766
Adjustments to valuation differences in available-for-sale equities - prudential filters	3,540	4,091
Additional own funds I (Tier 2)	**3,540**	**96,857**
(-) Deductions from original and additional own funds I (equity investments in credit and financial institutions)	–	–
Total regulatory capital (for solvency purposes)	**198,697**	**278,417**
Capital requirement for credit risk	150,557	215,777
Capital requirement for market risk	257	372
Capital requirement for operational risk	17,090	17,634
Total capital requirements	**167,904**	**233,783**
Tier 1 capital adequacy ratio (Tier 1 / total capital requirements * 8%)	**9.30%**	**6.21%**
Total capital adequacy ratio (total regulatory capital / total capital requirements * 8%)	**9.47%**	**9.53%**

Over the presented two years, the Group (and the Bank) maintained its total capital adequacy ratio above the regulatory minimum (8%). As at the 2013 year-end, the Group's regulatory capital amounted to EUR 198,697 thousand or EUR 79,720 thousand less in comparison to the previous year-end. Capital requirements decreased less than capital level, which deteriorated the total capital adequacy ratio to 9.47% as at the reporting date. The quality structure of capital improved, as evidenced by the higher capital adequacy ratios of Tier 1 capital and Core Tier 1 capital, both of which increased to 9.30%.

The Group took numerous measures to mitigate its decreasing capital adequacy, mostly resulting from its bottom line loss. These measures were aimed not only at increasing the volume and quality of capital but also at decreasing capital requirements. The greatest positive impacts on capital adequacy ratio were a capital increase of EUR 348,000 thousand (in December) and a decrease in credit risk capital requirements of EUR 65,220 thousand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.2 Minimum capital requirements

The following table shows capital requirements by risk type and their structure.

CAPITAL REQUIREMENTS BY RISK TYPE AND THEIR STRUCTURE

As at 31 December	2013		2012	
Capital requirements	**Amount**	**Structure**	**Amount**	**Structure**
Capital requirement for credit risk	150,557	89.7%	215,777	92.3%
Capital requirement for market risk	257	0.1%	372	0.2%
Capital requirement for operational risk	17,090	10.2%	17,634	7.5%
Total capital requirements	**167,904**	**100.0%**	**233,783**	**100.0%**

2.4.2.1 Credit risk capital requirement

The credit risk capital requirement of the Group is calculated by applying the Standardised Approach. The following table shows capital requirement amounts per exposure category.

CREDIT RISK CAPITAL REQUIREMENT

	As at 31 December	2013	2012
	Standardised approach	**150,557**	**215,777**
1.	**Exposure classes excluding securitization positions**	**150,557**	**215,777**
	Central governments or central banks	296	162
	Regional governments or local authorities	52	57
	Administrative bodies and non-commercial undertakings	281	273
	Institutions	3,063	7,229
	Corporates	58,100	104,783
	Retail	36,621	40,891
	Secured by real estate property	3,775	2,784
	Past due items	11,217	18,181
	Items belonging to regulatory high-risk categories	27,424	30,065
	Covered bonds	699	872
	Short-term claims on institutions and corporates	1,448	1,345
	Collective investments undertakings (CIU)	1,466	1,371
	Other items	6,115	7,764
2.	**Securitization positions**	**–**	**–**

In 2013, credit risk capital requirement decreased by 30.2% (in 2012: decrease by 19.6%), i.e. by EUR 65,220 thousand and, within that, the largest decrease in absolute amount was registered in exposure class for corporates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.4.2.2 Market risk capital requirement

The Group's market risk capital requirement is calculated by applying the Standardised Approach. Market risk capital requirement involves the calculation of capital requirements for position risk (specific and general risk due to price changes of financial instruments), foreign exchange risk and settlement risk.

MARKET RISK CAPITAL REQUIREMENT

As at 31 December		2013	2012
	Standardised approach	**257**	**372**
1.	**Position risk**	**257**	**372**
	Debt based financial instruments	5	47
	Equity based financial instruments	252	325
2.	**Foreign exchange risk**	**–**	**–**
3.	**Settlement risk**	**–**	**–**

2.4.2.3 Operational risk capital requirement

The Group's operational risk capital requirement is calculated by applying the Basic Indicator Approach. Therefore, the capital requirement for operational risk is equal to 15% of the average annual gross income over the previous three years.

OPERATIONAL RISK CAPITAL REQUIREMENT

As at 31 December	2013	2012
Basic indicator approach	17,090	17,634

2.4.3 Internal capital adequacy assessment process

The internal capital adequacy process was introduced with new capital regulations under the implementation of the Basel II banking accord in early 2008, primarily in order to better provide the Group's adequate capital in view of the actual risks the Group assumes and to which it is exposed, as well as to ensure that the capital remains at an adequate level in the future, in view of the Group's business development plans.

The internal capital adequacy assessment process is defined by two variables. The first variable represents the risks to which the Group is exposed, going beyond the first pillar of capital requirements, while the second variable is the capital held by the Group for covering risks and potential losses arising from such risks. A comparison of the internal assessment of capital requirements and the internal assessment of capital indicates the Group's ability to cover all risks to which it is exposed.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group upgraded existing methods for calculating the internal assessments of capital requirements, continued to regularly monitor its risk profile and evaluated the risk-bearing capacity, set up and performed stress tests, and calculated the amount of its internal assessment of capital and internal assessment of capital requirements for all important types of risks on a quarterly basis. This information is included in regular quarterly reports on the outcome of the Internal Capital Adequacy Assessment Process, which is communicated to the members of the Management and the Supervisory Boards as well to the members of the Risk Management Committee, which consists of the senior management of the Bank.

As at 31 December 2013 the consolidated total capital adequacy ratio was 9.47% (and 9.57% at unconsolidated level) and consolidated Tier 1 capital and Core Tier 2 capital ratios equalled to 9.30% (and 9.40% at the unconsolidated level). Although the legal capital adequacy ratio of 8% was met on a consolidated and unconsolidated basis, the Bank of Slovenia, on the basis of stress testing scenarios, required a consolidated capital adequacy ratio of 11.8% and a consolidated Tier 1 capital ratio of 9.5%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

On 18 December 2013, the Republic of Slovenia provided EUR 348 million in cash as the first part in the capital increase process of Abanka. Based on an extraordinary measure of the Bank of Slovenia all qualified liabilities of the Bank ceased. These consisted of the Bank's share capital and subordinated liabilities to creditors. The remaining part of the capital increase (expected in government securities amounting to EUR 243 million), which Abanka requires for its long-term sustainable operation, is conditional upon receiving a final favourable opinion from the European Commission, to be drafted on the basis of a restructuring plan.

A stronger capital base will enable the Bank to achieve clearly defined strategic objectives and comply with the expectations of the Bank of Slovenia.

2.5 Operational risk management

Operational risk is defined as a risk of losses due to fraud, illicit actions and/or procedures, errors, omissions, inefficiency, system errors and external factors and/or events. The definition includes legal risk and outsourcing risk, but excludes strategic risk and reputational risk. However, the realisation of operational risk may, as a consequence, compromise the Group's reputation.

2.5.1 Operational risk management process

The operational risk strategy and management processes are set out in the Operational Risk Management Policy. In 2013, the Group continued with the activities formulated in the Policy, which was updated in 2013 with current amendments. The accompanying internal instructions were brought in line with the amended Policy, in order to involve all operational risk management steps and define the Group's appetite for and tolerance of operational risk.

The objective of the operational risk management process is to establish procedures for reducing risk and limiting the occurrence of any losses from operational risk as well as to actively plan and implement measures aimed at reducing the frequency and severity of loss events.

The operational risk management process includes:

- procedures of operational risk identification, measurement/assessment, monitoring, control and operational risk mitigation;
- internal operational risk reports.

The Group regularly identifies and qualitatively assesses operational risk exposure, whilst also taking stock of preventive and corrective measures in the cases in which potential loss events occur. The system of operational risk internal reporting in the Group involves the entire staff and enables a quick reaction in the event of problems, since the Management Board and senior management are involved in such reporting. If necessary, after each loss event additional measures are taken in order to prevent or reduce the possibility of reoccurrence and with the aim of improving operational risk management.

The structure and organisation of appropriate operational risk management in the Group involves employees at all levels with different responsibilities and duties. Operational risk management and risk mitigation measures are decentralised and take place in all organisational units. The Risk Management Department is in charge of coordinating the operational risk management function.

In the Group there is the Operational Risk Commission, responsible for the development of the operational risk management system, and the Risk Management Committee, which is a collective decision-making body responsible for directing and controlling operational risk management. The latter includes all senior managers and is chaired by a member of the Management Board. The committee regularly invites to its meetings the Security Officer, the Compliance Officer, the Anti-Money Laundering Officer and the Director of the Internal Audit Department.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the purpose of **operational risk internal reporting**, the Group uses an application developed in-house for recording loss events, as well as an application for reporting them. The recording application is available to all employees of the Group and enables them to record loss events (also anonymously). The reporting application enables reporting to formally designated reporters. In the framework of loss event reporting, the Group also collects information on legal risk. The risk management policy and processes are applied to legal risk in the same manner as other operational risk categories. The Group manages the legal risk arising from legal actions against the Group in the same manner as other legal risks, i.e. by prudent and careful consideration of each case (if not outsourced) and/or cautious selection of lawyers (if outsourced) to provide quality representation of the Group. The Risk Management Department is responsible for the preparation of summary quarterly reports on loss events, which are discussed by the Operational Risk Commission and the Risk Management Committee. The Committee discusses major loss events in greater detail, takes appropriate measures as they occur and monitors their implementation. It also investigates all operational risk profiles (assessed, realised, targeted) by organisational units and at the Group level. Moreover, the Management Board and senior management are promptly informed of all major loss events. The Supervisory Board discusses quarterly reports on exposure to various risks, including operational risk.

2.5.1.1 Operational risk management process

The operational risk measurement system includes recognition and assessment and/or measurement of operational risk on the basis of forms filled in for the purpose of recording potential loss events. For each identified potential loss event, the probability of its occurrence, the seriousness of the consequences resulting from its occurrence and the adequacy of existing controls for preventing such occurrences are assessed. For assessment purposes a qualitative approach is taken. Existing controls for reducing the occurrence of the loss event and preventive measures have to be defined for each recorded potential loss event, as well as corrective measures in the event a loss event occurs. In the framework of operational risk measurement, preparations are under way to define the appetite for and tolerance of operational risk as the basis for operational risk monitoring and management.

2.5.1.2. Operational risk mitigation

The Group carries out activities in the framework of **operational risk hedging and reduction**, based on the identification, measurement, assessment, monitoring and internal reporting on operational risk. In addition, the Group performs activities to mitigate the consequences of occurred loss events. The implementation of all these activities is the responsibility of individual organisational units. In 2013, the special emphasis was placed on operational risk management in harsh circumstances and crises, mainly frauds as the most topical type of risk in such periods. The aim is their reduction and a quick and effective reaction in the event of occurrence. The analysis of the operational risk loss events for 2013 showed that human factors remain the major source of operational risks and consequently the main reason for operational losses. Therefore, the Group has implemented the activities of prevention and reduction of this source of losses.

The Group has developed business continuity plans and disaster recovery plans, which are regularly updated, upgraded and tested.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Impairment losses on loans and advances

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

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

The first sensitivity analysis assumes that 2% of A, B, C and D loans are downgraded by one credit rating category. Based on data at the end of 2013, credit risk losses would increase by 0.9% (2012: 1.5%) or EUR 6.3 million (2012: EUR 7.0 million). The second sensitivity analysis was conducted in accordance with the assumption that 1% of A, B and C loans are downgraded by one credit rating category, 1% of these loans are downgraded by two credit rating categories and 2% of D-rated loans are downgraded by one credit rating category. The result of this sensitivity analysis has shown that, based on data at the end of 2013, credit risk losses would rise by 1.3% (2012: 2.8%) or EUR 9.7 million (2012: EUR 12.7 million).

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

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost. The Bank considers a significant decrease in the fair value of financial assets below their cost to be at least a 40% decrease in their fair value as compared to their average cost. A prolonged decrease in the fair value of financial assets below their cost is considered to be a period of at least nine months from the date the fair value of the relevant equity investments first fell below their average cost and remained lower throughout that period. In the said period, the Bank continuously recognises a loss in fair value reserve in relation to the relevant equity investments.

In addition, the Group estimates the usual fluctuation in share prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Bank would have suffered an additional loss of EUR 3 thousand (2012: EUR 72 thousand) and the Group would have suffered an additional loss of EUR 3 thousand (2012: EUR 118 thousand), being the transfer of the total debit balance in the fair value reserve to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(c) Held-to-maturity investments

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

If all held-to-maturity investments were to be so reclassified, the carrying value would increase by EUR 564 thousand (2012: a EUR 418 thousand decrease), with a corresponding entry in the fair value reserve in shareholders' equity.

(d) Fair value of financial assets and liabilities

Financial instruments carried at fair value

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

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

Valuation techniques

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

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

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

Fair value hierarchy

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

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

Valuation techniques for financial instruments measured at fair value

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

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

Internal environment for valuations

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 31 december 2013	Quoted prices in active markets (1)	Valuation techniques based on observable market data (2)	Valuation techniques incorporating information other than observable market data (3)	Total
Financial assets measured at fair value				
Financial assets held for trading	1,889	12,100	5	**13,994**
– equity securities	1,310	258	5	**1,573**
– derivatives	579	11,841	–	**12,420**
– unit linked investments	–	–	–	**–**
– other	–	1	–	**1**
Financial assets designated at fair value through profit or loss	2,436	–	–	**2,436**
– unit linked investments	2,436	–	–	**2,436**
Available-for-sale financial assets	473,982	32,103	599	**506,684**
– debt securities	459,956	31,600	–	**491,556**
– equity securities	14,026	503	–	**14,529**
– equity holdings	–	–	599	**599**
Total financial assets	**478,307**	**44,203**	**604**	**523,114**
Financial liabilities measured at fair value				
Financial liabilities held for trading	–	11,174	–	**11,174**
– derivatives	–	11,160	–	**11,160**
– spot transactions	–	14	–	**14**
Financial liabilities designated at fair value through profit or loss	8,842	–	–	**8,842**
– structured deposit	8,842	–	–	**8,842**
Total financial liabilities	**8,842**	**11,174**	**–**	**20,016**

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 december 2012	Quoted prices in active markets (1)	Valuation techniques based on observable market data (2)	Valuation techniques incorporating information other than observable market data (3)	Total
Financial assets measured at fair value				
Financial assets held for trading	1,647	16,783	2,211	**20,641**
– equity securities	1,475	–	5	**1,480**
– derivatives	–	16,779	2,206	**18,985**
– unit linked investments	172	–	–	**172**
– other	–	4	–	**4**
Financial assets designated at fair value through profit or loss	11,234	–	281	**11,515**
– debt securities	8,760	–	–	**8,760**
– equity holdings	–	–	281	**281**
– unit linked investments	2,474	–	–	**2,474**
Available-for-sale financial assets	441,616	50,592	4,132	**496,340**
– debt securities	423,317	50,490	–	**473,807**
– equity securities	18,299	102	3,452	**21,853**
– equity holdings	–	–	680	**680**
Total financial assets	**454,497**	**67,375**	**6,624**	**528,496**
Financial liabilities measured at fair value				
Financial liabilities held for trading	–	17,928	3	**17,931**
– derivatives	–	17,918	3	**17,921**
– spot transactions	–	10	–	**10**
Financial liabilities designated at fair value through profit or loss	8,760	–	–	**8,760**
– structured deposit	8,760	–	–	**8,760**
Total financial liabilities	**8,760**	**17,928**	**3**	**26,691**

FAIR VALUE TRANSFERS

As at 31 december 2013	Level 1		Level 2		Level 3	
	from	to	from	to	from	to
Available-for-sale financial assets (debt securities)	–	13,789	(13,789)	–	–	–
Available-for-sale financial assets (equity securities)	–	111	(111)	503	(503)	–
Total	**–**	**13,900**	**(13,900)**	**503**	**(503)**	**–**

On the grounds of applied observable prices, the Group transferred two items of available-for-sale equity securities in a total value of EUR 111 thousand from Level 2 to Level 1. Due to the changed valuation technique, the Group further transferred four items of available-for-sale equity securities in total value of EUR 503 thousand from Level 3 to Level 2. In one case, the Group applied the market approach valuation technique instead of the former cost model valuation; in three cases, the market approach valuation technique was applied instead of a model in which also unobserved inputs had been used.

The Group transferred four items of available-for-sale debt securities in total value of EUR 13,789 thousand from Level 2 to Level 1. The Group used observable market prices for all the above items.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Financial assets held for trading			Financial assets designated at fair value through profit or loss	Available-for-sale financial assets			Financial liabilities held for trading
	Equity securities	Derivatives	**Total**	**Equity holdings**	Equity securities	Equity holdings	**Total**	**Derivatives**
As at 1 January 2013	5	2,206	**2,211**	**281**	3,452	680	**4,132**	**3**
Total gains/(losses)	–	176	**176**	**(176)**	(542)	–	**(542)**	**–**
– in profit or loss	–	176	**176**	**(176)**	(135)	–	**(135)**	**–**
net gains/(losses) on financial assets held for trading	–	176	**176**	**–**	–	–	**–**	**–**
net losses on financial assets and liabilities designated at fair value through profit or loss	–	–	**–**	**(176)**	–	–	**–**	**–**
realised losses on financial assets and liabilities designated at fair value through profit or loss	–	–	**–**	**–**	(135)	–	**(135)**	**–**
– in other comprehensive income	–	–	**–**	**–**	(407)	–	**(407)**	**–**
revaluation reserves	–	–	**–**	**–**	(407)	–	**(407)**	**–**
Purchases	–	–	**–**	**–**	–	11	**11**	**–**
Sales, redemptions, settlements	–	(2,382)	**(2,382)**	**(105)**	(269)	(92)	**(361)**	**(3)**
Transfers to Level 3	–	–	**–**	**–**	–	–		**–**
Transfers from Level 3	–	–	**–**	**–**	(2,641)	**–**	**(2,641)**	**–**
As at 31 December 2013	**5**	**–**	**5**	**–**	**–**	**599**	**599**	**–**
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2013	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

	Financial assets held for trading			Financial assets designated at fair value through profit or loss	Available-for-sale financial assets				Financial liabilities held for trading
	Equity securities	Derivatives	**Total**	**Equity holdings**	Debt securities	Equity securities	Equity holdings	**Total**	**Derivatives**
As at 1 January 2012	5	434	**439**	**2,070**	2,268	2,463	662	**5,393**	**23**
Total gains/(losses)	–	1,779	**1,779**	**(1,789)**	(131)	420	18	**307**	**(14)**
– in profit or loss	–	1,779	**1,779**	**(1,789)**	(134)	(642)	18	**(758)**	**(14)**
– in other comprehensive income	–	–	**–**	**–**	3	1,062	–	**1,065**	**–**
Purchases	–	–	**–**	**–**	–	1,375	–	**1,375**	**–**
Sales, redemptions, settlements	–	(7)	**(7)**	**–**	(2,137)	(865)	–	**(3,002)**	**(6)**
Transfers to Level 3	–	–	**–**	**–**	–	59	–	**59**	**–**
As at 31 December 2012	**5**	**2,206**	**2,211**	**281**	**–**	**3,452**	**680**	**4,132**	**3**
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2012	**–**	**1,779**	**1,779**	**(1,789)**	**–**	**(643)**	**18**	**(625)**	**14**

NOTES TO THE FINANCIAL STATEMENTS (continued)

Unobservable inputs used in measuring fair value

The table below contains information on significant unobservable inputs used in the fair value measurement of financial instruments categorised in fair value Level 3 as at 31 December 2013.

Type of financial instruments	Fair values at 31 December 2013	Valuation technique	Significant unobservable input	Range of estimates for unobservable input	Fair value measurement sensitivity to unobservable inputs
Equity securities	–	The net asset value method (the asset accumulation method)	When using the asset accumulated method, the discounted cash flow model was used in fair value measurement of one equity security.	0 – 2.7%	Significant increases in unobservable inputs would not change current fair value measurement. Fair value of this asset would increase if quoted market value was used.
Equity securities	5	At cost	–	–	A change in the measurement technique might to a certain extent change the fair value.
Equity holdings	599	At cost	–	–	A change in the measurement technique might to a certain extent change the fair value.

The unobservable inputs for fair value measurement of financial instruments that were categorised in fair value Level 3 as at 31 December 2013 arise from the application of cost model valuation in cases in which obstacles existed in fair value measurement and the values of the relevant assets are low. In one case, the applied fair value valuation technique was based on the discounted cash flow model in which the use of future cash flow assumptions might to a certain extent change the total fair value. In the said case, the valuation was tested with the application of the comparable companies method and, therefore, the Group estimates that the possible deviation from the measured fair value is low. The measured fair value was negative and thus the final valuation remained unmodified.

Effect of unobservable inputs on fair value measurement

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

As at 31 December 2013	Effect on profit or loss		Effect on other comprehensive income	
Financial asset	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Equity securities	–	(5)	4	–
Equity holdings	–	–	–	(599)

Fair value measurement of Level 3 equity financial instruments was used to show possible adverse impact on profit or loss, indicating that the fair value measurement resulted in a zero value in case of transit from the cost valuation model to another valuation technique. A favourable impact on profit or loss in fair value measurement of Level 3 equity financial instruments was measured as a transit from the applied valuation technique to the use of observable market price for the measurement of fair value. However, the Group believes that changes in inputs or assumptions in the applied valuation technique would not bring about any change in the measured fair value. The adverse impact on profit or loss due to fair value measurement of Level 3 equity interests was measured to show the possibility that the transit from the cost valuation model to some other fair value measurement technique would result in zero value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Financial instruments not measured at fair value

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

FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

	Carrying value		Fair value			
As at 31 December	**2013**	**2012**	**Level 1**	**Level 2**	**Level 3**	**2012**
Financial assets						
Cash and cash balances with the central bank	375,581	214,708	375,581	–	–	214,708
Loans and receivables	1,924,473	2,603,881	–	112,824	3,564,070	2,617,974
– loans to banks	108,965	81,970	–	107,033	–	81,802
– loans to non-bank customers	1,809,717	2,515,942	–	–	1,782,035	2,530,203
– retail customers	535,369	553,322	–	–	487,492	538,510
– corporate entities	1,274,348	1,962,620	–	–	1,294,543	1,991,693
– other financial assets	5,791	5,969	–	5,791	–	5,969
Held-to-maturity investments	143,458	152,982	142,750	–	–	152,564
Financial liabilities						
Deposits and loans from the central bank	456,213	533,857	–	456,213	–	533,857
Financial liabilities measured at amortised cost	2,327,132	2,859,253	13,980	2,321,989	–	2,815,176
– deposits from banks	10,855	11,263	–	10,333	–	11,568
– deposits from non-banks customers	1,886,057	2,129,631	–	1,897,289	–	2,162,483
– retail customers	1,101,191	1,186,174	–	1,098,197	–	1,195,426
– corporate entities	784,866	943,457	–	799,092	–	967,057
– loans from banks	367,391	473,862	–	366,652	–	469,259
– loans from non-bank customers - corporate entities	–	10,005	–	–	–	9,965
– debt securities issued	50,560	104,208	13,980	35,446	–	104,208
– subordinated liabilities	–	119,050	–	–	–	46,459
– other financial liabilities	12,269	11,234	–	12,269	–	11,234

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 SEGMENT ANALYSES

(a) By business segment

The Group provides services in three business segments:

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

The "Other" segment includes the activities of the Group that relate to custody and administrative services, activities of subsidiaries (leasing, factoring, investment management and other activities) and the valuation of associates in the consolidated statements.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION OF THE GROUP

As at 31 December 2013	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	8,031	71,827	(3,489)	7,572	83,941
Revenues from other segments	–	–	–	–	–
Segment result	(5,248)	(408,027)*	29,710	106,830**	(276,735)
Operating loss					(276,735)
Share of results of associates	–	–	–	(1,134)	(1,134)
Loss before tax					(277,869)
Income tax					(28,644)
Net loss for the year					**(306,513)**
Segment assets	551,121	1,286,077	1,123,099	54,621	3,014,918
Investments in associates	–	–	12,670	(12,670)	–
Unallocated assets					33,485
Total assets					**3,048,403**
Segment liabilities	1,139,106	363,431	1,090,998	237,301	2,830,836
Unallocated liabilities					5,428
Total liabilities					**2,836,264**
Other segment items					
Capital expenditure	220	120	19	5,446	5,805
Depreciation and amortisation	1,043	244	22	4,465	5,774
Net impairment and provision charge	(1,992)	(395,437)	(16,204)	2,698	(410,935)
Other material non-cash items	–	–	–	118,414**	–
[1]Including					
– interest income	22,646	76,791	25,312	2,388	127,137
– interest expenses	(25,433)	(16,385)	(30,368)	(852)	(73,038)
– dividend income	–	–	720	3	723
– fee and commission income	16,575	16,857	1,295	7,300	42,027
– fee and commission expenses	(5,757)	(5,436)	(448)	(1,267)	(12,908)

* The negative segment result of Corporate Banking is primarily due to additional impairments in 2013.

** In 2013, the segment "Other" also included unallocated profit amounting to EUR 118 million arising from the fact that all qualified liabilities of the Bank under a non-cumulative subordinated loan ceased (Note 33).

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2012	Retail banking	Corporate banking	Financial markets	Other	Total
External net income[1]	10,020	103,761	(18,540)	7,117	102,358
Revenues from other segments	–	–	–	–	–
Segment result	(15,965)	(86,928)	20,358	(1,572)	(84,107)
Operating loss					(84,107)
Share of result of the joint venture	–	–	–	(517)	(517)
Loss before tax					(84,624)
Income tax					3,559
Net loss for the year					**(81,065)**
Segment assets	568,469	1,959,969	962,953	87,638	3,579,029
Investment in the joint venture	–	–	8,901	(8,901)	–
Unallocated assets					34,983
Total assets					**3,614,012**
Segment liabilities	1,219,930	869,974	1,324,194	29,757	3,443,855
Unallocated liabilities					4,513
Total liabilities					**3,448,368**
Other segment items					
Capital expenditure	1,273	399	36	5,530	7,238
Depreciation and amortisation	1,102	250	26	4,561	5,939
Net impairment and provision charge	(5,078)	(113,285)	(8,789)	(2,274)	(129,426)
Other material non-cash items	–	–	–	–	–
[1]Including					
– interest income	26,281	115,503	33,434	2,743	177,961
– interest expenses	(27,187)	(24,524)	(54,057)	(1,097)	(106,865)
– dividend income	–	–	1,454	16	1,470
– fee and commission income	15,254	18,760	1,124	7,749	42,887
– fee and commission expenses	(4,328)	(5,978)	(495)	(2,294)	(13,095)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Geographical concentration

Country risk is also part of the credit risk assumed by the Group. In order to facilitate country risk management, the Bank produced a set of rules stipulating procedures for establishing and monitoring risk exposures to foreign countries as well as procedures for setting and monitoring the respective risk exposure limits. According to these rules, the Bank establishes risk exposures to individual foreign countries quarterly, in line with credit ratings assigned by external credit assessment institutions. This serves as a basis for the classification of foreign countries into seven internal rating categories, which in turn determine exposure limits per country. In this way, the adequate spreading of risk to achieve the highest possible return is ensured.

GEOGRAPHICAL CONCENTRATIONS OF NON-CURRENT ASSETS AND REVENUES

	Group	
As at 31 December 2013	**Total non-current non-financial assets**	**Revenues**
Slovenia	56,209	143,742
Other European Union countries	8	20,665
Other former Yugoslavia countries	20	3,431
Other countries	–	2,049
Investments in associates	–	–
	56,237	**169,887**

	Group	
As at 31 December 2012	**Total non-current non-financial assets**	**Revenues**
Slovenia	61,450	191,382
Other European Union countries	–	20,235
Other former Yugoslavia countries	98	8,873
Other countries	–	1,828
Investments in the joint venture	–	–
	61,548	**222,318**

Revenues consist of interest income, fee and commission income and dividend income.

The Group operates principally in Slovenia, where it is based. Inter-bank exposures account for more than 50% of all international transactions, whilst the rest are transactions with foreign companies and at the central government level.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 NET INTEREST INCOME

	Abanka		Group	
	2013	2012	2013	2012
Interest income				
Loans and advances	99,605	143,209	101,991	145,950
– to banks	140	1,052	222	1,168
– to customers	99,465	142,157	101,769	144,782
Available-for-sale securities	13,241	14,783	13,241	14,783
Financial assets held to maturity	5,654	5,010	5,654	5,010
Financial assets held for trading	6,027	11,699	6,027	11,699
Financial assets at fair value through profit or loss	58	102	58	102
Cash and short-term funds	166	417	166	417
	124,751	**175,220**	**127,137**	**177,961**
Interest expenses				
Deposits	50,058	55,872	49,964	55,815
– from banks	126	402	126	402
– from customers	49,932	55,469	49,838	55,413
Debt securities issued	2,755	13,432	2,755	13,432
Financial liabilities held for trading	5,783	11,240	5,783	11,240
Loans from banks	13,586	25,222	14,529	26,375
Other	10	7	7	3
	72,192	**105,772**	**73,038**	**106,865**
Net interest income	**52,559**	**69,448**	**54,099**	**71,096**

Interest income accrued on impaired financial assets of the Group amounts to EUR 7,698 thousand (2012: EUR 5,574 thousand).

6 DIVIDEND INCOME

	Abanka		Group	
	2013	2012	2013	2012
Held-for-trading securities	13	101	13	101
Available-for-sale securities	707	1,353	710	1,369
	720	**1,454**	**723**	**1,470**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	Abanka		Group	
	2013	2012	2013	2012
Fee and commission income				
Payment transactions	13,966	13,649	13,960	13,643
Transaction account management	4,471	3,955	4,459	3,943
Card and ATM operations	15,633	16,174	15,633	16,174
Lending operations	896	787	896	787
Guarantees granted	2,709	3,683	2,679	3,683
Custody services	1,969	2,132	1,881	2,073
Investment banking	1,038	848	999	812
Fund management	286	319	1,026	1,364
Other services	442	368	494	408
	41,410	**41,915**	**42,027**	**42,887**
Fee and commission expenses				
Payment transactions	1,720	2,589	1,736	2,623
Card and ATM operations	10,203	9,625	10,203	9,625
Guarantees received	32	2	32	2
Custody services	214	223	214	223
Stock exchange, Central Securities Clearing Corporation	190	211	190	212
Other services	253	155	533	410
	12,612	**12,805**	**12,908**	**13,095**
Net fee and commission income	**28,798**	**29,110**	**29,119**	**29,792**

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

	Abanka		Group	
	2013	2012	2013	2012
Net realised gains from available-for-sale financial assets	1,831	6,497	1,801	6,536
Net realised gains from held-to-maturity investments	21	–	21	–
Realised losses from loans and other financial assets and liabilities	(185)	(2,029)	(185)	(2,029)
Realised gains from loans and other financial assets and liabilities	120,315	899	120,369	899
	121,982	**5,367**	**122,006**	**5,406**

Realised gains on financial liabilities arise from the de-recognition of liabilities amounting to EUR 118,925 thousand under a non-cumulative subordinated loan since all qualified liabilities of the Bank have ceased in full after the receipt of the Decision of the Bank of Slovenia on Extraordinary Measures on 18 December 2013 (Note 33).

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	Abanka		Group	
	2013	2012	2013	2012
Foreign exchange transaction gains	1,597	1,256	1,597	1,256
Net gains/(losses) from derivatives	336	(1,415)	336	(1,415)
Realised gains from:				
– debt securities	249	290	249	290
– equity holdings	269	599	286	600
Unrealised gains from trading securities	109	89	109	104
	2,560	**819**	**2,577**	**835**

10 GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
Net gains/(losses) arising on:		
– equity securities	(176)	(1,789)
– debt securities	(109)	494
– unit-linked investment	(28)	137
– structured deposit	(94)	(547)
	(407)	**(1,705)**

11 NET OTHER OPERATING EXPENSES

	Abanka		Group	
	2013	2012	2013	2012
Other operating income				
– income from non-banking services	10	11	11	12
– income from sale of vehicles, real estate and other	–	–	1,063	1,160
– other operating income	822	2,740	4,973	2,851
	832	**2,751**	**6,047**	**4,023**
Other operating expenses				
– financial services tax	(2,188)	–	(2,208)	–
– tax on total assets of banks	(1,611)	(138)	(1,611)	(138)
– other taxes, contributions and other duties	(127)	(54)	(131)	(71)
– membership fees and similar	(125)	(117)	(146)	(142)
– other operating expenses	(14,699)	(5,956)	(14,768)	(6,133)
	(18,750)	**(6,265)**	**(18,864)**	**(6,484)**
Net other operating expenses	**(17,918)**	**(3,514)**	**(12,817)**	**(2,461)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 ADMINISTRATION COSTS

	Abanka		Group	
	2013	2012	2013	2012
Staff costs	28,971	30,088	30,987	32,397
– gross salaries	24,554	24,830	26,261	26,806
– social security costs	1,562	1,558	1,673	1,687
– pension costs	2,498	2,753	2,698	2,975
– provisions for employee benefits (Note 35)	357	947	355	929
Professional services	14,257	12,605	15,446	13,941
Advertising and marketing	1,517	1,509	1,560	1,561
Other administration costs	1,445	1,454	1,523	1,584
IT and software costs	2,772	2,256	2,822	2,305
Rent payable	513	515	725	745
Other costs	732	726	1,005	965
	50,207	**49,153**	**54,068**	**53,498**

	Abanka		Group	
	2013	2012	2013	2012
Auditor's fees:				
– auditing of the annual report	99	63	130	95
– other auditing services	47	29	47	35
– other non-auditing services performed by auditors other than the auditors of the annual report	2,293	436	2,293	436
	2,439	**528**	**2,470**	**566**

13 DEPRECIATION AND AMORTISATION

		Abanka		Group	
	Note	2013	2012	2013	2012
Property and equipment	26	3,272	3,571	3,824	4,216
Investment property	26	5	5	32	11
Intangible assets	26	1,787	1,591	1,918	1,712
		5,064	**5,167**	**5,774**	**5,939**

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 PROVISIONS

	Note	Abanka		Group	
		2013	2012	2013	2012
Provisions for employee benefits	35	(259)	–	(296)	–
Other provisions	35	135	280	1,635	280
Provisions for guarantees and commitments	35	2,010	1,228	2,054	1,600
Net charge of provisions		**1,886**	**1,508**	**3,393**	**1,880**

15 IMPAIRMENT

	Note	Abanka		Group	
		2013	2012	2013	2012
Impairment of financial assets:					
– available-for-sale financial assets	21	16,013	8,784	16,013	8,858
– loans to non-bank customers	23	395,363	116,857	385,484	117,877
– other financial assets		240	48	291	(83)
Impairment of non-financial assets:					
– property and equipment	26	–	–	2,813	–
– intangible assets	26	–	19	–	19
– investment property	26	–	–	19	117
– other non-financial assets		53	–	2,922	758
		411,669	**125,708**	**407,542**	**127,546**

In 2013, the Group significantly increased the impairments, mostly of individually assessed customers, due to deteriorated financial standing of its debtors, prolonged procedures for the realisation of collaterals from real property and a general decrease in their value and enhanced probability of transfer of the Bank's non-performing assets to the Bank Asset Management Company (BAMC) after the receipt of the European Commission's interim decision on state aid to the Bank.

The largest share of additional impairments referred to loans to non-bank customers in the amount of EUR 385,484 thousand (2012: EUR 117,877 thousand), representing a significant increase in impairments compared to 2012. Most additional impairments were made for exposures to trading companies, as well as to borrowers in the manufacturing and construction sectors.

Furthermore, in 2013 the Group impaired the available-for-sale financial assets in the amount of EUR 16,013 thousand (2012: EUR 8,858 thousand). Bonds issued by issuers from the holdings sector registered in the Republic of Slovenia were impaired by EUR 13,412 thousand, whilst the remaining share of impairments refers to equity securities, the fair value of which decreased steadily or substantially below their cost value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 INCOME TAX

	Note	Abanka		Group	
		2013	2012	2013	2012
Current tax		–	–	(465)	70
Deferred tax credit	36	(27,182)	(4,806)	(28,179)	(3,629)
		(27,182)	**(4,806)**	**(28,644)**	**(3,559)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	Abanka		Group	
	2013	2012	2013	2012
Loss before tax	(281,695)	(80,500)	(277,869)	(84,624)
Tax calculated at the prescribed tax rate of 17% (2012: 18%)	47,888	14,490	47,238	15,232
17% of tax-exempted income	1,003	2,527	2,330	3,200
17% of non-deductible expenses	(2,943)	(1,876)	(3,722)	(3,223)
Tax reliefs	–	–	375	74
	45,948	**15,141**	**46,221**	**15,283**
Effect of not recognised deferred taxes on the tax loss of the current year	(45,948)	–	(46,698)	(222)
Effect of reversed deferred taxes on the tax loss of previous years	(29,872)	–	(30,879)	(978)
Net deferred taxes	1,828	(327)	1,828	(316)
Effect of the tax rate change from 15% to 17% (2012: from 18% to 15%)	862	(10,008)	872	(10,262)
Effect of tax rate differences between states	–	–	12	54
Total	**(27,182)**	**4,806**	**(28,644)**	**3,559**

In 2013, the Amendments to the Corporate Income Tax Act were adopted, determining the 17% corporate income tax rate.

The Group has adjusted the amount of deferred tax assets because of the changes in the planned taxable profits available to cover the unused tax losses and due to the modified tax legislation, which allows the unused tax losses to be utilised only to a maximum of 50 percent of the tax base for the current period.

Due to the changed rate of taxation on corporate income to be applied from 1 January 2013, the Group recognised the effect of changes in the rate of taxation in relation to deferred taxes arising from transactions in securities, deferred taxes arising from various provisions made, from depreciation differences, from the impairment of property and equipment and from the impairment on loans and receivables in a total amount of EUR 862 thousand for the Bank (2012: EUR -10,008 thousand) and EUR 872 thousand for the Group (2012: EUR -10,262 thousand).

In November 2010, the Bank and the Tax Administration of the Republic of Slovenia signed a Cooperation Agreement within the pilot project on horizontal monitoring.

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the period of five years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances that may give rise to a potential material liability in this respect.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 EARNINGS PER SHARE

Basic earnings per share for 2013 and 2012 are calculated by dividing the net loss by the weighted average number of ordinary shares issued, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume the conversion of all dilutive potential ordinary shares, which the Bank did not have as at 31 December 2013, nor as at 31 December 2012.

	Abanka		Group	
	2013	2012	2013	2012
Net loss of the Bank/Group attributable to the owners of the parent, in EUR thousand	(308,877)	(75,694)	(306,534)	(81,063)
Weighted average number of ordinary shares issued	7,468,923	7,190,787	7,468,923	7,190,787
Number of treasury shares as at 31 December (Note 37)	–	9,213	–	9,213
Basic earnings per share (expressed in EUR per share)	**(41.35)**	**(10.53)**	**(41.04)**	**(11.27)**
Diluted earnings per share (expressed in EUR per share)	**(41.35)**	**(10.53)**	**(41.04)**	**(11.27)**

18 CASH AND CASH BALANCES WITH THE CENTRAL BANK

	Group	
	2013	2012
Cash in hand	28,610	26,767
Settlement account and obligatory reserve	192,917	183,756
Other deposits with the central bank	154,054	4,185
Total cash and cash balances with the central bank	**375,581**	**214,708**
Included in cash and cash equivalents (Note 39)	375,581	214,708

On 30 December 2013, the Bank participated in the short-term fine-tuning operation by the Bank of Slovenia with the amount of EUR 150,000 thousand, with the aim of placement of surplus liquid funds. The operation expired on 8 January 2014.

An interest rate analysis of cash and cash balances with the central bank is disclosed in Note 2.2.3.2. Fair value is disclosed in Note 3(d).

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

FINANCIAL ASSETS HELD FOR TRADING

	Abanka		Group	
	2013	2012	2013	2012
Equity securities	**1,573**	**1,480**	**1,573**	**1,480**
– listed	1,311	1,358	1,311	1,358
– unlisted	262	122	262	122
Unit-linked investments	**–**	**–**	**–**	**172**
Derivatives	**12,420**	**18,985**	**12,420**	**18,985**
Other	**1**	**4**	**1**	**4**
Total financial assets held for trading	**13,994**	**20,469**	**13,994**	**20,641**
Current	3,582	4,563	3,582	4,735
Non-current	10,412	15,906	10,412	15,906

An interest rate analysis of financial assets and liabilities held for trading is disclosed in Note 2.2.3.2. Additional information about fair value is disclosed in Note 3(d).

Derivative financial instruments
The Group uses the following derivative instruments for economic hedging purposes:

Currency forwards represent an obligation to buy or sell a certain amount of a currency in accordance with the provisions of the forward contract.

Foreign currency and interest rate futures are contractual rights and obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted interest rate and the current market rate, based on a notional principal amount.

An **interest rate cap** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate cap is to provide a hedge against rising interest rates, for which the buyer pays a premium in advance.

An **interest rate floor** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate floor is to provide a hedge against falling interest rates, for which the buyer pays a premium in advance.

An **interest rate collar** is an interest rate option: a combination of purchasing an interest rate cap and selling an interest rate floor.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. No exchange of principal takes place, except for certain currency swaps. The Group's credit risk is the potential cost of replacing the swap contracts if the counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Foreign currency options are contractual agreements under which the seller (issuer) grants the buyer (owner) the right, but not the obligation, to buy (call option) or to sell (put option) foreign currency on or by a specified date or within a specified period in accordance with the provisions of the contract (amount, price in a specified amount at a pre-determined rate). The buyer of the option pays and the seller receives a premium to compensate for the currency risk assumed. The Group negotiates foreign currency options with its clients (OTC market). The Group is exposed to credit risk only if it purchases such options and up to their carrying amount that is equal to their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly over time. The fair values of derivative instruments held by the Group are set out below.

As at 31 December 2013	Group		
	Notional contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	7,420	70	65
– gold options	1,973	579	–
Interest rate derivatives (OTC):			
– interest rate swaps	432,002	8,352	7,676
– OTC interest rate options	73,002	3,419	3,419
Total derivative assets/liabilities held for trading		**12,420**	**11,160**

As at 31 December 2012	Group		
	Notional contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	14,173	149	116
– currency swaps	2,794	7	6
– OTC currency options	10,515	3	3
Interest rate derivatives (OTC):			
– interest rate swaps	497,185	12,399	13,573
– OTC interest rate options	79,613	4,223	4,223
Equity derivatives – forwards	2,504	2,204	–
Total derivative assets/liabilities held for trading		**18,985**	**17,921**

As at 31 December 2013, financial liabilities held for trading also included (besides derivatives) spot transactions in the amount of EUR 14 thousand (2012: EUR 10 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

20 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
Debt securities	–	8,760
Equity securities – unlisted	–	281
Unit-linked investments	2,436	2,474
Total assets designated at fair value through profit or loss	**2,436**	**11,515**
Current	–	281
Non-current	2,436	11,234

Financial assets designated at fair value through profit or loss comprise various structured products, both bonds and the unit-linked investments. Structured products are debt securities derived from an underlying instrument, which defines their return. The interest payments of the above debt securities are equity-indexed, which results in dissimilar risks inherent in the host and embedded derivative. The Group therefore designates hybrid contracts as financial assets at fair value through profit or loss. Underlying instruments may be shares, indices, funds, commodities, etc.

An accounting mismatch would arise if the equity and debt securities were accounted through equity as the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating those equity and debt securities at fair value through profit or loss, the movement in the fair value will be recorded in the income statement.

In 2013, Abanka sold SOCGEN bonds in the nominal value of EUR 8,919 thousand under the structured deposit (Note 30). As at 31 December 2013, the Bank holds only one bond with a nominal value of EUR 100 at the 99.27% market price. In 2013, the loss realised from the sale of bonds amounted to EUR 109 thousand (Note 10).

There were no significant gains or losses attributable to changes in the credit risk for those debt securities designated at fair value in 2013 and 2012.

An interest rate analysis of financial assets designated at fair value through profit or loss is disclosed in Note 2.2.3.2. Additional information on fair value is disclosed in Note 3(d).

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Abanka		Group	
	2013	2012	2013	2012
Debt securities	**491,556**	**473,807**	**491,556**	**473,807**
Treasury bills (listed)	31,600	13,634	31,600	13,634
Other debt securities (listed)	459,956	460,173	459,956	460,173
Shares and equity holdings	**15,128**	**22,325**	**15,128**	**22,533**
Equity holdings* (unlisted)	599	680	599	680
Shares:	14,529	21,645	14,529	21,853
– listed	14,026	18,846	14,026	19,011
– unlisted	503	2,799	503	2,842
Total available-for-sale financial assets	**506,684**	**496,132**	**506,684**	**496,340**
Current	176,805	75,112	176,805	75,112
Non-current	329,879	421,020	329,879	421,228

* investments in limited liability companies

NOTES TO THE FINANCIAL STATEMENTS (continued)

An interest rate analysis of available-for-sale financial assets is disclosed in Note 2.2.3.2. Additional information about fair value is disclosed in Note 3(d).

MOVEMENTS IN AVAILABLE-FOR-SALE TREASURY BILLS ARE AS FOLLOWS:

	Group	
	2013	2012
As at 1 January	**13,634**	**41,947**
Additions	41,356	76,878
Disposals	(23,750)	(105,500)
Amortisation of discount	360	309
As at 31 December	**31,600**	**13,634**

MOVEMENTS IN OTHER AVAILABLE-FOR-SALE SECURITIES ARE AS FOLLOWS:

	Abanka		Group	
	2013	2012	2013	2012
As at 1 January	**482,498**	**528,534**	**482,706**	**528,898**
Exchange differences on monetary assets	(245)	(44)	(245)	(44)
Additions (purchase)	188,700	124,201	188,700	124,201
Disposals (sale)	(124,019)	(44,305)	(124,221)	(44,442)
Disposals (maturity and redemption)	(76,151)	(156,367)	(76,151)	(156,375)
Amortisation of discount and premium, interest accrued	13,055	14,478	13,055	14,478
Gains from changes in fair value	7,259	24,785	7,253	24,848
Impairment losses (Note 15)	(16,013)	(8,784)	(16,013)	(8,858)
As at 31 December	**475,084**	**482,498**	**475,084**	**482,706**

22 LOANS TO BANKS

	Abanka		Group	
	2013	2012	2013	2012
Placements with other banks	67,016	37,493	67,579	37,961
Loans and deposits to other banks	40,257	43,371	41,386	44,009
Gross loans	**107,273**	**80,864**	**108,965**	**81,970**
Provision for impairment	–	–	–	–
Net loans	**107,273**	**80,864**	**108,965**	**81,970**
Current	87,954	64,103	89,646	65,209
Non-current	19,319	16,761	19,319	16,761
Included in cash and cash equivalents (Note 39)	87,952	63,927	88,851	64,481

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 LOANS TO NON-BANK CUSTOMERS

	Abanka		Group	
	2013	2012	2013	2012
Corporate entities	2,003,232	2,383,654	1,982,340	2,353,624
Retail customers	530,256	540,360	555,658	572,051
Gross loans	**2,533,488**	**2,924,014**	**2,537,998**	**2,925,675**
Provision for impairment	(712,811)	(396,859)	(728,281)	(409,733)
Net loans	**1,820,677**	**2,527,155**	**1,809,717**	**2,515,942**
Current	945,969	1,401,819	945,969	1,364,688
Non-current	874,708	1,125,336	863,748	1,151,254

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

The Group accepted listed securities at a fair value of EUR 58,242 thousand (2012: EUR 67,663 thousand) as collateral for loans, which it is permitted to sell or re-pledge.

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT ARE AS FOLLOWS:

		Abanka			Group		
	Note	Corporate entities	Retail customers	Total	Corporate entities	Retail customers	Total
As at 1 January 2012		**318,905**	**11,603**	**330,508**	**318,556**	**15,838**	**334,394**
Provision for impairment	15	112,372	4,485	116,857	112,825	5,052	117,877
Write-offs, sales, conversion of loans		(48,358)	(2,148)	(50,506)	(40,377)	(2,161)	(42,538)
As at 31 December 2012		**382,919**	**13,940**	**396,859**	**391,004**	**18,729**	**409,733**
Provision for impairment	15	393,613	1,750	395,363	382,776	2,708	385,484
Write-offs, sales, conversion of loans		(78,305)	(1,106)	(79,411)	(65,788)	(1,148)	(66,936)
As at 31 December 2013		**698,227**	**14,584**	**712,811**	**707,992**	**20,289**	**728,281**

All loans were written down to their recoverable amounts.

In 2013, the Bank continued to implement activities aimed at decreasing capital requirements, as it additionally reduced and further restructured its credit portfolio by substituting higher-risk loans with lower-risk ones and by collateral optimisation.

Loans to banks and non-bank customers are further analysed in the following notes: Credit risk (Note 2.1), Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 44).

Loans to non-bank customers also include finance lease receivables as disclosed in Note 41.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 OTHER FINANCIAL ASSETS

	Abanka		Group	
	2013	2012	2013	2012
Receivables from customers	17	33	332	236
Receivables from card and ATM operations	2,203	2,424	2,203	2,424
Receivables from settlements	1,326	1,160	1,326	1,160
Other receivables	1,931	2,091	1,930	2,149
Total other financial assets	**5,477**	**5,708**	**5,791**	**5,969**
Current	5,422	5,646	5,745	5,912
Non-current	55	62	46	57

25 HELD-TO-MATURITY INVESTMENTS

	Group	
	2013	2012
Debt securities – at amortised cost – listed	**143,458**	**152,982**
Current	119,047	112,699
Non-current	24,411	40,283

The Group has not reclassified any financial assets out of held-to-maturity investments (2012: nil).

Debt securities have fixed interest rates.

An interest rate analysis of held-to-maturity investments is additionally disclosed in Note 2.2.3.2. Fair value is disclosed in Note 3(d).

MOVEMENTS IN HELD-TO-MATURITY INVESTMENTS ARE AS FOLLOWS:

	Group	
	2013	2012
As at 1 January	**152,982**	**102,784**
Additions (purchase)	146,209	94,854
Disposals (maturity and redemption)	(161,386)	(49,666)
Amortisation of discount	5,653	5,010
As at 31 December	**143,458**	**152,982**

A decrease in held-to-maturity investments partly resulted from the maturity of some securities in 2013 and partly due to the redemption, by the Government, of securities, which was beyond the Bank's control.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE – ABANKA

	Land and buildings	Computers	Other equipment	Assets under construction	**Total property and equipment**	**Intangible assets**	**Investment property**	**Non-current assets held for sale**
As at 31 December 2011								
Cost	49,423	23,833	13,178	1,171	87,605	18,036	153	1,326
Accumulated depreciation/amortisation	23,626	18,273	10,488	–	52,387	14,548	70	–
Net book amount as at 31 December 2011	**25,797**	**5,560**	**2,690**	**1,171**	**35,218**	**3,488**	**83**	**1,326**
Cost								
As at 1 January 2012	**49,423**	**23,833**	**13,178**	**1,171**	**87,605**	**18,036**	**153**	**1,326**
Additions	795	1,434	502	807	3,538	1,877	–	612
Impairment charge (Note 15)	–	–	–	–	–	(19)	–	–
Disposals	–	(871)	(732)	–	(1,603)	(660)	–	–
As at 31 December 2012	**50,218**	**24,396**	**12,948**	**1,978**	**89,540**	**19,234**	**153**	**1,938**
Depreciation								
As at 1 January 2012	**23,626**	**18,273**	**10,488**	**–**	**52,387**	**14,548**	**70**	**–**
Depreciation and amortisation (Note 13)	1,128	1,823	620	–	3,571	1,591	5	–
Disposals	–	(854)	(700)	–	(1,554)	(660)	–	–
As at 31 December 2012	**24,754**	**19,242**	**10,408**	**–**	**54,404**	**15,479**	**75**	**–**
Net book amount as at 31 December 2012	**25,464**	**5,154**	**2,540**	**1,978**	**35,136**	**3,755**	**78**	**1,938**
Cost								
As at 1 January 2013	**50,218**	**24,396**	**12,948**	**1,978**	**89,540**	**19,234**	**153**	**1,938**
Additions	922	1,355	1,522	(1,777)	2,022	2,502	1	2,040
Transfer from financial assets available for sale	–	–	–	–	–	–	–	225
Impairment charge	–	–	–	–	–	–	–	(283)
Disposals	–	(2,959)	(192)	–	(3,151)	(112)	–	(3,861)
As at 31 December 2013	**51,140**	**22,792**	**14,278**	**201**	**88,411**	**21,624**	**154**	**59**
Depreciation								
As at 1 January 2013	**24,754**	**19,242**	**10,408**	**–**	**54,404**	**15,479**	**75**	**–**
Depreciation and amortisation (Note 13)	1,132	1,564	576	–	3,272	1,787	5	–
Disposals	–	(2,949)	(194)	–	(3,143)	(112)	–	–
As at 31 December 2013	**25,886**	**17,857**	**10,790**	**–**	**54,533**	**17,154**	**80**	**–**
Net book amount as at 31 December 2013	**25,254**	**4,935**	**3,488**	**201**	**33,878**	**4,470**	**74**	**59**

NOTES TO THE FINANCIAL STATEMENTS (continued)

PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE – GROUP

	Land and buildings	Computers	Other equipment	Assets under construction	**Total property and equipment**	**Intangible assets**	**Investment property**	**Non-current assets held for sale**
As at 31 December 2011								
Cost	62,901	23,837	16,514	5,586	108,838	18,664	153	1,326
Accumulated depreciation/amortisation	23,829	18,278	11,683	–	53,790	14,759	70	–
Net book amount as at 31 December 2011	**39,072**	**5,559**	**4,831**	**5,586**	**55,048**	**3,905**	**83**	**1,326**
Cost								
As at 1 January 2012	**62,901**	**23,837**	**16,514**	**5,586**	**108,838**	**18,664**	**153**	**1,326**
Additions	824	1,438	1,297	892	4,451	1,931	854	612
Disposals	(2)	(871)	(1,793)	–	(2,666)	(660)	–	–
Impairment charge (Note 15)	–	–	–	–	–	(19)	(117)	–
As at 31 December 2012	**63,723**	**24,404**	**16,018**	**6,478**	**110,623**	**19,916**	**890**	**1,938**
Depreciation								
As at 1 January 2012	**23,829**	**18,278**	**11,683**	**–**	**53,790**	**14,759**	**70**	**–**
Depreciation and amortisation (Note 13)	1,157	1,824	1,235	–	4,216	1,712	11	–
Disposals	(1)	(854)	(1,220)	–	(2,075)	(660)	–	–
As at 31 December 2012	**24,985**	**19,248**	**11,698**	**–**	**55,931**	**15,811**	**81**	**–**
Net book amount as at 31 December 2012	**38,738**	**5,156**	**4,320**	**6,478**	**54,692**	**4,105**	**809**	**1,938**
Cost								
As at 1 January 2013	**63,723**	**24,404**	**16,018**	**6,478**	**110,623**	**19,916**	**890**	**1,938**
Additions	934	1,355	2,382	(1,728)	2,943	2,523	1,399	2,040
Transfer from financial assets available for sale	–	–	–	–	–	–	–	225
Disposals	(196)	(2,967)	(895)	–	(4,058)	(129)	–	–
Impairment charge (Note 15)	(1,215)	–	(5)	(1,593)	(2,813)	–	(19)	(1,209)
Transfer to inventories	–	–	–	–	–	–	(1,120)	(2,935)
As at 31 December 2013	**63,246**	**22,792**	**17,500**	**3,157**	**106,695**	**22,310**	**1,150**	**59**
Depreciation								
As at 1 January 2013	**24,985**	**19,248**	**11,698**	**–**	**55,931**	**15,811**	**81**	**–**
Depreciation and amortisation (Note 13)	1,148	1,565	1,111	–	3,824	1,918	32	–
Disposals	(84)	(2,955)	(533)	–	(3,572)	(129)	–	–
Transfer to inventories	–	–	–	–	–	–	(13)	–
As at 31 December 2013	**26,049**	**17,858**	**12,276**	**–**	**56,183**	**17,600**	**100**	**–**
Net book amount as at 31 December 2013	**37,197**	**4,934**	**5,224**	**3,157**	**50,512**	**4,710**	**1,050**	**59**

NOTES TO THE FINANCIAL STATEMENTS (continued)

All investment property generates income and expenses. There was EUR 9 thousand of rental income from investment property (2012: EUR 9 thousand) and EUR 6 thousand of direct expenses recognised in the income statement of the Bank in 2013 (2012: EUR 6 thousand). The Group recognised EUR 90 thousand of rental income from investment property (2012: EUR 18 thousand) and EUR 33 thousand of direct expenses in the consolidated income statement in 2013 (2012: EUR 12 thousand). In 2013, income from other operating leases totalled EUR 9 thousand for the Bank (2012: EUR 9 thousand) and EUR 647 thousand for the Group (2012: EUR 752 thousand).

The Group's non-current assets held for sale arise from tangible fixed assets received as payment of claims amounting to EUR 59 thousand (2012: EUR 1,938 thousand).

27 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

THE SUBSIDIARIES, WHICH ARE UNLISTED, ARE:

2013 Name	Carrying amount	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
AB58 d.o.o. (Slovenia)	842	5,671	2,669	3,002	4,966	2,134	99
Afaktor Group (Slovenia)	1,505	26,429	24,922	1,507	3,976	(688)	100
Aleasing d.o.o. (Slovenia)	4,902	48,597	46,941	1,656	8,368	(1,233)	100
Analožbe d.o.o. (Slovenia)	100	366	2	364	14	6	100
Argolina d.o.o. (Slovenia)	1,682	11,862	9,948	1,914	59	(4,283)	100
Anepremičnine d.o.o. (Slovenia)	3,639	16,109	12,632	3,477	4,737	(2,023)	100

In September 2013, ABANKA SKLADI d.o.o. was renamed AB58 d.o.o.

In 2013, the nominal value of Abanka's equity stake in Argolina d.o.o. increased to EUR 1,682 thousand (2012: EUR 1,052 thousand) due to recapitalisation. As a result of transferring a part of its assets to the newly founded company Anepremičnine d.o.o., in 2013, the nominal value of Abanka's equity stake in Aleasing d.o.o. decreased to EUR 4,902 thousand (2012: EUR 5,402 thousand). The nominal value of Abanka's equity stake in Anepremičnine d.o.o. further increased to EUR 3,639 thousand due to recapitalisation at the 2013 year-end.

2013 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Afaktor Group							
Afaktor d.o.o.	Slovenia	25,865	24,840	1,025	2,620	(753)	100
Afaktor – faktoring finansiranje d.o.o.	Serbia	4,354	2,107	2,247	1,552	235	100
Afaktor – faktoring d.o.o.	Croatia	108	45	63	198	(179)	100

NOTES TO THE FINANCIAL STATEMENTS (continued)

2012 Name	Carrying amount	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
ABANKA SKLADI d.o.o. (Slovenia)	842	1,867	972	895	1,179	(152)	99
Afaktor Group (Slovenia)	1,505	35,073	32,858	2,215	5,852	44	100
Aleasing d.o.o. (Slovenia)	5,402	79,468	76,079	3,389	11,069	(2,013)	100
Analožbe d.o.o. (Slovenia)	100	362	4	358	12	4	100
Argolina d.o.o. (Slovenia)	1,052	15,145	13,948	1,197	13	(6,906)	100

2012 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
Afaktor Group							
Afaktor d.o.o.	Slovenia	34,422	32,645	1,777	3,754	(223)	100
Afaktor – faktoring finansiranje d.o.o.	Serbia	7,731	5,705	2,026	2,304	614	100
Afaktor – faktoring d.o.o.	Croatia	5,348	5,666	(318)	876	(37)	100

THE ASSOCIATES, WHICH ARE UNLISTED, ARE:

2013 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net profit/ (loss)	% Interest held
ASA Aleasing d.o.o.	Bosnia and Herzegovina	19,849	19,700	149	3,527	1,084	49
Agradnja d.o.o.	Bosnia and Herzegovina	17,054	17,054	–	1	(23)	49

2012 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Net loss	% Interest held
ASA Aleasing d.o.o.	Bosnia and Herzegovina	35,048	35,048	–	2,417	(4,307)	49

ASA Aleasing and Agradnja are associated companies of the subsidiary Aleasing. ASA Aleasing held 51% in Agradnja in 2012; as at 31 December 2012, its balance sheet total equalled EUR 16,642 thousand and loss amounted to EUR 12 thousand.

Since the share of losses exceeded the cost of investment, the value of the companies ASA Aleasing and Agradnja in the consolidated financial statements is reduced to zero.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 PLEDGED ASSETS

	Abanka		Group	
	2013	2012	2013	2012
Available-for-sale financial assets	430,479	394,188	430,479	394,188
Loans to banks	19,319	16,761	19,319	16,761
Loans to non-bank customers	85,885	90,354	85,885	94,096
Held-to-maturity investments	140,865	149,327	140,865	149,327
Total pledged assets	**676,548**	**650,630**	**676,548**	**654,372**

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

29 DEPOSITS AND LOANS FROM THE CENTRAL BANK

	Group	
	2013	2012
Deposits	18	6
Liabilities from long-term refinancing operations	456,195	533,851
Total deposits and loans from the central bank	**456,213**	**533,857**
Current	6,213	83,857
Non-current	450,000	450,000

30 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
Structured deposit (current)	**8,842**	**8,760**

In 2013, Abanka sold SOCGEN bonds at a nominal value of EUR 8,919 thousand (Note 20). The Bank will provide funding to meet payment obligations by the due date from other sources.

There were no significant gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value in 2013.

Deposits classified as financial liabilities designated at fair value through profit or loss are related to securities held as assets.

An interest rate analysis of the financial liabilities designated at fair value through profit or loss is disclosed in Note 2.2.3.2. Additional information on fair value is disclosed in Note 3(d).

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 DEPOSITS FROM BANKS AND NON-BANK CUSTOMERS, LOANS FROM BANKS

	Group	
	2013	2012
Deposits from banks	**10,855**	**11,263**
Current	10,855	11,263
Non-current	–	–

Fixed and variable interest rate deposits from banks account for 26% (2012: 30%) and 74% (2012: 70%) of the total, respectively.

	Abanka		Group	
	2013	2012	2013	2012
Deposits from non-bank customers				
Corporate entities	792,852	947,696	784,866	943,292
Retail customers	1,101,191	1,186,339	1,101,191	1,186,339
Total deposits from non-bank customers	**1,894,043**	**2,134,035**	**1,886,057**	**2,129,631**
Current	1,678,679	1,902,543	1,670,693	1,898,139
Non-current	215,364	231,492	215,364	231,492

On 18 December 2013, the state deposits decreased by EUR 348 million as a result of the Bank's capital increase (Note 37).

Fixed and variable interest rate deposits from non-bank customers account for 68% (2012: 70%) and 32% (2012: 30%) of the total, respectively.

Deposits and certificates of deposit provided as collateral for loans granted in 2013 totalled EUR 37,144 thousand (2012: EUR 53,847 thousand). The fair value of those deposits approximates the carrying amount.

An interest rate analysis of deposits from banks and non-bank customers is additionally disclosed in Note 2.2.3.2. Fair value is disclosed in Note 3(d).

	Abanka		Group	
	2013	2012	2013	2012
Loans from banks	**351,927**	**453,750**	**367,391**	**473,862**
Current	88,414	141,153	88,414	154,365
Non-current	263,513	312,597	278,977	319,497

Fixed and variable interest rate loans from banks account for 2.8% (2012: 2.2%) and 97.2% (2012: 97.8%) of the total, respectively.

Financial liabilities measured at amortised costs are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 44).

NOTES TO THE FINANCIAL STATEMENTS (continued)

32 DEBT SECURITIES ISSUED

	Interest rate on 31 December	Group	
		2013	2012
Certificates of deposit (falling due: 2014 to 2020)	3.7–5.9%	35,446	89,091
Bonds – 14th issue, due 24 March 2015 in EUR	6M Euribor + 2.5%	15,114	15,117
Total debt securities issued		**50,560**	**104,208**
Current		5,990	57,860
Non-current		44,570	46,348

The fourth coupon of the 14th issue AB14 bonds of EUR 14.91 matured on 24 March 2013. The coupon consisted of interest. The total settled amount of the matured AB14 coupons was EUR 224 thousand.

The fifth coupon of the 14th issue AB14 bonds of EUR 14.48 matured on 24 September 2013. The coupon consisted of interest. The total settled amount of the matured AB14 coupons was EUR 217 thousand.

Fair value is disclosed in Note 3(d).

33 SUBORDINATED LIABILITIES

	Interest rate on 31 December	Group	
		2013	2012
Subordinated loan	3M Euribor + 1.9%	–	119,050
Total subordinated liabilities		**–**	**119,050**
Current		–	391
Non-current		–	118,659

On 18 January 2007, Abanka signed an agreement on a subordinated loan, which is classified as an innovative instrument according to the definition in Article 11 of the Decision on Capital Calculation of (Savings) Banks (Official Gazette of the RS, no. 135/2006 and 104/2007). The innovative instrument is a subordinated loan from VTB Europe, a bank with its head office in London. The innovative instrument fulfils all of the requirements of the Bank of Slovenia for inclusion in the Tier 1 and Tier 2 capital of the Bank.

The subordinated loan was financed by a bond issue, so-called loan participation notes, issued by a Dutch company established specifically for this transaction. The proceeds from the notes issue were paid to VTB Europe to fund the subordinated loan that it provided to Abanka. Any payments of interest and principal on the subordinated loan are the sole source of funds to cover payments of the interest and principal on the notes. As such, holders of the notes are exposed to Abanka's risk, though they have no recourse to any assets of Abanka.

Payments of principle and interest under the subordinated loan granted in January 2007 were entirely at the discretion of the management of Abanka and, therefore, the subordinated loan did not meet the definition of a financial liability in accordance with IFRS as adopted by the EU. Accordingly, the subordinated loan was classified as an equity instrument in its entirety in 2007.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In April 2008, the Management Board of Abanka declared a resolution in a Board Meeting regarding the discretionary right of the payment of interest of the subordinated loan and announced the modification to the public. This modification resulted in a change in the accounting treatment of the notes and consequently a reclassification from equity to liabilities was made at a fair value of EUR 117,539 thousand. Distributions to holders of the equity instrument that had been made up to May 2008 were debited by the entity directly to retained earnings. Since that time, distributions to holders have increased interest expenses. In 2013, the Bank paid interest of EUR 636 thousand (2012: EUR 3,488 thousand).

On 17 December 2013, the Bank of Slovenia issued to Abanka the Decision on Extraordinary Measures pursuant to Article 261.a of the Banking Act (ZBan-1). The Bank of Slovenia decided that as at 18 December 2013 all qualified liabilities of the Bank should cease in full; in addition to the Bank's share capital, they also comprised the Bank's liabilities under a non-cumulative subordinated loan included in the core capital and supplementary capital I in the amount of EUR 120 million on the basis of the agreement dated 18 January 2007 entered into by Abanka as borrower and VTB Bank Europe plc, as creditor, which represents a qualified liability of the first and second order and for which the funds were raised through the issuance of the Floating Rate Perpetual Loan Participation Notes with ISIN Code XS0283183084, issued by Afinance B.V. in the amount of EUR 120 million. In line with the Decision of the Bank of Slovenia, Abanka derecognised all its liabilities under the non-cumulative subordinated loan on 18 December 2013 and generated net income in the amount of EUR 118,925 thousand (Note 8).

The Group did not issue dividend bonds, convertible bonds or bonds with a pre-emptive right to the purchase of shares.

Fair value is disclosed in Note 3(d).

34 OTHER FINANCIAL LIABILITIES

	Abanka		Group	
	2013	2012	2013	2012
Liabilities from card operations	993	830	993	830
Liabilities to suppliers	1,338	1,193	1,772	1,670
Liabilities for unexecuted payments	369	327	369	327
Liabilities for salaries	2,840	2,600	2,941	2,734
Accrued costs	2,022	2,087	2,146	2,238
Other financial liabilities	2,756	2,189	4,048	3,435
Total other financial liabilities	**10,318**	**9,226**	**12,269**	**11,234**
Current	10,306	9,210	12,258	11,218
Non-current	12	16	11	16

NOTES TO THE FINANCIAL STATEMENTS (continued)

35 PROVISIONS

ABANKA

	Note	Provisions for guarantees and commitments	Other provisions	Provisions for employee benefits	Total
As at 1 January 2012		**19,639**	**1,288**	**3,163**	**24,090**
Additional provisions	12, 14	1,228	280	947	2,455
Utilised during the year		–	(163)	(134)	(297)
As at 31 December 2012		**20,867**	**1,405**	**3,976**	**26,248**
Additional provisions	12, 14	2,010	135	98	2,243
Utilised during the year		–	(110)	(295)	(405)
As at 31 December 2013		**22,877**	**1,430**	**3,779**	**28,086**

GROUP

	Note	Provisions for guarantees and commitments	Other provisions	Provisions for employee benefits	Total
As at 1 January 2012		**19,183**	**2,116**	**3,324**	**24,623**
Additional provisions	12, 14	1,600	280	929	2,809
Utilised during the year		–	(163)	(138)	(301)
As at 31 December 2012		**20,783**	**2,233**	**4,115**	**27,131**
Additional provisions	12, 14	2,054	1,635	59	3,748
Utilised during the year		–	(110)	(295)	(405)
As at 31 December 2013		**22,837**	**3,758**	**3,879**	**30,474**

Provisions for retirement benefits and jubilee payments were set aside by the Group as at 31 December 2013 and 2012 based on its own calculations.

The calculation is based on the following key assumptions:
- a discount rate of 3.27% (2012: 3.08%);
- staff fluctuation from 2011 to 2013; and
- average salary growth: 2.3% per annum.

Employees are also entitled to jubilee payments for every decade of service.

Other provisions are disclosed in Note 40.

Other provisions of the Bank mainly include provisions for the national housing savings scheme (NHSS). Whenever a saver in the NHSS fails to take up the option of a housing loan on the NHSS terms, the Bank is obliged to repay all the premiums received by the saver during the saving period to the National Housing Fund. The Bank has created EUR 961 thousand (2012: EUR 1,112 thousand) of provisions for that purpose.

Other provisions of the Group mainly include provisions for legal proceedings. The Group has created EUR 2,553 thousand (2012: EUR 877 thousand) of provisions for that purpose.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using effective tax rates according to the tax rate valid in the year the elimination of temporary differences is projected, i.e. 17% (2012: 15% or for a part of total deferred tax for tax loss at 17% and the remaining part at 16%).

The tax base reduction due to unused tax losses is permitted to maximum of 50 percent of the tax base for the current period. Future taxable profits are based on the 2013–2018 Financial Plan.

As at 31 December 2013, the unused tax losses for which deferred tax assets were not recognised in the statement of financial position amounted to EUR 468,677 thousand for the Bank and EUR 481,471 thousand for the Group. In accordance with the Slovene Corporate Income Tax Act, the tax losses can be carried forward indefinitely.

MOVEMENTS IN THE DEFERRED INCOME TAX ACCOUNT ARE AS FOLLOWS:

	Abanka			Group		
	2012	Movement	2013	2012	Movement	2013
Deferred income tax assets						
Available-for-sale investments	3,528	1,407	4,935	3,560	1,375	4,935
Impairment of property and equipment, intangible assets and investment property	74	10	84	74	10	84
Provisions for employee benefits	382	(4)	378	396	(18)	378
Other provisions	28	(22)	6	28	(22)	6
Impairment on loans and receivables	–	–	–	1,252	(899)	353
Tax losses carried forward	32,074	(29,872)	2,202	32,128	(29,926)	2,202
	36,086	**(28,481)**	**7,605**	**37,438**	**(29,480)**	**7,958**
Deferred income tax liabilities						
Different depreciation rates for accounting and tax purposes	226	(136)	90	226	(136)	90
	226	**(136)**	**90**	**226**	**(136)**	**90**

INCLUDED IN THE INCOME STATEMENT:

		Abanka		Group	
	Note	2013	2012	2013	2012
Available-for-sale investments		2,570	(1,761)	2,540	(1,786)
Impairment of property and equipment, intangible assets and investment property		10	(24)	10	(24)
Different depreciation rates for accounting and tax purposes		136	96	136	95
Provisions for employee benefits		(4)	(92)	(18)	(99)
Other provisions		(22)	(42)	(22)	(42)
Impairment on loans and receivables		–	–	(899)	(1,125)
Tax losses carried forward		(29,872)	6,629	(29,926)	6,610
	16	**(27,182)**	**4,806**	**(28,179)**	**3,629**

NOTES TO THE FINANCIAL STATEMENTS (continued)

INCLUDED IN EQUITY:

	Abanka		Group	
	2013	2012	2013	2012
Available-for-sale investments – unrealised gains	4,737	2,541	4,737	2,541
Available-for-sale investments – unrealised losses	(5,900)	(6,072)	(5,902)	(6,081)
	(1,163)	**(3,531)**	**(1,165)**	**(3,540)**

37 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES, REVALUATION RESERVES AND RESERVES FROM PROFIT

Based on the Initiative pursuant to Article 20 of the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability and the Decree on the Implementation of Measures to Strengthen Bank Stability submitted by Abanka to the Interdepartmental Commission at the Ministry of Finance, the Government of the Republic of Slovenia adopted a decision on 18 July 2013 determining that Abanka meets the conditions for the implementation of measures to strengthen the stability of banks, but an independent external review of the quality of assets and a stress test had to be carried out prior to the implementation of the measures. Following the completion of an independent external review of the quality of the bank's assets and a stress test conducted by external independent consultants between August and December 2013, on 17 December 2013 the Bank of Slovenia issued to Abanka the Decision on Extraordinary Measures pursuant to Article 261.a of the Banking Act (ZBan-1).

In accordance with the Decision of the Bank of Slovenia, as of 18 December 2013, all qualified liabilities of the Bank ceased in full; in addition to the liabilities under the non-cumulative subordinated loan, they also represented the Bank's share capital in the amount of EUR 7,200 thousand divided into 7,200,000 ordinary, registered, freely transferable no-par-value shares, with the ticker symbol ABKN and ISIN Code SI0021108608. In order to provide the capital required for long-term capital adequacy of the Bank, the Bank of Slovenia in accordance with Article 262.a of the Banking Act (ZBan-1) issued an extraordinary measure of capital increase through the Republic of Slovenia paying-in new shares by cash contribution in the amount of EUR 348 million. After the entry and payment of new shares on 18 December 2013 and the entry in the Companies Register, the share capital of the Bank amounts to EUR 150 million. The share capital of the Bank is divided into 15,000,000 no-par value shares, which were, on 18 December 2013 entered in the Central Securities Depository of dematerialised securities, kept by CSCC (Central Securities Clearing Corporation), with the ticker symbol ABKS and ISIN Code SI0021116510. All 15,000,000 shares are ordinary shares, with attached voting rights and owned by the Republic of Slovenia. All shares issued are fully paid.

2013	Share
The Republic of Slovenia	100%

2012	Share
Zavarovalnica Triglav d.d.	25.6%
Sava d.d.	23.8%
Gorenjska banka d.d.	14.7%
Delniški vzajemni sklad Triglav Steber Global	7.3%
HIT d.d.	6.1%

NOTES TO THE FINANCIAL STATEMENTS (continued)

MOVEMENTS IN SHARE CAPITAL:

	Number of shares	Total
As at 1 January 2012	**7,200,000**	**30,045**
Issue of shares	–	–
Covering of the loss from the current year	/	(22,845)
As at 31 December 2012	**7,200,000**	**7,200**
Deletion of shares – Decision of the Bank of Slovenia*	(7,200,000)	(7,200)
Issue of shares – capital increase in accordance with the Decision of the Bank of Slovenia	15,000,000	150,000
As at 31 December 2013	**15,000,000**	**150,000**

* Cessation of existing share capital in full upon decision of the Bank of Slovenia, with consequent deletion of all existing shares

MOVEMENTS OF TREASURY SHARES:

	Number of shares	Total
As at 1 January 2012	**9,213**	**240**
Sale	–	–
Purchase	–	–
As at 31 December 2012	**9,213**	**240**
Sale	–	–
Purchase	–	–
Deletion of shares – Decision of the Bank of Slovenia	(9,213)	(240)
As at 31 December 2013	**–**	**–**

Pursuant to the Decision of the Bank of Slovenia of 17 December 2013, the Bank's treasury share fund was abolished on 18 December 2013; consequently, as at 31 December 2013 Abanka held no treasury shares with the ticker symbol ABKN (2012: EUR 240 thousand).

MOVEMENTS IN SHARE PREMIUM:

	2013	2012
As at 1 January	**143,288**	**153,117**
Termination of the Bank's qualified liabilities	7,200	–
New paid-in capital	198,000	–
Appropriation of rewards in the form of shares	–	–
Covering of the loss from the current year	(308,871)	(9,829)
As at 31 December	**39,617**	**143,288**

The amount of the share capital and share premium is the same for the Bank and for the Group.

Revaluation reserves of the Bank in the amount of EUR 9,854 thousand (2012: EUR 4,847 thousand) relates entirely to the valuation of financial assets available for sale.

Revaluation reserves of the Group in the amount of EUR 9,551 thousand (2012: EUR 4,549 thousand) refer to the valuation of available-for-sale financial assets, which totalled EUR 9,854 thousand (2012: EUR 4,832 thousand) and consolidation equity adjustment, which amounted to EUR -303 thousand (2012: EUR -283 thousand).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Reserves from profit include legal reserves. In the past, the Group created legal reserves in accordance with the Companies Act.

Share premium and legal reserves may be used for covering loss after tax for the year, if it cannot be covered from retained earnings or other reserves from profit.

MOVEMENTS OF ABANKA'S SHARES PLEDGED TO THE GROUP:

	Number of shares	Total
As at 1 January 2012	**105,869**	**1,694**
Pledge received	–	–
Pledge lifted	(57,869)	(926)
Fair value adjustment	/	(576)
As at 31 December 2012	**48,000**	**192**
Pledge received	–	–
Pledge lifted	–	–
Deletion of shares pursuant to the Decision of the Bank of Slovenia	(48,000)	(192)
As at 31 December 2013	**–**	**–**

Due to the deletion of Abanka's shares pursuant to the Decision of the Bank of Slovenia the Group does not hold any shares received as collateral (2012: 2.67%).

38 PROPOSED TREATMENT OF ACCUMULATED LOSS

	Abanka		Group	
	2013	2012	2013	2012
Net loss from the current year attributable to owners of the parent	(308,877)	(75,694)	(306,534)	(81,063)
Covering of the net loss from the current year attributable to owners of the parent	308,877	75,694	308,877	75,871
From share capital	–	22,845	–	22,845
From reserves from profit	6	43,020	6	43,197
– from legal reserves	–	15,527	–	15,527
– from statutory reserves	–	22,033	–	22,033
– from other reserves from profit of the Bank	6	5,460	6	5,460
– from other reserves from profit of subsidiary AB58 d.o.o.	/	/	–	177
From share premium	308,871	9,829	308,871	9,829

NOTES TO THE FINANCIAL STATEMENTS (continued)

39 CASH FLOW STATEMENT

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

Since the Bank of Slovenia changed the format of the cash flow statement using the indirect method, the Group adjusted its comparative figures for 2012.

Under Item a) of the cash flows from the operating activities impairments of financial assets available for sale in the amount of EUR 8,784 thousand (the Group: EUR 8,858 thousand) and impairments of loans in the amount of EUR 116,905 thousand (the Group: EUR 117,794 thousand) are newly reported for 2012. Under Item a) the item of net unrealised capital gains in revaluation reserves from financial assets available for sale (excluding the effect of deferred tax) in the amount of EUR 19,084 thousand (the Group: EUR 19,120 thousand) has been deleted. Due to these changes under Item a), the comparable figure for 2012 of the net increase in financial assets available for sale under Item b) of the cash flows from operating activities has been increased by EUR 10,300 thousand (the Group: EUR 10,262 thousand) (decreased by EUR 8,784 thousand (the Group: EUR 8,858 thousand) due to impairment and increased by EUR 19,084 thousand (the Group: EUR 19,120 thousand) due to net unrealised gains in revaluation reserves (excluding the effect of deferred tax)) to EUR 56,728 thousand (the Group: EUR 56,846 thousand). Due to the impairment of loans, the item of net decrease in loans under Item b) has been decreased by EUR 116,905 thousand (the Group: EUR 117,794 thousand) to the amount of EUR 335,359 thousand (the Group: EUR 357,597 thousand).

CASH AND CASH EQUIVALENTS

	Abanka		Group	
	2013	2012	2013	2012
Cash and cash balances with the central bank (Note 1.15, 18)	375,581	214,708	375,581	214,708
Loans to banks (Note 1.15, 22)	87,952	63,927	88,851	64,481
	463,533	**278,635**	**464,432**	**279,189**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	Abanka		Group	
	2013	2012	2013	2012
Interest paid	72,958	105,968	73,860	107,224
Interest received	119,844	164,046	124,957	170,826
Dividends received	720	1,454	723	1,470

OTHER ITEMS IN THE CASH FLOW STATEMENT

Other gains from investing activities of the Group totalling EUR 5,645 thousand relate to held-to-maturity investments. Other Bank's (i.e. Group's) gains from financing activities in the amount of EUR 118,414 thousand refer to income of EUR 118,925 thousand effected through liquidated subordinated liabilities under the Decision on Extraordinary Measures issued by the Bank of Slovenia, and to interest expenses from subordinated liabilities in the amount of EUR 511 thousand.

Other adjustments to total profit or loss before tax of the Bank relate to net provisions (EUR 10,257 thousand of new provisions less EUR 8,014 thousand of released provisions). Other adjustments to total profit or loss before tax of the Group relate to net provisions (EUR 11,713 thousand of new provisions less EUR 7,965 thousand of released provisions).

NOTES TO THE FINANCIAL STATEMENTS (continued)

40 COMMITMENTS AND CONTINGENCIES

a) *Legal proceedings*

As at 31 December 2013 and 31 December 2012, there were some legal proceedings against the Group; however, management considers the provision booked to be appropriate. Total claims in legal actions brought against the Bank amount to EUR 467 thousand (2012: EUR 6 thousand), for which provisions were formed. Total claims in legal actions brought against the Group amount to EUR 5,134 thousand (2012: EUR 4,291 thousand), for which provisions were formed. The Bank made provisions for these legal proceedings on the basis of an estimated future cash flow in the amount of EUR 225 thousand (2012: EUR 49 thousand) and the Group in the amount of EUR 2,553 thousand (2012: EUR 877 thousand). For all other legal proceedings, the Group estimates that it is less than probable that a cash outflow will be required to settle the proceedings.

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

Major legal disputes in which the Group acts as the defendant are the following:

- Siteep Tegrad & PAP d.d. (in bankruptcy proceedings)
  Ref. No. XI Pg 4345/2010, District Court of Ljubljana
  On 2 December 2010, Abanka was served a claim for the payment of EUR 1,727,167.48 plus legal default interest as of 23 September 2009 on the grounds of an allegedly unlawful set-off in bankruptcy proceedings of a deposit received as collateral. The court of first instance upheld most of the claim, amounting to EUR 1,727,167.48 plus default interest as of 30 September 2009, and ordered the defendant to pay legal expenses in the amount of EUR 26,874.10. An appeal was filed, which the Court dismissed. A judicial review of the Higher Court decision was claimed on 21 December 2012. The Supreme Court rejected the Bank's revision with its judgement of 10 September 2013; consequently, the Bank filed a complaint with the Constitutional Court of the Republic of Slovenia.

- Raiffeisen banka d.d., Maribor
  Ref. No. VII Pg 2410/2011, District Court of Ljubljana
  On 21 June 2011, Abanka was served a claim for the payment of EUR 3,821,170.81 plus legal default interest as of 26 January 2011, due to its failure to honour a bill of exchange of Merkur. A defence was lodged on 20 July 2011. The action is pending. The first instance court decided in the Bank's favour in full, but the judgement is not yet final.

- MIP d.d. (in bankruptcy proceedings)
  The subsidiary ABANKA SKLADI d.o.o. which was renamed into AB58, finančno svetovanje, d.o.o. in 2013 after its asset management activity had been transferred to another company, was a party to the litigation between MIP d.d. (in bankruptcy proceedings) as the plaintiff and ABANKA SKLADI d.o.o. as the defendant in relation to the declaration of the annulment of contract and payment of EUR 2,839,040.00 together with default interest as from the date of receipt of the purchase money. In 2013, the second instance court issued the final decision that the contract for the purchase of MIPG shares is null and void, and also set aside the first instance court judgement in the part concerning the payment claim due to the fact that the offset objections of ABANKA SKLADI d.o.o. have not been considered and, thus, remitted the case to the first instance court for reconsideration.

  In addition to the above lawsuits (in which, if the Group lost, it would be obliged to pay the claimed amounts), the Group also acts as a defendant in the following lawsuits (where losing would not incur an obligation to pay, but the loss of its right to be fully repaid from the bankruptcy estate):

- MIP - POMURKA Reja d.o.o. (in bankruptcy proceedings)
  Ref. No. Pg 9/2010, District Court of Murska Sobota
  On 8 April 2010, Abanka as the defendant was served an action requesting the annulment of Abanka's right to be fully repaid from the real property, i.e. plot numbers 3879/2, 3879/35, 3879/29, 3879/32, 3879/18 and 3879/37, all entered in the Land Registry of Murska Sobota (the value in dispute is EUR 4,604,764.69 plus default interest) and to delete Abanka's mortgages on the above-stated real property registered under Ref. No. 1271/2006. Abanka filed a statement of defence. On 28 March 2011, the Court issued a decision to suspend the trial until a final decision is given in the preliminary issue, i.e. a claim for the annulment of purchase agreements in the case Ref. No. Pg 442/2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The same court will adjudicate the case of Pomurka mesna industrija d.d. (in bankruptcy proceedings) as plaintiff vs. MIP Pomurka Reja d.o.o. (in bankruptcy proceedings) as the defendant (Ref. No. Pg 442/2009), claiming the annulment of the agreement that gave MIP Pomurka Reja d.d. the real property title, i.e. plot numbers 3879/2, 3879/35, 3879/29, 3879/32, 3879/18 and 3879/37, all entered under land certificate number 4430 in the Land Registry of Murska Sobota, which have been pledged as collateral to Abanka. As the judgement in the latter case may also affect the mortgage under no. 1471/2008 with Abanka as a mortgagee, entered under land certificate number 4430 in the Land Registry of Murska Sobota, Abanka filed a motion to intervene. The Court ruled in favour of Abanka. The plaintiff filed an appeal. The appeal was rejected by the judgement of the Maribor Higher Court of 9 May 2013. On 30 October 2013, the plaintiff lodged a revision.

- POMURKA mesna industrija d.d., Murska Sobota (in bankruptcy proceedings)
  Ref. No. XI Pg 675/2010, District Court of Ljubljana
  On 26 March 2010, Abanka was served an action for the annulment of the right to be fully repaid from the bankruptcy estate, which the plaintiff filed against seven defendants. The plaintiff challenges the conclusion of an agreement pledging brand names as a collateral, made on 25 July 2008 between MIP d.d., Nova Gorica, MIP DML d.o.o., Ljubljana and Abanka, and requests the annulment of Abanka's right to be fully repaid from the bankruptcy estate an amount of EUR 1,849,555.73 from the debtor MIP DML d.o.o. (in bankruptcy proceedings). Abanka filed a statement of defence. The action is pending.

- CM Celje d.d. (in bankruptcy proceedings)
  Ref. No. I Pg 891/2013, Celje District Court
  This was an action to challenge acts of the bankruptcy debtor to provide three mortgages and one assignment of claims lodged on 17 August 2013. Abanka answered the complaint.

- Kraški zidar d.d. (in bankruptcy proceedings) and the Municipality of Sežana
  Ref. No. I Pg 877/2013, Koper District Court
  The Municipality of Sežana filed an action to establish the right of exclusion on property exempt from surface right created to the benefit of Kraški zidar d.d. (in bankruptcy proceedings), owned by the Municipality of Sežana and pledged to the Bank's benefit. The case started at the end of 2013 and Abanka answered the complaint in 2014.

Major legal disputes brought to an end in 2013:

- MAB TRANSPORT d.o.o. (in bankruptcy proceedings)
  On 13 July 2012, Abanka's subsidiary Aleasing d.o.o. was served a lawsuit filed by Mab transport d.o.o. (in bankruptcy proceedings) as plaintiff for the nullity of a registered claim and the nullity of the registered right to be fully repaid from the bankruptcy estate in the amount of EUR 2,173,152.59. The claim of the plaintiff was upheld by the court, against which Aleasing will not appeal. The fact that the case was lost will entail the payment by Aleasing of attorney's fees, but not the payment of the claimed amount.

b) *Credit-related commitments*

The primary purpose of these instruments is to ensure that funds are available to customers upon request. Guarantees and standby letters of credit (which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet their obligations to third parties) carry the same credit risk as loans, documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowing. Cash requirements under guarantees and standby letters of credit are considerably lower than the amount of the commitment, because the Group does not generally expect the third party to draw the funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Whilst there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, secondly, from these drawings subsequently not being repaid when due. The Group monitors the term to maturity of credit commitments, because long-term commitments generally involve greater credit risk than short-term ones. The total outstanding contractual amount of credit commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank's and the Group's guarantees and commitments to extend credit to customers:

GUARANTEES AND COMMITMENTS

		Abanka		Group	
	Note	2013	2012	2013	2012
Performance bonds		139,537	190,081	139,535	190,081
Financial guarantees		50,772	62,258	46,181	62,258
Avals		204	272	204	272
Letters of credit		–	205	–	205
Loan commitments		116,621	154,920	115,280	155,981
Derivatives		12,420	19,268	12,420	19,268
Other		19,323	23,181	19,323	18,181
		338,877	**450,185**	**332,943**	**446,246**
Provision for guarantees and commitments and other provisions:	35				
– guarantees and commitments		(22,877)	(20,867)	(22,837)	(20,783)
– other provisions					
– legal proceedings		(225)	(49)	(2,553)	(877)
– national housing savings scheme (NHSS)		(961)	(1,112)	(961)	(1,112)
– other		(244)	(244)	(244)	(244)
		314,570	**427,912**	**306,348**	**423,230**

NOTES TO THE FINANCIAL STATEMENTS (continued)

41 LEASES

	Group	
	2013	2012
Gross investment in finance leases, receivable:	**60,790**	**75,189**
– no later than 1 year	29,803	34,150
– later than 1 year and no later than 5 years	28,363	37,864
– later than 5 years	2,624	3,175
Unearned future finance income on finance leases	7,006	9,126
Net investment in finance leases:	**53,784**	**66,063**
– no later than 1 year	27,116	30,464
– later than 1 year and no later than 5 years	24,354	32,862
– later than 5 years	2,314	2,737

Regardless of the Note 1.27, the amount of finance lease receivables relates only to the receivables of subsidiaries.

	Abanka		Group	
	2013	2012	2013	2012
Investment in operating leases, receivable:	**–**	**–**	**3,132**	**2,826**
– no later than 1 year	–	–	1,407	993
– later than 1 year and no later than 5 years	–	–	1,725	1,833
– later than 5 years	–	–	–	–

	Abanka		Group	
	2013	2012	2013	2012
Operating lease liabilities:	**1,008**	**1,300**	**973**	**1,239**
– no later than 1 year	202	247	181	225
– later than 1 year and no later than 5 years	539	671	525	632
– later than 5 years	267	382	267	382

Finance lease liabilities were immaterial in both 2013 and 2012.

NOTES TO THE FINANCIAL STATEMENTS (continued)

42 TRANSACTIONS IN THE NAME AND FOR THE ACCOUNT OF THIRD PARTIES

Pursuant to the Decision on the Books of Account and Annual Reports of (Savings) Banks issued by the Bank of Slovenia, the Bank discloses transactions in the name and for the account of third parties.

	Abanka	
	2013	2012
Assets	**3,175,163**	**3,232,713**
Claims of settlement and transaction accounts for customer assets	**3,036,417**	**3,094,706**
– from financial instruments	3,032,622	3,086,985
– investment services and transactions (Financial Instruments Market Act - ZTFI)	483,783	467,834
– reception, transmission and execution of orders	453,397	439,846
– management of financial instruments	30,386	27,988
– for the account of the Bank	–	9
– custody operations (Investment Trusts and Management Companies Act - ZISDU)	2,548,839	2,619,151
– against the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for sold financial instruments	17	16
– against other settlement systems and institutions for sold financial instruments (buyers)	3,749	7,630
– against the brokerage for purchased financial instruments and net receivables from the CSCC (ZISDU)	29	75
Customers' cash	**6,057**	**3,010**
– in the settlement account for customer assets	579	857
– in banks' transaction accounts (ZTFI)	1,312	1,162
– in banks' transaction accounts (ZISDU)	4,166	991
Other transactions authorised by the customer	**132,689**	**134,997**
Liabilities	**3,175,163**	**3,232,713**
Liabilities of settlement and transaction accounts for customer assets	**3,042,456**	**3,097,687**
– to customers from cash and financial instruments	3,033,258	3,095,766
– investment services and transactions (ZTFI)	485,601	469,720
– reception, transmission and execution of orders	454,603	441,064
– management of financial instruments	30,998	28,656
– custody operations (ZISDU)	2,547,657	2,626,046
– to the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for purchased financial instruments	29	75
– to other settlement systems and institutions for purchased financial instruments (sellers)	9,019	1,649
– to the bank or the bank's settlement account for commission, fees, etc.	139	152
– to the brokerage for sold financial instruments and income from transactions in the name and for the account of third parties (ZISDU)	11	30
Other transactions authorised by the customer	**132,707**	**135,041**

NOTES TO THE FINANCIAL STATEMENTS (continued)

INCOME AND EXPENSES FROM FEES AND COMMISSIONS

	Abanka	
	2013	2012
Income from fees and commissions related to (ancillary) investment services and transactions for customers	**3,008**	**2,977**
Reception, transmission and execution of orders	298	265
Management of financial instruments	141	138
Custody and related services (Note 7)	1,969	2,132
Maintenance of customers' dematerialised securities accounts	208	211
Safekeeping of financial instruments for customers' account	4	2
Advice to undertakings on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of undertakings	388	229
Expenses from fees and commissions related to (ancillary) investment services and transactions for customers	**225**	**260**
Fees and commissions in connection with the CSCC (Central Securities Clearing Corporation) and similar organisations	157	163
– from investment banking operations (ZTFI)	157	163
– from custody operations (ZISDU)	–	–
Fees and commissions in connection with the stock exchange and similar organisations	12	13
Other transactions	56	84

43 MANAGED FUNDS

The Bank and the Group manage assets totalling EUR 31,004 thousand (2012: EUR 29,908 thousand) and EUR 31,004 thousand (2012: EUR 81,214 thousand) on behalf of third parties, respectively. Managed fund assets are accounted for separately from those of the Group. Income and expenses of these funds are for the account of the respective fund, and the Group has no liability in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

44 RELATED-PARTY TRANSACTIONS

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

Related parties of the Bank include key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, all of these persons' close family members and individual companies in which these persons have significant influence), entities with significant influence on the Bank until 17 December 2013, associated companies and subsidiaries of the Bank.

Related parties of the Group include key management personnel (the Management Board of the Bank, executive directors of the Bank, members of the Supervisory Board of the Bank, directors of subsidiaries, all of these persons' close family members and individual companies in which these persons have significant influence), entities with significant influence on the Bank until 17 December 2013 and associated companies.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

TRANSACTIONS WITH RELATED PARTIES OF THE BANK

Type of related party	Key management personnel		Entities with a significant influence*		Associates		Subsidiaries	
	2013	2012	2013	2012	2013	2012	2013	2012
Financial assets and income								
Loans								
Loans as at 31 December	775	14,752	27,559	61,371	31,264	32,575	75,262	98,973
Interest income and fee income	23	737	1,183	3,388	764	1,416	4,799	6,453
Financial assets designated at fair value through profit or loss								
Debt securities as at 31 December	–	–	2,436	2,474	–	–	–	–
Gains/(losses)	–	–	(28)	137	–	–	–	–
Financial assets held for trading								
Equity securities as at 31 December	–	–	162	335	–	–	–	–
Gains	–	–	16	245	–	–	–	–
Available-for-sale financial assets								
Debt securities as at 31 December	–	–	1,877	7,931	–	–	–	–
Interest income	–	–	363	716	–	–	–	–
Equity securities as at 31 December	–	–	931	2,817	–	–	12,670	8,901
Gains/(losses)	–	–	695	(11)	–	4,007	–	–
Other receivables	**1**	**29**	**13**	**59**	**–**	**2**	**13**	**12**
Other operating income	**–**	**–**	**–**	**–**	**–**	**–**	**118**	**142**
Undrawn loans granted (off-balance sheet records)	**82**	**102**	**9,136**	**6,683**	**–**	**–**	**–**	**3,889**
Guarantees								
Guarantees issued as at 31 December	–	1,800	–	1,945	–	–	–	–
Guarantee fee income	–	5	6	4	–	–	30	–
Comfort letters								
As at 31 December – risky	–	–	–	–	–	–	–	5,000
As at 31 December – non-risky	–	–	–	–	–	–	22,623	28,550
Financial liabilities and expenses								
Deposits								
Deposits as at 31 December	2,244	5,268	6,352	17,496	–	29	7,985	4,400
Interest expenses	67	185	94	1,118	–	–	85	55
Other financial liabilities measured at amortised cost								
Debt securities issued and subordinated liabilities as at 31 December	3,619	3,932	9,791	11,896	–	–	–	–
Interest expenses	205	205	577	649	–	–	–	–
Other liabilities	**–**	**–**	**102**	**26**	**–**	**–**	**98**	**92**
Administration costs	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**142**
Provisions for guarantees and commitments								
Provisions as at 31 December	1	7	495	212	–	–	40	86
Net provision income/(expenses)	–	(4)	(283)	(115)	–	–	(2)	167
Fiduciary activities	**–**	**–**	**–**	**7**	**–**	**–**	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS (continued)

TRANSACTIONS WITH RELATED PARTIES OF THE GROUP

Type of related party	Key management personnel		Entities with a significant influence*		Associates	
	2013	2012	2013	2012	2013	2012
Financial assets and income						
Loans						
Loans as at 31 December	781	14,807	27,559	61,371	31,264	32,575
Interest income and fee income	24	740	1,183	3,388	764	1,416
Financial assets designated at fair value through profit or loss						
Debt securities as at 31 December	–	–	2,436	2,474	–	–
Gains/(losses)	–	–	(28)	137	–	–
Financial assets held for trading						
Equity securities as at 31 December	–	–	162	335	–	–
Gains	–	–	16	245	–	–
Available-for-sale financial assets						
Debt securities as at 31 December	–	–	1,877	7,931	–	–
Interest income	–	–	363	716	–	–
Equity securities as at 31 December	–	–	931	2,817	–	–
Gains/(losses)	–	–	695	(11)	–	4,007
Other receivables	**1**	**29**	**13**	**59**	**–**	**–**
Other operating income	**–**	**–**	**–**	**–**	**–**	**–**
Undrawn loans granted (off-balance sheet records)	**89**	**107**	**9,136**	**6,683**	**–**	**–**
Guarantees						
Guarantees issued as at 31 December	–	1,800	–	1,945	–	–
Guarantee fee income	–	5	6	4	–	–
Comfort letters						
As at 31 December – risky	–	–	–	–	–	–
As at 31 December – non-risky	–	–	–	–	–	–
Financial liabilities and expenses						
Deposits						
Deposits as at 31 December	2,682	5,464	6,352	17,496	–	29
Interest expenses	77	188	94	1,118	–	–
Other financial liabilities measured at amortised cost						
Debt securities issued and subordinated liabilities as at 31 December	3,619	3,932	9,791	11,896	–	–
Interest expenses	205	205	577	649	–	–
Other liabilities	**–**	**–**	**102**	**26**	**–**	**–**
Administration costs	**–**	**–**	**–**	**–**	**–**	**–**
Provisions for guarantees and commitments						
Provisions as at 31 December	1	7	495	212	–	–
Net provision income/(expenses)	–	(4)	(283)	(115)	–	–
Fiduciary activities	**–**	**–**	**–**	**7**	**–**	**–**

* To the date of the Decision on Extraordinary Measures issued by the Bank of Slovenia on 17 December 2013, the list of companies with significant influence comprised all those with a holding exceeding a 5% share in Abanka Vipa d.d., and remained the same as in 2012.

NOTES TO THE FINANCIAL STATEMENTS (continued)

In compliance with the Decision of the Bank of Slovenia, all qualified liabilities of the Bank fully ceased to exist as of 18 December 2013 (Notes 33 and 37). On the basis of the interim decision of the European Commission approving the first part of capital increase, the Republic of Slovenia increased the Bank's capital with the paid-in amount of EUR 348 million and, thus, became the 100% owner of the Bank.

As at 31 December 2013, the Bank has among its investments debt securities of the Republic of Slovenia in the amount of EUR 389,779 thousand (2012: EUR 345,798 thousand) and among its liabilities received state deposits in the amount of EUR 417,944 thousand (2012: EUR 459,799 thousand).

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

Individually significant transactions with state-related companies include given loans and received long-term loans. As at 31 December 2013, individually significant given long-term loans totalled EUR 70,000 thousand (1 contract) (2012: 1 contract amounting to EUR 70,000 thousand) and received long-term loans EUR 270,585 thousand (11 contracts) (2012: 17 contracts amounting to EUR 335,369 thousand).

As at 31 December 2013, the remaining (individually insignificant) given loans totalled EUR 11,775 thousand (2012: EUR 8,254 thousand), debt securities available for sale EUR 8,662 thousand (2012: EUR 16,477 thousand), received loans EUR 77,419 thousand (2012: EUR 109,407 thousand) and received deposits EUR 36,935 thousand (2012: EUR 49,128 thousand).

In the reporting year, interest income from transactions with state-related companies amounted to EUR 969 thousand (2012: EUR 1,782 thousand). In 2013, interest income from derivative financial instruments equalled EUR 1,867 thousand (2012: EUR 2,340 thousand). In 2013, net gains from derivative financial instruments were EUR 1,151 thousand (2012: EUR 3,676 thousand) and interest expenses on deposits amounted to EUR 11,930 thousand (2012: EUR 18,958 thousand).

THE NUMBER OF ABANKA VIPA D.D. SHARES HELD BY MEMBERS OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND EXECUTIVE DIRECTORS

	2013	2012
As at 1 January	**1,838**	**7,717**
Changes in the composition of the Management Board, the Supervisory Board and executive directors	–	(5,879)
Sale	–	–
Purchase	–	–
Deletion of shares pursuant to the Decision of the Bank of Slovenia (Note 37)	(1,838)	–
As at 31 December	**–**	**1,838**

In both 2013 and 2012, no share options issued by Abanka Vipa d.d. were granted to the management as remuneration.

The Bank had no loans granted to members of the Management Board as at the end of 2013 (2012: nil). As a result, there were no loan repayments in 2013 (2012: nil).

The Group's outstanding loans to members of the Bank's Management Board and to directors of subsidiaries stood at EUR 7 thousand as at the end of 2013 (2012: EUR 55 thousand). The amount of loan repayments totalled EUR 1 thousand (2012: EUR 12 thousand). The average interest rate on the loans was 7.38% (2012: 3.93%).

The Group's outstanding loans to members of the Bank's Supervisory Board stood at EUR 16 thousand at the end of 2013 (2012: EUR 1 thousand). The amount of loan repayments totalled EUR 4 thousand (2012: nil). The average interest rate on the loans was 6.5% (2012: 8.9%).

The Group's outstanding loans to management personnel stood at EUR 1,264 thousand at the end of 2013 (2012: EUR 1,291 thousand). The amount of loan repayments totalled EUR 160 thousand (2012: EUR 246 thousand). The average interest rate on the loans was 2.12% (2012: 2.78%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

BREAKDOWN OF EARNINGS AND BENEFITS OF THE MANAGEMENT AND SUPERVISORY BOARD MEMBERS AND MANAGEMENT PERSONNEL

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE MANAGEMENT BOARD FROM 1 JANUARY TO 31 DECEMBER 2013

	Jože LENIČ, M.Sc. Econ.	Igor STEBERNAK	Total in EUR
Fixed part of the salary (gross)	145,248.39	139,888.08	285,136.47
Variable part of the salary (gross)	–	–	–
Profit sharing	–	–	–
Options and other remuneration	–	–	–
Reimbursements	1,340.28	1,389.24	2,729.52
Insurance premiums[1]	2,008.56	1,820.65	3,829.21
Benefits[2]	13,130.06	12,265.82	25,395.88
Fees and commissions	–	–	–
Attendance fees for supervisory work in subsidiaries	–	–	–
Total earnings	**161,727.29**	**155,363.79**	**317,091.08**
Total net earnings	**61,683.20**	**60,176.95**	**121,860.15**
Other rights under the contract			
Medical examinations	785.00	–	785.00
Education	1,541.60	1,814.88	3,356.48
Other insurance	55.78	55.78	111.56
Membership fees	–	120.00	120.00
Total other rights under the contract	**2,382.38**	**1,990.66**	**4,373.04**

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE MANAGEMENT BOARD FROM 1 JANUARY TO 31 DECEMBER 2012

	Gregor HUDOBIVNIK[4]	Radovan JEREB, M.Sc. Econ.[4]	Jože LENIČ, M.Sc. Econ.	Igor STEBERNAK[3]	Total in EUR
Fixed part of the salary (gross)	57,305.37	57,305.36	120,544.29	53,143.43	288,298.45
Variable part of the salary (gross)	–	–	–	–	–
Profit sharing	–	–	–	–	–
Options and other remuneration	–	–	–	–	–
Reimbursements	722.16	679.32	1,383.12	648.72	3,433.32
Insurance premiums[1]	1,240.08	1,240.08	2,480.16	918.55	5,878.87
Benefits[2]	7,638.12	3,913.92	14,262.68	3,842.80	29,657.52
Fees and commissions	–	–	–	–	–
Attendance fees for supervisory work in subsidiaries	4,050.00	–	–	–	4,050.00
Total earnings	**70,955.73**	**63,138.68**	**138,670.25**	**58,553.50**	**331,318.16**
Total net earnings	**30,319.55**	**29,642.38**	**53,636.23**	**24,910.48**	**138,508.64**
Other rights under the contract					
Medical examinations	785.00	957.00	–	–	1,742.00
Education	368.92	1,537.42	1,896.88	897.00	4,700.22
Other insurance	–	–	55.78	55.78	111.56
Membership fees	200.00	200.00	–	–	400.00
Total other rights under the contract	**1,353.92**	**2,694.42**	**1,952.66**	**952.78**	**6,953.78**

[1] voluntary supplementary pension insurance premium
[2] company car, liability insurance and insurance for managers
[3] 1 July 2012 – start of the term of office
[4] 30 June 2012 – end of the term of office

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2013, members of the Bank's Management Board sat on the Supervisory Boards of the non-associated companies Krka d.d. (Jože Lenič, M.Sc. Econ.) and Helios Domžale d.d. (Igor Stebernak), whereas they did not act as members of the Supervisory Boards of the associated companies.

Total earnings received by the members of the Management Board and the directors of subsidiaries for their work in 2013 amounted to EUR 431 thousand (2012: EUR 458 thousand).

PROVISIONS AND ACCRUED COSTS FOR THE BANK'S MANAGEMENT BOARD AND DIRECTORS OF SUBSIDIARIES

	Abanka		Group	
	2013	2012	2013	2012
Provisions for retirement benefits and jubilee payments	90	67	143	136
Accrued costs for unused leave	22	22	31	34
	112	**89**	**174**	**170**

TOTAL EARNINGS AND BENEFITS RECEIVED BY MANAGEMENT PERSONNEL

	Abanka		Group	
	2013	2012	2013	2012
Salaries	2,535	2,624	2,717	2,802
Retirement, severance and jubilee payments	1	39	1	39
	2,536	**2,663**	**2,718**	**2,841**

PROVISIONS AND ACCRUED COSTS FOR MANAGEMENT PERSONNEL

	Abanka		Group	
	2013	2012	2013	2012
Provisions for retirement benefits and jubilee payments	522	588	551	617
Accrued costs for unused leave	131	169	131	169
	653	**757**	**682**	**786**

NOTES TO THE FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2013

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits*
Aleš Aberšek	4,500.00	2,250.00	–	6,750.00	5,231.24	416.67
Andrej Andoljšek	11,170.00	5,322.59	98.58	16,591.17	12,858.12	–
Vladimir Mišo Čeplak, M.Sc.	9,000.00	4,500.00	–	13,500.00	10,462.49	–
Kristina Ana Dolenc	9,000.00	4,500.00	–	13,500.00	10,462.49	1,000.00
Janko Gedrih	13,000.00	6,875.00	841.82	20,716.82	16,055.52	1,000.00
Slaven Mićković, Ph.D.	943.60	–	–	943.60	731.29	–
Branko Pavlin, M.Sc.	4,500.00	2,290.33	466.90	7,257.23	5,624.35	–
Andrej Slapar	9,000.00	4,500.00	–	13,500.00	10,462.49	–
Franci Strajnar, M.Sc.	9,000.00	4,500.00	869.66	14,369.66	11,136.46	1,000.00
Snežana Šušteršič	4,500.00	2,250.00	–	6,750.00	5,231.24	416.67
Aljoša Uršič	4,500.00	2,250.00	–	6,750.00	5,231.24	416.67
	79,113.60	**39,237.92**	**2,276.96**	**120,628.48**	**93,486.93**	**4,250.01**

* liability insurance

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2012

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)	Other benefits*
Andrej Andoljšek	5,955.00	3,938.00	165.06	10,058.06	7,794.94	351.72
Andrej Slapar	4,500.00	5,012.00	19.03	9,531.03	7,386.55	–
Janez Bohorič	4,545.73	1,432.00	118.88	6,096.61	4,724.85	203.32
Vladimir Mišo Čeplak, M.Sc.	9,000.00	8,234.00	–	17,234.00	13,356.35	203.32
Kristina Ana Dolenc	4,500.00	4,654.00	–	9,154.00	7,094.35	–
Janko Gedrih	300.00	358.00	60.15	718.15	556.57	–
Andraž Grum, Ph.D.	8,775.00	6,086.00	–	14,861.00	11,517.27	538.20
Andrej Hazabent, M.Sc.	3,217.70	1,432.00	462.16	5,111.86	3,961.68	–
Slaven Mićković, Ph.D.	9,000.00	7,518.00	–	16,518.00	12,801.45	203.32
Branko Pavlin, M.Sc.	9,766.27	6,802.00	1,511.08	18,079.35	14,011.49	203.32
Uroš Rožič, M.Sc.	3,000.00	716.00	–	3,716.00	2,879.90	–
Igor Stebernak	3,425.00	1,432.00	–	4,857.00	3,764.17	203.32
Franci Strajnar, M.Sc.	9,000.00	8,950.00	1,647.95	19,597.95	15,188.40	538.20
Simon Zdolšek	2,250.00	1,432.00	266.40	3,948.40	3,060.01	–
	77,234.70	**57,996.00**	**4,250.71**	**139,481.41**	**108,097.98**	**2,444.72**

* education

NOTES TO THE FINANCIAL STATEMENTS (continued)

45 EVENTS AFTER THE REPORTING DATE

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

- At the end of January 2014, the international rating agency Moody's upgraded Abanka's Long-Term Deposit Rating to “Caa2” and assigned it a positive outlook. At the same time, Abanka's Bank Financial Strength Rating “E” was affirmed. The rating changes of Abanka followed the announced and carried out measures of the Government of the Republic of Slovenia for strengthening the Slovene banking sector in terms of the capital increase and the forthcoming transfer of debt to the Bank Asset Management Company. Moody’s expects some degree of further systemic support for the Slovene banks.

- A restructuring plan was submitted within a prescribed period.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent Auditor's Report

To the Shareholders of ABANKA VIPA d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the bank ABANKA VIPA d.d., which comprise the statement of financial position as at 31 December 2013, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank ABANKA VIPA d.d. as at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of Matter

We draw attention to Note 1.1 *Basis for preparation of financial statements* which makes reference to a restructuring plan intended to enhance the financial stability of Abanka Vipa d.d. and which was submitted to the European Commission on 18. February 2014 for approval. Receipt of further state aid of estimated 243 million euro to increase capital is conditional upon approval of the plan by the European Commission. Our audit opinion is not qualified in this matter.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Simona Korošec Lavrič, M.Sc.Ec.
Certified Auditor

Boris Drobnič
Partner

Ljubljana, 14 March 2014

KPMG Slovenija, d.o.o.
1

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.

Independent Auditor's Report

To the Shareholders of ABANKA VIPA d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company ABANKA VIPA d.d. and its subsidiaries (ABANKA VIPA Group), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the ABANKA VIPA Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Emphasis of matter

We draw attention to Note 1.1 *Basis for preparation of financial statements* which makes reference to a restructuring plan intended to enhance the financial stability of Abanka Vipa group and which was submitted to the European Commission on 18. February 2014 for approval. Receipt of further state aid of estimated 243 million euro to increase capital is conditional upon approval of the plan by the European Commission. Our audit opinion is not qualified in this matter.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Mag. Simona Korošec Lavrič
Certified Auditor

Boris Drobnič
Partner

Ljubljana, 14. March 2014

KPMG Slovenija, d.o.o.
1

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APPENDIX 1: ADDITIONAL DISCLOSURE PURSUANT TO ARTICLE 89 OF DIRECTIVE 2013/36/EU (CRD IV)

INFORMATION FOR THE FINANCIAL YEAR 2013 ON A CONSOLIDATED BASIS BY EU MEMBER STATE AND BY THIRD COUNTRY

(in accordance with the country-by-country reporting requirement pursuant to Article 89 of Directive 2013/36/EU (CRD IV))

States	Name(s) and nature of activities	Turnover (in EUR thousand)*	Number of employees on a full time equivalent basis
EU Member States:			
Slovenia	ABANKA VIPA d.d. (bank), AB58 d.o.o. (financial counselling), AFAKTOR d.o.o. (factoring), ALEASING d.o.o. (leasing), ANALOŽBE d.o.o. (investment management), ANEPREMIČNINE d.o.o. (real property management), ARGOLINA d.o.o. (project financing)	168,612	871.38
Croatia	Afaktor - faktoring d.o.o. (factoring)	129	0.50
Third countries:			
Serbia	Afaktor - faktoring finansiranje d.o.o. (factoring)	1,146	7.75
TOTAL ABANKA VIPA GROUP		**169,887**	**879.63**

* including interest income, fee and commission income and dividend income by country in which an individual member company of the Abanka Vipa Group is registered

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