Addiko Bank

Annual Report 2016

Addiko Bank d.d.
Slovenia

Addiko Bank

Index

1 Management Board Report

1.1 Brief overview of the Bank's operations

Addiko Bank d.d. (hereinafter: the Bank) is a part of Addiko Bank AG (hereinafter: the Group), an international financial Group headquartered in Vienna, Austria, that operates through six banks, with its core business in Croatia, Slovenia, Bosnia and Herzegovina, Serbia and Montenegro, efficiently providing clear and direct quality services to over 1.1 million clients.

The holding company, AI Lake (Luxembourg) S.à r.l., is the direct parent company of the Addiko Group and is indirectly owned by funds advised by Advent International, a global active private equity investor, and the European Bank for Reconstruction and Development (EBRD). Addiko Bank has operated under this name since 11 July 2016 following the successful rebranding of the Group.

Both new owners have a long history of investing in the financial industry and presence in Central and Eastern Europe. The common goal of the new owners is to develop the core banking business, with special focus on Retail and Small and Medium Enterprises, while also providing support to the corporate sector.

1.2 Address by the Management Board

Miha Mihič
Management Board Member

mag. Matej Falatov
President of the Management Board

Tadej Krašovec
Management Board Member

Dear Ladies and Gentlemen,

We were able to achieve significant positive changes in Slovenia in 2016, and our international group saw important progress in the CEE region. It was a year of many changes required to rebuild the bank and also a year of dedicated and successful activities to fully come back to business. The new ownership of the private funds advised by Advent International and the European Bank for Reconstruction and Development represented a fresh start at the organisational and business level. It brought new momentum to the organisation, and we can already start to see the effects of the turnaround.

On 11 July 2016, the Bank entered into a new period with a new brand, Addiko Bank. It reflects a new business strategy of the Bank and new market positioning. It is also a commitment to improve and change the way the banking business is done. We strongly support the idea that banking must be clear, simple and direct, which is best described by the English phrase "straightforward" banking. The introduction of the new brand is not the end of the change process but rather the start of a new journey to improve our services, credit processes and digital services. All in all, it means building of a new, better bank. After rebranding, we are especially focused on what is most important for us and for our clients, and that is why we prefer to perform key objectives with strong dedication to the customer rather than committing to a large number of services of average quality. We offer our clients efficiency and quick response and strive to optimise procedures and internal processes. What is probably most important for our customers is that we communicate in a clear, simple and understandable way. We expect that all of that will lead us to a better and prosperous future.

We would primarily like to provide our customers with clear and efficient standard banking services and in that context offer simple solutions for the customers. For that reason, we decided to focus most of our available resources on that goal and that is why we made two very important steps in this direction last year. First, we sold the asset management portfolio to ALTA Invest. Second, we finished the sale of the entire leasing portfolio to Gorenjska banka by the end of the year. A month later (in early 2017), we also sold the leasing company itself, thereby closing many years of leasing within our organisation.

Nevertheless, we have not stayed within standard sales channels. Quite the contrary, we are focusing on digitisation of banking products and services. Our goal is to reach the largest possible number of people with new, innovative distribution channels. We were the first on the market to offer highly attractive online loans called "HIP Loan". With the idea to further simplify business operations, we opened a branch office in Ljubljana's shopping centre that has a digital format and offers direct access to digital channels. It is a completely new form in Slovenia. With a simple and direct branch format, we have achieved another step towards straightforward banking, the philosophy that is lived out each day in Addiko Group.

No doubt these were decisive steps that are leading us in the right direction and are reflected in the business results for 2016. After several years, the results of the Bank on a consolidated basis were once again strongly positive, amounting to more than EUR 13 million (2015: EUR -51). In the consumer lending market, we reached a very high 13% market share (2015: 6%). We were also successful in corporate business. The new corporate lending business amounted to a total value of EUR 184 million and most of it, namely 66%, was achieved through financing of medium-sized and small enterprises. In the course of a complete change of the bank and rebranding, more than 60 thousand existing and new customers remained loyal to us, which confirms the fact that our customers trust us.

2016 was also a year of accomplishments in terms of balance sheet, cost structure and improvement of operating result, which can be noted from the following facts. We repaid all loans from the Parent bank, i.e. the owner, and made arrangements for independent financing with our own sources. By the end of 2016, we successfully reduced the loan to deposit ratio to 101% (2015: 145%). The NPL ratio decreased from 13% to 5%, which places us amongst banks with the healthiest balance in Slovenia. We were also successful on the cost side, and through more efficient business operations and effective optimisation of costs at all levels of the Bank, we managed to decrease costs by EUR 5 million, i.e. 16% compared to 2015. Excluding all one-off effects due to the restructuring, the operating result before impairment increased from EUR 3.9 million to EUR 8.5 million.

In order to cover losses in 2015, the Bank was capitalised in 2016 in a total amount of EUR 10 million. In addition, it received more than EUR 15 million of subordinated debt. These activities help us strengthen our commitment to maintaining a long-term sustainable level of capital adequacy and stability of operations.

Despite all the changes and challenges, we believe that it is still important to keep participating in socially responsible activities. For several years, the resources that would have been spent on New Year's business gifts have been rather given to those who need them the most. With this support, a Multigenerational Centre was opened under the auspices of the Association of Friends of Youth Moste Polje. For years, we have also been involved in the project "Botrstvo", helping financially disadvantaged families.

Our employees contributed most to the renovation of the Bank. Without their trust and belief that we could make it, the goals would not have been reached. Therefore, we are very grateful to them for taking this path with us and that they continue to do so every day. There are still many challenges and goals ahead, nevertheless with a strong, trustworthy and professional team, the bank will be able to grow the business and keep getting better in the future.

We have the owner's trust behind us, which further drives us and gives us motivation for the future. Only together with a strong and strategically oriented owner can we achieve the set goals.

Finally, we have also to thank you, dear customers. Without you, there would be no us, so we will keep working and developing our long-term relationships and will do our best to provide you with professional services in the future.

Thank you all again for your commitment and trust.

Management Board

Tadej Krašovec	Miha Mihič	mag. Matej Falatov
Member	Member	President

1.3 Report by the President of the Supervisory Board

In the financial year 2016, the Supervisory Board of Addiko Bank, d. d. held four regular meetings. The work was performed in accordance with the Bank's Statute and Rules of Procedure of the Supervisory Board. The prepared materials and notes on meetings enabled it to responsibly and in line with the Slovenian and Austrian legislation supervise the operations of the Bank. The Bank of Slovenia submitted to the Supervisory Board the results from the audits of the Bank's operations.

The Bank's Management Board regularly informed the Supervisory Board members about the Bank's operations.

In accordance with Article 282 of the Companies Act and based on current monitoring of the Bank's operations, periodical reports by the Internal Audit department and the unqualified opinion issued by the auditing company Deloitte Revizija, d.o.o., the Supervisory Board analysed the Business Report of Addiko Bank in 2016. The Report will be presented at the General Meeting. In accordance with Article 230 of the Companies Act, the Supervisory Board approved the proposal by the Management Board regarding appropriation of the net profit/loss and recommended it for adoption at the Bank's General Meeting of Shareholders.

In 2016, the Supervisory Board also changed the composition of the Management Board of the Bank. Incumbent board member Matej Falatov was appointed President of the Board. Over the course of the year, two new members, Miha Mihič and Tadej Krašovec, joined the Management Board. With these appointments, the 3-member Management Board provides stable and efficient management of the Bank.

After the formal takeover of ownership of the financial group Addiko Bank AG in 2015, 2016 was the year to carry out the planned activities for a new start and a stable future. At the level of the Group, the brand, business philosophy and strategy of the Group were all renovated. Part of this strategy is also that Addiko should focus only on banking business, and in Slovenia the Bank fulfilled its part of the task successfully. It terminated asset management services for the existing portfolio of assets under management and transferred the portfolio of customers for which the Bank has acted as intermediary in trading on capital markets to a carefully selected company. The Bank was preparing itself for the transfer of the portfolio of leasing clients, i.e. the portfolio of financial leases of movable property, which was carried out during the last days of the year. Later, on 1 February 2017, it also transferred ownership of its subsidiary HYPO Alpe-Adria-Leasing d.o.o. The Bank successfully followed the new strategy and reduced the range of its services, i.e. kept only the banking services. In addition, the Bank was successful in implementing a strategy of digitisation and the provision of services to customers in a straightforward manner.

The new owners strive for growth in retail banking and in small and medium-sized businesses, corporate banking and the public sector in the South East European region, including Slovenia.

From a business perspective, 2016 was very successful for the Bank and showed highly positive profit after taxes. The share capital of the Bank increased by EUR 10 million. The Bank also acquired EUR 15 million in additional subordinated debt. The capital adequacy ratio increased from 12% to more than 15%, providing a solid base for future growth.

The Bank paid special attention to risk management, which enabled timely, responsible and appropriate actions, thus delivering enhanced safety of operations, particularly to its customers.

Johannes Leopold Proksch,
President of Supervisory Board

To achieve a high degree of governance transparency and on the basis of the exemption under point 2 of the fifth paragraph of Article 70 of the Companies Act, Addiko Bank d.d. gives the following Statement as part of the annual report:

Statement on internal governance arrangements

Addiko Bank d.d. implements the internal governance arrangements, including corporate governance, in accordance with the legislation in force in the Republic of Slovenia, taking into account its internal acts.

Addiko Bank d.d. also fully respects the acts referred to in the second paragraph of Article 9 of the Banking Act .

In order to strengthen the internal governance arrangements, our Bank operates in accordance with the following:

1) the provisions of the applicable Banking Act, which define the internal management arrangements, in particular the provisions of Chapter 3.4 (Governance system of a bank) and Chapter 6 (Internal governance arrangements and internal capital adequacy) in the requirements applicable to a bank/ savings bank or members of the management body;

2) Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks and

3) EBA guidelines governing internal governance, assessment of the suitability of the members of the management body and key function holders as well as remuneration policies and practices on the basis of the relevant decisions of the Bank of Slovenia on the application of these guidelines .

At the same time, we are striving to the greatest extent possible to act in accordance with the non-binding recommendations stated in the Letter of the Bank of Slovenia (ref. 38.20-0288/15-TR dated 23.10.2015).

By signing this Statement, we have also committed ourselves to further proactive action to enhance and promote adequate internal governance arrangements and corporate integrity in the wider professional, financial, economic and other publics.

Management Board

Tadej Krašovec	Miha Mihič	mag. Matej Falatov
Member	Member	President

Supervisory Board of the Bank

Johannes Leopold Proksch,
President

[1]Banking Act (ZBan-2), Official Gazette of RS, nos 25/15 and 44/16;

[2]Bank of Slovenia's Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks, Official Gazette of RS, nos 73/15 and 49/16;

[3]http://www.bsi.si/zakoni-in-predpisi.asp?MapaId=1906

1.4 Significant events in 2016

1.4.1 Rebranding

With the new ownership structure in place and in line with the new business strategy, Addiko Bank AG decided to start future business operations under the new Addiko brand and a new visual identity.

Rebranding was one of the key strategic projects in 2016. It was conducted in two phases. The new brand was launched on 11 July in Austria, Croatia, Slovenia, Serbia and Montenegro, while the process was concluded with the rebranding of both subsidiary banks in Bosnia and Herzegovina on 31 October.

The rebranding is a clear and strong signal that the Group has changed and will continue to change in the new direction: the Group not only changed its name and logo but made a comprehensive change for the better by implementing higher business standards and introducing more efficient banking operations.

The goal of the rebranding was to create a credible, relevant and distinctive new brand that encompasses the Group's corporate and business values. Addiko brand at the same time symbolises the Group's efforts in building a new, modern bank with the aim of providing straightforward banking to its customers. Focusing on essentials, delivering on efficiency and communicating simplicity are the foundations on which the Group's operations are now based.

1.4.2 Changes in the composition of the Management Board and the Supervisory Board

In 2016, on 19 July, Miha Mihič joined the Management Board as its third member. On 30 September, Dejan Kaisersberger resigned from the position of member of the Management Board. On 13 December, Tadej Krašovec joined the Management Board as the third member.

On 31 December 2016, the Management Board comprised three members:

- Mag. Matej Falatov, President of the Management Board
- Miha Mihič, Management Board member and
- Tadej Krašovec, Management Board member.

There were also changes in the composition of the Supervisory Board. The Supervisory Board met four times in 2016. The changes were:

- before the second session, on 8 July 2016, Marko Popovič, who was appointed on 18 November 2014, resigned;
- before the second session, on 8 July 2016, Ian Glover, Balazs Györi and Joško Mihić joined the Supervisory Board. They were appointed on 24 June 2016.

The Supervisory Board has 5 members. On 31 December 2016, it comprised the following members:

- mag. Johannes Leopold Proksch - Chairman of the Supervisory Board
- Henning Giesecke - Deputy Chairman of the Supervisory Board
- Ian Glover - Member of the Supervisory Board
- Balazs Györi - Member of the Supervisory Board
- Joško Mihić - Member of the Supervisory Board

1.4.3 Opening of Addiko Bank Express

On 9 November 2016, the Bank opened a branch office in the BTC shopping centre in Ljubljana that has a completely different format than the traditional banking branches in Slovenia. It was named Addiko Bank Express and is currently the only bank branch in Slovenia in which clients can conclude a loan by themselves and within a few minutes already have cash in an amount of up to EUR 5,000. The branch falls within the strategy of providing customers with digital services and ensuring effectiveness, simplicity and quick services. The branch is the first of its kind within the Group.

1.4.4 Sale of asset management portfolio

In August 2016, after the negotiation process was over, the Bank signed an Agreement with ALTA Invest d.d. on the transfer of the asset management portfolio and the related transactions and portfolios. The transfer of portfolio started on 6 October 2016 and lasted several days. Approximately 2 thousand client accounts were successfully transferred, with a portfolio value of around EUR 150 million.

Sales activities and notification of clients about the transfer took place in accordance with a time plan and without any major issues. The correctness of the transaction and underlying processes was checked by an external auditor. The sales transaction was completed by the end of November, when the Bank received the funds to the Bank's account and also closed the transaction in the accounting systems.

After the sale, the Bank also terminated its memberships with several institutions (Central Securities Clearing Corporation, Ljubljana Stock Exchange, etc.) and was able to cancel the software licenses connected to asset management. With this sale, the Bank went a step closer to providing straightforward banking, meaning offering only banking services.

1.4.5 Sale of leasing portfolio and subsidiary leasing company

In 2016, the Bank started the bidding process for the sale of the leasing company, i.e. the leasing portfolio. Based on the successfully executed process of selecting the best offer, on 21 October 2016, the Bank and Gorenjska banka d.d., together with its subsidiaries GB Leasing d.o.o. and HYPO Alpe-Adria-Leasing d.o.o., signed a sale contract. Gorenjska banka took over the portfolio of approximately 9 thousand contracts on financial leasing of movable property with a gross exposure value near EUR 100 million and the ownership of the HYPO Alpe-Adria-Leasing d.o.o. company. In order to simplify legal procedures, the transaction was to be executed in two steps: first the transfer of leasing portfolio and later the transfer of ownership of the company.

The cut-off date for portfolio transfer was 31 July 2017, however the ownership of portfolio could be legally transferred only when all contractual conditions were met and all approvals were valid. After the final approval of transaction by the Slovenian Competition Protection Agency, the leasing portfolio was transferred to Gorenjska banka d.d. on 29 December 2016 and the Bank received the payment for the portfolio.

When all other obligations, including filing of tax return, were fulfilled, on 1 February 2017 Gorenjska banka d.d. became the official owner of the company HYPO Alpe-Adria-Leasing d.o.o. With the sale, an important period ended in the Bank's history and a new period started by excluding non-banking services from the regular offer.

1.4.6 Reorganisation and Restructuring

An integral part of the Bank's transformation process was a systematic review of the entire organisation at all levels with the goal of establishing a lean, efficient, more agile and integrated organisation. A restructuring program was launched throughout the entire organisation in 2015. It was carried out mostly in 2016, and it will in minor part be completed in 2017.

During the year, several initiatives were started according to corporate strategic goals that are based on revenue growth, efficient end-to-end processes and prudent standardised risk management, all of which together embody Addiko's "One Bank Approach".

Essential to the accomplishment of the goals is the implementation of the Target Operating Model (TOM) that will ensure better Addiko Group steering, enable synergies and efficiencies and create transparency throughout the organisation. In addition, through the strategy of prioritising digital platforms and paying more attention to branch profitability.

The new, more focused strategy foresees improvements in the core processes and all around efficient and faster operations. This required the alignment of the entire organisation, leading to the establishment of designated shared services, central steering and local execution functions, with several Addiko Group functions moving to the local banks, enabling utilisation of synergies and greater cohesion and ultimately ensuring a higher level of service quality within the entire Addiko organisation.

Restructuring and reorganisation together allow for the execution of a viable business model and achievement of sustainable business growth.

1.4.7 Transfer of NPL and non-core assets to previous owner

During the first quarter of 2016, Addiko in Slovenia successfully transferred the NPL portfolio and non-core assets in the amount of EUR 53,888 thousand to the previous owner (thereof EUR 52,115 thousand from the Bank).

2. Report review 2016

2 Report review

2.1 Business results in 2016 - Bank

2.1.1 Financial highlights

EUR 000'

INDICATORS	31.12.2016	31.12.2015	31.12.2014
1. BALANCE SHEET			
Total assets	1,413,628	1,344,363	1,349,442
Aggregate amount of deposits by non-banks	975,167	791,112	842,977
a) legal and other persons	665,269	525,909	543,705
b) retail	309,898	265,203	281,272
Aggregate amount of loans to non-banks	979,768	1,006,155	1,101,189
a) legal and other persons	979,768	525,321	613,970
b) retail	-	480,834	487,219
Total capital	121,572	98,290	89,687
Impairment of financial assets at amortised cost, and provisions	107,416	107,416	100,353
Volume of off balance	680,497	632,519	721,434
2. INCOME STATEMENT			
Net interest income	24,886	25,213	27,723
Net non-interest income	23,847	7,027	17,547
Labour costs, general and administrative expenses	22,827	25,678	25,698
Depreciation	1,822	2,255	2,274
Impairments and provisions	7,253	(49,169)	(56,133)
Pre-tax profit/loss from ordinary and discontinued operations	13,876	(48,190)	(38,836)
Income tax from ordinary and discontinued operations	(975)	(3,996)	(1,521)
3. PERFORMANCE INDICATORS			
a) Capital			
Capital adequacy	15.64%	12.97%	12.97 %
Tier I capital ratio	12.99%	10.68%	9.31%
Tier I capital	106,262	96,229	86,140
b) Quality of assets			
Impairment of financial assets at amortised cost and provisions for commitments/reclassified items	4.12%	6.59%	5.51%
c) Profitability			
Interest margin	1.87%	1.86%	1.93%
Financial intermediation margin	3.66%	2.38%	2.95%
Return on assets after tax	0.97%	-3.85%	-2.81%
Pretax return on equity	11.83%	-36.11%	-30.39%
Return on equity after tax	11.00%	-39.10%	-31.58%
d) Operating costs			
Operating costs/average assets	1.85%	2.06%	1.95%
e) Liquidity			
Average liquid assets/average short-term deposits of non-banks	50.90%	48.05%	4.85%

Average liquid assets/average assets	20.16%	17.71%	4.96%
4. EMPLOYEES			
At year-end	395	451	481
5. SHARES AT YEAR-END			
Number of shareholders	1	1	1
Number of shares:	41,706	41,706	41,706
Book value per share	2.91	2.36	2.15

2.1.2 Financial position

The Bank's total assets as at 31 December 2016 amounted to EUR 1,414 million, a 5% increase compared to the previous year.

In the structure of assets, the largest share of loans in 2016 are loans to non-bank customers, which account for 69%.

Compared to the previous year, the structure of liabilities has improved to the benefit of the primary sources. Deposits from non-banks have increased by 18% and represent 70% of total liabilities of the Bank. At the same time, the share of bank deposits and loans has decreased by 29%. Bank capital has increased with the completed recapitalisation by the existing owner.

Loans to banks increased by 27% to EUR 7.3 million at year-end. Almost the entire amount comprises of demand deposits.

Loans to non-banks amounted to EUR 981 million at the end of the year. Compared with 2015, they decreased by 3%.

In 2016, non- current assets held for sale (portfolio of bad loans) were sold in March in the amount of EUR 52 million and the balance at the end of 2016 was equal to zero.

Financial Assets Held for Trading represented the fair value of derivative financial instruments and at year-end amounted to EUR 2 million.

Financial assets available for sale in 2016 decreased by 25% due to scheduled maturities of securities. The portfolio balance at the end of 2016 amounted to EUR 70 million, accounting for 5% of total assets.

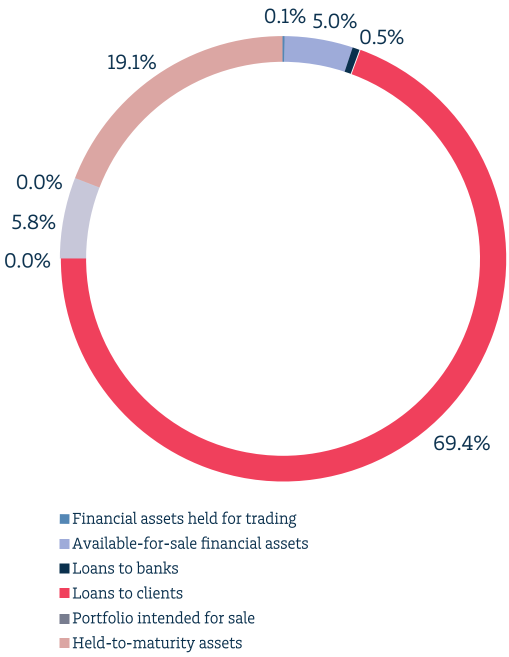
Financial assets held to maturity in 2016 remained at the same level as in the previous year. The portfolio balance at the end of 2016 amounted to EUR 82.6 million, accounting for 6% of total assets.

Financial liabilities to banks in the amount of EUR 291 million represented 21% of total liabilities, of which subordinated liabilities amounted to EUR 69 million. Compared to the previous year, the liabilities decreased by EUR 118 million as we followed the objective of greater financial independence.

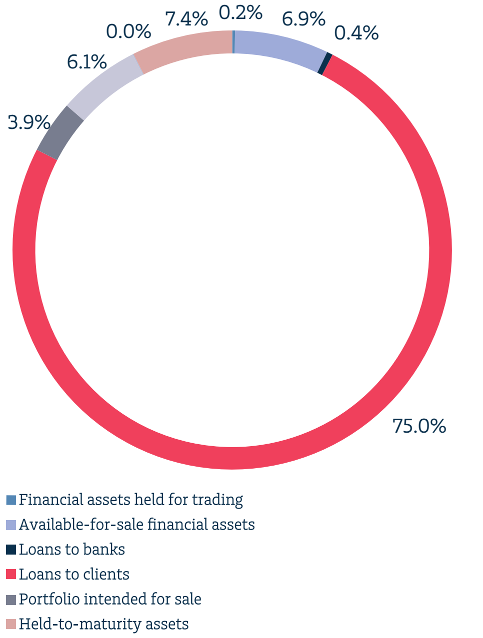
Financial liabilities to non-banks increased by EUR 153 million or 18% to EUR 988 million at the end of 2016. This increase is in line with the increase of the loan portfolio and the Bank's strategy on restructuring of liabilities for the benefit of primary sources.

The Bank's equity in 2016 increased by 24% and accounts for 9% of total liabilities.

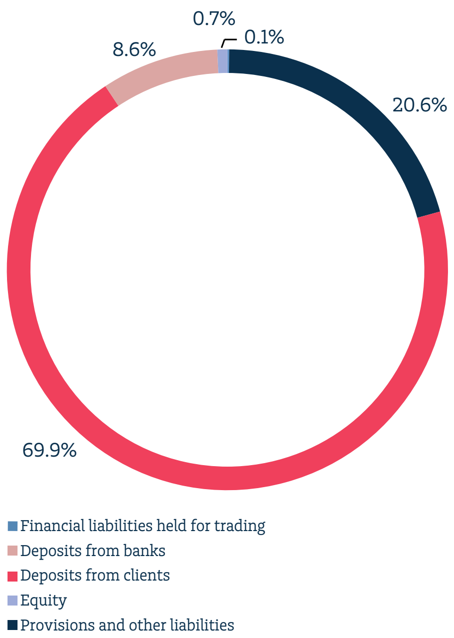
Asset structure 2016



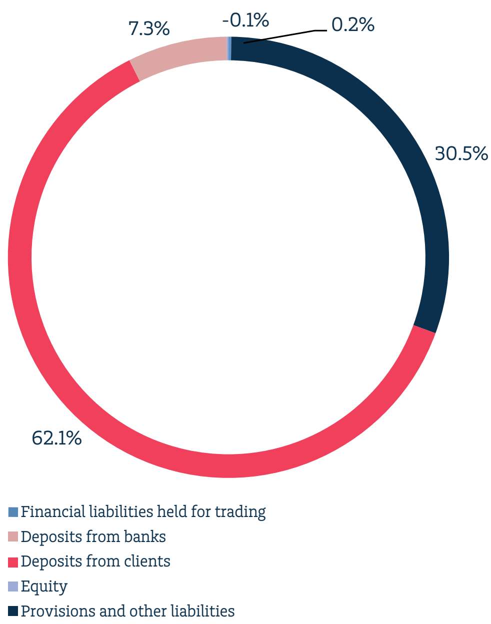
Asset structure 2015



Asset structure 2016



Asset structure 2015



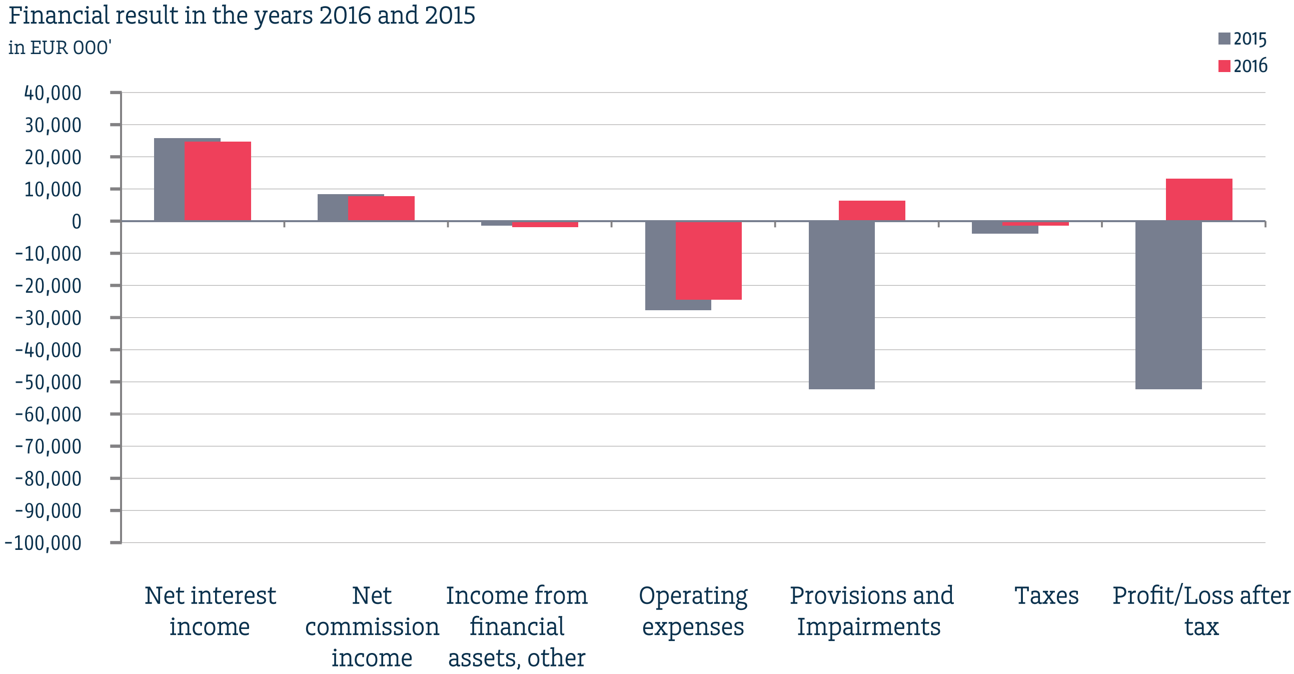
2.1.3 Financial result

General

The result of the Bank at the end of 2016 was highly positive. The profit amounted to EUR 12,901 thousand.

In 2016, the Bank achieved net financial and operating income in the amount of EUR 31,271 thousand, which is 8% higher than in 2015. Administrative expenses, labour costs and costs of depreciation amounted to EUR 24,649 thousand, which is 13% less than in 2015, and are a result of cost optimisation. The impairment of financial assets not measured at fair value through profit or loss and provisions for off-balance-sheet items totalled EUR 8,453 thousand at the end of 2016 and were driven by positive restructuring and repayments by specific customers and by improved risk management (especially watch loan and collection processes).

Financial result in the years 2016 and 2015
in EUR 000'



Interest and commission income

In 2016, the Bank set aside EUR 24,886 thousand of net interest income, which represents a decrease of 1% compared to the previous year. At 80%, the net interest income represents the majority of all net income.

Net commission income at year-end totalled EUR 8,223 thousand and accounted for 26% of the net income of the Bank. Compared to 2015, it decreased by 3 percentage points in the structure of income.

Net commissions covered 33% of administrative costs. If only labour costs are considered, the coverage amounts to 57%.

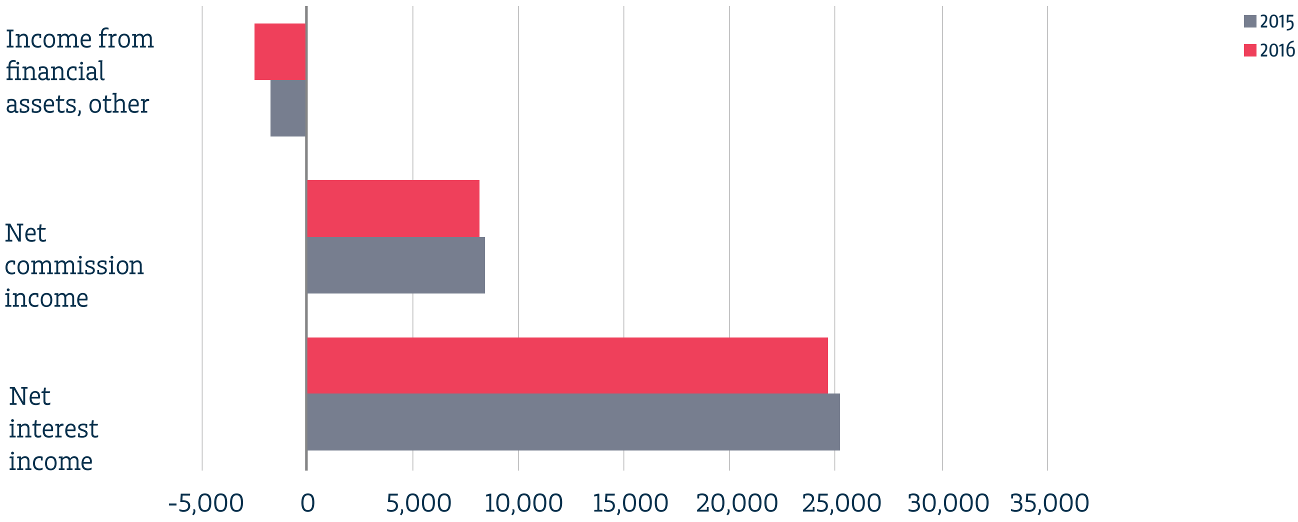
Financial assets and Other operating result

Realised losses from Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss in 2016 amounted to EUR 47 thousand.

Net losses from Financial assets and liabilities held for trading along with net gains from currency translation in 2016 amounted to EUR 231 thousand.

Other net operating losses in 2016 amounted to EUR -1,859. The majority of that (EUR -1,463) represents taxes on financial services.

Income from financial assets, net commission and interest income
in EUR 000'



Costs

In 2016, the sum of administrative expenses and depreciation (so-called operating costs) amounted to EUR 24,649 thousand. The largest part of administrative costs is labour costs with 59%, or EUR 14,440 thousand. General and administrative expenses accounted for EUR 8,387 thousand and in comparison with 2015 decreased by 20%. Further cost optimisation is expected in the coming year. The depreciation costs in 2016 amounted to EUR 1,822 thousand and were 24% lower than in the previous year.

Provisions and Impairments

Provisions for off balance sheet liabilities and impairments for assets at amortised costs show net release of EUR 8,452. The positive development is mainly driven by the improved risk management strategy (watch loan and collection processes) and positive restructuring of corporate customers.

The rest of provisions (EUR 441 thousand) were allocated to implementation of Target Operating Model with the goal of establishing a more agile and integrated organisation.

The Bank also impaired tangible and intangible assets in the amount of EUR 493 thousand and investment in subsidiary Hypo Leasing d.o.o. in the amount of EUR 265 thousand.

Tax

In 2016, the income tax amounted to EUR 975 thousand.

Due to realised losses in the previous years and based on the requirements of IAS 12 for the recognition of deferred tax assets, in 2016 the Bank did not recognise deferred tax assets. In the coming years, the Bank is expecting tax profit, therefore in 2017 and subsequent years, it expects to recognise deferred tax assets arising from recognition of tax losses carried forward.

2.2 Group business results in 2016

2.2.1 Financial highlights

EUR 000'

INDICATORS	31.12.2016	31.12.2015	31.12.2014
1. BALANCE SHEET			
Total assets	1,413,920	1,426,872	1,500,138
Aggregate amount of deposits by non-banks	974,580	788,924	816,561
a) legal and other persons	664,682	523,721	535,290
b) retail	309,898	265,203	281,272
Aggregate amount of loans to non-banks	979,768	1,083,997	1,251,039
a) legal and other persons	979,790	575,647	670,773
b) retail	735	548,198	580,265
Total capital	121,560	97,813	86,984
Impairment of financial assets at amortised cost, and provisions	110,273	110,273	106,504
Off-balance-sheet items	680,497	632,519	722,662
2. INCOME STATEMENT			
Net interest income	24,521	31,057	36,141
Net non-interest income	6,412	5,681	16,415
Labour costs, general and administrative expenses	(22,827)	(28,573)	(29.442)
Depreciation	(1,822)	(2,296)	(2,319)
Impairments and provisions	7,518	(50,533)	(60,931)
Pre-tax profit/loss from ordinary and discontinued operations	14,339	(44,601)	(40,134)
Income tax from ordinary and discontinued operations	975	(4,744)	(1,869)
3. PERFORMANCE INDICATORS			
a) Capital			
Capital adequacy	15.64%	11.49%	11.31%
Tier I capital ratio	12.99%	9.90%	8.04%
Tier I capital	106,262	95,645	83,363
b) Quality of assets			
Impairment of financial assets at amortised cost and provisions for commitments/reclassified items	4.12%	6.59%	5.14%
c) Profitability			
Interest margin	1.76%	2.09%	2.45%
Financial intermediation margin	2.22%	2.47%	3.57%
Return on assets after tax	0.96%	-3.32%	-2.85%
Pretax return on equity	12.98%	-36.51%	-31.46%
Return on equity after tax	12.10%	-40.39%	-34.22%
d) Operating costs			
Operating costs/average assets	1.77%	2.08%	2.16%
e) Liquidity			

Average liquid assets/average short-term deposits of non-banks	53.61%	48.05%	4.85%
Average liquid assets/average assets	20.37%	16.17%	4.84%
4. EMPLOYEES			
At year-end	333.75	474	572

2.2.2 Financial position of the Group

As at 31 December 2016, the Group's total assets amounted to EUR 1,414 million.

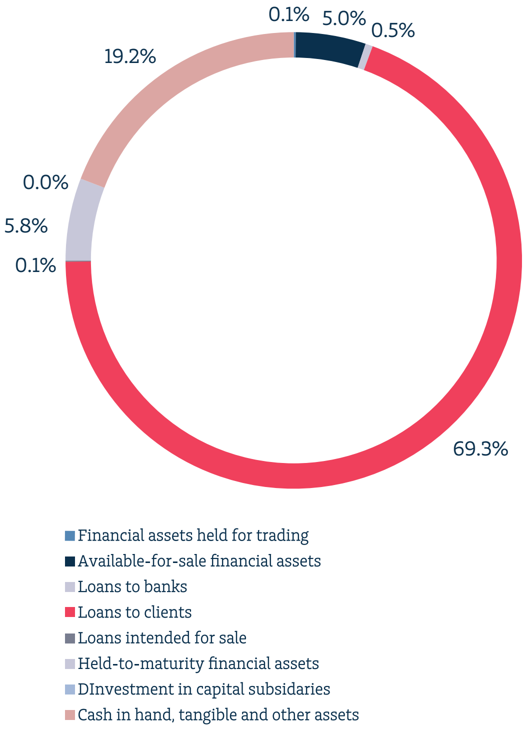
Loans to banks in 2016 amounted to EUR 7 million; the entire amount represents short-term deposits. Loans to non-banks fell in 2016, i.e. EUR 106 million due to the December sale of the Hypo Leasing d.o.o. portfolio.

In 2016, financial assets available for sale amounted to EUR 70 million while held-to-maturity financial assets amounted to EUR 83 million. Both types of assets together accounted for 11% of total assets.

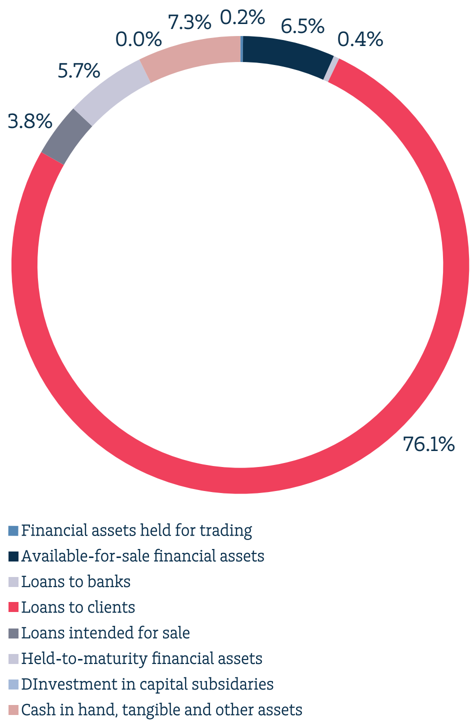
Financial liabilities to banks in 2016 represented 21% of all liabilities and amounted to EUR 292 million. Subordinated liabilities amounted to EUR 69 million. Financial liabilities to clients in 2016 amounted to EUR 989 million and represented 70% of liabilities.

Equity of the Group in 2016 amounted to EUR 122 million.

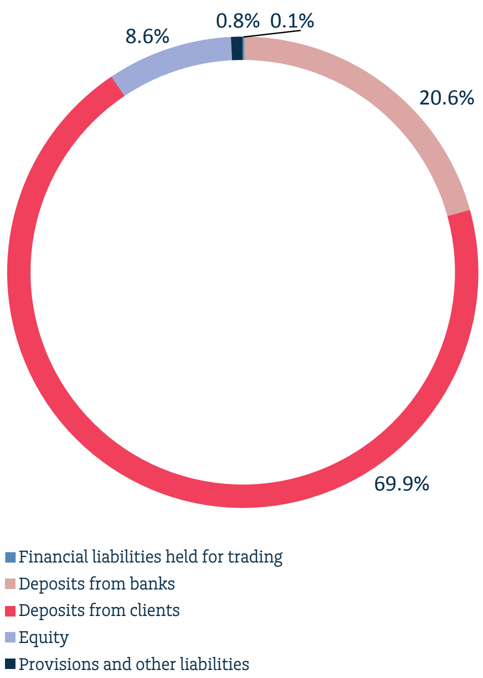
Asset structure 2016



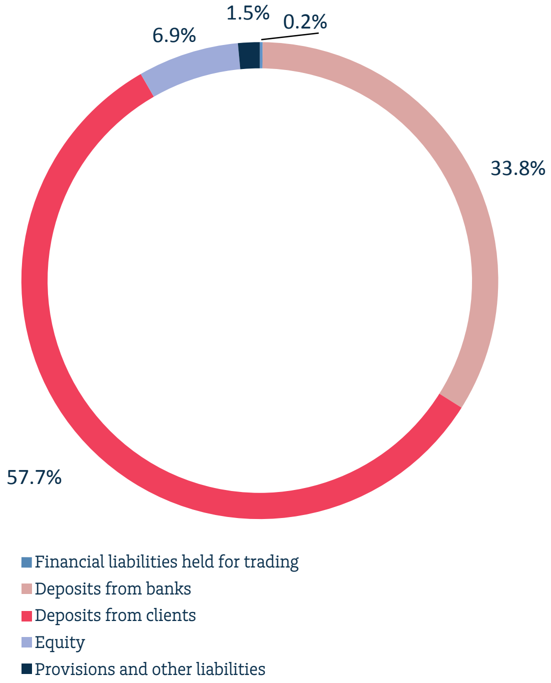
Asset structure 2015



Asset structure 2016



Asset structure 2015



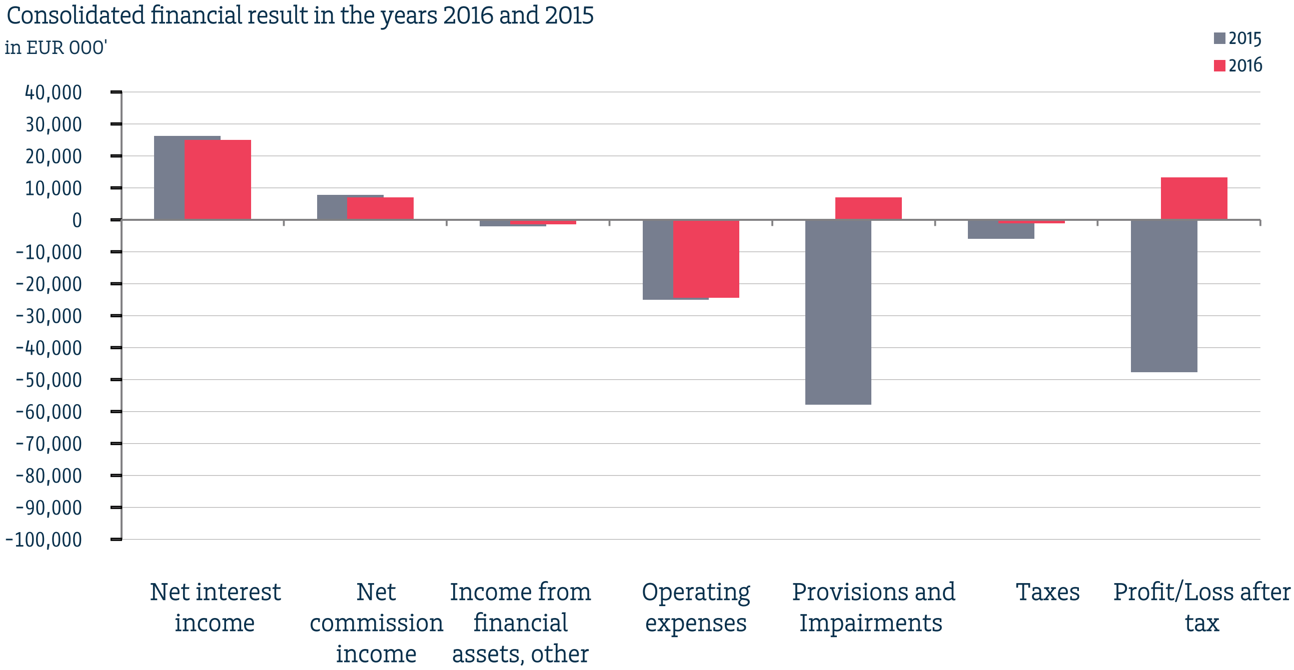
2.2.3 Financial result of the Group

General

The result of the Group at the end of 2016 was positive. The profit amounted to EUR 13,364 thousand.

In 2016, the Group achieved net financial and operating income in the amount of EUR 31,469 thousand. Administrative expenses, labour costs and costs of depreciation amounted to EUR 24,649 thousand. The impairment of financial assets not measured at fair value through profit or loss and provisions for off-balance-sheet items show net release of EUR 8,011 thousand at the end of 2016, which was driven by positive restructuring, repayments by specific customers and improved risk management (especially watch loan and collection processes).

Consolidated financial result in the years 2016 and 2015
in EUR 000'



Interest and commission income

At the end of 2016, net interest income amounted to EUR 24,521 thousand. At 78%, the net interest income represents the majority of all net income. The share of net commissions in the amount of EUR 8,151 thousand represented 26%.

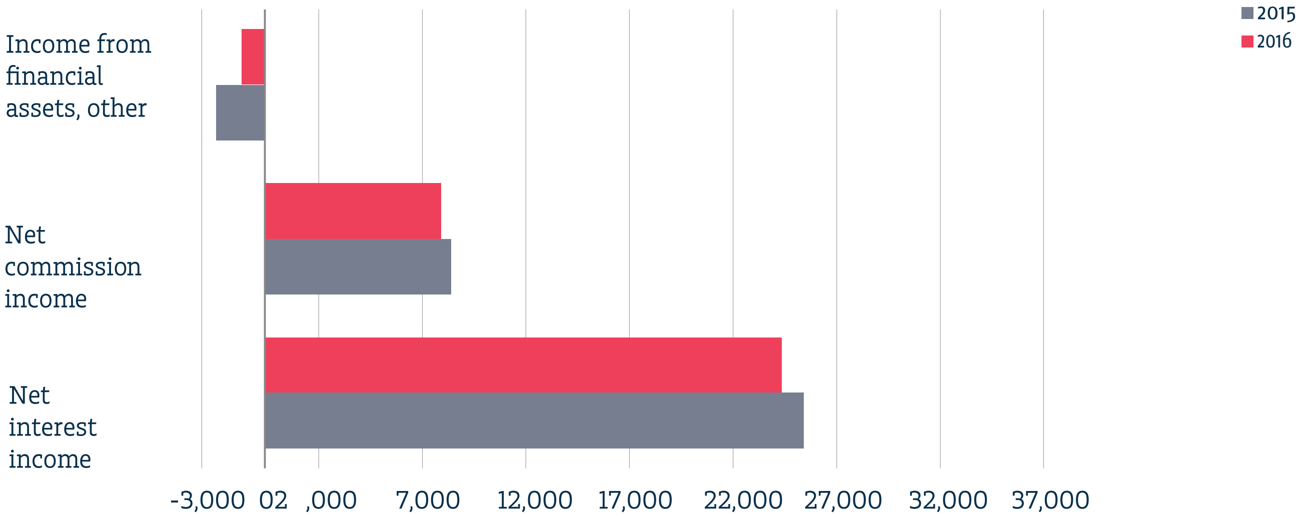
Financial assets and Other operating result

Realised net losses from Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss amounted to EUR 47 thousand.

Net profit from financial assets and liabilities held for trading along with the overall result of exchange rate differences amounted to EUR 231 thousand.

Other net operating losses in 2016 amounted to EUR 2,109. The majority of it (EUR 1,463) represented taxes on financial services.

Consolidated income from financial assets, net commission and interest income
in EUR 000'



Costs

In 2016, the Group recorded EUR 24,649 thousand in operating costs. The majority is attributable to labour costs, which accounted for 59% or EUR 14,440 thousand. General and administrative costs accounted for the remaining 41% or EUR 8,387 thousand. Depreciation amounted to EUR 1,822 thousand in 2016.

Provisions and Impairments

Provisions for off balance sheet liabilities and impairments for assets at amortised costs amounted to EUR 8,452. The positive development is mainly driven by improved risk management strategy (watch loan and collection processes) and positive restructuring of corporate customers.

The rest of provisions (EUR 441 thousand) were allocated to implementation of Target Operating Model with the goal of establishing a more agile and integrated organisation.

The Group also impaired tangible and intangible assets in the amount of EUR 493 thousand.

Tax

In 2016, the income tax amounted to EUR 975 thousand.

Due to realised losses in the previous years and based on the requirements of IAS 12 for the recognition of deferred tax assets, in 2016 the Group did not recognise deferred tax assets. In the coming years, the Bank is expecting tax profit, therefore in 2017 and subsequent years, it expects to recognise deferred tax assets arising from recognition of tax losses carried forward.

2.3 Bank's Operations by Segments

2.3.1 Retail

In 2016, economic conditions further improved, which was reflected in the increasing demand for banking services. In line with the expectations of the new owner, we focused on retail by offering consumer loans and by collecting deposits.

We have improved processes, with an emphasis on quick response times with less paperwork and with intensive efforts towards digital business.

The Retail segment remains divided into two departments, i.e. the Sales force, comprising a complete sales and business network of 19 branch offices servicing retail customers, small companies and sole proprietors, and Product and Segment management, comprising support, services management and sales channels management. For the second year in a row, the Marketing Department is included in product management, which has proven to be very successful and responsive in regards to campaigns.

Regarding market conditions and the situation in the company, we have adjusted our operations in both areas. We have further focused on innovation and quality of our services, with a focus on productivity and the profitability and efficiency of our work.

In the entire sales network, we continued with project activities to increase the efficiency of sales, the purpose of which was to increase the number of services per customer and reduce the time to receive the service.

The results of the sales and analysis of our clients' and branch visitors' opinions show that the projects had a positive effect on client satisfaction and have improved sales network efficiency.

At the same time, we have adapted to the requirements of the owner and the changes of the business policy. We were preparing future activities for branches and developing personell skills with focus on identifying customer needs. These activities will ensure the future profitability of products and branches, and consequently, the entire Retail segment.

Sales activities were complemented with product-oriented campaigns of sales staff guided by the Marketing Department. Individual campaigns' results were monitored.

Business Operations in 2016

The results of the modified strategy are evident in the number of sold services per client, per employee as well as per branch office.

In 2016, we were strongly focused on the sale of consumer loans and consequently increased our market share from 3% to 16% compared to banking sector as well generated higher commission and interest income.

The small and medium-sized enterprises still represent a major challenge, which is why we have started to change processes in order to listen to the wishes of our customers and to achieve satisfaction with the services on both sides.

In 2016, we achieved significant progress on the path towards being a modern bank by opening the first digital branch with a special concept (see Section 1.4.3). The very first months of its operation have confirmed that we are on the right track.

In the Product Management and Marketing Departments, we followed the new strategy for retail banking and together with other departments made efforts to enable processes to run smoothly and ensure that the activities related to changes in products, processes and marketing support were coordinated with monthly plans in branches.

2.3.2 Corporate

Due to recovery, some of the high-tech companies achieved growth (in some cases quite high growth), which was also observed in the field of construction. Turnover in the real estate business has also increased, which has resulted in increased sales of housing.

On the other hand, the Slovenian banking market continued with rapid decrease in interest rates on deposits. Some banks have even started charging for the "retention" of vista funds for companies. Our Bank also followed the decrease in interest rates on deposits; at the end of 2016, we were fully comparable to the Slovenian financial market, which has resulted in much cheaper sources of financing. Of course, such a decrease in deposit rates also led to a decrease in active interest rates. Due to the clear credit policy and the strict system of calculating the profitability of each investment and customer, in certain cases where considerable low margins have been achieved, such transactions were not monitored by the Bank and we did not participate in additional reductions of offered margins. Nevertheless, the impact of a large decrease in deposit interest rates again had a positive effect on the interest margin.

Completing the process of changes in the ownership structure resulted in a clear and high-quality credit policy in Corporate Banking. The simple and customer-oriented services and procedures clearly affirm the sales-oriented and straightforward attitude of the Bank. In 2016, the final inspection of the entire portfolio and the spin-off of bad loans were carried out, resulting in a high quality portfolio in the Corporate segment.

Due to the additional transfer to the bad bank, the volume of loans in the Corporate segment slightly decreased in 2016. However, the structure of investments and their quality were improved. The lack of new investments in the Slovenian economy continued, which resulted in high deleverage of the Slovenian economy and the growth of sight deposits of Slovenian companies.

In 2017, we will continue with the precisely defined sales-marketing activities, which will be regularly monitored. If necessary (in case of deviations from plans), we will react in a timely manner. In addition to these activities and campaigns as well as increased sales results, the main objective of 2017 will be regular servicing of existing obligations of borrowers. The funds obtained in this way will be reinvested in the Slovenian economy - particularly in the first-class existing and new customers of the Bank. In doing so, we will fully take into account the Group's credit policy and market conditions in the Slovenian economy.

Just like in 2016, in 2017 interest income and increase of net interest margins will be one of the key focus areas for Corporate banking as well as increase in the share of commission (non-interest) income compared to 2016 and previous years. Effects from increased interest and non-interest income are also expected from all new customers as well as from increased volume of business with existing customers.

The Corporate banking deposits form an important factor in the management of the Bank's liquidity. Collection of liquid assets will continue to be a priority. In 2016, despite the significant decline in interest rates, we again achieved significant growth in deposits collected. Despite growth, we have managed to achieve a significant reduction in the average interest rate for all deposits in the Corporate Department. By increasing the number of depositors, we will continue to decrease our dependence on large individual depositors. In addition to increasing the total amount of deposits in the Bank, one of our main tasks is also a reduction of the average amount of an individual deposit.

The strategy of customer relationship management is one of the key factors for the continued success of the Bank in the Corporate segment. The key factor in the strategy of customer relationship management is the exact definition of the duties of client managers of individual clients and groups of related companies, i.e. groups of borrowers (global client manager). Each client manager needs to know their customer and detect the type and the scope of their needs in a timely manner. We believe that despite the slightly better expectations, the precarious situation in the markets will continue in 2017. Regular and constant contact with our customers - partners will be of paramount importance even in the future. Our focus will be our top existing customers, to whom we still need to provide quality services at competitive prices, as well as the new customers that we plan to acquire in the next year. Preservation and further improvement in communication and satisfaction of our existing customers is a solid foundation for further development of the Corporate segment. Of course, all new customers deserve the same professional and trustworthy services of our sales staff. Only in this way and on the basis of a solid foundation (existing partners) are we going to succeed in building an even larger and higher quality business (new partners).

Distribution Channels

One of our significant competitive advantages remains cross-selling of various banking services within the Bank.

Cooperation with our sister banks in the Group provides further added value that we can still offer to our customers. Through individual sister banks, which are located in the countries of the former Yugoslavia, we can assist our clients in establishing business partnerships in the Alpe-Adria region. Historically this is a very important import-export region and has a strong influence on Slovenia's balance of payment. We can help our customers when doing business in these countries, and we can financially "close" individual major transactions and investments for them.

In addition, in 2017 we see a huge potential in our existing clients that fit the requirements of the our credit policy. These are mainly the clients that satisfy a portion of their financial requirements in other Slovenian banks. We will offer them additional financing in the form of partial repayment of their liabilities to other banks. Each client manager was instructed regarding the extremely high value of our existing clients for the Bank's results. However, our existing customers are also the target clients of all other banks in Slovenia. We must always be aware of this fact and regularly invest in stable and long-term relationships with our partners.

We will reintroduce a quality list of our target customers that will include businesses whose operations fully satisfy the conditions of our credit policy. In collaboration with the CRM Department, which will pre-determine the minimum value of the required indicators for target companies, a list will be prepared and customers will be divided among sales people, who will, in accordance with the agreed criteria, visit the customers and offer them a package of our services (business, personal, treasury, etc.). An integral part of the prepared list of names will be a timetable of visits, which will be regularly monitored. If necessary (upon any derogations), we will be able to react in time. This will provide the client managers with clear objectives and criteria for the acquiring of new customers that will bring higher added value to the Bank and increase the volume of our business. We continue to see great potential in employees of the companies that are already our customers. Corporate and Retail Customer Managers together are presenting the Bank's advantages and retail services to employees of our partner enterprises. As before, this will be one of the most important tasks in the next year. This could be one of the most important channels to increase the amount of retail accounts in the Bank. Whilst this may not have a direct impact on Corporate Banking, it will, however, have an effect on the overall result of the Bank as a whole. Cross-selling will also take place between other segments in the Bank.

2.3.3 Managerial and supporting functions in the Bank

2.3.3.1 Corporate and working bodies

According to the Articles of Association, the Bank has the following corporate bodies:

- Management Board,
- Supervisory Board and
- Shareholders' Assembly.

On 1 January 2016, mag. Matej Falatov was appointed President of the Management Board. On the same day, the mandate of the current President, Dr. Heribert Fernau, ended. From 1 January 2016 to 12 July 2016, the Management Board of the Bank consisted of two members:

- mag. Matej Falatov, President of the Management Board,
- Dejan Kaisersberger - Member of the Management Board.

On 12 July 2016, Miha Mihič was appointed to the function of board member, and on 6 December 2016, Tadej Krašovec was appointed. Dejan Kaisersberger's mandate (board member) ended on 1 October 2016. On 31 December 2016, the Management Board consisted of three members:

- mag. Matej Falatov - President of the Management Board,
- Miha Mihič - Management Board Member,
- Tadej Krašovec – Management Board Member.

Members of the Board are responsible for the operation of the below defined areas within the Bank:

- mag. Matej Falatov, president (CEO, CMO): Corporate, Retail, Product Management & Marketing, Internal Audit, Legal and Compliance, Human Resources and Organisation, Board Office Support and Public Relations
- Miha Mihič, member (CFO): Accounting & Reporting, Financial Controlling, Assets and Liabilities Management & Treasury Sales
- Tadej Kraševec, member (CRO, COO): Credit Risk Management and Rehabilitation, Retail Risk Management and Collection, Risk Controlling, Operations.

The Supervisory Board of the Bank comprises five members. On 31 December 2016, the following were members of the Supervisory Board:

- mag. Johannes Leopold Proksch - Chairman of the Supervisory Board,
- Henning Giesecke - Deputy Chairman of the Supervisory Board,
- Ian Glover - Member of the Supervisory Board,
- Joško Mihić - Member of the Supervisory Board,
- Balazs Laszlo Györi - Member of the Supervisory Board.

The Supervisory Board met four times in 2016.

The Bank has three Committees of the Supervisory Board, which are:

- Audit Committee comprising three members, all members of the Supervisory board: Johannes Leopold Proksch, hairman, Henning Giesecke, Deputy-Chairman, and Joško Mihić, Member. In 2016, they met four times.
- Risk Committee comprising three members, all members of the Supervisory board: Henning Giesecke, Chairman, Ian Glover, Deputy-Chairman, and Balazs Györi, Member. In 2016, they met four times.
- Remuneration Committee comprising three members, all members of the Supervisory board: Johannes Leopold Proksch, Chairman, Henning Giesecke, Deputy-Chairman, and Ian Glover, Member. In 2016, they met once.

Shareholders Assembly Meeting

The Management Board of the Bank convenes the Shareholders Assembly Meetings in cases laid down by law or in the Articles of Association or when this benefits the Bank. Five Shareholders' Meetings were convened in 2016.

At the General Meeting, the shareholders exercise their rights in accordance with the provisions of the Companies Act. Our Shareholders Assembly is universal, as the Bank only has one shareholder - the Bank is 100% owned by Addiko Bank AG. The shareholder exercises its rights by proxy voting. The proxy is chosen for each meeting individually. The parent company Addiko Bank AG has two shareholders, namely the private investment fund Advent International and the European Bank for Reconstruction and Development.

In 2016, the Assembly, inter alia, decided on the dismissal and appointment of the members of the Supervisory Board, the subsequent payments, amendments to the Articles of Association and rebranding.

Advisory bodies of the Management Board:

- Management Board Committee
- Management Board Collegiate

Committees:

- Liquidity Committee
- Management Board Credit Committee
- Bank Credit Committee
- Assets and Liability Committee - ALCO
- Risk Executive Committee – RECO
- Project Portfolio Steering Committee – PSC
- Watch List Committee - WLC
- Capital Steering Group Committee - CSG
- Committee for Approval of SRPs and impairments
- Operational Risk Management, Internal Controls and Reputation Risk Management Committee (OpRisk Committee)
- Steering Committee - RBACKO
- Appeal Commission
- Integrated Operative Cost Management framework - IOCOMO
- Sales Committee - SACO
- Audit Committee of the Supervisory Board
- Risk Committee
- Remuneration Committee
- Information Security Committee - ISCO
- Information Technology Committee - ITCO

The objectives, tasks, authorisations and composition of committees are laid down in the Rules on Organisation and Job Systematisation of the Bank as well as in the Rules on the Powers, Authorisation and Signatories in the Bank, while the operation of the Bank's corporate bodies is governed by various rules of procedure. Rules of procedure applicable in 2016:

- Rules of procedure of the Credit Committee of the Management Board of Addiko Bank d.d.,
- Rules of procedure of the Credit Committee of Addiko Bank d.d.
- Rules of procedure of the Management Board of Addiko Bank d.d.
- Rules of procedure of the Supervisory Board of Addiko Bank d.d.
- Rules of procedure and authorisations of the Risk Executive Committee Addiko Bank d.d.
- Rules of procedure of Investment Committee for supervision of specified investments
- Rules of procedure and authorisations of the Project Portfolio Steering Committee of Addiko Bank d.d.
- Rules of procedure and authorisations of the Assets and Liabilities Committee of Addiko Bank d.d.
- Rules of procedure of the Watch List Committee
- Rules of procedure of the Capital Steering Committee
- The Group's Rules of procedure on Operational Risk Management, Internal Controls and Reputation Risk Management in Addiko Bank d.d. and Hypo Leasing d.o.o.
- Rules of procedure of the Capital Steering Group Committee in Addiko Bank d.d.
- Rules of procedure of IT Committee in Addiko Bank d.d.
- Rules of procedure of the Supervisory Board's Audit Committee in Addiko Bank d.d.
- Rules of Procedure of the Committee for operational risk management, internal control system, and reputation risk in Addiko Bank d.d. and Hypo Leasing d.o.o.
- Rules of procedure of the Risk Committee
- Rules of procedure of the Reputation Committee
- Remuneration Policy and
- Fit & Proper Policy

2.3.3.2 Real Estate Management

As part of the planned optimisation of the branch network, in 2016 we had plans to move Moste branch to BTC (shopping centre), which was successfully completed. In addition, intensive processes of optimisation of business premises took place at other locations.

Other activities in the Real Estate Management Department were focused on optimal management of real estate properties and cost reduction of maintenance costs as well as of other costs associated with real estate management.

2.3.3.3 Informatics

Usage of advanced technologies has long been present in the banking sector. In accordance with the Group's guidelines, we are also following trends in the field of information technology and infrastructure by providing simple, transparent and user-friendly services. This year, significant progress was made in digital commerce. Our customers were offered a completely new electronic and mobile bank. As the first in the Slovenian banking market, we presented a new concept of a digital branch office. But this is only the beginning in a series of changes for which the driving force is Information Technology, with the goal of offering a friendly, fast, safe and convenient experience in doing business with us. When designing advanced business solutions, we have focused primarily on the pleasurable experience of our customers and also employees to have the task be carried out quickly, professionally and safely, either via digital channels or by visiting a branch. With the aim of an overall positive user experience, there was a lot done in the field of data management, as it is of paramount importance in terms of both customers as well as service management of the organisation. With the automation, digitisation and optimisation of operations, we contribute to the effectiveness and efficiency of the entire organisation.

2.3.3.4 Assets and Liabilities Management (ALM)

In 2016, the main task of balance sheet management was management of the bank liquidity in accordance with the adopted policies and guidelines of the Group and compliance with the set limits. The Bank regularly settled all of its obligations. The Bank's liquidity has been good all year. In addition to liquidity risk, we carefully monitored and managed exchange rate and interest rate risks. Furthermore, the department manages the banking and trading book. In 2016, there was a decrease in the banking book portfolio by 13%, i.e. cca. EUR 22 million. Bonds and treasury bills issued by the Ministry of Finance of the Republic of Slovenia still represent the largest share. The Bank used these securities as well as a part of the eligible loan portfolio as collateral for access to operations of the Eurosystem via the pool of eligible assets at the Bank of Slovenia. In 2016, the Bank participated in several long-term operations of the European Central Bank TLTRO-II and obtained quality assets intended for lending to our customers. At the end of 2016, the scope of central banking assets amounted to EUR 175 million.

2.3.3.5 Internal Audit

In accordance with the Banking Act, the Internal Audit Department reports to the Supervisory Board about the realisation of its annual plan, assesses the compliance of remuneration practices with the remuneration policy, provides an assessment on adequacy and efficiency of risk management and internal controls system operations and reports about important findings and their realisation. The Internal Audit Department's annual report is submitted to the Bank's Shareholders Assembly.

In line with the Banking Act, the Bank established an Audit Committee in 2009, which met four times in 2016. In accordance with the Companies Act, the Audit Committee also monitors the Internal Audit's efficiency.

The Internal Audit Department cooperates with the Internal Audit Department of the parent bank, which at regular meetings sets directives for harmonised operations and reporting. The Internal Audit Department employs 4 internal auditors; 2 of them have obtained the license for certified internal auditor and 1 is currently in the final stage of obtaining the license.

2.3.3.6 Compliance

Since 2008, the Bank has paid special attention to the implementation of the compliance function, as the Bank wishes to efficiently manage compliance risk. In the context of the implementation of the compliance function, we are primarily managing the following risks: market abuse and conflicts of interest, illegal use of insider information, prevention of money laundering and terrorist financing, information security, fraud prevention, physical and technical security. Most of all, the objective of the Bank is to operate legally and in accordance with all regulations, laws, bylaws and internal acts.

To effectively manage the risks mentioned above, in the context of the compliance function we perform various trainings, advise, provide information to employees and customers, control certain processes, i.e. their essential parts, participate in providing adequate quality, etc.

2.3.4 System of internal controls

The internal control system consists of daily checks for the proper application of policies, work processes, work instructions, tools, etc. Daily controls have a preventive, corrective and steering function, including daily monitoring controls. They are implemented by all employees on a daily basis. They are built-in in the applications, forms, instructions, processes, policies, etc.

The main objectives of the internal control system are protection of the assets of owners and investors and building trust in the correctness of financial reporting. To achieve these objectives, a consistent implementation and control of high standards of financial reporting based on national and international standards is required. The internal control system is a product of established methods and criteria.

Owners of individual activities are responsible for the establishment of daily checks. Owners of individual activities are the heads of areas and departments.

The purpose of the system of internal control is to:

- establish effective controls in all areas of the organisation's operations;

- ensure clear accountability for the implementation of identified controls;
- ensure proper documentation - the objectives and methods of implementation of internal controls;
- ensure adequate traceability of the implementation of internal controls.

Daily checks are a constantly changing process formed by the administration (the management), the owners of individual activities and all other employees. The aim of the internal control system is to as much as possible reduce the incidence, number and possibility of intentional and unintentional errors and in this way ensure a continuous trend of their decline.

Documents that define the process of implementing the ICS are defined by the Risk Controlling Department and are related to the project work, preparation of policies, processes, rules of procedures and work instructions. The bases for the framework are the Group strategy and Policies of operational risk management, internal control system and reputation risk.

In 2016, we continued with an inventory of risks and defining the controls and test definitions in the processes that have been with the help of the "Account matrix" identified as significant in terms of materiality for the Bank's balance sheet. Activities in the area of the internal control system were regularly reported to the Committee for operational risk management, internal control system and reputation risk (OpRisk Committee).

2.4 Strategy and expectations for the future/a look at the future

With the 2015 privatisation and 2016 rebranding concluded, and following the implementation of strategic decisions concerning business strategy, active performance management and efficiency, the Bank has made a great turnaround in 2016 and has set strong foundations for future core banking operations. Addiko Bank is the only financial Group exclusively focused on markets and clients in the SEE region. This focus is the Bank's competitive advantage and a major benefit for the Bank's clients, as alone it provides faster processes, faster decision making and more understanding and focus.

The Bank portfolio covers all essential products and services provided to Retail, SME, Corporate and Public Institutions clients.

Addiko stands for straightforward banking, with the Bank having the agility, focus and professionalism to offer clients essential services, delivered in the simplest way. For the clients, this means the Bank provides them with an easier choice, products they want and a convenient service, and for the Bank as an organisation, it means building a new and better bank, a bank that promises and delivers in a fast and efficient way.

The three pillars of the Bank's business are:

- Focus on Essentials, meaning we do a few things very well, rather than many things just okay, and that also means fewer, essential products that deliver greater value.
- Deliver on efficiency, meaning we concentrate on removing complexity for our customers and delivering what is relevant.
- Communicate simplicity, meaning we and our products and procedures communicate in the simplest terms to ensure we are clearly understood.

In line with this business philosophy and strategic orientations of the owner, we are going to carry out activities in Retail Banking to achieve the ambitious targets in line with the thoroughly prepared plan of activities in the field of sales, product management, marketing and other support services.

With the successful launch of mobile banking and renovation of our e-banking, we have laid the foundation for further development of the Bank in terms of digitisation of products and processes. The sales staff will assume the role of advisor for advanced services and the role of informant in the use of new products.

With the organisation, we are following the changes and guidelines of the Bank regarding the rationalisation of departments and greater integration of processes.

In 2017, we will continue with the concept of optimisation of branches, products and processes as well as the revising of existing branches, moving them if necessary and opening of new digital branches, which will allow our clients to get to know our services in a modern and customer-friendly manner based on training and advising.

We will continue our successful operations in Corporate Banking in 2017. We are building our competitive advantages on solid foundations that we established with a clear strategy. In 2017, we will also be aiming to:

- Acquire new customers in the segment of small and medium-size companies and selectively also large companies;
- Offer structured services (cross-selling of combined banking services suitable for our business partners);
- Increase the number of services per customer, the number of transaction accounts, the volume of payment transactions with existing clients and the market share of letters of credit and deposits;
- Take full advantage of the potential of existing customers;
- Focus on employees of companies that are already the Bank's customers in order to increase the number of retail transaction accounts;
- Promote cross-sales between other banking segments in order to increase the Bank's results, primarily in terms of non-interest income;
- Increase the overall income of Corporate Banking, primarily in term of non-interest income. The main focus will be on Trade Finance and Guarantee services, as they do not require high (expensive) levels of liquid assets, while they ensure commission (non-interest bearing) income. Treasury services and products are also becoming an increasingly important source for achieving results;
- Customer Managers will continue to regularly monitor servicing of contractual commitments of the Bank while strictly complying with the Bank's pricing policy;
- Develop highly experienced and professional employees and adapt business processes as well as optimise them.

2.5 Macroeconomic and regulatory environment

2.5.1 International environment

In 2016, the world economy recorded growth. This was possible due to the low prices of raw materials, which in the second half of the year had already begun to rise, and the fall in prices of services in global markets. Key global markets performed very differently during this period. The US economy has stabilised, and the labour market has strengthened. In Europe, there were still problems associated with the debt crisis, especially in southern Europe, while the German economy achieved new records in terms of the number of employees, the optimism of economists and the growth in GDP. US elections, with the unexpected victory of Donald Trump, had a short-term effect that has largely been dispelled. More important were the measures of the central bank (FED), which raised its key interest rate from 0.25 to 0.50%. This was reflected in the dollar rate. The dollar has strengthened throughout the year and in December reached a new peak. Pressures in the direction of strengthening of currency were also present in the Swiss franc, which occasionally increased in value against both the US dollar and the euro to such an extent that the Swiss National Bank had to take measures to weaken the domestic currency.

By far the most significant event for the international markets was the decision of British voters that the country shall exit the European Union. The process dubbed "Brexit" initially caused a strong weakening of the pound against all major currencies and then spurred inflationary pressures. Nevertheless, the Bank of England has decided not to change interest rates. Only in 2017 will it be evident what role the United Kingdom will be able to retain in the EU in the future. It is this role that will also determine the position of London as an international financial centre.

2.5.2 Slovenia

In 2016, the key economic indicators in Slovenia further improved. After a longer period, Slovenia for the first time is not recording deflation. Inflation in 2016 was 0.50% and was mainly a result of lower energy prices and higher prices of services. As a result, the drivers of economic growth were export and household consumption.

Unemployment has fallen below 100,000 and the demand on the labour market has further recovered. At the end of 2016, the mood in the economy was at the highest level since the crisis began. In the last quarter, the real estate market also showed signs of recovery.

The problem remains the construction sector, while the banking sector has further consolidated and stabilised. The amount of bad loans has declined, while banks rapidly improved their balance sheets. 2016 brought new challenges for banks, in particular lower demand for loans from the domestic non-banking sector.

2.6 Business network

Changes have also taken place in our branch network. With the aim of becoming a lean and profitable financial group, the Bank closed 3 branches in 2016, namely in Jesenice and two in Ljubljana (Slovenska cesta and Moste branches). The customers were transferred to the nearest branches and were notified thereof in a timely manner.

With the aim of digitising our operations, the Bank successfully opened a branch with an entirely new format in Ljubljana (BTC) and named it Addiko Bank Express. Details on the branch can be found in Section 1.3.3.

At present in Slovenia, the Bank has 17 branch offices in 13 major cities, 44 ATMs and 12 Day-night vaults.

3 Social Responsibility of the Bank

3 Social Responsibility of the Bank

3.1.1 Responsibility to employees

Concern for our employees has been one of Addiko Bank's most important values for a number of years. Under the new brand, we will continue to put our employees at the heart of our business, because we know that they are the foundation of our development and success.

In 2016, we successfully completed the first part of the Family-Friendly Company project and received a full certificate, which clearly demonstrates our focus. At the same time, we have also made a commitment over the next three-year period to justify the certificate obtained through the implementation of new measures. This puts us right in line with the best Slovenian companies.

Responsibility to our employees is also reflected in regular meetings with the Management Board where employees are able to speak freely about strategically important topics and the MB members respond to questions posed by employees via several different channels agreed upon in advance.

The Bank does not carry out the Policy of diversity.

At the end of 2016, the Bank had 377 employees.

Movement of employees over the last years is shown in the table below:

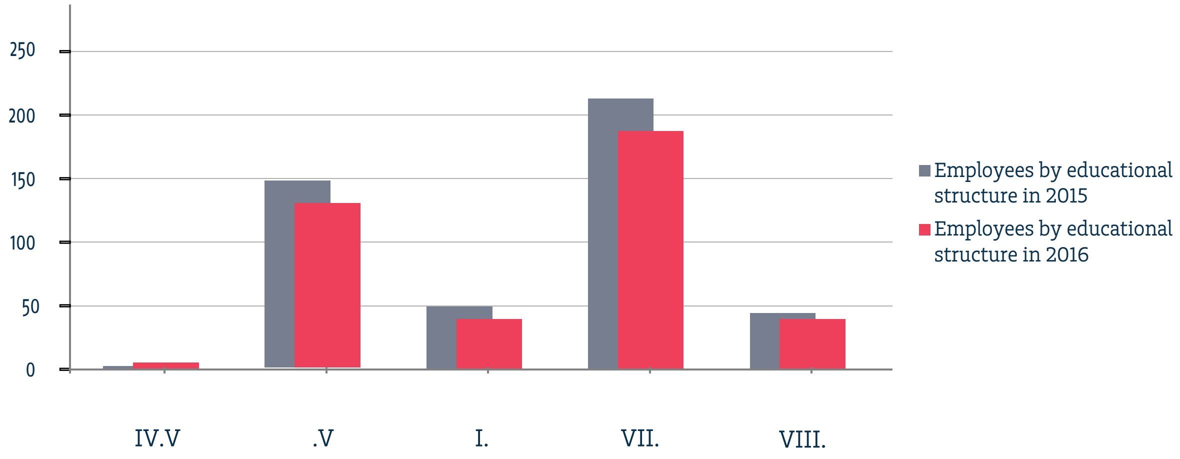
EUR 000'

Year	Headcount at 31 December	Headcount according to working hours*
2016	377	368
2015	435	413

*the number of employees calculated from working hours shows the real number of employees in the company. Following the restructuring and integration of leasing activities, there are a number of employees that have employment contracts with both the Bank and Hypo Leasing under the 50:50 principle.

Level of education	Employees by educational structure in 2016	Employees by educational structure in 2015
IV.	2	1
V.	130	153
VI.	43	50
VII.	186	213
VIII.	16	18
Number as at 31 December	**377**	**435**

Educational structure in the years 2016 and 2015



Recruitment

Searching for and selection of new employees are based on clearly defined expectations of individual organisational units. Priority is given to internal recruitment, in which we take the wishes and ambitions of employees into account and thus enable career development of employees with transitions from one job to another. The selection of employees takes place in several circles of structured interviews with job applicants. For certain more demanding job positions, the candidates have to undergo testing by a professional external partner. The final decision is made on the basis of the analysis of their expertise and personal competences needed for successful performance at a specific post.

For the key functions in the company, an assessment of the applicant's ability and suitability (Fit & Proper) is carried out under a special procedure that complies with all local and European legal and regulatory provisions and guidelines.

Education and training

We believe that only highly qualified staff can keep up with the development and needs of the Slovenian financial market. For this reason, the Bank provides constant and comprehensive expert training of all employees. The constant need for new expertise as well as for knowledge from the field of personal development is present year round. To achieve our business objectives, we have established key educational domains for the development of banking business arising from strategic requirements.

Each year, we organise various internal trainings in accordance with our needs. In 2016, we focused on foreign language education to facilitate communication at the Group level and various sales-oriented trainings in which our employees improved their sales skills. We also regularly acquire new knowledge in the field of information technology.

All these courses were very versatile, providing participants with a wide spectrum of applicable knowledge and skills required for successful performance of their work.

Besides internal trainings, employees often participate in seminars, conferences or debates organised by the Bank Association of Slovenia or other relevant institutions. Each year, selected employees take an exam or obtain a license for insurance intermediaries and for the sale of investment coupons or shares of investment funds. In addition, the Bank often co-finances educational courses to obtain various licenses in financial fields required in their work.

The employees share the knowledge obtained through such trainings or self-education with their colleagues through their activities within segments or departments.

Notwithstanding the fact that we are committed to optimising costs, education of our employees is high on the list of priorities and we have not significantly cut the funds dedicated to this purpose.

HR projects for employees

Addiko Bank employees remained faithful to the humanitarian activities undertaken, through which they were able to show their generosity. In 2016, a large number of employees once again donated their blood. The traditional Christmas campaign to raise food for families in need also took place.

In early December, we again presented awards to the best of our employees. This time, they reflected compliance with our strategy: At the annual meeting of employees, we presented the best teams in Retail, Corporate and Back Office with symbolic prizes. Several hundred employees attended the event.

Employee satisfaction is important to us

As part of the activities associated with the introduction of the new brand, we conducted a survey of employee satisfaction in early summer and checked the pulse of the company. We analysed the results of the survey and looked for opportunities for positive changes at the level of the Group, wishing to prepare a concrete action plan for improvement of the organisational culture. Since autumn, we have been implementing this intensively at all levels. We carried out the survey and evaluations of the results with the help of one of the world's leading companies in this field.

The well-being of employees is undoubtedly aided by the various informal gatherings organised by the Bank. In 2016, we prepared several activities promoting health.

Through donations, the Bank actively contributes to the development of the Sports and Culture Association, which enables its members to participate in chosen sports and cultural activities at very favourable prices. By doing this, we are strengthening the connection and socialisation of employees even outside of the working environment. The Association's activities remain varied and attract large numbers of employees.

Performance and development interviews and management by objectives

In 2016, we updated performance and development interviews and modernised them technology-wise. This ensured paperless and comprehensive management and evaluation of the data obtained.

The aim of annual interviews is to ensure successful operations of the Bank on a long-term basis. Development interviews enable us to systematically set new objectives, review the implementation of the agreed objectives in the previous year and provide for systematic professional and personal development of the managerial staff and employees. Interviews on objectives are held twice a year, while the development interviews take place once a year.

Bonus system

Bonuses in the Bank are awarded in the variable part of the salary and are closely linked to management by objectives. By applying individual bonuses, we would like to promote the development of individual employees, while group bonuses aim at better motivation for team work and achievement of targets as a team. In a few years, we plan to reward our best employees for exceeding the plans in 2016. The process of evaluation will take place within the established procedure as part of the Development interviews. Evaluations will be further confirmed with an internal calibration procedure at the level of the Management Board, i.e. the level of the heads of departments.

Remuneration policy

The remuneration policy is governed by the provisions of the applicable legislation, the CEBS guidelines, the Bank of Slovenia decisions and EU directives on capital requirements. In accordance with the policy adopted by the parent bank in Austria, our local policy that regulates payments to employees in Slovenia is drafted and adopted for each individual year. This policy clearly sets criteria and conditions for the payment of various bonuses to the managerial staff and employees. If an employee qualifies for a bonus, the payment must be approved by the Supervisory Board of the Bank. The key functions that can within their duties, tasks and activities significantly affect the risk profile of the Bank include members of the Management Board and directors of individual departments, including Risk Management and Internal Audit.

Plans for the future

In 2017, we will try to look for synergies at the Group level and implement the strategy “Six countries - one bank” also in the field of human resources management. We also plan to complete all ongoing projects and possibly seek those that could result in added value to our employees.

3.1.2 Responsibility to customers

The Bank demonstrates responsibility to its clients through a wide range of services. Relations between the Bank and its customers are based on trust and understanding of the customer’s needs. The Bank adapts to customers’ needs by improving the existing services and development of new banking services through modern business channels and approaches.

Protection of customers’ personal data and customer rights are the most important principles of the Bank. Along with that, the soft factors of cooperation aimed at keeping customers and further improving the professional relationship with them are of key importance. These are for example various events for customers (of cultural, sports or business nature) that allow us to show our appreciation for their trust and loyalty.

One of the key tools available to us and that is also very useful is market research. At the Group level and in particular at the local level, we performed numerous studies, the results of which we have used to improve our business operations.

We monitor the market and economic trends and legislation both at home and in other parts of Europe. Accordingly, in the preparation of new services, we adapt to the requirements of customers, who are our first concern. We regularly monitor our customer satisfaction, the results of which are our primary consideration when introducing changes to improve service quality and delivery.

In accordance with the banking legislation, the Bank guaranteed for the pay-out of the banking deposits in the sum of EUR 22,000 until 11 November 2008. After that date, the banks, savings banks and the Republic of Slovenia guaranteed for the unlimited net deposits of investors until 31 December 2010. As of 1 January 2011, such guarantee applies for the pay-out of banking deposits totalling up to EUR 100,000.

EUR 000'

	2016	2015
Advertising expenses	686	629

3.1.3 Responsibility to the wider community

The resources that the Bank dedicated to sponsorships and donations in 2015 and 2016 are presented in the following table.

EUR 000'

	2016	2015
Sponsorships	8	287
Donations	22	72

In the humanitarian field, we mostly help the needy families in Slovenia and those affected by natural disasters. These activities include children who need such assistance the most. We are aware that the number of children who never experience the bright side of life is exceeding, therefore we wish to bring a smile to their faces. For many years, the funds otherwise intended for business partners' New Year's presents have been donated to children from socially disadvantaged families. The Friends of Youth Association Moste Polje helps us to achieve this task.

Since December is the month of giving, we have organised a "Week of Giving" in which the employees had an opportunity to participate in three different ways: by collecting food and other necessities for families in need, participating in the project "Three winter godfathers" or by donating blood. The Week of Giving resulted in: more than 100 kg of food, baby food, hygiene and cleaning supplies, 20 children received personalised gifts purchased based on the wishes the children wrote in their letters to the three good men of December and more than 30 employees donated in total more than 13 litres of blood.

Addiko Bank also donated EUR 15,000 for the Multi-generational Centre and the "Godfathership"(sponsoring a child) projects that are carried out by the Friends of Youth Association Moste Polje. These are the funds we would have otherwise spent on New Year's business gifts. For many years, we have been donating them to the ones who most need them. In this way, we contribute to a better society, especially for those who struggle every day for the most basic goods.

3.1.4 Responsibility to supervisors and the state

In accordance with the Banking Act, the supervision of banking operations is carried out by the Bank of Slovenia, through inspections at the supervised bank's headquarters and through reports that the Bank sends on a monthly basis. In this way, permanent supervision over banks and savings banks is assured, which provides safety and stability of the financial system in Slovenia.

Within the framework of cooperation with the financial system supervisory institutions and external auditors, the Bank obtains appropriate assurances that its operations are within the framework of the legislation of the Republic of Slovenia and within the framework of general norms, in effect for well-regulated and stable members of the financial system.

The Bank builds its collaboration with institutions on the basis of an open and fair relationship, which leads to a cooperative search for solutions. This, according to independent supervisors and consultants, assures long-term stability of the Bank's operations. In case of substantial changes in the systems of the Bank's operations, the Bank first obtains positive feedback information on the planned solutions that it intends to implement in its operating environment, with the purpose of obtaining reassurance that these are in accordance with the legislation and that they do not present a significant threat to the Bank's development. The Bank strives to obtain independent opinions for all the key risks from at least one independent body.

The funds spent in 2015 and 2016 on tax payments are illustrated in the following table.

EUR 000'

	2016	2015
Taxes	2.065	2.001

Liability for taxes slightly increased in 2016, mainly due to a tax on financial services, which in 2016, compared to 2015, increased by EUR 399 thousand. The value added tax (EUR 515 thousand) and tax on financial services (EUR 1,463 thousand) represent the largest share of liabilities. .

3.2 Events after the balance sheet date

In line with the agreement between the owner of Hypo Leasing d.o.o., Addiko bank d.d. and Gorenjska banka on the sale of Hypo Leasing d.o.o., the ownership of the company was transferred to Gorenjska Banka d.d. on 1 February 2017.

Addiko Bank

4 Financial Report

4 Financial Report

4.1 Statement of Management's Responsibilities

The Management Board has approved the financial statements for the year ended 31 December 2016, the accounting policies used and the notes to the financial statements.

The Management Board is responsible for the preparation of financial statements that give a true and fair presentation of the financial position of the Bank and of its financial performance for the year ended 31 December 2016. The Management Board is also responsible for the appropriate accounting system, the adoption of measures to secure the assets and for preventing and detecting fraud and other irregularities and/or illegal acts.

The Management Board confirms that the appropriate accounting policies were consistently applied and that the accounting estimates were made in accordance with the principle of prudence and diligence of a good manager. The Management Board also confirms that the financial statements and notes thereof have been compiled under the assumption of the Bank's continued operation and in accordance with the current legislation and International Financial Reporting Standards effective in the EU.

Tax authorities may, at any time within a period of five years after the end of the period for which tax assessment was made, inspect the company's operations, which may lead to additional tax liabilities, default interest and penalties with regards to corporate income tax or other taxes and levies. The Bank's Management Board is not aware of any circumstances that may result in a significant tax liability under this title.

The most recent inspection of income tax was performed by the tax authorities in 2011, when they reviewed income tax declarations for financial years 2008, 2009 and 2010.

Ljubljana, 31 march 2017

Management Board

Tadej Krašovec	Miha Mihič	mag. Matej Falatov
Member	Member	President

4.2 Independent Auditor's Report

Deloitte.

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

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

INDEPENDENT AUDITOR'S REPORT
to the owners of Addiko Bank d.d.

Opinion

We have audited the accompanying financial statements of Addiko Bank d.d. (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

DELOITTE REVIZIJA d.o.o.

Anja Gorenc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

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

Ljubljana, 31 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

Deloitte.

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

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

INDEPENDENT AUDITOR'S REPORT
to he owners of Addiko Bank d.d.

Opinion

We have audited the accompanying consolidated financial statements of the company Addiko Bank d.d. and its subsidiaries (hereinafter 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU (hereinafter 'IFRSs').

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence concerning the financial statements of group companies or their business activities in order to express an opinion on the consolidated financial statements. We are responsible for conducting, overseeing and performing the audit of the Group. We have sole responsibility for the audit opinion expressed.

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

DELOITTE REVIZIJA d.o.o.

Anja Gorenc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

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

Ljubljana, 31 March 2017

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

4.3 Financial statements

4.3.1 Income statement

EUR 000'

	Note	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Interest income and similar income	1	34,306	33,940	39,045	39,044
Interest and similar expense	1	(9,420)	(9,419)	(13,832)	(13,812)
Net interest income		24,886	24,521	25,213	25,232
Dividend income	2	47	47	37	37
Fee and commission income		11,175	11,103	12,241	12,205
Fee and commission expense		(2,952)	(2,952)	(3,692)	(3,692)
Net fee and commission income	3	8,223	8,151	8,549	8,513
Realised gains / (losses) on financial assets and liabilities not measured at fair value through profit or loss	4	(47)	(47)	(51)	(51)
Net gains/(losses) on financial assets and liabilities held for trading	5	(94)	(94)	(5,476)	(5,476)
Net gains from currency translation	6	325	325	5,757	5,757
Net gains / (losses) on derecognition of assets excluding non-current assets held for trading		4	4	(49)	(49)
Other net operating losses	7	(1,859)	(2.109)	(1,740)	(2,458)
Administrative expenses	8	(22,827)	(22,827)	(25,678)	(25.678)
Amortisation/depreciation	9	(1,822)	(1,822)	(2,255)	(2,255)
Provisions	10	4,154	4,154	(6,517)	(6,517)
Impairments	11	3,099	3,364	(45,980)	(42,652)
Net gains on non-current assets held for trading and related liabilities	12	(213)	(213)	-	-
PROFIT ON ORDINARY ACTIVITIES		13,876	13,453	(48,190)	(48,597)
Corporate Income tax on ordinary activities	13	(975)	(975)	(3,996)	(3,996)
Profit after tax from discounted operations	13a		885		248
NET GAINS / LOSS FOR THE YEAR		**12,901**	**13,364**	**(52,186)**	**(49,345)**

The accompanying notes on pages 55 to 106 form an integral part of the financial statements and should be read in conjunction with them.

4.3.2 Statement of comprehensive income

EUR 000’

V tisoč evrih	Pojasnilo	2016 – Banka	2016 – Skupina	2015 – Banka	2015 – Skupina
NET LOSS OR GAINS FOR THE YEAR AFTER TAX		12,901	13,364	(52,186)	(49,345)
OTHER COMPREHENSIVE INCOME AFTER TAX		380	382	(211)	(212)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		(16)	(14)	(23)	(24)
Actuarial loss		(16)	(14)	(23)	(24)
ITEMS THAT CAN BE RECLASSIFIED TO PROFIT OR LOSS IN THE FUTURE		396	396	(188)	(188)
Net losses or gains recognised as revaluation reserve relating to available-for-sale financial assets		456	456	(117)	(117)
Losses recognised as revaluation reserve		456	456	(89)	(89)
Transfer of losses from revaluation reserve to profit and loss		-	-	(28)	(28)
Corporate Income tax relating to items that can be reclassified to profit or loss in the future	32	(60)	(60)	(71)	(17)
TOTAL NET COMPREHENSIVE INCOME OR LOSS FOR THE YEAR AFTER TAX		13,282	13,746	(52,397)	(49,557)

The statement of comprehensive income holds items that will be reclassified to profit or loss in the future.

The accompanying notes on pages 55 to 106 form an integral part of the financial statements and should be read in conjunction with them.

4.3.3 Statement of financial position

EUR 000’

	Pojasnilo	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Cash and balances with Central Bank and demand deposits with banks	14	264,690	264,690	95,806	95,806
Financial assets held for trading	15	2,047	2,047	2,769	2,769
Available-for-sale financial assets	16	70,065	70,065	92,921	92,921
Loans		988,589	988,191	1,014,073	1,088,645
- Loans to Banks	17	7,356	7,356	2,936	2,936
- Loans to clients	18	979,768	979,768	1,006,155	1,083,997
- Other financial assets	19	1,465	1,067	2,112	1,712
Financial assets held to maturity	21	82,634	82,634	81,949	81,949
Non-current Assets Held for Sale	22a	303	993	52,114	53,888
Property, plant and equipment	23	2,486	2,486	3,452	3,468
Intangible assets	24	2,139	2,139	2,345	2,454
Non-current investments in capital of subsidiaries	25	7	7	574	7
Corporate income tax credits		-	-	-	542
- tax assets	32	-	-	-	542
Other assets	26	668	668	1,230	4,423
TOTAL ASSETS		**1,413,628**	**1,413,920**	**1,344,363**	**1,426,872**
Financial liabilities held for trading	27	1,847	1,847	2,772	2,772
Financial liabilities measured at amortised cost	28	1,279,878	1,279,200	1,227,615	1,305,343
- deposits from banks and central banks	28a	9,873	9,873	108,786	108,786
- deposits from clients	28a	975,167	974,580	791,112	788,924
- loans of banks and central banks	28b	212,805	212,805	220,876	299,792
- Debt securities	28c	6,544	6,544	28,146	28,146
- subordinated liabilities	29	68,719	68,719	73,003	73,003
- other financial commitments	30	6,770	6,678	5,692	6,692
Provisions	31	8,324	8,324	14,298	15,527
Corporate income tax liability		1,069	1,069	34	410
- tax liabilities		975	975	-	376
- deferred tax liabilities	32	94	94	34	34
Other liabilities	33	938	938	1,354	5,007
Non-current liabilities Held for Sale	22b	-	983	-	-
TOTAL LIABILITIES		1,292,056	1,292,360	1,246,073	1,329,059
Share capital	34a	89,959	89,959	89,959	89,959
Capital reserves	34b	18,814	20.770	61,000	60,115
Accumulated and other comprehensive income	34c	(102)	(102)	(483)	(485)
Profit reserves	34d	-	(2.431)	-	(2,431)
Retained income or loss (including net loss for the year)	34e	12,901	13,364	(52,186)	(49,345)

TOTAL EQUITY	**121,572**	**121,560**	**98,290**	**97,813**
TOTAL LIABILITIES AND EQUITY	**1,413,628**	**1,413,920**	**1,344,363**	**1,426,872**

The accompanying notes on pages 55 to 106 form an integral part of the financial statements and should be read in conjunction with them.

4.3.4 Statement of changes in equity - Bank

EUR 000'

	Note	Share capital	Capital reserves	Accumulated and other comprehensive income	Retained profit (including net profit for the year)	Total equity
Balance as at 1 January 2015	34	174,037	6,300	(310)	(90,340)	89,687
Comprehensive income or loss for the year after tax	-	-	-	(173)	(52,224)	(52,397)
Subscription (payment) of new capital	-	-	61,000	-		61,000
Settlement of losses brought forward	-	(84,078)	(6,300)	-	90,378	-
Balance as at 31.12. 2015	34	89,959	61,000	(483)	(52,186)	98,290
Comprehensive income for the year after tax	-	-	-	380	12,901	13,281
Subscription (payment) of new capital	-	-	10,000	-		10,000
Settlement of losses brought forward	-	-	(52,186)	-	52,186	-
Balance as at 31.12. 2016	34	89,959	18,814	(102)	12,901	121,572

4.3.5 Statement of changes in equity - Group

EUR 000'

	Note	Share capital	Capital reserves	Accu-mulated and other compre-hensive income	Profit reserves	Retained profit(in-cluding net profit for the year)	Total equity
Balance as at 1. 1. 2015	34	174,037	6,300	(310)	(2,431)	(90,612)	86,984
Comprehensive income for the year after tax		-	-	(175)		(49,383)	(49,558)
Subscription (payment) of new capital		-	61,000	-			61,000
Settlement of losses brought forward		(84,078)	(7,185)	-		90,612	(613)
Balance as at 31.12. 2015	34	89,959	60,115	(485)	(2,431)	(49.345)	97,813
Comprehensive income for the year after tax			-	382		13,364	13,746
Subscription (payment) of new capital			10,000	-		-	10,000
Settlement of losses brought forward			(49,345)	-		49,345	-
Balance as at 31.12. 2016	34	89,959	20.770	(102)	(2,431)	13.364	121,560

The accompanying notes on pages 55 to 106 form an integral part of the financial statements and should be read in conjunction with them.

4.4 Statement of cash flows

EUR 000'

	2016 – Bank	2016 – Group	2015 – Bank	2015 – Group
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit or loss before tax	13,876	13,453	(48,190)	(44,601)
Amortisation/depreciation	1,822	1,821	2,255	2,296
Impairment of property, plant and equipment, investment property, intangible assets and other assets	493	493	738	738
Impairment of equity investments in subsidiaries	265	-	3,328	-
Net gains / (losses) from currency translations	(325)	(325)	(5,757)	(5,711)
Net (gains) / losses on financial assets held to maturity	151	151	175	175
Net (profits) / losses from sale of property, plant and equipment and investment property	(4)	(4)	49	49
Other (profits) / losses from investing activities	(3,979)	(3,979)	(4,060)	(4,060)
Other (profits) / losses from financing activities	1,548	1,548	1,067	1,067
Other adjustments of net profit or loss before tax	(5,880)	(7,107)	11,699	5.665
Operating cash flows before changes of operating assets and liabilities	**7,967**	**6,051**	**(38,696)**	**(44.382)**
(Increase) / decrease of operating assets (excluding cash equivalents)	**52,165**	**136,016**	**15,812**	**98.590**
Net (increase) / decrease of assets with Central Bank	(181,496)	(181,496)	(1,163)	(1,163)
Net (increase) / decrease of financial assets held for trading	628	628	(3,974)	(3,974)
Net (increase) / decrease of available-for-sale financial assets	23,085	23,087	(48,499)	(48,364)
Net (increase) / decrease of loans	157,320	236,212	119,809	200,453
Net (increase) / decrease in non-current assets held for sale	52,115	53,878	(52,115)	(53.888)
Net (increase) / decrease in other assets	513	3,707	1,754	5,527
Increase / (decrease) of operating liabilities	**55,250**	**(26,811)**	**(36,902)**	**(113,940)**
Net increase / (decrease) of financial liabilities to Central Bank	-	-	68,820	68,820
Net increase / (decrease) of financial liabilities held for trading	(925)	(925)	(1,638)	(1,638)
Net increase / (decrease) of deposits and borrowings measured at amortised cost	56,591	(21,817)	(103,236)	(180,884)
Net increase / (decrease) of other liabilities	(416)	(4,069)	(848)	(238)
Net cash flows from operating activities	**115,382**	**115,256**	**(59,786)**	**(59.732)**
(Paid) /credited corporate income tax	-	-	-	-
Net cash flows from operating activities	**115,382**	**115,256**	**(59,786)**	**(59,732)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash receipts from investing activities	**3,295**	**3,295**	**4,060**	**4,060**
Proceeds from sale of property, plant and equipment and investment property	-	-	-	-
Other proceeds from investing activities	3,295	3,295	4,060	4,060
Cash disbursements from investing activities	**(1,143)**	**(1,018)**	**(1,757)**	**(1,810)**
(Disbursements for acquisition of property, plant and equipment, and investment property)	(369)	(354)	(813)	(812)
(Disbursements for acquisition of intangible assets)	(774)	(664)	(944)	(978)
(Disbursements for acquisition of investments in capital of subsidiaries, associates and jointly controlled entities)	-	-	-	-

Net Cash flows from investing activities	**2,151**	**2,277**	**2,303**	**2,250**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash receipts from financing activities	**10,000**	**10,000**	**61,000**	**61,000**
Other proceeds from financing activities	10,000	10,000	61,000	61,000
Cash disbursements from financing activities	**(5,831)**	**(5,831)**	**(1,067)**	**(1,067)**
(Repayments of subordinated debt)	(5,831)	(5,831)	(1,067)	(1,067)
Cash flows from financing activities	**4,169**	**4,169**	**59,933**	**59,933**
Effects of exchange rate changes on cash and cash equivalents	347	347	553	553
Net increase of cash and cash equivalents	**121,702**	**121,702**	**2,450**	**2,450**
Cash and cash equivalents at beginning of period	**22,360**	**22,360**	**19,356**	**19,356**
Cash and cash equivalents at the end of period	**144,409**	**144,409**	**22,360**	**22,360**

The accompanying notes on pages 55 to 106 form an integral part of the financial statements and should be read in conjunction with them.

EUR 000'

	Note	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Cash and cash equivalents comprise:					
Cash and balances with Central Bank	14	137,035	137,053	19,424	19,424
Loans to banks with maturity up to three months	17	7,356	7,356	2,936	2,936
TOTAL		**144,409**	**144,409**	**22,360**	**22,360**

Cash equivalents comprise of cash and loans to banks with maturity of up to 90 days. The same accounting policy in respect of cash equivalents applies to the Group as to the Bank.

Cash flows from interest and dividends

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Interest paid	2,962	2,962	5,201	5,910
Interest received	15,347	15,347	20,344	28,722
Dividends received	47	47	37	37

4.5 Notes to Financial Statements

4.5.1 Basic information

Addiko Bank, d. d. is a Slovenian public limited company, registered for the provision of universal banking services in the Slovenian market.

Full address of the Bank is: Addiko Bank, d. d., Dunajska cesta 117, Ljubljana, Slovenia.

The Bank is in 100-percent ownership of Addiko Bank AG, Vienna, Austria. Until 29 December 2009, the parent company of the Bank was Bayern LB, Germany. On 30 December 2009, the Republic of Austria obtained a 100-percent ownership of Hypo Alpe-Adria-Bank International AG. For the purpose of restructuring at the Group level, on 30 March 2014 shares were transferred from Hypo Alpe-Adria-Bank International AG to SEE Holding AG. On 30 October 2014, SEE Holding AG was renamed to Hypo Group Alpe Adria AG. In July 2015, the ownership of Hypo Group Alpe Adria AG was transferred from the Republic of Austria to Advent International and the European Bank for Reconstruction and Development (EBRD).

The consolidated financial statements can be obtained at the following addresses and websites:

Addiko Bank, d. d.
Dunajska cesta 117
1000 Ljubljana
Slovenia
www.addiko.si

Addiko Bank AG
Wipplingerstrasse 34
1010 Vienna
Austria
www.addiko.com

Consolidated financial statements comprise of financial statements of the parent company and its subsidiary Hypo Leasing d.o.o.

Consolidated financial statements are not prepared by the classic consolidation method. In accordance with the signed contract for the sale of the subsidiary, the consolidated financial statements are prepared in line with IFRS 5. This means that first we eliminate intercompany balances and transactions and then the total remaining assets are disclosed under the position Non- current assets held for sale. The same was done for the liabilities side, except that the remaining liabilities are disclosed under the position Liabilities related to assets held for sale. On the profit side, the overall result of the subsidiary after the elimination of the intercompany transactions is disclosed in the position Net profit from discontinued operations.

Because of the comparability of income statement information of the previous year 2015 with the year 2016, the financial result for the year 2015 was also calculated in the same way.

All the amounts in the financial statements and the accompanying notes are stated in thousands of euro unless stated otherwise.

The Company's owners have the right to make changes to the financial statements after their publication and approval by the management.

4.5.2 Significant accounting policies

The following significant accounting guidelines have been applied in the preparation of the financial statements. These policies were, unless otherwise stated, also used in previous years. The presented accounting policies and estimates are used throughout the Group despite indications that they are used for the Bank.

1. Basis for the preparation of financial statements

Financial statements were prepared in accordance with the International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union.

The Bank prepares its financial statements (with the exception of the cash flow information) on the accrual basis of accounting.

Financial statements of the Bank have been prepared on the basis of the cost model and modified for the revaluation of available-for-sale financial assets, financial assets and financial liabilities measured at fair value through profit or loss, and all derivatives.

The Bank's Annual report includes information and notes as prescribed by the Companies Act, IFRS as adopted by the EU and the Decision on books of account and annual reports of banks and savings banks.

The preparation of financial statements in accordance with the IFRS requires the use of estimates and fundamental accounting assumptions such as going concern and accrual. Under these assumptions, the effects of transactions and other business events are recognised on accrual and not when they are paid and are recorded and reported for the periods to which they refer.

Significant accounting estimates and assumptions are presented in Section 25 of the financial statements.

The estimates and assumptions are continuously reviewed and are based on the latest information or latest developments.

The financial statements have been prepared on the going concern basis, which assumes continuity of normal business activities, realisation of assets and the settlement of liabilities in the ordinary course of business.

1. Going concern assumption

The financial statements of the Bank have been prepared on a going concern basis, which assumes continuity of normal business activities.

Financial statements of the subsidiary have been prepared on the going concern basis as well. At the meeting of the Management Board on 8 March 2016, the Management Board adopted a decision on the termination of activities for the provision of new business to Hypo Alpe - Adria - Leasing d.o.o. starting on 1 May 2016 (the so-called Wind Down), which was subsequently extended until 31 July 2016 due to the fact that Addiko Group made the strategic decision to withdraw from the leasing business on the Slovenian market.

At the same time, the bidding process for the sale of the company, i.e. the portfolio of the company, had started. Based on the successfully executed process of selecting the best provider, on 21 October 2016 a contract was signed under which Gorenjska banka d.d. took over the portfolio of contracts on financial leasing of movable property. At the same time, a contract was signed for the sale of the company, on the basis of which the incumbent owner of the Company, i.e. Addiko Bank d.d., had to carry out certain activities (e.g. write-off, i.e. sale, of fixed assets of the Company, termination of employment relations, reversal of provisions and deferrals, etc.). The sale of portfolio was carried out on 29 December 2016, which means that, in economic terms, all the contracts were transferred to Gorenjska Banka d.d. The sale of the company was carried out on 1 February 2017.

Key accounting policies for subsidiary

As a result of the cessation of the key activity and the intended sale of the business, the Company made the following additional entries that have affected the company's financial statements for the year 2016:

1. The Company has released provisions in the amount of EUR 909 thousand,

2. The Company has finally released the un-deferred parts of fees and commissions and costs of approval in the amounts that were transferred to the income statement for the duration of the contract until the portfolio was sold.

3. The Company wrote off all tangible and intangible assets, except intangible assets for which the contract for the sale of the Company provides that the contract is not terminated.

4. In accordance with the contract on the sale of the portfolio, the Company recognised all the benefits and risks associated with the contracts that were the subject of sale, to the day of action. Given the fact that all the benefits and risks from 1 August 2016 on belonged to Gorenjska banka, the Company then reversed these through the income statement item "Other operating expenses" in the amount of EUR 2,069 thousand. The actual net impact from the sale of the portfolio was a loss of EUR 442 thousand.

On 1 February 2017, the Company was sold to Gorenjska banka.

2. Segment Reporting

In accordance with IFRS 8, the Bank is not required to report per individual business segments as it has not issued either debt or equity instruments that are traded publicly (on domestic or foreign stock exchange or outside the stock market inclusive of local or regional markets) and has not submitted or is not in the process of submitting its financial statements to the Securities and Exchange Commission or another administrative organisation with intention to issue any group of instruments on a public market.

3. Foreign Currency Translation

Functional and reporting currency

The financial statement items of the Bank are measured using the currency of the primary economic environment in which the Bank operates, i.e. euro, which is the functional and presentation currency of the Bank.

Translation of foreign currency transactions

Translation gains and losses resulting from the change of amortised cost of monetary securities nominated in foreign currency that are classified as available-for-sale financial assets are recognised in the profit or loss. Translation gains and losses resulting from non-monetary securities, such as equity securities, classified as available-for-sale financial assets are recognised in the revaluation reserves together with the fair value measurement effect.

Gains and losses resulting from purchase and sale of foreign currencies are recognised in the profit or loss as net profit from financial assets and liabilities held for trading.

4. Interest Income and Expense

Interest income from debt securities is recognised in the profit or loss 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.

Interest income and expenses for other interest bearing financial instruments are recognised in the profit or loss in the charged amounts on the basis of the amounts, deadlines and methods prescribed by the Bank's price list on interest rates.

Once a financial asset or a group of similar financial assets has been individually impaired, interest income is recognised using the rate of interest applied in discounting of future cash flows. This is considered unwinding and is not connected with the ordinary interest income.

Interest income includes regular, default and deferred interest under the title of interest bearing financial instruments and prepaid fees for approved loans. Interest on liabilities for deposits and borrowings are recognised as interest expenses.

5. Fee and Commission Income and Expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fees and commissions for services that are performed continuously in a certain period of time are recognised proportionally over the period in which the service was performed.

Fees and commissions include primarily fees for payment transactions, loan transactions (loan management fees, costs of reminders), brokerage transactions and guarantee fees.

Fees and commissions resulting from approval of loans are recognised as interest income and expenses.

6. Dividend income

Dividends are recognised in the income statement when they are declared.

7. Financial assets

a) Classification

On initial recognition, the Bank classifies the financial assets to the following groups according to the purpose of acquisition, duration of possession and type of financial instrument: financial assets held to maturity, available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables.

Financial assets classified as held to maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity, except those that meet the definition of loans and receivables, those designated on initial recognition as assets at fair value through profit or loss or those that are designated as available-for-sale. Held-to-maturity financial assets are measured at amortised cost. If the Bank sells more than insignificant amounts of held-to-maturity financial assets, or if the sale was the result of a non-recurring, isolated event beyond the Bank's control, which is not recurring and the Bank could not anticipate it, all of the Bank's other held-to-maturity financial assets must be reclassified as available-for-sale in the current and the next two financial years.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that the Bank intends to hold for an indefinite period of time and which may be sold due to liquidity requirements, changes of interest rates, currency exchange rates or prices of financial instruments.

Very rarely, the Bank uses the valuation model for measurement of the fair value of certain financial instruments whereby it must be able to prove that the existing market for these financial assets is not active. To define if a market is active or inactive, the Bank must define the key parameters that indicate market activity and follow the trends of movement of those parameters. The parameters should be used consistently according to the content and time so that as much as possible the subjective judgment in interpretation of the given results can be eliminated. In an inactive market, the Bank should take into account all risk parameters that would be, under the condition of an active market, required by the participants on the market, especially credit risk of the financial instrument's issuer and the premium for liquidity.

Financial Assets Held for Trading

A financial asset is classified as held-for-trading if it is acquired principally for sale or re-purchase in the near future or if a financial asset is a part of a portfolio of certain financial instruments that are managed together and for which there is intent of short-term profit taking. Derivative financial assets are also classified as held for trading. In the statement of financial position, derivative financial instruments are initially recognised at cost, which is equal to the fair value of consideration received or granted. They are measured at fair value, which is determined on a daily basis using generally accepted financial methodologies, whereby quotations/prices of inputs (e.g. zero coupon yield curve, FRA, interest rate differentials of currencies, etc.) are obtained from information systems such as Reuters and Bloomberg.

Fair values are recognised under assets if the value is positive or under liabilities when the value is negative. All derivative financial instruments of the Bank are classified as financial assets held for trading and are not used in hedge accounting.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded on an active market.

a) Initial recognition and measurement

All financial assets are recognised on the date of trading at fair value, which equals their cost increased (for instruments that are not recognised at fair value through profit or loss) by costs that are directly attributable to the transaction, whereas for financial assets at fair value through profit or loss, the costs of the transaction are reported in the profit or loss. Subsequent measurement of a financial asset depends on its initial group designation.

Financial assets held for trading and available-for-sale financial assets are recognised at fair value. Gains or losses on financial assets at fair value and held for trading are recognised in the profit or loss of the period in which they accrued.

For financial assets available-for-sale, gains and losses measured at fair value are recognised in the comprehensive income and are transferred to profit or loss when the asset is derecognised or impaired. Interest accrued on the basis of the effective interest rate method and exchange-rate differences from cash items classified as available-for-sale financial assets are recognised directly in profit or loss.

Loans and receivables and financial assets held to maturity are carried at amortised cost.

b) Reclassification of financial assets between groups

Financial instruments may only be reclassified from the held-for-trading group and only in exceptional circumstances, such as when balancing the maturity structure of assets and liabilities or natural hedging against market risks. The fair value at the reclassification date becomes the financial instrument's new amortised cost. Reclassification of an asset from the group of financial assets held to maturity is not allowed.

c) Derecognition

Derecognition of financial assets is carried out when contractual rights to cash flows expire or when a financial asset is transferred and such transfer fulfils the criteria for derecognition (an entity has transferred all rights and risks of the asset).

d) Principles applied in fair value measurement

The calculation of the fair value of financial instruments traded in active markets is based on the quoted market price at the balance sheet date, i.e. the price, which represents the best price currently available on the market (demand) excluding transaction costs. The fair value assessments of financial instruments that are not traded in an active market are based on the assessments made by an external expert. The Bank verifies the value assessment of the external expert and in case of confirmation takes such an assessment into account. If value assessment was not done by an external expert, an internal assessment of value is prepared. Internal assessments of values are obtained using the standard valuation techniques, such as the model of discounted expected future cash flows, market method (comparative entities listed on the stock exchange – direct comparison to entities quoted in an organised market) and liquidation value approach. The final estimated value of financial instruments considers all approaches, taking into consideration assessments of importance in respect of company activity, financial stability of an entity and other factors that could impact the fair value of financial instruments.

At the end of 2013, in accordance with IFRS 13, the Bank for the first time also considered CVA and DVA parameters for valuation of derivatives. The CVA parameter (credit valuation adjustment) equals expected losses due to counterparty credit risk arising from the party with which a financial institution (the Bank) enters into an OTC transaction. Considering credit risk, fair value is calculated as derivative market value less CVA. The DVA concept (debt valuation adjustment) is a self-assessment of credit risk that is added to the derivative market value.

8. Impairment of Financial Assets

a) Financial Assets at Amortised Cost

General

The Bank makes an assessment of its financial assets portfolio valued at amortised cost and the off-balance exposure on a monthly basis using its own methodology:

- The necessary impairment is recognised for financial assets at amortised cost;
- The required provisions are set aside for off-balance-sheet exposures.

The method used to create the necessary impairment of financial assets at amortised cost depends primarily on the exposure (the Bank distinguishes between individually relevant exposures and individually irrelevant exposures) and on the formal status of financial assets. The Bank distinguishes between financial assets that are subject to breaches of material factors defined by the Bank as objective factors indicating an impairment of the financial asset and financial assets where no such factors are detected.

In accordance with the methodology of Addiko Bank, the Bank treats each Group of Borrowers whose total exposure exceeds EUR 150,000 as an individually relevant exposure.

Distinguishing Between Different Methods of Impairment of Financial Assets at Amortised Cost

For the purpose of impairment, financial assets at amortised costs are classified into one of the following segments:

- individually relevant exposures in relation to which a breach of at least one objective factor indicating the impairment of the financial asset at amortised cost is detected;
- individually irrelevant exposures in relation to which a breach of at least one objective factor indicating the impairment of the financial asset at amortised cost is detected;
- all exposures where no breach of any of the objective factors indicating the impairment of the financial asset at amortised cost is detected and where an individual impairment is not required.

In its internal policies, the Bank specified the following objective factors indicating the impairment of the financial asset at amortised cost:

- Materially important delay in the settlement of contractual obligations, lasting over 90 days;
- Bankruptcy or compulsory settlement of a client;
- Existence of proof of client's serious financial problems, including also:
- Reprogramming due to client's economic, legal or other problems,
- Irregular settlement of liabilities within the Group of Borrowers,
- Poor internal rating of a client or
- Significant economic problems in the client's industry.

Detailed Presentation of Individual Methods of Impairment of Financial Assets at Amortised Cost

Specific Risk Provisions

Individually significant exposures are dealt with individually and in case of violation of at least one of the predetermined factors that objectively indicate the impairment of a financial asset, they are also impaired on an individual basis. The Bank individually assesses the anticipated cash flows for repayment (it evaluates both the expected cash flows from regular loan repayments as well as potential cash flows resulting from realisation of collateral). In the case of a negative difference between the discounted value of all expected cash flows and the carrying amount of the receivable, the Bank makes individual impairments. Realisation of collateral as potential future cash flow is reasonably considered in cases where collateral fulfils the required formal criteria concerning its legal certainty and marketability. Impairments of such exposures are called Specific Risk Provisions (SRP).

Based on the available information, the Bank makes individual assessment in terms of the time and amount of expected repayment, whereas the current value of expected cash flows is calculated with the use of discounted effective interest rate.

Collective impairment

Individually irrelevant exposures that also fulfil at least one of the previously determined factors are grouped into groups with similar characteristics and collectively impaired using the formula that reflects the fact that at least one factor that objectively indicates the impairment of individual financial asset was breached. The amount of impairments created depends primarily on client time bucket delay, which has an impact on expected loss given default (LGD) and on the segment into which the exposure is allocated. Loans and other financial assets at amortised cost granted primarily to the following Groups of Borrowers are defined by the Bank as groups of loans with similar attributes:

- Group of financial assets granted to enterprises for their regular operations;
- Group of financial assets granted to sole proprietors;
- Group of financial assets granted to public sector entities and budget users;
- Group of financial assets granted to individuals.

Impairments for the above exposures are called Collective Impairments (CI).

Group Impairments (Latent Losses)

Group impairments (Latent Losses) are recognised for exposures that as of the reporting date do not violate any of the objective factors indicating the impairment of the financial asset and for individually treated exposures where no individual impairment is required. Group impairments are computed using a mathematical formula that reflects the fact that there are no objective factors indicating impairment of the financial asset. The mathematical formula derives from the Basel methodology, taking into account the probability of default, adjusted for the assessment of the scope of already realised but not yet identified losses in the Bank's portfolio. The adjustment is made primarily in respect of the time period in which the Bank is capable of detecting the occurrence of the loss.

Probability of default

The Bank assesses the probability of default by using the internal rating tools. According to the Addiko Group policy, different rating tools are used for individual segments of clients. Regardless of the tool applied, the final results are transferred to a single 25-level scale that determines the probability of default for each client separately.

Expected loss in the event of default

The expected scope of loss in the event of default (Loss Given Default - LGD) is shown using the LGD coefficient, which indicates what part of the unsecured exposure the Bank can expect to lose in the event of default. The coefficients are compliant with Addiko Group policies and follow the conservative assessments of expected losses in the Internal Ratings Based (IRB) approach in accordance with the Capital Adequacy Directive CAD III.

Segment	LGD (Basel II Standard)
Banks	0.45
Regional government and local authorities	0.45
Central government and central banks	0.45
Public sector entities	0.45
Individuals secured by residential real estate	0.35
Individuals	0.70
Micro Units	0.60
Legal entities	0.50
Project financing	0.50

Period in which the Bank identifies the realisation of portfolio loss

The Bank has defined the period in which it recognises the realisation of loss in its portfolio (Loss identification period - LIP factor) as a period during which the Bank can detect that a client is breaching one of the objective factors indicating impairment of the financial asset. The Bank has implemented a monitoring system and assesses that it is capable of detecting negative events for most of its clients in a relatively short time. The Bank uses the LIP factor of 1.0 for financial assets where regardless of the sufficient frequency in monitoring of the portfolio the Bank is unable to assess with sufficient probability potential losses, since the regularity of repayments of liabilities does not reflect the ability of clients to repay loans when they mature. Such transactions include above all overdraft facilities on transaction accounts, credit lines, guarantees and loans with a single repayment instalment or loans with a moratorium. For all other transactions, the Bank uses the LIP 0.5 factor.

a) Available-for-sale financial assets

The Bank assesses on a monthly basis whether there are any indications that the available-for-sale financial assets are impaired. If there is objective evidence that an impairment loss on financial assets available for sale has been incurred, the cumulative impairment loss is transferred from equity to profit or loss.

Impairment losses included in profit or loss as equity instruments are not derecognised through profit or loss. If the value of a debt instrument classified as available-for-sale increases and the increase can be directly related to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss.

The Bank applies the following criteria to determine whether available-for-sale financial assets have been impaired:

- For debt instruments: fair value is lower than 90% of the purchase value (which represents the value of 100%),
- For equity instruments: significant decrease of the fair value, lasting more than 9 months, and the fair value is more than 20% below the purchase value.

b) Restructured loans

The Bank assesses restructured loans individually at the time of approval in order to determine the need for impairment.

When a loan is restructured due to client's economic, legal or other problems that significantly affect the client's future ability to repay its obligations, the Bank accordingly reclassifies such a client to a lower rating grade and individually assesses on a monthly basis the need for individual impairment. If the Bank does not detect the need for individual impairment, the client is considered within a group using the same methodology as for other investments of the Bank.

10. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets are stated at cost in the financial statements, less the accumulated depreciation and any impairment losses.

On initial recognition, the cost of an asset includes all expenditures that are directly attributed to the acquisition and are necessary to make the asset ready for its intended use. Subsequent expenditure incurred on an item of property, plant and equipment is added to the cost of the assets and recognised only if it is probable that the future economic benefits related to the item of property, plant and equipment will flow to the entity and if these costs can be reliably measured. All other expenditure such as additional investment, maintenance and repairs are recognised in profit or loss as an expense when incurred.

Depreciation and amortisation expense is accounted for individually on a straight-line basis by allocation of the costs of the assets to the residual value over the useful lives of the assets.

The depreciation (amortisation) rates applied are as follows:

The depreciation (amortisation) rates applied are as follows:

	2016	2015
Buildings	2,5 %	2,5 %
Computer hardware	od 20 do 50 %	od 20 do 50 %
Furniture and other equipment	od 10 do 33,3 %	od 10 do 33 %
Cars	20 %	20 %
Investments in leasehold improvements	od 5 do 50 %	od 5 do 50 %
Intangible assets	od 10 do 20 %	od 10 do 20 %

Residual values of assets and their useful lives are reviewed as of the day of the statement of a financial position and are adjusted accordingly, if expectations differ from the previous assessments.

Land is recognised separately from buildings. As it normally has unlimited useful life, the Bank does not depreciate it.

The assets are derecognised upon their disposal or when no additional future economic benefits can be expected from their use. Gains and losses resulting from disposal of assets represent the difference between the net gain on disposal and the carrying amount of the asset.

On the day of the statement of financial position, the Bank assesses whether there is any impartial evidence that an asset might be impaired. If there is objective evidence that an asset has been impaired, the assessment of the recoverable amount is made. The recoverable amount is the value in use or the net sale value of the asset, whichever is higher. If the recoverable value is higher than the carrying amount, the assets do not need to be impaired, whereas if the contrary is true, an impairment loss is recognised in profit and loss in the amount of the difference between the recoverable and carrying amount of the assets.

11. Inventories

Inventories are included in the item Other assets. At the level of the Group, the Inventories represent:

- repossessed vehicles and equipment under finance lease contracts cancelled. First, inventories are valued on the basis of the sum of future principle repayments from each of the leasing contracts. If the so established carrying amount of the asset exceeds the fair value of the asset, the impairment is recognised under revaluation expenses.
- items for subsequent financial leases for which an invoice for the payment of the purchase price by the end of the financial year has already been obtained, however the contract with the lessee has not been activated yet. Inventories are stated at a lower cost than the purchase price and the net realisable value.

The Bank values inventories at purchase price.

12. Leases

A lease is a contractual relationship in terms of which the lessor transfers the right to the asset for an agreed period of time to the lessee, in exchange for a payment or a line of payments. Lease contracts are accounted for as finance or operating lease in accordance with their beginning classification. The key factor for classifying a lease is the scope in which the risks and rewards of ownership are transferred from the lessor to the lessee.

Bank or Group as a Lessee

Leases where the lessor bears the majority of risks and awards relating to the ownership of the asset are treated as operating leases. Payments made in respect of the operating lease are included in profit or loss proportionately over the duration of the contract. If operating lease is terminated prematurely, all payments requested by the lessor are recognised as costs in the period of termination of the contract.

A finance lease is a transfer of all the risks and benefits incidental to the ownership of the leased asset. Finance leases are recognised as assets and liabilities at the fair value of the leased asset or, if lower, the present value of the minimum sum of lease payments. Depreciation of leased assets is consistent with the accounting policies of own depreciable assets. If there are no assurances that the tenant will take over ownership of the leased asset at the end of the lease, the amortisation period must be shorter than the useful life of a leased asset or contractually determined period of the lease.

Bank or Group as a Lessor

When assets are leased under a finance lease, the present value of the lease payments is shown as receivable from finance lease. Finance lease income is recognised in profit or loss over the entire life of the lease. Receivables from financial leases are shown in the amount of the net investment in the lease, including the unguaranteed residual value.

For operating leases, the received payments, i.e. leases, are included in income in proportion to the duration of the contract. Assets leased under operating leases are presented in the statement of financial position as an investment property or tangible assets.

13. Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise of cash and balances with the Central Bank, excluding the obligatory reserves, short-term bank deposits and other, short-term highly liquid investments with maturity of up to 90 days.

Cash and cash equivalents are measured at amortised costs.

14. Cash flow policy

The cash flow statement has been prepared using the indirect method, i.e. Version II.

15. Provisions

Long-term provisions for liabilities and charges are recognised by the Bank due to a current liability that is the result of a past event and it is probable that an outflow of economic benefits will be required to settle this liability and the amount thereof can be reliably measured.

Where there are a number of similar liabilities, the likelihood that an outflow will be required for the settlement is determined by considering the class of liabilities 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 liabilities may be small.

The Bank recognises the provisions in respect of potential credit-related liabilities (financial and service guarantees, provisions for undrawn part of the loan), employees' benefits (jubilee awards, termination benefits upon retirement), provisions for potential litigation and other provisions.

16. Taxes

The corporate income tax is accounted for at the tax rate applicable on the date of the statement of financial position. Tax is levied on the tax basis determined in accordance with the Corporate Income Tax Act. The tax rate applicable for 2016 is 17%.

Deferred tax is formed by using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes; deferred tax is recognised using tax rates enacted at the date when temporary differences are expected to be eliminated. The company does not recognise deferred tax assets.

The deferred tax, associated with the measurement of available-for-sale financial instruments, is recognised directly in the equity.

17. Consolidation

At the cut-off date, the Bank has two subsidiaries in its balance sheet:

- Hypo Rešitve d.o.o.
- Hypo Leasing d.o.o.

Hypo Leasing d.o.o is consolidated in accordance with IFRS 5, as the Company is classified as held for sale.

Consolidated financial statements and accompanying notes are shown on separate financial statements and notes of the Bank.

Hypo Rešitve d.o.o. is a dormant company. The equity of the company is EUR 7 thousand, and it is not significant for consolidated.

18. Employee benefits

In accordance with the law, the Bank provides to its employees jubilee awards and termination benefits upon retirement. An independent actuary calculates the provisions on the date of the statement of financial position.

The calculation of liabilities for severance pay is linked to the pension period of each individual employee. All changes in provisions for jubilee awards and severance payments are recognised in the profit or loss, whereas actuarial gains and losses arising from provisions for severance payments are recognised in the comprehensive income.

Employees are entitled to receive the jubilee award for every ten years of service with the same employer.

The Bank pays social security contributions at the rate of 8.85% in accordance with the Slovenian legislation. These payments are recognised in the financial statements as labour costs in the period they refer to.

19. Financial liabilities

Financial liabilities (Borrowings, deposits and debt securities) are upon initial recognition recognised at fair value (which is usually equal to the cost), and transaction costs are recognised in the income statement. After initial measurement, they are stated at amortised cost. The difference between the value at initial recognition and the final value is recognised in profit or loss as interest expense using the effective interest rate method. A financial liability is derecognised only when the contractual obligation is fulfilled, cancelled or expired.

20. Share capital

Share capital is recorded in the nominal value and has been subscribed and paid-up by the owners.

21. Financial guarantees

Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs if a debtor fails to make payments when due under the original or modified terms of a debt instrument. Such guarantees are issued to banks, financial institutions and other entities as means of securing loans, overdrafts and other banking facilities. Financial guarantee contracts are initially recognised at fair value, which is equal to the fee received. Fees received are transferred to profit or loss using the straight-line method.

22. Fiduciary accounts

The Bank also offers its clients brokerage services for securities and asset management services. Business transactions are conducted through a separate account and the client assumes the operational risk. A commission charged for these services to clients is recorded in the Note 3b. These assets are not included in the statement of financial position but rather in the off-balance-sheet items as authorised transactions.

Additionally, in accordance with the local legislation, assets and liabilities of brokerage services' clients as well as revenues and fee income and expense related to brokerage services are recorded in Note 34.

23. Fair value under IFRS 13

The Group measures derivative financial instruments at fair value as at the reporting date.

Fair value is the price that would be received if an asset was sold or if a liability was transferred in a controlled transaction between market participants at the measurement date.

Fair value measurement is based on an assumption that the sale or transfer of a liability takes place either on:

- the principal market for the asset or a liability or
- in the absence of a principal market, on the most advantageous market for the asset or liability.

The company must have access to the principal or the most advantageous market. Fair value of an asset or a liability is measured under the assumptions that market participants would use to determine the price of an asset or a liability, assuming that the participants are acting in their own benefit, i.e. their own economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities,

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable,

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

24. Amendments to standards and interpretations

a) Initial application of new amendments to the existing standards effective for the current reporting period

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

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

b) At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

c) New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations that were not endorsed for use in EU as at 31.03.2017 (the effective dates stated below is for IFRS in full):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers"** - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 "Statement of Cash Flows"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 "Income Taxes"** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The Bank anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

d) More details about IFRS 9, amendments to existing standards and interpretations that can be used as appropriate:

- **IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

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

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

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

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

In 2016, the bank already approved a project for the implementation of IFRS 9, which is managed by the parent bank. Most of the activities in 2016 were devoted to implementing the SPPI test for financial instruments of the Bank and preparing the data and the methodology for impairment. SPPI test (solely Payments of principal and interest cash flows) means testing of individual contracts in order to determine whether the contractual cash flow characteristics represent only payments of principal and interest. In the event that the test drops, it is necessary to measure the financial asset at fair value.

The Bank's total portfolio of financial instruments that are carried at amortised cost was split to standard and non-standard contracts. For standard contracts, the SPPI test was done by reviewing covenants of individual contract. The Bank, with regard to all the tests carried out, does not expect any significant deviation in measurement of financial assets.

The Bank has, for the purposes of calculating impairment in the context of IFRS 9, formed a central unit (i.e. Competence Centre) at the level of the group Addiko AG in order to provide comprehensive support for calculation of impairment (lifetime ECL - EXPECTED credit loss), identification and criteria transitions between the various stages (stage 1, stage 2, stage 3). In 2015, the Addiko Group began with the participation of the outsourcing methodologies with regard to the layout, conditions and data necessary to calculate the impairment. In 2016, they carried out a joint workshop where they were presented practices and concrete examples of calculations on individual cases. The Bank is working closely with representatives of the group at two-week telephone conferences. In that way the Group is monitoring progress of its subsidiaries. The bank has formed draft computational methodologies named Lifetime ECL and the criteria for transitions between the individual stage. The work of calculating the impairment and the necessary input / output data Bank regularly cooperates with local software providers to ensure adjustments to the system and the processes themselves on time.

The Bank expects that in the second half of next year started with parallel management, accounting, financial instruments and so provide the most simple and correct transition to the new accounting standard from 01.01.2018.

25. Significant accounting policies and assessments

a) Impairments of loans and receivables

The Bank makes an assessment of its financial assets portfolio valued at amortised cost and off-balance exposure on a monthly basis. On the basis of objective factors indicating the impairment of a financial asset at amortised cost, the need for its impairment is assessed. Objective criteria are mainly: irregular settlement of liabilities and material delay of over 90 days; deterioration of economic conditions in the industry in which the company operates; reprogramming due to the economic, legal or other problems of the client. For the clients who meet any of the objective criteria, the Bank individually assesses the anticipated cash flows for repayment (it evaluates both the expected cash flows from regular loan repayments as well as potential cash flows resulting from realisation of collateral). In the case of a negative difference between the discounted value of all expected cash flows and the carrying amount of the receivable, the Bank makes individual impairments. The Bank makes an assessment of other clients collectively using its own methodology and parameters, which are reviewed on a regular basis to decrease the differences between estimated and actual losses.

Credit portfolio quality and related impairment of loans are significantly dependent on macroeconomic factors. Unexpected development of economic conditions, in particular those that affect the real estate market, cannot be discounted and could significantly affect the portfolio's market value.

Key assumptions affecting the need for additional impairment in 2017 are the following:

1. Probability of Default (PD): in the case of portfolio improvement as a result of improved economic conditions, the Bank could expect lower Probability of Default rates than anticipated, which would cause derecognition of impairments. At the level of the Group, the Bank anticipates a 10% decrease in default rates, which is estimated to require derecognition of EUR 0.7 million of impairment.

2. Collaterals: in case of declining market value of collaterals, the Bank could expect reduced cash flows from realised collaterals and therefore additional impairment would be required. Collaterals are on the other hand seen as a potential risk mitigator, and the Bank is making an effort to improve the current collateral coverage ratios.

For this reason, the Bank is considering the possibility to increase the portfolio collateralisation by 10%. This would lead to an estimated EUR 0.7 million decrease in impairments at the Bank level. By applying the sensitivity of PD, increased by 20 or 30%, this would lead to an estimated EUR 1.5 million or EUR 2.2 million decrease in impairments for the Bank.

A detailed definition is given under section 8: Impairment of financial assets in the context of disclosures of Significant Accounting Policies.

b) Impairment of available-for-sale financial assets

Available-for-sale financial assets are impaired if there is a material or prolonged decrease of their fair value below their cost. Duration and the amount of decrease of their fair value are taken into consideration. The need for impairment may also be indicated by evidence of the deterioration in the financial position of the financial instrument's issuer and the industry sector in which the issuer operates.

Criteria applied in recognition of impairment are described in detail in Note 8, Impairment of financial assets.

Key assumptions affecting the need for additional impairment in 2017:

1. Instruments tied to equity securities;

   Worsening of issuer's credit quality as a consequence of further deterioration in certain industries (construction, financial holdings) and their slow recovery.

2. Instruments tied to debt securities:

   Worsening of issuer's credit quality and unfavourable movement of market parameters, especially interest rates, as a consequence of the rapid rise in inflation in the EU area.

c) Impairment of HTM financial assets

Prior to any impairment of held-to-maturity financial assets, the following impairment triggers are checked in relation to individual issuer:

- difficulties with repayments/insolvency, bankruptcy
- decline in market value by certain percentage of the cost
- negative market information that could impact solvency
- changes in individual issuer's credit rating in a certain period
- history of previous impairments.

The Bank may decide for impairment based on deterioration of any of the above criteria.

a) Deferred Taxes

On the basis of the recommendations of the Group and based on the requirements of IAS 12: Recognition of deferred taxes, the Bank did not have any deferred tax assets in 2016.

b) Equity investments in a subsidiary company

The evaluation of the leasing participation was done based on the terms contracted in the sale contract.

26. Sources of estimation uncertainty

a) Uncertainty in connection with derivatives

For the valuation of derivatives, the Bank also considered CVA and DVA parameters. The CVA parameter (credit valuation adjustment) equals expected losses due to counterparty credit risks with whom a financial institution (the Bank) enters into an OTC transaction. Taking into account credit risk, fair value is calculated as derivative market value less CVA. The DVA concept (debt valuation adjustment) is a self-assessment of credit risk that is added to the derivative market value.

For derivatives, the Bank is not sensitive to market risk, because each new derivative transaction with a client is at the same time closed by an offsetting transaction entered into with the parent bank.

4.5.3 Notes to the income statement

1. Interest income and expense

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Interest income and similar income				
Financial assets held for trading	1,009	1,009	1,572	1,572
Available-for-sale financial assets	156	156	470	470
Bank loans and deposits	25	25	8	8
Loans and deposits to clients	29,104	28,738	32,784	32,783
Financial assets held to maturity	3,979	3,979	4,060	4,060
Other financial assets	33	33	151	151
Total interest income and similar income	34,306	33,940	39,045	39,044
Interest and similar expense				
Sight deposits from clients	61	61	86	85
Bank deposits	1,968	1,968	3,445	3,445
Deposits from clients	3,918	3,918	6,857	6,838
Certificates of deposit	198	198	197	197
Short-term deposits from/at?? Central Bank	78	78	113	113
Borrowings from banks	299	299	619	620
Interest on financial liabilities held for trading	933	933	1,446	1,446
Subordinated debt	1,548	1,548	1,067	1,067
Interest on other financial liabilities	417	416	2	1
Total interest and similar expense	9,420	9,419	13,832	13,812
NET INTEREST INCOME	24,886	24,521	25,213	25,232

In 2016, income recognised on account of the Bank's impaired financial assets ("unwinding") amounted to EUR 922 thousand and EUR 926 thousand for the Group (2015: EUR 2,437 thousand for the Bank and 2,449 thousand for the Group).

2. Dividend income

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Available-for-sale securities	47	47	37	37
Total dividend income	47	47	37	37

3. Fee income and expense

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Total fee income	11,175	11,103	12,241	12,205
Total fee and commission expense	(2,952)	(2,952)	(3,692)	(3,692)
Net fee and commission income	8,223	8,151	8,549	8,153

a) Fee and commission income and expense from trading for Bank's own account

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Fee and commission income				
Payment transactions	4,861	4,861	5,210	5,139
Loan transactions	1,272	1,200	1,585	1,621
Granted warranties	1,395	1,395	1,768	1,768
Transaction accounts' fees and commissions	1,306	1,306	1,076	1,076
Fees and commission to insurance companies	350	350	302	302
NODURS fees and commissions	369	369	421	421
ATM fees and commissions	188	188	165	165
BRUSH fees and commissions	19	19	19	19
Other transactions	1,103	1,103	1,227	1,227
Total fee and commission income	10,863	10,791	11,773	11,738
Fee and commission expense				
Payment transactions	(1,534)	(1,534)	(1,484)	(1,484)
Loan transactions	(28)	(28)	(102)	(102)
Fees and commissions from guarantees	(13)	(13)	(38)	(38)
Other transactions	(1,263)	(1,263)	(1,966)	(1,966)
Total fee and commission expense	(2,838)	(2,838)	(3,590)	(3,590)
Net Fee from trading Bank's own account	**8,025**	**7,953**	**8,183**	**8,148**

b) Fee and commission income and expense from investment services and transactions for clients' accounts

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Fee and commission income from investment and auxiliary investment services and transactions for clients' accounts				
Receiving, brokerage and processing of orders	90	90	141	141
Management of financial instruments	84	84	123	123
Fiduciary accounts and related services	2	2	7	7
Administration of book-entry securities accounts of clients	136	136	197	197
Total fee and commission income from investment and auxiliary investment services and transactions for clients' accounts	312	312	468	468
Fee and commission expense from investment and auxiliary investment services and transactions for clients' accounts				
Fees paid to KDD (Central Securities Clearing Corporation) and similar organisations	(79)	(79)	(70)	(70)
Fees paid to the stock exchange and similar organisations	(35)	(35)	(33)	(33)
Fee and commission expense from investment and auxiliary investment services and transactions for clients' accounts	**(114)**	**(114)**	**(103)**	**(103)**
NET FEES FROM INVESTMENT SERVICES AND TRANSACTIONS FOR CLIENTS' ACCOUNTS	198	198	365	365

4. Realised gains / (losses) on financial assets and liabilities not measured at fair value through profit or loss

EUR 000'

	2016 – Banka	2016 – Skupina	2015 – Banka	2015 – Skupina
Available-for-sale financial assets	8	8	251	251
Financial assets held to maturity	(137)	(137)	(175)	(175)
Loans and other financial assets	82	82	(127)	(127)
TOTAL	**(47)**	**(47)**	**(51)**	**(51)**

Gains and losses from available-for-sale financial assets comprise realised gains and losses on derecognition, whereas gains and losses resulting from changes of fair value of available-for-sale financial assets are recognised directly in Comprehensive Income.

5. Net gains (losses) on financial assets and liabilities held for trading

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Equity Securities	-	-	-	-
Foreign currency purchase and sale	144	144	164	164
Derivatives	(238)	(238)	(5,640)	(5,640)
TOTAL	**(94)**	**(94)**	**(5,476)**	**(5,476)**

Item Derivatives shows net gains / losses from swap and forward contracts and options.

The difference between 2016 and 2015 relates to volatile EUR/CHF exchange rate in 2015.

6. Net gains (losses) from currency translation

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Items in foreign currency	(306)	(306)	(16,613)	(16,613)
Items in foreign exchange	631	631	22,370	22,370
TOTAL	**325**	**325**	**5,757**	**5,757**

Currency translation differences in the table above refer to financial assets and liabilities measured at amortised cost. Currency translation differences resulting from financial assets measured at fair value are recognised as part of net gains or net losses from financial assets and liabilities classified as held for trading.

The difference between 2016 and 2015 relates to volatile EUR/CHF exchange rate in 2015

7. Other net operating income (expenses)

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Other income				
Non-banking services	724	321	942	55
Other	1,106	1,183	352	328
Total other operating income	**1,830**	**1,504**	**1,294**	**383**
Other expenses				
Membership fees	(49)	(58)	(54)	(54)
Taxes and other duties	(1,574)	(1,594)	(1,198)	(1,198)
Other	(2,066)	(1,961)	(1,782)	(1,589)
Total other operating expenses	**(3,689)**	**(3,613)**	**(3,034)**	**(2,841)**
NET OTHER OPERATING INCOME (EXPENSE)	**(1,859)**	**(2,109)**	**(1,740)**	**(2,458)**

Item "Other" in other operating income comprises income from legal proceedings, insurance proceeds and other operating income.

The most significant item of "Other operating expenses" at the level of the Bank is the cost of integration that was invoiced by related parties (Hypo leasing d.o.o.). These costs resulted from the provision of services in the integration process of individual segments. These expenses and income are eliminated at the Group level, as they fall under mutual relations within the Group.

The major item of "Tax and other levies" is tax paid on financial services in the amount of EUR 1,463 thousand for the Bank (2015: EUR 1,064 thousand) and EUR 1,483 thousand for the Group.

Financial Services Tax is payable in compliance with the Financial Services Tax Act, published on 10 December 2012 (Official Gazette RS no. 94/2012, which became effective on the fifteenth day after its publication). Tax in 2013 and 2014 was paid at the rate of 6.5% of the tax basis. On 1 January 2015, the tax rate increased to 8.5% of the tax base (Official Gazette RS no. 90/2014).

8. Administrative expenses

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Personnel costs	14,440	14,440	15,279	15,279
Gross wages and salaries	10,275	10,275	11,719	11,719
Social security contributions	751	751	854	854
Pension insurance contributions	917	917	1,041	1,041
Other personnel costs	2,497	2,497	1,665	1,665
General and administrative expenses	**8,387**	**8,387**	**10,399**	**10,399**
Materials	477	477	635	635
Rent	1,475	1,475	1.631	1.631
Services provided by third persons	1,667	1,667	2,444	2,444
Business trips	136	136	105	105
Maintenance	2,049	2,049	2,099	2,099
Advertising	737	737	965	965
Hospitality	80	80	112	112
Costs of consultations, audit and legal fees	957	957	1.058	1.058
Education and training costs	152	152	284	284
Insurance premiums	545	545	981	981
Other administrative costs	112	112	85	85
Total administrative expenses	**22,827**	**22.827**	**25,678**	**25,678**

As at 31 December 2016, the Bank had 377 employees (31.12. 2015: 451) and at the level of the Group 392 employees.

Rent costs pertain mostly to real estate properties (Bank in 2016: EUR 1,475 thousand, in 2015: EUR 1,631 thousand; Group in 2015: EUR 1,885 thousand). The Group has no non-cancellable lease agreements. Agreements have been concluded for a limited or an indefinite period of time.

Audit fees

EUR 000'

	2016 - Bank			2016 - Group			2015 – Banka	2015- Group
	Deloitte	KPMG	Other auditing firms	Deloitte	KPMG	Other auditing firms	KPMG	KPMG
Audit of the annual report	80	-	-	88	-	-	62	62
Other auditing services	12	5	12	12	5	12	42	42
Other non-auditing services	-	-	-	-	-	-	11	11
Total	92	5	12	100	5	12	115	115

9. Amortisation and depreciation

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Property, plant and equipment	910	910	888	888
Intangible assets	912	912	1,367	1,367
Total depreciation and amortisation expense	**1,822**	**1,822**	**2,255**	**2,255**

10. Provisions

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Provisions for off-balance-sheet liabilities	4,595	4,595	(4,352)	(4,352)
Provisions for employee benefits	(114)	(114)	44	44
Other provisions	(327)	(327)	(2,209)	(2,209)
Total provisions	**4,154**	**4,154**	**(6,517)**	**(6,517)**

11. Impairments

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Available-for-sale financial assets	-	-	(27)	(27)
- Customers	-	-	(27)	(27)
Financial assets at amortised cost (customers)	3,857	3,857	(41,887)	(41,887)
- Government	413	413	139	139
- Customers	(2.767)	(2,675)	(2,299)	(2,299)
- Other clients	6,211	6,211	(39,727)	(39.727)
- Thereof Non-current Assets Held for Sale	-	-	(37,171)	(37,171)
Property, plant and equipment	(425)	(425)	(226)	(226)
Intangible assets	(68)	(68)	(512)	(512)
Impairment of investments in capital of subsidiaries, associates and jointly controlled entities	(265)	-	(3.328)	-
Together assets	-	-	-	19
Total impairment	**3,099**	**3,364**	**(45,980)**	**(42,652)**

12. Net gains on non-current assets held for trading and related liabilities

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Net gains on non-current assets held for trading and related liabilities	213	213	-	-

Net gains on non-current assets held for sale relate to assets that were at the end of year 2015 disclosed under the position Non-current assets held for sale and were sold on 03/03/2016.

13. Corporate Income tax

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Income Tax	975	975	-	-
Deferred Tax			3,996	3,996
Total income tax	975	975	3,996	3,996
Difference between income tax and tax determined using the basic tax rate:				
Profit/loss before tax	13,876	13,679	(48,190)	(48,190)
Tax at prescribed rates: (2016: 17%, 2015: 17%)	2,359	2,325	(8,192)	(8,192)
Tax on income not recognised for tax purposes	(33)	467	(35)	(35)
Tax on expenses not recognised for tax purposes	265	(198)	12,224	12,224
Tax on income that increases the tax basis	255	252	(1)	(1)
Other	(1,871)	(1,871)	-	-
Total income tax	**975**	**975**	**3,996**	**3,996**

Tax deductible income resulting from the derecognition/recognition of provisions and dividends received.

Most of the non-deductible expenses consist of expenses arising from the impairment of an investment in an associated company, interest expenses on loans received from related parties, transfer prices between related parties, expenses for providing benefits and other payments related to employment and expenses from provisions in the part that is not tax deductible.

In 2016, the effective tax rate for the Bank was 7.02% (for the Group 7.03%). In 2015, the effective tax rate was 9.49% (for the Group 10.70%).

Hypo Leasing had a tax loss in 2016, so the effective tax rate was 0%. For the year 2015, it amounted to 2.01%.

13.a. Profit after tax from discounted operations

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Profit after tax from discounted operations	-	**885**	-	**248**

Consolidated financial statements are not prepared by the classic consolidation method. In accordance with the signed contract for the sale of the subsidiary, the consolidated financial statements are prepared in line with IFRS 5. On the profit side, the overall result of the subsidiary after the elimination of the intercompany transactions is disclosed in the position Net profit from discontinued operations.

Because of the comparability of the income statement information of the previous year 2015 with the year 2016, the financial result for the year 2015 was also calculated in the same way.

Item net profit loss in 2016 includes the following:

- profit of the subsidiary in the amount of EUR 197 thousand
- the cost of commissions in the amount of EUR 72 thousand
- interest income EUR 1 thousand
- interest expense of EUR 366 thousand
- integration costs of EUR 326 thousand
- integration income of EUR 76 thousand

Item net profit loss in 2015 includes the following:

- loss of the subsidiary in the amount of EUR 487 thousand
- the cost of commissions in the amount of EUR 36 thousand
- interest income EUR 20 thousand
- interest expense of EUR 1 thousand
- integration costs of EUR 910 thousand
- integration income of EUR 192 thousand

4.5.4 Notes to the statement of financial position

14. Cash and balances with Central Bank and demand deposits with banks

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Cash	6,812	6,812	6,762	6,762
Demand deposits with banks	130,241	130,241	12,662	12,662
Cash included in cash equivalents	137,053	137,053	19,424	19,424
Other short-term deposits with Central Bank	3,047	3,047	2,933	2,933
Obligatory reserves with Central Bank	124,590	124,590	73,449	73,449
Demand deposits with banks	1,881	1,881	2,870	2,870
Total cash and balances with Central Bank	**264,690**	**264,690**	**95,806**	**95,806**

Slovenian banks are required to maintain obligatory reserves with the Bank of Slovenia; the amount of obligatory reserve depends on the scope and structure of received deposits. Currently, the Bank of Slovenia requires banks to calculate obligatory reserve in the amount of 1% of all deposits with maturity of up to 2 years.

Fair values of cash and balances with Central Bank are disclosed in more detail in the Note "Fair values of assets and liabilities" on page 122.

15. Financial Assets Held for Trading

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Derivatives				
Forward contracts – foreign exchange	67	67	53	53
Options (interest)	225	225	239	239
Options (securities)	-	-	-	-
Swap contracts – foreign exchange	277	277	0	-
Swaps (interest)	1,478	1,478	2,457	2,457
Total derivatives	**2,047**	**2,047**	**2,749**	**2,749**
Securities				
Other securities	-	-	20	20
Total securities	-	-	20	20
Total financial assets held for trading	**2,047**	**2,047**	**2,769**	**2,769**

As at 31 December 2016, the Bank did not pledge any securities designated as held for trading.

a) Contractual and fair values of derivatives

The presented table shows contractual and fair values of derivative financial instruments of the Bank and also applies to the Group, as subsidiaries do not disclose derivatives.

EUR 000'

	Contractual value		Fair value 31. 12. 2016		Fair value 31. 12. 2015	
	31.12. 2016	31. 12. 2015	Receivables	Liabilities	Receivables	Liabilities
Forward contracts – foreign exchange	3,467	17,874	67	65	53	39
Swap contracts – foreign exchange	114,300	24,000	277	66	-	9
Options (interest)	25,213	12,147	225	288	239	262
Swaps (interest)	83,490	137,829	1,478	1,428	2,477	2,462
TOTAL	**226,470**	**191,850**	**2,047**	**1,847**	**2,769**	**2,772**

Contractual value represents derivative financial instruments reported in the off-balance-sheet records; however, these amounts do not reflect future cash flows or the Bank's current exposure to the currency or interest rate risk.

Fair value is the carrying amount of the instrument reported in the Bank's statement of financial position as follows: assets are reported under financial assets held for trading and represent positive valuation of derivatives, whereas liabilities are reported under trading financial liabilities and represent negative valuation of derivative financial instruments.

16. Available-for-sale financial assets

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Bonds (gross without impairment)	**39,486**	**39,486**	**36,971**	**36,971**
- Republic of Slovenia	29,563	29,563	36,228	36,228
- at the central level	-	-	743	743
- foreign issuer - Government	9,923	9,923		
Shares (gross without impairment)	**13,481**	**13,481**	**13,513**	**13,513**
- other issuers	321	321	368	368
- Bank Resolution Fund	13,160	13,160	13,145	13,145
Treasury bills	**17,098**	**17,098**	**42,464**	**42,464**
- at the central level	17,098	17,098	42,464	42,464
Impairment through profit or loss	-	-	**(27)**	**(27)**
- shares	-	-	(27)	(27)
TOTAL NET	**70,065**	**70,065**	**92,921**	**92,921**

Of the total amount of available-for-sale securities, EUR 56,585 thousand was quoted on the stock exchange as at 31 December 2016 (31 December 2015: EUR 79,456 thousand).

Fair values of available-for-sale financial assets are disclosed in the Note "Fair value of assets and liabilities" on page 122.

The total value of pledged financial assets available for sale amounted to EUR 41,087 thousand.

a) Movement of available-for-sale financial assets

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Balance at 1 January	**92,921**	**92,921**	**44,797**	**44,797**
Purchases	32,214	32,214	81,310	81,310
Sales	-	-	(10,805)	(10,805)
Withdrawal / Decrease	(20)	(20)	-	-
Matured	(54,257)	(54,257)	(22,460)	(22,460)
Amortisation + interest	(1,249)	(1,249)	223	223
Fair value changes	456	456	(117)	(117)
Impairments	-	-	(27)	(27)
- bonds	-	-	-	-
- shares	-	-	(27)	(27)
Balance at 31 December	**70,065**	**70,065**	**92,921**	**92,921**

17. Loans to Banks

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Term deposits	7,356	7,356	2,936	2,936
TOTAL NET LOANS	**7,356**	**7,356**	**2,936**	**2,936**
Loans to banks – maturing within 12 months of the reporting date	7,356	7,356	2,936	2.936
Loans to banks – cash equivalents	7,356	7,356	2,936	2,936

18. Loans to clients

EUR 000'

	Note	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Loans		1,014,581	1,014,581	1,077,447	1,156,860
Credit lines		16,682	16,682	12,125	12,125
Credit cards receivables		5,013	5,013	4,321	4,321
Receivables for collateral granted		1,182	1,182	1,417	1,417
Other		391	391	1,939	1,939
Value adjustments	20	(58,081)	(58,081)	(91,094)	92,665
TOTAL NET LOANS		**979,768**	**979,768**	**1,006,155**	**1,083,997**
Loans to clients - maturing within 12 months of the reporting date		82,054	82,054	160,387	209,685
Loans to clients – maturing in a period of more than 12 months of the reporting date		897,714	897,714	845,768	874,312

Interest receivables are recognised as part of the basic financial instrument.

All loans were impaired to their recoverable value.

As at 31 December 2016, the Bank had pledged loans for long-term refinancing operations and settlements in relation to STEP2. The total value of pledged loans amounted to EUR 75,853 thousand (31 December 2015: EUR 63,130 thousand).

Other disclosures pertaining to loans are included in section Financial risk management, Credit risk.

19. Other financial assets

EUR 000'

	Note	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Fees and commissions receivables		526	526	854	854
Trade receivables		650	650	1,259	807
Other receivables		668	270	2,023	2,132
Value adjustments	20	(379)	(379)	(2,024)	(2,081)
TOTAL NET OTHER FINANCIAL ASSETS		**1,465**	**1,067**	**2,112**	**1,712**
Other financial assets maturing within 12 months of the reporting date		1,465	1,067	2,112	1,712

20. Movements in impairment of loans to clients and other financial assets

EUR 000'

	2106 – Bank				2015 – Bank			
	Government	Retail	Other	Total	Government	Retail	Other	Total
Balance at 1.1.	**661**	**13,259**	**79,198**	**93,118**	**813**	**11,864**	**79,573**	**92,249**
Formation	125	5,790	11,955	17,870	59	6,703	60,760	67,522
Release	538	3,025	17,014	20,577	195	4,298	19,485	23,978
Recovery	-	-	1,150	1,150	-	-	1,657	1,657
Net	(413)	2,765	(6,211)	(3,857)	(136)	2,405	39,618	(41,887)
Utilisation and unwinding		(4,043)	(26,756)	(30,801)		(856)	(2,992)	(3,848)
Derecognition	-	-	-	-	(16)	(154)	(37,001)	(37,170)
Balance at 31.12.	**248**	**11.981**	**46.231**	**58.460**	**661**	**13.259**	**79.198**	**93.118**

EUR 000'

	2016 - Group				2015 - Group			
	Government	Retail	Other	Total	Government	Retail	Other	Total
Balance at 1.1.	**662**	**13,894**	**80,190**	**94,746**	**816**	**12,619**	**81,031**	**94,466**
Formation	125	6,574	13,172	19,871	59	7,004	62,613	69,676
Release	539	3,897	18,142	22,578	197	4,599	21,338	26,134
Recovery	-	-	1,150	1,150	-	-	1,657	1,657
Net	(413)	2,765	(6,211)	(3,857)	(136)	2,405	39,618	41,887
Utilisation and unwinding	-	(4,678)	(27,748)	(32,429)	(2)	(976)	(2,048)	(3,026)
Derecognition	-	-	-	-	(16)	(154)	(38,411)	(38,581)
Balance at 31.12.	**248**	**11.981**	**46.231**	**58.460**	**662**	**13.894**	**80.190**	**94.746**

Recovery relates to release of impairment after closing of the loan or after the reclassification of the loan from individual to collected impairment.

Utilisation relates to the write-off of loans recorded under the net principle, whereas unwinding represents technical interest.

Derecognition in 2015 is linked to the transfer of loans to non-current assets held for sale.

21. Financial assets classified as held to maturity

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
- Republic of Slovenia bonds	78,764	78,764	78,070	78,070
- other issuers' bonds	3,870	3,870	3,878	3,878
TOTAL	**82,634**	**82,634**	**81,949**	**81,949**
Financial assets held to maturity quoted on stock market	82,634	82,634	81,949	81,949
Financial assets held to maturity - maturing within 12 months of the reporting date	40,603	40,603	2,632	2,632
Financial assets held to maturity - maturing in a period of more than 12 months of the reporting date	42,031	42,031	79,317	79,317

a) Movement of HTM financial assets

EUR 000'

	2016 - Bank	2016 - Group	2015 – Bank and Group
Balance at 1 January	**81,949**	**81,949**	**84,559**
Decrease (Maturity)	-	-	(3,283)
Amortisation + interest	685	685	673
Balance at 31 December	**82,634**	**82,634**	**81,949**

As at 31 December 2016, the Bank pledged securities classified as held to maturity for long-term refinancing operations and settlements in relation to STEP2. The total amount of pledged financial assets held to maturity amounted to EUR 78,764 thousand (31.12.2015: EUR 88,338 thousand).

Fair values of assets classified as held to maturity are disclosed in the Note "Fair value of assets and liabilities" on page 112.

22. Non-current Assets and liabilities Held for Sale

a) Assets

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Loans	-	-	81,190	83,902
Credit lines	-	-	7,215	7,215
Other	-	993	880	880
Inventories	-	-	-	472
Value adjustments	-	-	(37,171)	(38,581)
Investments in subsidiaries	3,895	-	-	-
Impairment of subsidiaries	3,592	-	-	-
Total	303	993	52,114	53,888

In 2016, the Bank signed a contract with Gorenjska Banka d.d. on the sale of the subsidiary Hypo Leasing d.o.o. Therefore, the Bank showed the investment in individual financial statements and leasing assets in the consolidated statements under Non-current assets Held for Sale.

For 2016, the Group item "Other" includes:

- Receivables due from Gorenjska Banka d.d. charged for the cost of managing the portfolio of Hypo Leasing d.o.o. in the amount of EUR 329 thousand,
- receivables due from the Financial Administration of the Republic of Slovenia, a tax refund from the corporate income tax in the amount of EUR 345 thousand,
- receivables due from the advance paid for the asset for which a contract on financial leasing in the amount of EUR 152 thousand was concluded
- and other receivables in the amount of EUR 167 thousand.

The Group sold the Non-current assets held for sale in the amount of EUR 53,888 thousand from 2015 to Heta d.o.o. on 3 March 2016. With this transfer, the Bank reduced the volume of bad debts and at the same time improved the total capital ratio by 1 percentage point.

b) Liabilities

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Other	-	983	-	-
Total	-	983	-	-

For 2016, the Group item "Other" includes:

- receivables due from the parent bank for the commission charged for early repayment of refi lines in the amount of EUR 348 thousand,
- liabilities to Gorenjska banka in the amount of EUR 347 thousand from the transfer of payments related to the transferred portfolio
- liabilities for wages, severance and accrued liabilities in the amount of EUR 288 thousand

23. Property, plant and equipment

a) Movement Bank and Group 2016

EUR 000'

	Note	Land	Real estate	Computer hardware	Furniture and other equipment	Motor vehicles	Leasehold improvements	Equipment acquired under finance lease	Tangible fixed assets under preparation	Total
Cost										
Balance at 1 January 2016		**367**	**2,274**	**3,238**	**6,517**	**272**	**876**	**5**	**203**	**13,753**
Additions to assets under preparation		-	-	-	-	-	-	-	379	379
Transfer to assets		-	-	131	307	-	106	-	(544)	-
Disposals		-	-	(50)	(30)	(77)	-	-	-	(157)
Balance at 31 December 2016		**367**	**2,274**	**3,319**	**6,794**	**195**	**982**	**5**	**39**	**13,975**
Accumulated depreciation										
Balance at 1 January 2016		**-**	**(469)**	**(2,484)**	**(5,469)**	**(199)**	**(350)**	**(2)**	**-**	**(8,973)**
Amortisation/depreciation	9	-	(25)	(441)	(360)	(18)	(65)	(1)	-	(910)
Decrease		-	-	49	20	78	-	-	-	147
Balance at 31 December 2016		**-**	**(494)**	**(2,876)**	**(5,809)**	**(139)**	**(415)**	**(3)**	**-**	**(9,736)**
Impairment										
Balance at 1 January 2016		**-**	**(1,254)**	**-**	**(74)**	**-**	**-**	**-**	**-**	**(1,328)**
Impairment		-	-	-	(289)	-	(136)	-	-	(425)
Balance at 31 December 2016		**-**	**(1,254)**	**-**	**363**	**-**	**(136)**	**-**	**-**	**(1,753)**
Carrying amount										
Balance at 1 January 2016		**367**	**551**	**754**	**974**	**73**	**526**	**3**	**203**	**3,452**
Balance at 31 December 2016		**367**	**526**	**443**	**622**	**56**	**431**	**2**	**39**	**2,486**

In 2016, reasons occurred for the impairment of investments in foreign buildings in the amount of EUR 136 thousand (in 2015, we made impairments for the bank branches in the amount of EUR 152 thousand) and impairment of equipment in the amount of EUR 289 thousand (in 2015, the impairment of equipment amounted to EUR 74 thousand).

b) Movement Bank 2015

EUR 000'

	Note	Land	Real estate	Computer hardware	Furniture and other equipment	Motor vehicles	Leasehold improvements	Equipment acquired under finance lease	Tangible fixed assets under preparation	Total
Cost										
Balance at 1 January 2015		**367**	**2,274**	**3,394**	**6,513**	**330**	**715**	**5**	**104**	**13,702**
Additions to assets under preparation		-	-	-	-	-	-	-	846	846
Transfer to assets		-	-	254	331	-	161	-	(747)	(1)
Disposals		-	-	(409)	(327)	(58)	-	-	-	(794)
Balance at 31 December 2015		**367**	**2,274**	**3,238**	**6,517**	**272**	**876**	**5**	**203**	**13,753**
Accumulated depreciation										
Balance at 1 January 2015		**-**	**(439)**	**(2,398)**	**(5,516)**	**(224)**	**(270)**	**(1)**	**-**	**(8,848)**
Amortisation/depreciation	9	-	(30)	(496)	(258)	(23)	(80)	(1)	-	(937)
Decrease		-	-	410	305	48	-	-	-	763
Balance at 31 December 2015		**-**	**(469)**	**(2,484)**	**(5,469)**	**(199)**	**(350)**	**(2)**	**-**	**(8,973)**
Impairment										
Balance at 1 January 2015		**-**	**(1,102)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,102)**
Impairment		-	(152)	-	(74)	-	-	-	-	(226)
Balance at 31 December 2015		**-**	**(1,254)**	**-**	**(74)**	**-**	**-**	**-**	**-**	**(1,328)**
Carrying amount										
Balance at 1 January 2015		**367**	**733**	**996**	**997**	**106**	**445**	**4**	**104**	**3,752**
Balance at 31 December 2015		**367**	**551**	**754**	**974**	**73**	**526**	**3**	**203**	**3,452**

c) **Movement - Group for 2015**

EUR 000'

	Note	Land	Real estate	Computer hardware	Furniture and other equipment	Motor vehicles	Leasehold improvements	Equipment acquired under finance lease	Tangible fixed assets under preparation	Total
Cost										
Balance at 1 January 2015		**367**	**2,274**	**3,676**	**7,246**	**606**	**715**	**5**	**104**	**14,993**
Additions to assets under preparation		-	-	-	-	-	-	-	846	846
Transfer to assets		-	-	255	331	-	161	-	(747)	-
Disposals		-	-	(658)	(532)	(186)	-	-	-	(1,376)
Balance at 31 December 2015		**367**	**2,274**	**3,273**	**7,045**	**420**	**876**	**5**	**203**	**14,463**
Accumulated depreciation										
Balance at 1 January 2015		-	**(439)**	**(2,659)**	**(6,232)**	**(499)**	**(270)**	**(1)**	-	**(10,100)**
Amortisation/depreciation	9	-	(30)	(510)	(266)	(23)	(80)	(1)	-	(910)
Decrease		-	-	660	508	175	-	-	-	1,343
Balance at 31 December 2015		-	**(469)**	**(2,509)**	**(5,990)**	**(347)**	**(350)**	**(2)**	-	**(9,667)**
Impairment										
Balance at 1 January 2015		-	**(1,102)**	-	-	-	-	-	-	**(1,102)**
Impairment		-	(152)	-	(74)	-	-	-	-	(226)
Balance at 31 December 2015		-	**(1,254)**	-	**(74)**	-	-	-	-	**(1,328)**
Carrying amount										
Balance at 1 January 2015		**367**	**733**	**1,017**	**1,014**	**107**	**445**	**4**	**104**	**3,791**
Balance at 31 December 2015		**367**	**551**	**764**	**981**	**73**	**526**	**3**	**203**	**3,468**

In 2016, the Bank wrote off property, plant and equipment (fixed assets), the original cost of which amounted to EUR 52 thousand. At the Group level, the cost of written-off fixed assets amounted to EUR 762 thousand. The cost of fully depreciated tangible fixed assets the Bank still uses amounts to EUR 9,736 thousand (2015: EUR 5,392 thousand). The Bank did not pledge any fixed assets in the period under review.

24. Intangible assets

a) Movement Bank and Group for 2016

EUR 000'

	Note	Business solutions and software	under prepara-tion	Total
Cost				
Balance at 1 January 2016		**10,810**	**221**	**11,031**
Additions to assets under preparation		-	774	774
Transfer to assets		925	(925)	-
Decrease		-	-	-
Balance at 31 December 2016		**11,735**	**70**	**11,805**
Accumulated depreciation				
Balance at 1 January 2016		**(8,174)**	**-**	**(8,174)**
Increase	9	(911)	-	(911)
Decrease		-		-
Balance at 31 December 2016		**(9,085)**	**-**	**(9,085)**
Impairment				
Balance at 1 January 2016		(512)	-	(512)
Impairment		(69)	-	(69)
Balance at 31 December 2016		(581)	-	(581)
Carrying amount				
Balance at 1 January 2016		**2,124**	**221**	**2,345**
Balance at 31 December 2016		**2,069**	**70**	**2,139**

b) Movement - Bank 2015

EUR 000'

	Note	Software	Long-term deferred development costs	Other intangible assets	Under preparation	Total
Cost						
Balance at 1 January 2015		**11,068**	**32**	**42**	**-**	**11,142**
Additions to assets under preparation		-	-	-	994	994
Transfer to assets		773	-	-	(773)	-
Decrease		(1,031)	(32)	(42)	-	(1,105)
Balance at 31 December 2015		**10,810**	**-**	**-**	**221**	**11,031**
Accumulated depreciation						
Balance at 1 January 2015		**(7,788)**	**(32)**	**(42)**	**-**	**(7,862)**
Increase	9	(1,367	-	-	-	(1,367)
Decrease		981	32	42	-	1.055
Balance at 31 December 2015		**(8,174)**	**-**	**-**	**-**	**(8,174)**
Impairment						
Balance at 1 January 2015		-				
Impairment		(512)	-	-	-	(512)
Balance at 31 December 2015		(512)	-	-	-	(512)
Carrying amount						
Balance at 1 January 2015		**3,280**	**-**	**-**	**-**	**3,280**
Balance at 31 December 2015		**2,124**	**-**	**-**	**221**	**2,345**

c) Movement - Group 2015

EUR 000'

	Note	Software	Long-term deferred development costs	Other intangible assets	Under preparation	Total
Cost						
Balance at 1 January 2015		**11,158**	**32**	**42**	-	**11,232**
Additions to assets under preparation		-	-	-	994	994
Transfer to assets		828	-	-	(773)	55
Decrease		(1,031)	(32)	(42)	-	(1,105)
Balance at 31 December 2015		**10,955**	-	-	**221**	**11,176**
Accumulated depreciation						
Balance at 1 January 2015		**(7,804)**	**(32)**	**(42)**	-	**(7,878)**
Increase	9	(1,367)	-	-	-	(1,367)
Decrease		961	32	42		1,035
Balance at 31 December 2015		**(8,210)**	-	-	-	**(8,210)**
Impairment						
Balance at 1 January 2015		-				
Impairment		(512)	-	-	-	(512)
Balance at 31 December 2015		**(512)**	-	-	-	**(512)**
Carrying amount						
Balance at 1 January 2015		**3,354**	-	-	-	**3,354**
Balance at 31 December 2015		**2,233**	-	-	**221**	**2,454**

In 2016, there were reasons for impairment of intangible assets in the amount of EUR 69 thousand (in 2015 in the amount of EUR 512 thousand).

In the past year, no items of intangible assets were pledged as collateral.

25. Non-current investments in equity of subsidiaries

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Equity investments in subsidiaries (gross, without impairment)	7	7	3,902	7
Impairment recognised through profit or loss	-	-	(3,328)	-
TOTAL NET	**7**	**7**	**574**	**7**

In 2014, the Bank acquired an interest in Hypo Leasing d.o.o. The Bank fully consolidates the financial statements of the subsidiary Hypo Leasing d.o.o.

In 2016, the Bank started the bidding process for the sale of the company, i.e. the portfolio of the company. Based on the successfully executed process of selecting the best provider, on 21 October 2016 a contract was signed under which Gorenjska banka d.d. took over the portfolio of contracts on financial leasing of movable property. At the same time, a contract was signed for the sale of the company, on the basis of which the incumbent owner of the Company, i.e. Addiko Bank d.d., had to carry out certain activities (e.g. write-off, i.e. sale, of fixed assets of the Company, termination of employment relations, derecognition of provisions and deferrals, etc.). The sale of portfolio was carried out on 29 December 2016, which means that, in economic terms, all the contracts were transferred to Gorenjska Banka d.d. The sale of the company was carried out on 1 February 2017.

a) Movement - Non-current investments in equity of subsidiaries

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Balance at 1.1.	574	7	3.902	7
Impairment	(265)	-	(3,328)	-
Movement on Non-Current investment in equity of subsidiaries	(303)	-	-	-
Balance at 31.12.	**7**	**7**	**574**	**7**

26. Other assets

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Inventories	3	3	2	571
Advances	103	103	40	646
Tax credits	15	15	19	1,802
Deferred costs	548	548	1,169	1,405
TOTAL	**668**	**668**	**1,230**	**4,423**

27. Financial liabilities held for trading

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Forward contracts – foreign exchange	65	65	39	39
Swap contracts – foreign exchange	66	66	9	9
Options (interest)	288	288	262	262
Swaps (interest)	1,428	1,428	2,471	2,471
Total derivatives	**1,847**	**1,847**	**2,772**	**2,772**

Contractual values of derivatives are presented in the Note 15a.

28. Deposits, loans

a) Deposits of banks and clients

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Demand deposits	**271,927**	**271,927**	**217,222**	**217,222**
- banks	368	368	607	607
- clients	271,559	271,559	216,615	216,615
Term deposits	**713,113**	**712,526**	**682,676**	**680,488**
- banks	9,505	9,505	108,179	108,179
- clients	703,608	703,021	574,497	572,310
TOTAL	**985,040**	**984,453**	**899,898**	**897,710**
Deposits of banks and clients maturing within 12 months of the reporting date	766.719	766.132	681,892	679,704
Deposits of banks and clients maturing in a period of more than 12 months of the reporting date	218.321	218.321	218,007	218,007

b) Borrowings from banks

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Borrowings from banks	212,805	212,805	220,876	299,792
TOTAL	**212,805**	**212,805**	**220,876**	**299,792**
Borrowings from banks maturing within 12 months of the reporting date	175,000	175,000	153,838	200,086
Borrowings from banks maturing in a period of more than 12 months of the reporting date	37,805	37,805	67,038	99,706

c) Debt securities

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Certificates of deposit issued to clients	6,544	6,544	28,146	28,146
TOTAL	**6,544**	**6,544**	**28,146**	**28,146**
Financial liabilities maturing within 12 months of the reporting date	203	203	24,366	24,366
Financial liabilities maturing in a period of more than 12 months of the reporting date	6,341	6,341	3,780	3,780

d) ECB collateral

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Assets suitable for ECB collateral	**195,704**	**195,704**	**206,683**	**206,683**
- Available-for-sale financial assets	41,087	41,087	55,216	55,216
- Held-to-maturity financial assets	78,764	78,764	88,338	88,338
- Loans	75,853	75,853	63,130	63,130
Assets pledged into ECB Pool	**175,405**	**175,405**	**200,000**	**200,000**
Non-pledged assets (pledge-free assets)	**20,299**	**20,299**	**6,683**	**6,683**
Value of ECB pool	**195,704**	**195,704**	**206,683**	**206,683**

Individual disclosures of investments/loans in Notes 17 and 20 indicate pledged amounts with ECB, inclusive of interest.

29. Subordinated liabilities

EUR 000'

	Currency	Maturity	Interest rate	31. 12. 2016 – Bank		31. 12. 2016 – Group		31. 12. 2015 – Bank		31. 12. 2015 – Group	
				Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Subordinated borrowings	EUR	25. 6. 2016	3mEUR+0,80%	-	-	-	-	20,000	-	20,000	-
	EUR	21. 2. 2017	6mEUR+0.65%	38,000	1	38,000	1	38,000	1	38,000	1
	EUR	30.10. 2018	3mEUR+4.00%	15,000	3	15,000	3	15,000	2	15,000	2
	EUR	29. 7. 2026	11.00%	15,000	715	15,000	715	-	-	-	-
TOTAL				68,000	719	68.000	719	73,000	3	73,000	3
TOTAL AMORTISED COST					68,719		68,719		73,003		73,003
Subordinated borrowings maturing in a period of more than 12 months of the reporting date					30,718		30,718		73,003		73,003

In financial years 2006, 2007 and 2008, the Bank signed 3 contracts for subordinated borrowings that are included in the Bank's Tier 2 capital in line with the banking regulations.

In 2016, the Bank received new subordinated debt, which is also a Tier 2 instrument.

The issued contracts do not include any provisions on the conversion to capital or any other obligation, such as a withdrawal clause.

Fair value is disclosed in Note "Fair value of financial assets and liabilities" on page 112

30. Other financial liabilities

EUR 000'

	31.12.2016 - Bank	31.12.2016 - Group	31.12.2015 - Bank	31.12.2015 - Group
Fees payable	5	5	4	4
Trades payable	1,177	1,177	1,559	1,983
Wages and salaries payable	617	617	611	708
Tax and contributions payable	378	378	372	392
Accrued costs (charges)	1,646	1,646	1,170	1,024
Other deferred revenue	13	13	13	13
Other liabilities from business relations	2,934	2,842	1,963	2,568
TOTAL	**6,770**	**6,678**	**5,692**	**6,692**

In the position Accrued Costs, the Bank accrued employee bonuses for 2016 in the amount of EUR 508 thousand that will be paid in 2017.

The largest part of the item Other liabilities from business relationships is liabilities from card transactions and liabilities from outstanding payments.

31. Provisions

a) Movement – Bank and Group 2016

EUR 000'

	Provisions for off-balance-sheet liabilities		Provisions for employee benefits					
	Provisions for guarantees	Provisions for undrawn borrowings	Pension benefits on retirement / severance pay before retirement?	Anniversary bonuses	Provisions for legal disputes	Provisions for restructuring	Other provisions	Total
Balance at 1.1.2015	**4,375**	**2,217**	**334**	**150**	**885**	**-**	**142**	**8,103**
Formation	7,410	11,723	23	-	551	2,053	200	21,960
Reversals	3,562	11,218	35	23	784	-	142	15,764
Utilisation	-	-	-	-	-	-	-	-
Balance at 1.1. 2016	**8,223**	**2,722**	**322**	**127**	**652**	**2,053**	**200**	**14,298**
Formation	2,897	12,383	99	37	15	312	-	15,743
Reversals	5,714	14,162	-	6	-	-	-	19,882
Utilisation	-	-	-	15		1,771	50	1,836
Transfer between items	-	-	-	-	150	-	(150)	-
Balance as at 31.12. 2016	**5,406**	**943**	**421**	**143**	**817**	**594**	**-**	**8,324**

b) Provisions for severance payments upon retirement and jubilee awards

EUR 000'

	Provisions for severance payments upon retirement – Bank 2016	Provisions for jubilee awards – Bank 2016	Provisions for severance payments upon retirement – Group 2016	Provisions for jubilee awards – Group 2016
Balance at 01.01.2016	**322**	**127**	**-**	**-**
Interest costs	6	2	-	-
Past employee benefit costs	34	7	-	-
Current employee benefit costs	44	17	-	-
Payments of earnings		(16)	-	-
Actuarial gains/losses on account of	15	6	-	-
- experiential adjustments	(6)	7	-	-
- changes in financial assumptions	21	(1)	-	
Balance at 31.12. 2016	**421**	**143**	**-**	**-**

EUR 000'

	Provisions for severance payments upon retirement – Bank 2015	Provisions for jubilee awards – Bank 2015	Provisions for severance payments upon retirement – Group 2015	Provisions for jubilee awards – Group 2015
Balance at 01.01.2015	**334**	**150**	**395**	**171**
Interest costs	9	4	10	4
Past employee benefit costs	(82)	(25)	(98)	(31)
Current employee benefit costs	39	17	44	19
Payments of earnings	22	(5)	25	(5)
Actuarial gains/losses on account of	1	(4)	1	(4)
- experiential adjustments	21	(1)	24	(1)
- changes in financial assumptions	-	(14)	-	(14)
Balance at 31.12. 2015	**322**	**127**	**376**	**144**

Significant assumptions used in the actuarial calculation are as follows:

- average interest rate 1.05%
- number of employees entitled to receive payments: Group - 392 (Bank: 377)
- assessment of growth of the future jubilee benefits: 0.5 % per year
- the expected mortality of workers is taken into account in accordance with the Slovenian mortality tables 2000-2002 separately by gender;

All changes in provisions for jubilee awards and severance payments are recognised in the profit or loss, whereas actuarial gains and losses arising from provisions for severance payments are recognised in the comprehensive income.

c) Sensitivity analysis of provisions for severance payments and jubilee awards to changes in assumptions

EUR 000'

Assumptions	Changes in assumptions	Provisions for severance payments - Bank	Provisions for jubilee awards - Bank
Discount interest rate	-0.5% change in discount rate	36	6
	+0.5% change in discount rate	(33)	(6)
Salary increase	-0.5% change in salaries	(32)	-
	+0.5% change in salaries	37	-
Death rate	Fixed decrease in death rate for 1 year	(4)	-
	Fixed increase in death rate for 1 year	3	-

d. Anticipated severance payments upon retirement

EUR 000'

	Current FY - Bank	Previous FY - Group	Previous FY - Bank
Next FY	5	-	-
Next 2 to 5 years	5	5	5
Next 5 to 10 years	77	110	63
In the next more than 10 years	1,484	1,556	2,002
Average duration of severance payments upon retirement	24.10	47	25.8

32. Deferred Tax

EUR 000'

	31.12.2016-Bank	31.12.2016-Group	31.12.2015-Bank	31.12.2015-Group
Available-for-sale financial assets (through special capital revaluation reserve)	94	94	34	34
Different depreciation rates for operating and tax purposes	-	-	-	-
Total deferred tax liabilities	**94**	**94**	**34**	**34**
Net deferred tax assets / liabilities	**(94)**	**(94)**	**(34)**	**(34)**
Included in the profit or loss	-	-	(3,996)	(4,368)
Available-for-sale financial assets (impairment)	-	-	(1,391)	(1,391)
Financial assets classified as held to maturity (impairment)	-	-	-	(364)
Different depreciation rates for operating and tax purposes	-	-	(142)	(142)
Provisions for employee benefits	-	-	(36)	(44)
Tax loss	-	-	(2,092)	(2,092)
Unutilised tax allowance and other	-	-	(335)	(335)
Included in equity	**(60)**	**(60)**	**(71)**	**(17)**
Revaluation of available-for-sale financial assets through statement of comprehensive income	(60)	(60)	(71)	(17)

Deferred tax is recognised on account of temporary differences using the balance sheet liability method and using the tax rate planned for the year when temporary differences are to be reversed, i.e. 19%.

Due to realised losses in the previous years and based on the requirements of IAS 12 for the recognition of deferred tax assets, in 2016 the Bank has not recognised deferred tax assets. In the coming years, the Bank is expecting tax profit, therefore in 2017 and subsequent years, it expects to recognise deferred tax assets arising from recognition of tax losses carried forward.

33. Other liabilities

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Liabilities for down payments received	-	-	-	924
Tax and contributions payable	469	469	559	2,685
Deferred revenue	469	469	795	1,382
Other liabilities	-	-	-	16
TOTAL	**938**	**938**	**1,354**	**5,007**

34. Equity

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Share capital	89,959	89,959	89,959	89,959
Capital reserves	18,814	20,770	61,000	60,115
Revaluation reserve	(102)	(102)	(483)	(485)
Profit reserves (including retained losses)	-	(2,431)	-	(2,431)
Net loss for the year	12,901	13,364	(52,186)	(49,345)
Total	**121,572**	**121,560**	**98,290**	**97,813**

The Bank is in 100-percent ownership of Addiko Bank AG, with headquarters in Vienna, Austria.

a) Share capital

Share capital is recorded in the nominal value and has been subscribed and paid-up by the owners.

The last increase in the share capital was carried out in 2008, when the Bank raised the amount by EUR 60,000 thousand by issuing 14,378,489 no-par value shares, representing a 52.61% increase in the subscribed capital. All shares were paid in full.

In 2015, share capital was reduced by a simple procedure with a view to covering the losses from previous years.

A total of 41,706,318 no-par value shares labelled HYPG are registered in the central register of book-entry securities. In terms of rights, all shares are ordinary registered no-par value shares.

b) Capital reserves

In 2015, the change in capital reserves amounted to EUR 61,000 thousand. The reduction in the amount of EUR 6,300 thousand was intended to cover the deferred losses of past years. In 2016, there was an increase in capital reserves of EUR 10,000 thousand. The reduction in the amount of EUR 52,186 thousand was intended to cover the loss from the year 2015.

c) Accumulated other comprehensive income

The revaluation reserve relates to enhancement or impairment of available-for-sale financial.

As at 31 December 2016, the revaluation reserve amounts to EUR 102 thousand (31.12.2015: EUR 483 thousand).

d) Profit reserves

Profit reserves may only be made from the amounts of net profit for the financial year and profits brought forward. They are intended primarily for the settlement of potential future losses. They are classified as legal reserves, reserves for own shares, own shares, statutory reserves and other profit reserves.

According to the provisions of the Companies Act, the amount of the Bank's reserves, which comprise legal and capital reserves, has to be equal to 10% of the share capital of the Bank or more if so defined by the statute. When legal and capital reserves together do not amount to the above stated amount of the share capital, the Bank has to transfer 5% of the net profit less the amount used to cover potential losses brought forward to the statutory reserves.

Capital and legal reserves (time reserves) may only be used under the following conditions:

a) If the total amount of these reserves does not reach the percentage of the share capital determined by law or the Statute, they may only be used:

- to cover a net loss for the financial year if it cannot be covered from retained earnings or from other profit reserves;
- to cover a loss brought forward if it cannot be covered from the net profit for the financial year or from other profit reserves;

b) If the total amount of these reserves exceeds the percentage of the share capital determined by law or the statute, the surplus amount of these reserves may be used:

- to increase the share capital from the Bank’s assets;
- to cover a net loss for the financial year if it cannot be covered from retained earnings, provided that profit reserves are not simultaneously used for a pay-out of profit to the members and
- to cover a net loss brought forward if it cannot be covered from a net profit for the financial year, provided that profit reserves are not simultaneously used for a pay-out of profit to the members.

Other profit reserves may be used for any purpose, unless stated otherwise in the statute.

e) Net profit / loss for the year

Net profit for the year may be used to:

- Create legal reserves,
- Create reserves for treasury shares,
- Create statutory reserves and
- Create other profit reserves.

The table below shows the accumulated losses:

EUR 000'

	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Profit for the financial year	12,901	13,364	(52,186)	(49,345)
Retained net losses	(52,186)	(49,345)	(90,378)	(91,263)
Reduction of capital reserves	52,186	49,345	6,300	7,185
Reduction of share capital	-	-	84,078	84,078
Total accumulated losses	**12,901**	**13.364**	**(52,186)**	**(49,345)**

In 2016, the Bank recorded a profit in the amount of EUR 12,901 thousand (2015: EUR 52,186 thousand). The Group's profit for the year amounted to EUR 13,364 thousand.

At the Supervisory Board Meeting held on 3.4.2017, the Management Board will propose that the result for the financial year 2016 in the amount of EUR 12,901 thousand should be transferred to retained earnings.

35. Contingent liabilities and assumed financial obligations

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Guarantees	77,116	77,116	93,621	93,937
Service guarantees	63,445	63,445	74,540	74,857
Short-term	15,373	15,373	17,248	17,248
Long-term	48,072	48,072	57,292	57,608
Financial guarantees	13,671	13,671	19,080	19,080
Short-term	5,975	5,975	6,301	6,301
Long-term	7,697	7,697	12,779	12,779
Assumed obligations from approved loans	107,789	107,789	101,476	102,653
Approved Loans	15,493	15,493	13,860	13,860
short-term	15,185	15,185	13,087	13,087
long-term	308	308	773	773
Approved credit lines	92,296	92,296	87,616	88,793
Derivatives	225,730	225,730	191,851	191,851
TOTAL	410,635	410,635	386,948	388,441

Assumed liabilities from approved loans can be withdrawn within one year at the latest.

Residual maturities of financial guarantees are presented in section "Financial risk management: Liquidity risk".

4.5.5 Other notes

36. Fiduciary accounts

In accordance with the local legislation (Decision on disclosure of banks and savings banks published in the Official Gazette RS No. 100/2011), this Note includes assets and liabilities of clients resulting from brokerage transactions. As at 31 December 2016, the Bank provided brokerage services for assets in the amount of EUR 10 thousand (31 December 2015: EUR 3,423 thousand). These assets are recorded separately from the Bank's own assets in the off-balance-sheet records as authorised operations.

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
ASSETS	10	10	3,423	3,423
Receivables of the settlement account or transaction accounts for clients' assets	10	10	1,434	1,433
From financial instruments (35.a.)	10	10	95	95
To Central Securities Clearing Corporation or Bank's settlement account for sold financial instruments	-	-	152	152
To other settlement systems and institutions for sold (clients') financial instruments	-	-	1,187	1,187
Clients' cash	-	-	1,989	1,989
On the settlement account for clients' assets	-	-	1,989	1,989
LIABILITIES	10	10	3,423	3,423
Receivables of the settlement account or transaction accounts for clients' assets	10	10	3,423	3,423
To clients from cash and financial instruments	-	-	3,328	3,328
To Central Securities Clearing Corporation or Bank's settlement account for purchased financial instruments	-	-	50	50
To other settlement systems and institutions for purchased (suppliers') financial instruments	-	-	9	9
To bank or bank's settlement account for commission, costs and similar items	10	10	36	36

Among others, the off balance sheet records include fiduciary transactions with securities for Bank customers. The Bank assumes no credit risk in regards to fiduciary accounts.

a) Receivables of the settlement account or transaction accounts for clients' financial instruments

EUR 000'

	31. 12. 2016 – Bank	31. 12. 2016 – Group	31. 12. 2015 – Bank	31. 12. 2015 – Group
Off-balance-sheet records				
Clients' financial instruments, separately by services	10	10	95	95
Receiving, brokerage and processing of orders	10	10	91	91
Management of financial instruments	-	-	4	4

37. Related party transactions

a) Bank's exposure to entities in special relationship with the Bank

EUR 000'

	Members of the Management Board and their close family members, staff with individual contracts of employment and members of management of related companies			
	2016 - Bank	2016 - Group	2015 - Bank	2015 - Group
Granted loans				
Balance at 1.1.	2,162	2,162	2,559	2,559
New Loans	240	240	431	431
Repayments	237	237	329	329
Other changes/reduction	1,083	1,083	499	499
Balance at 31.12.	1,082	1,082	2,162	2,162
Interest, fee and commission income	15	15	114	114
Received deposits				
Balance at 1.1.	431	431	825	825
Balance at 31.12.	175	175	431	431
Interest expense	1	1	8	8
Approved overdrafts and loans				
Balance at 1.1.	206	206	206	206
Balance at 31.12.	**182**	**182**	**182**	**182**

b) Remunerations of employees with individual contracts

EUR 000’

	Bank - 2016	Group - 2016	Bank – 2015	Group - 2015
Salaries and other short term benefits	1,376	1,444	1,906	363
Provisions for employee benefits	67	75	33	33

Board who are employed in Addiko Bank are not entitled to attendance fees or incentives.

In 2016 and 2015, members of the Supervisory Board were not clients of the Bank.

c) Remunerations of the Management Board in 2016

EUR 000’

	Mag. Matej Falatov (President)	Miha Mihič (Member)	Tadej Krašovec (Member)	Dejan Kaisersberger (former Member)
Salaries	262	53	11	95
Refund of work-related costs	3	1	-	1
Other (additional pension insurance)	3	1	-	3
Other earnings in accordance with the decision of the Supervisory Board	4	-	-	-

In 2016, on 19 July, Miha Mihič joined the Management Board as its third member. On 30 September, Dejan Kaisersberger resigned from the position of member of the Management Board. On 13 December, Tadej Krašovec joined the Management Board as the third member.

On 31 December 2016, the Management Board comprised three members:

- Mag. Matej Falatov, President of the Management Board
- Miha Mihič, Management Board member and
- Tadej Krašovec, Management Board member.

d) Remunerations of the Supervisory Board in 2016

In accordance with the Rules of procedure of the Supervisory Board, members of the Supervisory Board who are employed in Addiko Bank are not entitled to attendance fees or incentives. Incentives belong only to the external member, Henning Giesecke, who received EUR 12 thousand in 2016.

In 2016 and 2015, members of the Supervisory Board were not clients of the Bank.

e) Bank's exposure to related parties

Bank

EUR 000'

	Controlling company		Related parties*	
	2016	2015	2016	2015
ASSETS				
Financial Assets Held for Trading				
Balance at 1.1.	83	407	-	-
Balance at 31.12.	60	83	-	-
Demand deposits				
Balance at 1.1.	2,886	5,430	595	175
Balance at 31.12.	117,220	2,886	2,504	595
Current deposits				
Balance at 1.1.	5618	4,031	-	-
Balance at 31.12.	6,644	5,618	-	-
Loans				
Balance at 1.1.	-	-	38,520	-
New Loans	-	-	350	38,520
Repayments	-	-	38,520	-
Balance at 31.12.			350	38,520
Other financial assets				
Balance at 1.1.	294	-	910	888
Balance at 31.12.	-	-	400	910

LIABILITIES				
Financial liabilities held for trading				
Balance at 1.1.	2,459	4,017	-	-
Balance at 31.12.	1,498	2,459	-	-
Demand deposits				
Balance at 1.1.	-	-	2,796	1,056
Balance at 31.12.	-	-	954	2,796
Current deposits				
Balance at 1.1.	-	-	-	88,647
Other decrease	-	-		88,647
Balance at 31.12.	-	-	-	-
Non-current deposits				
Balance at 1.1.	107,725	158,884	-	-
Increase	6,009	25,693	-	-
Decrease	113,734	76,852	-	-
Balance at 31.12.	-	107,725	-	-
Subordinated debt				

Balance at 1.1.	73,003	73,003	-	-
Increase	15,716	-		
Decrease	20,000	-	-	-
Balance at 31.12.	68,719	73,003	-	-
Other liabilities				
Balance at 1.1.	419	18	260	518
Balance at 31.12.	406	419	93	260

OFF-BALANCE-SHEET RECORDS				
Issued Guarantees				
Balance at 1.1.	-	-	52	256
Balance at 31.12.	-	-	-	52

INCOME STATEMENT				
Interest income	20	6	369	1
Interest expense	4,611	5,915	1	2
Fee and commission income	-	48	72	39
Fee and commission expense	806	852	3	2
Other income	361	-	328	910
Other expenses	446	690	77	208
Impairment	-	-	265	3,328

*Addiko Bank AG Austria, Hypo Alpe-Adria Leasing d.o.o., Ljubljana, Addiko Bank d.d., Zagreb, Addiko Bank d.d., Sarajevo, Addiko Bank a.d., Banja Luka, Addiko Bank a.d., Beograd, Addiko Bank a.d., Podgorica.

Group

EUR 000'

	Controlling company		Related parties*	
	2016	2015	2016	2015
ASSETS				
Financial Assets Held for Trading				
Balance at 1.1.	83	407	-	-
Balance at 31.12.	60	83	-	-
Demand deposits				
Balance at 1.1.	2,886	5,430	595	175
Balance at 31.12.	117,220	2,886	2,504	595
Current deposits				
Balance at 1.1.	5,618	4,031	-	-
Balance at 31.12.	6,664	5,618	-	-
Loans				
Balance at 1.1.	-	-	-	-
New Loans	-	-	350	-
Repayments	-	-	-	-
Balance at 31.12.	-	-	350	-
Other assets				
Balance at 1.1.	294	-	-	-
Balance at 31.12.	-	-	-	-

LIABILITIES				
Financial liabilities held for trading				
Balance at 1.1.	2,459	4,017	-	-
Balance at 31.12.	1,498	2,459	-	-
Demand deposits				
Balance at 1.1.	-	-	611	559
Balance at 31.12.	-	-	1	611
Non-current deposits				
Balance at 1.1.	186,628	312,544	-	-
Increase	6,009	25,693	-	-
Decrease	192,637	151,609	-	-
Balance at 31.12.	0	186,628	-	-
Subordinated debt				
Balance at 1.1.	73,003	73,003	-	-
Increase	15,716	-	-	-
Decrease	20,000	-	-	-
Balance at 31.12.	68,719	73,003	-	-
Other liabilities			-	-
Balance at 1.1.	433	94	-	-
Balance at 31.12.	754	433	-	-

OFF-BALANCE-SHEET RECORDS				
Issued Guarantees				
Balance at 1.1.	-	-	-	204
Balance at 31.12.	-	-	-	-

INCOME STATEMENT				
Interest income	20	4	42	-
Interest expense	6,233	4,768	-	-
Fee and commission income	-	22	-	5
Fee and commission expense	806	216	3	2
Other income	361	-	1	-
Other expenses	452	34	1	-
Trading result	-	741	-	-

*Addiko Bank AG Austria, Hypo Alpe-Adria Leasing d.o.o., Ljubljana, Addiko Bank d.d., Zagreb, Addiko Bank d.d., Sarajevo, Addiko Bank a.d., Banja Luka, Addiko Bank a.d., Beograd, Addiko Bank a.d., Podgorica.

The Bank is in 100-percent ownership of Addiko bank AG. Since 1 February 2017, the Bank has had a subsidiary, Hypo Leasing d.o.o. In addition, through its parent bank, the Bank is indirectly linked to banks and companies in the Addiko Group.

The Bank cooperates with its parent bank, related banks and enterprises in transactions involving loans, deposits, letters of credit and guarantees, as shown in the table above.

In accordance with Article 545 of the Companies Act, we hereby declare that to the extent of circumstances known to it, the Bank performs services between related parties under market conditions.

In all transactions with the parent bank and other related parties in the Group in 2016, the Bank has obtained appropriate payments and has not suffered any loss as a result of these transactions.

Financial Risk Management

Risk awareness and proactive focus on risk management are the two key elements that are reflected in the operating activities of Addiko Group.

The risk management process in the Bank has three components:

- Controlling component, which consists of identification, measurement (analysing, valuation) and monitoring of risks in terms of portfolio and risk reporting;
- Risk limiting component;
- Risk managing component that consists of risk acceptance, risk avoidance and mitigation, transfer and diversification of risks.

The Bank set up a single organisational structure where risk management responsibilities for individual segments are segregated and they all answer directly to the CRO (member of the Management Board responsible for risk management).

In 2016, the Retail Risk Management Department continued to adjust credit policies to current trends in the retail sector and small and medium-sized enterprises. Individual products are monitored regularly through portfolio analyses, which is the basis for adjusting the credit policy in the direction of the target portfolio.

On the basis of the changes in the portfolio of individuals and micro and medium-sized enterprises, different strategies of recovery are being developed to minimise exposure to non-payers by using various tools of restructuring.

Organisational structure of the risk management segment:

- Credit risk management
- Risk Controlling
- Retail Risk Management

Employees in the above mentioned departments are continually involved in active monitoring and assessment of the risk management process by:

- Identifying individual risk exposures the Bank is subjected to,
- Defining methods used to measure risks that are materially significant,
- Defining risk management policies pertaining to individual risks,
- Proposing individual risk exposure limits and
- Performing other tasks to mitigate the risks the Bank is exposed to.

The Bank's Management Board defines the Bank's strategy and goals and is responsible for assumed risks (within the Group's strategy and goals). The strategy is explained in more details at the ALCO (Asset and Liabilities Committee) meetings. Business segments are responsible for implementing business goals and for risk management related to these goals. Risk is managed actively at all levels and within the valid risk limits (defined by divisions/functions that are independent in respect of operating sectors) by performing activities for assuming risk, avoiding risk and mitigating, transferring and diversifying risk.

In 2016, the Bank continued to carry out the appropriate process of internal capital management, as defined in CRR/CRDIV Directives. In addition to reviewing the credit portfolio divided by segments (individuals, entities, collection, etc.), the Bank monitored some specific key indicators of economic development (GDP, consumer spending index, industrial orders and similar) through its RECO Committee that deals with all important risks comprehensively and in one place and identified potential exposures to the most problematic debtors, industrial segments, types of collateral and default ratings, etc.

Within the scope of credit risk management, the Bank independently assesses credit risk and performs the function of observation, i.e. monitoring of the corporate and public institutions portfolio. Credit Risk Management has the function of voting and approving credit proposals in accordance with the document Local principles of financing. The department is responsible for approvals, recommendations and transmission of credit proposals to relevant decision-making bodies; using the expertise, it advises on the structure of credit proposals. The scope covers both profitable and unprofitable investments. A special department is responsible for the management of problematic investments (unprofitable investments). Its aim is to minimise the potential credit losses through active management.

In 2016, the Bank continued to pursue its objectives of efficient management and control of risk weighted assets and their optimisation to ensure quality capital management. The Capital Steering Group was established back in 2012 for this particular purpose. The Capital Steering Group (CSG) meets monthly or as necessary and monitors the amount and structure of capital and capital requirements and consequently the processes that ensure capital adequacy as prescribed by the Bank of Slovenia and the internally set limits.

Despite the improvement in economic activity measured by GDP and signs of improvement, the Bank closely monitors external influences and events pointing to the possibility of deterioration - ultimately, impacts of the recent global economic downturn are still strongly present, and therefore the Bank pays a lot of attention to the collateralised assets, mainly the values of real estate and securities. It also regularly runs the so called "stress scenarios" in respect of decrease of credit collateral and studies the results of these simulations. Once the value of the collateral falls below the internally defined minimum ratio, the Bank calls upon its clients to either provide additional collateral or repay the loan. Management of collateral is the key to managing the Bank's capital and required impairments of the Bank's credit portfolio. This is the reason a new department was established, the main task of which is to monitor and ensure appropriate collateral.

In respect of the liabilities related to obtaining additional financing sources, the Bank acts pursuant to instructions of the parent bank in Austria. The agreed credit lines are compliant with the plans for continuing growth of the credit portfolio. On the other hand, the Bank plans to acquire new assets for financing of investments through received deposits from legal entities as well as individuals, as set in the planned goals. This will provide the resources for financing the assets.

The Bank estimates that despite the positive economic sentiment and GDP indicators in 2016 for Slovenia, there is a risk due to the still high indebtedness of individual businesses that have not gone through a restructuring process and lengthy court or bankruptcy proceedings where the bank acts as a creditor as well as due to external influences, which may be either directly or indirectly linked to economic activity and stability of enterprises, especially the deflation in the EU, continued restrictions on EU Member States regarding exporting to Russia and the decline in economic activity in China. All this and active monitoring and risk management of credit and liquidity risk in respect of clients and collateral continues to be the Bank's primary task for the future.

The Bank manages its capital adequacy both in terms of legislation and in terms of internal planning, i.e. monthly Internal Capital Adequacy Assessment Procedure - ICAAP. For this reason, the Bank established a monthly credit portfolio and appropriate measures to be taken if the set limit exposures were exceeded. If this happens, ALCO and RECO Committees are informed. To ensure an appropriate level of capital adequacy, the Bank has set RWA (Risk Weighted Assets) limits for controlling the capital adequacy ratio. Within the framework of its risk management activities, the Bank pursues legislative changes and guidelines. In the context of the implementation of the new capital directives CRD IV/CRR and Basel III, the Bank successfully completed the project and introduced all the necessary activities in the reporting process and in the future operations of the Bank in accordance with the strategy.

4.5.6 Credit risk

Credit risk is a risk of financial loss resulting from the debtor's inability to fulfil its financial or contractual obligations towards the Bank, in part or in full, for any reason. Credit risk management is a key component of the Bank's diligent and safe operations. Diligent credit risk management comprises prudent management of the relationship between risk and return and supervision and reduction of credit risk through different perspectives, such as quality, concentration, currency, maturity, collateral and type of loan.

Throughout the duration of the credit relationship with the client, the Bank monitors client's operations and quality of the financial asset's collateral or the assumed liability.

The starting point for monitoring and classification of clients is a systematic review of the Bank's portfolio. On the basis of internal methodology, the Bank classifies the financial assets measured at amortised costs, i.e. assumed liabilities, in the off-balance sheet items.

In 2010, the Bank had, in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and the decisions of the Bank of Slovenia, considered all the exposures where the Bank's exposure to a single debtor exceeded EUR 150,000 as an individually relevant financial asset or assumed liability in the off-balance-sheet items and had regularly and individually assessed them.

Other key indicators of the potential impairment of a financial asset that are used by the Bank as criteria for individual assessment of a debtor are:

- The client is in delay with repayment of its obligations in the materially significant amount for at least 90 days;
- Bankruptcy or compulsory settlement of the client;
- Proof of client's serious financial problems, including reprogramming due to the client's economic, legal or other problems, irregular settlement of liabilities within the group of related entities and significant economic problems in the client's industry.

For clients that represent an individually insignificant exposure for the Bank or for clients for which the Bank estimates, based on an individual assessment, that individual impairment of the financial asset is not required, a collective calculation of the portfolio impairment of the financial asset is made in accordance with the IFRS requirements. The Bank recognises the percentage of the group impairment as loss in the profit or loss.

The Bank has procedures in place for monitoring the credit quality of debtors that enable timely detection of debtors in financial difficulty. In the case of a financial difficulty of a debtor, in order to limit the Bank's losses the Bank uses the process of restructuring for debtors who have no perspective and to enhance the chances for successful restructuring, survival and at least partial repayment of debts for viable debtors.

In the process of restructuring, the Bank uses measures such as:

- extension of deadline or deferred repayment of amounts receivable,
- reduction in interest rates or other costs,
- write-off of receivables,
- debt-to-equity swap,
- collection of other assets for partial or full repayment of a receivable.

Following the restructuring, the Bank regularly monitors the debtor's payments of obligations in accordance with the new conditions agreed upon and takes further steps to achieve a successful restructuring of the debtor.

The Bank has adopted additional measures designed to ensure the appropriate supervision of credit risks. New tools were added to the investment decision procedure in this respect; these tools are used for credit rating of clients.

Table of the Bank's and Group's internal credit ratings, mapped pursuant to the credit ratings of external credit rating agencies:

Internal rating	PD	S&P	Moody's	Fitch	Description
1A	0.00%	AAA, AA+	Aaa, Aa1, Aa2	AAA, AA+, AA	Investment grade
1B	0.03%	Aa, AA-			Investment grade
1C	0.07%	A+, A, A-	Aa3, A1, A2, A3	AA-, A+, A	Investment grade
1D	0,15 %	BBB+, BBB	Baa1, Baa2	A-, BBB+, BBB	Investment grade
1E	0.30%	BBB-	Baa3	BBB-	Investment grade
2A	0.50%	BB+			Investment grade
2B	0.80%	BB	Ba1, Ba2	BB+, BB	Non-investment grade
2C	1.20%	BB-		BB-, B+	Non-investment grade
2D	1.70%		Ba3		Non-investment grade
2E	2.30%	B+	B1	B	Non-investment grade
3A	3.00%			B-	Non-investment grade
3B	3.90%		B2		Non-investment grade
3C	5.00%	B			Non-investment grade
3D	6.30%		B3		Non-investment grade
3E	7.50%		Caa1		Non-investment grade
4A	9.00%	B-			Non-investment grade
4B	11.00%				Non-investment grade
4C	14.00%				Non-investment grade
4D	19.00%		Caa2		Non-investment grade
4E	25.00%	CCC/C	Caa3, Ca to C	CCC to C	Non-investment grade
5A	100.00%	D	D	D	Default class
5B	100.00%	D	D	D	Default class
5C	100.00%	D	D	D	Default class
5D	100.00%	D	D	D	Default class
5E	100.00%	D	D	D	Default class

The Bank also pays special attention to identification and monitoring of credit risk concentration. The risk management department prepares regular monthly reports on risks in the Bank's credit portfolio for the decision makers; they include reporting on exposure, excessive concentration, above all in specific industries, credit rating groups and the type of collateral. The key indicators are presented at the ALCO and RECO Committee meetings.

Total credit risk exposure of the Bank at 31 December 2016 amounts to EUR 1,736,314 thousand and at the level of the Group EUR 1,736,899 thousand. The capital requirement in respect of credit risks is presented in the equity calculation table.

Different outlines of credit risk exposures as at 31 December 2016 are presented below:

a) **The highest (maximum) credit risk exposure without taking into consideration collateral or other improvements** (the carrying value of the receivable decreased for potential loss and impairment; in the case of financial assets at fair value, the amounts in the table below show the present fair value and do not show the risk resulting from the future change of the fair value).

EUR 000'

Bank	2016			2015		
	Gross	Adjust-ment	Net	Gross	Adjust-ment	Net
I. Balance sheet items	**1,605,677**	**59,024**	**1,546,654**	**1,545,589**	**132,491**	**1,413,098**
1. Cash and balances at	134,450	0	134,450	92,936	0	92,936
Central Bank						
2. Loans to Banks	138,103	0	138,103	3,798	10	3,788
3. Loans to clients	1,166,272	59,024	1,107,248	1,176,503	95,310	1,081,193
3a Loans to individuals	560,463	11,507	548,956	494,418	13,064	481,354
- Housing loans	361,258	7,641	353,617	397,301	7,891	389,410
- Consumer loans	185,606	3,403	182,203	83,611	4,263	79,349
- Other	13,599	463	13,136	13,506	910	12,596
3b Corporate loans	605,810	47,517	558,292	682,085	82,246	599,839
- Large enterprises	295,943	19,690	276,253	290,778	36,458	254,320
- Small and medium enterprises	153,516	8,604	144,912	209,201	11,138	198,063
- Other	156,350	19,223	137,127	182,107	34,651	147,456
Financial assets held	8.551	0	8.551	418	0	418
5. Financial assets held to maturity and available-for sale financial assets	153,008	0	153,008	264,908	37,171	227,737
6. Other financial assets	5,293	0	5,293	7,026	0	7,026
II. Off-balance-sheet items	**130,637**	**2,882**	**127,754**	**121,727**	**6,183**	**115,543**
1. Payment guarantees	13,671	1,939	11,733	19,080	3,462	15,619
2. Undrawn loans	116,965	944	116,022	102,647	2,722	99,925
Total maximum exposure to credit risk	**1,736,314**	**61,906**	**1,674,408**	**1,667,316**	**138,674**	**1,528,642**

Item "Others" in the category "Corporate Loans" refers to business entities that are defined as micro-units, i.e. business entities for which the size is not calculated according to the criteria of the RS (e.g. municipalities). This applies to all the data hereinafter within the category "Corporate Loans".

EUR 000’

GROUP			2016			2015
	Gross	Adjust-ment	Net	Gross	Adjust-ment	Net
I. Balance sheet items	**1,606,262**	**59,024**	**1,546,595**	**1,630,573**	**135,528**	**1,495,045**
1. Cash and balances at Central Bank	134,450	-	134,450	92,936	-	92,936
2. Loans to Banks	138,746	-	138,103	3,798	10	3,788
3. Loans to clients	1,165,873	59,024	1,106,850	1,254,989	96,937	1,158,052
3a Loans to individuals	560,463	11,507	548,956	531,941	13,610	518,331
- Housing loans	361,258	7,641	353,617	397,301	7,891	389,410
- Consumer loans	185,606	3,403	182,203	83,611	4,263	79,349
- Other	13,599	463	13,136	51,029	1,456	49,573
3b Corporate loans	605,411	47,517	557,893	723,048	83,327	639,720
- Large enterprises	295,943	19,690	276,253	295,901	36,460	259,441
- Small and medium enterprises	153,118	8,604	144,513	232,846	11,712	221,134
- Other	156,350	19,223	137,127	194,301	35,155	159,146
4. Financial assets held for trading	8,551	-	8,551	418	-	418
5. Financial assets held to maturity and available-for sale financial assets	152,706	-	152,706	267,073	38,581	228,492
6. Other financial assets	5,935	-	5,935	11,360	-	11,360
II. Off-balance-sheet items	**130,637**	**2,882**	**127,754**	**120,918**	**6,212**	**114,706**
1. Payment guarantees	13,671	1,939	11,733	19,080	3,462	15,619
2. Undrawn loans	116,965	944	116,022	101,838	2,750	99,087
Total maximum exposure to credit risk	**1,736,899**	**61,906**	**1,674,350**	**1,751,491**	**141,740**	**1,609,750**

b) Summarised exposure and impairment percentage for individual credit rating segments

BANK	2016		2015	
Credit rating	**Gross (%)**	**Impairment (%)**	**Gross (%)**	**Impairment (%)**
Investment grade	23.23%	0.80%	21.67%	1.25%
Non-investment grade	71.29%	9.99%	68.02%	8.54%
Default	5.48%	89.20%	10.31%	90.21%
	100,00%	100,00%	100,00%	100,00%

GROUP	2016		2015	
Credit rating	**Gross (%)**	**Impairment (%)**	**Gross (%)**	**Impairment (%)**
Investment grade	23.24%	0.80%	21.28%	1.25%
Non-investment grade	71.28%	9.99%	68.60%	8.79%
Default	5.48%	89.20%	10.12%	89.96%
	100,00	100,00	100,00	100,00

The Bank values the received collateral pursuant to the internal Manual on management and valuation of collateral. The value of collateral depends above all on market conditions, time remaining to the realisation of the collateral and related costs. Conditions for the appropriate collateral for those exposures are defined in the Bank's internal acts. The Bank pays special attention to continuous improvement of all conditions for legal executability of collaterals. In the case of default, the Bank is entitled to sell the assets received as collateral in accordance with the contractual and applicable legal provisions.

c) Credit risk concentration as per geographic location

EUR 000'

31. 12. 2016 (BANK)	Slovenia	EU member states	Countries of former Yugoslavia	Other	Total
Content					
I. Balance sheet items	**1,449,958**	**150,761**	**988**	**3,970**	**1,605,677**
1. Cash and balances with Central Bank	134,450	-	-	-	134,450
2. Loans to Banks	965	132,842	351	3,945	138,103
3. Loans to clients	1,154,307	11,303	637	25	1,166,272
3a Loans to individuals	559,725	538	174	25	560,463
- Housing loans	360,669	408	161	19	361,258
- Consumer loans	185,479	117	7	3	185,606
- Other	13,577	12	7	2	13,599
3b Corporate loans	594,582	10,765	463	0	605,810
- Large enterprises	295,906	37	-	-	295,943
- Small and medium enterprises	153,516	-	-	-	153,516
- Other	145,159	10,728	463	0	156,350
4. Financial Assets Held for Trading	1,935	6,616	-	-	8,551
5. Financial assets held to maturity and available-for-sale financial assets	153,008	-	-	-	153,008
6. Other financial assets	5,293	-	-	-	5,293
II. Off-balance-sheet items	**124,302**	**6,326**	**3**	**6**	**130,637**
1. Payment guarantees	13,632	40	-	-	13,671
2. Undrawn loans	110,670	6,286	3	6	116,965
Total maximum exposure to credit risk	**1,574,260**	**157,087**	**991**	**3,976**	**1,736,314**

EUR 000'

31. 12. 2016 (GROUP)	Slovenia	EU member states	Countries of former Yugoslavia	Other	Total
Content					
I. Balance sheet items	**1,450,543**	**150,761**	**988**	**3,970**	**1,606,262**
1. Cash and balances with Central Bank	134,450	-	-	-	134,450
2. Loans to Banks	1,608	132,842	351	3,945	138,746
3. Loans to clients	1,153,908	11,303	637	25	1,165,873
3a Loans to individuals	559,725	538	174	25	560,463
- Housing loans	360,669	408	161	19	361,258
- Consumer loans	185,479	117	7	3	185,606
- Other	13,577	12	7	2	13,599
3b Corporate loans	594,183	10,765	463	0	605,411
- Large enterprises	295,906	37	-	-	295,943
- Small and medium enterprises	153,118	-	-	-	153,118
- Other	145,159	10,728	463	0	156,350
4. Financial Assets Held for Trading	1,935	6,616	-	-	8,551
5. Fin. assets held to maturity and available-for-sale financial assets	152,706	-	-	-	152,706
6. Other financial assets	5,935	-	-	-	5,935
II. Off-balance-sheet items	**124,302**	**6,326**	**3**	**6**	**130,637**
1. Payment guarantees	13,632	40	-	-	13,671
2. Undrawn loans	110,670	6,286	3	6	116,965
Total maximum exposure to credit risk	**1,574,845**	**157,087**	**991**	**3,976**	**1,736,899**

EUR 000'

31. 12. 2015 (BANK)	Slovenia	EU member states	Countries of former Yugoslavia	Other	Total
Content					
I. Balance sheet items	**1,429,835**	**104,142**	**5,691**	**5,921**	**1,545,589**
1. Cash and balances with Central Bank	92,936	0	0	0	92,936
2. Loans to Banks	734	3,064	0	0	3,798
3. Loans to clients	1,153,605	16,332	645	5,921	1,176,503
3a Loans to individuals	493,522	564	113	219	494,418
- Housing loans	396,550	442	92	217	397,301
- Consumer loans	83,486	108	17	0	83,611
- Other	13,485	14	4	2	13,506
3b Corporate loans	660,084	15,768	532	5,702	682,085
- Large enterprises	290,365	412	0	0	290,778
- Small and medium enterprises	209,201	0	0	0	209,201
- Other	160,517	15,356	532	5,702	182,107
4. Financial Assets Held for Trading	89	329	0	0	418
5. Financial assets held to maturity and available-for-sale financial assets	175,444	84,417	5,046	0	264,908
6. Other financial assets	7,026	0	0	0	7,026
II. Off-balance-sheet items	**121,286**	**430**	**5**	**7**	**121,727**
1. Payment guarantees	18,987	93	0	0	19,080
2. Undrawn loans	102,298	337	5	7	102,647
Total maximum exposure to credit risk	**1,551,120**	**104,572**	**5,696**	**5,928**	**1,667,316**

EUR 000’

31. 12. 2015 (GROUP)	Slovenia	EU member states	Countries of former Yugoslavia	Other	Total
Content					
I. Balance sheet items	**1,514,479**	**104,459**	**5,700**	**5,935**	**1,630,573**
1. Cash and balances with Central Bank	92,936	-	-	-	92,936
2. Loans to Banks	734	3,064	-	-	3,798
3. Loans to clients	1,231,752	16,648	654	5,935	1,254,989
3a Loans to individuals	530,983	603	122	233	531,941
- Housing loans	396,550	442	92	217	397,301
- Consumer loans	83,486	108	17	-	83,611
- Other	50,946	54	13	16	51,029
3b Corporate loans	700,769	16,046	532	5,702	723,048
- Large enterprises	295,488	412	-	-	295,901
- Small and medium enterprises	232,846	-	-	-	232,846
- Other	172,435	15,633	532	5,702	194,301
4. Financial Assets Held for Trading	89	329	-	-	418
5. Financial assets held to maturity and available-for-sale financial assets	177,609	84,417	5,046	-	267,073
6. Other financial assets	11,360	-	-	-	11,360
II. Off-balance-sheet items	**120,477**	**430**	**5**	**7**	**120,918**
1. Payment guarantees	18,987	93	-	-	19,080
2. Undrawn loans	101,489	337	5	7	101,838
Total maximum exposure to credit risk	**1,634,955**	**104,889**	**5,705**	**5,942**	**1,751,491**

d) Credit risk concentration as per industry sector

EUR 000'

31. 12. 2016 (BANK)	Financial institutions	Manu-facturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Indivi-duals	Total
I. Balance sheet items	**473,935**	**119,175**	**68,495**	**54,284**	**184,656**	**144,669**	**560,463**	**1,605,677**
1. Cash and balances with Central Bank	134,450	0	0	0	0	0	0	134,450
2. Loans to Banks	138,103	0	0	0	0	0	0	138,103
3. Loans to clients	174,958	118,956	68,315	54,238	49,307	140,035	560,463	1,166,272
3a Loans to individuals	0	0	0	0	0	0	560,463	560,463
- Housing loans	0	0	0	0	0	0	361,258	361,258
- Consumer loans	0	0	0	0	0	0	185,606	185,606
- oher	0	0	0	0	0	0	13,599	13,599
3b Corporate loans	174,958	118,956	68,315	54,238	49,307	140,035	0	605,810
- Large enterprises	132,476	37,263	34,352	23,940	0	67,912	0	295,943
- Small and medium enterprises	19,022	65,640	13,865	23,105	981	30,904	0	153,516
- Other	23,460	16,053	20,098	7,194	48,326	41,219	0	156,350
4. Financial Assets Held for Trading	7,654	219	180	46	0	452	0	8,551
5. Financial assets held to maturity and available-for-sale financial assets*	13,478	0	0	0	135,349	4,182	0	153,008
6. Other financial assets	5,293							5,293
II. Off-balance-sheet items	**6,323**	**50,162**	**10,870**	**15,324**	**974**	**25,596**	**21,388**	**130,637**
1. Payment guarantees	10	3,129	199	6,082	263	3,989	0	13,671
2. Undrawn loans	6,313	47,033	10,671	9,242	711	21,607	21,388	116,965
Total maximum exposure to credit risk	**480,258**	**169,337**	**79,365**	**69,608**	**185,630**	**170,265**	**581,851**	**1,736,314**

EUR 000'

31. 12. 2016 (GROUP)	Financial institutions	Manu-facturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Indivi-duals	Total
I. Balance sheet items	**474.520**	**119.175**	**68.495**	**54.284**	**184.656**	**144.669**	**560.463**	**1.606.262**
1. Cash and balances with Central Bank	134.450	-	-	-	-	-	-	134.450
2. Loans to Banks	138.746	-	-	-	-	-	-	138.746
3. Loans to clients	174.559	118.956	68.315	54.238	49.307	140.035	560.463	1.165.873
3a Loans to individuals	-	-	-	-	-		560.463	560.
- Housing loans	-	-	-	-	-	-	361.258	361.258
- Consumer loans	-	-	-	-	-	-	185.606	185.606
- Other	-	-	-	-	-	-	13.599	13.599
3b Corporate loans	174.559	118.956	68.315	54.238	49.307	140.035	-	605.411
- Large enterprises	132.476	37.263	34.352	23.940	-	67.912	-	295.943
- Small and medium enterprises	18.623	65.640	13.865	23.105	981	30.904	-	153.118
- Other	23.460	16.053	20.098	7.194	48.326	41.219	-	156.350
4. Financial Assets Held for Trading	7.654	219	180	46	-	452	-	8.551
5. Financial assets held to maturity and available-for-sale financial assets*	13.176	-	-	-	135.349	4.182	-	152.706
6. Other financial assets	5.935	-	-	-	-	-	-	5.935
II. Off-balance-sheet items	**6.323**	**50.162**	**10.870**	**15.324**	**974**	**25.596**	**21.388**	**130.637**
1. Payment guarantees	10	3.129	199	6.082	263	3.989	-	13.671
2. Undrawn loans	6.313	47.033	10.671	9.242	711	21.607	21.388	116.965
Total maximum exposure to credit risk	**480.842**	**169.337**	**79.365**	**69.608**	**185.630**	**170.265**	**581.851**	**1.736.899**

EUR 000'

31. 12. 2015 (BANK)	Financial institutions	Manu-facturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Indivi-duals	Total
I. Balance sheet items	**302,486**	**145,609**	**90,186**	**82,726**	**241,798**	**188,366**	**494,418**	**1,545,589**
1. Cash and balances with Central Bank	92,936	0	0	0	0	0	0	92,936
2. Loans to Banks	3,798	0	0	0	0	0	0	3,798
3. Loans to clients	191,770	122,992	66,354	72,633	62,843	165,494	494,418	1,176,503
3a Loans to individuals	0	0	0	0	0	0	494,418	494,418
- Housing loans	0	0	0	0	0	0	397,301	397,301
- Consumer loans	0	0	0	0	0	0	83,611	83,611
-other	0	0	0	0	0	0	0	13,506
3b Corporate loans	191,770	122,992	66,354	72,633	62,843	165,494	0	682,085
- Large enterprises	105,477	40,895	33,449	34,572	0	76,385	0	290,778
- Small and medium enterprises	60,827	63,435	13,735	29,339	4,538	37,327	0	209,201
- Other	25,466	18,661	19,170	8,722	58,305	51,782	0	182,107
4. Financial Assets Held for Trading	329	89	0	0	0	0	0	418
5. Financial assets held to maturity and available-for-sale financial assets*	6,627	22,528	23,832	10,093	178,956	22,872	0	264,908
6. Other financial assets	7,026							7,026
II. Off-balance-sheet items	**2,449**	**42,621**	**7.879**	**18.863**	**840**	**29.448**	**19.628**	**121,727**
1. Payment guarantees	0	3,804	141	6,331	293	8,448	63	19,080
2. Undrawn loans	2,449	38,816	7,738	12,532	547	21,000	19,565	102,647
Total maximum exposure to credit risk	**304,935**	**188,230**	**98,064**	**101,589**	**242,638**	**217,814**	**514,046**	**1,667,316**

EUR 000'

31. 12. 2015 (GROUP)	Financial institutions	Manu-facturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Indivi-duals	Total
I. Balance sheet items	**267,096**	**165,532**	**99,667**	**88,922**	**243,912**	**233,502**	**531,941**	**1,630,573**
1. Cash and balances with Central Bank	92,936	-	-	-	-	-	-	92,936
2. Loans to Banks	3,798	-	-	-	-	-	-	3,798
3. Loans to clients	152,460	141,898	74,418	78,686	64,957	210,630	531,941	1,254,989
3a Loans to individuals	-	-	-	-	-	-	531,941	531,941
- Housing loans	-	-	-	-	-	-	397,301	397,301
- Consumer loans	-	-	-	-	-	-	83,611	83,611
- Other	-	-	-	-	-	-	51,029	51029
3b Corporate loans	152,460	141,898	74,418	78,686	64,957	210,630	-	723,048
- Large enterprises	105,524	42,055	35,073	34,585	-	78,663	-	295,901
- Small and medium enter-prises	21,469	80,916	20,120	35,176	5,028	0,137	-	2 32,846
- Other	25,466	18,927	19,226	8,924	59,929	61,829	-	194,301
4. Financial Assets Held for Trading	329	89	-	-	-	0	-	418
5. Financial assets held to maturity and available-for-sale financial assets*	6,214	23,546	25,249	10,237	178,956	22,872	-	267,073
6. Other financial assets	11,360	-	-	-	-	-	-	11,360
II. Off-balance-sheet items	**472**	**43,413**	**7,880**	**19,077**	**840**	**29,566**	**19,669**	**120,918**
1. Payment guarantees	-	3,804	141	6,331	293	8,448	63	19,080
2. Undrawn loans	472	39,608	7,739	12,746	547	21,118	19,606	101,838
Total maximum exposure to credit risk	**267,568**	**208,945**	**107,547**	**107,999**	**244,752**	**263,068**	**551,610**	**1,751,491**

At 31 December 2016, the Bank shows the maximum exposure to credit risk in the amount of EUR 1,736,314 and for the Group EUR 1,736,899. Exposure of Loans to clients amounts to EUR 1,166,272 and for the Group EUR 1,165,873. The largest share in the segment of retail loans belongs to housing loans (Bank 64.46%, Group 64.46%). For corporate loans, the largest share belongs to large enterprises (Bank 48.85%, Group 48.88%). Most of receivables under this title belong to enterprises located in the Republic of Slovenia and they account for 98.97% of the total exposure.

The Bank continuously monitors the movement of its credit portfolio and assesses the possibilities of excessive concentration in individual industries by using the SWOT analysis. These analyses are the basis for adoption of business decisions affecting the Bank's and Group's investment policies in respect of reduction of excessive exposure to industries with identified increased credit risk. Thorough analyses are prepared on a quarterly basis and are a part of regular reporting and discussion at the RECO Committee meetings.

e) **Overview of the credit risk for the items "Loans to banks" and "Loans to clients", including off-balance loan exposures**

EUR 000'

BANK	2016		2015	
Exposure	**Loans to Banks**	**Loans to clients**	**Loans to Banks**	**Loans to clients**
Exposure that is not in default or impaired	0	153,760	301	555,395
Exposure in default but not individually impaired	0	5,480	0	8,596
Exposure that is not in default and is collectively impaired	0	1,051,089	359	598,391
Individually impaired exposure	138,103	65,825	3,159	114,793
Total	**138,103**	**1,276,154**	**3,819**	**1,277,175**
Value of adjustments (impairment)	0	59,024	10	95,310
Net	**138,103**	**1,217,130**	**3,808**	**1,181,866**
Individual Impairments	0	47,535	0	81,188
Group Impairments	0	11,489	10	14,122
Total	**0**	**59,024**	**0**	**95,310**

EUR 000'

GROUP	2016		2015	
Exposure	**Loans to Banks**	**Loans to clients**	**Loans to Banks**	**Loans to clients**
Exposure that is not in default or impaired	-	153,760	301	558,109
Exposure in default but not individually impaired	-	5,480	-	9,629
Exposure that is not in default and is collectively impaired	-	1,051,089	359	669,899
Individually impaired exposure	138,746	65,825	3,159	117,215
Total	**138,746**	**1,276,154**	**3,819**	**1,354,852**
Value of adjustments (impairment)	-	59,024	10	96,966
Net	**138,103**	**1,217.130**	**3,808**	**1,257,887**
Individual Impairments	-	47,535	-	81,728
Group Impairments	-	11,489	10	15,238
Total	**0**	**59,024**	-	**96,966**

*The tables include the balance sheet and off-balance sheet exposure, excluding service guarantees

f) Loans and advances neither past due nor impaired

EUR 000'

31. 12. 2016 (BANK)	Loans to clients							
	Loans to individuals			Corporate loans				
Credit ratings	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total loans to clients	Loans to Banks
Investment grade	0	1	3	137,040	649	559	138,252	0
Non-investment grade	0	5	6	14,976	1,111	135	16,233	0
Default class	0	0	2	37	0	20	60	0
Total	**0**	**6**	**10**	**152,053**	**1,760**	**715**	**154,544**	**0**

EUR 000'

31. 12. 2016 (GROUP)	Loans to clients							
	Loans to individuals			Corporate loans				
Credit ratings	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total loans to clients	Loans to Banks
Investment grade	- 0	1	3	137,040	649	559	138,252	-
Non-investment grade	-	5	6	14,976	712	135	15,834	-
Default class	-	-	2	37	0	20	60	-
Total	**- 0**	**6**	**10**	**152,053**	**1,361**	**715**	**154,146**	**-**

EUR 000'

31. 12. 2015 (BANK)	Loans to clients							
	Loans to individuals			Corporate loans				
Credit ratings	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total loans to clients	Loans to Banks
Investment grade	18.465	12.199	1.104	147.266	14.449	3.368	196.852	0
Non-investment grade	115.106	50.849	5.299	42.330	98.727	39.557	351.868	301
Default class	526	277	2	3.979	404	1.487	6.675	0
Total	**134.097**	**63.325**	**6.405**	**193.575**	**113.580**	**44.412**	**555.395**	**301**

EUR 000'

31. 12. 2016 (GROUP)	Loans to clients							
	Loans to individuals			Corporate loans				
Credit ratings	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total loans to clients	Loans to Banks
Investment grade	18,465	12,199	7,219	147,302	18,630	4,463	208,278	-
Non-investment grade	115,106	50,849	35,222	47,421	115,400	48,745	412,744	301
Default class	526	277	1,528	3,985	2,315	3,420	12,050	-
Total	**134,097**	**63,325**	**43,969**	**198,708**	**136,345**	**56,628**	**633,072**	**301**

*The tables include the balance sheet and off-balance sheet exposure, excluding service guarantees.

g) Loans and advances past due but not impaired

EUR 000'

31. 12. 2016 (BANK)	Loans to individuals		
	Housing loans	Consumer loans	Other
In default up to 30 days	-	-	-
In default 31 to 60 days	-	-	2
In default 61 to 90 days	-	-	3
Total			**5**
Internal collateral value	-	-	-
Unsecured part of exposure	-	-	5

EUR 000'

31. 12. 2016 (BANK)	Corporate loans		
	Large enterprises	Small and medium enterprises	Other
In default up to 30 days	-	-	1
In default 31 to 60 days	-	-	2
In default 61 to 90 days	-	-	1
Total	-	-	**4**
Internal collateral value	-	-	-
Unsecured part of exposure	-	-	4

EUR 000'

31. 12. 2016 (GROUP)	Loans to individuals		
	Housing loans	Consumer loans	Other
In default up to 30 days	-	-	-
In default 31 to 60 days	-	-	2
In default 61 to 90 days	-	-	3
Total	-	-	5
	-	-	-
Internal collateral value	-	-	-
Unsecured part of exposure	-	-	5

EUR 000'

31. 12. 2016 (GROUP)	Corporate loans		
	Large enterprises	Small and medium enterprises	Other
In default up to 30 days			
In default 31 to 60 days	-	-	-
In default 61 to 90 days	-	-	1
Total	-	-	2
	-	-	1
Internal collateral value	-	-	4
Unsecured part of exposure	-	-	-

EUR 000'

31. 12. 2015 (BANK)	Loans to individuals		
	Housing loans	Consumer loans	Other
In default up to 30 days	529	57	-
In default 31 to 60 days	3,845	2,723	-
In default 61 to 90 days	-	-	-
Total	4,374	2,780	-
Internal collateral value	4,374	2,780	-
Unsecured part of exposure	-	-	-

EUR 000'

31. 12. 2015 (BANK)	Corporate loans		
	Large enterprises	Small and medium enterprises	Other
In default up to 30 days	8	429	2,242
In default 31 to 60 days	8	137	1,176
In default 61 to 90 days	-	15	131
Total	16	581	3,550
Internal collateral value	-	580	3,544
Unsecured part of exposure	16	0	5

EUR 000'

31. 12. 2015 (GROUP)	Loans to individuals		
	Housing loans	Consumer loans	Other
In default up to 30 days	529	57	2,289
In default 31 to 60 days	3,845	2,723	621
In default 61 to 90 days	-	-	173
Total	4,374	2,780	3,082
	-	-	-
Internal collateral value	4,374	2,780	3,082
Unsecured part of exposure	0	-	0

EUR 000'

31. 12. 2015 (GROUP)	Corporate loans		
	Large enterprises	Small and medium enterprises	Other
In default up to 30 days	461	2,659	2,559
In default 31 to 60 days	139	813	1,345
In default 61 to 90 days	-	249	160
Total	600	3,721	4,063
	-	-	-
Internal collateral value	585	3,720	4,058
Unsecured part of exposure	16	0	5

For calculation purposes, we take into account the value of collateral up to the amount of loan exposure. In cases where the unsecured part of the exposure is 0, the amounts of overdue loans are fully secured.

*The tables include the balance sheet and the off-balance sheet exposure, excluding service guarantees.

h) Past due and impaired loans to clients

Only individually impaired assets are taken into consideration. Collective impairments are calculated and treated as group impairments.

EUR 000'

31. 12. 2016 (BANK)	Loans to individuals			Corporate loans			
	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total
Individually impaired exposure	5,154	2,743	53	29,349	9,931	18,595	65,825
Individual Impairments	3,747	1,797	48	18,322	6,666	16,955	47,535
Internal collateral value	2,739	1,702	1	13,891	4.620	3.545	26,499

EUR 000'

31. 12. 2016 (GROUP)	Loans to individuals			Corporate loans			
	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total
Individually impaired exposure	5,154	2,743	53	29,349	9,931	18,595	65,825
Individual Impairments	3,747	1,797	48	18,322	6,666	16,955	47,535
Internal collateral value	2,739	1,702	1	13,891	4.620	3.545	26,499

EUR 000'

31. 12. 2015 (BANK)	Loans to individuals			Corporate loans			
	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total
Individually impaired exposure	6,107	4,732	95	47,055	22,967	33,837	114,793
Individual Impairments	4,358	3,844	93	33,204	8,671	31,017	81,188
Internal collateral value	3,346	2,041	11	16,721	13,292	4,849	40,261

EUR 000'

31. 12. 2015 (GROUP)	Loans to individuals			Corporate loans			
	Housing loans	Con-sumer loans	Other	Large enter-prises	Small and medium enterprises	Other	Total
Individually impaired exposure	6,107	4,732	95	47,055	23,703	35,524	117,215
Individual Impairments	4,358	3,844	93	33,204	8,838	31,390	81,728
Internal collateral value	3,346	2,041	11	16,721	13,899	5,940	41,959

The table shows the following data:

- Exposure of loans that are individually impaired before taking collaterals into consideration;
- Amounts of individual impairments;
- Internal value of collateral for loans that are individually impaired up to the exposure of the loan;

Share of exposure in the Bank that is not past due and is not impaired represents 13.25% of the total exposure of "Loans to Clients" and at the Group level 13.22%. Exposures that are past due but are not impaired represent 0.01% of the total exposure of "Loans to clients" in the Bank. At the Group level, this accounts for 0.01%.

*The tables include the balance sheet and the off-balance sheet exposure, excluding service guarantees.

i) Restructured loans

Loan reprogramming based on the detected different risk factors usually stems from financial problems of borrowers. Restructured loans range from simple reduction of capital or interest rates to very complex restructuring, involving a number of different measures and usually several different banks. In these cases, a joint agreement on the restructuring is signed (which has been prepared in accordance with the principles of Slovenian restructuring), endorsed and accepted by all Slovenian banks.

EUR 000'

BANK	2016		2015	
Restructured loans to clients	Gross	Adjustment	Gross	Adjustment
Restructured loans' balance at 1.1.	74,110	51,461	98,677	47,202
Net increase/decrease	- 24,943	- 17,443	- 24,567	4,260
Restructured loans' balance at 31.12.	49,166	34,018	74,110	51,461

EUR 000'

GROUP	2016		2015	
Restructured loans to clients	Gross	Adjustment	Gross	Adjustment
Restructured loans' balance at 1.1.	74,117	51,461	98,677	47,202
Net increase/decrease	- 24,950	- 17,443	- 24,560	4.260
Restructured loans' balance at 31.12.	49,166	34,018	74,117	51,461

j) Debt securities

The following table presents the credit quality of debt securities by ratings.

EUR 000'

BANK 31. 12. 2016	Available-for-sale financial assets	Financial assets classified as held to maturity
Investment grade	70,062	82,634
Non-investment grade	313	0
Default class	0	0
Total	**70,375**	**82,634**

EUR 000'

GROUP 31. 12. 2016	Available-for-sale financial assets	Financial assets classified as held to maturity
Investment grade	69,760	82,634
Non-investment grade	313	0
Default class	0	0
Total	**70,073**	**82,634**

EUR 000'

BANK 31. 12. 2015	Available-for-sale financial assets	Financial assets classified as held to maturity
Investment grade	92,576	81,949
Non-investment grade	919	0
Default class	0	0
Total	**93,496**	**81,949**

EUR 000'

GROUP 31. 12. 2015	Available-for-sale financial assets	Financial assets classified as held to maturity
Investment grade	92,581	81,949
Non-investment grade	352	- 0
Default class	-	-
Total	**92,933**	**81,949**

k) Repossessed collateral

EUR 000'

GROUP	31. 12. 2016	31. 12. 2015
Equipment, vehicles, machinery	**Carrying amount**	**Carrying amount**
Balance	97	180
Increase	0	534
Decreased amount	-97	-617
Balance	**0**	**97**

l) Fair value of collateral

EUR 000'

BANK	2016		2015	
	Individuals	Corporates and sole proprietors	Individuals	Corporates and sole proprietors
Collateral for individually impaired exposures	**5,035**	**33,514**	**5,480**	**46,959**
Land, real estate	4,962	24,446	5,298	33,643
Securities (shares, bonds, mutual fund points)	-	5	132	3
Other (guarantees, pledges, insurances)	73	9,063	51	13,314
Collateral for group impaired exposures	**296,088**	**280,482**	**359,332**	**328,582**
Land, real estate	215,039	178,345	238,951	192,376
Securities (shares, bonds, mutual fund points)	80,428	102,009	242	1,062
Other (guarantees, pledges, insurances)	621	127	120,139	135,143
Total*	**301,123**	**313,996**	**364,812**	**375,540**

EUR 000'

GROUP	2016		2015	
	Individuals	Corporates and sole proprietors	Individuals	Corporates and sole proprietors
Collateral for individually impaired exposures	**5,035**	**33,514**	**5,480**	**48,656**
Land, real estate	4,962	24,446	5,298	34,667
Securities (shares, bonds, mutual fund points)	-	5	132	3
Other (guarantees, pledges, insurances)	73	9,063	51	13,987
Collateral for group impaired exposures	**296,088**	**280,482**	**390,078**	**391,977**
Land, real estate	215,039	178,345	239,989	193,157
Securities (shares, bonds, mutual fund points)	80,428	102,009	242	1,062
Other (guarantees, pledges, insurances)	621	127	149,848	197,758
Total*	**301,123**	**313,996**	**395,558**	**440,634**

*Collateral represents the weighted value of the collateral. For calculation purposes, we take into account the value of collateral up to the amount of loan exposure.

Factors affecting the value of collateral depend on the type of collateral. Pledge values are determined based on past experience and are dependent on marketability, rating, time required for the realisation of collateral and its costs, proceeds from realisation and foreign currency risk.

4.5.7 Liquidity risk

Liquidity risk is a risk that the Bank will not be able to fulfil its financial obligations in a timely and continuous manner. This risk derives from time inconsistency between received assets and liabilities. The importance of effective controlling and managing of the liquidity risk has increased since the time of the financial crisis.

The Bank has developed its own Liquidity Ratio Tool (LRT) for the purpose of monitoring future liquidity needs. It is used for the monitoring of short-term liquidity (only for the Bank):

The Bank manages short-term liquidity risk on the basis of weekly cash flow planning for various intervals. The LRT provides the basis for analysis of short-term and long-term liquidity as it classifies cash flows into individual time buckets based on actual contractual plans, which allows for a more realistic presentation of the deterministic cash flows. We also consider the stochastic cash flows, which result from modification of certain assets and liabilities that have no maturity and are not liquid. To these we add the planned cash flows and the Bank's liquidity potential that includes assets designated for liquidity needs, are classified to time buckets in accordance with the adopted model. For monitoring the short-term liquidity, a liquidity ratio is calculated based on scenarios prepared in advance for general and specific liquidity crises.

The Bank's liquidity is managed by the Asset Liability Management Department, where all known liquidity flows are recorded. Liquidity calculations and reporting are the responsibility of the Market and Liquidity Risk Control department.

Liquidity management is reviewed at weekly Liquidity Meetings and monthly ALCO Meetings, where the following information is presented:

- The amount and compliance with the obligatory reserve,
- Achieved liquidity ratios,
- Status of refinancing by the parent bank and
- Access to the primary liquidity of the Central Bank.

The annual report therefore shows the so-called contractual run-off analysis of cash flows. The table shows the consolidated cash flows (Bank and Leasing together) and a separate table shows cash flows of the Bank. The Run-off analysis presents contractual cash outflows and inflows for the future as at 31 December 2016.

Bank's contractual cash flows as at 31 December 2016:

EUR 000'

STATEMENT OF FINANCIAL POSITION in EUR '000	2017	2018	2019	2020	>2020	NR*	TOTAL
Cash and balances with Central Bank	134,450	0	0	0	0	0	134,450
Financial Assets Held for Trading	2,047	0	0	0	0	0	2,047
Available-for-sale financial assets	30,094	0	11,216	0	28,756	0	70,065
Loans	331,832	136,787	104,391	91,574	418,855	35,390	1,118,829
Financial assets classified as held to maturity	40,603	0	0	1,019	41,012	0	82,634
TOTAL ASSETS	**539,026**	**136,787**	**115,607**	**92,593**	**488,623**	**35,390**	**1,408,025**
Financial liabilities to Central Bank	0	0	0	0	175,000	0	175,000
Financial liabilities measured at amortised cost	848,620	190,344	23,901	5,359	35,721	932	1,104,878
TOTAL LIABILITIES	**848,620**	**190,344**	**23,901**	**5,359**	**210,721**	**932**	**1,279,878**

*NR (Not Relevant) Balance sheet item for which cash flow is not expected.

Group's contractual cash flows as at 31 December 2016:

EUR 000'

STATEMENT OF FINANCIAL POSITION in EUR '000	2017	2018	2019	2020	>2020	NR*	TOTAL
Cash and balances with Central Bank	134,450	0	0	0	0	0	134,450
Financial Assets Held for Trading	2,047	0	0	0	0	0	2,047
Available-for-sale financial assets	30,094	0	11,216	0	28,756	0	70,065
Loans	331,832	136,787	104,391	91,574	418,855	35,390	1,118,829
Financial assets classified as held to maturity	40,603	0	0	1,019	41,012	0	82,634
TOTAL ASSETS	**539,026**	**136,787**	**115,607**	**92,593**	**488,623**	**35,390**	**1,408,025**
Financial liabilities to Central Bank	0	0	0	0	175,000	0	175,000
Financial liabilities measured at amortised cost	848,620	190,344	23,901	5,359	35,721	932	1,104,878
TOTAL LIABILITIES	**848,620**	**190,344**	**23,901**	**5,359**	**210,721**	**932**	**1,279,878**

*NR (Not Relevant) Balance sheet item for which cash flow is not expected.

Bank's contractual cash flows as at 31 December 2015

EUR 000'

STATEMENT OF FINANCIAL POSITION in EUR '000	2016	2017	2018	2019	>2019	NR*	TOTAL
Cash and balances with Central Bank	83,144	0	0	0	0	0	83,144
Financial Assets Held for Trading	4,220	0	0	0	0	0	4,220
Available-for-sale financial assets	55,003	13,327	0	11,446	13,145	0	92,921
Loans	237,059	143,012	112,667	82,287	404,098	96,856	1,075,979
Financial assets held to maturity	3,878	40,350	0	1,010	36,711	0	81,949
TOTAL ASSETS	**383,305**	**196,689**	**112,667**	**94,743**	**453,954**	**96,856**	**1,338,213**
Financial liabilities to Central Bank	150,085	0	50,000	0	0	0	200,085
Financial liabilities measured at amortised cost	762,387	156,771	90,802	4,290	7,587	5,692	1,227,615
TOTAL LIABILITIES	**912,472**	**156,771**	**140,802**	**4,290**	**7,587**	**5,692**	**1.427.700**

*NR (Not Relevant) Balance sheet item for which cash flow is not expected.

Group's contractual cash flows as at 31 December 2015:

EUR 000'

STATEMENT OF FINANCIAL POSITION in EUR '000	2016	2017	2018	2019	>2019	NR*	TOTAL
Cash and balances with Central Bank	83,144	0	0	0	0	0	83,144
Financial Assets Held for Trading	4,220	0	0	0	0	0	4,220
Available-for-sale financial assets	55,003	13,327	0	11,446	13,145	0	92,921
Loans	271,474	166,496	124,031	83,747	412,465	96,509	1,154,722
Financial assets held to maturity	3,878	40,350	0	1,010	36,711	0	81,949
TOTAL ASSETS	**417,719**	**220,173**	**124,031**	**96,203**	**462,321**	**96,509**	**1,416,956**
Financial liabilities to Central Bank	150,085	0	50,000	0	0	0	200,085
Financial liabilities measured at amortised cost	793,097	203,678	90,847	4,336	7,607	5,692	1,305,343
TOTAL LIABILITIES	**943,183**	**203,678**	**140,847**	**4,336**	**7,607**	**5,692**	**1,305,343**

*NR (Not Relevant) Balance sheet item for which cash flow is not expected.

The Bank calculates the liquidity ratios on a daily basis in accordance with the Decision of the Bank of Slovenia on minimum requirements for ensuring an adequate liquidity position of banks and savings banks. These ratios are calculated as the ratio between investments and liabilities under the residual maturity principle. First class liquidity ratio (maturity up to 30 days) must not fall below 1.

Liquidity ratios are as follows:

	31.12.2016	31.12.2015
First class investments/assets (0 - 30 days)	1.33	1.28
Second class investments/assets (0 - 180 days)	0.80	0.70

In accordance with the Basel III standards, the Bank is obligated to calculate the LCR (Liquidity Coverage Ratio) on a monthly basis and the NSFR (Net Stable Funding Ratio) on a quarterly basis.

Liquidity ratios are as follows:

	31.12.2016	31.12.2015
LCR	203%	102%
NSFR	88%	70%

4.5.8 Market risk

Market risks are potential losses that occur due to unfavourable market conditions and are linked to a company's exposure to individual market parameters or risk factors (currency exchange rates, interest rates, share prices, credit spreads).

Managing market risks in the Bank is a procedure that comprises identification, measuring, monitoring and mitigation of individual market risks in order to minimise the potential negative financial consequences. The set of rules, methodologies and responsibilities in respect of market risk management is written in the Framework Risk Policy and the Framework Manual for Market Risk Management.

The Bank is exposed to different market risks through its daily operations, amongst others to position risk in securities, credit risk, currency risk and interest risk. The risks are managed through daily monitoring, calculation and reporting on risk rates, utilisation of limits and achieved operational results.

The Bank has established a system of limits where market risk limits are determined pursuant to the annual plan and the owner's risk appetite. The competent departments of the parent bank jointly decide on these limits at least once a year. The procedure of confirmation of limits is formally concluded with acceptance of the suggested limits by the parent bank's Management Board and the Management Board of the Bank.

a) Trading book

The Bank's trading book serves primarily for the monitoring of services for clients and conclusion of trading transactions for balance sheet management in its own name for its own account. The Bank offers its customers the possibility of concluding a variety of derivative financial instruments that are, in accordance with the approved limits for market risks, immediately closed at the parent bank and thus minimised. Despite this, the Bank exposes itself to counter party credit risk, which is mitigated with the amount of the limit of credit exposure to each individual client, while it is measured and reported in accordance with the standardised approach. The Bank enters into foreign currency purchase/sale transactions in order to serve its clients and to balance its overall foreign currency position. Equity securities are reported in the non-trading book and were purchased mainly as a result of realising collateral on non-performing investments.

For measuring the position risk in the trading book, the Bank uses the value at risk (VaR) method. This method gives information with a specific level of probability (which is defined with a confidence interval) that maximum expected loss within a defined time horizon (a period of holding a position) shall not exceed the calculated amount. As a system support for the calculation of value at risk, the Bank uses the PMS system (Portfolio and Risk Management System), the development and improvement of which is the responsibility of the Information Technology and Market Risk Controlling Departments of the parent bank. In order to determine the risk parameters, the Bank uses a 250-day time series of exponentially weighted daily yields. The used methodology for calculation of value at risk is the Monte Carlo method, with 10,000 simulations and a 99-percent interval of trust (1-day position holding).

Movement of VaR value in 2016 (trading and non-trading book)

EUR 000’

	Maximum	Minimum	Average
Equity Securities	7,024	2,555	4,817
Derivatives	349	10	167

Movement of VaR value in 2015 (trading and non-trading book)

EUR 000’

	Maximum	Minimum	Average
Equity Securities	11,144	4,158	6,274
Derivatives	2,378	191	473

Besides the value at risk limits (VaR-limits), the entire system of position risks is supplemented by exposure limits, limits of the maximum permitted loss and other limits, among which are, for example, the minimum rating of the securities issuer, allowed forms of products and allowed markets for trading. These measures ensure that the positions are in line with the outlined business strategy.

b) Interest rate risk in the non-trading book

The interest rate risk is the risk of loss incurred on interest-sensitive assets with different maturities and different interest rate fluctuation dynamics, as suitable resources of financing these assets.

Management of the interest rate risk from the items in the trading book is included in the trading book's risk position management, whereas for the purpose of management of interest rate risk that results from the items of the non-trading book and off-balance sheet items, the Bank uses methodology of interest rate gaps with respect to the date of the next change of interest rates.

The result of monthly measuring of the Bank’s exposure to interest rate risk is the net present value of differences between assets and liabilities, which are subject to market interest rate changes in the given time period. With respect to the Basel II guidelines, the Bank regularly checks the influence of interest rate shock in the amount of 200 basis points and internally tightens the 20-percent absorption effect of net equity of the Bank at the prescribed interest rate shock. Besides the described interest rate shock with the parallel shift of the yield curve, the Bank also measures the effect of other interest rate shocks on a monthly basis.

The interest rate shock in the amount of 200 basis points would absorb approximately 3.65% of the Bank’s equity at the end of 2016 (2015: 2.08%). VaR interest rate risk in the banking book at the end of 2016 amounted to EUR 173,922 (at the end of 2015: EUR 140,875).

The effects of yield curve shift are shown in the tables below and apply for the stated scenarios of yield curve shift.

Effects of yield curve shift by individual scenarios for the Bank (only interest rate sensitive items) as at 31 December 2016

EUR 000'

Scenario	Effect of yield curve shift
ICAAP scenario => -50% negative case	(4,797)
ICAAP Scenario => 90% stress case	(10,621)
+ 10 bps parallel shift	704
- 10 bps parallel shift	(704)
rotation (ON-3M -> +60 BP, 3M-5Y -> -20 BP, 5Y -> -50 BP)	(2,268)
rotation (ON-3M -> -60BP, 3M-5Y -> +20 BP, 5Y -> +50 BP)	2,330

Effects of yield curve shift by individual scenarios for the Bank (only interest rate sensitive items) as at 31 December 2015:

EUR 000'

Scenario	Effect of yield curve shift
ICAAP scenario => -50% negative case	(859)
ICAAP Scenario => 90% stress case	(1,483)
+ 10 bps parallel shift	113
- 10 bps parallel shift	(113)
rotation (ON-3M -> +60 BP, 3M-5Y -> -20 BP, 5Y -> -50 BP)	(890)
rotation (ON-3M -> -60BP, 3M-5Y -> +20 BP, 5Y -> +50 BP)	991

The Bank monitors interest rate risk in the non-trading book very carefully and reports risk sensitive items on a regular basis, whereby risk factors were adopted for the new retail business strategy. The main driver for the increase in ICAAP scenario factors (-50% negative case and 90% stress case) is the result of gap, which is primarily driven by 4y LTRO operation on the liability side and FIX rate loans on the retail asset side.

Interest rate risk by maturity buckets and currencies for the Bank (based on interest-sensitive items) as at 31 December 2016 and as at 31 December 2015:

EUR 000'

maturity bucket	2016 Bank gap EUR	2016 Bank gap CHF	2016 Bank gap other currencies	2016 Bank total	2015 Bank gap EUR	2015 Bank gap CHF	2015 Bank gap other currencies	2015 Bank total
ON	73	0	0	73	909	2	0	911
1M	132,657	-112,024	4,851	25,485	-82,136	-23,450	3,372	-102,215
3M	386,204	2,935	1,627	390,766	236,783	-102,381	1,855	136,257
6M	66,601	110,942	-882	176,660	169,138	128,887	-1,139	296,886
1Y	-224,406	-859	-3,776	-229,040	-58,067	-1,857	-920	-60,844
2Y	-67,097	-185	-716	-67,998	-7,186	-1,467	-748	-9,401
3Y	-14,412	-189	-1,014	-15,615	-120,041	-579	-603	-121,224
4Y	-166,247	-189	-1,014	-167,450	-13,719	-579	-601	-14,900
5Y	-11,857	-189	-1,014	-13,060	-1,680	-579	-601	-2,860
7Y	7,393	-120	-314	6,959	533	-130	-248	155
10Y	15,844	0	0	15,844	1,645	0	0	1,645
15Y	2,695	0	0	2,695	13,700	0	0	13,700
20Y	910	0	0	910	685	0	0	685
>20Y	322	0	0	322	1,215	0	0	1.215

The gap represents individual positions in relation to the sensitivity of the interest rate (fix. interest rate - depending on the maturity; variable interest rate - depending on the volatility of variable interest rates; UFN - depending on the model).

The structure of assets and liabilities in terms of the interest rate for the Bank as at 31 December 2016 and as at 31 December 2015:

EUR 000'

BANK	2016		2015	
TYPE OF INTERESTS	**ASSETS**	**LIABILITIES**	**ASSETS**	**LIABILITIES**
fixed interest rate	29,.20%	63.41%	18.58%	52.42%
UFN*	17.20%	21.13%	6.71%	19.94%
variable interest rate	52.12%	6.67%	72.87%	15.32%
Interetst-rate non-sensitive items	1.48%	8.78%	1.84%	12.33%

UFN (Until further notice), i.e. until the next change in interest rates

c) Currency risk

Currency risk is a risk of loss arising from mismatch of the currency sub-balance and the inconsistency of foreign currencies.

On a daily basis, the Bank monitors exposure to foreign currency risks and limits them by setting volume limits by individual currencies, groups of currencies and total open position. The measurement method is based on the principle of net open position, which is reported in domestic currency. The group of volume limits is rounded up by the VaR limit on total open position. The VaR methodology is the same as the methodology in the trading book (250-day history – ECB fixed rates, weighted daily changes of exchange rate, 99-percent confidence interval and 1-day holding period).

Narrow volume limits by individual currencies, groups of currencies and total open position indicate a conservative approach to managing currency risks. In accordance with the regulatory capital requirement for currency risk, the Bank does not have to calculate a capital requirement for currency risk, as its total net position in foreign currencies does not exceed 2% of its capital.

Movement of VaR value for total open FX position of the Bank for 2016 and 2015

EUR 000'

	Maximum	Minimum	Average	PASIVA
VaR 2016	15,765	452	2,272	52,42%
VaR 2015	726,079	355	31,248	19,94%

VaR in 2016 is lower in comparison to 2015 (increased volatility of EUR CHF at the beginning of 2015).

Total consolidated foreign currency position for the Bank is shown in the table below. It also shows exposure to currency risk for the Bank.

Exposure to currency risk as at 31 December 2016

EUR 000'

	2016 Bank			2015 Bank		
Financial assets	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
Cash and balances with Central Bank	181	195	155	181	195	155
Loans	10,738	117,424	1,122	10,738	117,424	1,122
Total financial assets	**10,919**	**117,619**	**1,277**	**10,919**	**117,619**	**1,277**
Financial liabilities to Central Bank	0	0	0	0	0	0
Financial liabilities measured at amortised cost	12,077	3,849	1,188	12,077	3,849	1,188
Total financial liabilities	**12,077**	**3,849**	**1,188**	**12,077**	**3,849**	**1,188**

Exposure to currency risk as at 31 December 2015

EUR 000'

	2016 Bank			2015 Bank		
Financial assets	**USD**	**CHF**	**Other currencies**	**USD**	**CHF**	**Other currencies**
Cash and balances with Central Bank	183	145	225	183	145	225
Loans	7,178	138,989	821	7,178	139,858	821
Total financial assets	**7,361**	**139,134**	**1,047**	**7,361**	**140,003**	**1,047**
Financial liabilities to Central Bank	0	0	0	0	0	0
Financial liabilities measured at amortised cost	7,323	115,377	892	7,323	120,040	892
Total financial liabilities	**7,323**	**115,377**	**892**	**7,323**	**120,040**	**892**

4.5.9 Fair values of assets and liabilities (Bank)

a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and financial liabilities that are not reported at fair values in the Bank's statement of financial position.

EUR 000’

	2016		2015 Banka	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
1. Cash and balances with Central Bank	134,450	134,450	83,144	83,144
2. Loans to Banks	7,356	7,349	15,598	15,598
3. Loans to clients	979,768	960,059	1,006,155	1,009,723
4. Financial assets classified as held to maturity	82,634	93,792	92,921	81,223
5. Other financial assets	1,465	1,465	2,112	2,112
Financial liabilities				
1. Financial liabilities to Central Bank	175,000	168,708	200,085	200,085
2. Financial liabilities to banks measured at amortised cost	9,873	9,482	108,786	108,786
3. Financial liabilities to clients measured at amortised cost	975,167	976,204	791,112	797,853
4. Borrowings from banks	106,524	117,349	20,790	20,790
5. Debt securities	6,544	6,552	28,146	28,334
6. Other financial liabilities	6,770	6,271	1,354	1,354

- Financial assets held to maturity: the fair value is based on the quoted market price.
- Loans (to Banks and Customers): fair value of loans is determined based on the present value of future cash flows. Risk premium for loans depends on the internal or external rating of the borrower taking into account country risk. (Kamakura Risk Manager is used for calculations and discounting of future cash flows.)
- Liabilities at amortised cost: the assessed fair value is based on discounted contractual values, using the market interest rates that should be currently paid by the Bank for the replacement of these liabilities with new debts of similar residual maturity.
- For short-term receivables and liabilities, it is expected (according to the standard) that the carrying amount is a reasonable approximation of the fair value.

b) Financial instruments measured at fair value

The fair value assessments of financial instruments that are not traded in an active market are based on the assessments made by an external expert. The Bank verifies the value assessment of the external expert and in case of confirmation takes such an assessment into account. Values of investments presented in Level 3 are obtained by using the standard valuation techniques such as discounted expected future cash flows, market approach (method of comparative entities listed on the stock exchange – direct comparison to entities quoted in an organised market) and the liquidation value approach. The final estimated value of financial instruments considers all approaches, taking into consideration assessments of importance in respect of the company's industry, the company's financial stability and other factors that could impact the fair value of financial instruments.

The table below shows financial assets measured at fair value as at 31.12.2016.

EUR 000'

	31. 12. 2016 Bank	31. 12. 2015 Bank
Financial assets at fair value	72,112	95,690
Financial Assets Held for Trading	2,047	2,769
Available-for-sale financial assets	70,065	92,921

c) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, whereas unobservable inputs reflect market assumptions of the Bank. The two types of inputs have resulted in the following fair value hierarchy:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on stock exchanges (for example London Stock Exchange, Frankfurt Stock Exchange, New York Stock Exchange) and traded derivatives such as futures. Composite price calculations of Reuters and Bloomberg are not regarded as level 1 fair value since they represent a weighted price.
- Level 2 – Inputs without quoted prices included in Level 1; these observable inputs relate to assets and liabilities either directly (as prices) or indirectly (as derived from prices). Level 2 includes the majority of OTC derivative contracts, traded loans and issued structured bonds. The sources of input parameters such as yield curves or relevant increases for credit risk are Bloomberg and Reuters.
- Level 3 – Inputs for the assets and liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data available. The Bank considers significant and observable market prices in its valuations whenever possible. For measurement of non-marketable securities, the Bank uses methods prescribed in accordance with IVS (International Valuation Standards) 2012.

The table below shows the hierarchy of financial assets at fair value as at 31.12.2016:

EUR 000'

Financial assets at fair value	Level 1	Level 2	Level 3	Total
Financial Assets Held for Trading	-	2,047	-	2,047
Available-for-sale financial assets	-	69,744	321	70,065

Changes in the portfolio value classified as Level 3 in 2016 are presented in the table below:

EUR 000'

Gibanje portfelja sredstev, uvrščenih v raven 3	Balance 31. 12. 2015	Pur-chases	Prodaje	Disposals	Balance 31. 12. 2016
Assets					
Available-for-sale financial assets	341	-	-	-20	321

Hierarchy of financial assets not measured at fair value as at 31.12.2016:

EUR 000'

Financial assets	Level 1	Level 2	Level 3	Total
1. Cash and balances with Central Bank	134,450	-	-	134,450
2. Loans to Banks	-	-	7,349	7,349
3. Loans to clients	-	-	960,059	960,059
4. Financial assets classified as held to maturity	-	93,792	-	93,792
5. Other financial assets	-	-	1,465	1,465
Financial liabilities				
1. Financial liabilities to Central Bank	-	-	168,708	168,708
2. Financial liabilities to banks measured at amortised cost	-	-	9,482	9,482
3. Financial liabilities to clients measured at amortised cost	-	-	976,204	976,204
4. Borrowings from banks	-	-	117,349	117,349
5. Debt securities	-	-	6,552	6,552
6. Other financial liabilities	-	-	6,271	6,271
6. Ostale finančne obveznosti	-	-	6.271	6.271

Capital risk

a) Capital adequacy ratio

The Bank is required to have adequate capital at all times as a provision for different risks to which it is exposed in the course of its operating activities. This is an ongoing process of determining and maintaining a sufficient volume and quality of capital, taking into consideration the assumed risks defined in the Bank's capital management policy. For this purpose, in 2012 the Bank established a Capital Monitoring Committee whose task is to monitor and manage capital adequacy on a monthly basis while pursuing the 5-year strategic business plan of the Bank.

Regulatory capital adequacy is the ratio between own funds and risk-weighted assets that should not fall below 8%.

The table below shows the calculation of regulatory capital and the capital adequacy ratio.

EUR 000'

Postavka	Bank 31.12.2016	Bank 31.12.2015	Group 31.12.2015
EQUITY	127,926	115,303	114,719
CORE CAPITAL	106,262	96,229	95,645
Common equity Tier 1 capital	106,262	96,229	95,645
Capital instruments acceptable as Common equity Tier 1 capital	108,773	150,959	150,074
Additional Paid-in Capital	18,814	61,000	60,115
Retained earnings	0	-52,186	-51,776
Accumulated other comprehensive income	-102	-498	-498
Adjustments to Common Equity Tier capital for prudential filters	-74		
(-) Other intangible assets	-2,139	-2,345	-2,454
(-) Reserves from deduction of additional capital items over core capital	-855	-32,718	-31,080
Other transitional adjustments of the core capital	659	33,017	31,379
Components or deductions of Common Equity Tier - Other			
ADDITIONAL CAPITAL (OWN FUNDS)	21,664	19,074	19,074
Equity instruments and subordinated debts acceptable as additional capital	21,664	19,074	19,074
AMOUNT OF TOTAL RISK EXPOSURE	817,841	901,401	965,701
RISK WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	746,295	818,527	870,862
Amount of total risk exposure for position, foreign exchange and commodities risk	44	158	158
Amount of total risk exposure for operational risk	71,502	82,701	94,665
Amount of total risk exposure for credit evaluation adjustment	0	16	16
Common Equity Tier 1 Ratio	12.99%	10.68%	9.90%
Tier 1 Capital Ratio	12.99%	10.68%	9.90%
Total Capital Ratio	15.64%	12.79%	11.88%

In 2016, the Bank calculated capital requirements in accordance with Regulation no. 575/2013, Directive 2013/36/EU and all the subordinated legal acts.

The amount of each capital requirement is evident from the calculation of regulatory capital and the capital adequacy ratio. In accordance with the process of assessing adequate internal capital of the Bank and the Bank's internal policies, the Bank regularly monitors the capital risk profile, assesses the Bank's ability to assume risk and provides capital adequacy assessments as well as internal capital requirements for all types of risks. The results are reported at monthly meetings of the ALCO Committee.

On an individual level, the Bank fully complied with the legal requirements regarding capital in 2016. As at the end of 2016, the Bank's capital amounted to EUR 127,926 thousand (2015: EUR 115,303 thousand). Of this amount, Tier 1 capital amounted to EUR 106,262 thousand (2015: EUR 96,229 thousand); Tier 2 capital amounted to EUR 21,664 thousand (2015: 19,074). The capital adequacy ratio increased to 15.64% (2015: 12.97%).

In the process of supervisory review and risk assessment, in 2016 the Bank received from the Bank of Slovenia the minimum SREP ratios that are to be maintained from 1.1.2017 on. Minimum total capital adequacy amounts to 12.50% (previously 12.90%) and minimum tier 1 capital adequacy amounts to 10.75% (previously 10.40%).

In accordance with Article 19 of Regulation No. 575/2013, the Bank is not obliged to report consolidated capital adequacy calculations as at 31.12.2016. In 2015, the Bank met its legal requirements regarding the capital on a consolidated basis. At the end of 2015, it amounted to EUR 114,719 thousand, and of this the core capital amounted to EUR 95,654 thousand and additional capital to EUR 19,074 thousand. The capital adequacy ratio on a consolidated basis at the end of 2015 was 11.88%.

b) Leverage ratio

With the introduction of Basel III, which transposes the CRDIV / CRR into European legislation, the Basel Committee introduced a new requirement in relation to the leverage ratio with the purpose of achieving the following objectives:

- limit excessive leverage in the banking sector and thus contribute to reducing the risks associated with the destabilising effect that occurs when leverage is reduced and is damaging to the financial system and the economy;
- introduce an additional safeguard against capital requirements.

On 18 January 2015, the Commission Delegated Regulation 2015/62 of 10 October 2014 on amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the leverage ratio (hereinafter referred to as: DA) entered into force. The delegated act changed the organisation of the leverage ratio (hereinafter referred to as: LR) referred to in Article 429 of Regulation (EU) No. 575/2013 (hereinafter referred to as: CRR) significantly. The definition of LR is adapted to the rules relating to the LR that were adopted by the Basel Committee in January 2014. According to the DA, which eliminated the deficiencies identified on the basis of existing reporting of banks on LR, it was necessary to amend the existing ITS for the reporting of LR and create ITS for the disclosure of information relating to the LR.

Having regard to the Treaty on the Functioning of the European Union, Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, and in particular the third subparagraph of Article 430(2) thereof, and ITS No. 680/2014, which sets out the ways in which institutions are required to report information that is relevant to compliance with the provisions of Regulation CRR, the European Commission adopted Commission Implementing Regulation (EU) 428/2016 of 23 March 2016 amending Implementing Regulation (EU) No. 680/2014 laying down the implementing technical standards concerning supervisory reporting of institutions regarding reporting on the leverage ratio.

LRSum: Summary of harmonisation of financial assets and the total exposure rate for the calculation of the leverage ratio

EUR 000'

		Bank 31.12.2016	Bank 31.12.2015	Group 31.12.2015
1	All assets according to published accounts	1,413,628	1,344,363	1,426,872
2	Adjustment for entities that are consolidated for accounting purposes but not included in the scope of regulatory consolidation	-	-	-
4	(Adjustments for fiduciary assets recognised in the balance sheet in accordance with the applicable accounting framework but excluded from the total exposure rate for the calculation of the leverage ratio, in accordance with Article 429(13) of Regulation (EU) No 575/2013).	-	-	-
5	Adjustment for derivatives	3,709	2,937	2,937
6	Adjustment for securities transactions	-	-	60,115
7	Adjustment for off-balance sheet items (i.e. conversion to credit replacement values of off-balance sheet exposures)	100,332	107,686	107,493
8	Other adjustments	(4,186)	(2,366)	(2,678)
9	Total exposure rate for the calculation of the leverage ratio	1,513,483	1,452,620	1,534,624

LRCom: Leverage ratio - harmonised disclosure

EUR 000'

		Total exposure rate for the calculation of the leverage ratio according to CRR		
		Bank 31.12.2016	**Bank 31.12.2015**	**Group 31.12.2015**
Balance sheet exposures (excluding derivatives and securities financing				
1	Balance sheet items (excluding derivatives transactions, securities financing and fiduciary assets but including collateral)	1,411,581	1,393,978	1,475,874
2	(The amount of funds that are deducted in determining Tier 1 capital)	(2,139)	(54,730)	(54,429)
3	Balance sheet exposures (excluding derivatives transactions, securities financing and fiduciary assets) (sum of row 1 and 1)	1,409,442	1,339,248	1,421,445
Exposures from derivatives				
4	Replacement costs related to all transactions with derivatives (i.e. without any variation margin in the form of cash)			
5	Premiums for potential future exposure related to all transactions with financial derivatives (Current Exposure Method)	3,709	5,686	5,686
11	Total amount of exposures from derivatives (sum of rows from 4 to 10)	3,709	5,686	5,686
Exposure of securities-financing transactions				
12	Gross assets from securities-financing transactions (excluding the recognition of a setoff) after adjustment for financial transactions recorded as sales			
13	(Offset amounts of cash obligations and receivables from gross assets in securities financing)			
14	Exposure to counterparty credit risk for funds from securities-financing transactions			
EU-14a	Tolerance for securities-financing transactions: exposure to counterparty credit risk in accordance with Article 429b(4) and Article 222 of Regulation (EU) No 575/2013			
15	Exposure to transactions in which the institution has the role of an agent			
EU-15a	(Excluding trading exposures from securities-financing transactions, for which clearing via CCP was carried out)			
16	The total amount of exposure from securities-financing transactions (the sum of rows 12 to 15a)			
Other off-balance-sheet exposures				
17	Off-balance-sheet exposures at gross notional amount	257,839	248,751	247,891
18	(Adjustment for conversion to credit replacement values)	(157,507)	(141,065)	(140,398)
19	Other exposures for off-balance-sheet items (sum of rows 17 and 18)	100,332	107,686	107,493
(Exposures, in accordance with Article 429(7) and (14) of Regulation (34) No 575/2013 (on-balance and off-balance sheet exposures))				
EU-19a	(Intra-group exposures (on an individual basis) exempted from Article 429(7) of Regulation (EU) No 575/2013 (on-balance and off-balance sheet exposures))			

EU-19b	(Exposures, exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on-balance and off-balance sheet exposures))			
Capital and total exposure rate				
20	Tier 1 capital	106,065	96,229	95,645
21	Total exposure rate for the calculation of the leverage ratio (sum of rows 3,11,16,19, EU-19a and EU 19b)	1,513,483	1,452,620	1,534,624
Leverage ratio				
22	Leverage ratio	7.01	6.62	6.23
Selection of transitional arrangements and the amount of derecognised fiduciary items				
EU-23	Selection of transitional arrangements for defining the extent of capital			
EU-24	Selection of transitional items that were derecognised in accordance with Article 429(11) of Regulation (EU) No 575/2013			

LRSpl: Classification of balance sheet exposures (excluding derivatives and securities-financing transactions and exempt exposures)

EUR 000'

		Total exposure rate for the calculation of the leverage ratio according to CRR		
		Bank 31.12.2016	Bank 31.12.2015	Group 31.12.2015
EU-1	Classification of balance sheet exposures (excluding derivatives and securities-financing transactions and exempt exposures)	1,409,442	1,339,248	1,421,445
EU-2	Trading book exposures		20	20
EU-3	Banking book exposures	1,409,442	1,339,228	1,421,425
EU-4	Covered bonds			
EU-5	Exposures treated as exposures to central government	263,029	302,435	305,402
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities that are not treated as central government	44,045	67,614	67,941
EU-7	Institutions	137,899	16,517	16,517
EU-8	Exposures secured with a mortgage on a real estate	294,621	276,312	276,312
EU-9	Retail exposures	430,401	323,578	400,963
EU-10	Exposures to corporates	217,634	234,935	229,512
EU-11	Defaulted exposures	21,813	70,400	76,319
EU-12	Other exposures (e.g. equity, securitisation and other assets from unfunded liabilities)		48,437	48,459

The Bank, in accordance with internally adopted policies, regularly monitors its risk profile, evaluates the risk bearing capacity and calculates the capital leverage ratio. Calculations and conclusions are presented at regular monthly meetings of the risk management Committee (RECO).

On 31.12.2016, the leverage ratio amounted to 7.01, which means that in comparison with 31.12.2015, when it amounted to 6.62, it increased by 0.39 percentage points. Core capital as at 31.12.2016 had increased by EUR 9.8 million compared to the balance as at 31.12.2015. The total exposure, which includes balance sheet exposures, exposures on derivatives and off-balance sheet exposure, as at 31.12.2016 amounted to EUR 1,513 million, while as at 31.12.2015 it was EUR 1,453 million.

4.5.10 Operational risk

The Bank includes in the definition of operational risk also legislative, model and reputation risks.

Business and strategic risks are not included in the operational risk, as they are addressed separately. To calculate the capital requirement for operational risk, the Bank applies a simple approach.

As the Bank is aware of the importance of operational risk management, it decided that in addition to satisfying the legally prescribed general standards for risk management, it will perform activities that are carried out in more advanced approaches in accordance with the decision on risk management.

Assessment and measurement of operational risk is based on the collection of damage events that are registered in the central database. This allows for a more efficient reporting on loss events, their causes and proposed measures.

All loss events that present an actual direct or indirect financial loss for the Bank are registered, regardless of whether financial loss occurred during the event or subsequently. Events that could present potential loss for the Bank are also recorded.

In this year, the Bank registered 44 loss events. The Bank defines as a loss event any event whose gross loss exceeds EUR 5,000. At the end of the year, the balance of potential gross losses from loss events not connected with impairments or provisions resulting from credit risk amounted to EUR 2,155 million.

Preventive assessment of potential operational risk is carried out with the procedure of detection of selected risk scenarios on an annual basis when in cooperation with area managers the business impacts are reassessed.

The Bank measures and monitors individual risk indicators, on the basis of which, in the event of unacceptable deviations, it plans control activities.

Based on perceived and assessed operational risks and losses, the Bank plans and carries out activities to prevent, mitigate, transfer or assume risk for significant risks.

Realised loss events and the status of implementation of control measures are regularly reported to the Management of the Bank and the Committee for operational risk management, internal control system and reputation risk (OpRisk Committee). In the case of significant losses and exposure, the Board and senior management of the Bank are informed immediately.

Addiko Bank

5 Business Centres and Branch Offices

5 Business Centres and Branch Offices

Addiko Bank d.d. - Basic data

Corporate name: Addiko Bank, d. d.
Registered office: Dunajska cesta 117, SI-1000 Ljubljana
Court registration: 1/31020/00, SRG 99/01362
Company number: 1319175
VAT ID: SI75482894
Current Account no: SI56 3300 0330 0000 034
SWIFTHAABSI22
T: +386 1 580 40 00
T: +386 1 580 40 01
Web address: https:/www.addiko.si
Facebook page: https://www.facebook.com/addikoslovenija/
Instagram https://www.instagram.com/addikobank_slovenija/
LinkedIn: https://www.linkedin.com/company/addiko-bank-slovenija
You Tube: https://www.youtube.com/channel/UCGR8rMrkCKpN4yT9APh6dvg
E-mail: info.si@addiko.com

Ljubljana

Addiko Bank d.d., registered office and Stekleni Dvor branch
Dunajska cesta 117, 1000 Ljubljana
T: +386 (0)1 580 40 00
F+:386 (0)1 580 41 25
E: info.si@addiko.com

Trg Osvobodilne fronte Branch

Trg Osvobodilne fronte 12, 1000 Ljubljana
T: +386 (0)1 580 42 50
F: +386 (0)1 230 17 56
E: info.ljof.si@addiko.com

Šiška Branch

Trg komandanta Staneta 8, 1000 Ljubljana
T: +386 (0)1 580 48 00
F: +386 (0)1 518 18 80
E: info.ljsi.si@addiko.com

Addiko Bank express

BTC City, Hall A, Šmartinska cesta 152, 1000 Ljubljana
T: +386 (0)1 580 40 00
E: info.ljbtc.si@addiko.com

Domžale

Domžale Branch
Ljubljanska cesta 82, 1230 Domžale
T: +386 (0)1 580 42 48
F: +386 (0)1 721 17 32
E: info.do.si@addiko.com

Maribor

Business Centre Maribor
Trg Leona Štuklja 5, 2000 Maribor
T: +386 (0)2 450 39 41
F: +386 (0)2 450 39 31
E: info.mbc.si@addiko.com

Maribor Centre Branch

Trg Leona Štuklja 4, 2000 Maribor
T: +386 (0)2 450 39 49
F: +386 (0)2 234 79 01
E: info.mbc.si@addiko.com

Addiko Bank

Business Centres and Branch Offices

Maribor Tabor Branch

Ulica Eve Lovše 1 (Mercator centre), 2000 Maribor
T: +386 (0)2 450 39 30
F: +386 (0)2 234 39 32
E: info.mbc.si@addiko.com

Ptuj

BC Maribor, Ptuj Branch
Ormoška cesta 15 (Qlandia), 2250 Ptuj
T: +386 (0)2 450 38 90
F: +386 (0)2 780 90 99
E: info.pt.si@addiko.com

Murska Sobota

Business Centre Murska Sobota
Kocljeva ulica 2, 9000 Murska Sobota
T: +386 (0)2 530 81 80
F: +386 (0)2 530 81 90
E: info.ms.si@addiko.com

Celje

Business Centre Celje
Ljubljanska cesta 20, 3000 Celje
T: +386 (0)3 425 73 30
F: +386 (0)3 425 73 31
E: info.ce.si@addiko.com

Trbovlje

BC Celje, Trbovlje Branch
Obrtniška cesta 30, 1420 Trbovlje
T: +386 (0)3 425 73 53
F: +386 (0)3 562 84 82
E: info.tr.si@addiko.com

Velenje

BC Celje, Velenje Branch
Šaleška cesta 19, 3320 Velenje
T: +386 (0)3 425 73 58
F: +386 (0)3 587 16 81
E: info.ve.si@addiko.com

Kranj

Business Centre Kranj
Koroška cesta 1, 4000 Kranj
T: +386 (0)4 201 08 80
F: +386 (0)4 201 08 81
E: info.kr.si@addiko.com

Koper

Business Centre Koper
Ferrarska ulica 30, 6000 Koper
T: +386 (0)5 663 78 00
F: +386 (0)5 663 78 14
E: info.kp.si@addiko.com

Nova Gorica

Business Centre Nova Gorica
Kidričeva ulica 20, 5000 Nova Gorica
T: +386 (0)5 335 47 00
F: +386 (0)5 335 47 01
E: info.ng.si@addiko.com

Novo mesto

Business Centre Novo mesto
Rozmanova ulica 34 a, 8000 Novo mesto
T: +386 (0)7 371 90 60
F: +386 (0)7 371 90 61
E: info.nm.si@addiko.com

Brežice

BC Novo mesto, Brežice Branch
Cesta Prvih borcev 29, 8250 Brežice
T: +386 (0)7 371 90 71
F: +386 (0)5 496 66 81
E: info.br.si@addiko.com