Annual Report 2018

Gorenjska banka, d.d., Kranj and the Gorenjska banka Kranj Group

Gorenjska Banka
Vse, kar šteje.

Commitment to the preservation of cultural heritage

Sustainability is an important part of the long-term development strategy of Gorenjska banka. It is not understood just in principle, or as something that is modern, but we are actively pursuing it. Preservation of cultural heritage, respecting the past and taking responsibility for what we leave behind for future generations is one of the sustainability commitments of Gorenjska banka. These activities include managing the central part of the Hribar Villa in Cerklje with a memorial room and a park.

Hribar Villa in Cerklje na Gorenjskem

In 1886, a famous mayor of Ljubljana, Ivan Hribar, purchased a farm in Cerklje na Gorenjskem and transformed it into his popular summer residence. Until 1936, he spent most of his summers there, and then left it to his descendants. After the Second World War, a part of the building was nationalised, a post office was opened in the house, and a primary school was built in the orchard. In the 1980s, the building was on the verge of collapse. It was saved from the ravages of time by the purchase under the auspices of the Ljubljanska banka, which, together with the Temeljna banka Gorenjske at that time, also renovated the building between 1987 and 1989.

Ivan Hribar entrusted the rebuilding of the old stone farmhouse to the regional engineer Vladimír Hráský, who positioned himself as an architect with the construction of the National House in Celje and the Opera House in Ljubljana. The Villa reflected a high level of housing culture for those times. The rustic outer plaster of its ground floor and the classicist window frames can be classified into a historical style, which was only typical in Slovenia at the end of the 19th century. On the richly decorated wooden balcony rails and on the porch, the influence of Art Nouveau is to be seen.

The interior of the porch is especially rich in design. Local folklore says that the open roofing, painted wooden supporting structure and carved fillings over stained glass windows were created by the master craftsmen of Cerklje.

To this day, the wall paintings that were popular during the Renaissance have been preserved in the Villa. On the ceilings, ornamentation of grotesques with flower motifs, tendrils and roses prevails, transitioning into masks, and complemented by colour-coordinated wallpaper patterns on the walls.

The rooms on the first floor are furnished with furniture which was mostly owned by the Hribars. Most of the furniture is designed in the New Renaissance and New Baroque style. The interior is complemented by Art Nouveau chandeliers, ornamented fireplaces and paintings with mythological and religious scenes.

Content

Bank	Gorenjska banka, d.d., Kranj
CB	Central Bank
CET1	Common Equity Tier 1
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDP	Gross domestic product
Group	Gorenjska banka Kranj Group
IAS 39	International accounting standard 39
IFRS 9	International accounting standard 9
ICAAP	Internal Capital Adequacy Assessment Process
LCR	Liquidity Coverage Ratio
LGD	Loss given default
LTV	Loan to value
NPE	Non performing exposures
NPL	Non performing loans
NSFR	Net stable funding ratio
OCI	Other comprehensive income
PD	Probability of default
SME	Small and medium enterprises
SPPI	Solely payments of principal and interest on the principal amount outstanding

Management Report

Key **financial data**[1]

Amounts in thousands of EUR	Bank			Group		
	2018	2017	2016	2018	2017	2016
Statement of financial position, as at 31 December						
Total assets	1,831,533	1,871,944	1,512,629	1,832,664	1,870,881	1,513,694
Total deposits from the non-banking sector, amortised cost:	1,505,151	1,480,690	1,226,988	1,504,143	1,476,524	1,225,563
• corporates and other entities, engaged in the activity	476,583	549,652	348,531	475,575	545,485	347,105
• individual clients	1,028,568	931,039	878,457	1,028,568	931,039	878,457
Total amount of loans to the non-banking sector:	982,262	965,247	854,862	968,070	937,982	830,150
• corporates and other entities, engaged in the activity	700,769	735,907	669,095	686,577	708,642	644,383
• individual clients	281,493	229,340	185,767	281,493	229,340	185,767
Total equity	205,241	200,058	200,833	205,520	201,696	202,000
Value adjustments and provisions for credit losses	(78,589)	(98,478)	(107,041)	(78,603)	(98,127)	(106,007)
Total off-balance sheet operations	299,351	265,011	228,072	299,351	265,011	228,072
Income statement						
Net interest income	35,607	33,801	28,500	35,231	33,014	27,849
Net non-interest income	16,467	13,033	14,576	18,650	15,911	15,939
Labour costs, general and administrative costs	(29,759)	(29,666)	(27,935)	(30,555)	(30,121)	(27,985)
Depreciation	(1,888)	(1,596)	(1,760)	(3,193)	(2,364)	(1,872)
Impairment and provisioning (credit losses)	252	(5,520)	(5,910)	(1,605)	(5,766)	(5,985)
Profit before income tax	20,679	10,052	7,471	18,528	10,674	7,947
Tax related to profit/loss	(3,530)	(3,551)	(1,172)	(3,571)	(3,701)	(1,372)
Statement of comprehensive income						
Other comprehensive income before tax	(2,116)	(2,782)	(1,443)	(2,116)	(2,782)	(1,443)
Tax related to other comprehensive income before tax	404	230	(331)	404	230	(331)
Number of employees, as at 31 December	415	403	405	475	457	444
Shares:						
Number of shareholders	403	431	461	403	431	461
Number of shares	387,938	387,938	387,938	387,938	387,938	387,938
Nominal share value or an amount belonging to non-par share in registered capital (in EUR)	42	42	42	42	42	42
Book value per non-par share (in EUR)[2]	577	562	565	578	567	568

[1] Data for 2018 are in line with IFRS 9, while comparative data for 2017 and 2016 are in line with IAS 39. Quality indicators for assets and assumed obligations for 2016 have not been calculated.
[2] In the calculation of the book value per non-par share, treasury shares are not considered.

Ratios (in %):	Bank			Group		
	2018	2017	2016	2018	2017	2016
Capital:						
• CET1 Capital ratio	16.22	16.09	17.86	16.22	16.09	17.86
• T1 Capital ratio	16.22	16.09	17.86	16.22	16.09	17.86
• Total Capital ratio	16.22	16.09	17.86	16.22	16.09	17.86
Assets quality:						
• Non-performing exposures / exposures classified	6.76	7.37	n.a.	6.80	7.47	n.a.
• Non-performing loans and other financial assets / loans and other financial assets classified	9.30	10.68	n.a.	9.39	10.88	n.a.
• Value adjustments and provisions for credit losses / non-performing exposures	43.62	43.07	n.a.	43.62	43.07	n.a.
• Insurance received / non-performing exposures	43.55	57.88	n.a.	43.55	57.88	n.a.
Profitability:						
• Interest margin (net interest income to total assets)	1.99	2.01	1.94	1.97	1.96	1.90
• Financial mediation margin (net interest income and net non-interest income to total assets)	2.91	2.78	2.94	3.01	2.91	2.99
• Return on assets – before tax	1.15	0.60	0.51	1.03	0.63	0.54
• Return on assets – after tax	0.96	0.39	0.43	0.83	0.41	0.45
• Return on equity – before tax	10.39	4.99	3.72	9.30	5.26	3.94
• Return on equity – after tax	8.62	3.22	3.14	7.51	3.43	3.26
Operational costs:						
• Operational costs / average assets	1.77	1.86	2.03	1.88	1.93	2.04
• Operational costs / income	60.77	66.75	68.94	62.63	66.40	68.18

Liquidity of Bank:	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Liquidity coverage ratio (in %)	348.44	338.32	357.81	368.45
Liquidity buffer (in thousands of EUR)	402,529	392,519	387,362	393,669
Net cash outflows (in thousands of EUR)	122,207	125,361	116,733	115,487

Statement of the **President of** the Gorenjska banka, d.d., Kranj **Management Board**

In 2018, the operations of Gorenjska banka were of high quality, in spite of an extremely competitive environment, and in line with the business plans. The Bank has completed the financial year with stable capital. We focused our attention on establishing new forms of partnership cooperation, acting as a bank capable of offering a comprehensive solution for the needs of individual clients. We started intensively investing in business process changes and developing a digitalised and innovative business environment. In 2019, we will concentrate on the development of innovative banking products, whereby we will develop and complement especially our digital banking product and service range. In addition to new products and modern technological solutions, the planned business growth will also enable Gorenjska banka to be present throughout the country, as well as in the wider region, which we already started preparing for in 2018. Our strategic goal is to become one of the most innovative and recognisable banks in Slovenia and in the wider region. To help achieve this, we will use the synergies in the new banking group, consisting of AIK Banka and Gorenjska banka, within which we will search for new opportunities arising from joint action.

Embedded in the operations of Gorenjska banka are the values of professionalism, business excellence, innovation and one-hundred percent commitment to our clients. Every day, we strive to understand the needs of our clients and offer them the best solutions in a partnership. At the same time, we are aware that our employees are the basis of successful performance, which is why we will continue to pay attention to creating a working environment that rewards creativity, professionalism and a positive attitude towards work. Our task as a bank is to provide quality working conditions for our employees, which is one of our priorities. The renovation of branches, which we started in 2018, is aimed at improving both the well-being of our clients, and providing a pleasant working environment for our employees.

The future of banking will be directed by new banking products adapted for new platforms, that are developed almost on a daily basis. Most banking business will move to digital channels within a few years. At Gorenjska banka, we are preparing for the future by intensively studying the latest global banking innovations and preparing new, modern banking solutions for our clients.

The stable financial operations of Gorenjska banka, its capital strength and safety, and the quality of the banking services and products that we offer, are the foundation of the trust gained from our clients, business partners, shareholders and other stakeholders, whose endorsement enables us to successfully conduct business. Therefore, I would like to thank everyone for their trust. We want to create a modern bank that our customers, business partners, employees and all other stakeholders will be satisfied with and justly proud of.

Mario Henjak
Management Board President

Report of the **Supervisory Board** of Gorenjska banka, d.d., Kranj

The Supervisory Board Structure in 2018

At the end of 2018, the Supervisory Board of Gorenjska banka, d.d., Kranj operated with six members: Chairman Mrs Jelena Galić, Deputy Chairman Mr Aleš Aberšek and members Mr Jurij Bajec, Mr Matej Podlipnik, Mr Vladimir Sekulić and Mr Tim Umberger. The structure of the Supervisory Board changed in 2018 as follows:

- The Supervisory Board was led by Mr David Benedek in 2018, until the Supervisory Board appointed him as the alternate Management Board Chairman on April 1, 2018, instead of Mr Andrej Andoljšek, who prematurely resigned.
- From April 1, 2018 until September 3, 2018, the Supervisory Board sessions were chaired by Deputy Chairman Mr Aleš Aberšek.
- On July 20, 2018, the General Meeting of the Bank appointed new Supervisory Board members Mr Vladimir Sekulić, Mr Jurij Bajec, and Mr Tim Umberger for a five-year term of office. Mr Sekulić started his term on July 23, 2018, while Mr Bajec and Mr Umberger started their term on August 29, 2018.
- On August 28, 2018, the five-year term of office of two Supervisory Board members, namely Mr Miran Kalčič and Mr Gregor Rovanšek, ended,
- On September 3, 2018, Mrs Jelena Galić was appointed to the position of the Supervisory Board Chairman.
- At the end of September, Mr David Benedek resigned as a Supervisory Board member, as he was appointed as a member of Management Board.

The Audit Committee, the Risk Committee, and the HR Committee were appointed for performing an in-depth supervisory role over individual areas of the Bank's operations, which, in accordance with their authorities, have also been preparing professional basis and resolution proposals for the Supervisory Board.

The composition of all three Committees of Gorenjska banka d.d., Kranj, was changed at the 59th meeting of the Supervisory Board on September 3, 2018. The Audit Committee has since then been composed of Chairman Aleš Aberšek, Deputy Chairman Vladimir Sekulić and Member Jurij Bajec. The HR Committee has from then on been composed of Chairman Mr. Vladimir Sekulić, Deputy Chairman Jurij Bajec and Member Tim Umberger. The Risk Committee is headed by Chairman Mr. Tim Umberger, Deputy Chairwoman Jelena Galić and a member of the Commission Matej Podlipnik. In 2018 the Audit Committee had 6 regular and one correspondence meeting, the HR Committee had 11 regular and four correspondence sessions, and the Risk Committee had 5 regular and no correspondence meetings.

Overview of the Supervisory Board Activities in 2018

In 2018, the Supervisory Board held eleven regular and six correspondent sessions. The Supervisory Board monitored and supervised the Bank's operations and the Management Board's work in line with the powers, competences, responsibilities according to Slovenian and European legislation and internal acts of Gorenjska banka d.d., Kranj.[3] The Bank's Management Board regularly, in due time, and fully informed the members of the Supervisory Board of achieved results and all important events related to Bank's operation, strategy, and risk management.

Supervisory board of Gorenjska banka d.d., Kranj, was actively involved in the supervision of the actions of the management board and the bank's operations, on the basis of knowledge and understanding of the bank's operations and financial data, and the bank's objectives, strategies and policies, and having regard for the regulations, standards and requirements of the Bank of Slovenia. To this end Supervisory Board discussed, verified, approved and adopted regular reports and documents which were submitted for consideration.

At the beginning of 2018, the Supervisory Board familiarised itself with the completion of the project of introducing its new IT platform for retail banking, which the Bank started at the beginning of 2017. Data migration was completed according to the plan and successfully transferred from NLB. From then on, the new software is in regular production use.

At the first session at the end of January 2018, the Supervisory Board considered and adopted the Internal Governance policy, which replaced the then valid Policy of Professional and Ethical Standards and the Suitability Assessment of Members of the Management Board, the Supervisory Board and the Bank's Key Function Holders at the Gorenjska banka d.d. Kranj. The adopted policy follows all valid guidelines[4] The Supervisory Board adopted necessary decisions during the course of 2018 regarding changes in the composition of the Management Board related to the consensual termination of the mandate of chairman, nominating alternate chairman of the Management board and eventually nominating new president and members of the management board. All the decisions with regard to suitability assessments of candidates and composition of the board were compliant with applicable guidelines and Policy on internal governance.

Among others the Supervisory board adopted the audited Annual Report of the Bank and the Group for 2017 and the reports of the certified auditor, the quarterly reports of internal audit and half yearly reports of compliance. They also approved amendments to Investment policy of the bank, certain transactions which constitute large exposures or transactions with related parties and carried

[3] Banking Act, Bank of Slovenia Regulation on Internal Governance Arrangements, the Management body and the Internal Capital Adequacy Assessment Process for Banks and Savings banks, the Companies Act, and the Bank's Articles of Association, Internal Governance Policy of Gorenjska banka d.d., Kranj, and the Code of Business Ethics of Gorenjska banka, d.d., Kranj.

[4] The Internal Governance Guidelines and Guidelines on Suitability of Members of Management Body

out self-assessment of the work and efficiency of the work of the Supervisory Board. Special attention and emphasis was paid to discussions on regular reports on Bank's operations and risk management and verifying the consistency of risk profile of the bank with risk appetite statement.

The Supervisory Board also adopted the changes to the Remuneration Policy and the Criteria for Designating Variable Remunerations. Adoption of these changes ensured compliance with the Guidelines on Sound Remuneration Policies adopted by the EBA.

Additionally, the Supervisory Board also adopted amendments of the Rules of Procedure of the Supervisory Board, which follow the Bank of Slovenia's recommendations, as well as proposals and comments of the HR Committee and final suggestions of the Supervisory Board.

The Supervisory Board monitored the work of the Internal Audit Department on the basis of quarterly reports. Based on the internal audit report for 2017, it found that the internal audit acted independently and in line with the adopted programme of work and internal audit rules of procedure.

At the end of the year, the Supervisory Board focused on preparing the Bank's and the Group's plan for 2019-2021, which was adopted by the Supervisory Board at the last, 63th session, in 2018. Plan is based on the strategy of the Bank, the investment policy and its risk appetite. The plan envisages a gradual increase of profits and the improvement of business indicators, which shall reach the values envisaged in the development strategy.

The Supervisory Board performed constructive criticism and the effective supervision of the management board decisions and effectively realised its role in adopting policies and decisions within their scope of responsibility.

Operation of Gorenjska banka in 2018

The Bank is focused on business cooperation with non-bank clients whose deposits represent a reliable, stable, dispersed, and sustainable source of funding. Gorenjska banka places special attention on maintaining high current liquidity and providing secondary liquidity in the form of first-rate government securities and loans.

In 2018, the Bank generated profit before impairments and taxes of €20.4 million and consequently realised a net profit of €17.1 million.

In 2018, net release of impairments amounted to €0.3 million. New impairments were created in the amount of €0.8 million on loan portfolio, €1.5 million for investment properties, whereas €2.5 million of impairments on credit portfolio were released.

The Bank's capital adequacy at end of 2018 amounted to 16.22%, which is 0.13 percentage points more than in 2017.

The achieved results in 2018 show that the values of key performances indicators are aligned with the Bank's long-term strategy.

Information on the Approval and Adoption of the 2018 Annual Report

The Bank's Management submitted the 2018 Annual Report to the Audit Committee, which gave a positive opinion thereon. The Management submitted the audited 2018 Annual Report to the Supervisory Board for verification within the statutory deadline, along with the audited financial statements of the Bank and Group and the certified auditor's reports as prepared by the audit firm Deloitte revizija d.o.o., Ljubljana.

Based on the performed audit of the non-consolidated financial statements of Gorenjska banka d.d., Kranj (the Bank) and the consolidated financial statements of Gorenjska banka d.d., Kranj, and its subsidiaries (the Group) as of 31 December 2018, which include the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement, and a summary of significant accounting policies and other notes, the auditing firm issued opinions (separately for non-consolidated and consolidated statements) stating that the financial statements presented a true and fair view of the financial standings of the Bank and Group as of 31 December 2018 as well as their profit or loss and cash flows for the then finished year pursuant to the international financial reporting standards as adopted by the EU. The reports made by the auditing firm also include a positive opinion on the compliance of indications in the business report with the audited financial statements.

The Supervisory Board believes that the Bank's Management and Supervisory Boards met all legal requirements in the 2018 financial year.

Based on the above, the Supervisory Board approved and adopted the Annual Report of Gorenjska banka d.d., Kranj, and the Gorenjska banka Kranj Group for 2018, and adopted the reports of the certified auditor for the 2018 financial year and agreed with them.

Jelena Galić
Supervisory Board Chairwoman

Organisational Chart of **the Bank**

Management of the Bank

Management Board President: Mario Henjak[5]
Management Board Member: Mojca Osolnik Videmšek
Management Board Member: David Benedek[6]

Internal Audit Division
Marija Hejja

Compliance Division
Božo Jašovič

Legal Office
Dejan Kmetec

Organisation, HR and Administrative Division
Vesna Pungeršek Žalig

Market area

Executive Director:
Gregor Kaiser

Division for Key Clients
Vanja Jeraj

Business Network Division
Tatjana Kozole

Treasury Division
Aleš Novosel

Financial Leasing Division
Aleš Zrinski

Division for Small and Medium Sized Companies
Simon Šimonka

Factoring Division
Damir Abdić

Development and Digitalisation Division
Martin Kraljić

Risk area

Executive Director:
Stanka Šarc Majdič

Credit Risk Assessment Division
Karmen Kordiš

Risk Controlling Division
Nataša Veselinović

Risk Claim Division
Aleš Rutar

Property Management Division
Mojca Šircelj

Support area

Executive Director:
Katarina Knapič Lapajne

Division for Accounting and Operating Support
Marjana Hočevar

Financial Controlling Division
Katarina Knapič Lapajne

Information Systems Division
Sašo Rakovec

Division for Payment Transactions
Milena Preželj

[5] On 31 March 2018, the term of office of the President of the Bank's Management Board, Andrej Andoljšek, terminated early. The Supervisory Board of the Bank appointed David Benedek new President of the Management Board. Mario Henjak has been the President of the Management Board since 10 December 2018.
[6] David Benedek was a member of the Management Board from 10 December 2018 to 28 February 2018.

Organisational Chart of **the Group**

Gorenjska banka, d. d., Kranj

Subsidiaries	
Imobilia-GBK, d. o. o., Kranj	100%
GB Leasing, d. o. o., Ljubljana	100%
Hypo Alpe-Adria-Leasing, d. o. o., Ljubljana	100%

Top Management Structure

General Meeting of Shareholders[7]

Supervisory Board

- **Jelena Galić** Chairwoman
- **Aleš Aberšek** Deputy Chairman
- **Jurij Bajec** Member
- **Matej Podlipnik** Member
- **Tim Umberger** Member
- **Vladimir Sekulić** Member

Audit Committee

- **Aleš Aberšek** President
- **Vladimir Sekulić** Deputy President
- **Jurij Bajec** Member

Risk Committee[8]

- **Tim Umberger** President
- **Jelena Galić** Deputy President
- **Matej Podlipnik** Member

Human Resources Committee[9]

- **Vladimir Sekulić** President
- **Jurij Bajec** Deputy President
- **Tim Umberger** Member

Management Board

- **Mario Henjak** Management Board President
- **Mojca Osolnik Videmšek** Management Board Member
- **David Benedek** Management Board Member

[7] As of 3 September 2018, the Committees have been operating in new composition, while prior to that their composition was the same as in 2017.
[8] On 18 February 2019, the Risk Monitoring and Assets /Liabilities Committee was renamed in Risk Committee.
[9] On 18 February 2019, the Nomination and Remuneration Committee was renamed in Human Resources Committee.

Business **Network**

Agency	Address	Telephone
Bleiweisova cesta	Bleiweisova cesta 1, Kranj	04 208 40 00
Globus[10]	Koroška cesta 4, Kranj	04 208 45 00
Šenčur	Kranjska cesta 4, Šenčur	04 208 45 07
Cerklje	Trg Davorina Jenka 10, Cerklje	04 208 45 10
Primskovo	Cesta Staneta Žagarja 69, Kranj	04 208 45 16
Savski otok	Stara cesta 25 b, Kranj	04 208 45 19
Jesenice	Cesta maršala Tita 8, Jesenice	04 208 46 08
Plavž	Cesta Cirila Tavčarja 8, Jesenice	04 208 46 21
Kranjska Gora	Borovška cesta 95, Kranjska Gora	04 208 46 26
Ljubljana – Center	Dalmatinova ulica 4, Ljubljana	04 208 45 45
Ljubljana – Celovška	Celovška cesta 268, Ljubljana	04 208 45 52
Kamnik	Domžalska cesta 3, Kamnik	04 208 45 55
Radovljica	Gorenjska cesta 16, Radovljica	04 208 46 57
Bled	Kajuhova cesta 1, Bled	04 208 46 76
Bohinjska Bistrica	Trg svobode 2b, Bohinjska Bistrica	04 208 46 83
Lesce – Rožna dolina	Rožna dolina 51, Lesce	04 208 46 68
Škofja Loka	Kapucinski trg 7, Škofja Loka	04 208 41 41
Gorenja vas	Poljanska cesta 65a, Gorenja vas	04 208 41 70
Železniki	Na Kresu 26, Železniki	04 208 41 63
Žiri	Trg svobode 1, Žiri	04 208 41 65
Grenc	Grenc 54, Škofja Loka	04 208 41 81
Tržič	Trg svobode 1, Tržič	04 208 45 28
Bistrica pri Tržiču	Ste Marie aux Mines 36, Tržič	04 208 45 36

E-mail: info@gbkr.si	Website: http://www.gbkr.si

Ratings

Fitch Ratings	Long-Term Issuer Default Rating	BB-
	Short-Term Issuer Default Rating	B
	Viability Rating	bb-
	Support Rating	5
	Outlook	Stable
Capital Inteligence	Long-Term Issuer Default Rating	BB
	Short-Term Issuer Default Rating	B
	Financial Strength	BB
	Support Rating	4
	Outlook	Stable

[10] Since 1 January 2019, the Globus Agency has been closed.

The economic **environment** and the banking sector

Economic environment

According to initial assessments made by the Institute of Macroeconomic Analysis and Development (IMAD), the 2018 economic growth will reach 4.4%. Further increase in private and government consumption will contribute to economic growth more than in 2017. The growth of export will remain high, yet somewhat lower compared to 2017, due to the moderation of foreign demand. Lower investment and export growth will thus be the key reasons for lower economic growth than in 2017 (4.9%), and as estimated in the spring forecast (5.1%).

The growth forecast for future economic activity in Slovenia remains favourable considering the Bank of Slovenia forecasts of macroeconomic trends and will amount to 3.4% in 2019, while stabilising at around 3% in 2020 and 2021. Future moderate GDP growth will be the result of gradual transition to a more mature phase of the business cycle, both in the Slovenian economy as well as in the economies of the main trade partners. The risks for realising the forecasts of economic growth in Slovenia remain low and stem mostly from the external environment and are linked to the tightening and escalation of the global geopolitical conditions and protectionist measures, which could severely reduce the growth of foreign demand and have negative impact on the Slovenian export, which remains to be the key pillar of economic activity.

The table below shows the more important macroeconomic indicators of Slovenia's development in the period 2016–2018.

	2016	2017	2018
Gross domestic product, in %	3.1	4.9	(F) 4.4
Private consumption (in %)	3.9	1.9	(F) 2.7
Labour productivity (GDP per employee; in %)	1.3	1.9	(F) 1.5
Export of goods and services, in %	6.4	10.7	(F) 8.2
Unemployment rate, ILO, in %	8.0	6.6	(F) 5.5
Inflation, annual average, in %	(0.1)	1.4	(F) 1.8
Current account balance (as a % of GDP)	5.5	7.2	(F) 6.8

(F) - forecast
Source: Autumn economic trends for the year 2018, September 2018, Analysis and Development of the Republic of Slovenia; The Statistical Office of the Republic of Slovenia.

According to the latest data provided by the Employment Service of Slovenia, there were 78,534 unemployed persons registered at the end of December 2018, which is 7.7% less than in December 2017 (6,526 persons). On average, there were 78,474 unemployed persons registered with the Service in 2018, which is 11.5% less than in 2017.

Salary growth will continue to grow in the 2018-2020 period upon favourable economic trends and increased shortage of qualified workers. Labour force will continue to reduce and company restrictions in the search for adequately qualified workers will be even more pronounced. Upon such trends, pressure on salary growth will increase.

The annual price growth measured with the harmonised index of consumer prices was at 1.4% in December 2018, while the average 12-month price growth was at 1.9 % (compared to 1.6% in the same period of the previous year). That was largely the result of oil price increase and a steady increase in service prices (+2.8%) The annual inflation rate in EMU member states was at 1.9% in November 2018 and in EU Member States at 2.0%.

The key interest rate of the European Central Bank remained unchanged in 2018. At the last regular session in December 2018, the ECB Governing Council decided that net purchases within the scope of the securities purchase programme will cease as of December 2018. At the same time, the ECB decided to re-invest in full the principals of maturing securities, i.e. for a longer period than the current one and after the ECB starts increasing the key interest rate, but in any case, for as long as necessary to maintain favourable liquidity conditions and a very accommodative monetary policy stance.

The value of the 3-month (6-month) EURIBOR increased in 2018 by 2.0 (3.4) basis points to -0.309% (-0.237%). Considering the forecasts made by the Bloomberg terminal, levels 3M Euribor rates will not change much in the first half of 2019, but will start growing gradually in the second half of 2019, since the European Central Bank is expected to start adjusting the monetary policy after the summer of 2019.

Banking environment

Risks in the banking system did not change significantly in 2018, with respect to the previous year. Although the banking sector operated at a profit, the revenue risk remains to be a major risk in the medium term, particularly due to the slow growth of net interest income, while net reversal of impairments and provisions is still present. The quality of the credit portfolio at banks improved significantly in recent years.

Today, the banking system is more resilient to any shocks on the real estate market due to high capital adequacy. Risks in the banking system deriving from the real estate market remain moderate due to reduced exposure of the banking sector and increased robustness of the banking system.

Slovenian households continue to have low debts and conditions on the labour market are favourable. Upon smaller corporate demand for loans, households have become a more and more important segment for increasing bank revenues and have been largely targeted by banks with their products. Bank risks deriving from the household sector currently remain low. In 2018, banks continued to provide enhanced credit support to households, particularly consumer loans. Due to the high growth of increasingly risky consumer loans, which is reflected in the approval of loans with very long maturity and no collateral, since such risks may be realised in case of a reversal in the economic cycle.

About the Gorenjska banka **Group**

Composition of the group

The Gorenjska banka Group (hereinafter "Group") includes Gorenjska banka d.d., Kranj, and three subsidiaries: Imobilia-GBK d.o.o., Kranj, GB Leasing d.o.o., Ljubljana, and Hypo Alpe Adria leasing d.o.o., Ljubljana. The last company is inoperable and is not generating revenue or expenses. The liquidation of Mersteel nepremičnine d.o.o., Naklo, was completed in December 2018 and the company was deleted from the court register.

The table below shows data on the shares of Gorenjska banka d.d., Kranj, in the capital of the subsidiaries and on the companies' share capital as at 31 December 2018.

Company	Equity holdings (in %)	Nominal amounts (in thousands of EUR)
Imobilia-GBK, d. o. o., Kranj	100	4,589
GB Leasing, d. o. o., Ljubljana	100	3,800
Hypo Alpe-Adria-Leasing, d. o. o., Ljubljana	100	84

Pursuant to the provisions of IFRS 10, Gorenjska banka d.d., Kranj, has a controlling company, i.e. AIK banka a.d., Belgrade. Since the Bank of Slovenia took away voting rights from Sava d.d., Ljubljana, AIK banka a.d. now has more than half of voting rights, whereby conditions have been met to include Gorenjska banka in the consolidated statements of the AIK banka Group.

Presentation of the bank

Gorenjska banka d.d., Kranj (hereinafter: "bank") is an independent public limited company with its head office in Kranj, at the address Bleiweisova cesta 1 (statistics number: 5103061000, tax number SI42780071, share capital EUR 16,188,366.33).

The bank was established in the 19th century, when the first seeds of organised banking were formed in the Gorenjska region. On 25.3.1955, the first municipal bank in the Gorenjska region was formed in Kranj, followed by the bank in Škofja Loka and banks in Radovljica, Tržič and Bled the year after. Eventually, a joint bank was formed, which joined the Ljubljanska banka system in 1972, first as a subsidiary and later, as of 27.12.1989, as a limited company in the system of sister banks of Ljubljanska banka with capital links with one another.

In 1994, the separation process from the Ljubljanska banka system was initiated, namely with the purchase of shares that Nova Ljubljanska banka d.d., Ljubljana had in Gorenjska banka d.d., Kranj. The process was concluded in 1996, when the bank cancelled the shares.

Gorenjska banka d.d., Kranj, has the authorisation to perform banking services as per Article 5 of the Banking Act (Official Gazette of RS No. 25/15, with Amendments; hereinafter: ZBan-2). Banking services are services of accepting deposits and other repayable funds from the general public, as well as granting credits on its own account.

The bank has an authorisation to perform mutually-recognised and additional financial services.

The bank may perform the following mutually-recognised financial services, pursuant to Article 5 of the ZBan-2:

1. Receiving deposits and other repayable funds;
2. Granting of loans, including: consumer loans, mortgage loans, purchase of receivables with or without recourse (factoring), financing of commercial transactions, including export financing based on the purchase of non-current non-past-due receivables at a discount and without recourse, secured by financial instruments (forfeiting);
3. Financial leasing;
4. Payment services;
5. Issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in service of former point 4;
6. Issuing of guarantees and other commitments;
7. Trading for own account or for account of customers in: foreign exchange, including exchange transactions; trading for own account in: money market instruments, financial futures and options, exchange and interest-rate instruments and transferable securities;
8. Other services related to safekeeping of securities;
9. Leasing of safe deposit boxes.

The bank may also carry out additional financial services as per Article 6 of ZBan-2, which includes the sale of insurance policies as per the law governing the insurance market and the marketing units of investment funds.

In the period for which the respective business report has been drafted, the bank performed those banking services and additional financial services for which it received authorisation from the Bank of Slovenia.

Presentation of subsidiaries

Imobilia-GBK, d.o.o., Kranj

Gorenjska banka d.d., Kranj holds a 100% stake in the subsidiary company, Imobilia-GBK, promet z nepremičninami in hipotekarnimi posli d.o.o., Kranj, with its head office in Kranj at Bleiweisova cesta 1.

The principal activities of the company include the management of a real estate portfolio and the realisation of procedures for the brokerage of the founder's real estate, movables (especially equipment and machines), as well as securities and shares in companies.

The company has no employees with specialised knowledge and competencies for the real estate trade, for real estate project development or for preparing project documentation. The company is hiring external contractors to perform such and similar services.

GB Leasing, d.o.o., Ljubljana

Gorenjska banka d.d., Kranj, holds a 100% stake in the subsidiary company GB Leasing, d.o.o., Ljubljana. The company is operating at the address Dunajska cesta 152, 1000 Ljubljana, with affiliates in Koper and Maribor.

The company is carrying out non-financial maintenance services for the bank in the area of the financial leasing of movables. It began operating in 2016 when the bank received a consensus from the Bank of Slovenia for financial leasing operations.

Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana

Gorenjska banka d.d., Kranj, holds a 100% stake in the subsidiary company Hypo Alpe Adria leasing d.o.o., Ljubljana, as of 2017. The company has no employees and no portfolio (in 2016 the majority has been transferred to Gorenjska banka).

The company is inoperable and will shut down at the end of all its leasing contracts because it is only necessary up to the conclusion of the purchased portfolio.

Shareholders information

At the end of 2018, the **bank's capital stock** was distributed to 387,938 ordinary shares. As at 31.12.2018, 403 shareholders were registered in the bank's share register (432 as at 31.12.2017) The top ten biggest shareholders by the number of shares had 81.5% of the bank's subscribed share capital (78.7% as at 31.12.2017).

Based on the notification received from the Consortium of sellers on 20 February 2017, the Management Board of Gorenjska banka, d.d., Kranj, was informed about the intention of the sale of the majority portfolio of shares of Gorenjska banka, d.d., Kranj. AIK Banka a.d., Belgrade, published the takeover intention of Gorenjska banka, d.d., Kranj, on 16 December 2017 and then again on 22 December 2017, however the takeover bid was not published in due time, as determined by the Takeovers Act.

On 26 January 2019, AIK Banka a.d., Belgrade, again published the takeover intention of Gorenjska banka, d.d., Kranj, and on 13 February 2019 the takeover bid for all shares of Gorenjska banka, d.d., Kranj, which it did not own when the takeover bid was published in the newspaper Delo on 13 February 2019 (86,611 GBKR shares).

As at 31 December 2018, approximately 52.4% of the share owners were domestic companies in the area of financial and insurance activities, 33.1% were foreign parties, 3.3% were domestic companies in processing activities, while other activities were represented on a smaller scale.

The 2018 **net profit** amounting to EUR 17,149 thousand was used for legal reserves amounting to EUR 858 thousand and for statutory reserves amounting to EUR 1,629 thousand. The net profit of the year after its use for legal and statutory reserves is EUR 14,662 thousand. The distributable profit, which in addition to the 2018 net profit following its use for legal and statutory reserves also includes the retained profit of EUR 4,331 thousand, was established in the amount of EUR 18.993 thousand.

Shareholders of Gorenjska banka, d.d., Kranj, as at 31 December 2018:

Name of shareholder	Number of ordinary shares	Share in capital, in %	Share in voting rights, in %
Sava, d. d., Ljubljana	146,060	37.7	0.0
AIK banka, a. d., Beograd	128,255	33.1	61.2
Zavarovalnica Triglav, d. d., Ljubljana	15,719	4.0	7.5
Telekom Slovenije, d. d., Ljubljana	6,322	1.6	3.0
Domel, d. o. o., Železniki	5,331	1.4	2.5
Turistično društvo Lesce	4,752	1.2	2.3
Banka Intesa Sanpaolo, d. d., Koper	3,000	0.8	1.4
ECE, d. o. o., Celje	2,350	0.6	1.1
NJT, Investments and real estate, d.o.o., Kranj	2,349	0.6	1.1
M1, Financial company, d.d., Ljubljana	2,039	0.5	1.0
TOTAL top ten major shareholders	**316,177**	**81.5**	**81.1**
Other shareholders	39,546	10.2	18.9
Gorenjska banka, d.d., Kranj – own shares	32,215	8.3	0.0
TOTAL 432 shareholders	**387,938**	**100.0**	**100.0**

* Of the total of 146,060 shares owned by the company Sava d.d., Ljubljana, the latter transferred 34,287 to the fiduciary ownership of fiduciary Abanka Vipa d.d., Ljubljana, which keeps them to the benefit of the holders of bonds issued by Sava d.d., Ljubljana, as security for liabilities deriving from bonds.

Strategic orientations of the Bank and Subsidiaries

Vision

Using a wide range of services, the Bank will strengthen its presence and visibility across Slovenia, and will continue to be robust, reliable, and flexible for its clients, business partners, and owners. The Bank's strategy in the 5-year strategic period (2016-2020) is to pursue the strategy of accelerated growth through organic growth, asset and portfolio acquisition, and capital integration with other banks and financial institutions, thus becoming a pan-Slovenian bank.

Mission

The Bank provides quality banking services with its expertise and modern technology which are constantly improved and tailored to the needs and wishes of its clients. It provides a high level of security throughout its operations.

Values

The expectations of clients, business partners, and owners are realised by the Bank through its motivated employees, while taking into account the fundamental legal and moral rules of the society. The fundamental values are:

- responsibility and cooperation;
- fairness and trust;
- courtesy and patience;
- sincerity and truthfulness;
- the Bank's reputation and success;
- care and diligence.

The Bank's strategic goals until 2020

The Bank's strategic frame comprises interconnected and interdependent elements – strategic goals, a balance between risks, liquidity, business efficiency and sources that the bank needs for its operations – capital, financing, human resources and technology.

The key strategic goals of the Bank for the medium term are:
- transformation from a regional into a pan-Slovenian bank;
- gradual change of the portfolio structure – reducing the portfolio concentration, growth in the segments of small and medium enterprises and retail;
- The development of new products and sales channels in corporate and retail operations;
- Internal restructuring of the Bank, which includes all segments of operation - organisation, processes, HR, and technology;
- Keeping a moderate appetite for risks and the upgrade of the risk management system;
- Ensuring the capital amount and structure which, in addition to all regulatory requirements, also provides a safety reserve for unforeseen risks and optimised return;
- Upgrade of the corporate governance system at the Gorenjska banka Group level;
- Upgrade of control environment (business compliance, internal audit, jurisprudence).

The key performance indicators for the implementation of the strategy have been defined for the market position in Slovenia, the rate of return and cost efficiency.

It has been established that the Bank's activities and operations were in line with the adopted strategic goals and strategic framework and that no deviation was identified that would require additional actions or a modification of strategic orientations.

Sustainable development and corporate social responsibility

The key links in the value chain constituting our ongoing responsibility and, hence, our corporate identity are:
- financial capital or economic strength as a prerequisite for fulfilling sustainability commitments and facing sustainable challenges;
- human capital or, rather, qualified, healthy, satisfied, motivated, and engaged associates with all competences and responsibilities as the only assurance for the sustainable success of Gorenjska banka;
- social capital, which makes us deeply rooted in our living and economic environment through local, social, intergenerational, and business integration;
- intellectual capital, which drives our quality, efficiency, responsiveness, and, most of all, development dynamics and thus long-term existence;
- environmental capital, which may lead to immense development opportunities through efforts for a more efficient utilisation of natural resources.

Policies of subsidiaries

The subsidiary, Imobilia–GBK, d.o.o., Kranj, will manage the real estate, which it has acquired or will acquire from debtors in bankruptcy that sell the real estate in order to meet their obligations to the bank, on its own behalf and for its own account and shall in doing so observe the principle of economy and pursue the objective of maximisation of the Group's profit, which includes the preservation and increasing of the value of properties.

The GB Leasing, d.o.o., Ljubljana subsidiary will continue with its aggressive market coverage. 95% of the business will be generated through credit intermediaries and other partners involved with supplying vehicles and equipment. It will continue to pursue cost effectiveness.

The subsidiary, Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana is not operational.

Operations in **2018**

The effects of the transfer to IFRS 9 are shown in detail in the financial section of the Annual Report (Note 2.2), while the business report shows only some effects compared to the end of 2017.

Financial operations

In 2018, the Group disclosed a profit before tax of EUR 18,528 thousand, which is 10.4% lower than the profit of the Bank. The negative difference in the financial results of the Group compared to the financial results of the Bank is largely the result of the elimination of the subsidiary Mersteel nepremičnine due to its liquidation and deletion from the court register. There are no other major differences between the Bank and the Group, which is why the indication below is focused only on the Bank.

In 2018, the Bank disclosed a profit before tax amounting to EUR 20,679 thousand (2017: EUR 10,052 thousand). It achieved a 10.39% return on equity before tax and a 1.15% return on assets before tax.

The table below shows the key elements of the Bank and the Group's income statements.

(in thousands of EUR)	Bank		Group	
	2018	2017	2018	2017
Net interest income	35,607	33,801	35,231	33,014
Net non-interest income	16,467	13,033	18,650	15,911
Total income	**52,074**	**46,834**	**53,881**	**48,925**
Labour costs, general and administrative costs	(29,759)	(29,666)	(30,555)	(30,121)
Depreciation	(1,888)	(1,596)	(3,193)	(2,364)
Total operational cost	**(31,647)**	**(31,262)**	**(33,748)**	**(32,485)**
Impairment and provisioning	252	(5,520)	(1,605)	(5,766)
Profit before income tax	**20,679**	**10,052**	**18,528**	**10,674**
Tax related to profit	(3,530)	(3,551)	(3,571)	(3,701)
Net profit	**17,149**	**6,501**	**14,957**	**6,973**

Net interest amounted to EUR 35,607 thousand, which is 5.3% more than in 2017. The growth of net interest is particularly the result of leasing activities, which fully replaced the loss of interest income in other categories. Under interest income, the Bank recognises no interest charged and recovered for non-performing exposures, whereby it consistently follows the adopted accounting policy in that area.

Non-interest income amounted to EUR 16,467 thousand and increased by 26.3 % compared to 2017. The growth of non-interest income is related to the growth of revenue from financial assets. In that segment, the Bank generated a profit of EUR 3,936 thousand (2017: EUR 1,549 thousand). The majority involves the revaluation of investments in shares, repayments of receivables written off and the sale of two real estate items. The most important part of non-interest income at the Bank are commissions. Net commissions amounted to EUR 11,810 thousand, which is 4.7% more than in 2017. Commission income amounted to EUR 13,013 thousand, which is 5.9% more than in 2017, while commission expenses amounted to EUR 1,203 thousand, which is 19.3% more than in 2017.

Total operating costs amounted to EUR 31,647 thousand, which is 1.23 % more than in 2017. The largest share of operating costs is accounted for by labour costs (55.1%), followed by cost of material and services (39.0%), and

depreciation/amortisation costs (5.9 %). Labour costs were 10.6% higher than in 2017. The cost of material and services decreased by 11.3%, while depreciation costs increased by 18.3%. Increased costs are related particularly with leasing activities, card operations, depreciation and labour costs.

Compared to average assets, operating expenses amounted to 1.77%. Due to higher average assets, the indicator fell by 0.09 percentage points compared to 2017.

Revenue from the reversal of provisions and impairments exceeded expenses for provisions and impairments of the credit portfolio, investment property and equity stakes by EUR 252 thousand in 2018 (in 2017: EUR 5,520 thousand of expenses for provisions and impairments).

Comprehensive income, i.e. net profit or loss and other comprehensive income after tax, disclosed a profit of EUR 15,438 thousand in 2018 (2017: EUR 3,949 thousand). It includes a net profit of EUR 17,149 thousand (2017: EUR 6,501 thousand), a loss related to financial investment in debt financial instruments of EUR 2,126 thousand (2017: EUR 2,733 thousand), actuarial gains amounting to EUR 14 thousand (2017: EUR 50 thousand of losses), and tax liabilities amounting to EUR 405 thousand (2017: EUR 230 thousand of tax liabilities).

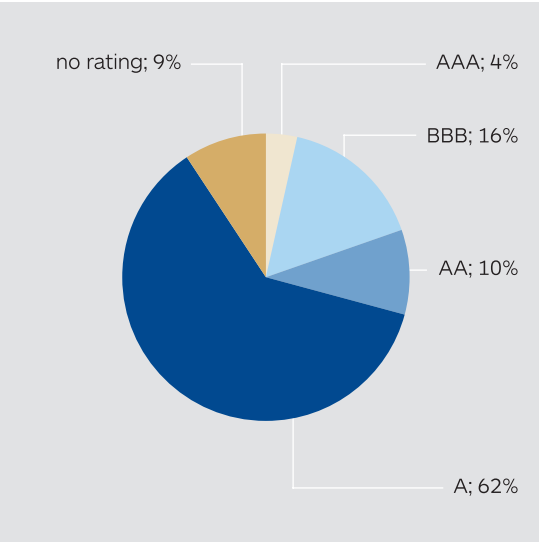
The Bank's balance sheet total decreased by EUR 40,411 thousand or 2.2% in 2018 and amounted to EUR 1,831,533 thousand at the end of 2018. The main factor for the decrease in balance sheet total in 2018 is a decrease in deposits made by legal entities and liabilities deriving from the settlement of payment transactions. The predominant share of the decrease in the balance sheet total is reflected in reduced placements on the interbank market as regards investments and in decreased securities due to the maturity of domestic and foreign bonds and treasury bills.

The table below shows the key elements of the Bank's and the Group's statements of financial position.

(in thousands of EUR)	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash, balances at central banks and other demand deposits	391,730	310,537	391,849	310,738
Loans to banks	48,651	107,049	48,651	107,049
Investments in securities	342,533	423,551	342,533	423,551
Loans to non-banking sector	982,262	965,247	949,688	937,982
Fixed assets	13,275	12,866	22,475	18,528
Investment property	33,281	21,371	39,783	45,734
Investments in subsidiaries	6,406	6,314	-	-
Other assets	13,395	25,009	37,685	27,299
Total assets	**1,831,533**	**1,871,944**	**1,832,664**	**1,870,881**
Due to non-banking sector	1,505,151	1,480,690	1,504,143	1,476,523
Borrowings from banks and central banks	101,416	101,194	101,416	101,194
Other liabilities	205,241	200,058	205,520	201,696
Equity	19,725	90,002	21,585	91,468
Total liabilities and equity	**1,831,533**	**1,871,944**	**1,832,664**	**1,870,881**

Placement of funds

The image below shows the credit rating structure of investments in debt securities (credit rating scale of Fitch Rating Ltd).



Balances on hand, at the Central Bank and demand deposits at banks increased by EUR 81,193 thousand or 26.1%. Their share in assets stood at 21.4% at the end of 2018.

Loans to banks including bank deposits decreased by EUR 58,398 thousand or 54.6%. At the end of December 2018, their share in assets amounted to 2.7%.

The total value of the Bank's security portfolio amounted to EUR 342.5 million as at 31 December 2018 and decreased by EUR 81.0 million compared to the end of 2017, when it amounted to EUR 423.5 million. The majority of investments in securities (EUR 295.7 million) is classified as suitable financial assets to secure liabilities at ECB.

Investments in the equity of subsidiaries with a 0.4% share amounted to EUR 6,406 thousand, which is EUR 92 thousand more than at the end of 2017.

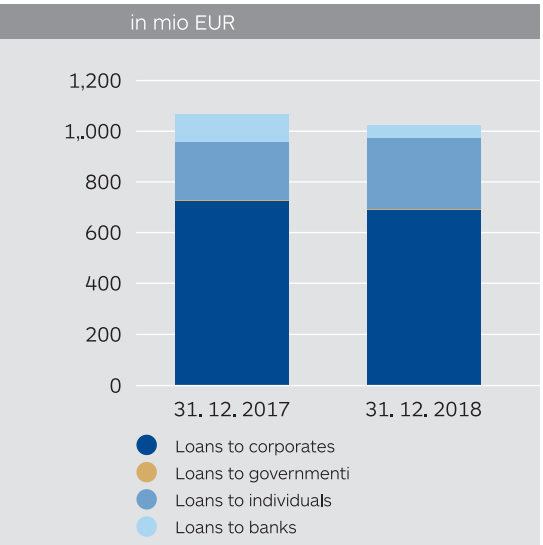
At the end of 2018, the Bank participated in the capital of 16 companies. In addition to investments into subsidiaries, these are mostly investments that the Bank acquired in the process of resolving non-performing loans or, rather, investments related to the performance of the Bank's activities (SWIFT, Bankart, Bank Resolution Fund).

Participation in the capital, 31 December 2018:

Company	% in equity
GB Leasing, d. o. o., Ljubljana	100.0000
Imobilia-GBK, d. o. o., Kranj	100.0000
Hypo leasing, d. o. o., Ljubljana	100.0000
Intereuropa, d. d., Koper	18.2340
Merkur nepremičnine, d. d., Naklo	13.4400
Hoteli Bernardin, d. d., Portorož	9.1660
Gen-I, d. o. o., Krško	9.0000
Istrabenz, d. d., Koper	7.3031
Bankart, d. o. o., Ljubljana	5.5569
Informatika, d. d., Ljubljana	5.4797
ZIF Eurofond-1, d. d., Tuzla	5.1119
Bank Resolution Fund	3.5300
Košaki TMI, d. d., Maribor	1.1980
Bernardin Arkade, d. d., Portorož – regular shares	0.5860
Bernardin Arkade, d. d., Portorož – preferred shares	0.5860
Zavarovalnica Triglav, d. d., Ljubljana	0.0260
SWIFT, La Hulpe, Belgija	0.0036

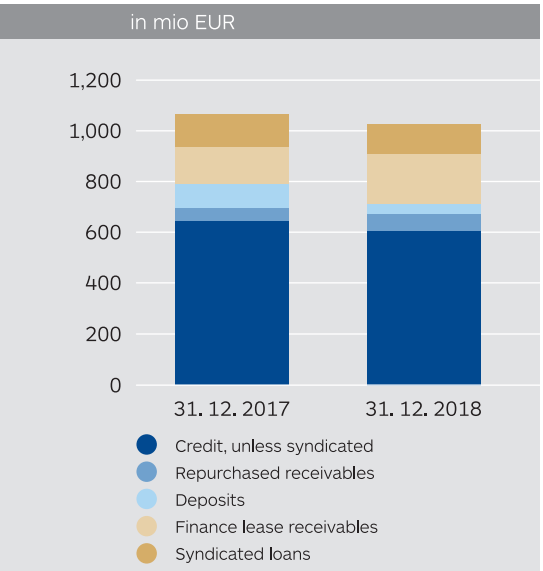
Loans to non-bank clients increased by EUR 17,015 thousand or 1.8%. Their share in the Bank's assets amounted to 53.6% as at the end of December 2018.

The image below shows the structure of loans by clients.



The volume of the gross credit portfolio increased by 5.4% in 2018 to EUR 1,098.8 million, whereby the volume of loans to the non-banking sector decreased by 0.4% to EUR 1,049.9 million.

The image below shows the structure of loans of the bank by credit types.



The market share of Gorenjska banka in lending to legal entities was some 5% in 2018. In financing, Gorenjska banka d.d. stays focused primarily on the SME segment pursuant to the strategy in order to decrease concentration risk and diversify credit risk as much as possible. The volume of non-performing loans has gradually decreased, and the Bank has recorded a growth of performing loans. Territorially, the largest share in the segment of operations with legal entities is taken by clients in the central Slovenian and Gorenjska regions. In cooperation with clients, the Bank is focused on extending the range of services with an individual client, with stress placed on factoring, leasing, payment transactions and guarantee operations.

Pursuant to the Bank's strategy, international activities were enhanced in order to monitor clients doing business beyond borders, particularly in cooperation with SID Bank, and the know-how for financing the construction of projects was developed for the market, where some projects started in 2016 were successfully completed, while the volume of project financing was increased with new projects.

A several-year-long growth trend in gross retail crediting (excluding leasing) continued, with the Bank recording a 10% growth in 2018, compared to the previous year. In addition to competitive conditions, the partnerships concluded with complementary service providers, the introduction of new and more effective communication and marketing channels, and continuing professional training of loan advisers contributed a great deal to that.

Gorenjska banka continued to increase the volume of its leasing transaction in 2018, particularly due to a widespread and well-organised brokerage or partner network, through which it effectively responded to demand. Compared to 2017, it achieved a staggering 32% growth in that area.

At the end of 2018, the Bank disclosed EUR 33,281 thousand in investment property and EUR 39,784 thousand at Group level. That includes real estate that the Bank received in the process of drawing collaterals for bad loans.

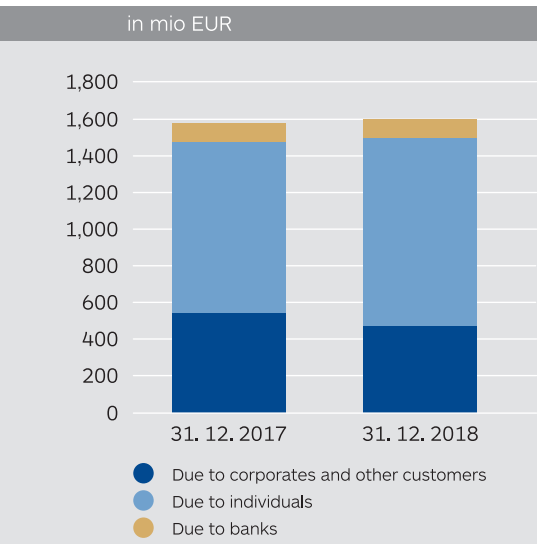
Obtaining sources of financing

Debts to non-bank clients increased by EUR 24,461 thousand or 1.7%. Their share in liabilities amounted to 82.2% as at the end of 2018.

Deposits made by the non-bank sector predominantly include retail deposits, which increased by EUR 97,530 thousand or 10.5%. They account for 56.2% of liabilities. As at 31 December 2018, debts to non-bank legal entities included 26.0% of asset sources and decreased by EUR 73,069 thousand or 13.3% with respect to the end of the previous year.

Due to the ECB's continued expansive monetary policy, provision of adequate levels of structural liquidity indicators and preservation of a competitive position, Gorenjska banka kept its interest rates on deposits made by clients at low levels in 2018.

The image below shows the structure of due to customers.



Debts to banks, which include commercial bank deposits and loans as well as liabilities to the Central Bank, did not change much in 2018. As at the end of 2018, their share accounted for 0.6% of liabilities.

The balance of assets in the settlement account increased by EUR 90.5 million in 2018, compared to the end of 2017, i.e. to EUR 340.7 million, as a result of an increase in demand and fixed-term deposits made by natural persons and a decrease in the balance of long-term loans to legal entities.

In 2018, the Bank hired new long-term loans on the interbank market amounting to EUR 10.0 million and repaid EUR 9.5 million of due long-term loans, thus increasing its long-term debt with commercial banks in 2018 to EUR 31.9 million.

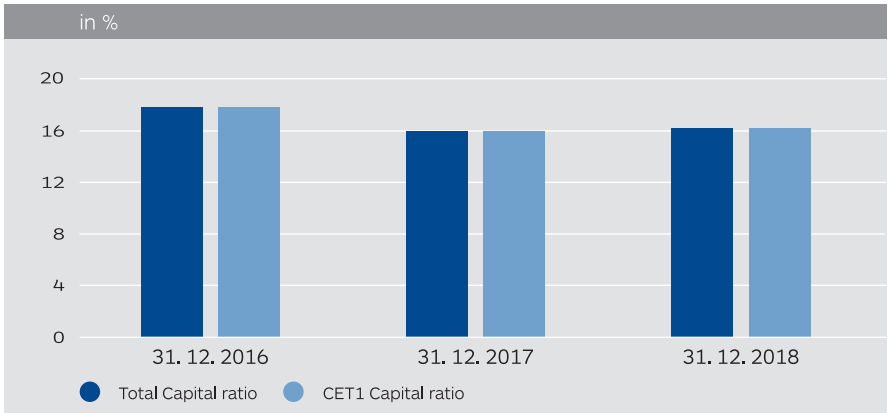
Capital and capital adequacy

Total capital increased in 2018 by EUR 5,183 thousand or 2.6%. Namely, it increased on account of net profit (EUR 17,149 thousand) and decreased on account of the transfer to IFRS 9 (EUR 9,592 thousand), decreased accumulated other comprehensive income (EUR 1,711 thousand), dividends (EUR 658 thousand) and reversal of actuarial gains (EUR 5 thousand). The book value of a share, calculated from the total capital, amounted to EUR 576.97 at the end of 2018 (31 Dec 2017: EUR 562.40).

As at 31 December 2018, risk management **capital** amounted to EUR 175,195 thousand (2017: EUR 168,670 thousand). It is composed entirely of top-quality common equity tier 1 capital (CET1).

The **capital adequacy ratio** for Common Equity Tier 1 capital increased in 2018 by 0.13 percentage points and amounted to 16.22% as at the end of December 2018 (2017: 16.09%). The increase derives mostly from increased capital for the calculation of the capital adequacy ratio. The Bank uses the standardised approach to calculate capital requirements for credit risks and the simple approach to calculate the capital requirement for operational risks. More about capital adequacy can be found in the financial section of the Annual Report (note 7.5).

The image below shows the trends of the bank's capital adequacy ratios.



At the end of 2018, the balance sheet total of the group was EUR 1,131 thousand (0.1%) higher than the balance sheet total of the bank.

Payment services and payment instruments

In 2018, the volume of payment transactions executed through Gorenjska banka increased with respect to the volume achieved by the Bank in 2017. The total value of domestic payment transactions amounted to EUR 5.7 billion in 2018, and grew by 8% with respect to the previous year. Furthermore, the volume of international payment transactions grew by 22% amounting to EUR 13.4 billion.

The total number of the payment orders executed by Gorenjska banka in 2018 stayed at the level recorded in 2017, the number of sent payment orders for domestic payments somewhat decreased compared to the previous year, while the number of international transactions grew by 13%.

At the end of 2018, 5,416 legal entities, sole proprietors, private and other entities had business accounts opened at the Bank, which is 1% more than in 2017.

The number of accounts held by natural persons did not change in 2018. Upon further optimisation of bank charges for users, the reasons for such a trend include the ever-increasing presence of other non-bank providers of payment services.

In 2018, the Bank was again successful in marketing the services related to business and personal accounts. Activities to accelerate sales and cross-sales reflected in the further increase of online users in the Link online bank for the general public and the Link c online bank for companies. Compared to the year before, the Bank also achieved an 11.0% growth in the segment of payment cards, which as a result also reflected in the pronounced increase of concluded insurances for card abuse. The number of SMS service users also increased by 47% by the end of 2018 compared to 2017.

Risk management

The Bank pays a great deal of attention to understanding, monitoring, measuring and managing risks, as required by developments in the wider economic environment, the financial system and the Bank's intention to pursue and include new development aspects in its risk management system as brought by good business practice of banks and changing regulatory environment. The risk management system remains an important element of the Bank's strategy and performance.

In line with its business strategy, the Bank pursues a conservative bank profile with a low to moderate risk appetite. In the process of enhancing internal capital, the Bank places great emphasis on the attainment of an adequate return, although its security and liquidity remain to be of utmost importance.

The bases and basic principles of the risk management system are defined in the Risk Management Strategy and Risk Appetite Statement of Gorenjska banka, d.d., Kranj, which represent the umbrella documents of a comprehensive risk management system that is aimed at ensuring the attainment of the set strategic goals as defined in the applicable Development Strategy of the Bank.

The Bank's Risk Appetite Statement defines at the highest level the types of risks and tolerance towards individual types of risks that the Bank is willing and able to assume in order to achieve the set objectives, and constitutes the incentives and restrictions in the process of making business decisions at the Bank. In addition to the qualitative focus in the most important areas, the Bank also defines its risk appetite in a quantitative manner through a set of key risk indicators. The definitions and key indicators defined in the risk appetite also provide the basis for defining internal policies and methodologies for monitoring individual risk types for establishing a more detailed limit system in all risk segments that refers to:

- the quality of investments;
- the credit portfolio structure and business restrictions in specific segments and types of exposure;
- the credit risk concentration, restriction of large exposures, sectoral concentration and country risk;
- the operational and structural liquidity indicators, financing risks, the structure of financing sources, and the structure of the securities portfolio;
- market, interest rate, foreign exchange and operational risks.

The capital management system is defined in the Bank's Capital Management Policy. The purpose of capital management is to achieve efficient spending of available capital providing:

- safety and profitability of operations at the level of the Bank,
- a high degree of trust by all stakeholders,
- the fulfilment of regulatory requirements concerning capital adequacy,
- the attainment of proper capital adequacy in the ICAAP process.

For optimum achievement of strategic goals, the Bank also uses the capital management system to establish bases for transparent and optimum economic allocation of capital to individual business areas based on risk-weighted profitability criteria.

Furthermore, the goal of capital management is to ensure a long-term and stable return on of the owners' investment through dividend payments based on pre-defined criteria for dividend policy, which allows the Bank to operate, grow and achieve strategic goals in a sustainable manner and in the long run, along with the satisfaction of all stakeholders and a stable ownership structure of the Bank.

By comprehensively addressing risks and their potential impacts on the Bank's operations within the scope of ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) processes, the process of preparing the annual Recovery Plan and implementation of stress tests, the Bank also provides bases for timely adoption of proper business decisions at all decision-making levels.

Below is a detailed description of the key elements of exposure and management of the Bank's credit, market and liquidity risks in 2018. Detailed information on the Bank's risk management and exposure to individual risks is disclosed in the financial reports of the Bank and Group (chapter 7) and a separate document entitled "Disclosures of additional information for 2018", which contains disclosures pursuant to Part 8 of Regulation EU 575/2013, the provisions of the Banking Act and the requirements of IFRS 7.

Credit risks

Credit risk is the risk of financial loss incurred as a result of the debtor's inability to fulfil its financial or contractual obligation to the Bank, in part or in full, for any reason. Credit risk management is essential for safe operations of the Bank. Prudent credit risk management includes the control and mitigation of credit risk through different aspects, such as the quality and structure of investments, concentration, investment security, maturity, currency, type of credit, country risk and other risks.

The goal of credit risk management at Gorenjska banka, d.d., Kranj, is to achieve and maintain the quality and diversification of the credit portfolio ensuring stable operations and prudent management of the relation between risk and return.

The year 2018 was profoundly characterised by the implementation and application of IFRS 9. Upon transfer to IFRS 9, the Bank had negative effects of EUR 2.6 million. Within the scope of the transfer to the new international accounting standard for the classification, measurement and impairment of financial instruments and general risk hedging for legal entities and natural persons, the Bank developed a more complex model for assessing the probability of default (PD) and a model for addressing exposure at default (EAD), and upgraded the model for calculating loss given default (LGD). Based on the current experiences and the results of the first annual verification of the current model, the Bank will in 2019 upgrade the model for calculating loss given default (LGD) and audit bases for the set-up of a model to calculate credit conversion factors (CCF). An important element in the upgrade of the credit risk management system continued to be a comprehensive revision of the internal credit rating system and early warning system for legal entities and natural persons.

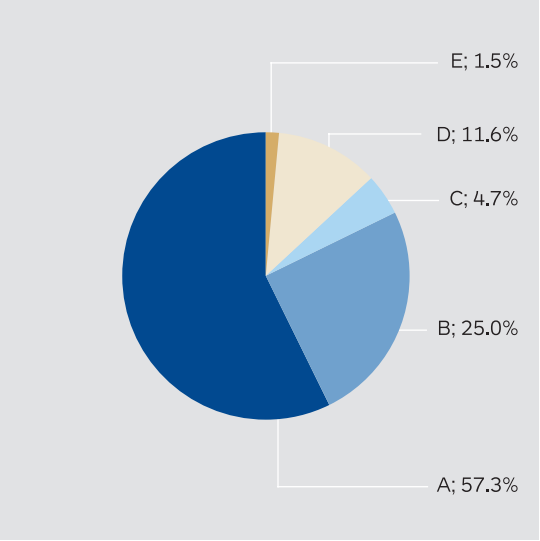
Pursuant to the Risk Management Strategy of Gorenjska banka, d.d., Kranj, and the Risk Appetite Statement of Gorenjska banka, d.d., Kranj, the Bank defines its appetite for credit risk with objectives and restrictions in the quality and structure of the investment portfolio. The Bank regularly audits and updates the applicable limit system defined in the Credit Risk Management Policy, including it in the internal reporting system and reports for the Bank's Supervisory Board.

The table below reveals the key credit risk indicators at the Bank. Due to the transition to IFRS 9, the values of 31 December 2018 and 31 December 2017 are not comparable.

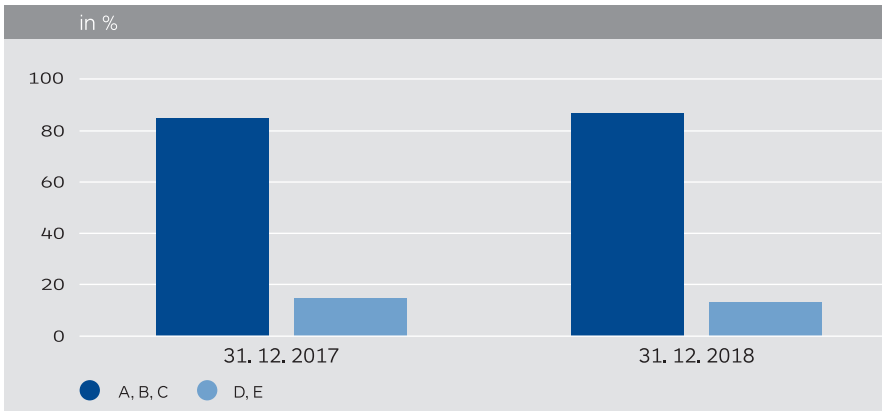
In EUR thousands	31/12/2017	31/12/2018	Change in the year	
			In EUR thousands	In %, p.p.
Gross loan portfolio[1]	1,257,987	1,168,087	(89,900)	-7.1%
Loans to non-banking sector	1,054,467	1,058,567	4,100	0.4%
Non-performing loans (NPL)[2]	**156,274**	**138,579**	**(17,696)**	**–11.3%**
Portfolio coverage by impairments and provisions	4.2%	3.8%		–0.5 p.p.
Share of non-performing exposures (NPE)[3]	7.4%	6.8%		–0.6 p.p.
Coverage rate of non-performing exposures (NPE)[4]	**43.3%**	**44.8%**		**1.6 p.p.**

p.p. – Percentage point.
1 – Gross loan portfolio: Gross loans to banks and to non-banking sector, deposits with banks and central banks.
2 – Non-performing loans by individual claim.
3 – The base for the calculation of the NPE share is exposure under EBA definition.
4 – Balance of impairments for NPE compared to NPE (in 2018, the impairment includes the revaluation of receivables at fair value due to credit risk).

The figure below shows the credit rating structure of loans to non-bank clients as at 31 December 2018.



The share of non-performing loans in the credit portfolio for the non-bank sector of Gorenjska banka, d.d., Kranj, decreased in 2018 by 11.3% or EUR 17.7 million with respect to the previous year. The Bank continues its activities to recover non-performing and restructured loans from companies, activities for early detection of increased credit risk (EWS) and for monitoring indicators for increased credit risk (KI), which is also reflected in the reduced share of D and E rated loans, which decreased by 1.7 percentage points in 2018. Due to a selective approach in the approval of new credits for companies, which complies with the Investment Policy of Gorenjska banka, d.d., Kranj, the Bank has also noticed an improved credit rating structure in performing credit grades A and B, the share of which increased from 75.4% of loans to the non-bank sector at the end of 2017 to 82.3% at the end of 2018, with the share of A rated loans amounting to 57.3%.



The structure of the credit portfolio is also adequate with respect to the segment of clients, since receivables due from the retail sector and small and medium enterprises (SMEs) account for more than 70 % of the portfolio.

Liquidity risks

The management of liquidity risk includes the harmonisation of cash flows from operating activities of the Bank and its clients and the provision of an adequate volume and structure of financing sources and liquidity reserves. In 2018, the Bank's liquidity was still under significant influence of the structure of the Bank's financing sources, which still account for over 80% of the deposits made by the non-bank sector and were characterised in 2018 by a high share of demand deposits due the shortening of their average maturity in low interest rate conditions, which has characterised the entire banking system.

The Bank's financial sources are diversified and mostly derive from non-bank deposits, which provides the Bank with a stable position, increases the reliability of the Bank's business model and enables a long-term growth of the Bank's credit portfolio.

In 2018, the Bank upgraded the stress test methodology for liquidity and, taking into account the balance sheet and liquidity reserve structure and the assessment of the effects of extraordinary circumstances on their value, defined the criteria for a minimum and optimum volume of liquidity reserves. Stress test effects are calculated by the Bank on a monthly basis along with calculating the necessary volume and assessing the adequacy of the liquidity reserve structure with respect to the adopted and, taking into account a methodology that observes conservatism in the assumption and management of liquidity risk, the Bank disposed with an adequate volume and structure of liquidity reserves throughout 2018.

Short-term liquidity was regulated by the Bank primarily with the placement of liquidity loans on the interbank money market, high balances in accounts and investments in securities. The Bank did not borrow on the short-term interbank money market in 2018, and was a net creditor in the amount of EUR 55.9 million as at 31 December 2018.

In 2018, the Bank maintained the balance of long-term bank sources, which derives solely from the borrowing from SID Bank. The due share of sources was renewed with new long-term borrowing in roughly the same amount, which is why the balance of long-term borrowing from banks amounted to EUR 31.9 million as at the end of 2018.

In 2018, the Bank hired no additional assets deriving from the application of central-bank liquidity operations, where it may obtain the financing sources necessary for the reconciliation of the Bank's maturity balance based on a pledge of securities with the status of eligible financial assets. At the end of 2018, the Bank had EUR 70 million hired from ECB on basis of a TLTRO (Targeted Longer-Term Refinancing Operation) tender from March 2017 in order to provide an adequate structure of financing sources, which fall due in 2021.

All regulatory requirements related to liquidity were exceeded by the Bank during 2018. It fulfilled minimum reserve requirements and the level of single liquidity scale ratios in the category prescribed by the Bank of Slovenia with the Decision on minimum requirements for the calculation of an adequate liquidity position. Furthermore, it considerably exceeded the regulatory level of the LCR value and maintained suitable NSFR values.

Market Risks

Among non-credit risks, the Bank considers interest rate risk as the most important. The Bank monitors and manages exposure to interest rate risks based on a methodology of interest rate spreads and a stress test for various scenarios showing the effects of interest rate movements on revenues and value of the Bank's capital. In accordance with guidelines for interest rate risk management in the non-trading book, the Bank monitored and assessed the stability of demand deposits with special attention, particularly the share where it assessed that they would reroute to other forms of financial assets in high interest rate conditions.

The mismatch of positions under the criteria for the period of reset interest rate somewhat decreased in 2018, and so did the Bank's sensitivity to changes in interest rates and the effects of stress scenarios on net interest income and capital of the Bank.

The Bank is exposed to foreign exchange risks to a minimum level, since the nature of its operations provides for low exposure limits by currency and a common open position and, with the Bank managing balances on a daily basis, foreign exchange risks are irrelevant in terms of their impact on the Bank's operations.

For market risks, the Bank has adopted a trading policy that defines instruments and manner of trade, while the Bank has practically no trading positions.

Operational risks

The operational risk management system and associated processes are based on an internally established methodology that was upgraded by the Bank in 2017, and takes into account the Bank's characteristics as a whole, its size, organisation and scope of operations. In 2018, the Bank provided in-house training and presentations of improved technological support, thus raising the awareness, understanding and quality of detecting potential operational risks and their reporting. Within the scope of the operational risk management system, the Bank holds certain responsibilities and has laid down key processes for identifying, monitoring, assessing, controlling and managing operational risks as well as for their reporting at the Bank and its subsidiaries.

The operational risks management process comprises two core processes:

- the process of identifying and managing potential operational risks in order to detect them in due time and assess possible effects, while defining the method of managing potential operational risks,
- the process of managing loss events deriving from realised operational risks, which enables the detection, reporting and assessment of the loss incurred by realised operational risks. The core of the process is to report them in the uniform database of loss events.

The process is integrated in all business functions and major processes of the Bank, and covers all employees.

In 2018, the Bank supplemented the described system for the identification of potential operational risks in practice by defining the set of key operational risk indicators that indicate a possible increase in operational risks in the Bank's operations and by monitoring publicly available information on operational risks and loss events that have occurred to institutions in the financial sector or related activities and which could pose a risk for the Bank's operations. Key indicators are monitored by the Bank on a quarterly basis and information on their trends is included in reports for the competent management bodies.

The established operational risk management system ensures that the Bank's realised net losses in 2018 reached less than 1.4% of the capital requirement, which is calculated by the Bank using the simple approach pursuant to the provisions of CRR Regulation.

Development projects

In 2018, development projects at Gorenjska banka were mostly related to the upgrade of technological support for retail and corporate operations, optimisation of business processes in support, revision of business processes to increase the sales efficiency of the Bank, and with the expansion of business digitalisation. All projects to which the Bank allocated a major share of its development resources in 2018 are vital for the provision of future business performance and competitiveness of the Bank.

Information technology upgrade

With the implementation of own IT support for operations with natural persons, the Bank achieved three key goals: the Bank no longer depends on a competitor bank in the development and maintenance of IT support for natural persons; the Bank opened up an opportunity for faster implementation of new services and better competitive position on the retail market; and the Bank has increased its influence and control over the costs of IT support.

To reduce risks in business continuity, the reserve IT centre was moved to a remote location that complies with requirements of the ISO 22301 standard.

By virtualising IT equipment, establishing internal archives and introducing digital signing of documents, the Bank continues to rationalise costs.

Furthermore, several updates were made, mostly related to regulatory requirements and supplements in payment systems. All such applications are the result of the Bank's own development.

Optimisation of processes

The goal of the optimisation of business processes, which started at the beginning of 2017 and continued in 2018 in support business, was to find unused internal potential, activate it and thus increase the productivity, efficiency and competitive edge of the Bank.

The outcomes of the project reflected in improved sales results in 2018, where the Bank recorded a growth in operations in practically all segments. Support processes were updated and adjusted to current conditions, the efficiency of employees was increased with optimal control and without duplication of activities, and the automation and standardisation of work was enhanced.

To manage purchasing costs and standardise purchasing procedures, the Bank started introducing central purchasing in the middle of 2018.

Organisational and **HR** changes

Organisational interventions

Most reorganisations carried out by Gorenjska banka in 2018 were related to the findings of the business process analysis or measures necessary for their optimisation. The mentioned changes imply an adjustment to current conditions on the market and ensure faster development and processes.

In the market segment, the Bank established the Key Account Sector covering the largest and most important clients, project financing and international operations, the SME Sector, which operates with small and medium enterprises and sole proprietors, and the Factoring Sector. In retail banking, a big step forward was made in the last three years, especially with the replacement of the main application for the management of all retail banking transactions. Due to market demands for an ever-faster development of new services and products, the Bank reorganised the Retail Sector breaking it down to two sectors, i.e. the Business Network Sector and the Development and Digitalisation Sector. The Bank thus strengthened the development of products, sales channels, digitalisation, marketing and focus on market gaps.

Support was reorganised through its breakdown to four different divisions (financial controlling, accounting and analytical support for operations, payment transactions, and IT). Hence, payment transactions became and independent sector in support.

To manage purchasing costs and standardise purchasing procedures, the Bank centralised purchasing in the Organisation, HR and General Affairs Sector.

Number and structure of employees

As at 31 December 2018, Gorenjska banka employed 415 persons, which is 12 more than at the end of 2017. On average, the Bank employed 415 people in 2018, which is 4% more than in 2017.

The HR dynamics was very pronounced in 2018, due to organisational, economic and technological changes. The Bank recruited 46 persons, while 34 left the Bank, mostly due to retirement and business reasons. Furthermore, 132 employees transferred to new positions within the Bank.

Recruitments were mostly related to newly established workplaces in the market sector in order to strengthen the Bank's sales function.

Employee transfers also reflected in lower average age and improved educational structure of employees. The average age of employees hence dropped by 6 months in 2018, i.e. from 44.5 to 43.9 years. The share of employees with level VI or more formal education increased from 54.59% in 2017 to 58.07% in 2018.

The average number of employees broken down to groups with respect to the achieved level of formal education in 2016, 2017 and 2018 was:

Level of education	VIII.	VII.	VI.	V.	IV.	Total
Average number of employees in 2018	11	174	48	170	12	415
Average number of employees in 2017	8	159	47	170	14	398
Average number of employees in 2016	8	145	44	188	19	404

Education

Every employee of the Bank dedicated on average 3.30 days or 65 % more than in the previous year for training, while the average investment in education amounted to EUR 353 per employee in 2018, which is EUR 100 (40%) more than in 2017.

Training topics were mostly adjusted to the specific needs of the Bank; there was less general educational content in 2018. External training was regularly supplemented with in-house training, which provided for appropriate in-house transfer of knowledge. Such practice has been proven as very effective in the past few years.

In training, the Bank mostly focused on increasing the effectiveness and performance of sales in 2018, which was backed by a series of targeted sales training courses. The Bank continued to carry out programmes to obtain sales and coaching skills, which was followed by programs for managerial competences and project management. A fifth of the employees in the sales network attended training to the topic of retail loans for real estate, which was organised in cooperation with the Bank Association of Slovenia.

Employees in the retail network also underwent training for the acquisition of a certificate for marketing investment funds in 2018. By the end of the year, 75% of the retail staff had acquired such a licence.

All employees (131 persons) who deal with cash attended one-day workshops intended for identifying the regularity and authenticity of euro cash and acquired demanding skills to identify counterfeit money.

Social **responsibility**

The Bank demonstrates its socially responsible stance to the environment in which it exists and operates particularly with support for numerous sports, educational, cultural and humanitarian projects. Through sponsorships, donations and other forms of partnerships with volunteers, sports, business, humanitarian and other non-governmental organisations, the Bank participated in numerous projects in 2018, which contributed to mutual and sustainable growth as well as to the preservation of health, nature and security.

The Bank again earmarked the largest share of sponsorship funds for sports and recreation. That way, it supported a range of activities, from basketball, ice hockey, shooting and swimming to running. Considering major projects, the Bank remains to be the partner of the Planica Nordic Centre, where it actively supports a project of national importance. Furthermore, the Bank remains inclined to swimming. Long-lasting sponsorship of the Radovljica Swimming Club continues, and the Bank was also an active partner of the European Masters Championship in swimming, diving, synchronised swimming and open water swimming, organised by the Slovene Swimming Association and held in Kranj, Bled, Jesenice and Kamnik.

As a sponsor, the Bank also participates in projects that are intended to promote entrepreneurship and educate the business public. It strived to provide a friendly environment for entrepreneurs by further developing its online community "Banka za podjetnike", through which it regularly spreads knowledge to ease the path of entrepreneurs. In cooperation with the Finance Academy, it again acceded to the sponsorship of "Naj podjetniška ideja" and was the main organiser of the annual conference of the Slovenian Corporate Treasurers Association in Portorož.

As an important co-creator of social image in the wider region, the Bank was involved, through cooperation with social work centres, red cross organisations, schools, firefighters and various other humanitarian institutions, in a number of activities that were intended to aid socially vulnerable persons or persons disadvantaged in any other way. Furthermore, employees at Gorenjska banka actively participated in the traditional cleaning action "Očistimo Kranj", organised by scouts from Kranj, which the bank also supported financially.

Data and **explanations** pursuant to Paragraph 6 of Article 70 of the Companies Act

Gorenjska banka, d.d., Kranj, is a privately held company with over 250 shareholders and more than EUR 4 million in total equity, and is therefore bound by the law which governs acquisitions.

Share capital structure

The Bank's share capital comprises 387,938 ordinary shares (2017: 387,938). Ordinary shares confer voting rights, whereby each share confers one vote at the general meeting of shareholders. Shareholders exercise their voting rights at the Bank's general meeting of shareholders with respect to the proportion of their shares in the share capital and with respect to the type of shares and in accordance with the Bank's articles of association. Treasury shares have no voting rights.

Restrictions to share transfers

Bank shares are transferable in accordance with the regulations that govern dematerialised securities. Current shareholders have pre-emptive rights to new share issues corresponding to their proportion of share capital held. The Bank has no other restrictions on shareholding, while approval from the Bank of Slovenia is required for the acquisition of a qualifying holding. There is no requirement of obtaining the consent of the Bank or other shareholders for the transfer of shares.

Significant direct and indirect holdings of securities by the Bank

The significant direct and indirect holdings of securities by the Bank in terms of achieving a qualifying holding as laid down by the act regulating acquisitions (5% of voting rights) was achieved by three companies at the Bank in 2018 (2017: 3 companies).

Shareholder	31 December 2018		31 December 2017	
	Number of ordinary shares	Share in voting rights, in %	Number of ordinary shares	Share in voting rights, in %
AIK banka, a. d., Beograd	134,217	64.0	81,410	38.8
DUTB, d. d., Ljubljana	-	-	26,399	12.6
Zavarovalnica Triglav, d. d., Ljubljana	15,719	7.5	15,719	7.5

Sava d.d., Ljubljana, which holds 146,060 shares of the Bank, has no voting rights.

Restrictions of voting rights

Shareholders' voting rights are exercised with respect to the number of shares and are not restricted by the Articles of Association to a certain proportion or a certain number of votes. Shareholders who are the holders of registered shares with voting rights, who are entered in the central register of book-entry securities and who notify their participation at a General Meeting of Shareholders by the end of the fourth day preceding the meeting (cut-off date) are entitled to participate and exercise the voting right at the meeting.

Bank rules on the appointment and replacement of members of management and supervisory bodies and on amendments to the articles of association

The Bank's rules on the appointment and replacement of members of management and supervisory bodies and on amendments to the articles of association are defined in the articles of association of Gorenjska banka, d.d., Kranj.

The supervisory board appoints and recalls members of the Bank's general meeting of shareholders. Persons who do not fulfil the conditions for membership of the Bank's supervisory board pursuant to the Companies Act or the Banking Act

may not be appointed to the supervisory board. Members of the supervisory board are appointed for a five-year term and may be reappointed. Members of the supervisory board may terminate their terms early through recall or on the basis of a written resignation from the member.

The president and members of the Bank's management board appoint and discharge or recall the supervisory board. Only persons who fulfil the conditions for appointment pursuant to the Companies Act or the Banking Act may be appointed president of the Bank's management board. The president of the management board and the members of the management board are appointed for a five-year term and may be reappointed.

The articles of association may be amended through a resolution of the Bank's general meeting of shareholders. The Bank's general meeting of shareholders may authorise the supervisory board to make amendments to the articles of association, which comprise the harmonisation of the wording with currently adopted resolutions.

Management authorisations

The Bank may acquire and dispose of treasury shares pursuant to the Companies Act. The Bank's management board decides on the conditions for acquisition and disposal of treasury shares, and must notify the Bank's general meeting of shareholders about transactions involving treasury shares.

With the approval of the supervisory board, the Bank's management board may increase the Bank's share capital up to a total amount of EUR 8,094,183.16 within five years from the day of entry of fourteen amendments to the articles of association of Gorenjska banka, d.d., Kranj, in the court register. Preference shares without voting rights may also be issued within the scope of this capital increase. Fourteenth amendments and supplements to the Articles of Association were entered in the Court Register on 26 July 2018.

Diversity policy and representation in management and supervisory bodies

The Bank follows the principle of gender balance according to the Internal Governance Policy of Gorenjska banka d.d., Kranj, under the assumption that the management body (Management Board, Supervisory Board) consists of minimum 20% members of each gender. The management body composition reflects diversity of theoretic expert knowledge and experience from different fields, thus ensuring:

- the expected (required) qualification member structure according to the size, demanding level and bank risk profile, and
- the basis (background) for encouraging different views (opinions) on the discussed matters (issues).

At least one half of the supervisory body members should consist of independent members. This includes those members with no conflict of interests and who act and decide independently and objectively in favour of the Bank, having no close economic connection to the Bank, the Management Board or more shareholders.

The management body structure (and the sufficient number of independent directors) itself can ensure effective making of substantiated, objective and independent decisions in favour of the Bank.

Last but not least, the diversity policy also requires certain acting by the members of the Bank's Supervisory Board; namely to carry out the assessment of effectiveness of their work and a self-assessment of the collective suitability once a year and to adopt a programme of measures to improve the effectiveness of their work.

Diversity is important also in following the measures for experience assessment. If during such assessment of a candidate for a member of the management body and the higher bank management the quantitative criteria thresholds (previous work experience) are not achieved, the candidate can still be regarded as appropriate if they provide a suitable justification after the supplementary assessment and interview. The adequate diversity and a broad range of experience from the view point of the management body as a whole are also considered.

Significant events after the date of the statement of financial position

AIK banka, a.d., Beograd (hereinafter "Acquirer"), published a takeover offer for the purchase of shares of Gorenjska banka, d.d., Kranj, with the registered office at Bleiweisova cesta 1, 4000 Kranj (hereinafter "Target Company"), on 13 February 2019.

The takeover offer refers to 86,611 GBKR shares that are not held by the Acquirer.

As at the issue date of the permit for the takeover offer for the shares of the Target Company marked GBKR, the Acquirer was the holder of 134,217 GBKR shares. After the issue of the permit by the Securities Market Agency to the Acquirer for the takeover offer for the shares of the Target Company marked GBKR, the Acquirer became the holder of another 167,110 GBKR shares. As at the publication date of the takeover offer, the Acquirer was the holder of 301,327 GBKR shares.

On 15 March 2019 Securities Market Agency issued a performance decision of the takeover bid for the purchase of shares of the Target company Gorenjska banka, d.d., Kranj. On the day the Securities Market Agency decision was issued, the acquirer owned 349,557 shares of the Target company with the GBKR code or 90.11% of the shares in the company's capital.

The Management Board of Gorenjska banka, d.d., Kranj, received the resignation statements in February 2019 of two members of the Supervisory Board of Gorenjska banka, d.d., Kranj - Mr Aleš Aberšek and Mr Matej Podlipnik.

There were no other significant events after the balance sheet date.

Other explanations

Shareholders in Gorenjska banka, d.d., Kranj, do not have any special controlling rights.

Bank is not known is there are any agreements between shareholders which may result in restrictions on the transfer of securities and voting rights.

The Bank have agreements between the Bank and management board or Bank employees which foresee compensation if they were dismissed without grounds or their employment relations terminated because of a bid as defined by the law that governs acquisitions. In the event of a recall or termination of the employment contract without good reason, management board, executive directors and directors are entitled to severance pay. In the event that the term of office of the President of the management board terminates on his request (resignation), the severance pay can be paid based on a positive assessment of its work by the Supervisory Board.

A Code of Business Ethics is put in place at the Bank that represents a set of fundamental values and principles guiding our conduct in relation to associates, partners, and clients. The Code is available on the Bank's website: http://www.gbkr.si/media/kodeks.poslovne.etike.28012016.pdf.

Statement on **internal governance** arrangements

In order to achieve a high level of transparency in governance and based on the exception from point 2 of paragraph 5 of Article 70 of the Companies Act, Gorenjska banka d.d., Kranj, provides within the scope of the business section of its Annual Report the following

STATEMENT ON INTERNAL GOVERNANCE ARRANGEMENTS

Gorenjska banka d.d., Kranj, realises internal governance arrangements, including corporate governance, in line with the legislation applicable in the Republic of Slovenia, while observing its internal acts, especially the Policy of internal governance in Gorenjska banka d.d., Kranj, and the Employee Business Ethics Code for Gorenjska banka d.d., Kranj.

In doing so, Gorenjska banka d.d., Kranj, fully observes the acts from paragraph 2 of Article 9 of the Banking Act[11].

In order to strengthen the internal governance arrangements, the Bank observes in particular:

1) the provisions of the applicable Banking Act (Zban-2) laying down internal governance arrangements, particularly the provisions of chapter 3.4 (Bank governance system) and chapter 6 (Internal governance arrangements and adequate internal capital), in the part of the requirements applicable to the bank/savings bank or to members of the management body,
2) the Decision on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks[12], and
3) the EBA guidelines regulating internal governance, assessment of the suitability of members of the management body and key function holders, and the remuneration policy and practice based on the relevant decisions adopted by the Bank of Slovenia on the use of the guidelines[13].

The Bank strives to observe as closely as possible the recommendations given by the Bank of Slovenia based on the conducted inspection of banks in respect of disclosures of information for 2017.

The Bank provides a description of the main characteristics of internal control and risk management systems and mechanisms at the Bank, data on the activities of the General Meeting, management and supervisory bodies and their committees, policies for the selection of management board members, the diversity policy upon such selection, the remuneration policy and other information in additional disclosures pursuant to part 8 of Regulation 575/2013 and Article 88 of the Banking Act, which are available on the Bank's website.

The Bank keeps books and other records, which enable financial reporting and ongoing monitoring of the Bank's effectiveness and the compliance of risk management. The Bank keeps books and other records in accordance with the legislation and internal regulations governing this area.

By signing this Statement, we also undertake to proactively strengthen and promote suitable internal governance arrangements and corporate integrity in the wider expert, financial, economic and other public.

Kranj, 22 March 2019

Mojca Osolnik Videmšek
Management Board Member

Mario Henjak
Management Board President

Jelena Galić
Supervisory Board Chairwoman

[11] The Banking Act (ZBan-2), Official Gazette of the Republic of Slovenia, No. 25/15, 44/16, 77/16 and 41/17;
[12] The Bank of Slovenia's Decision on internal governance arrangements, the management body and internal capital adequacy assessment process for banks and savings banks, Official Gazette of the Republic of Slovenia, No. 73/15, 49/16 and 68/17;
[13] https://www.bsi.si/financna-stabilnost/predpisi/seznam-predpisov/licenciranje

A Concise **Risk Statement** Approved by the Management Body

In accordance with Article 17 of the Regulation on Internal Governance Arrrangements, the Management Body and the Internal Capital Adequacy Assessment Process for Banks and Saving Banks (Official Gazette of the Republic of Slovenia, No. 73/15 and 49/16) and Article 435.1 f of Regulation (EU) 575/2013, the Management Board and the Supervisory Board of Gorenjska banka, d.d., Kranj,provide the following

STATEMENT ON THE MANAGEMENT OF RISK

Due to the development and characteristics of the financial system and significant changes in the economy and the environment, the determination, take over, measurement and management of risk have become an important element of the Bank's strategy and performance.

Primary objectives pursued by the Bank in the context of the risk management system are:
- Ensure compliance with regulatory frameworks;
- Minimise potential losses;
- Provide support in the process of defining strategic objectives and adopting business decisions;
- Improve profitability;
- Manage relationships with all stakeholders;
- The establishment of a suitable organisational and management structure of the Bank.

In accordance with the strategy and policies of the Bank's operation, risk management is a key component in business decision-making. Risk management is integrated in all business processes at the Bank and has two main aspects. The first is the definition of the Bank's risk appetite and optimisation of decisions pursuant to the expressed risk appetite, while the other is related to the monitoring and quantitative assessment of assumed risks.

In so doing, the Bank pursues the following principles:
- The delimitation of powers, which prevent errors, fraud and irregularities, and in particular eliminates conflicts of interest in the greatest possible extent.
- The separation of commercial function and units that enter into transactions and take risk (front office) from the back office function, which monitors and manages transactions (back office), and function, which monitors and manages risks.
- The establishment of an independent control system. The internal audit independently assesses the controls.

In accordance with these principles, the Bank has established a so-called three-step model of risk management.

1. Defence line – taking risk and risk ownership	2. Defence line – risk management	3. Defence line – monitoring and control
Sales units	**Risk management**	**Internal audit**
• Enter into transactions • The ongoing monitoring of business • The optimisation of the investment portfolio • The awareness of the importance of risk	• The risk management policy • The principle of "get to know your customer" • The process for approving investments • The monitoring process • The assessment of new business initiatives • Ensuring business compliance • Implementing and monitoring the implementation of the provisions of conformity	• Internal Audit Activity that provides independent, objective assurance and consulting services

Considering the business model (universal commercial bank), risks, to which the Bank is exposed to, are mainly traditional banking risks. The most important is credit risk, followed by liquidity risk, while the exposure to market risk and other types of risk is reduced.

The Bank's risk profile

The Bank has established a modern and transparent risk measurement and risk profile monitoring system. Based on the defined risk appetite and internal limit system, the Bank has defined a set of key indicators for each type of risk and limit values for the review of the risk assessment and its importance for each one. The calculated weighted assessments of risk levels by individual segment and their trends are reflected in the so-called risk dashboard of the Bank, which is shown in the figure below according to the balance as at 31 December 2018.

	Risk Assessment			Trends	
	31. 12. 2017	30. 9. 2018	31. 12. 2018	4Q2018	Y2018
Capital Risk				→	→
Credit Risk				↘	↘
Liquidity Risk				↘	↘
Market Risk				→	→
Interest Rate Risk				→	→
FX Risk				→	→
Operational Risk				→	→

Risk Assessment

- low
- medium
- high

Trend

- ↑ Riskincreased
- → Risk at the same level
- ↓ Risk lowered
- ↗ Same stage, increase
- ↘ Same stage, decrease

No major changes to the risk profile of Gorenjska banka, d.d., Kranj were detected in 2018, while trends in the segment of credit and liquidity risks are favourable. The Bank also assesses changes and trends in its risk profile in terms of macroeconomic conditions and developments in the business environment, which were favourable in Slovenia and wider Europe in 2018, while forecasts of moderate growth in the following year call for additional attention in decision-making processes regarding risk assumption and management.

The Bank is also measuring the risk profile through the exposure to risks, measured with the capital demand for individual risk types and internally set methodologies and indicators for monitoring and measuring risks.

The entire capital demand of the Bank amounted to EUR 86.42m at the end of 2018 and has increased by EUR 2.54m compared to the year before. The increase is due to the increase of the capital demand, which is originating from the larger range of retail banking. High risk exposures are also larger, which stems from the limited but increased (compared to the previous year) range of project financing of real estate transactions. On the other hand, the Bank reduced the capital demand exposures to the corporate and for unpaid exposures, which is due to the successful restructuring of the portfolio and the reduction of the range of non-performing loans.

The Bank's exposure to operational risk measured through the capital requirement, calculated by applying the simple approach, was somewhat higher in 2018, compared to the previous year.

The table below shows the Bank's position as at 31 December 2018 compared to the previous period.

(In thousands of EUR)	31 Dec. 2018	Structure 2018	31 Dec. 2017	Structure 2017	Change
Credit risk	79,758	92%	77,563	92%	2,181
Market risk	-	0%	-	0%	-
Operational risk	6,675	8%	6,313	8%	362
Total capital requirements	**86,433**	**100%**	**83,876**	**100%**	**2,543**

The Bank is carefully monitoring and managing other risks as well which originate from the Bank's operations and the dynamic business environment, e.g. compliance risk, reputational risk, strategic risk, capital risk, and risk of profitability. For all of the listed risk types, the Bank has defined internal approaches to promptly detect, measure and prepare measures for their management and control.

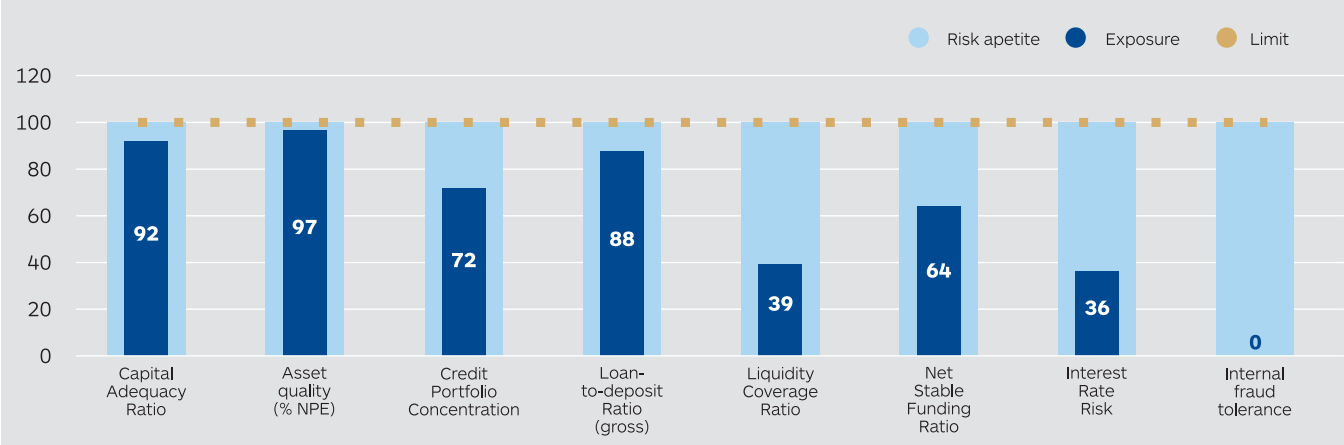
Readiness to assume risk and capability to assume risks

The readiness to assume risks is reflected by the level of risks which the Bank is prepared to accept, considering its capability to assume risks with the purpose of achieving the strategic goals of the Bank. The defined readiness to assume risks is the integral part of the planning process, which is shown in the planned ranges and structure of investments and sources, including the capital plan.

The Bank has, in order to ensure a clear definition and transparent monitoring, defined its most important criteria for the risk appetite through a range of key indicators, namely in those areas which are the most important for the Bank in terms of risk types. The values of key risk indicators are set as target values or limit values, arising from, in both cases, the current and expected risk profile of the Bank and good banking practice, as well as the generally-known criteria of banking.

In addition to the qualitative focus on the most important areas the Bank also defines its risk appetite in a quantitative manner through a set of key risk indicators. The definitions and key indicator defined in the risk appetite are also the starting point to define internal policies and methodologies for monitoring individual risk types, as well as a basis for establishing a more detailed limit system in all the risk segments, which will be defined in the policies by individual risk types.

The image below shows relative achievement of the most important risk appetite criteria as at the end of 2018.



The limit and critical values of risk appetite indicators are defined as targeted (capital adequacy ratio, quality of investments, structure of the credit portfolio, loan-to-deposit ratio, tolerance towards internal frauds and abuses) or limit (concentration of the credit portfolio, liquidity coverage ratio, net stable funding ratio, impact of interest rate changes on the capital).

In 2018, the values of the mentioned indicators were within normal limits and reached levels that do not exceed the set target or limit values at the end of the year. The Bank also achieved the target value of the credit portfolio quality, where ambitious criteria had been set despite unfavourable starting values in respect of the target investment structure, and reduced the share of non-performing exposures to under 7%, whereby the continuation of such trend will remain a priority.

Kranj, 22 March 2019

Mojca Osolnik Videmšek
Management Board Member

Mario Henjak
Management Board President

Jelena Galić
Supervisory Board Chairwoman

Independent **Auditor's Report**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of GORENJSKA BANKA D.D., KRANJ

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the GORENJSKA BANKA D.D., KRANJ (hereinafter 'the Company'), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinon

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

Key Audit Matters

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

Impairment of loans to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Company presented loans from customers in the amount of EUR 1,031.6 million and total expected credit loss in the amount of EUR 67.7 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans from customers is deemed a key audit matter	Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and

since high level of significant judgements is applied by Management as well as the use of complex models. Additionally, from 1 January 2018, the Bank has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '2.2 – IFRS 9 and transition effect', '5.8 - Financial assets measured at amortised costs (loans to customers)', '4.15 - Impairments' and '7.1 – Credit risk'. Information regarding the transitional effect of IFRS 9 are disclosed in note '2.2 - IFRS 9 and transition effect' including the impact on shareholders' equity and retained earnings at 1 January 2018.	evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Bank's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included: i. Assessment of borrower's financial position and performance following latest credit reports and available information ii. Critical assessment of judgements and assumptions applied in the calculation and measurement of expected future cash flows from

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

Other information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 28 May 2015. Our total uninterrupted engagement has lasted 9 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2019 in

accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

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

DELOITTE REVIZIJA d.o.o.

Anja Gorenc
Certified auditor

For signature please refer to the original Slovenian version.

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

Ljubljana, 22 March 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

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INDEPENDENT AUDITOR'S REPORT
to the shareholders of GORENJSKA BANKA D.D., KRANJ

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinon

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

Key Audit Matters

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

Impairment of loans to customers (expected credit losses)

In its financial statements for the year ended 31 December 2018 the Group presented loans from customers in the amount of EUR 1,017.2 million and total expected credit loss in the amount of EUR 67.6 million.

Key audit matter	How the matter was addressed in our audit
Measurement of impairment allowances for expected credit losses on loans from customers is deemed a key audit matter since high level of significant judgements is applied by Management as well as the use of complex models. Additionally, from 1 January 2018, the Group has adopted IFRS 9 – Financial Instruments ('IFRS 9'), resulting in impairment allowances being recognised when losses are expected rather than when they have been incurred, as previously used under IAS 39 - Financial Instruments: Recognition and Measurement. Management exercise significant judgements in the following areas: • Use of historic data in the process of determining risk parameters • Estimation of the credit risk related to the exposure • Assessment of stage allocation • Assessment on the significance of subsequent changes in credit risk of an exposure for the purposes of identifying whether significant increase in credit risk has occurred, leading to changes in stage allocation and the required measurement of lifetime expected credit losses • Expected future cash flows from operations • Valuation of collateral and assessment of realization period on individually assessed credit-impaired exposures. Management has provided further information about the impairment allowance on loans from customers in notes '2.2 – IFRS 9 and transition effect', '5.8 - Financial assets measured at amortised costs (loans to customers)', '4.15 - Impairments' and '7.1 – Credit risk'. Information regarding the transitional effect of IFRS 9 are disclosed in note '2.2 - IFRS 9 and transition effect' including the impact on shareholders' equity and retained earnings at 1 January 2018.	Based on our risk assessment and industry knowledge, we have examined the impairment allowances for expected credit loss for loans and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter that allowed us to obtain sufficient appropriate audit evidence for our conclusion. We performed following audit procedures with respect to area of loans: • Reviewing the Group's methodology for recognizing impairment allowances for expected credit losses and comparing the reviewed methodology against the requirements of IFRS 9 • Obtaining understanding of control environment and internal controls implemented by the Management within the process of measuring impairment allowance for expected credit losses • Evaluating design and inspecting implementation of identified internal controls relevant to the process of measuring impairment allowance for expected credit losses • Testing identified relevant controls for operating effectiveness • Disaggregating loans account balance based on stage allocation for the purposes of sample selection • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of loans allocated to Stage 1 and Stage 2, focusing on: i. models applied in stage allocation ii. assumptions used by the Management in the expected credit loss measurement models iii. criteria used for determination of significant increase in credit risk iv. assumptions applied to calculate lifetime probability of default v. methods applied to calculate loss given default vi. methods applied to incorporate forward-looking information • Performing substantive tests over recognition and measurement of impairment allowance for expected credit losses on sample of individually assessed non-performing loans allocated to Stage 3, which included:

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Appointment of the Auditor and the Period of Engagement
Deloitte revizija d.o.o. was appointed as the statutory auditor of the Company on General Shareholders' Meeting held on 28 May 2015. Our total uninterrupted engagement has lasted 9 years.

Confirmation to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 22 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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

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

DELOITTE REVIZIJA d.o.o.

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

Anja Gorenc
Certified auditor

For signature please refer to the original Slovenian version.

Ljubljana, 22 March 2019

TRANSLATION ONLY, SLOVENE ORIGINAL PREVAILS

Financial Report of the Bank and the Group

Statement of management's responsibilities

The Management Board of the bank hereby confirms the Financial Statements of Gorenjska banka, d.d., Kranj, and the Gorenjska banka Group for the year ended on 31 December 2018 as well as the accounting policies applied and the Notes to the Financial Statements.

The Management Board is responsible for the preparation of the Annual Report so that it presents a true and fair view of the bank's and Group's financial position and operating results for the year ended on 31 December 2018.

The Management Board hereby confirms that they have consistently applied the accounting policies and made the accounting estimates according to the principles of prudence and due diligence. The Management Board also confirms that the Financial Statements have been prepared on the basis of the assumption of going concern of the company and in line with the applicable legislation as well as the International Financial Reporting Standards adopted by the EU.

The Management Board is also responsible for the appropriate keeping of accounting records, implementation of suitable measures for the protection of assets, and for the prevention and detection of abuse and other irregularities or illegal acts.

The Tax Office may review the books of account of Group companies at any time within the period of five years of the day the tax needed to be levied, which can subsequently cause the imposition of an additional tax liability or penalty. The Bank's Management Board is not aware of any fact or circumstance that could cause significant liabilities of this type.

Kranj, 22 March 2019

Mojca Osolnik Videmšek
Management Board Member

Mario Henjak
Management Board President

Income statement

	(in thousands of EUR)	Notes	Bank		Group	
			2018	2017	2018	2017
1	Interest income		41,146	38,202	40,770	37,415
2	Interest expenses		5,539	4,401	5,539	4,401
3	**Net interest income (1-2)**	4.1.	**35,607**	**33,801**	**35,231**	**33,014**
4	Dividend income	4.2.	111	348	111	348
5	Fee and commission income		13,013	12,283	13,385	12,277
6	Fee and commission expenses		1,203	1,008	1,204	1,008
7	**Net fee and commission income (5-6)**	4.3.	**11,810**	**11,275**	**12,181**	**11,269**
8	Gains less losses on financial assets and liabilities not measured at fair value through profit or loss	4.4.	2,208	1,332	2,208	1,332
9	Gains less losses on financial assets and liabilities held for trading	4.5.	847	217	847	217
10	Gains less losses on non-trading financial assets mandatorily at fair value through profit or loss	4.6.	1,188	-	1,188	
11	Gains less losses on financial assets and liabilities designated at fair value through profit or loss	4.7.	(307)	-	(307)	-
12	Čisti dobički/izgube iz tečajnih razlik	4.8.	(85)	152	(85)	152
13	Gains less losses on derecognition of non-financial assets	4.9.	680	(139)	888	(139)
14	Other operating gains less losses	4.10.	83	(95)	1,687	2,789
15	Administration costs	4.11.	(29,759)	(29,666)	(30,555)	(30,121)
16	Depreciation	4.12.	(1,888)	(1,596)	(3,193)	(2,364)
17	Modification gains less losses	4.13.	(59)	-	(59)	-
18	Provisions	4.14.	(779)	(681)	(779)	(681)
19	Impairment	4.15.	1,031	(4,839)	(826)	(5,085)
20	Gains less losses from non-current assets held for sale	4.16.	(9)	(57)	(9)	(57)
21	**PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** (3+4+7 to 20)		**20,679**	**10,052**	**18,528**	**10,674**
22	Tax	4.17.	(3,530)	(3,551)	(3,571)	(3,701)
23	**PROFIT AFTER TAX FROM CONTINUING OPERATIONS** (21+22)		**17,149**	**6,501**	**14,957**	**6,973**
24	**PROFIT FOR THE YEAR** (23)		**17,149**	**6,501**	**14,957**	**6,973**

The notes are an integral part of these financial statements.

Statement of **comprehensive income**

	(in thousands of EUR)	Bank		Group	
		2018	2017	2018	2017
1	**PROFIT FOR THE YEAR AFTER TAX**	**17,149**	**6,501**	**14,957**	**6,973**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX (3+4)**	**(1,711)**	**(2,552)**	**(1,711)**	**(2,552)**
3	**ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS**	**11**	**(50)**	**11**	**(50)**
3.1.	Actuarial gains/losses on defined benefit pension plans	**14**	**(50)**	**14**	**(50)**
3.2.	Fair value changes of equity instruments measured at fair value through other comprehensive income	(4)	-	(4)	-
3.3.	Income tax relating to items that will not be reclassified to profit or loss	1	-	1	-
4	**ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS**	**(1,722)**	**(2,502)**	**(1,722)**	**(2,502)**
4.1	Debt instruments measured at fair value through other comprehensive income	(2,126)	-	(2,126)	-
4.1.1	Valuation gains/losses taken to equity	(2,126)	-	(2,126)	-
4.1.2	Other reclassifications	-	-	-	-
4.2	Available-for-sale financial assets	-	(2,732)	-	(2,732)
4.2.1	Valuation gains/losses taken to equity	-	(1,213)	-	(1,213)
4.2.2	Other reclassifications	-	(1,519)	-	(1,519)
4.3	Income tax relating to items that may be reclassified to profit or loss	404	230	404	230
5	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX** (1+2)	**15,438**	**3,949**	**13,246**	**4,421**

The notes are an integral part of these financial statements.

Statement of **financial position**

	(in thousands of EUR)	Notes	Bank		Group	
			31/12/2018	31/12/2017	31/12/2018	31/12/2017
1	Cash, balances at central banks and other demand deposits	5.1.	391,730	310,537	391,849	310,738
2	Financial assets held for trading	5.2.	150	-	150	-
3	Non-trading financial assets mandatorily at fair value through profit or loss	5.3.	26,194	-	26,194	-
4	Financial assets measured at fair value through other comprehensive income	5.4.	108,394	-	108,394	-
5	Available-for-sale financial assets	5.5.	-	319,446	-	319,446
6	Financial assets measured at amortised cost		1,240,951	-	1,230,480	-
	- debt securities	5.6.	226,196	-	226,196	-
	- loans and receivables to banks	5.7.	48,651	-	48,651	-
	- loans and receivables to customers	5.8.	963,861	-	949,669	-
	- other financial assets	5.9	2,243	-	5,964	-
7	Loans and receivables		-	1,080,593	-	1,053,569
	- loans and receivables to banks	5.10.	-	107,049	-	107,049
	- loans and receivables to customers	5.11.	-	965,247	-	937,982
	- other financial assets	5.12.	-	8,297	-	8,538
8	Held-to-maturity investments	5.13.	-	104,105	-	104,105
9	Investments in subsidiaries	5.14.	6,406	6,314	-	-
10	Tangible assets		42,523	30,394	58,020	60,168
	- property and equipment	5.15.	9,242	9,023	18,237	14,434
	- investment property	5.16.	33,281	21,371	39,783	45,734
11	Intangible assets	5.17.	4,033	3,843	4,239	4,094
12	Tax assets	5.26.	10,076	11,825	10,079	11,405
	- current income tax assets		-	-	3	-
	- deferred income tax assets		10,076	11,825	10,076	11,405
13	Other assets	5.18.	1,075	1,437	1,344	3,906
14	Non-current assets classified as held for sale	5.19.	1	3,450	1,915	3,450
15	**Total assets** (from 1 to 14)		**1,831,533**	**1,871,944**	**1,832,664**	**1,870,881**
16	Liabilities held for trading	5.20.	37	6	37	6
17	Financial liabilities designated at fair value through profit or loss	5.21.	307	-	307	-
18	Financial liabilities measured at amortised cost		1,617,991	1,662,711	1,617,416	1,658,687
	- due to customers	5.22.	1,505,151	1,480,690	1,504,142	1,476,523
	- borrowings from banks and central banks	5.23.	101,416	101,194	101,416	101,194
	- other financial liabilities	5.24.	11,424	80,827	11,858	80,970
19	Provisions	5.25.	4,851	3,364	4,851	3,364
20	Tax liabilities	5.26.	1,087	2,412	1,542	2,477
	- current income tax liabilities		592	539	627	604
	- deferred income tax liabilities		495	1,873	915	1,873
21	Other liabilities	5.27.	2,019	3,393	2,991	4,651
22	**Total liabilities** (from 16 to 21)		**1,626,292**	**1,671,886**	**1,627,144**	**1,669,185**
23	Paid up capital		16,188	16,188	16,188	16,188
24	Share premium		20,023	20,023	20,023	20,023
25	Accumulated other comprehensive income		1,893	10,571	1,893	10,571
26	Reserves from profit		174,151	171,664	174,151	171,664
27	Treasury shares		(26,007)	(26,007)	(26,007)	(26,007)
28	Retained earnings (including income from the current year)		18,993	7,619	19,272	9,257
29	**Total equity** (from 23 to 28)	5.28.	**205,241**	**200,058**	**205,520**	**201,696**
30	**Total liabilities and equity** (22+29)		**1,831,533**	**1,871,944**	**1,832,664**	**1,870,881**

The notes are an integral part of these financial statements.

Statement of **changes in equity**

Bank

	(in thousands of EUR)	Notes	**Paid up capital**	**Share premium**	**Accumulated other comprehensive income** (AFS)	**Accumulated other comprehensive income** (HTM)	**Accumulated other comprehensive income** (actuarial gains on pension schemes)	**Reserves from profit**	**Retained earnings** (including income from the current year)	**Treasury shares**	**Total equity**
1	**1 January 2017**		**16,188**	**20,023**	**8,487**	**4,627**	**10**	**170,721**	**6,784**	**(26,007)**	**200,833**
2	**Total comprehensive income for the year 2017**		**-**	**-**	**(983)**	**(1,519)**	**(50)**	**-**	**6,501**	**-**	**3,949**
3	Appropriation of dividends		-	-	-	-	-	-	(4,724)	-	(4,724)
4	Transfer of net profit to reserves		-	-	-	-	-	943	(943)	-	-
5	Other		-	-	-	(2)	1	-	1	-	-
5.1.	Transfer of actuarial gains to retained earnings		-	-	-	-	-	-	1	-	1
5.2.	Rounding		-	-	-	(2)	1	-	-	-	(1)
6	**31 December 2017**	5.28.	**16,188**	**20,023**	**7,504**	**3,106**	**(39)**	**171,664**	**7,619**	**(26,007)**	**200,058**
7	**Profit for appropriation for the year ended 31 December 2017**		**-**	**-**	**-**	**-**	**-**	**-**	**7,619**	**-**	**7,619**
1	**31 December 2017**		**16,188**	**20,023**	**7,504**	**3,106**	**(39)**	**171,664**	**7,619**	**(26,007)**	**200,058**
2	**IFRS 9 implementation effect**		**-**	**-**	**(3,861)**	**(3,106)**	**-**	**-**	**(2,625)**	**-**	**(9,592)**
3	**1 January 2018**		**16,188**	**20,023**	**3,643**	**-**	**(39)**	**171,664**	**4,994**	**(26,007)**	**190,466**
4	**Total comprehensive income for the year 2018**		**-**	**-**	**(1,725)**	**-**	**14**	**-**	**17,149**	**-**	**15,438**
5	Appropriation of dividends		-	-	-	-	-	-	(658)	-	(658)
6	Transfer of net profit to reserves		-	-	-	-	-	2,487	(2,487)	-	-
7	Reversal of actuarial gains		-	-	-	-	-	-	(5)	-	(5)
8	**31 December 2018**	5.28.	**16,188**	**20,023**	**1,918**	**-**	**(25)**	**174,151**	**18,993**	**(26,007)**	**205,241**
9	**Profit for appropriation for the year ended 31 December 2018**		**-**	**-**	**-**	**-**	**-**	**-**	**18,993**	**-**	**18,993**

The notes are an integral part of these financial statements.

Statement of **changes in equity**

Group

	(in thousands of EUR)	Notes	**Paid up capital**	**Share premium**	**Accumulated other comprehensive income** (AFS)	**Accumulated other comprehensive income** (HTM)	**Accumulated other comprehensive income** (actuarial gains on pension schemes)	**Reserves from profit**	**Retained earnings** (including income from the current year)	**Treasury shares**	**Total equity**
1	**1 January 2017**		**16,188**	**20,023**	**8,487**	**4,627**	**10**	**170,721**	**7,951**	**(26,007)**	**202,000**
2	**Total comprehensive income for the year 2017**		**-**	**-**	**(983)**	**(1,519)**	**(50)**	**-**	**6,973**	**-**	**4,421**
3	Appropriation of dividends		-	-	-	-	-	-	(4,724)	-	(4,724)
4	Transfer of net profit to reserves		-	-	-	-	-	943	(943)	-	-
5	Other		-	-	-	(2)	1	-	-	-	(1)
5,1,	Transfer of actuarial gains to retained earnings		-	-	-	-	-	-	1	-	1
5,2,	Rounding		-	-	-	(2)	1	-	(1)	-	(2)
6	**31 December 2017**	5,28,	**16,188**	**20,023**	**7,504**	**3,106**	**(39)**	**171,664**	**9,257**	**(26,007)**	**201,696**
1	**31 December 2017**		**16,188**	**20,023**	**7,504**	**3,106**	**(39)**	**171,664**	**9,257**	**(26,007)**	**201,696**
2	**IFRS 9 implementation effect**		**-**	**-**	**(3,861)**	**(3,106)**	**-**	**-**	**(1,791)**	**-**	**(8,758)**
3	**1 January 2018**		**16,188**	**20,023**	**3,643**	**-**	**(39)**	**171,664**	**7,466**	**(26,007)**	**192,938**
4	**Total comprehensive income for the year 2018**		**-**	**-**	**(1,725)**	**-**	**14**	**-**	**14,957**	**-**	**13,246**
5	Appropriation of dividends		-	-	-	-	-	-	(658)	-	(658)
6	Transfer of net profit to reserves		-	-	-	-	-	2,487	(2,487)	-	-
7	Other		-	-	-	-	-	-	(6)	-	(6)
7,1,	Reversal of actuarial gains		-	-	-	-	-	-	(5)	-	(5)
7,2,	Rounding		-	-	-	-	-	-	(1)	-	(1)
8	**31 December 2018**	5,28,	**16,188**	**20,023**	**1,918**	**-**	**(25)**	**174,151**	**19,272**	**(26,007)**	**205,520**

The notes are an integral part of these financial statements.

Cash flow statement

	(in thousands of EUR)	Notes	Bank		Group	
			2018	2017	2018	2017
A.	**Operating activities**					
a)	**Interest received**		**41,146**	**41,007**	**40,769**	**40,220**
	Interest paid		(5,539)	(4,401)	(5,539)	(4,401)
	Dividend received	4.2.	111	348	111	348
	Fee and commission receipts		13,013	12,283	13,385	12,277
	Fee and commission paid	4.3.	(1,203)	(1,008)	(1,202)	(1,008)
	Realised gains on financial assets not measured at fair value through profit or loss	4.4.	2,491	1,521	2,491	1,521
	Realised losses on financial assets not measured at fair value through profit or loss		(283)	(120)	(283)	(120)
	Net trading incomes		1,339	83	1,547	83
	Cash payments to employees and suppliers	4.11.	(29,759)	(29,666)	(30,555)	(30,121)
	Other incomes		2,154	1,947	3,758	4,831
	Other expenses		(2,071)	(2,042)	(2,071)	(2,042)
	Cash flows from operating profits before changes in operating assets and liabilities (a)		21,399	19,952	22,411	21,588
b)	**(Increase)/decrease in operating assets**		**117,135**	**(154,538)**	**100,149**	**(152,063)**
	Net increase in non-trading financial assets mandatorily at fair value through profit or loss		(4,343)	-	(4,343)	-
	Net decrease in financial assets measured at fair value through other comprehensive income		118,042	-	118,042	-
	Net increase in loans and receivables measured at amortised cost		(495)	-	(17,691)	-
	Increase in financial assets available for sale		-	(28,228)	-	(28,228)
	(Increase)/decrease in loans		-	(124,876)	-	(124,322)
	Net decrease in non-current assets held for sale		3,440	-	1,526	-
	Decrease in other assets		491	(1,434)	2,615	487
c)	**Increase/(decrease) in operating liabilities**		**(48,431)**	**379,216**	**(45,268)**	**376,607**
	Increase in deposits and borrowed funds, measured at amortised cost		(47,312)	380,805	(43,862)	378,293
	Increase/(decrease) in other liabilities		(1,119)	(1,589)	(1,406)	(1,686)
č)	**Cash flow from operating activities (a+b+c)**		**90,103**	**244,630**	**77,021**	**246,132**
d)	**Income tax refund**		**(1,393)**	**(793)**	**(1,393)**	**(793)**
e)	**Net cash flow from operating activities (č+d)**		**88,710**	**243,837**	**75,899**	**245,339**
B.	**Investing activities**					
a)	**Cash receipts related to investing activities**		**10,219**	**20,645**	**22,891**	**20,645**
	Cash receipts from the sale of tangible assets		1,329	3,145	14,001	3,145
	Cash receipts from the sale of intangible assets		41	-	41	-
	Cash receipts from the disposal of investments in debt securities measured at amortised cost		8,849	-	8,849	-
	Cash receipt at maturity from held-to-maturity investments		-	17,500	-	17,500
b)	**Cash payments related to investing activities**		**(66,482)**	**(37,331)**	**(66,424)**	**(38,632)**
	Cash payments to acquire property and equipment		(13,537)	(4,792)	(13,537)	(8,622)
	Cash payments to acquire intangible assets		(1,254)	(1,069)	(1,288)	(1,124)
	Cash payments to acquire investment in subsidiaries		(92)	(2,584)	-	-
	Cash payments to acquire debt securities measured at amortised cost		(51,599)	-	(51,599)	-
	Cash payments to purchase held-to-maturity investments		-	(28,886)	-	(28,886)
c)	**Net cash flow from investing activities (a-b)**		**(56,263)**	**(16,686)**	**(43,533)**	**(17,987)**
C.	**Financing activities**					
a)	**Cash proceeds related to financing activities**		**-**	**-**	**-**	**-**
b)	**Cash payments related to financing activities**		**(658)**	**(4,724)**	**(658)**	**(4,724)**
	Appropriation of dividends		(658)	(4,724)	(658)	(4,724)
c)	**Net cash flow from financial activities (a-b)**		**(658)**	**(4,724)**	**(658)**	**(4,724)**
D.	Effect of exchange rate changes on cash and cash equivalents		2,444	(16,518)	2,444	(16,518)
E.	**Net increase / (decrease) in cash and cash equivalents** (Ae+Bc+Cc)		**31,789**	**222,427**	**31,707**	**222,628**
F.	**Cash and cash equivalents at beginning of year**		**402,347**	**196,438**	**402,548**	**196,438**
G.	**Cash and cash equivalents at end of year** (D+E+F)	6.2.	**436,580**	**402,347**	**436,699**	**402,548**

The notes are an integral part of these financial statements.

Notes to financial statements

1. General **information**

Gorenjska banka, d.d., Kranj (hereinafter: "Bank") is a Slovenian privately-owned public limited company that performs universal banking transactions. The Gorenjska banka Group (hereinafter: "Group") is composed of the Bank, the subsidiary Imobilia-GBK, d.o.o., the subsidiary Mersteel nepremičnine, d.o.o., Naklo, the subsidiary GB Leasing, d.o.o., Ljubljana and the subsidiary Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana (2017: the Bank, the subsidiary Imobilia-GBK, d.o.o., the subsidiary Mersteel nepremičnine, d.o.o., Naklo, the subsidiary GB Leasing, d.o.o., Ljubljana and the subsidiary Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana).

The Bank is a privately-owned PLC and its shares are not traded on the organised capital market. The Bank's business address is: Gorenjska banka, d.d., Kranj, Bleiweisova cesta 1, 4000 Kranj, Slovenia.

Mersteel nepremičnine, d.o.o., Naklo was registered in the register of companies on 8 December 2014. It was established as a result of the confirmed repeated compulsory composition of Mersteel, d.o.o., Naklo. Through the conversion of claims to equity, the Bank became the owner of a 100% participating interest in the abovementioned company. In 2018, the company was liquidated and deleted from the court register.

The Imobilia-GBK, d.o.o., Kranj, was registered in the register of companies in 1991, but only became active in 2012. It is wholly owned by the Bank. The company performs services (real estate management) that rank it among companies offering ancillary services.

In 2016, the Bank established the company GB Leasing d.o.o., Ljubljana. The company, which is fully owned by the Bank, has the role of a service company marketing and rendering financial leasing services on behalf of and for the account of the Bank. In 2017, it acquired a 100% share-holding in the company Hypo Alpe-Adria-Leasing, d.o.o., Ljubljana. The companies ranked among companies offering ancillary services.

The Bank is not obliged to fulfil prudential requirements on a consolidated basis.

Pursuant to the provisions of IFRS 10, Gorenjska banka, d.d., Kranj, has a controlling company, i.e. AIK banka, a.d., Belgrade. Since the Bank of Slovenia took away voting rights from Sava, d.d., Ljubljana, AIK banka, a.d., now has more than half of the voting rights, whereby conditions have been met to include Gorenjska banka in the consolidated statements of the AIK banka Group. The consolidated annual report for the broadest circle of companies in the Group is made by the controlling company Agri Europe Cyprus, Limassol, and is not publicly available. The consolidated annual report for the selected circle of companies in the Group is made by the controlling company M&V Investments, a.d., Belgrade, and is available on their websites.

Notes to Financial Statements relating to the Bank and the Group.

Financial Statements of Gorenjska banka, d.d., Kranj, are confirmed by the Management Board.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The Bank applied the same accounting policies for the preparation of financial statements for 2018, as for the compilation of financial statements for 2017, except for accounting standards and other changes applicable as of including 1 January 2018 that were confirmed by the EU.

2.1. Basis of preparation

The Bank's financial statements for the year 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and under the assumption of going concern. Additional information required by national regulations is included where appropriate.

The financial statements comprise the income statement and statement of other comprehensive income showing as two statements, the statement of financial positions, the statement of changes in equity, the cash flow statement and the notes.

The financial statements are presented in euros, which is the Banks's functional and presentational currency. The figures shown in the financial statements are stated in thousands of euros.

Management of the risks, which the Bank is exposed in its business, is presented in Note 7.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. These required financial statements have been compiled to comply with the legal requirements. According to the law, the Company is obligated to have these financial statements audited by an independent auditor. The audit is limited to the required financial statements for general purposes, so that the legal requirement of auditing the required financial statements is met. The audit covers the required financial statements as a whole and gives no assurance as to individual line items, accounts or transactions. The audited financial statements are not intended to be used by any party for deciding on ownership, financing or any specific transactions referring to the Company. As a result, the users of the required financial statements may not rely solely on the financial statements and are obligated to conduct other appropriate procedures before adopting decisions.

It also requires management to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2.1.1 Accounting standards and supplements and notes to the existing standards as confirmed by the EU and introduced by the Gorenjska banka Group on 1 January 2018

In terms of financial statements, the most important standard for the Group from standards that became applicable as of 1 January 2018 is IFRS 9 Financial Instruments. Note 2.2 details the standard and the effects of transition.

Other accounting standards and amendments of existing standards as adopted by the EU and introduced by the Group as of 1 January 2018, but which have no major impact on the Group's financial statements, are:

- IFRS 15 (new standard) – Revenue from Contracts with Customers (applicable to annual periods starting on or after 1 January 2018),
- IFRS 15 (supplement) – Revenue from Contracts with Customers (applicable to annual periods starting on or after 1 January 2018),
- IFRS 4 (supplement) – The application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (applicable to annual periods starting on or after 1 January 2018),
- IFRS 2 (supplement) – Share-based Payment (applicable to annual periods starting on or after 1 January 2018),
- Annual supplements to IFRS 2014-2016. The supplements comprise changes in content and notes, and apply to annual periods starting on 1 January 2017 or 1 January 2018,

- IAS 40 (supplement) – Investment Property (applicable to annual periods starting on or after 1 January 2018),
- Note IFRIC 22 – Foreign Currency Transactions and Advance Consideration (applicable to annual periods starting on or after 1 January 2018).

The application of the mentioned other standards has no significant impact on the financial statements of the Group.

2.1.2 Accounting standards and supplements and notes to the existing standards as confirmed by the EU and not introduced early by the Gorenjska banka Group

- IFRS 16 (new standard) – Leases (applicable to annual periods starting on or after 1 January 2019),
- IFRS 9 (supplement) – Prepayment Features with Negative Compensation (applicable to annual periods starting on or after 1 January 2019).

The Group estimates that the introduction of IFRS 16 and the amendment to IFRS 9 will have no major impact on the financial statements of the Group.

2.1.3 Accounting standards and supplements and notes to existing standards that have not yet been confirmed by the EU

- IFRS 17 (new standard) – Insurance Contracts (applicable to annual periods starting on or after 1 January 2021),
- Note IFRIC 23 – Uncertainty over Income Tax Treatments (applicable to annual periods starting on or after 1 January 2019),
- Annual supplements to IFRS 2015-2017. The supplements comprise changes in content and notes, and apply to annual periods starting on 1 January 2019,
- IAS 28 (supplement) – Investments in Associates and Joint Ventures (applicable to annual periods starting on or after 1 January 2019),
- IAS 19 (supplement) – Plan Amendment, Curtailment and Settlement (applicable to annual periods starting on or after 1 January 2019).

The Group expects that the introduction of these standards and amendments to existing standards will have no major impact on the financial statements in the period of initial application.

2.2 IFRS 9 and transition effects

In July 2014, the International Financial Reporting Interpretations Committee issued **IFRS 9 Financial Instruments**, which replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach regarding the classification and measurement of financial instruments and a new model for expected losses, which is more forward-looking and changes the requirements for hedge accounting. The application of IFRS 9 is obligatory for annual periods beginning on or after 1 January 2018 with a possibility of early application.

The Bank uses a simplified approach for trade receivables due from buyers and loan receivables. Lifetime expected credit losses are being assessed based on historical experiences.

In October 2017, an amendment to IFRS 9 was issued: Prepayment Features with Negative Compensation, which becomes applicable on 1 January 2019 with a possibility of early application. The amendment ensures that certain financial assets containing the possibility of early repayment for a reasonably negative compensation are measured at amortised cost or fair value through other comprehensive income if the prepayment amount represents solely the payment of an outstanding principal and interest and reasonable compensation. Reasonable compensation may be positive or negative. Prior to the amendment, financial assets with negative compensation for early repayment would not pass the criteria of solely payment of principal and interest (SPPI test) and would have to be measured at fair value through profit or loss. The amendment has no impact on the financial statements of the Gorenjska banka Group.

2.2.1 Classification of financial assets pursuant to IFRS 9

IFRS 9 defines three categories for classifying financial assets:
- at amortised cost,
- at fair value through other comprehensive income,
- at fair value through profit or loss.

A special type of long-term financial assets is deemed to be investments in property that are held for trading or given in financial lease in order to achieve returns on them in the long run. They are considered separately from other long-term investments and separately from property, plant and equipment.

The classification of financial assets upon initial recognition depends on the business model and contractual characteristics of cash flows. During classification, the Bank takes into account the rules described below.

At amortised cost

That category includes all loans to legal entities and natural persons, investments on the interbank market, investments in debt securities and other investments. A condition for classification in this category is a successfully passed cash flow test. If the mentioned financial instruments fail the cash flow test, they are classified in the category at fair value through profit or loss.

At fair value through other comprehensive income

The Bank classifies debt securities in this category within the scope defined in the liquidity risk management policy, and equities that constitute strategic investments. If the mentioned debt instruments fail the cash flow test, they are classified in the category at fair value through profit or loss.

At fair value through profit or loss

This category includes financial instruments that fail the cash flow test, non-strategic investments in equities, and instruments containing one or more integrated financial derivatives that may have an important impact on the cash flows of the basic host instrument.

Financial derivatives are always classified in the category of financial instruments at fair value through profit or loss.

The Group applies no hedge accounting.

The classification of individual debt securities is proposed by the Treasury Sector based on the above rules for classification. The classification is confirmed by the Bank's Credit Board with a resolution, except for the classification of equity instruments in subsidiaries, associates and jointly controlled companies, which is confirmed by the Bank's Management Board with a resolution.

2.2.2 Business model

The business model is determined with respect to the way the company manages a group of financial assets in order to achieve its business goals. The basis for the determination of business models is the Bank's development and investment strategy along with its risk profile.

According to IFRS 9, the Bank has defined the following business models:

Model 1 – held for cash flows

The basic goal of the investment: to obtain cash flows (principals and interest). Sale is not part of the business model, but is possible in the following cases:
- The reason for sale includes factors that were not expected upon the conclusion of a transaction (stress conditions in liquidity, claims by third parties, etc.), whereby another two factors are of key importance:
  - The amount is irrelevant, even if a sale takes place frequently.
  - The sale of assets takes place occasionally. In such case, the amount may be relevant;
- The investment is nearing the maturity date (2 months before contract maturity for long-term assets);
- Sale due to increased credit risk (downgraded credit rating, EWS parameters indicate increased risks).

Main risks: the principal risk to which the Bank is exposed in such investments is credit risk, which is why it uses different techniques to reduce it (collateral, etc.).

Performance criterion: the attainment of the set cash flows, adequate mitigation of credit risks.

Model 2 – held for cash flows and sale

The basic goal of the investment: to obtain cash flows and/or sell – regardless of the frequency, amount and reason. That segment in principle includes investments that the Bank pursues in order to provide liquidity. To achieve goal in liquidity, the Bank uses such cash flows deriving from principals and interest, and the sale of investments. There are no limitations for sale or fulfilment of conditions for classification in this portfolio. Furthermore, it is irrelevant whether the sale is subject to a decision made by the Bank's management or whether the sale is made at the request of a third party (regulator). The Bank also classifies strategic investments in equities in this category.

Main risks: the principal risk to which the Bank is exposed in such investments is credit risk, which is why it uses different techniques to reduce it (securities, etc.). While maintaining an investment, the Bank is also exposed to market risks (the risks of interest rate variability) and to the risk of price changes on the real estate market.

Performance criterion: the attainment of the set cash flows, adequate mitigation of credit risks.

Model 3 – at fair value through profit or loss

Model 3 basically includes assets held for sale (trading book), non-strategic investments in equities and financial derivatives that are not intended for hedging positions. The Bank does not pursue securities trading transactions and IFI, which is why it does not apply model 3 in principle, although assets may be classified in this category, but only when investments fail to meet conditions for classification into model 1 or 2 upon approval and are beyond the Bank's control (syndicated loans, umbrella restructuring agreements).

Based on the business model and strategic policies, business models 1 and 2 are key to the Bank's operations.

A business model is always assessed at the level of investment upon its occurrence and the basic criteria are the Bank's motives upon the approval of an investment.

2.2.3 Cash flow test

Pursuant to IFRS 9, the condition for the classification of financial instruments in the categories "at amortised cost" and "at fair value through comprehensive income" is a successful cash flow test. A cash flow test is passed if date-specific cash flows that are solely payments of principal and interest on outstanding principle derive from contractual provisions.

A cash flow test is conducted upon the occurrence of an investment. Procedures and rules for review are laid down in the Collection of instructions for approving and monitoring investments made by legal entities, sole traders and civil law entities.

Cases where investments still meet the criteria of model 1:
- variable interest rates with limits (caps and floors),
- the risk of interest rate variability is insured by derivatives;
- the client is in arrears with the payment of agreed cash flows and the Bank has initiated recovery procedures or expects no further cash flows (assessment upon incurrence is vital),
- the possibility of early repayment if the right to repayment does not depend or is not conditional upon future events (free will or the debtor's decision),
- the Bank requests early repayment because the debtor fails to achieve certain indicators in case of indicators showing increased credit risk (e.g. debt/EBITDA, TIE, etc.),
- in case of repayment, the Bank charges a compensation.

2.2.4 Measurement and recognition of financial assets

Financial assets classified at fair value through profit or loss are initially recognised at fair value, while transaction costs are recognised in the income statement. For other financial assets, costs are attributed to the initial value.

Purchases and sales of financial instruments at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost are recognised as at the date of transaction. Loans and receivables due from clients are recognised when clients are provided with funds.

Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured at fair value. Gains and losses in financial assets measured at fair value through profit or loss are recognised in the income statement in the period in which they are incurred. In financial assets valued through other comprehensive income, gains and losses due to the revaluation at fair value are disclosed in other comprehensive income. Interest calculated using the effective interest rate method, foreign exchange gains and losses deriving from cash items and impairments of instruments classified in the group of financial assets valued through other comprehensive income are recognised directly in the income statement. Interest calculated according to the effective interest rate method and exchange rate differences arising from cash items are recognised directly in the income statement. Dividends arising from equities are recognised in the income statement when the Bank's right to the receipt of a disbursement is enforced. Impairments of debt securities classified through other comprehensive income are recognised in other comprehensive income.

Loans and receivables at amortised cost are measured at amortised cost using the effective interest rate method. If there are objective signs for impairment, loans and receivables are impaired. Detailed criteria and classification of receivables and loans into categories are laid down in the "Rules on the classification of receivables and creation of impairments".

Gains or losses upon initial recognition: the best evidence of fair value upon initial recognition is the transaction price, which represents the fair value of the given or received compensation, unless fair value can be proven with other comparable market transactions or with a valuation technique that is based solely on market assumptions.

Reclassification of financial instruments between categories is permitted only in the event of a change of business model, but not in any other case.

Financial derivatives are initially recognised in the statement of financial position at fair value through profit or loss. Financial derivatives are forward transactions (forward purchases and sales of foreign currencies or securities), options and swap transactions (currency and interest rate swaps) and other financial derivatives. Financial derivatives are measured at fair value, which is suitably determined on the basis of the published market price or under the cash flow discounting method. Fair values are disclosed in the statement of financial position under assets when their value is positive or under liabilities when their value is negative. Gains and losses deriving from changes in fair value are recognised in profit or loss. Nominal values of financial derivatives are recognised in off-balance sheet records.

The Group applies no hedge accounting.

2.2.5 Impairment of financial instruments

Pursuant to IFRS 9, the Bank transferred to the concept of expected losses, which provides impartial and weighted credit risk' s losses assessments by taking into account various macroeconomic scenarios. That way, the Bank also recognises losses that are expected to be incurred in future. Allowance for expected credit losses is recognised by the Bank for all loans and other debt financial instruments that are not measured at fair value through the income statement, which includes provisions made for contingent liabilities arising from undisbursed loans and financial guarantee contracts.

The allowance is based on expected credit losses arising from the classification of assets into a specific group, the estimated probability of default (PD) in the following 12 months and throughout the term of the instrument for those where credit risk has increased significantly since initial recognition. The Bank has criteria for significant increase in lifelong probability of default, defined by segment on the basis of qualitative and quantitative information and analyses made on the basis of past information, experiences and expert credit assessments and forward-looking information.

The process and rules of classification are regularly monitored. The key criteria for classification derive from the applicable regulatory requirements and IFRS 9. Receivables are classified into individual stages; i.e. stages 1 and 2 for performing receivables and stage 3 for non-performing receivables. The classification criteria are defined in the Bank's internal acts. The same criteria are applied to the classification of all financial assets into stages. The classification takes place in several steps, whereby individual criteria are checked at every step. In step 1, it is checked whether a financial asset was bought or originally impaired. In step 2, the Bank checks whether a default has occurred in a financial asset, in which case the asset is allocated to stage 3. In step 3, three criteria for increased credit risk are checked, whereby the fulfilment of any of them implies classification of the asset to stage 2. In step 4, it is checked whether an asset belongs to a low credit risk category and meets the conditions for classification to stage 1. In step 5, the Bank also checks the increase in lifelong probability of default from the point of asset recognition to the reporting date, whereby an increase above the defined limit requires classification of the asset to stage 2. The criteria of a significant increase in lifelong probability of default from asset recognition to the reporting date have been laid down by the Bank based on available statistical analyses and differ with respect to the segment of clients, but range between 1.5 and 5 percentage points.

When assessing expected credit losses, the Bank is required to take into account the longest contractual period in which it is exposed to credit risk. For transactions with specific features and without maturity, the Bank has defined principles for taking into account their maturity by observing the nature of the transaction and available information about them.

When calculating the values of credit risk parameters, the Bank includes information that derives from previous credit risk matrices and forward-looking expectations and available information, such as macroeconomic scenarios involving major credit risk factors. Three macroeconomic scenarios (realistic, optimistic, pessimistic) for the purposes of calculating credit risk parameters are included by the Bank with probability weights for a particular scenario.

When assessing group impairments, the Bank also uses the available forward-looking information. By applying the Z-shift method, the Bank includes the relation between macroeconomic conditions in the country and the shares of default in the Bank's credit portfolio in calculations of credit risk parameters. For the purposes of calculating impairments as per IFRS 9, the Bank has defined various macroeconomic scenarios (future values of selected macroeconomic indicators) and their probability of realisation by applying the error distribution method.

The Bank applies the following probabilities of individual scenarios:
- realistic scenario: 60%
- optimistic scenario: 20%
- pessimistic scenario: 20%

Scenarios for future values of real GDP growth in Slovenia are used for the portfolio of companies, banks, countries and government institutions. Scenarios for future values of the surveyed unemployment rate in Slovenia are used for the portfolio of sole proprietors. The Bank also assesses the probability of default for entities that fall within the low default share portfolio (banks, countries, government institutions).

When calculating loss, the Bank derives from the data on the share of losses from individual cases weighted by the exposure of an individual debtor during transition to defaulters. The prescribed loss given default (LGD) rate of 45% is used for the portfolio of natural persons as per Regulation 575/2013 (CRR). Furthermore, the recommended regulatory LGD may be used in other segments when the Bank is unable to calculate the level of loss due to various substantiated reasons. For the following reason, the Bank also applies the regulatory LGD in segments of the Central State level and Central Bank and Institutions.

Exposure at default (EAD) is modelled at the Bank so as to adjust the existing exposure to contractual future cash flows, where future contractual cash flows are not taken into account in the period of three months before default. In exposures with no contractual future cash flows, cash flow is deemed to be total repayment upon maturity. If an exposure has no due date, the due date is considered to be the period of one year, where cash flow is deemed to be total repayment upon such new due date. EAD takes into account off-balance-sheet exposure multiplied by CCF values, as laid down in Annex 1 to Regulation 575/2013.

All risk parameters are calculated once a year, or more frequently if economic forecasts change substantially compared to previous forecasts; in such case, parameters are recalculated with respect to new forecasts.

The validation of all risk parameters is conducted once a year.

2.2.6 Effects of transition to IFRS 9 as of 1 January 2018 - the Bank

The adjustment due to the introduction of IFRS 9 was recognised in retained earnings and other comprehensive income as at 1 January 2018. Total equity of the Bank decreased by EUR 9,592 thousand (EUR 6,967 thousand of which is other comprehensive income and EUR 2,625 thousand is retained earnings/losses). The Bank used no option of gradual influence on regulatory capital, which is provided by Regulation (EU) 2017/2395.

The table below shows the impact on total equity upon transition to IFRS 9 as at 1 January 2018.

(in thousands of EUR)	Retained earnings	OCI	Total equity
Change of methodology for impairments and provisions	(2,328)	-	(2,328)
Revaluation of loans to fair value	(13)	-	(13)
Reclassification and valuation of securities	(685)	(7,873)	(8,558)
Deferred income tax assets	-	(1)	(1)
Income tax on transitions	401	-	401
Deferred income tax liabilities	-	907	907
Total	**(2,625)**	**(6,967)**	**(9,592)**

The table below shows a comparison of measurement categories for financial assets as per IAS 39 and measurement categories as per IFRS 9.

(in thousands of EUR)	Classification IAS 39	Classification IFRS 9	Carrying amount IAS 39 31/12/2017	Carrying amount IFRS 9 1/1/2018
Cash, balances at central banks and other demand deposits at banks	Loans and receivables	Amortised cost	310,537	310,535
Loans and receivables to banks	Loans and receivables	Amortised cost	107,049	107,048
Loans and receivables to customers	Loans and receivables	Amortised cost	945,164	943,294
Loans and receivables to customers	Loans and receivables	FVTPL mandatory	20,082	20,069
Loans and receivables – other financial assets	Loans and receivables	Amortised cost	8,297	8,296
Financial assets – debt instruments	AFS	FVTOCI	222,398	222,398
Financial assets – debt instruments	AFS	Amortised cost	89,549	84,553
Financial assets – equity instruments	AFS	FVTPL mandatory	596	596
Financial assets – equity instruments	AFS	FVTOCI	6,904	6,904
Financial assets – debt instruments	HTM	Amortised cost	104,105	100,542
Total			**1,814,681**	**1,804,235**

Notes to the table:
FVTPL (fair value through profit or loss)
AFS (available for sale)
HTM (held to maturity)
FVTOCI (fair value through other comprehensive income)

The table below shows a comparison of book values for financial assets as per IAS 39 and book values as per IFRS 9 as at 1 January 2018. The effects of remeasurement are broken down to effects on retained earnings and effects on other comprehensive income.

(in thousands of EUR)	Ref	Carrying amount IAS 39 31/12/2017	Reclassification	Effect on retained earnings	Effect on OCI and tax	Carrying amount IFRS 9 1/1/2018
A. Amortised Cost						
Cash, balances at central banks and other demand deposits at banks						
IAS 39		310,537				
Remeasurement				(2)		
IFRS 9						310,535
Debt securities, measured at amortised cost						
IAS 39		-				
Addition: from financial assets available-for-sale	B		89,549			
Addition: from financial assets held-to-maturity	C		104,105			
Remeasurement				(456)	(8,102) [14]	
IFRS 9						185,096
Loans and receivables to banks, measured at amortised cost						
IAS 39		107,049				
Remeasurement				(1)		
IFRS 9						107,048
Loans and receivables to customers, measured at amortised cost						
IAS 39		965,247				
Remeasurement				(1,871)		
Subtraction: to financial assets, mandatory at fair value through profit or loss	A		(20,082)			
IFRS 9						943,294
Other financial assets, measured at amortised cost						
IAS 39		8,297				
Remeasurement				(1)		
IFRS 9						8,296
Held-to-maturity investments						
IAS 9		104,105				
Subtraction: to debt securities	C		(104,105)			
IFRS 9						-
Total financial assets measured at amortised cost (A)		**1,495,234**	**69,467**	**(2,331)**	**(8,102)**	**1,554,269**

[14] As at 31 December 2017, the accumulated other comprehensive income included revaluation in the amount EUR 8,102 thousand related to available-for-sale financial assets, which the Bank transferred to held-to-maturity financial assets in 2014. Upon transition to IFRS 9, the Bank reduced the accumulated other comprehensive income by the entire amount.

(in thousands of EUR)	Ref	Carrying amount IAS 39 31/12/2017	Reclassification	Effect on retained earnings	Effect on OCI and tax	Carrying amount IFRS 9 1/1/2018
B. Fair value through profit or loss						
Financial assets mandatorily at fair value through profit or loss						
IAS 39		-				
Remeasurement: loans				(13)		
Remeasurement: securities				233	(233)	
Addition: from financial assets available-for-sale	F		596			
Addition: from loans and receivables to customers	A		20,081			
IFRS 9						20,664
Total financial assets, measured at fair value through profit or loss (B)		**-**	**20,677**	**220**	**(223)**	**20,664**
C. Fair value through other comprehensive income						
Financial assets measured at fair value through other comprehensive income (debt instruments)						
IAS 39		-				
Remeasurement				(462)	462	
Addition: from financial assets available-for-sale (debt instruments)	D		222,398			
IFRS 9						222,398
Financial assets measured at fair value through other comprehensive income (equity instruments)						
IAS 39		-				
Addition: from financial assets available-for-sale (equity instruments)	E		6,904			
IFRS 9						6,904
Financial assets available-for-sale						
IAS 39		319,447				
Subtraction: to financial assets, mandatory measured at fair value through profit or loss (equity instruments)	F		(596)			
Subtraction: to financial asset measured at amortised cost	B		(89,549)			
Subtraction: to financial assets measured at fair value through other comprehensive income (debt instruments)	D		(222,398)			
Subtraction: to financial assets measured at fair value through other comprehensive income (equity instruments)	E		(6,904)			
IFRS 9						-
Total financial assets measured at fair value through other comprehensive income (C)		**319,447**	**(90,144)**	**(462)**	**462**	**229,302**

(in thousands of EUR)	Ref	Carrying amount IAS 39 31/12/2017	Reclassification	Effect on retained earnings	Effect on OCI and tax	Carrying amount IFRS 9 1/1/2018
D. Other assets items						
Deferred income tax assets						
IAS 39		11,825				
Tax on IFRS 9 implementation effect					(2)	
IFRS 9						11,823
Current income tax assets						
IAS 39		-				
Tax on IFRS 9 implementation effect				401		
IFRS 9						401
Total other assets items (D)		**11,825**		**401**	**(2)**	**12,224**
E. Other liabilities items						
Provisions						
IAS 39		3,364				
Remeasurement of undrawn loans, measured at amortised cost				(453)		
IFRS 9						3,817
Current income tax liabilities						
IAS 39		1,873				
Tax on IFRS 9 implementation effect					(907)	
IFRS 9						966
Accumulated other comprehensive income						
IAS 39		10,571				
Remeasurement					(6,967)	
IFRS 9						(3,604)
Total other liabilities items (E)		**15,808**		**(453)**	**(7,874)**	**1,179**
Total IFRS 9 effect on retained earnings (A + B + C + D + E)				**(2,625)**		

Below is an explanation of how the application of new IFRS 9 requirements led to changes in the classification of financial assets as disclosed in the table above.

A. Non-bank loans that were classified as loans measured at amortised cost in line with IAS 39 meet the conditions for statutory measurement under FVTPL pursuant to IFRS 9, since the cash flows of such assets are not solely payments of principal and interest on outstanding principal.

B. Debt securities that may be sold, yet such sales are expected to be very rare, were classified under financial assets available for sale pursuant to IAS 39. They are held within the scope of a business model that is aimed at holding assets for the purposes of receiving contractual cash flows, which is why they are measured at amortised cost pursuant to IFRS 9.

C. Debt securities held to maturity were reclassified to amortised cost pursuant to IFRS 9, since their previous category as per IAS 39 was abolished.

D. Debt securities for the purposes of daily liquidity were classified under financial assets held for sale pursuant to IAS 39. Pursuant to IFRS 9, they are held within the scope of a business model that is aimed at holding assets for the purposes of receiving contractual flows and selling financial assets, which is why they are measured at fair value through other comprehensive income.

E. Equities that are strategic and are beyond the control of the Bank were classified under financial assets held for sale pursuant to IAS 39. Pursuant to IFRS 9, they were recognised at fair value through other comprehensive income. Changes in the fair value of such equities will no longer be recognised in profit or loss, not even in the event of disposal.

F. Equities for which it was not specified upon initial recognition that subsequent changes in fair value would be measured at fair value through other comprehensive income were classified under financial assets available for sale pursuant to IAS 39. Pursuant to IFRS 9, they are classified as measured at fair value through profit or loss.

The table below shows a comparison between:
- the final balance of impairments for financial assets pursuant to IAS 39 and provisions for financial guarantees pursuant to IAS 37 as at 31 December 2017, and
- initial balance of impairments and provisions calculated pursuant to IFRS 9 as at 1 January 2018.

(in thousands of EUR)	31/12/2017	Remeasurement	1/1/2018
Loans and receivables under IAS 39 / Financial assets at amortised cost under IFRS 9	81,028	1,874	82,904
Held-to-maturity investments under IAS 39 / Financial assets at amortised cost under IFRS 9	114	456	570
Available-for-sale debt instruments under IAS 39 / Financial assets at amortised cost under IFRS 9	-	462	462
Loan commitments and financial guarantee contract issued	1,002	453	1,455
Total	**82,144**	**3,245**	**85,391**

Financial assets reclassified from the category of financial assets available for sale to the category of financial assets measured at amortised cost are shown in the table below at fair value as at 31 December 2018 along with the profit from measurement at fair value that would have been recognised had such financial assets not been reclassified to the category at amortised cost upon transition to IFRS 9.

(in thousands of EUR)	
Fair value at 31 December 2018	89,291
Profit that would have been recognised in other comprehensive income had the financial assets not been reclassified	5,351

2.2.7 Effects of transition to IFRS 9 as of 1 January 2018 - the Group

The adjustment due to the introduction of IFRS 9 was recognised in retained earnings of the Group and other comprehensive income of the Group as at 1 January 2018. Total equity of the Group decreased by EUR 8,758 thousand (EUR 6,967 thousand of which constitutes other comprehensive income and EUR 1,791 thousand constitutes retained earnings/losses).

The impact on the Group differs from the shown transition to IFRS 9 at the level of the Bank solely due to consolidation eliminations. The table below shows only those items where the transition differs from the effects.

(in thousands of EUR)	Carrying amount IAS 39 31/12/2017	Reclassification	Effect on retained earnings	Carrying amount IFRS 9 1/1/2018
Loans and receivables to customers				
IAS 39	937,982			
Remeasurement			(1,037)	
Subtraction: to financial assets, mandatory at FVTOCI		(20,082)		
IFRS 9				916,863

2.3. Associates and subsidiaries

At the end of 2018, the Bank had three subsidiaries (2017: four subsidiaries).

Subsidiaries are Group companies, in which the bank holds – either directly or indirectly – more than half of the voting rights. Associated companies are Group companies, in which the bank holds a dominant influence, which generally means that it either directly or indirectly holds between 20% and 50% of the voting rights. In the separate financial statements, investments in subsidiaries and associates are accounted for at cost method, that is, at cost less impairment. In the consolidated financial statements, investments in associates are accounted for using the equity method of accounting.

According to the equity method, a proportionate share of the Bank in the profits or losses after the acquisition of an asset is recognised in the profit and loss statement, while the Bank's share in the changes in equity after the acquisition of an asset is disclosed in the Bank's equity. Cumulative changes after the acquisition of an asset are reflected in the value of the asset. Mutual transactions, balances, and unrealised gains and losses in intra-Group transactions are excluded.

Equity investments in subsidiaries are presented in Note 5.14.

2.4. Foreign currency translation

2.4.1. Functional and presentation currency

Items of assets and liabilities denominated in foreign currencies are measured in individual and group financial statements in the currency of the primary economic environment in which the companies operate (functional currency). The effects of foreign currency translation are shown in the income statement as a net result of foreign currency translation.

The financial statements are presented in euros, which is the Bank's functional and presentation currency.

2.4.2. Transactions and balances

Foreign currency transactions are converted into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are presented in other comprehensive income within the corresponding item.

Income and costs denominated in foreign currency are converted into euro using the exchange rate as of date of transaction. Gains and losses arising from purchase and sale of foreign currency are included in the income statement of the current year, in net gains less losses on financial assets and liabilities held for trading.

2.5. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.6. Offsetting

Financial assets and liabilities are offset in the Statement of Financial Position when a legal right for this exists as well as a purpose for the netting or the simultaneous realisation of assets and settling of liabilities.

2.7. Derivatives

Derivative financial instruments (including futures, forwards, swaps and options) are initially recognised in the Statement of Financial Position at fair value. They are valued at fair value that is determined based on the quoted market price, discounted future cash flow model or pricing model. The fair value of derivatives is disclosed under assets in the Statement of Financial Position if the fair value is positive and under liabilities if their fair value is negative.

The Group has no derivatives requiring hedge accounting.

2.8. Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments in the P&L statement are recognised under interest income or interest expenses using the effective interest rate method. Interest income includes interest on investments with a fixed rate of return and interest from securities at fair value through profit or loss and other comprehensive income as well as the accounted discounts and premiums on bonds and other "discounted" financial instruments.

The effective interest method is a method of calculating the amortised cost of an asset or liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the discount rate that equalises all flows associated with an individual financial instrument. The effective interest rate calculation includes all contractual flows, including all fees, transaction costs, premiums and discounts, while future loan losses are not included.

After an impairment of a financial asset or a group of similar financial assets, interest income is recognised by applying the interest rate that was applied for discounting future cash flows when estimating the required impairment. Interest income is no longer recognised when a financial asset meets certain conditions and repayment can no longer be expected.

2.9. Fee income and expenses

Fees are, as a rule, recognised in the profit and loss account when the service has been rendered. Fee income includes mainly the fees received from the performance of payment transactions, card and ATM operations, customer transaction accounts and guarantees. Fees included in the effective interest rate calculation are disclosed among interest income or

expenses. Fees for the undrawn part of approved loans that will probably be drawn are deferred (including direct costs) and are recognised as an adjustment of the effective interest rate on the loan.

2.10. Dividend income

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

2.11. Intangible assets

Intangible assets include mainly software and licences for the use of the former, and are recognised in the Statement of Financial Position at cost less amortisation and impairments.

Amortisation of intangible assets is accounted using the straight-line depreciation method. The amortisation period for software is the same as its useful life, but not longer than ten years. Amortisation of intangible assets begins when they are available for use. The amortisation period and method are verified for intangible long-term assets with a finite useful life at the end of each financial year.

2.12. Accounting for leases

2.12.1. Where the Group is the lessee

All leases where the Group acts as lessee are operating. Payments made based on operating leases are included in the income statement proportionately to the contract duration and are disclosed under other operating expenses. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12.2. Where the Group is the lessor

Payments under operating leases are recognised as income on a straight-line basis over the period of the lease. Assets leased under operating leases are presented in the statement of financial position as investment property or as property and equipment.

When assets are leased under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance lease transactions is amortised over the lifetime of the lease using the effective interest rate method. Finance lease receivables are recognised at an amount equal to the net investment in the lease, including the unguaranteed residual value.

2.13. Property and equipment

All property and equipment is initially recorded at cost. The Group assesses each year whether there are indications that assets may be impaired. If any such indication exists, the Bank estimates the recoverable amount. The recoverable amount equals the higher of the fair value net of selling costs or the value of the asset in use. If the value in use is higher than the carrying amount, this indicates that assets are not impaired. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In 2017 and 2018, there wasn't identified needs for a reduction in value.

Items of property and equipment are recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reported date.

Depreciation is calculated on a straight-line basis at rates designed to write off the cost or valuation of buildings and equipment over their estimated useful lives, as follows:

Bank and Group	2018	2017
Buildings	33 years	33 years
Computers	5 years	5 years
Equipment	5 years	5 years
Motor vehicles	5 years	5 years
Investment in foreign real estate	10 years	10 years

Land is not depreciated. Assets in the course of transfer or construction are not depreciated until they are brought into use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred.

2.14. Investment property

Investment property is an item of property, plant and equipment that the Bank does not use directly for the performance of its activities, but holds for letting and, in case of investment property acquired for the realisation of collateral from lending operations, also for the purposes of completion or sale in order to increase the value of the investment property.

Investment property comprises leased apartments and business premises that have the surface area greater than 60% of the total area and which are leased under long-term agreements.

Investment properties are shown after their fair value. Profit and loss from valuation according to fair value are included in the profit and loss statement.

2.15. Cash and cash equivalents

The following is disclosed in the cash flow statement as cash and cash equivalents: cash in hand and balances on accounts with the central bank, loans to banks and other highly liquid (readily convertible to cash) short-term investments with original maturity of less than 90 days of the date of acquisition.

2.16. Provisions for liabilities and costs

Provisions for liabilities and costs are recognised if the Group has a present (legal or direct) obligation as a result of a past event and it is probable that the settlement of the obligation will result in an outflow of resources embodying economic benefits, and the said amount can be reliably estimated.

2.17. Employee benefits

The Group pays contributions for pension insurance in accordance with the law (8.85% of the gross wage). The Group has no other obligations in addition to the payment of contributions. Contributions represent costs in the period, to which they relate, and are disclosed in the P&L statement under labour cost.

2.18. Financial guarantee contracts

Financial guarantees are contracts that require their issuer (guarantor) to pay an agreed sum to the beneficiary for the coverage of loss suffered by the beneficiary in the event of a default on the part of the debtor. Financial guarantees are issued by the Group to other banks, financial institutions and other parties as security for loans, overdraft facilities and other banking services.

Financial guarantees are recognised in off-balance-sheet books of account upon issue as potential liabilities. Commissions received are recognised in the income statement throughout the term of a contract using the straight-line depreciation method. Issued guarantees are disclosed in the balance sheet in the amount of the estimated expenses required to settle liabilities under the contract.

An increase in liabilities associated with financial guarantees is reflected in the P&L statement under operating expenses.

2.19. Taxes

Income tax for the current financial year is disclosed in accordance with Slovenian legislation. Tax expenses in the P&L statement are composed of current taxes and deferred taxes.

Deferred taxes are accounted for all temporary differences between the value of assets and the tax liability and their carrying amount. Deferred taxes are accounted at the tax rate applicable in the year following the end of the financial year.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

A deferred tax associated with the valuation of available-for-sale financial assets measured at fair value over other comprehensive income is disclosed directly in other comprehensive income and later transferred to profit or loss together with the gains or losses from valuation.

In 2013, the tax on financial services was introduced in Slovenia that is a levy on compensations paid for the prescribed financial services rendered. The tax rate is 8.5% (2017: 8.5%) and the tax is paid monthly. The financial services tax reduces fee and commission income (Note 4.3).

2.20. Share capital

2.20.1. Share issue costs

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

2.20.2. Dividends on ordinary shares

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

2.20.3. Treasury shares

Where the Group purchases the Bank's shares, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

2.21. Received loans, received deposits and issued debt securities

Raised loans and deposits and issued debt securities are initially recognised at fair value, which usually equals the historical cost less transaction costs. Upon subsequent measurement, they are measured at amortised cost, while the difference between the value upon initial recognition and amortised cost is recognised in profit or loss under interest expenses using the effective interest rate.

2.22. Transactions on behalf and for the account of others

The Group also offers asset management services to its customers. These assets are not included in the Group's Statement of Financial Position. A fee is charged to customers for the mentioned services, which is broken down by items referred to in Note 4.3.2. Details on transactions on behalf and for the account of others are presented in Note 6.9. In accordance with Slovenian legislation, Note 6.9 breaks down the data on claims and liabilities of accounts, on which the Group keeps the customers' financial assets from brokerage operations, whereby this data relates to services for customers involving the reception and brokering of orders, execution of orders, and the management and custody of financial instruments.

2.23. Comparative information

Comparative informatio for the bank and group have, where appropriate, been recalculated for the purposes of comparison with the current period.

Pursuant to requirements regarding transition to IFRS 9, comparative data was not recalculated. Compared to the presentation of financial statements for the years ended on 31 December 2017, the diagrams for the demonstration of the income statement and statement of financial position changed due to the adjustment upon the introduction of IFRS 9 and the changes laid down by the Bank of Slovenia. Comparative data for 31 December 2017 were not recalculated upon the introduction of IFRS 9, which is why the presentation of the financial statements is a combination of the classification and measurement categories pursuant to IAS 39 requirements (for balances as at 31 December 2017 and effects recognised in 2017) and IFRS 9 requirements (for balances as at 31 December 2018 and effects recognised in 2018).

The categories for the classification and measurement under IAS 39 (financial assets measured at amortised costs, financial assets available for sale, financial assets held to maturity) replaced the following groups with the introduction of IFRS 9:

- financial assets measured at amortised costs,
- financial assets measured under fair value through other comprehensive income,
- financial assets measured under fair value through profit or loss.

Comparative data for 31 December 2017 were not recalculated upon the introduction of IFRS 9, which is why the presentation of the financial statements is a combination of the classification and measurement categories pursuant to IAS 39 requirements (for balances as at 31 December 2017 and effects recognised in 2017) and IFRS 9 requirements (for balances as at 31 December 2018 and effects recognised in 2018).

2.24. Data in financial statements and notes to the financial statements

Disclosures of data in financial statements and notes to the financial statements are shown for the Bank and the Group separately. In cases when data and information for the bank and the Group are identical, such data and information are shown only for the Group or the wording "Bank and Group" is added. Comparative information is disclosed in the manner, as described in Note 2.23.

3. Critical accounting **estimates and judgments**

In accordance with the IFRS, all of the policies and estimates used are the best estimates performed in accordance with the valid standards. Estimates and assumptions are based on the going concern principle, past experience and other factors, including expectations regarding future events.

3.1 Impairments of loans and claims

The Bank used the concept of expected losses, which provides impartial and weighted credit risk' s losses assessments by taking into account various macroeconomic scenarios. That way, the Bank also recognises losses that are expected to be incurred in future. Allowance for expected credit losses is recognised by the Bank for all loans and other debt financial instruments that are not measured at fair value through the income statement, which includes provisions made for contingent liabilities arising from undisbursed loans and financial guarantee contracts.

The allowance is based on expected credit losses arising from the classification of assets into a specific group, the estimated probability of default (PD) in the following 12 months and throughout the term of the instrument for those where credit risk has increased significantly since initial recognition. The Bank has criteria for significant increase in lifelong probability of default, defined by segment on the basis of qualitative and quantitative information and analyses made on the basis of past information, experiences and expert credit assessments and forward-looking information.

For all significant exposures on the level of the client, the Bank regularly assesses whether conditions are met for each individual impairment of resources and/or the scope of the necessary provisions for off-balance-sheet assumed obligations. The impairment of a financial asset is the difference between the carrying amount and the recoverable amount. The IFRS defines the recoverable amount as the current value (discounted value) of the expected future cash flows with the use of the original effective interest rate. When calculating the impairment of a financial asset or provision for the assumed obligations under off-balance-sheet items, the expected cash flows from the realisation of collateral (appropriate collaterals with the pledge of movable or immovable property) are also taken into account, which are assessed by taking into account the time of realisation of an individual form of collateral and the expected costs of realisation.

3.2. Fair value of financial instruments

The fair value of financial instruments that are traded on an active market is determined based on the quoted market price as at the reporting date, i.e. the price that represent the best bid for financial assets.

The fair value of financial assets that are traded on an active market is determined using valuation models. Valuation models for the determination of fair value are regularly reviewed by independent persons. All of the models used are verified so as to ensure that the results reflect market conditions. The models are based on market data as much as possible; however, estimates must nevertheless be used for the determination of market risk, volatility and correlation. Changes in the estimates of these factors can affect the reported fair value of financial instruments.

The financial instrument hierarchy in terms of the determination of fair value is disclosed in Note 7.4.4.

3.3. Held-to-maturity financial assets (IAS 39)

The Group classifies non-derivative financial assets with defined or definable payments and defined maturity into the group of held-to-maturity financial assets. Prior to classification, it verifies the purpose and ability to hold such assets until their maturity. If the Group were unable to hold the assets until their maturity, it would have to reclassify the entire group among available-for-sale financial assets. In such a case, assets would have to be revalued to fair value, which would increase the value of the assets and subsequently the value of total capital by EUR 4,043 thousand.

3.4. Impairments of equity investments in subsidiaries and associates

When assessing the impairments of equity investments in subsidiaries and associates, the Group takes into account objective evidence and indications showing that an equity investment in a subsidiary or associate company might be impaired. If such evidence and indications exist, the Group calculates the amount of the impairment as the difference between the carrying amount of the investment and its recoverable amount. An investment's recoverable amount is the higher of the following two values: fair value or current value of expected future cash flows discounted according to the market rate of return of similar financial assets.

If one of these amounts exceeds the carrying amount of the investment, impairment is not necessary. If expected future cash flows cannot be assessed, the Group calculates the necessary impairments as the difference between the book value of a financial asset and the book value of the capital of the company in which the Group holds an investment, i.e. in a proportionate share with respect to equity participation.

3.5. Provisions for off-balance sheet risk

Provisions for off-balance sheet risks were made for financial guarantees, securities, bad letters of credit, and transactions with similar risks that may incur a liability for the Group. The Group takes into account financial conditions, payment discipline and eventual collateral received when setting aside provisions for off-balance sheet risk.

4. Notes to the income statement

4.1. Net interest income

	Bank		Group	
	2018	2017	2018	2017
Interest income				
Financial assets measured at amortised cost (IFRS 9)				
Debt securities	4,630	-	4,630	-
Loans and receivables	33,098	-	32,722	-
Loans and receivables (IAS 39)	-	30,488	-	29,701
Loans mandatorily at FVTPL (IFRS 9)	1,031	-	1,031	-
Securities measured at FVTOCI (IFRS 9)	2,321	-	2,321	-
Available-for-sale financial assets (IAS 39)	-	4,645	-	4,645
Held-to-maturity financial assets (IAS 39)	-	3,025	-	3,025
Financial liabilities – negative interest rate	66	44	66	44
Total	**41,146**	**38,202**	**40,770**	**37,415**
Interest expense				
Financial liabilities measured at amortised cost				
Due	4,023	2,970	4,023	785
Borrowings	364	646	364	2,956
Other liabilities	2	-	2	14
Financial assets – negative interest rate	1,150	785	1,150	14
Total	**5,539**	**4,401**	**5,539**	**4,401**
Net interest income	**35,607**	**33,801**	**35,231**	**33,014**

In 2018, interest income on the credit impaired assets at the Bank totalled EUR 3,340 thousand (2017: EUR 2,238 thousand).

4.2. Dividend income

Bank and Group	2018	2017
Dividend income from available-for-sale financial assets (IRS 39)	-	348
Dividend income from financial assets measured at FVTOCI (IFRS 9)	111	-
Total	**111**	**348**

4.3. Net fee and commission income

4.3.1. Fee and commission income and expenses relating to activities of the Bank and the Group

	Bank		Group	
	2018	2017	2018	2017
Fee and commission income				
Credit related fees and commissions	1,470	1,309	1,470	1,309
Guarantees related fees and commissions	627	658	627	658
Payment services related fees and commissions				
Keeping current accounts	2,993	2,853	2,993	2,853
Debit and credit payments	4,497	4,248	4,497	4,248
Cash withdrawals at ATMs	1,073	1,133	1,073	1,133
Card transactions	948	862	948	862
Other services relating to the payment	994	901	994	895
Other fees and commissions	411	319	783	319
Fee and commission income	**13,013**	**12,283**	**13,385**	**12,277**
Fee and commission expense				
Payment services related fees and commissions	1,064	847	1,065	847
Other fees and commissions	139	161	139	161
Total	**1,203**	**1,008**	**1,204**	**1,008**
Net fee and commission income	**11,810**	**11,275**	**12,181**	**11,269**

4.3.2. Fee and commission income and expenses relating to fiduciary activities

Bank and Group	2018	2017
Fee and commission income related to fiduciary activities		
Receipt, processing and execution of orders	112	144
Total	**112**	**144**
Fee and commission expenses related to fiduciary activities		
Fee and commission related to Central Securities Clearing Corporation and similar organisations	22	26
Fee and commission related to stock exchange and similar organisations	1	4
Total	**23**	**30**
Net fee and commission income relating to fiduciary activities	**89**	**114**

In thousands of EUR

4.4. Gains less losses on financial assets and liabilities not measured at FVTPL

Bank and Group	2018	2017
Gains from financial assets measured at amortised cost (IFRS 9)	2,491	-
Losses from financial assets measured at amortised cost (IFRS 9)	(280)	-
Losses from financial liabilities measured at amortised cost (IFRS 9)	(3)	-
Gains from available-for-sale financial assets (IAS 39)	-	17
Gains from loans (IAS 39)	-	1,504
Losses from available-for-sale financial assets (IAS 39)	-	(69)
Losses from loans (IAS 39)	-	(120)
Total	**2,208**	**1,332**

In 2017 and 2018, the Bank generated the majority share of its profit from recovered claims already written off (2018: most of the companies Merkur, d.d., in bankruptcy, Naklo, PC Komenda, d.o.o., Komenda, Kraški zidar, d.d., in bankruptcy, Sežana in Daimond, d.d., in bankruptcy, Šempeter pri Gorici; 2017: most of the companies Zvon Ena Holding, d.d., in bankruptcy, Maribor and Diamond, d.d., in bankruptcy, Šempeter pri Gorici).

4.5. Gains less losses on financial assets and liabilities held for trading

Bank and Group	2018	2017
Net gains from dealing in foreign currencies	665	223
Net gains/(losses) from derivatives	182	(6)
Total	**847**	**217**

4.6. Gains less losses on non-trading financial assets mandatorily at FVTPL

Bank and Group	2018
Gains less losses from equity securities	1,133
Gains less losses from loans and other financial instruments	55
Total	**1,188**

4.7. Gains less losses on financial assets and liabilities designated at FVTPL

Bank and Group	2018
Losses arising from changes in fair value of commitments to extend credit	(307)
Total	**(307)**

4.8. Exchange differences

Bank and Group	2018	2017
Gains on exchange differences	51,620	44,745
Losses on exchange differences	(51,705)	(44,593)
Total	**(85)**	**152**

4.9. Gains less losses on derecognition of non-financial assets

	Bank		Group	
	2018	2017	2018	2017
Gains on disposals of property and equipment	962	11	954	11
Gains on disposals of investment property	2	11	401	11
Losses on disposals of property and equipment	(45)	-	(228)	-
Losses on disposals of investment property	(239)	(161)	(239)	(161)
Total	**680**	**(139)**	**888**	**(139)**

4.10. Other operating gains less losses

	Bank		Group	
	2018	2017	2018	2017
Rental income	1,959	1,685	3,052	3,225
Other operating income	195	262	2,229	1,874
Contribution to the guarantee fund	(1,296)	(1,043)	(1,296)	(1,043)
Contribution to the bank resolution fund	(158)	(133)	(158)	(133)
Contribution for building land	(255)	(131)	(445)	(131)
Adjustment of tax liability	-	(388)	-	(388)
Other operating expense	(362)	(347)	(1,695)	(615)
Total	**83**	**(95)**	**1,687**	**2,789**

4.11. Administration costs

	Bank		Group	
	2018	2017	2018	2017
Staff costs				
Gross salaries	13,746	12,541	15,550	14,205
Social security costs	829	769	975	901
State pension contribution	1,091	1,013	1,267	1,175
Other costs related to gross salaries	65	61	65	61
Other employee costs	1,699	1,262	2,084	1,462
Total	17,430	15,646	19,941	17,804
Costs of materials and services				
Other professional services	4,364	6,512	2,080	4,126
Advisory services and other non-audit-related services	1,120	1,152	1,248	1,385
Repairs and maintenance expenses	637	537	802	684
Other costs of services	5,099	4,765	5,099	4,765
Costs of materials	1,109	1,054	1,385	1,357
Total	**12,329**	**14,020**	**10,614**	**12,317**
Administration costs	**29,759**	**29,666**	**30,555**	**30,121**

The Bank paid the company performing the audit of the annual report EUR 69 thousand (2017: EUR 43 thousand). The Bank also paid to the company for other services in the amount of EUR 28 thousand (2017: EUR 29 thousand). As at 31 December 2018, there were 415 employees at the Bank (2017: 403), while the Group employed 475 employees (2017: 461).

4.12. Depreciation

	Bank		Group	
	2018	2017	2018	2017
Depreciation for property and equipment	864	726	2,090	1,423
Depreciation for intangible assets	1,024	870	1,103	941
Total	**1,888**	**1,596**	**3,193**	**2,364**

4.13. Modification losses

Bank and Group	2018
Losses from financial assets measured at amortised cost	(59)
Total	**(59)**

4.14. Provisions

Bank and Group	2018	2017
Provisions for guarantees and commitments (Note 5.19)	111	95
Employee benefit provisions (Note 5.19)	112	96
Restructuring provisions (Note 5.19)	351	490
Provisions for legal issues (Note 5.17)	205	-
Total	**779**	**681**

4.15. Impairment

	Bank		Group	
	2018	2017	2018	2017
Impairment/(reversal of impairment):				
Cash, balances at CB and other demand deposits (Note 5.1)	77	-	77	-
Debt securities measured at FVTOCI (Note 5.4)	(256)	-	(256)	-
Debt securities measured at amortised cost (Note 5.6)	208	-	208	-
Loans and receivables to banks measured at amortised cost (Note 5.7)	36		36	
Loans and receivables to customers measured at amortised cost (Note 5.8)	(2,573)	-	(2,560)	-
Other financial assets measured at amortised cost (Note 5.9)	(6)	-	(6)	-
Loans and advances to customers (IAS 39) (Note 5.11)	-	3,115	-	4,836
Other financial assets (IAS 39) (Note 5.12)	-	(57)	-	(22)
Available-for-sale equity investment (IAS 39) (Note 5.5)	-	3	-	3
Investment in subsidiary (Note 5.14)	-	998	1,465	-
Investment property (Note 5.16)	1,478	744	1,857	232
Held-to-maturity debt investment IIAS 39 (Note 5.13)	-	36	-	36
Other assets (Note 5.18)	5	-	5	-
Total	**(1,031)**	**4,839**	**826**	**5,085**

Impairments of investments into the capital of controlled companies in the amount of EUR 1,465 thousand relate to the controlled company Mersteel Nepremičnine d.o.o., Naklo. It is a difference between the retained loss of the previous years and the current losses in the financial year. The subsidiary Mersteel Nepremičnine d.o.o., Naklo, was deleted from the business register on 21 December 2018, based on the company liquidation proceedings. IFRS 10 lays down that a controlling company is to include in consolidated financial statements the revenues and expenses of a subsidiary until the date when the controlling company ceases to control the subsidiary. It is necessary to recognise internal losses that imply impairment in the consolidated financial statements. Furthermore, the controlling company is required to recognise the difference between the proceeds from the disposal of the subsidiary and its book value as at the disposal date. The impairments recognised by the Group in 2018, consolidated financial statements are the result of internal losses of Mersteel Nepremičnine d.o.o., Naklo, referring to recognised impairments of loans from internal relations decreased by the net loss of the subsidiary in the financial year until the disposal date.

4.16. Net losses from non-current assets held for sale

Bank and Group	2018	2017
Loss from investment property (Note 5.19)	-	(57)
Loss from property and equipment (Note 5.19)	(9)	-
Total	**(9)**	**(57)**

4.17. Tax

	Bank		Group	
	2018	2017	2018	2017
Current tax	1,847	940	1,888	1,090
Deferred tax (Note 5.18.5.)	1,683	2,611	1,683	2,611
Total	**3,530**	**3,551**	**3,571**	**3,701**

Income tax differs from the amount of tax determined applying the Slovenian statutory tax rate as follows:

	Bank		Group	
	2018	2017	2018	2017
Profit/loss before tax	20,679	10,052	18,528	10,674
Unrecognised expenditure	557	979	605	1,639
Temporarily unrecognised expenditure	1,026	1,290	1,026	1,290
Exempt income	(2,537)	(1,304)	(37)	(1,636)
Reduction of the tax base upon transition to IFRS 9	(2,108)	-	(2,108)	
Covering tax loss	(8,808)	(4,948)	(8,971)	(5,047)
Tax relief	(1,176)	(1,121)	(1,194)	(1,181)
Tax base	**7,633**	**4,948**	**7,849**	**5,739**
Tax calculated at prescribed rate 19% (2017: 19%)	1,450	940	1,491	1,090
IFRS 9 implementation effect	401	-	401	-
Harmonisation of obligations	(43)	-	(43)	-
Deferred tax (Note 5.26.6.):				
In that: Changes in the recognition of deferred taxes	1,722	388	1,722	388
In that: Elimination of deferred tax	-	2,223	-	2,223
Total	**3,530**	**3,551**	**3,571**	**3,701**

The Bank has not recognised deferred tax in full for impairments of securities not recognised for tax purposes, for tax losses from previous years and for other provisions. They are recognised only up to the amount that can be spent in future with respect to the planned taxable profits in the following years. The difference to the total amount of deferred tax that may be taken into account by the Bank in the following years amounts to EUR 31,856 thousand (2017: EUR 31,856 thousand).

The tax liability from profit or loss in 2018 amounts to EUR 1,851 thousand, the receivable from transition to IFRS 9 amounts to EUR 401 thousand as at 1 January 2019, and the reconciled net liability amounts to EUR 1,450 thousand (EUR 940 thousand in 2017).

Effective tax rate in 2018 was 7% (2017: 9.4%).

In 2018, the Bank derecognised deferred tax deriving from losses from previous years by EUR 1,737 thousand (2017: 409) and increased deferred tax assets by the provision for severance pay and jubilee benefits amounting to EUR 16 thousand (2017: EUR 8 thousand). In total, the decrease in recognised deferred tax assets of the Bank amounts to EUR 1,722 thousand (2017: EUR 2,611 thousand).

In 2015, the Bank received the Decision by the Financial Administration of the Republic of Slovenia on the introduction of a tax inspection regarding corporate income tax for the period between 1 January 2009 and 31 December 2014. The procedure was closed with a decision in May 2018 establishing that the Bank had no additional tax liabilities.

The tax assets deriving from corporate income tax from other comprehensive income amounted to EUR 404 thousand as at 31 December 2018 (2017: EUR 230 thousand).

5. Notes to the statement of **financial position**

5.1. Cash, balances at central banks and other demand deposits

5.1.1. Breakdown by type of financial instruments

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash in hand	17,633	15,700	17,633	15,901
Balances with central banks	340,733	250,274	340,733	250,274
Demand deposits with banks	33,443	44,563	33,562	44,563
Cash and cash equivalents (Note 6.2)	**391,809**	**310,537**	**391,928**	**310,738**
Impairment	(79)	-	(79)	-
Total	**391,730**	**310,537**	**391,849**	**310,738**

5.1.2. Movements in provisions for impairment of balances at central banks and other demand deposits

Bank and Group	
Balance at 1 January 2018	2
Impairment of balances at central banks (Note 4.15)	1
Impairment of sight deposits with banks (Note 4.15)	76
Balance at 31 December 2018	**79**

5.2. Financial assets held for trading

Bank and Group	31/12/2018	31/12/2017
Fair value of derivatives:		
Options (put option on securities)	150	-
Total	**150**	**-**

The notional amounts of derivative financial instruments are disclosed in Note 6.1.2.

5.3. Non-trading financial assets mandatorily at fair value through profit or loss (IFRS 9)

Bank and Group	31/12/2018
Equity instruments	7,794
Loans and receivables	18,400
Total	**26,194**

Movements of non-trading financial assets mandatorily at fair value through profit or loss

Bank and Group	
Balance at 1 January 2018	20,664
Revaluation of equity instruments	1,133
Revaluation of loans and receivables	55
Additions of equity instruments	6,065
Repayment of loans and receivables	(1,723)
Balance at 31 December 2018	**26,194**

5.4. Financial assets measured at FVTOCI (IFRS 9)

5.4.1. Breakdown by type of financial instruments measured at FVTOCI

Bank and Group	31/12/2018
Equity instruments	
Bank Resolution Fund	6,737
Bankart, d.o.o., Ljubljana	150
SWIFT, La Hulpe, Belgium	13
Debt instruments	
Bonds issued by the government	57,669
Bonds issued by other issuers	44,030
Gross amount	**108,599**
Impairment	(205)
Total	**108,394**

5.4.2. Movements of financial assets measured at FVTOCI

Bank and Group	
Balance at 1 January 2018	229,302
Additions	12,263
Disposals	(129,418)
Interest accrual	(886)
Exchange differences	38
Losses from changes in fair value	(3,161)
Reversal of impairment (Note 4.15)	256
Balance at 31 December 2018	**108,394**

5.4.3. Movements in provisions for impairment of financial assets measured at FVTOCI

Bank and Group	
Balance at 1 January 2018	461
Reversal of impairment of debt securities (Note 4.15)	(256)
Balance at 31 December 2018	**(205)**

5.4.4. Accumulated other comprehensive income related to financial assets measured at FVTOCI

Bank and Group	
Balance at 1 January 2018	3,643
Losses due to changes in fair value (debt instruments)	(2,126)
Losses due to changes in fair value (equity instruments)	(5)
Deferred tax	405
Balance at 31 December 2018	**1,918**

5.5. Available-for-sale financial assets (IAS 39)

5.5.1. Breakdown by type of available-for-sale financial assets

Bank and Group	31/12/2018
Debt securities - listed	311,947
Equity investment - listed	518
Equity investment - unlisted	6,981
Total	**319,446**

Pursuant to IAS 39, the Bank transferred the accumulated loss amounting to EUR 3 thousand in 2017, due to long-lasting and important decrease in the fair value of the shares of Košaki TMI d.d., Maribor, which was recognised in other comprehensive income, from equity to the income statement, although it was not derecognised or, rather, the equity stake was not sold off.

5.5.2. Movements of available-for-sale financial assets

Bank and Group	
Balance at 1 January 2017	297,266
Additions	85,384
Disposals	(57,053)
Interest accrual	(81)
Exchange differences	(2,728)
Gains/losses from changes in fair value	(3,339)
Doubtful debts expense	(3)
Balance at 31 December 2017	**319,446**

5.5.3. Gains/losses from available-for-sale financial assets transfer to income statement

Bank and Group	2018
Gains from available-for-sale financial assets (Note 4.4)	17
Losses from available-for-sale financial assets (Note 4.4)	(69)
Losses from equity investment - impairment (Notes 4.15)	(3)
Total	**(55)**

5.5.4. Accumulated other comprehensive income related to available-for-sale financial assets

Bank and Group	
Balance at 1 January 2017	8,487
Valuation gains/losses	(1,213)
Deferred income tax	230
Balance at 31 December 2017	**7,504**

5.6. Debt securities measured at amortised cost (IFRS 9)

5.6.1. Breakdown by type of debt securities measured at amortised cost

Bank and Group	31/12/2018
Bonds issued by the government	194,818
Bonds issued by banks	3,495
Bonds issued by other issuers	27,864
Commercial bills	797
Gross amount	**226,975**
Impairment	(778)
Total	**226,196**

In thousands of EUR

5.6.2. Movements of debt securities measured at amortised cost

Bank and Group	
Balance at 1 January 2018	185,096
Additions	51,599
Disposals	(8,690)
Interest accrual	(159)
Exchange differences	225
Transfer of the discount to profit or loss	(1,667)
Impairment (Note 4.15)	(208)
Balance at 31 December 2018	**226,196**

5.6.3. Movements in provisions for impairment of debt securities measured at amortised cost

Bank and Group	
Balance at 1 January 2018	570
Impairment of debt securities measured at amortised cost (Note 4.15)	208
Balance at 31 December 2018	**778**

5.7. Loans and receivables to banks measured at amortised cost (MSRP 9)

5.7.1. Breakdown by type of loans and receivables to banks

Bank and Group	31/12/2018
Time deposits	39,319
Finance lease receivables	6
Purchased receivables	363
Loans	8,999
Gross amount	**48,687**
Impairment	(36)
Total	**48,651**

In the year 2018, the Bank has not pledged any deposits. At the end of 2018, loans to banks included EUR 44,771 thousand cash equivalents, i.e. loans with original maturity of less than 90 days of acquisition date.

5.7.2. Movements in provisions for impairment of loans and receivables to banks measured at amortised cost

Bank and Group	
Balance at 1 January 2018	-
Impairment of loans and receivables to banks (Note 4.15)	36
Balance at 31 December 2018	**36**

5.8. Loans and receivables to customers measured at amortised cost (MSRP 9)

5.8.1. Breakdown by type of loans and receivables to customers and by types of borrowers

	Bank	Group
	31/12/2018	31/12/2018
Individual clients:		
Overdrafts	15,508	15,508
Housing loans	107,715	107,715
Consumer and other loans	159,297	159,297
Corporates and sole proprietors:		
Corporates	295,828	295,828
Small and medium enterprises (SME)	447,050	432,695
Government	6,195	6,195
Gross loans and receivables	**1,031,593**	**1,017,238**
Impairment	(67,732)	(67,569)
Total	**963,861**	**949,669**

5.8.2. Breakdown by type of loans and receivables to customers

	Bank	Group
	31/12/2018	31/12/2018
Purchased receivables	67,892	67,892
Finance lease receivables	199,365	199,365
Loans	764,071	749,716
Called guarantees	265	265
Gross loans and receivables	**1,031,593**	**1,017,238**
Impairment	(67,732)	(67,569)
Total	**963,861**	**949,669**

5.8.3. Movements in provisions for impairment of loans and receivables to customers measured at amortised cost

	Bank	Group
Balance at 1 January 2018	82,902	80,099
Reversal of impairment (Note 4.15)	(2,573)	(2,560)
Reversal of impairment due to write-off	(12,150)	(9,523)
Reversal of impairment of interest charged in previous years	(447)	(447)
Balance at 31 December 2018	**67,732**	**67,569**

5.9. Other financial assets measured at amortised cost (MSRP 9)

5.9.1. Breakdown by type of other financial assets measured at amortised cost

	Bank	Group
	31/12/2018	31/12/2018
Items in the course of collection	615	615
Commissions	356	355
Receivables	692	4,561
Receivables for received payments deriving from portfolio management	58	58
Other assets	583	622
Gross other financial assets	**2,304**	**6,211**
Impairment	(61)	(247)
Total	**2,243**	**5,964**

5.9.2. Movements in provisions for impairment of other financial assets measured at amortised cost

	Bank	Group
Balance at 1 January 2018	67	253
Reversal of impairment (Note 4.15)	(6)	(6)
Balance at 31 December 2018	**61**	**247**

5.10. Loans and receivables to banks (IAS 39)

Bank and Group	31/12/2018
Time deposits	93,592
Loans and advances	13,457
Total	**107,049**

In the year 2017, the Bank did not pledge any deposits. At the end of 2017, loans to banks included EUR 91,810 thousand cash equivalents, i.e. loans with original maturity of less than 90 days of acquisition date.

5.11. Loans and receivables to customers (IAS 39)

5.11.1. Breakdown by type of loans and receivables to customers and by types of borrowers

	Bank	Group
	31/12/2017	31/12/2017
Individual clients:		
Overdrafts	12,446	12,446
Housing loans	98,776	98,776
Consumer and other loans	120,969	120,969
Corporates and sole proprietors:		
Corporates	359,090	359,090
Small and medium enterprises (SME)	458,326	428,826
Government	4,860	4,860
Gross loans and receivables	**1,054,467**	**1,024,967**
Impairment	(89,220)	(86,985)
Total	**965,247**	**937,982**

5.11.2. Impairment losses on loans to individual clients, by type of loans

Bank and Group	Individual clients			
	Overdrafts	Consumer and other loans	Housing loans	Total
Balance at 1 January 2017	100	1,127	738	1,965
Doubtful debts expense (Note 4.12)	43	1,406	329	1,778
Reversal of impairment (Note 4.12)	(17)	(743)	(97)	(857)
Reversal of impairment due to write-off	(9)	(25)	-	(34)
Balance at 31 December 2017	**117**	**1,765**	**970**	**2,852**

5.11.3. Impairment of loans to corporates and sole proprietors, by the size of the company

Bank	Loans to corporates and sole proprietors			
	Loans to corporates	Loans to SME	Loans to government	Total
Balance at 1 January 2017	24,724	71,283	92	96,099
Doubtful debts expense (Note 4.12)	10,695	9,544	-	20,239
Impairment of interest and commissions	(5)	(373)	-	(378)
Changing the status of the company	(3,495)	3,495	-	-
Reversal of impairment (Note 4.12)	(4,502)	(13,464)	(79)	(18,045)
Reversal of impairment due to write-off	(326)	(11,221)	-	(11,547)
Balance at 31 December 2017	**27,091**	**59,264**	**13**	**86,368**

Group	Loans to corporates and sole proprietors			
	Loans to corporates	Loans to SME	Loans to government	Total
Balance at 1 January 2017	24,724	67,328	92	92,144
Doubtful debts expense (Note 4.12)	10,695	9,384	-	20,079
Impairment of interest and commissions	(5)	(373)	-	(378)
Changing the status of the company	(3,495)	3,495	-	-
Reversal of impairment (Note 4.12)	(4,502)	(11,583)	(79)	(16,164)
Reversal of impairment due to write-off	(326)	(11,221)	-	(11,547)
Balance at 31 December 2017	**27,091**	**57,030**	**13**	**84,134**

5.12. Other financial assets (IAS 39)

	Bank	Group
	31/12/2017	31/12/2017
Items in the course of collection	6,654	6,654
Commissions	384	384
Receivables	503	896
Receivables for received payments deriving from portfolio management	167	167
Other assets	659	659
Gross other financial assets	**8,367**	**8,760**
Impairment	(70)	(222)
Total	**8,297**	**8,538**

Movements in provisions for impairment of other financial assets

	Bank	Group
Balance at 1 January 2017	127	244
Doubtful debts expense (Note 4.12)	140	175
Reversal of impairment (Note 4.12)	(197)	(197)
Balance at 31 December 2017	**70**	**222**

In thousands of EUR

5.13. Held-to-maturity investments (IAS 39)

5.13.1. Analysis by type held-to-maturity investments

Bank and Group	31/12/2017
Government bonds	92,767
Corporate bonds	10,647
Commercial papers	691
Total	**104,105**

5.13.2. Movements of held-to maturity investments

Bank and Group	
Stanje 1. januarja 2017	95,280
Additions	29,047
Disposals	(17,500)
Interest accrual	(832)
Exchange differences	(334)
Impairment (Note 4.12.)	(36)
Decrease in revaluation	(1,520)
Balance at 31 December 2017	**104,105**

5.13.3. Accumulated other comprehensive income related to held-to-maturity investments

Bank and Group	
Balance at 1 January 2017	4,626
Decrease in revaluation	(1,520)
Balance at 31 December 2017	**3,106**

5.13.4. Reclassifications from financial assets “available-for-sale” to “held-to-maturity”

Bank and Group	2017
Amount of reclassified financial assets as at the reclassification date 10 December 2014	202,273
Effective interest rate as at the reclassification date 10 December 2014	1,0 %
Carrying amount of reclassified assets as at 31 December	65,507
Fair value of reclassified assets as at 31 December	68,928
Impact on comprehensive income if not reclassified	2,771
Impact on net profit if not reclassified	-
Profit from disposals of reclassified financial assets	-
Estimated cash flows	**73,991**

5.14. Investments in associates and subsidiaries

5.14.1. Key data of investments in subsidiaries

2018	Assets	Liabilities	Equity	Loss	Revenue	interest held, %
Imobilia-GBK, d. o. o., Kranj	10,604	7,597	3,007	291	1,306	100
GB Leasing, d. o. o., Ljubljana	12,219	8,382	3,837	18	5,113	100
Hypo Alpe-Adria-Leasing, d. o. o., Ljubljana	142	48	94	1	20	100

2017	Assets	Liabilities	Equity	Loss	Revenue	interest held, %
Imobilia-GBK, d. o. o., Kranj	10,851	8,226	2,625	146	1,231	100
Mersteel nepremičnine, d. o. o., Naklo	14,507	14,649	(142)	(7)	1,457	100
GB Leasing, d. o. o., Ljubljana	11,968	8,149	3,819	-	3,428	100
Hypo Alpe-Adria-Leasing, d. o. o., Ljubljana	269	176	93	-	71	100

5.14.2. Investments in subsidiaries

As at the end of 2018, assets in the statement of financial position disclose EUR 6,405.6 thousand in investments in the equity of the subsidiaries, whereby the equity investment in Imobilia-GBK d.o.o., Kranj, was recorded at the value of EUR 2,521.3 thousand, the equity investment in GB Leasing d.o.o., Ljubljana, at the value of EUR 3,800.0 thousand and the equity investment in Hypo Alpe-Adria-Leasing d.o.o., Ljubljana, at the value of EUR 84.3 thousand (2017: EUR 6,314 thousand, of which EUR 2,430 thousand for Imobilia-GBK d.o.o., Kranj, EUR 0 for Mersteel nepremičnine d.o.o., Naklo, EUR 3,800 thousand for GB Leasing d.o.o., Ljubljana, and EUR 84 thousand for Hypo Alpe-Adria-Leasing d.o.o., Ljubljana.

In 2018, Mesteel nepremičnine d.o.o., Naklo, was liquidated and deleted from the court register. There were no effects in the Bank's statements, since the company was recorded at the value of EUR 0. However, the deletion of the company caused decreased profit and, consequently, total equity in the Group's statements by EUR 2,489 thousand.

5.14.3. Movements of investments in subsidiaries

	2018	2017
Balance at 1 January	6,314	4,728
Increase in capital	92	2,500
Impairment (Note 4.15)	-	(998)
Investment in the new company	-	84
Balance at 31 December	**6,406**	**6,314**

In 2017, impairment of capital investment in amount of EUR 998 thousand relates to the impairment of capital investment in subsidiary Imobilia-GBK, d.o.o., Kranj.

5.15. Property and equipment

Bank	Land & buildings	Computers	Motor vehicles and other equipment	Assets under construction	Total
1 January 2017					
Cost	18,484	6,383	5,318	184	30,369
Accumulated depreciation	(13,223)	(5,743)	(4,639)	-	(23,605)
Net book amount	**5,261**	**640**	**679**	**184**	**6,764**
Year ended December 2017					
Opening net book value	5,261	640	679	184	6,764
Additions	2,408	400	412	150	3,370
Transfer to investment property	(385)	-	-	-	(385)
Transfer	84	-	-	(84)	-
Depreciation charge	(299)	(214)	(213)	-	(726)
31 December 2017	**7,069**	**826**	**878**	**250**	**9,023**
31 December 2017					
Cost	20,591	6,483	5,377	250	32,701
Accumulated depreciation	(13,522)	(5,657)	(4,499)	-	(23,678)
Net book amount	**7,069**	**826**	**878**	**250**	**9,023**
Year ended December 2018					
Opening net book value	7,069	826	878	250	9,023
Additions	110	615	173	-	898
Transfer from investment property	382	-	-	-	382
Transfer to non-current assets held for sale	(10)	-	-	-	(10)
Disposals	(162)				(162)
Transfer	-	232	18	(250)	-
Depreciation charge	(316)	(299)	(249)	-	(864)
31 December 2018	**7,073**	**1,370**	**799**	**-**	**9,242**
31 December 2018					
Cost	19,950	6,072	5,248	-	31,270
Accumulated depreciation	(12,877)	(4,702)	(4,449)	-	(22,028)
Net book amount	**7,073**	**1,370**	**799**	**-**	**9,242**

None of the property and equipment has been pledged as at 31 December 2017 and as at 31 December 2018.

In 2017 and 2018, the Bank finances purchases of property and equipment with its own funds and does not finance them with loans. On 31 December 2018, it has no liabilities arising from this.

Group	Land & buildings	Computers	Motor vehicles and other equipment	Assets under construction	Total
1 January 2017					
Cost	18,484	6,399	8,220	184	33,287
Accumulated depreciation	(13,223)	(5,748)	(4,722)	-	(23,693)
Net book amount	**5,261**	**651**	**3,498**	**184**	**9,594**
Year ended December 2017					
Opening net book value	5,261	651	3,498	184	9,594
Additions	2,408	401	4,198	150	7,157
Transfer to investment property	(385)	-	-	-	(385)
Transfer	84	-	-	(84)	-
Disposals	-	-	(508)	-	(508)
Depreciation charge	(299)	(222)	(903)	-	(1,424)
31 December 2017	**7,069**	**830**	**6,285**	**250**	**14,434**
31 December 2017					
Cost	20,591	6,800	11,910	250	39,551
Accumulated depreciation	(13,522)	(5,970)	(5,625)	-	(25,117)
Net book amount	**7,069**	**830**	**6,285**	**250**	**14,434**
Year ended December 2018					
Opening net book value	7,069	830	6,285	250	14,434
Additions	110	676	6,264	-	7,050
Transfer from investment property	382	-	-	-	382
Transfer to non-current assets held for sale	(10)	-	-	-	(10)
Disposals	(162)		(1,367)		(1,529)
Transfer	-	232	18	(250)	-
Depreciation charge	(316)	(320)	(1,454)	-	(2,090)
31 December 2018	**7,073**	**1,418**	**9,746**	**-**	**18,237**
31 December 2018					
Cost	19,950	6,172	15,880	-	42,002
Accumulated depreciation	(12,877)	(4,754)	(6,134)	-	(23,765)
Net book amount	**7,073**	**1,418**	**9,746**	**-**	**18,237**

5.16. Investment property

Bank	Apartments	Buildings	Land	Assets under construction	Total
1 January 2017					
Cost	95	6,588	3,464	16,811	26,958
Impairment	(45)	(891)	(143)	(1,508)	(2,587)
Net book amount	**50**	**5,697**	**3,321**	**15,303**	**24,371**
Year ended December 2017					
Opening net book value	50	5,697	3,321	15,303	24,371
Additions	-	2,828	483	323	3,634
Transfer from property and equipment	-	-	385	-	385
Transfer	1,047	-	-	(1,047)	-
Impairment (Note 4.15)	(47)	(258)	(242)	(197)	(744)
Revaluation	-	95	282	-	377
Transfer	-	(171)	171	-	-
Transfer to non-current assets held for sale	(96)	-	-	(3,411)	(3,507)
Disposals	(647)	(2,498)	-	-	(3,145)
31 December 2017	**307**	**5,693**	**4,400**	**10,971**	**21,371**
31 December 2017					
Cost	399	6,842	4,785	12,676	24,702
Impairment	(92)	(1,149)	(385)	(1,705)	(3,331)
Net book amount	**307**	**5,693**	**4,400**	**10,971**	**21,371**
Year ended December 2018					
Opening net book value	307	5,693	4,400	10,971	21,371
Additions	-	14,078	620	142	14,840
Transfer to property and equipment	-	-	-	(382)	(382)
Transfer	-	63	-	(63)	-
Impairment (Note 4.15)	57	280	(271)	(1,544)	(1,478)
Revaluation	-	7	55	-	62
Disposals	(364)	(756)	(12)	-	(1,132)
31 December 2018	**-**	**19,365**	**4,792**	**9,124**	**33,281**
31 December 2018					
Cost	35	19,560	5,448	12,373	37,416
Impairment	(35)	(195)	(656)	(3,249)	(4,135)
Net book amount	**-**	**19,365**	**4,792**	**9,124**	**33,281**

Investment properties are valuated under fair value, which is determined on the basis of appraisal reports prepared by independent appraisers who perform the appraisals in accordance with the International Valuation Standards (level 2) and the assessments of the management (level 3).

	Level 1	Level 2	Level 3	Total
31 December 2018	-	23,929	9,352	33,281
31 December 2017	-	16,885	4,486	21,371

In 2018, rental income of EUR 1,787 thousand was generated (2017: EUR 1,150 thousand). In 2018, investment property maintenance and management costs amounted to EUR 477 thousand (2017: EUR 672 thousand).

In 2018, the Bank owned the following investment properties acquired prior to 2018: the business object "Dunajska vertikala" at Dunajska cesta in Ljubljana, the land "Izolski trikotnik", the commercial complex TC Merkur Izola, lands (in Borovnica, "Barjanski travnik", Tekstilindus, Mojstrana, Radovljica, water tower, Zabačevo), the residential house in Žiri and the library in Škofja Loka with a building land.

In 2018, the Bank sold the residential part of Dunajska vertikala, the residential object Vila A Tržič, part of the commercial building at Trdinova 4 in Ljubljana and the commercial object at Bleiweisova 4 in Kranj.

In 2018, the Bank took over a property from its subsidiary company Mersteel nepremičnine, which in nature is a warehouse object in Naklo, and three additional investment properties from the collection of collateral - part of the WTC object in Ljubljana, land in Maribor and the cellar at Nazorjeva 1 in Kranj (2017: the Bank acquired Hotel Krim at Bled from the collection of collateral, which has already been sold).

Among the investment properties are also properties of the controlled company Imobilia - GBK d.o.o., namely a business object in Murska Sobota, the business object "Šešir" in Škofja Loka, land in the Škofja Loka centre and a business object in Šenčur. In 2018, the company Imobilia - GBK d.o.o. sold the vacant construction land "Zelena jama" at Šmartinska cesta in Ljubljana.

Group	Apartments	Buildings	Land	Assets under construction	Total
1 January 2017					
Cost	95	29,621	6,880	16,811	53,407
Impairment	(45)	(3,574)	(232)	(1,508)	(5,359)
Net book amount	**50**	**26,047**	**6,648**	**15,303**	**48,048**
Year ended December 2017					
Opening net book value	50	26,047	6,648	15,303	48,048
Additions	-	2,914	483	323	3,720
Transfer from property and equipment	-	-	385	-	385
Transfer	1,047	-	-	(1,047)	-
Impairment (Note 4.15)	(47)	(821)	833	(197)	(232)
Revaluation	-	120	345	-	465
Transfer	-	(171)	171	-	-
Transfer to non-current assets held for sale	(96)	-	-	(3,411)	(3,507)
Disposals	(647)	(2,498)	-	-	(3,145)
31 December 2017	**307**	**25,591**	**8,865**	**10,971**	**45,734**
31 December 2017					
Cost	399	29,986	9,339	12,676	52,400
Impairment	(92)	(4,395)	(474)	(1,705)	(6,666)
Net book amount	**307**	**25,591**	**8,865**	**10,971**	**45,734**
Year ended December 2018					
Opening net book value	307	25,591	8,865	10,971	45,734
Additions	-	328	620	142	1,090
Transfer to property and equipment	-	-	-	(382)	(382)
Transfer	-	63	-	(63)	-
Impairment (Note 4.15)	57	(114)	(271)	(1,544)	(1,872)
Revaluation	-	22	55	-	77
Disposals	(364)	(756)	(3,744)	-	(4,864)
31 December 2018	**-**	**25,134**	**5,525**	**9,124**	**39,783**
31 December 2018					
Cost	35	27,235	6,181	12,373	45,824
Impairment	(35)	(2,101)	(656)	(3,249)	(6,041)
Net book amount	**-**	**25,134**	**5,525**	**9,124**	**39,783**

5.17. Intangible assets

Bank	Software licences	Assets under construction	Total
1 January 2017			
Cost	11,409	601	12,010
Accumulated depreciation	(8,366)	-	(8,366)
Net book amount	**3,043**	**601**	**3,644**
Year ended December 2017			
Opening net book value	3,043	601	3,644
Additions	159	910	1,069
Transfer	116	(116)	-
Depreciation charge	(870)	-	(870)
31 December 2017	**2,448**	**1,395**	**3,843**
31 December 2017			
Cost	11,427	1,395	12,822
Accumulated depreciation	(8,979)	-	(8,979)
Net book amount	**2,448**	**1,395**	**3,843**
Year ended December 2018			
Opening net book value	2,448	1,395	3,843
Additions	1,215	39	1,254
Transfer	1,373	(1,373)	-
Disposals	(40)	-	(40)
Depreciation charge	(1,024)	-	(1,024)
31 December 2018	**3,972**	**61**	**4,033**
31 December 2018			
Cost	9,223	61	9,284
Accumulated depreciation	(5,251)	-	(5,251)
Net book amount	**3,972**	**61**	**4,033**

In 2017 and 2018, the Bank finances purchases of intangible assets with its own funds and does not finance them with loans.

Group	Software licences	Assets under construction	Total
1 January 2017			
Cost	11,626	601	12,227
Accumulated depreciation	(8,387)	-	(8,387)
Net book amount	**3,239**	**601**	**3,840**
Year ended December 2017			
Opening net book value	3,239	601	3,840
Additions	284	910	1,194
Transfer	116	(116)	-
Depreciation charge	(940)	-	(940)
31 December 2017	**2,699**	**1,395**	**4,094**
31 December 2017			
Cost	12,026	1,395	13,421
Accumulated depreciation	(9,327)	-	(9,327)
Net book amount	**2,699**	**1,395**	**4,094**
Year ended December 2018			
Opening net book value	2,699	1,395	4,094
Additions	1,249	39	1,288
Transfer	1,373	(1,373)	-
Disposals	(40)	-	(40)
Depreciation charge	(1,103)	-	(1,103)
31 December 2018	**4,178**	**61**	**4,239**
31 December 2018			
Cost	9,633	61	9,694
Accumulated depreciation	(5,455)	-	(5,455)
Net book amount	**4,178**	**61**	**4,239**

In thousands of EUR

5.18. Other assets

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Prepaid and deferred expenses or costs	241	232	316	450
Stock	235	161	235	2,329
Prepayments	314	737	328	749
Claim for taxes	289	307	470	378
Gross other assets	**1,080**	**1,437**	**1,349**	**3,906**
Impairment	(5)	-	(5)	-
Total	**1,075**	**1,437**	**1,344**	**3,906**

Movements in provisions for impairment

Bank and Group	
Balance at 1 January 2018	-
Impairment (Note 4.15)	5
Balance at 31 December 2018	**5**

5.19. Non-current assets held for sale

Bank and Group	2018	2017
Balance at 1 January	3,450	-
Transfer from investment property (Note 5.16)	-	3,507
Transfer from property and equipment (Note 5.15)	10	-
Disposals	(3,450)	-
Revaluation (Note 4.16)	(9)	(57)
Balance at 31 December	**1**	**3,450**

In 2018, the Bank concluded the sales agreement for the land in Stražišče (2017: the sales agreement for the residential part of Dunajska vertikala). According to the provisions of IFRS 5, bank reclassified these assets as non-current assets held for sale.

5.20. Financial liabilities held for trading

Bank and Group	31/12/2018	31/12/2017
Fair value of derivatives:		
Options (call option on securities)	37	6
Total	**37**	**6**

The notional amounts of derivative financial instruments are disclosed in Note 6.1.2.

5.21. Financial liabilities designated at FVTPL (IFRS 9)

Bank and Group	31/12/2018
Fair value of commitments	307
Total	**307**

The fair value of commitments relates to undrawn loans, measured mandatorily at FVTPL.

5.22. Due to customers

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Corporates and other entities				
– Current/settlement accounts	296,124	337,870	295,115	333,703
– Term deposits	180,367	211,781	180,367	211,781
Individual clients				
– Current/demand accounts	638,087	589,842	638,087	589,842
– Term deposits	390,573	341,197	390,573	341,197
Total	**1,505,151**	**1,480,690**	**1,504,142**	**1,476,523**

5.23. Borrowings from banks and central banks

Bank and Group	31/12/2018	31/12/2017
Borrowings from banks	31,916	31,410
Borrowings from central banks	69,500	69,784
Total	**101,416**	**101,194**

5.24. Other financial liabilities

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Due to suppliers	3,310	4,594	3,316	4,619
Obligations under card operations	2,465	1,387	2,465	1,387
Salaries and other due to employee	3,492	3,137	3,741	3,269
Accrued expenses	420	168	448	182
Unexecuted obligations for payment	1,283	71,148	1,416	71,148
Other financial liabilities	454	393	472	365
Total	**11,424**	**80,827**	**11,858**	**80,970**

5.25. Provisions

Bank and Group	31/12/2018	31/12/2017
Provisions for retirement indemnity bonuses	1,142	1,098
Provisions for jubilee benefits	172	173
Provisions for guarantees and commitments (Note 6.1.1)	1,566	1,002
Provisions for deferred variable remuneration	1,131	601
Provisions for reorganisation	635	490
Provisions for legal issues	206	-
Total	**4,851**	**3,364**

In accordance with the remunerations policy, the 2018 provisions for the variable part of remunerations include EUR 293 thousand for the payment of deferred variable remunerations, while the remaining part relates to the calculated amount for 2018.

At the time of retirement, the retiring employee who has fulfilled certain conditions is entitled to a lump sum. After every ten years period an employee has worked for the Bank, the employee is entitled to an award. Provisions for severance and jubilee benefits were established on the basis of an actuarial calculation using the following assumptions:

- nominal long-term interest rate of 1.1% (2017: 0.9%);
- expected long-term growth in the amount of jubilee benefits and non-taxable amounts in the calculation is estimated at 1.0% (2017: 1.0%);
- the expected mortality of employees according to the Slovenian mortality tables 2007 has been considered;
- provisions are calculated only for full time employees;
- it is assumed that the employees will exercise the right to retirement when reaching retirement age;
- it is assumed that the bank will continue its operations in the foreseeable future.

Movement of provisions:

Bank and Group	Provisions for retirement indemnity bonuses and jubilee benefits	Provisions for guarantees and commitments	Provisions for deferred variable remuneration	Provisions for reorganisation	Provisions for legal issues
Balance at 1 January 2017	1,248	906	227	684	-
Use / reversal of provisions	(121)	-	(344)	(684)	-
Increase in provision through OCI	48	-	-	-	-
Increase in provision through staff	-	-	718	-	-
Provisions made (Note 4.14)	96	764	-	490	-
Recovery of amounts previously provided (Note 4.14)	-	(668)	-	-	-
Balance at 31 December 2017	**1,271**	**1,002**	**601**	**490**	**-**
IFRS 9 implementation effect	-	453	-	-	-
Balance at 1 January 2018	1,271	1,455	601	490	-
Use / reversal of provisions	(60)	-	(629)	(206)	-
Increase in provision through OCI	(9)	-	-	-	-
Increase in provision through staff costs	-	-	1,159	-	-
Provisions made (Note 4.14)	112	3,082	-	351	206
Recovery of amounts previously provided (Note 4.14)	-	(2,971)	-	-	-
Balance at 31 December 2018	**1,314**	**1,566**	**1,131**	**635**	**206**

In thousands of EUR

5.26. Income taxes

5.26.1. Current income tax assets

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Current income tax assets	-	-	3	-
Total	**-**	**-**	**3**	**-**

5.26.2. Current income tax liabilities

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Current income tax liabilities	592	539	627	604
Total	**592**	**539**	**627**	**604**

5.26.3. Deferred income taxes

Deferred income taxes are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying values using tax rate that have been enacted.

The Bank has an uncovered tax loss from previous years in the amount of EUR 211,889 thousand (2017: EUR 220,697 thousand). Deferred tax for a tax loss and for unrecognized impairments on equity investments are not recognised in full, but only in the estimated amount with respect to the possibility of coverage by planned profits in future years. The Bank will enforce a tax base reduction in the coming years for the total amount of tax loss and unrecognised impairments, but only up to one half of the annual tax base in each year.

5.26.4. Movement in deferred income taxes

	Bank		Group	
	2018	2017	2018	2017
Balance at 1 January	(9,952)	(12,333)	(9,532)	(11,913)
Available-for-sale financial assets (IAS 39)	-	1,980	-	1,980
Financial assets measured at FVTOCI (IFRS 9)	(1,350)	-	(1,350)	-
Loss from previous years	-	(2,547)	-	(2,547)
Employee benefit provisions	(16)	(8)	(16)	(8)
Tax loss	1,737	409	1,737	409
Other liabilities	-	(47)	-	(47)
Impairment of deferred tax	-	2,594	-	2,594
Balance at 31 December	**(9,581)**	**(9,952)**	**(9,161)**	**(9,532)**

5.26.5. Analysis by type of deferred income taxes

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Deferred income tax liabilities				
Available-for-sale financial assets	-	1,873	-	1,873
Financial assets measured at FVTOCI (IFRS 9)	495	-	495	-
Coverage of losses of subsidiaries	-	-	420	-
Total	**495**	**1,873**	**915**	**1,873**
Deferred income tax assets				
Employee benefit provisions	125	110	125	110
Available-for-sale financial assets (IAS 39)	-	1,401	-	981
Financial assets measured at FVTOCI (IFRS 9)	1,373	-	1,373	-
Tax loss	8,577	10,314	8,577	10,314
Total	**10,076**	**11,825**	**10,076**	**11,405**

5.26.6. Deferred tax assets/liabilities included in the income statement (Note 4.14.)

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Employee benefit provisions	(16)	(8)	(16)	(8)
Tax loss	1,737	409	1,737	409
Impairment available-for-sale financial assets	-	2,210	-	2,210
Total	**1,722**	**2,611**	**1,722**	**2,611**

5.27. Other liabilities

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Prepaid and deferred income	633	1,585	1,577	2,153
Liabilities for taxes, contributions and other benefits	344	509	372	556
Liabilities for advances	1,042	1,299	1,042	1,301
Other liabilities	-	-	-	641
Total	**2,019**	**3,393**	**2,991**	**4,651**

5.28. Equity

5.28.1. Paid up capital, share premium and treasury shares

Bank and Group	31.12.2018	31.12.2017
Paid up capital	16,188	16,188
Share premium	20,023	20,023
Treasury shares	(26,007)	(26,007)
Total	**10,205**	**10,205**

All shares are of the same class (ordinary) and have no restrictions in management, except for the repurchased own shares and the shares owned by Sava d.d., Ljubljana. More than 5% of the Bank's ordinary shares are owned by two shareholders: Sava d.d., Ljubljana, which, however, has no voting rights since its authorisation to acquire a qualifying holding was withdrawn and AIK banka, a.d., Beograd and Družba za upravljanje terjatev bank, d.d., Ljubljana . A share of voting rights of over 5% is held by two shareholders. More information is available in the business section of the annual report.

At 31 December 2018, 387,938 non-par shares have been authorised (2017: 387,938 shares). The Bank buys and sells its own shares in accordance with the Bank's constitution and is compliant with Slovenian law. These shares are treated as a deduction from shareholders' equity. Gains and losses on sales of treasury shares are charged to the share premium account.

In 2017 and 2018, the number of own shares has not changed. On 31 December 2018 the Bank had 32,215 treasury shares (2017: 32,215 treasury shares). Acquisition of treasury shares is consistent with Article 247 of the Companies Act. The total number of treasury shares held by the Bank shell not exceeds 10% of share capital.

Nominal share value or an amount belonging to non-par share in registered capital amounted to EUR 41,73.

Movements of treasury shares, received as collateral:

	Number of shares	Nominal share value (in thousands of EUR)	Share of ordinary shares (in %)
Balance at 31 December 2017	657	27.4	0.17
Balance at 31 December 2018	657	27.4	0.17

In 2017 and 2018, there were no changes in the number of shares received as collateral.

5.28.2. Reserves and retained earnings

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Statutory reserves	86,061	84,432	86,061	84,432
Reserves for treasury shares	26,007	26,007	26,007	26,007
Legal reserves	61,602	60,744	61,602	60,744
Other reserves	481	481	481	481
Retained earnings (including income from the current year)	18,993	7,619	19,272	9,257
Total	**193,144**	**179,283**	**193,423**	**180,921**

Movements in reserves:

	Bank		Group	
	2018	2017	2018	2017
Statutory reserves				
Balance at 1 January	84,432	83,814	84,432	83,814
Allocation of net profit	1,629	618	1,629	618
Balance at 31 December	**86,061**	**84,432**	**86,061**	**84,432**
Legal reserves				
Balance at 1 January	60,744	60,419	60,744	60,419
Allocation of net profit	858	325	857	325
Balance at 31 December	**61,602**	**60,744**	**61,602**	**60,744**
Other reserves				
Balance at 1 January	481	481	481	481
Balance at 31 December	**481**	**481**	**481**	**481**
Retained earnings (including income from the current year)				
Balance at 1 January	7,619	6,784	9,257	7,951
IFRS 9 Implementation effect	(2,625)	-	(1,791)	
Net profit for the year	17,149	6,501	14,957	6,973
Transfer of net profit to statutory reserves	(1,629)	(618)	(1,629)	(618)
Transfer to legal reserves	(858)	(325)	(858)	(325)
Transfer of actuarial gains/(losses) to retained earnings	(5)	1	(5)	1
Appropriation of dividends	(658)	(4,724)	(658)	(4,724)
Rounding	-	-	(1)	-
Balance at 31 December	**18,993**	**7,619**	**19,272**	**9,257**

Legal reserves can be used only under circumstances and only for purposes stated in the Company Act.

Statutory reserves can be used for reserves for treasury shares, for covering of loss, for increase of share capital, for legal reserves and for covering other risks.

Other reserves can be used for reserves for treasury shares, for covering of loss, for increase of share capital, for earnings payout to shareholders, employees, management board and/or supervisory board, as insurance of other risks, for legal and/or statutory reserves and for other purposes in line with the policy of the Bank.

5.28.3. Accumulated other comprehensive income

Accumulated other comprehensive income, which is an integral part of capital amounted to EUR 1,893 thousand as at 31 December 2018 (2017: EUR 10,571 thousand). Within its accumulated other comprehensive income, the Bank discloses the revaluation of financial assets measured at FVTOCI and actuarial gains from severance pay (2017: the revaluation of available-for-sale financial assets, actuarial gains from severance pay and revaluation of held-to-maturity financial assets. In 2014, the Bank reclassified a part of the available-for-sale financial assets to held-to-maturity financial assets).

Changes in the balance of accumulated other comprehensive income are evident from the Statement of Comprehensive Income.

Due to adoption of IFRS 9, the accumulated other comprehensive income decreased by EUR 6,967 thousand (more on this in Note 2.2).

6. Other notes to the financial statements

6.1. Off-balance sheet business

6.1.1. Contingent liabilities and commitments

The following table indicates the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers.

Bank and Group	31/12/2018	31/12/2017
Guarantees	80,479	62,407
Commitments to extend credit	203,197	193,191
Spot transactions	2,162	5,470
Letters of credit	5,335	3,878
Total	**291,173**	**264,946**
Provisions for guarantees and commitments (Note 5.17)	(1,566)	(1,002)
Total	**289,607**	**263,944**

6.1.2. Derivative financial instruments

The table below presents the derivative financial instruments by notional amounts. The fair values of derivative financial instruments are disclosed under note 5.13.

Bank and Group	31/12/2018	31/12/2017
Options:		
Call option on securities	4,119	65
Put option on securities	4,059	-
Total	**8,178**	**65**

6.1.3. Court proceedings

The Bank was involved in certain court proceedings in 2017 and 2018. It set aside provisions amounting to EUR 168 thousand for pending court proceedings.

Considering the court proceedings in which the Bank was involved in 2017 and 2018 as the defendant, note should be taken, with respect to value, of the dispute with the company G Skupina d.d., Ljubljana. In its lawsuit, the company does not deny receiving a loan from the Bank, but claims that the loan agreements are null and void for allegedly being sham contracts.

The loan is claimed by the plaintiff to be a sham loan, because it was, as agreed with the Bank, in fact intended for the company Merfin d.o.o., Ljubljana, which should as a result be the only one liable for the repayment of the loan to the Bank. The Bank argues against such claims made by the plaintiffs based on extensive and contractual documents and established securities for the loan liabilities of the plaintiffs. In the bankruptcy proceedings of G Skupina, the probability of the Bank's receivable was established by a final decision, after which a court settlement was made in civil proceedings under which the Bank's receivable was recognised; however, the insolvency court has not (yet) given its consent to the settlement and civil proceedings continue. In the continued proceedings to establish whether the loan agreement is null and void, the first instance court has already issued a judgement rejecting the annulment claim of G Skupina and established the validity of the loan agreement concluded with the Bank. The decision has no become final yet. The insolvency court was again called upon to issue its consent to the concluded settlement.

On 17 October 2016, a request for an investigation was filed before the District Court of Ljubljana against the Bank as the accused legal entity and against other co-accused natural persons and legal entities in relation to the Bank's withdrawal

from Iskratel d.o.o., Kranj, for allegedly abetting in a criminal act of the abuse of position or trust in an economic activity as per paragraph 2 in relation to paragraph 1 of Article 240 of the Penal Code in relation to Articles 4 and 25 of the Liability of Legal Persons for Criminal Offences Act, with which the Bank allegedly obtained EUR 19,953,055.90 of criminal proceeds. Following a complaint by the Bank and co-accused, the pre-trial panel at the District Court of Ljubljana reversed the decision on inspection with its decision as of 31 May 2017, referring the matter back to the investigating judge for re-examination. In relation to the mentioned pre-trial case, the Bank has made no provisions yet, as it considers the claim to be unfounded, based on legal and financial opinions. In repeated proceedings, the senate of the District Court of Ljubljana rejected the request for investigation due to disagreement by the investigating judge with the request for investigation. The Higher Court of Ljubljana subsequently rejected the appeal filed by the prosecution against the decision rejecting an investigation with its decision as of 23 October 2018. Hence, the proceedings have closed by a final decision in favour of the Bank and other co-accused.

6.2. Cash and cash equivalents

	Bank		Group	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Cash and balances with central banks (Note 5.1)	358,366	265,974	358,366	266,175
Demand deposits with banks (Note 5.1)	33,443	44,563	33,562	44,563
Loans and receivables to banks (Note 5.7)	44,771	91,810	44,771	91,810
Total	**436,580**	**402,347**	**436,699**	**402,548**

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity. The amount of obligatory reserves is daily available for the Bank's liquidity needs and is therefore considered as cash equivalent.

6.3. Related party transactions

Related parties are parties that are associated by way of one party being involved in the management, supervision or equity of the other party.

Related parties of the Group include the key management personnel (the Bank's Management Board, members of the Bank's Supervisory Board, close family members of the aforementioned persons, employees under individual employment contracts, individual companies, in which said persons have a dominant influence), companies with a significant influence over the Bank (shareholders whose participating interests in the Bank exceed 20% and related companies), as well as subsidiaries.

The Bank has three (2017: four) subsidiaries. The contracts were concluded under the same terms and conditions as for non-related parties.

In 2018, EUR 38,447 thousand (2017: EUR 57,602 thousand) of new credit business was concluded with related parties owning over 20% of the Bank at the interest rates that apply to transactions between related parties. The companies owning over 20% of the Bank and their related parties do not have unpaid outstanding liabilities to the Bank.

Members of the Management and Supervisory Boards and their immediate family members have concluded loan and deposit agreements pursuant to the terms and conditions prevailing on the market at the time of conclusion. In 2018, deposits were made at interest rates ranging from 0.01% to 1.11% (in 2017: from 0.01% to 1.11%).

Employees with manager contracts have concluded loan and deposit agreements pursuant to the terms and conditions prevailing on the market at the time of conclusion. In 2018, deposits were made at interest rates ranging from 0.01% to 1.11% (in 2017: from 0.01% to 1.11%). The Bank has not granted any loans to employees under the individual contract in 2018 (2017: long-term loans at interest rates ranging from 2.5% to 2.9%).

None of the transactions includes special terms and conditions. No guarantees were issued or received in respect of related parties. Liabilities are usually settled by remittances to transaction or personal accounts.

Bank	Key management personnel		Shareholders over 20%		Subsidiaries	
	2018	2017	2018	2017	2018	2017
Loans						
Balance at 1 January	2,725	5,525	19,247	6,483	29,234	29,711
Loans issued	30	1,696	38,447	57,602	3,500	3,500
Changes in the membership	(1,770)	128	(68)	-	-	-
The exclusion	-	-	-	-	(14,206)	-
Loan repayments	(25)	(4,624)	(38,753)	(44,838)	(673)	(3,977)
Balance at 31 December	**960**	**2,725**	**18,873**	**19,247**	**14,355**	**29,234**
Impairment	2	37	61	107	163	1,969
Interest income earned	-	156	393	379	145	792
Deposits						
Balance at 1 January	4,448	7,467	4,153	3,648	4,168	1,425
Deposits received	277	11,010	70,932	21,443	16,775	3,527
Changes in the membership	(3,495)	10	-	-	-	-
The inclusion	-	-	-	-	(173)	-
Deposits repaid	(190)	(14,039)	(72,139)	(20,938)	(19,762)	(784)
Balance at 31 December	**1,040**	**4,448**	**2,946**	**4,153**	**1,008**	**4,168**
Interest expense on deposits	-	3	-	-	-	-
Other revenue – fee income	-	81	283	58	14	6
Other operating income	1	411	375	341	277	167
Other operating loss	-	-	-	200	-	-
Costs of services	7	821	11	23	3,439	2,932

Group	Key management personnel		Shareholders over 20%	
	2018	2017	2018	2017
Loans				
Balance at 1 January	2,725	5,649	19,247	6,483
Loans issued	30	1,696	38,447	57,602
Changes in the membership	(1,770)	128	(68)	-
Loan repayments	(25)	(4,748)	(38,753)	(44,838)
Balance at 31 December	**960**	**2,725**	**18,873**	**19,247**
Impairment	2	37	61	107
Interest income earned	-	156	393	379
Deposits				
Balance at 1 January	4,448	7,469	4,153	3,648
Deposits received	277	11,010	70,932	21,443
Changes in the membership	(3,495)	10	-	-
Deposits repaid	(190)	(14,041)	(72,139)	(20,938)
Balance at 31 December	**1,040**	**4,448**	**2,946**	**4,153**
Interest expense on deposits	-	3	-	-
Other revenue – fee income	-	81	283	58
Other operating income	1	411	375	341
Other operating loss	-	-	-	200
Costs of services	7	821	11	23

In thousands of EUR

6.4. Management's, Supervisors', Committees' and key management personnel's gross remuneration

In the year that ended 31 December 2018	Fixed income	Variable income	Cost reimbursements	Insurance premiums	Other benefits	Total
Management:						
Andrej Andoljšek	53.5	194.9	0.1	5.9	1.1	255.5
David Benedek	160.8	-	1.0	6.4	83.2	251.4
Mario Henjak	14.8	-	-	0.3	2.4	17.5
Mojca Osolnik Videmšek	193.2	79.7	1.2	5.0	5.3	284.4
Supervisors and Committees members:						
Aleš Aberšek	20.4	-	6.4	0.3	-	27.1
David Benedek	5.8	-	2.0	-	-	7.8
Jelena Galić	20.1	-	11.5	0.3	-	31.9
Miran Kalčič	12.2	-	3.4	-	-	15.6
Matej Podlipnik	18.5	-	5.6	0.3	-	24.4
Gregor Rovanšek	12.2	-	3.4	-	-	15.6
Jurij Bajec	6.3	-	5.7	0.3	-	12.3
Vladimir Sekulić	8.2	-	4.7	0.3	-	13.2
Tim Umberger	6.3	-	6.3	0.3	-	12.9
Key management personnel (30 beneficiaries)	2,031.7	482.3	105.2	58.6	25.0	2,702.8
Total	**2,564.0**	**756.9**	**156.5**	**78.0**	**117.0**	**3,672.4**

Variable income allocated in 2018 for the 2017 financial year includes cash payments, promissory notes and deferred part.

In the year that ended 31 December 2017	Fixed income	Variable income	Cost reimbursements	Insurance premiums	Other benefits	Total
Management:						
Andrej Andoljšek	214.2	70.9	0.9	8.8	5.0	299.8
Mojca Osolnik Videmšek	192.8	62.0	0.9	5.0	4.1	264.8
Supervisors and Committees members:						
Aleš Aberšek	18.5	-	4.0	0.3	-	22.8
David Benedek	23.2	-	4.8	0.3	-	28.3
Jelena Galić	18.5	-	7.7	0.3	-	26.5
Miran Kalčič	18.5	-	3.5	0.3	-	22.3
Matej Podlipnik	18.5	-	4.0	0.3	-	22.8
Gregor Rovanšek	18.5	-	4.0	0.3	-	22.8
Key management personnel (21 beneficiaries)	1,673.0	163.3	110.6	46.6	82.0	2,075.5
Total	**2,195.7**	**296.2**	**140.4**	**62.2**	**91.1**	**2,785.6**

In thousands of EUR

Variable income also include the payment of deferred variable remuneration in the Management Board's plans for 2015, but does not include the deferred variable remuneration for 2016.

Key management personnel are employees whose professional activities significantly influence the risk profile of the Bank and involve executive directors and directors of sectors and departments.

Management's and key management personnel's gross remuneration is disclosed within staff cost (Note 4.11).

In 2017 and 2018, Members of the Bank's Management and Supervisory Boards received no remuneration from the subsidiaries.

6.5. Significant events after the date of the statement of financial position

AIK banka a.d., Beograd (hereinafter "Acquirer"), published a takeover offer for the purchase of shares of Gorenjska banka d.d., Kranj, with the registered office at Bleiweisova cesta 1, 4000 Kranj (hereinafter "Target Company"), on 13 February 2019.

The takeover offer refers to 86,611 GBKR shares that are not held by the Acquirer.

As at the issue date of the permit for the takeover offer for the shares of the Target Company marked GBKR, the Acquirer was the holder of 134,217 GBKR shares. After the issue of the permit by the Securities Market Agency to the Acquirer for the takeover offer for the shares of the Target Company marked GBKR, the Acquirer became the holder of another 167,110 GBKR shares. As at the publication date of the takeover offer, the Acquirer was the holder of 301,327 GBKR shares.

On 15 March 2019 Securities Market Agency issued a performance decision of the takeover bid for the purchase of shares of the Target company Gorenjska banka d.d., Kranj. On the day the Securities Market Agency decision was issued, the acquirer owned 349,557 shares of the Target company with the GBKR code or 90.11% of the shares in the company's capital.

The Management Board of Gorenjska banka d.d., Kranj, received the resignation statements in February 2019 of two members of the Supervisory Board of Gorenjska banka d.d., Kranj - Mr Aleš Aberšek and Mr Matej Podlipnik.

There were no other significant events after the balance sheet date.

6.6. Changes in equity

Changes in items of equity in 2018 are a consequence of:

a) the appropriation of net profit for 2018 in accordance with the provisions of Articles 64 and 230 of the Companies Act and Article 37 of the Bank's Articles of Association, under which the Bank is obliged to appropriate net profit for the year for the purpose of setting aside legal and statutory reserves already upon the compilation of the annual report and subject to the concrete circumstances, whereby it set aside EUR 858 thousand of legal reserves (5% of the net profit from 2018) and EUR 1,629 thousand of statutory reserves (10% of net profit from 2017 less the amount of legal reserves);
b) profit for the current year in the amount of EUR 14,662 thousand less allocation to reserves of EUR 2,487 thousand;
c) appropriation of dividends in the amount of EUR 658 thousand;
d) transfer of actuarial loss in the amount of EUR 5 thousand to retained earnings;
e) increase of accumulated other comprehensive income (financial assets measured at FVTOCI) in amount EUR 983 thousand;
f) increase of revaluation reserve for actuarial gains in amount EUR 14 thousand.

In addition to the above changes, changes in the items of consolidated equity include EUR 2.193 thousand worth of profit for the current year arising from consolidation.

6.7. Profit/loss for appropriation

According to the Companies Act, profit or loss for appropriation is the sum of profit or loss brought forward and net profit decreased by further reserves from profit or net loss.

a) Retained earnings	7,619
b) IFRS 9 implementation effect	(2,625)
c) Profit for the year 2018	17,149
d) Allocation of profit for the year 2018 to legal and statutory reserves	(2,487)
e) Appropriation of dividends	(658)
f) Transfer of actuarial losses to retained earnings	(5)
f) Profit for appropriation for the year 2017 (a + b + c + d + e + f)	**18,993**

The Bank's profit for appropriation for 2018 amounts to EUR 18,993 thousand. This includes EUR 14,662 thousand of net profit for the year after its use for legal and statutory reserves and EUR 4,331 thousand of retained earnings. Pursuant to paragraph 1 of Article 230 of the Companies Act, the Bank's Management Board used EUR 2,487 thousand of net profit for the 2017 financial year for legal and statutory reserves.

6.8. The classification of securities according to the listing

As at 31 December 2018; Bank and Group	Listed		Unlisted	Total
	Ljubljana Stock Exchange	Other stock exchange		
Equity securities measured mandatorily at FVTPL	1,877	45	5,872	7,794
Equity securities measured at FVTOCI	-	-	6,900	6,900
Debt securities measured at FVTOCI	7,131	94,363	-	101,494
Debt securities measured amortised cost	52,771	167,542	5,883	226,196
Total	**61,779**	**261,950**	**18,655**	**342,384**

As at 31 December 2017; Bank and Group	Listed		Unlisted	Total
	Ljubljana Stock Exchange	Other stock exchange		
Equity securities, designated at fair value, available-for-sale	518	-	6,818	7,336
Equity securities, designated at nominal value, available-for-sale	-	-	163	163
Debt securities available-for-sale	56,410	255,537	-	311,947
Debt securities held-to-maturity	21,123	80,465	2,517	104,105
Total	**78,051**	**336,002**	**9,498**	**423,551**

6.9. Funds managed on behalf of third parties

In 2017 and 2018, the Bank did not operate on behalf of or for the account of some other entity.

7. Risk management

Disclosures regarding risk management are prepared in detail at the level of the Bank, since the difference between the assets of the Bank and Group is mostly found in the investment property of subsidiaries, the financing sources for which are fully provided by the Bank, making the difference in risks at the level of the Bank and consolidated level insignificant.

In its operations, the Bank assumes various risks, the amount of which on one hand depends on its strategic definitions regarding the willingness to assume risk and, on the other hand, on the limits presented by the available capital within the scope of which the Bank is able to assume risks. According to the business model of a universal commercial bank, the risks to which the Bank is exposed are primarily traditional bank risks. The Bank's Risk Appetite Statement defines at the highest level the types of important risks and tolerance towards individual risk types that the Bank is prepared and able to assume to achieve the set goals and which represent incentives and limitations in the process of adopting business decisions at the Bank. The most important is credit risk, followed by the liquidity risk, while the Bank's exposure to other types of risk is lower.

The key part of business activities is therefore reflected in the Bank's credit portfolio. The Bank manages credit risk at the level of individual clients or individual transactions and at the level of the entire portfolio, since effective and comprehensive credit risk management is the key element for a comprehensive approach to the management of banking risks and provision of long-term performance of the Bank. Financial assets held for trading are negligible in the Bank's investment structure. In 2018, the Bank's exposure to interest rate risks settled down and decreased, although it slightly increased in the year before, mostly due to changes in the maturity structure of the Bank's liabilities, which were the reflection of specific features in the business environment under low interest rate conditions. Foreign exchange risk is kept at a relatively low level and any exposure deriving from regular operations is promptly managed by the Bank.

The Bank supports its focus on active and prudent risk management with an appropriate organisational structure that provides a safe and impartial approach to risk management. The Bank's organisation is set up so that the process of performing business functions ensures the efficient use of all types of assets and sources of funds, as well as reliable, timely, complete and up-to-date information intended for the execution of the Bank's decision-making, implementation and information functions, and consequentially risk taking. The specification of the Bank's organisational structure has also provided the bases for establishing a system of internal controls, which is continuously controlled, upgraded and adjusted to changes in operations, thus ensuring adequate risk management. The basis for the organisation of risk management is the delineation of competences that prevents errors, embezzlements and irregularities while eliminating conflicts of interest. The separation of the commercial function or units that make transactions and assume risks (front office) from the back office function, which monitors and manages transactions, and from the risk monitoring and management function is provided by the Bank in all activities.

Within the scope of the preparation of the annual plan of operations, the Bank annually assesses the suitability of risk management strategies and policies as well as the Bank's ability to assume risks pursuant to procedures for risk assumption and management.

7.1. Credit risk

The strategy, business model and current risk profile arising from mostly traditional banking operations shows that the most important risk for the Bank is the credit risk, which is why it is at the focus of the Bank. Credit risk is the risk or probability that the client will not settle its obligations in full and within the agreed period for any reason.

The Bank is exposed to credit risk deriving from the Bank's credit portfolio and including balance sheet receivables (loans, investments in securities, capital investments, etc.) and off-balance sheet liabilities (guarantees, letters of credit, framework loans, etc.) to companies, banks, public sector, sole proprietors, citizens and other clients.

The Bank manages credit risk at the level of individual clients or a group of related parties, at the level of individual transactions and at the level of the entire portfolio, since effective and comprehensive credit risk management is the key element for a comprehensive approach to the management of banking risks and provision of long-term performance of the Bank. For the purposes of credit risk management, the Bank has established a system corresponding to its size and internal organisation as well as to the nature, volume and complexity of the business model, activities and portfolios

of the Bank. In order to ensure timely identification of increased credit risk, the Bank takes into account forward-looking information, including macroeconomic factors.

To achieve the strategic goals defined in the Bank's Business Strategy and umbrella documents concerning risk management, the Risk Management Strategy and the Risk Appetite Statement, the Bank also defines the objectives and limits regarding the quality of investments and the structure of the credit portfolio in the Credit Risk Management Policy. Limits regulate the concentration and structure of the credit portfolio and the quality of investments in sets.

The Bank has established a credit process that includes processes for credit approval, monitoring, early detection of increased credit risk, classification of debtors and/or exposures, and a process to assess the losses incurred by credit risks.

The Bank has provided a clear delineation of competences and tasks between business units in key account, SME and retail segments and treasury sector on one side and the accounting and business support sector, credit risk assessment sector, risk control sector, risk receivable management sector and back offices on the other side, whereby the commercial function has been separated from the transaction monitoring and risk management function.

The Bank manages credit risk at the level of an individual client or group of related parties, at the level of an individual transaction and at the level of the entire portfolio. In credit risk management, the Bank takes into account several aspects, such as:

- the quality of investments (client's credit rating, classification of receivables, impairments);
- concentration (large exposure to a particular client and groups of related parties, to an industry sector, region, the state);
- currency (foreign exchange risks, portfolio classification by currency and monitoring compliance with sources);
- method of remuneration (type and period for resetting interest rates);
- maturity date (portfolio classification by maturity and monitoring compliance with sources);
- security (providing, valuating and monitoring the adequacy of the collateral amount and quality);
- type of product (framework loans, short-term loans, long-term loans, factoring, financial lease).

The existing and potential credit risk is monitored throughout the period of the business relationship with the client, which is from the receipt of an application and other documentation for loan approval to the approval and final loan repayment.

The Bank has organised its credit function in marketing units within the corporate and retail segments, including factoring and leasing products, and in the financial leasing sector, while it is also exposed to credit risk in certain transactions that fall within the competence of the treasury sector. The Bank has also organised the risk receivables sector; its competences include the recovery and restructuring of distressed investments. Such organisational units are responsible and competent for concluding transactions based on the preparation of credit proposals pursuant to the authorisations and internal acts detailing the relevant area.

The accounting and business support sector is responsible for managing transactions, accounting and other tasks that fall within the competence of the support function. The credit risk assessment sector makes credit risk assessments and credit ratings of clients and individual investments, while the risk control sector monitors the Bank's exposure to credit risk at the portfolio level, proposes credit risk appetite criteria and restrictions in the form of the limit system, and defines the risk parameters for the calculation of necessary impairments in case of consolidated exposure assessment. The risk control sector provides various reviews and reports on credit risk exposure and management to the Bank's management and authorised persons.

7.1.1 Credit risk measurement system

The Bank has established a credit approval system within the scope of which it assesses and analyses all relevant factors affecting the risk assessment of the debtor or a group of related parties and/or exposure prior to the approval of a loan. The Bank has defined criteria for credit approval separately for loans to legal entities and sole proprietors, and separately for retail loans and approval of financial leasing transactions. Furthermore, the Bank assumes credit risk in investments in debt securities.

The Bank prudently monitors large exposures and exposures to parties in a special relationship with the Bank.

For credit risk assessment, the Bank has established a classification system for debtors and/or exposures to credit grades and classification categories.

The process of classification into credit grades is based on quantitative and qualitative criteria and takes into account the essential characteristics of a particular debtor and/or exposure. The criteria provide a clear classification of risks into suitable credit grades and/or groups based on the operations and financial stability of a client and the resulting probability of default. A client's credit score comprises the financial and non-financial credit score.

The financial indicators used by the Bank in the assessment of a client's credit rating are:
- profitability indicators,
- financing structure indicators (capital strength, indebtedness),
- liquidity and solvency indicators,
- asset management and economy efficiency indicators,
- other indicators.

To determine the clients' credit rating, an important part of the total score includes financial indicators and non-financial factors (product quality, a company's power and market share, dependency on suppliers and customers, the future of the industry, risks related to the environment and technological development, long-term strategy of a company, the organisation and quality of management, and the company's relations with the Bank), which are important particularly in the assessment of the company's development capacity and its future performance.

In the business segment of companies, societies and cooperatives, the Bank uses 12 credit grades, 10 of which are performing and 2 are non-performing, as shown below.

A1	Very low risk
A2	Very low risk
A3	Low risk
A4	Moderate risk
B1	Acceptable risk
B2	Manageable risk
C1	Increased risk
C2	High risk
C3	Very high risk
C4	Very high risk
D	Very high risk
E	Very high risk

The Bank classifies clients or financial assets and off-balance sheet liabilities to sole proprietors assumed into groups from A to E and determines their credit score pursuant to the methodology.

To identify the credit rating of banks and savings banks at home and abroad, the Bank primarily uses the credit ratings of ECAI (external credit assessment institutions for the Eurosystem): Fitch, Moodys and S&P. For the purposes of credit rating, the second best credit rating is used if ECAI credit ratings differ. Through a translation matrix, the Bank translates the second best external credit rating into the internal credit rating of the Bank. The Bank has developed no statistical credit rating model for receivables due from public law entities, private law entities, insurance companies and other public law bodies, which is why experts make credit assessments for such clients.

Receivables due from citizens are classified with respect to delays in the settlement of liabilities.

The process and rules of classification are regularly monitored. The key criteria for classification derive from the applicable regulatory requirements and IFRS 9. Receivables are classified into individual stages; i.e. stages 1 and 2 for performing receivables and stage 3 for non-performing receivables. The classification criteria are defined in the Bank's internal acts. The same criteria are applied to the classification of all financial assets into stages. The classification takes place in several steps, whereby individual criteria are checked at every step. In step 1, it is checked whether a financial asset was bought or originally impaired. In step 2, the Bank checks whether a default has occurred in a financial asset, in which case the asset is allocated to stage 3. In step 3, three criteria for increased credit risk are checked, whereby the fulfilment of any of them implies classification of the asset to stage 2. In step 4, it is checked whether an asset belongs to a low credit risk category and meets the conditions for classification to stage 1. In step 5, the Bank also checks the increase in lifelong probability of default from the point of asset recognition to the reporting date, whereby an increase above the defined

limit requires classification of the asset to stage 2. The criteria of a significant increase in lifelong probability of default from asset recognition to the reporting date have been laid down by the Bank based on available statistical analyses and differ with respect to the segment of clients, but range between 1.5 and 5 percentage points.

When assessing group impairments, the Bank also uses the available forward-looking information. By applying the Z-shift method, the Bank includes the relation between macroeconomic conditions in the country and the shares of default in the Bank's credit portfolio in calculations of credit risk parameters. For the purposes of calculating impairments as per IFRS 9, the Bank has defined various macroeconomic scenarios (future values of selected macroeconomic indicators) and their probability of realisation by applying the error distribution method.

The Bank applies the following probabilities of individual scenarios:
- realistic scenario: 60%
- optimistic scenario: 20%
- pessimistic scenario: 20%

Scenarios for future values of real GDP growth in Slovenia are used for the portfolio of companies, banks, countries and government institutions. The values provided in 2019 apply to all subsequent years:

GDP	2017	2018	2019
Realistic scenario	4.6	3.4	1.8
Optimistic scenario	5.2	6.1	4.9
Pessimistic scenario	3.9	0.7	(1.3)

Scenarios for future values of real gross salary growth in Slovenia are used for the portfolio of natural persons. The values provided in 2019 apply to all subsequent years:

Real growth of gross salaries	2017	2018	2019
Realistic scenario	1.2	1.8	1.2
Optimistic scenario	1.5	2.9	2.6
Pessimistic scenario	0.8	0.8	(0.1)

Scenarios for future values of the surveyed unemployment rate in Slovenia are used for the portfolio of sole proprietors. The values provided in 2019 apply to all subsequent years:

Surveyed unemployment rate	2018	2019
Realistic scenario	6.2	7.2
Optimistic scenario	5.4	5.7
Pessimistic scenario	7.0	8.7

For scenarios that are over a year away, the forecast applies the average of the last 14 years.

The Bank also assesses the probability of default for entities that fall within the low default share portfolio (banks, countries, government institutions).

When calculating loss, the Bank derives from the data on the share of losses from individual cases weighted by the exposure of an individual debtor during transition to defaulters. The prescribed loss given default (LGD) rate of 45% is used for the portfolio of natural persons as per Regulation 575/2013 (CRR). Furthermore, the recommended regulatory LGD may be used in other segments when the Bank is unable to calculate the level of loss due to various substantiated reasons. For the following reason, the Bank also applies the regulatory LGD in segments of the Central State level and Central Bank and Institutions.

Exposure at default (EAD) is modelled at the Bank so as to adjust the existing exposure to contractual future cash flows, where future contractual cash flows are not taken into account in the period of three months before default. In exposures

with no contractual future cash flows, cash flow is deemed to be total repayment upon maturity. If an exposure has no due date, the due date is considered to be the period of one year, where cash flow is deemed to be total repayment upon such new due date. EAD takes into account off-balance-sheet exposure multiplied by CCF values, as laid down in Annex 1 to Regulation 575/2013.

Within the scope of the early warning system for increased credit risk, the Bank draws up a report, the so-called "watch list". The early warning system for increased credit risk is the central part of the monitoring process at the Bank that is intended for efficient detection of increased credit risk indicators and, consequently, early actions and prevention of the transfer of performing clients to the segment of non-performing clients. The entire early warning system is supported by IT and implemented on a monthly basis through steps covering the preparation of a "watch list," the acquisition of additional information, an analysis of proposals and measures, the preparation of reports and decision-making by the Monitoring Board.

The adequacy of the operations of implemented classification and early warning systems is regularly checked by the Bank in cooperation with external associates or own resources, and the findings and recommendations upon system upgrades are taken into account in system upgrades.

Within the scope of the monthly review of all clients with restructured financial assets, the suitability of the clients' credit ratings is checked, and it is determined whether any of the financial assets meets the conditions for a change of non-performing or restructuring status.

Pursuant to the classification rules for receivables and impairments, the entire credit portfolio is checked on a monthly basis using logical controls or validations, and any necessary changes in impairments and/or provisions are put forth. Receivables due from natural persons are classified with respect to the number of days of delay in the settlement of liabilities to the Bank.

The protection of loans and guarantees is checked throughout the repayment period or validity of the guarantee, and the Bank also upgraded the technological support for monitoring all types of collaterals in 2018. The Bank regularly checks the quality of collateral and assesses whether it is adequate. In case of inadequate collateral, measures to arrange additional collateral and/or eliminate deficiencies related to the fulfilment of adequacy conditions are put forth.

The risk control sector in cooperation with the credit risk assessment sector and market units monitors the credit portfolio as a whole and performs analyses of the credit portfolio. Furthermore, it regularly checks the concentration of the credit portfolio. For appropriate management and monitoring of concentration risks, the Bank actively manages the credit portfolio of the Bank, primarily by changing and adapting the credit policy and defining internal limits deriving from the Risk Appetite Statement and laid down in the Credit Risk Management Policy.

The Bank applies different methods and policies to reduce credit risks. The most common is the use of collaterals. The Bank has developed a policy on collateral acceptance, under which the most common collateral includes:

- the pledge of residential and commercial real estate;
- the pledge of business assets, such as equipment, inventories and receivables;
- collateral at an insurance company;
- sureties and guarantees.

Collateral assessments are based on available data and adequate bases for valuation, i.e. independent appraisals for real estate and other adequate bases for other types of collateral pursuant to the Resolution on credit risk management at banks and savings banks. The Bank monitors market values of collateral and liquidation values for the purposes of risk management. The latter are applied primarily in the assessment of non-performing loan restructuring and management. Changes in economic conditions, specific conditions of individual clients and collaterals may have an impact on future values of collateral.

The Bank requests additional collateral from borrowers in the event of their deteriorated financial position. The type of collateral depends on the type of business and activities of the borrower. The Bank as a rule receives no collateral for transactions other than loans and guarantees. Such transactions include bonds, treasury bills and similar.

Pursuant to the collateral collection and recovery policy, the Bank immediately accedes to restructuring in case of default (if necessary) or to the recovery and collection of collateral, whereby it takes into account several scenarios for the possibility of repayment in its decisions.

7.1.2. Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk with the observed revaluation and without account being taken of eventual collateralisation with the property held by the Bank or of other improvements of credit quality.

(in thousands of EUR)	31/12/2018	1/1/2018	31/12/2017
Credit risk exposures relating to on-balance sheet assets:			
Cash, balances at CB and other demand deposits (IFRS 9)	374,097	294,834	-
Financial assets mandatorily at FVTPL (IFRS 9)	18,400	20,069	-
Financial assets measured at FVTOCI (IFRS 9)	101,494	222,398	-
Available-for-sale financial assets – debt securities (IAS 39)	-	-	311,946
Debt securities measured at amortised cost (IFRS 9)	226,196	185,096	-
Loans and receivables to banks measured at amortised cost (IFRS 9)	48,651	107,048	-
Loans and receivables to customers measured at amortised cost (IFRS 9)			
Loans and receivables to corporates and sole proprietors measured at amortised cost (MSRP 9)			
Corporates	280,747	310,300	-
Small and medium enterprises (SME)	302,822	319,372	-
Government	5,694	4,286	-
Loans to individual clients measured at amortised cost (MSRP 9)			
Overdrafts	15,468	12,402	-
Housing loans	107,439	98,331	-
Consumer and other loans	53,858	49,377	-
Leasing (IFRS 9)	197,833	149,226	-
Other financial assets measured at amortised cost (IFRS 9)	2,243	8,296	-
Loans and receivables to banks (IAS 39)	-	-	107,049
Loans and receivables to customers (IAS 39)			
Loans and receivables to corporates and sole proprietors (IAS 39)			
Corporates	-	-	331,998
Small and medium enterprises (SME)	-	-	399,062
Government	-	-	4,847
Loans to individual clients (IAS 39)			
Overdrafts	-	-	12,330
Housing loans	-	-	97,806
Consumer and other loans	-	-	119,204
Other financial assets (IAS 39)	-	-	8,297
Held-to-maturity investments (IAS 39)	-	-	104,105
	1,734,942	**1,781,035**	**1,496,644**
Credit risk exposures relating to off-balance sheet items are as follows:			
Guarantees	79,947	61,869	61,574
Commitments to extend credit	202,182	192,396	193,191
Letters of credit	5,316	3,756	3,710
	287,445	**258,021**	**358,475**
Total exposure	**2,022,387**	**2,039,056**	**1,755,119**

As evident from table above, 47.8% of the exposure of risk-bearing assets as at 31 December 2018 derived from loans to non-bank clients (1 January 2018: 46.7%), 11.2% derived from debt securities measured at amortised cost (1 January 2018: 9.1%) and 5.0% derived from financial assets measured at fair value through other comprehensive income (1 January 2018: 10.9%).

The classification of companies by size takes into account the definition laid down in the Companies Act. Small and medium enterprises include sole proprietors.

By writing down receivables, responsibly pursuing the investment policy and successfully managing credit risk, the Bank achieved the following in 2018:
- the share of loan impairments for non-bank clients amounted to 6.6 % with respect to the volume of loans in 2018 (1 January 2018: 8.0%);
- 10.6% of loans to non-bank clients have as a result been impaired (1 January 2018: 14.6%);
- the share of overdue loans in loans to non-bank clients has decreased to 7.3% (1 January 2018: 11.8%).

As at 31 December 2017, 64.5% of exposure to credit risk derives from loans to non-bank clients, 20. % derives from available-for-sale financial assets and 7.0% from financial assets held to maturity.

By writing down receivables, responsibly pursuing the investment policy and successfully managing credit risk, the Bank achieved the following in 2017:
- the share of loan impairments for non-bank clients amounted to 8.5% with respect to the volume of loans;
- 12.8% of loans were impaired individually;
- the share of overdue loans decreased to 10.4%.

7.1.3. Fair value of collateral received

The types of collateral accepted by the Bank upon fulfilled adequacy conditions as adequate for credit risk management are:
- immovable property that is valued at market or some other value estimated by an independent appraiser pursuant to the International Valuation Standards;
- movable property that is valued at market or some other value estimated by an independent appraiser pursuant to the International Valuation Standards or at cost if there is a demonstrably active market for such movable property;
- collateral at insurance companies with an adequate credit rating amounting to the nominal value of the insured sum;
- bank deposits and financial assets;
- securities valued at market value pursuant to the published market values or suitable market value assessment;
- assignment of receivables amounting to the nominal value of assigned receivables;
- sureties, bank guarantees and accretion to obligation upon an adequate credit rating of the guarantor or acquirer.

In the credit process and for the purposes of risk management, the Bank uses weighted values pursuant to the internal methodology of the Bank.

The table below shows the fair value of received collateral. It takes into account appropriate forms of collateral that the Bank uses to manage credit risks. It includes the collateral received for balance sheet receivables and assumed liabilities. Inadequate collateral and securities investment collateral are not included.

(in thousands of EUR)	31/12/2018	31/12/2017
Real estate	787,019	832,412
Movable property	200,012	151,688
Deposits	7,688	10,848
Securities and business share	86,207	142,289
Insurance companies	82,552	85,074
Assigned receivables	18,672	3,058
Sovereign guarantees	27,756	25,498
Other collateral	24,448	37,160
Total	**1,234,354**	**1,288,027**

The amount of received collateral for the credit portfolio compared to the gross value of loans is shown in the table below. Other financial assets and assumed liabilities are not included.

As at 31 December 2018

(in thousands of EUR)	Fully/over collateralised loans		Under-collateralised loans	
	Gross value of loans	Fair value of collateral	Gross value of loans	Fair value of collateral
Loans to corporates	134,911	384,552	158,589	28,878
Loans to SME	180,384	357,337	175,128	45,013
Loans to government	-	-	5,742	-
Loans to individuals				
Overdrafts	-	-	15,508	-
Housing loans	96,465	194,771	11,250	5,301
Consumer loans	46,081	54,292	8,170	336
Leasing	59,203	84,936	140,162	27,643
Total	**517,044**	**1,075,889**	**514,549**	**107,171**

As at 1 January 2018

(in thousands of EUR)	Fully/over collateralised loans		Under-collateralised loans	
	Gross value of loans	Fair value of collateral	Gross value of loans	Fair value of collateral
Loans to corporates	164,273	456,707	164,874	29,324
Loans to SME	197,009	368,843	183,575	61,607
Loans to government	-	-	4,298	-
Loans to individuals				
Overdrafts	7,160	20,606	5,287	2,007
Housing loans	76,858	131,030	21,828	5,025
Consumer loans	43,517	49,903	6,499	655
Leasing	94,373	94,478	56,645	41,899
Total	**583,190**	**1,121,567**	**443,005**	**140,517**

As at 31 December 2017

(in thousands of EUR)	Fully/over collateralised loans		Under-collateralised loans	
	Gross value of loans	Fair value of collateral	Gross value of loans	Fair value of collateral
Loans to corporates	170,905	454,941	188,185	46,729
Loans to SME	246,618	405,430	211,708	78,869
Loans to government	354	354	4,506	3
Loans to individuals				
Overdrafts	11,560	15,775	886	-
Housing loans	76,916	131,088	21,860	5,025
Consumer loans	95,022	101,497	25,947	16,309
Total	**601,375**	**1,109,085**	**453,092**	**146,935**

The table below shows the relation between loans and collateral value for the credit portfolio, broken down to the gross value of loans and assumed liabilities

(in thousands of EUR)	31/12/2018		1/1/2018	
LTV - loans	**Gross carrying amount**	**Impairment**	**Gross carrying amount**	**Impairment**
<50%	160,997	(5,263)	138,882	(4,385)
51-70%	117,521	(2,109)	83,312	(4,810)
71-100%	238,543	(24,233)	375,241	(27,639)
100-150%	99,168	(8,382)	128,947	(17,342)
>150%	63,928	(5,009)	59,236	(9,961)
Other	460,956	(22,848)	444,089	(19,239)
Total	**1,141,114**	**(67,844)**	**1,229,716**	**(83,377)**

(in thousands of EUR)	31/12/2018		1/1/2018	
LTV – commitments	**Nominal amount**	**Provisions**	**Nominal amount**	**Provisions**
<50%	7,349	(43)	6,989	(34)
51-70%	8,063	(97)	2,739	(16)
71-100%	2,482	(18)	18,308	(307)
100-150%	2,077	(21)	9,156	(122)
>150%	12,977	(141)	29,161	(285)
Other	256,063	(1,246)	193,122	(692)
Total	**289,011**	**(1,566)**	**259,476**	**(1,455)**

Fair value of collateral equals:

- The market or assessed value (the model) of financial assets held as collateral;
- The value of loans outstanding for accretion to obligations held as collateral (only if the criteria are met);
- 100% of the value of insurance company guarantees, bank guarantees, state and municipal guarantees;
- the values of residential property and the values of commercial estates equal market values based on:
  - the value obtained based on an assessment made by an independent external appraiser conducting the appraisal under IVS;
  - the value obtained based on an assessment made by an independent internal appraiser who performs the appraisal under IVS,
  - the contract value of the sale and purchase contract;
  - the evaluation made by the Surveying and Mapping Authority of the Republic of Slovenia based on a generalised market value;
  - the value obtained on the basis of an assessment made by an independent external appraiser;
  - the value based on the table of internal prices of Gorenjska banka which are indexed either on the basis of growth indices or up to EUR 500 thousand in residential property based on deductions by cadastral municipality as calculated by an independent external appraiser holding a licence by the Slovenian Institute of Auditors based on the sales effected.

From the total of EUR 50,837 thousand (2017: EUR 49,331 thousand) of collateral for retail receivables, the Bank drew EUR 296 thousand from Zavarovalnica Triglav d.d., Ljubljana in 2018 (2017: EUR 459 thousand).

In 2018, the Bank drew EUR 9,043 thousand of collateral (2017: EUR 8,912 thousand) for outstanding loans to non-bank clients. Collateral involving the pledge of real estate was drawn in the amount of EUR 6,281 thousand (2017: EUR 5,811 thousand), the pledge of movable property in the amount of EUR 12 thousand (2017: EUR 409 thousand), the pledge of securities in the amount of EUR 1,898 thousand (2017: EUR 1,326 thousand), the assignment of claims in the amount of EUR 307 thousand (2017: EUR 271 thousand), guarantees and subrogation in the amount of EUR 518 thousand (2017: EUR 521 thousand), and other collateral in the amount of EUR 28 thousand (2017: EUR 574 thousand).

7.1.4 Loans

In notes 7.1.4.1, 7.1.4.2 and 7.1.4.3 for 2018, individual sets of exposures and allowances are classified in individual stages:

- stage 1 – financial assets without increased credit risk since initial recognition; impairments are calculated by taking into account possible losses that are expected in the period of 12 months;
- stage 2 – financial assets with increased credit risk since initial recognition, but no downgraded credit quality; impairments are calculated by taking into account all possible losses that are expected throughout the life span of a financial asset;
- stage 3 – financial assets with downgraded credit quality; impairments are calculated by taking into account all possible losses that are expected throughout the life span of a financial asset.

In 2018, the Bank had no purchased or originated credit-impaired financial assets (POCI).

For 2017, note 7.1.4.7 discloses exposures and allowances pursuant to IAS 39, as disclosed in the Annual Report of the Bank and Group for 2017.

7.1.4.1. Credit rating structure

The table below shows the credit rating structure, grouped by stages.

(in thousands of EUR)	Stage 1	Stage 2	Stage 3	Total 31/12/2018	1/1/2018
Debt securities measured as FVTOCI					
Group A	101,096	-	-	101,096	212,897
Group B	-	603		603	9,963
Group C	-	-	-	-	20,069
Group D	-	-	-	-	-
Group E	-	-	-	-	-
Gross amount	101,096	603	-	101,699	222,860
Impairment	(199)	(6)	-	(205)	(462)
Total	**100,897**	**597**	**-**	**101,494**	**222,398**
Debt securities measured as amortised cost					
Group A	220,971	-	-	220,971	165,429
Group B	6,004	-	-	6,004	20,237
Group C	-	-	-	-	-
Group D	-	-	-	-	-
Group E	-	-	-	-	-
Gross amount	226,975	-	-	226,975	185,666
Impairment	(778)	-	-	(778)	(570)
Total	**226,196**	**-**	**-**	**226,196**	**185,096**
Loans to banks measured as amortised cost					
Group A	35,450	6	-	35,456	91,050
Group B	13,231	-	-	13,231	15,999
Group C	-	-	-	-	-
Group D	-	-	-	-	-
Group E	-	-	-	-	-
Gross amount	48,681	6	-	48,687	107,049
Impairment	(36)	-	-	(36)	(1)
Total	**48,645**	**6**	**-**	**48,651**	**107,048**
Loans to customers and other financial assets measured at amortised cost					
Group A	604,845	3,100	-	607,945	516,459
Group B	195,547	69,505	-	265,052	288,242
Group C	19,348	29,997	-	49,344	74,851
Group D	-	-	95,981	95,981	123,646
Group E	-	-	15,575	15,575	31,360
Gross amount	819,740	102,601	111,556	1,033,897	1,034,558
Impairment	(5,475)	(8,713)	(53,604)	(67,792)	(82,968)
Total	**814,265**	**93,888**	**57,952**	**966,105**	**951,590**
Credit risk exposures relating to off-balance sheet items					
Group A	188,776	147	-	188,923	153,870
Group B	88,062	469	-	88,531	96,426
Group C	8,265	1,877	-	10,142	7,800
Group D	-	-	1,341	1,341	1,381
Group E	-	-	74	74	-
Nominal amount	285,103	2,493	1,415	289,011	259,476
Provisions	(1,300)	(78)	(188)	(1,566)	(1,455)
Total	**283,803**	**2,415**	**1,227**	**287,445**	**258,021**

7.1.4.2. Movement of gross carrying amount

The table below shows the movement of gross carrying amount in the year 2018.

(in thousands of EUR)	Stage 1	Stage 2	Stage 3	Total
Debt securities measured as FVTOCI				
Gross carrying amount as at 1/1/2018	222,860	-	-	222,860
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(1,205)	1,205	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	315	-	-	315
Financial assets that have been derecognised	(120,875)	(602)	-	(121,476)
Gross carrying amount as at 31/12/2018	101,096	603	-	101,699
Loss allowance as at 31/12/2018	199	6	-	205
Debt securities measured as amortised cost				
Gross carrying amount as at 1/1/2018	185,666	-	-	185,666
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	50,353	-	-	50,353
Financial assets that have been derecognised	(9,044)	-	-	(9,044)
Gross carrying amount as at 31/12/2018	226,975	-	-	226,975
Loss allowance as at 31/12/2018	788	-	-	778
Loans to banks measured as amortised cost				
Gross carrying amount as at 1/1/2018	107,049	-	-	107,049
Changes in the gross carrying amount				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(14)	14	-	-
Transfer to stage 3	-	-	-	-
Change due to modification	-	-	-	-
New financial assets	47,017	-	-	47,017
Financial assets that have been derecognised	(105,371)	(7)	-	(105,378)
Gross carrying amount as at 31/12/2018	48,681	7	-	48,688
Loss allowance as at 31/12/2018	36	-	-	36

(in thousands of EUR)	Stage 1	Stage 2	Stage 3	Total
Loans to customers and other financial assets measured at amortised cost				
Gross carrying amount as at 1/1/2018	792,579	84,641	157,338	1,034,558
Changes in the gross carrying amount				
Transfer to stage 1	9,460	(8,293)	(1,167)	-
Transfer to stage 2	(52,770)	65,533	(12,763)	-
Transfer to stage 3	(5,362)	(1,405)	6,767	-
Change due to modification	-	-	(59)	(59)
New financial assets	345,173	10,635	2,813	358,985
Financial assets that have been derecognised	(269,336)	(47,461)	(30,188)	(346,985)
Gross carrying amount as at 31/12/2018	(4)	(1,049)	(11,185)	(12,238)
Loss allowance as at 31/12/2018	819,740	102,601	111,556	1,033,897
Gross carrying amount as at 1/1/2018	5,475	8,712	53,606	67,793
Credit risk exposures relating to off-balance sheet items				
Nominal amount as at 1/1/2018	256,105	1,962	1,410	259,476
Changes in the nominal amount				
Transfer to stage 1	928	(454)	(474)	-
Transfer to stage 2	(1,486)	1,486	-	-
Transfer to stage 3	(1,996)	-	1,996	-
Change due to modification	-	-	-	-
New off-balance sheet items	151,235	643	915	152,792
Reduction of off-balance sheet items	(119,682)	(1,144)	(2,432)	(123,258)
Nominal amount as at 31/12/2018	285,103	2,493	1,415	289,011
Provisions as at 31/12/2018	1,300	78	188	1,566

7.1.4.3. Movement of loss allowance

The table below shows the movement of loss allowance in the year 2018.

(in thousands of EUR)	Stage 1	Stage 2	Stage 3	Skupaj
Debt securities measured as FVTOCI				
Loss allowance as at 1/1/2018	462	-	-	462
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(15)	15	-	-
Transfer to stage 3	-	-	-	-
Decrease due to change in credit risk	(187)	(9)	-	(196)
New financial assets	-	-	-	-
Financial assets that have been derecognised	(61)	-	-	(61)
Loss allowance as at 31/12/2018	199	6	-	205
Debt securities measured as amortised cost				
Loss allowance as at 1/1/2018	570	-	-	570
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Decrease due to change in credit risk	(31)	-	-	(31)
New financial assets	245	-	-	245
Financial assets that have been derecognised	(6)	-	-	(6)
Loss allowance as at 31/12/2018	788	-	-	778
Loans to banks measured as amortised cost				
Loss allowance as at 1/1/2018	1	-	-	1
Changes in the loss allowance				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(14)	14	-	-
Transfer to stage 3	-	-	-	-
Increase due to change in credit risk	6	-	-	6
New financial assets	-	-	-	-
Financial assets that have been derecognised	30	-	-	30
Rounding	(1)	-	-	(1)
Loss allowance as at 31/12/2018	36	-	-	36

(in thousands of EUR)	Stage 1	Stage 2	Stage 3	Total
Loans to customers and other financial assets measured at amortised cost				
Loss allowance as at 1/1/2018	6,859	9,158	66,951	82,968
Changes in the loss allowance				
Transfer to stage 1	634	(474)	(160)	-
Transfer to stage 2	(1,584)	4,465	(2,881)	-
Transfer to stage 3	(500)	(160)	660	-
Increase due to change in credit risk	603	2,704	7,782	11,089
Decrease due to change in credit risk	(1,551)	(2,672)	(3,466)	(7,689)
Write-offs	(2)	(1,035)	(11,113)	(12,150)
Changes due to modification	-	-	(5)	(5)
New financial assets	2,548	-	-	2,548
Financial assets that have been derecognised	(1,533)	(3,274)	(4,162)	(8,969)
Rounding	1	-	-	1
Loss allowance as at 31/12/2018	5,475	8,712	53,606	67,793
Credit risk exposures relating to off-balance sheet items				
Provisions as at 1/1/2018	1,110	29	316	1,455
Changes in the provisions				
Transfer to stage 1	13	(3)	(10)	-
Transfer to stage 2	(32)	33	(1)	-
Transfer to stage 3	95	-	(96)	(1)
Increase due to change in credit risk	66	24	176	266
Decrease due to change in credit risk	(425)	-	-	(425)
New off-balance sheet items	805	-	-	805
Reduction of off-balance sheet items	(332)	(5)	(197)	(534)
Provisions as at 31/12/2018	1,300	78	188	1,566

7.1.4.4. Modification of contractual cash flows from financial assets, that did not result in derecognition

Financial assets (with loss allowance base on lifetime expected credit losses) modified during the year 2018

	2018
Gross carrying amount before modification	2,478
Loss allowance before modification	(520)
Net amortised cost before modification	1,958
Net modification loss (Note 4.13)	(59)
Net amortised cost after modification	**1,899**

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime expected credit losses

In 2018, there were no financial assets that would change from the start of recognition, when the loss allowance was still measured at an amount equalling expected credit losses throughout the term, and for which the loss allowance in 2018 would be changed to an amount equal to credit losses in the 12-month period.

7.1.4.5. Financial assets measured at amortised cost according to delay and due amounts

The table below shows exposures deriving from loans to non-bank clients and other financial assets measured at amortised cost according to individual delay buckets.

(in thousands of EUR)	31/12/2018		1/1/2018	
	Carrying amount	Impairment	Carrying amount	Impairment
0-29 days	980,713	(39,882)	944,340	(43,033)
30-59 days	5,336	(269)	15,077	(797)
60-89 days	1,510	(228)	3,872	(731)
90-180 days	3,372	(2,908)	1,138	(203)
More than 181 days	42,967	(24,505)	70,131	(38,204)
Total	**1,033,897**	**(67,792)**	**1,034,559**	**(82,968)**

The table below shows past due loans to non-bank clients and other financial assets measured at amortised cost, according to individual delay buckets.

(in thousands of EUR)	31/12/2018		1/1/2018	
	Carrying amount	Impairment	Carrying amount	Impairment
0-29 days	22,373	(910)	31,547	(1,620)
30-59 days	5,336	(269)	15,077	(797)
60-89 days	1,510	(228)	3,872	(731)
90-180 days	3,372	(2,908)	1,138	(203)
More than 181 days	42,967	(24,505)	70,131	(38,204)
Total	**75,558**	**(28,821)**	**121,764**	**(41,555)**

The amount of due receivables reached EUR 75,558 thousand as at 31 December 2018 (1 January 2018: EUR 121,764 thousand). Among due amounts, the gross amount of the entire loan overdue for over a day is taken into account.

7.1.4.6. Loans and receivables individually impaired

As at 31 December 2018

(in thousands of EUR)	Loans to corporates and sole proprietors		Other financial assets	Total
	Loans to corporates	Loans to SME		
Gross	12,581	96,714	21	109,317
Less: allowance for impairment	(7,196)	(45,346)	(2)	(52,544)
Net	5,385	51,368	19	56,773
Fair value of collateral	19,364	72,135	-	91,498

As at 1 January 2018

(in thousands of EUR)	Loans to corporates and sole proprietors		Other financial assets	Total
	Loans to corporates	Loans to SME		
Gross	31,728	119,169	48	150,945
Less: allowance for impairment	(14,686)	(50,387)	(20)	(65,093)
Net	17,042	68,782	28	85,853
Fair value of collateral	20,620	104,589	-	125,208

On 31 December 2018 the share of individually impaired loans to non-bank clients amounted to 10.6% (1 January 2018: 14.6%), the coverage thereof with corrections amounted to 48.1% (1 January 2018: 43.1%).

7.1.4.7. Loans and receivables, as at 31 December 2017 (IRS 39)

(in thousands of EUR)	Loans to individual clients			Loans to corporates and sole proprietors			Loans to banks	Other financial assets	Total
	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	Loans to government			
Neither past due nor impaired	-	-	-	17,471	-	204	107,049	421	125,145
Not past due but group impaired	11,615	96,176	106,331	306,735	308,857	4,656	-	7,782	842,152
Past due and group impaired	832	2,600	14,638	3,025	32,024	-	-	117	53,236
Not past due but individually impaired	-	-	-	13,680	66,952	-	-	23	80,655
Past due and individually impaired	-	-	-	18,178	50,493	-	-	24	68,695
Gross	**12,447**	**98,776**	**120,969**	**359,089**	**458,326**	**4,860**	**107,049**	**8,367**	**1,169,883**
Less: allowance for impairment	(117)	(970)	(1,765)	(27,091)	(59,264)	(13)	-	(70)	(89,290)
Net	**12,330**	**97,806**	**119,204**	**331,998**	**399,062**	**4,847**	**107,049**	**8,297**	**1,080,593**
Fair value of collateral	15,775	136,112	117,806	501,670	484,299	357	14	-	1,256,033

The total impairment provision for loans was EUR 89.3 million and comprises EUR 64.53 million of individually impaired loans and EUR 24.77 million of group provisions.

Loans and receivables neither past due nor impaired

(in thousands of EUR)	Loans to corporates andsole proprietors			Loans to banks	Other financial assets	Total
	Loans to corporates	Loans to SME	Loans to government			
Commercial banks	-	-	-	107,049	414	107,463
Corporates	17,471	-	-	-	5	17,476
Government	-	-	204	-	2	206
Total	**17,471**	**-**	**204**	**107,049**	**421**	**125,145**
Fair value of collateral	17,471	-	-	14	-	17,485

Loans and receivables not past due but group impaired

(in thousands of EUR)	Loans to individual clients			Loans to corporates and sole proprietors			Other financial assets	Total
	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	Loans to government		
Group A	11,615	95,665	106,208	166,611	107,244	4,299	7,519	499,161
Group B	-	-	-	85,593	165,530	357	140	251,620
Group C	-	511	111	54,531	35,597	-	81	90,831
Group D	-	-	-	-	486	-	39	525
Group E	-	-	12	-	-	-	3	15
Gross	**11,615**	**96,176**	**106,331**	**306,735**	**308,857**	**4,656**	**7,782**	**842,152**
Less: allowance for impairment	(81)	(704)	(759)	(11,975)	(7,078)	(13)	(34)	(20,644)
Net	**11,534**	**95,472**	**105,572**	**294,760**	**301,779**	**4,643**	**7,748**	**821,508**
Fair value of collateral	15,079	132,639	104,310	458,323	351,505	357	-	1,062,213

Loans and receivables past due and group impaired

(in thousands of EUR)	Loans to individual clients			Loans to corporates and sole proprietors			Other financial assets	Total
	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	Loans to government		
Past due up to 30 days	702	-	7,376	2,963	23,547	-	66	34,654
Past due 30 – 60 days	59	1,924	4,779	62	3,587	-	13	10,424
Past due 60 – 90 days	19	199	1,171	-	710	-	5	2,104
Past due over 90 days	52	477	1,312	-	4,180	-	33	6,054
Gross	**832**	**2,600**	**14,638**	**3,025**	**32,024**	**-**	**117**	**53,236**
Less: allowance for impairment	(35)	(266)	(1,006)	(130)	(2,667)	-	(17)	(4,121)
Net	**797**	**2,334**	**13,632**	**2,895**	**29,357**	**-**	**100**	**49,115**
Fair value of collateral	696	3,473	13,496	5,776	29,918	-	-	53,359

On 31/12/2017, the number of overdue claims not individually impaired amounted to EUR 53,236 thousand. Among the amounts overdue, the gross amount of the entire loan overdue for over a day is taken into account. The listed claims were impaired collectively, because based on the judgement of the recoverability of these exposures, the Bank assessed that the expected cash flows from the claims and collaterals would suffice for their repayment, which is why individual impairments were not necessary.

Loans and receivables individually impaired

(in thousands of EUR)	Loans to corporates and sole proprietors		Other financial assets	Total
	Loans to corporates	Loans to SME		
Not past due	13,680	66,952	23	80,655
Past due	18,178	50,493	24	68,695
Gross	**31,858**	**117,445**	**47**	**149,350**
Less: allowance for impairment	(14,987)	(49,519)	(19)	(64,525)
Net	**16,871**	**67,926**	**28**	**84,825**
Fair value of collateral	20,099	102,877	-	122,976

7.1.5. Concentration of risks of financial assets with credit risk exposure

7.1.5.1. Geographical structure

The following table breaks down the credit exposure, as categorised by geographical region. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

(in thousands of EUR)	Slovenia	Other EU countries	Other countries	Total
Financial assets mandatorily at FVTPL	13,349	2,055	2,996	18,400
Financial assets measured at FVTOCI	37,026	49,690	14,778	101,494
Financial assets measured at amortised cost				
Debt securities	150,794	65,234	10,168	226,196
Loans and receivables to banks	9,119	16,823	22,709	48,651
Loans and receivables to corporates and sole proprietors				
Corporates	265,598	12,998	2,150	280,747
Small and medium enterprises (SME)	293,757	5,078	3,987	302,822
Government	5,694			5,694
Loans and receivables to individual clients				
Overdrafts	15,467	-	-	15,468
Housing loans	107,192	226	21	107,439
Consumer and other loans	53,545	314	-	53,858
Leasing	197,833	-	-	197,833
Other financial assets	2,208	32	4	2,243
As at 31 December 2018	**1,151,583**	**152,449**	**56,813**	**1,360,845**
As at 31 December 2017	1,136,262	251,143	109,239	1,496,644

The Bank conducts most of its business with clients in the area of the Republic of Slovenia. Transactions with clients from other countries come predominantly from investments in securities and deposits with banks.

7.1.5.2. Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

(in thousands of EUR)	Public administ. and defence, comp. soc. sec.	Financial intermediation	Manufacturing	Real estate, renting	Wholesale, retail	Other sectors	Individuals	Total
Financial assets mandatorily at FVTPL	-	-	-	-	8,400	-	-	18,400
Financial assets measured at FVTOCI	57,608	17,567	8,325	-	10,316	7,678	-	101,494
Financial assets measured at amortised cost								
Debt securities	180,425	22,383	2,655	-	-	20,733	-	226,196
Loans and receivables to banks	-	48,651	-	-	-	-	-	48,651
Loans and receivables to corporates and sole proprietors								
Corporates	-	17,844	132,899	4,486	20,944	104,574	-	280,747
Small and medium enterprises (SME)	290	4,448	77,845	60,780	41,161	118,298	-	302,822
Government	5,050	-	-	644	-	-	-	5,694
Loans and receivables to individual clients								
Overdrafts	-	-	-	-	-	-	15,468	15,468
Housing loans	-	-	-	-	-	-	107,439	107,439
Consumer and other loans	-	-	-	-	-	-	53,858	53,858
Leasing	649	415	14,399	593	16,129	60,921	104,727	197,833
Other financial assets	174	341	69	8	393	1,258		2,243
As at 31 December 2018	**244,196**	**111,649**	**236,192**	**66,511**	**107,343**	**313,462**	**281,492**	**1,360,845**
As at 31 December 2017	329,627	174,560	244,912	85,466	102,891	322,885	236,303	1,496,644

7.1.6. Debt securities

The table below presents an analysis of debt securities by rating agency rating, based on Fitch Ratings and Moody's Investor Service.

As at 31 December 2018

(in thousands of EUR)	Financial assets measured at FVTOCI	Financial assets measured at amortised cost	Total
AAA do AA+	9,496	7,573	17,069
AA	12,282	5,125	17,407
A+ do A-	46,456	163,914	210,370
Lower than A-	11,160	31,033	42,193
BBB-	15,560	7,664	23,224
Unrated	6,540	10,887	17,427
Total	**101,494**	**226,196**	**327,690**

As at 31 December 2017

(in thousands of EUR)	Available-for-sale financial assets	Held-to-maturity investments	Total
AAA do AA+	86,944	4,992	91,936
AA	12,482	-	12,482
A+ do A-	151,751	56,220	207,971
Lower than A-	35,629	27,362	62,991
BBB-	16,147	8,026	24,173
Unrated	8,994	7,505	16,499
Total	**311,947**	**104,105**	**416,051**

7.2. Market risk

In its operations, the Bank assumes market risks, which are the risks of changes in the fair value of financial instruments due to market price variability. Market risks are the result of open positions of interest rate, currency and equity instruments that are fully exposed to general and specific market changes, such as changes in interest rates, exchange rates and prices of financial instruments. The Bank assesses exposure to market risks and expected potential losses based on various assumptions and scenarios. The Bank's Management Board sets limits that are acceptable for the risk exposures regularly monitored.

The Bank monitors exposure to foreign exchange risks on a daily basis. To limit exposure to foreign exchange risk, it has defined relatively low limits. To close or reduce exposure to foreign exchange risk, the Bank uses decisions related to the investment and interest rate policy, while using financial derivatives for hedging against foreign exchange risk.

The Bank regulates exposure to interest rate risk with an interest rate policy and other levers for managing the Bank's balance sheet, in individual cases also financial derivatives. During its operations, the Bank places a great deal of attention on the protection of net interest income.

For market risks, the Bank has adopted a Trading Policy defining the instruments and manner of trading, the scope of which is minimal in view of the Bank's business model.

Based on the Trading Policy and the Market Risk Management Policy, the Treasury Sector is responsible for operative management of market risks at the Bank. The Treasury Sector follows guidelines in risk management based on received reports and analyses conducted by the Risk Control Sector and considered by the Assets and Liabilities Committee.

The key to adequate market risk management are also organisational rules related to the delineation of competences between the Treasury Sector and back office in the Accounting and Business Support Sector.

7.2.1. Currency risk

The table below summarises the Bank's exposure to currency risk at 31 December. Included in the table are the Bank's financial instruments at carrying value, categorised by currency.

(in thousands of EUR)	USD	Other	EUR	Total
31 December 2018				
Assets				
Cash, balances at central banks and other demand deposits	14,213	11,067	366,450	391,730
Financial assets held for trading	-	-	150	150
Financial assets mandatorily at FVTPL	-	45	26,146	26,194
Financial assets measured at FVTOCI	7,065	-	101,329	108,394
Debt securities measured at amortised cost	4,730	-	221,466	226,196
Loans and receivables to banks	30,629	45	17,977	48,651
Loans and receivables to customers	368	-	963,493	963,861
Other financial assets	-	-	2,243	2,243
Other assets	-	-	1,075	1,075
Total assets	**57,005**	**11,157**	**1,700,332**	**1,768,494**
Liabilities				
Financial liabilities held for trading	-	-	37	37
Due to customers	57,821	10,474	1,436,856	1,505,151
Borrowings from banks	-	-	101,416	101,416
Other financial liabilities	485	74	10,865	11,424
Other liabilities	-	-	2,019	2,019
Total liabilities	**58,306**	**10,548**	**1,551,193**	**1,620,047**
Net on-balance sheet financial position	**(1,301)**	**609**	**149,139**	**148,447**
Credit commitments	**217**	**81**	**287,147**	**287,445**
31 December 2017				
Total assets	197,698	11,434	1,606,986	1,816,118
Total liabilities	198,705	15,344	1,452,061	1,666,110
Net on-balance sheet financial position	**(1,007)**	**(3,910)**	**154,925**	**150,008**
Credit commitments	**43**	**25**	**257,953**	**258,021**

The financial position and cash flows of the Bank are exposed to the impact of exchange rate volatility. The Bank's foreign exchange risk is monitored and managed on a daily basis. The Bank pursues a fairly conservative foreign exchange risk management policy, as it minimises foreign exchange risk by closing the open currency position on a daily basis. Limits of allowable exposure by currency are monitored daily and confirmed by the Bank's Management Board.

The Bank has set an absolute limit for exposure to foreign exchange risk with a limit for the entire foreign currency position, where absolute values of open positions are added together in individual currencies. Long or short positions include balance sheet items in gross amounts decreased by impairments that are expected to be a loss for the Bank, off-balance sheet items of potential liabilities that will have to be paid by the Bank, including items from financial derivatives (mostly futures contracts). The amount of a limit for a common open foreign currency position is set by the Management Board.

The Bank has also defined limits for an open position by currency. Open positions for individual currencies are identified in the same manner as the common open foreign currency position. The amount of a limit for open foreign currency positions by currency is set by the Management Board.

The Bank has a low share of foreign currency operations and a closed foreign currency position, which is why sensitivity to foreign exchange risks is negligible. The table above shows that the difference between assets and liabilities for different currencies is almost levelled, with the open foreign currency position as at the end of the year amounting to 0.30% of equity.

7.2.2. Interest rate risk

Interest rate risk is shown at the Bank as the risk of interest rate variability affecting the Bank's net interest income and as the risk of interest rate variability affecting the fair value of financial instruments with a fixed interest rate. Changes in interest rates also affect the economic value of the Bank's capital, since the present value of future cash flows from bank assets, liabilities and off-balance sheet positions changes.

Interest rate risk arises from interest rate sensitive assets with different maturities and dynamics of changes in variable interest rates as liabilities. The Bank monitors and manages exposure to interest rate risks based on the methodology of interest rate spreads and extreme situation tests for various scenarios involving interest rate movements.

The Bank has established a system for monitoring interest rate risks to ensure an adequate level of net interest income and an adequate level of the Bank's capital in changing interest rate conditions. The Bank's policy is to regularly monitor and control the Bank's exposure to interest rate risk, develop scenarios for interest rate development and prepare measures for cases of interest rate changes that could have a serious negative impact on the Bank's net interest income and capital. The goal of interest rate risk management is to minimise fluctuations in net interest income and values of the Bank's capital due to interest rate volatility on the market.

The Bank monitors and analyses interest rate sensitivity by time pockets that include interest rate sensitive balance sheet and off-balance sheet items by individual type of interest rates and time zones with respect to their maturity or date of resetting interest rates. The Bank's Management Board sets limits of acceptable interest rate spreads by time zone, which are regularly monitored.

To stress test effects on net interest income, the Bank uses the criterion of the impact of interest rate curve changes by 1 percentage point, while taking into account the interest rate shift with the least favourable impact on the economic value of the Bank's capital from 8 stress scenarios when assessing the effect on the Bank's capital.

The Assets and Liabilities Committee (hereinafter "ALCO") is responsible for monitoring the realisation of the interest rate risk management policies. In addition to decision-making, the tasks of ALCO related to interest rate risk are:

- to consider reports and approve interest rate risk measures,
- to consider the balances and forecasts of interest rate movements,
- to consider interest rate risk at the Bank (the risk of interest rate variability),
- to propose guidelines for setting interest rate limits,
- to develop guidelines for preparing proposals for measures to reduce exposure to risks,
- to develop proposals for interest rate and market policies.

The management of interest rate risks is based on a limit system for exposure to interest rate risk. The Bank has already determined the limit of exposure to interest rate risks at the highest level in its Risk Appetite Statement, where it set the impact of interest rate variability on the Bank's capital as one of key indicators, setting the limit value of the indicator showing the impact of a parallel increase/decrease in market interest rate levels by 200 basis points to 10% of the capital.

The Treasury Sector is responsible for the operative implementation of market risk management measures within the scope of the set limits proposed by the Risk Control Sector and the realisation of ALCO decisions based on the Trading Policy and the Market Risk Management Policy.

The Risk Control Sector prepares a monthly report on exposure to interest rate risk and submits it to the Bank's Management Board and ALCO for consideration.

The table below shows the Bank's exposure to interest rate risk. Financial instruments have been included by taking into account their book values, and have been classified into time zones according to the date of the next change in interest rate or maturity.

The actual maturity dates do not differ from contractual dates, other than in the event of the maturity of a liability of up to one month, some two thirds of which are demand deposits amounting to EUR 934,211 thousand (2017: EUR 927,712 thousand) and are considered by the Bank as stable deposits.

(in thousands of EUR)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
31 December 2018							
Assets							
Cash, balances at central banks and other demand deposits	374,096	-	-	-	-	17,634	391,730
Financial assets held for trading	-	-	-	-	-	150	150
Financial assets mandatorily at FVTPL	2,630	14,694	-	-	-	8,870	26,194
Financial assets measured at FVTOCI	2,200	19,001	32,540	46,364	-	8,289	108,394
Debt securities measured at amortised cost	-	-	15,920	137,829	69,421	3,026	226,196
Loans and receivables to banks	39,452	9,197	-	-	-	2	48,651
Loans and receivables to customers	316,848	270,076	291,395	54,804	29,345	1,393	963,861
Other financial assets	-	-	-	-	-	2,243	2,243
Other assets	-	-	-	-	-	1,075	1,075
Total assets	**735,226**	**312,968**	**339,855**	**238,997**	**98,766**	**42,682**	**1,768,494**
Liabilities							
Financial liabilities held for trading	-	-	-	-	-	37	37
Due to customers	261,844	279,616	374,482	587,001	326	1,882	1,505,151
Borrowings from banks and central banks	-	5,556	22,832	72,201	789	38	101,416
Other financial liabilities	-	-	-	-	-	11,424	11,424
Other liabilities	-	-	-	-	-	2,019	2,019
Total liabilities	**261,844**	**285,172**	**397,314**	**659,202**	**1,115**	**15,400**	**1,620,047**
Interest sensitivity gap	**473,382**	**27,796**	**(57,459)**	**(420,205)**	**97,651**		
31 December 2017							
Total assets	791,777	287,521	318,460	273,087	86,539	58,734	1,816,118
Total liabilities	279,992	320,616	376,431	601,555	2,048	85,468	1,666,110
Interest sensitivity gap	**511,785**	**(33,095)**	**(57,971)**	**(328,468)**	**84,491**		

In 2017 and 2018, the Bank diligently monitored and analysed demand deposits due to a significant increase and volatility of the volume, and assessed that the increment of demand deposits in recent years cannot be considered as stable demand deposits, while accordingly adjusting the system for monitoring and measuring interest rate risks. Taking into account the adopted methodology, a horizontal curve shift by 1 percentage point for all time zones would imply a change of net interest income in a 1-year period by EUR 4.1 million assuming that the Bank's investments and liabilities as at 31 December 2018 remain unchanged and held to maturity, and that the Bank would not actively interfere with the structure of the investments and liabilities to change exposure to interest rate risk (2017: EUR 4.3 million).

The Bank also assesses the impact of interest rate variability on the economic value of capital. A parallel increase in market interest rate levels by 2 interest points for all time zones would represent an increase in the value of the Bank's economic capital by EUR 6.0 million (2017: EUR 1.7 million).

7.2.3. Market risk from trading equity instruments

Risk deriving from trading in the equities of the trading portfolio is shown at the Bank as the risk of changes in the market rates of equities in the trading portfolio affecting the Bank's operating results.

In 2017 and 2018, the Bank was not exposed to risk deriving from trading in the equity securities of the trading portfolio.

7.3. Liquidity risk

Within the scope of liquidity risk management, the Bank is primarily concerned with the consistency of cash flows arising from the operations of the Bank and its customers, an adequate volume, structure and stability of financing sources, and an adequate volume and quality of liquidity reserves.

The Bank measures and monitors liquidity risk using numerous regulatory and internally defined indicators of structural and operative liquidity, and restricts the assumption of liquidity risk with limits arising from the Risk Appetite Statement and Liquidity Risk Management Policy.

The short-term maturity mismatch of the Bank's assets and liabilities is within acceptable limits; moreover, the steep growth of deposits made by the non-bank sector, particularly demand deposits, somewhat settled down in 2018, along with the transfer of a part of fixed-term deposits to account balances as the clients' response to low interest rate conditions averse to saving. The Bank regularly monitored changes in the structure and upgraded the methodology for the implementation of liquidity stress tests in 2018. The new methodology includes the monthly implementation of stress scenarios according to 5 severity classes. In respect of stress scenarios, it is foreseen that all types of stress affect the volume of cash flows in outflows and inflows and at the same time a decrease in liquidity reserves. The methodology also contains criteria for the assessment of minimum or optimum volume of liquidity reserves, under which the Bank is required to have at least a volume of liquidity reserves that minimally covers stress level 3 in a period of 1 month and optimally stress level 3 for a period of 3 months.

The ability of the Bank to regularly settle its current obligations in due time has been ensured. The Bank also has no problems reconciling any mismatches between inflows and outflows by using liquidity reserves and Central Bank instruments.

Liquidity management and the programme of liquidity management is integrated in the yearly plan of the Bank's operations. The annual plan of operations includes fundamental guidelines for the management of the Bank's liquidity, which are integrated in the Bank's activities as laid down in the monthly liquidity plan, and in daily operations concerning the Bank's liquidity. The plan also shows the technique and procedures to monitor and supervise the Bank's liquidity. All major changes to the planned inflows and outflows of assets and to investments are updated by the Bank in the new version of the Bank's liquidity plan for the current month and remaining months of the year.

Pursuant to internal rules, the Treasury Sector monitors cash flows on a daily basis and these are subject to consideration by the Liquidity Committee, which makes decisions regarding the proposed projection and prepares possible scenarios in relation to the probability of foreseen events.

To provide the necessary liquidity, the Bank monitors in detail and on a regular basis:
- the time schedule of current and nearing cash flows in assets and liabilities;
- the coverage of potential cash outflows by cash inflows in a certain period involving due or highly liquid assets;
- the volume of potential cash outflows that can be covered by borrowing on the interbank market;
- access to other asset sources based on secondary liquidity reserve;
- the scope and maintenance of the necessary liquidity as laid down by regulations.

The operations of the Liquidity Committee are defined in a special internal regulation.

Aware of the importance of liquidity risk, the Bank included three indicators (LCR and NSFR) with definitions of their target or limit values in the Risk Appetite Statement. Based on that, the Risk Control Sector proposes additional restrictions and internal limits concerning structural and operative liquidity and monitors their compliance, while preparing analyses of the Bank's liquidity position and its policies in liquidity risk management as bases for decision-making. The Bank also conducts stress tests on a monthly basis, the methodology for which has been revised in 2018, in a manner allowing it to calculate minimum and optimum volume of the Bank's liquidity reserves taking into account five levels of stress scenarios and their impact on the Bank's cash flows and value of liquidity reserves.

To monitor liquidity risk, the Accounting and Business Support Sector daily calculates the ratio between receivables and liabilities pursuant to the Bank of Slovenia decision and reports daily to the Bank's Management Board and the Bank of Slovenia about the achieved liquidity ratios that exceeded the ratio laid down in the decision on all days of 2018.

The Bank provides and regulates its liquidity:
- by hiring the missing liquidity reserves on the interbank money market – the interbank money market in the Republic of Slovenia and from foreign banks in the Eurosystem – in the form of unsecured interbank loans;
- with hired credit lines at other banks;
- by hiring the missing funds from ECB through the Eurosystem monetary policy operations (TLTRO, long-term and short-term tenders);
- by drawing a credit line and a marginal lending facility at the Bank of Slovenia;
- by accelerating the collection of fixed-term deposits made by legal entities under more favourable terms for the client,
- by selling the debt securities available to the Bank in its portfolio.

The Bank has a fund of eligible financial assets (maximum lien on securities that are on the single list of eligible financial assets of ECB at the Central Securities Clearing Corporation and foreign national central banks registered to the benefit of the Bank of Slovenia) as the basis for using ECB instruments (drawing ECB funds under ECB monetary policy operations and using the credit line and marginal lending facility). The Bank additionally disposes with a sufficient volume of securities, which are also fit for using ECB instruments and can be additionally included in the eligible assets fund, thus increasing possibilities for access to liquid assets in the event of severe liquidity conditions. With the permission of the Bank of Slovenia, the Bank may also include appropriate bank loans in the fund of eligible assets.

7.3.1. Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows. The amounts disclosed differ from the amount included in the statement of financial position because they are based on discounted cash flows.

(in thousands of EUR)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2018						
Liabilities						
Due to customers	212,339	219,582	246,179	799,564	338	1,508,002
Borrowings from banks and central banks	53	2,783	5,673	82,841	10,281	101,631
Other liabilities	8,559	172	2,693	-	-	11,424
Total liabilities (expected maturity dates)	**220,951**	**222,537**	**284,545**	**882,405**	**10,619**	**1,621,057**
Assets held for managing liquidity risk (expected maturity dates)	459,461	100,450	269,887	678,844	297,836	1,806,478
Liquidity gap	**(238,510)**	**132,309**	**14,658**	**203,561**	**(287,217)**	
31 December 2017						
Liabilities						
Due to customers	140,506	204,690	369,593	768,400	426	1,483,615
Borrowings from banks and central banks	43	2,783	5,062	88,668	4,618	101,174
Other liabilities	78,650	62	2,115	-	-	80,827
Total liabilities (expected maturity dates)	**219,199**	**207,535**	**376,770**	**857,068**	**5,044**	**1,665,616**
Assets held for managing liquidity risk (expected maturity dates)	418,159	117,307	255,088	715,897	305,128	1,811,579
Liquidity gap	**(198,960)**	**90,228**	**121,682**	**141,171**	**(300,084)**	

The Bank has a diversified portfolio of quality highly-rated and liquid securities eligible for providing assets to settle liabilities and contingent liabilities. The Bank's liquidity reserves intended for liquidity risk management include cash and account balances with the Central Bank, government bonds and other securities suitable for repurchase contracts with the Central Bank and other secondary liquidity sources in the form of highly liquid securities in the Bank's portfolio.

In liquidity risk management, the Bank also takes into account other financial assets that are expected to generate cash flows in order to settle the foreseen cash outflows for financial liabilities.

7.3.2. Derivative financial liabilities

The Bank settles all financial derivatives according to the net principle. In a period of 3 to 12 months following the end of 2018, the Bank expects cash flows from put agreements amounting to EUR 10 thousand and, in a period of 1 to 5 years, EUR 27 thousand (2017: EUR 6 thousand in a period of 3 to 12 months). Account is taken of financial derivatives with a negative fair value.

7.3.3. Commitments and contingencies

The bank manages the liquidity risk associated with loan commitments and financial guarantees on the basis of expected cash outflows. That outflows, disclosed in the time bands when the Bank expect the loan commitments to be drawn, are summarised in the table below. Guarantees and commercial letters of credit are also included in table below, based on the earliest contractual maturity date.

(in thousands of EUR)	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2018					
Commitments to extend credit	126,660	15,323	6,346	168	202,182
Guarantees	85,263	-	-	-	85,263
Total off-balance sheet items	**211,923**	**15,323**	**6,346**	**168**	**287,445**
31 December 2017					
Commitments to extend credit	123,278	19,515	47,995	2,403	193,191
Guarantees	64,830	-	-	-	64,830
Total off-balance sheet items	**188,108**	**19,515**	**47,995**	**2,403**	**258,021**

7.4. Estimated fair value of financial assets and liabilities

7.4.1. Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

(in thousands of EUR)	Carrying value		Fair value	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets				
Cash, balances at central banks and other demand deposits	391,730	310,537	391,730	310,537
Equity securities, designated at nominal value, available-for-sale	-	163	-	163
Financial assets measured at amortised cost (IFRS 9)				
Debt securities measured at amortised cost	226,196	-	237,210	-
Loans and receivables to banks	48,651	-	48,886	-
Loans and receivables to customers	963,861	-	973,220	-
Other financial assets	2,243	-	2,243	-
Loans and receivables to banks (IAS 39)	-	107,049	-	107,483
Loans and receivables to customers (IAS 39)	-	965,247	-	972,309
Other financial assets (IAS 39)	-	8,297	-	8,297
Held-to-maturity investments (IAS 39)	-	104,105	-	108,148
Total financial assets	**1,632,682**	**1,495,398**	**1,653,288**	**1,506,937**
Financial liabilities				
Due to customers	1,505,151	1,480,690	1,507,429	1,482,004
Borrowings from banks and from other customers	101,416	101,194	98,081	94,514
Other financial liabilities	11,424	80,827	11,424	80,827
Total financial assets	**1,617,991**	**1,662,711**	**1,616,933**	**1,657,345**

The following table summarises fair value hierarchy:

(in thousands of EUR)	Level 1	Level 2	Level 3	Total
31 December 2018				
Financial assets				
Cash, balances at central banks and other demand deposits	391,730	-	-	391,730
Financial assets measured at amortised cost				
Debt securities	59,054	172,249	5,906	237,210
Loans and receivables to banks	-	48,886	-	48,886
Loans and receivables to customers	-	-	973,220	973,220
Other financial assets	-	2,243	-	2,243
Total financial assets	**450,784**	**223,378**	**979,126**	**1,653,288**
Financial liabilities				
Due to customers	-	1,507,429	-	1,507,429
Borrowings from banks and from other customers	-	98,081	-	98,081
Other financial liabilities	-	11,424	-	11,424
Total financial liabilities	**-**	**1,616,933**	**-**	**1,616,933**
31. december 2017				
Total financial assets	**333,728**	**198,371**	**974,838**	**1,506,937**
Total financial liabilities	**-**	**1,657,345**	**-**	**1,657,345**

Level 1 comprises financial assets, for which fair value was measured by direct observation of the price on the markets for the same financial assets; level 2 comprises financial assets and financial liabilities, for which fair value was measured by direct observation of prices on markets for similar financial assets; level 3 comprises financial assets, for which fair value was measured by using non-observational input data that included assumptions and forecasts.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

7.4.1.1. Loans and advances

Fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. As the Bank has very limited portfolio of loans and advances with fixed rate, the fair value of loans and advances is not significantly different from their carrying value.

7.4.1.2. Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of other deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits are either short term with rates being almost equal to

market rate or have a variable rate, being market rate, there is no significant difference between the fair value of these deposits and their carrying value.

7.4.1.3. Borrowings

Most of the Bank's long-term debt has no quoted market prices and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the reporting date to the Bank for new debt of similar type and remaining maturity. Again, as the majority of the Bank's long-term debt is with variable interest rates there is no significant difference between their carrying and fair value.

7.4.2. Held-to-maturity investments (IAS 39)

The fair value of held-to-maturity financial instruments is estimated based on market quotes.

7.4.3. Financial instruments measured at fair value

Financial instruments held for trading, financial instruments measured at fair value through profit or loss and financial instruments measured at fair value through other comprehensive income are measured at fair value. Their measurement and recognition is disclosed in note 2.2.4.

7.4.4. 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; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans, issued structured debt and equity investments. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters. Fair value is also determined on the basis of information obtained on the last available transaction.
- Level 3 – inputs for the asset or liability 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 when available. The Bank considers relevant and observable market prices in its valuations where possible.

7.4.4.1. Assets and liabilities measured at fair value

(in thousands of EUR)	Level 1	Level 2	Level 3	Total
31. december 2018				
Financial assets measured at FVTOCI				
- bonds	7.131	94.362	-	101.493
- equity	-	6.900	-	6.900
Financial assets mandatorily at FVTPL				
- equity	234	3.424	4.136	7.794
- loans	-	-	18.400	18.400
Total	**7.365**	**104.686**	**22.536**	**134.587**
Financial liabilities designated at FVTPL	-	-	307	307
Total liabilities	**-**	**-**	**307**	**307**

Shares and interests that the Bank acquired in 2018 in the amount of EUR 4,136 thousand are not listed, which is why the value was set on the basis of the purchase price (level 3). Financial liabilities set to be measured at fair value through profit or loss refer to the fair value of undrawn loans statutorily measured at FVTPL.

(in thousands of EUR)	Level 1	Level 2	Level 3	Total
31. december 2017				
Available-for-sale financial assets				
- Investment securities - debt	107.227	192.714	12.006	311.947
- Investment securities - equity	518	6.818	-	7.336
Total assets	**107.745**	**199.532**	**12.006**	**319.283**
Total liabilities	**-**	**-**	**-**	**-**

No trading has been made as yet with treasury bills, which the Bank subscribed in 2017 in the amount of EUR 12,006 thousand, so the value is set based on the purchase price (Level 3).

7.5. Capital management

Capital management is a continuous process involving the determination and maintenance of a sufficient scope and quality of capital. As part of the capital management policy, the Bank must ensure that it always has at its disposal adequate capital with respect to the volume and type of services it performs, as well as the risk it is exposed to when performing such services (capital adequacy).

The Bank must operate in such a manner that the risk it is exposed to in respect of individual or all types of transactions it performs never exceeds the restrictions.

The transition to IFRS 9 reduced regulatory capital solely due to a retained loss of EUR 564 thousand. The decrease in retained earnings due to the transition otherwise amounted to EUR 2,625 thousand, but the Bank did not include retained earnings amounting to EUR 2,061 thousand in regulatory capital. The Bank used no option of gradual influence on regulatory capital, which is provided by Regulation (EU) 2017/2395.

The table below summarises the capital components, capital requirements and capital ratios.

(in thousands of EUR)	31/12/2018	31/12/2017
Common equity Tier 1 capital	175.195	168.670
Tier 1 capital	175.195	168.670
Total capital (own funds)	**175.195**	**168.670**
Capital requirement for credit risk and counterparty credit risk	79.758	77.563
Of which capital requirements by exposure classes		
Central governments or central banks	570	806
Regional governments or local authorities	67	56
Public sector entities	569	594
Institutions	1.558	3.163
Corporates	37.615	40.146
Retail	20.044	15.159
Secured by mortgages on immovable property	6.913	7.718
Exposures in default	1.855	2.580
Items associated with particular high risk	5.188	4.748
Collective investments undertakings (CIU)	71	61
Equity	1.437	1.304
Other items	3.872	1.228
Capital requirement for market risk	-	-
Capital requirement for operational risk	6.675	6.313
Total capital requirement	**86.433**	**83.876**
CET 1 capital ratio	16,22 %	16,09 %
T1 capital ratio	16,22 %	16,09 %
Total capital ratio	**16,22 %**	**16,09 %**

The Bank has no unsettled transactions in the trading and non-trading book and, therefore, does not calculate the capital requirement for the risk of settlement. It has no goods in its portfolio and, therefore, does not calculate the capital requirement for commodities risk. Since the total net position in foreign currency does not exceed 2% of the Bank's capital, the Bank is not required to calculate the capital requirement for currency risk. Furthermore, the Bank has no capital requirements for large exposures exceeding the limitations laid down in Articles 395 to 401 of CRR Regulation.

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