Banka Koper

Zvest Apollonio, Morning / 2006 / Acryle on canvas/ 60 x 80 cm (cutting)

ANNUAL REPORT 2007

Banka Koper

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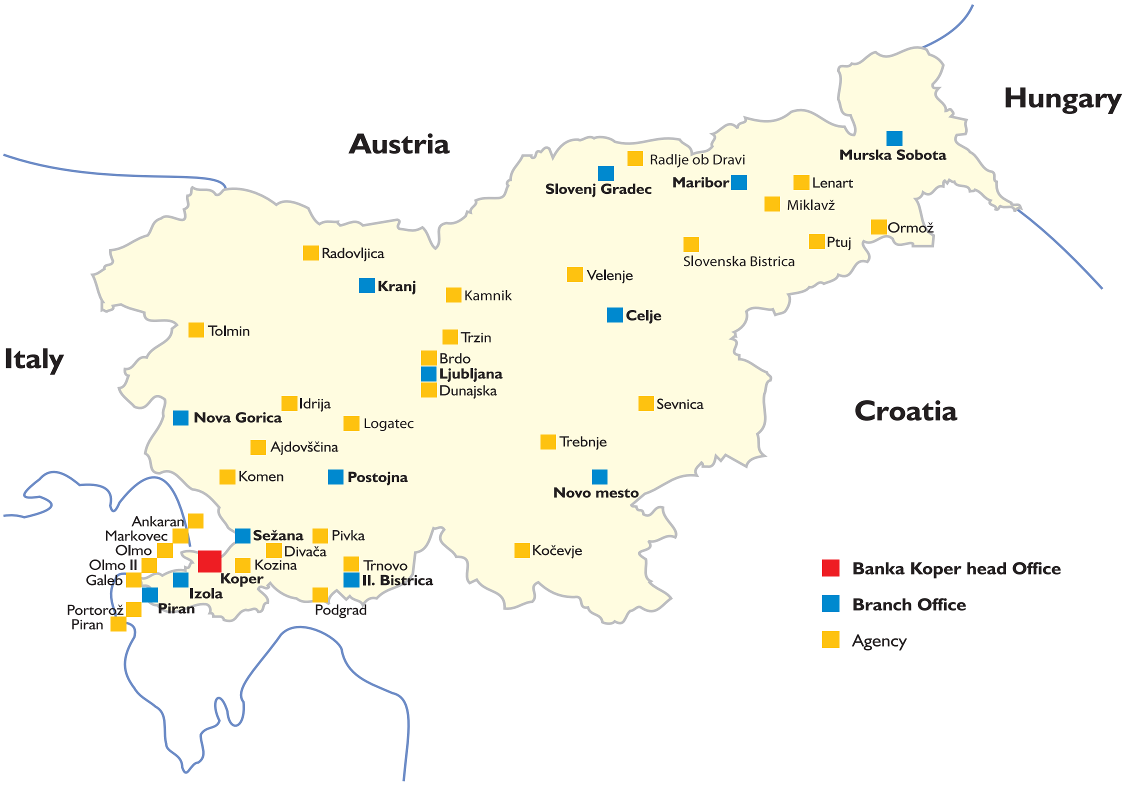
Port / 2005 / *Acryle on canvas* / 70 x 100 *cm*

OVERVIEW OF BANKA KOPER



Banka Koper is a universal bank offering a full range of banking services ranging from commercial banking and investment banking to custody and private banking, and international operations. The Bank complements its offer with finance and operating lease provided by its subsidiary Finor Leasing d.o.o.

In 2002, Sanpaolo IMI, one of the leading banking groups in Italy, acquired a stake in Banka Koper and on 1 January 2007, Intesa Sanpaolo, the Group formed by Sanpaolo IMI and Banca Intesa, became the Bank's majority shareholder.

International ratings

Rating agency	Long-term rating	Short-term rating
FITCH RATINGS	A+	F1
CAPITAL INTELLIGENCE	BBB+	A2

Banka Koper's long-term, short-term and support ratings have been affirmed based on high potential support from the Bank's majority shareholder, Intesa Sanpaolo (long-term issuer default - IDR rating AA- and stable outlook).

The individual rating is based on sound capitalisation, good profitability and adequate asset quality, while also taking into account the risk associated with Banka Koper's exposure to equities, single name concentrations in the loan book, and declined capital ratios i.e. capitalisation.

As a result of the strategic alliance with Intesa Sanpaolo, Fitch Ratings expects close operational and funding support from the Bank's highly rated shareholder.

Banka Koper has shown consistent profitability which compares well with most of its Slovenian peers thanks to a cheaper than average funding and a diversified income stream. In turn, the Bank has been protected to some degree from falling interest rates and rising inflation rates, and from strong competition for loans, which have squeezed net interest margins. Stimulated by the adoption of the euro in 2007, such trend is expected to continue.

MILESTONES IN THE BANKS CORPORATE HISTORY

1955 - Foundation of Istrska komunalna banka.
1961 - Komunalna banka Koper is established to serve banking needs of several coastal municipalities.
1965 - Venturing into new lines of business results in establishing Kreditna banka Koper - a commercial bank with growing branch network
1971 - Expansion of the business beyond regional borders and strengthening interbank business cooperation.
1978 - LB Splošna banka Koper is created by the amalgamation of Kreditna banka Koper and the branch office of Ljubljanska banka in Koper; the new bank is part of Ljubljanska banka - Associated Bank
1989 - The Bank is transformed into a public limited company and establishes a subsidiary - Finor.
1992 - The Bank leaves the bank group parented by Ljubljanska banka and develops the first Slovenian payment card - Activa.
1994 - Splošna banka Koper is a fully-licensed bank authorised to provide all banking services at home and abroad.
1996 - The branch network expands to Slovenia's capital, Ljubljana. The Bank modernises its internal organisation.
1997 - New corporate image and new name - Banka Koper. The Bank sets up a banking group with M banka.
1998 - The branch network expands and high-profile projects are launched - electronic banking. The i-Net Banka, client information system, migration of payments for legal entities to the Bank and information system overhaul.
1999 - Banka Koper takes over M banka.
2000 - The Bank is run by a two-man management board. The Bank's shares are listed on the Ljubljana Stock Exchange.
2001 - The Open-ended Mutual Pension Fund is established. Preparations start for the strategic alliance with the Sanpaolo IMI Group.
2002 - The Bank joins the Sanpaolo IMI Group - its majority shareholder. The sale of Finor is finalised. The Bank's branch offices spread to all Slovenian regions.
2003 - The Bank's shares are delisted from the Ljubljana Stock Exchange organised market. The Bank is authorised to provide custody services for management companies, i.e. mutual funds managed by them. The Activa system continues to gain ground.
2004 - New lines of business: cash management, marketing units of the Slovenian mutual funds and introduction of smart cards. Refurbishment of the Bank's premises. Finor d.o.o. is bought back for leasing operations.
2005 - Consolidation of the Bank's leading position in developing card operations, introduction of the first business debit card in Slovenia and first intercontinental SecureCode transaction with an

Activa Maestro card to be carried out in the world.
The Bank takes up the marketing of Sanpaolo International Fund foreign mutual funds.
Leasing services are sold also through the Bank's branches across Slovenia.

2006 - Sanpaolo IMI acquires additional shares of the Bank, thus obtaining a stake of 66.21 per cent of the Bank. The smart-card family features two more smart cards: Activa Visa and Visa Electron. Banka Koper is the first Slovenian bank to be nominated for the "Financial Sector Technology Awards".

2007 - Creation of the Intesa Sanpaolo banking group which obtains a stake of 91.21 per cent in the Bank. On 1 January, Slovenia adopts the euro. The American Express card joins the Activa family. The Activa system celebrates its fifteenth anniversary.

Deposits / 2007 / Acryle on canvas / 60 x 80 cm

REPORT OF THE MANAGEMENT BOARD

The performance of Banka Koper was good also in 2007. Its operating results were within the framework of the budgeted figures or even better. Other activities conducted with high intensity included carrying out development tasks taken up with the aim to launch new products, expand the retail network on the one hand and the development and alignment of the business processes in place with the requirements of the financial and banking regulators, the needs and expectations of business partners and the call for harmonisation within the framework of the Intesa Sanpaolo Group on the other.

The role played by the upbeat economic environment and the speed and with which the Intesa Sanpaolo Group put in place the architecture for efficient operational functioning proved to be of key if not of utmost importance support.

The macroeconomic indicators and in particular fast GDP growth, rising exports and a high employment rate, are yet another proof that the Slovenian economy was agile enough to take advantage of the global economic upturn. There was just the accelerating consumer-price inflation to spoil the picture and to raise threat alert for the financial sector.

The merger of the banks Intesa and SanPaolo IMI to create one of the largest global banking groups has called for a number of adjustments of Banka Koper to the new situation, and these adjustments were extensive both in terms of volume and expertise. As a result, additional possibilities and opportunities have been identified for the Bank's growth and development - forging links with the international financial markets and the launch of new products are some of the benefits reaped.

In 2007, the Bank's total assets exceeded 2.2 billion euros and increased by 20 per cent, which means 10 per cent above the pencilled figure. In particular, the volume of corporate and retail lending increased most prominently as the item jumped by 41 per cent. Such vigorous growth underpins the Bank's link with the corporate sector, and also testifies to its strong market position, despite the fact that it has been facing strong competition of other credit institutions, a trend present also in the Slovenian banking market for some time already. The adoption of the euro on 1 January 2007 means that competition has increased further due to a higher degree of transparency and easier comparison with the international financial market.

When it came to tapping into more sources of funding, the Bank showed its ability to generate customer deposits through its retail network and by borrowing in the interbank market. The support made available by the Intesa Sanpaolo Group proved to be an asset.

During the year under review, the Bank's intensive lending and deposit-gathering activity, energetic promotion and marketing of non-traditional products coupled with the opening of new branch offices, took centre stage in effort to advance commercial activities. In so doing, the focus on fostering and developing all-round relations with customers and intelligence to spot opportunity by being quick to offer banking and financial services to fit their needs has served as a beacon-light when designing and carrying out concrete activities, as well as when making a move to make a new offer.

Increasing competitiveness in the banking sector and an ever-increasing presence of downward trends in the financial products market have taken a heavy toll on the interest spread and have made customers more demanding and also more prudent when it comes to investing their savings. The Bank's credibility and its ability to respond in a timely fashion to changes have once again proven to be an edge.

Within the framework of the endorsed business policy and committed to strengthening its market position, Banka Koper was expanding and developing also other commercial activities in 2007 with the focus on the administration services, payment transactions and card business. Additional activities aimed at the expansion of the leasing and card business were launched through its subsidiaries.

The Bank's scope of operations was marked clearly by risk management guidelines and prudent investment policy. The approach enabled the Bank to phase-in also the standards for safe and sound operations introduced under the international capital framework Basel II and numerous directives of financial and banking regulators in the EU into its operating activities and business processes.

Banka Koper continued in 2007 to be a pro-active participant also in the preparations for the implementation of technological and business standards in the payment services area within the framework of the projects SEPA and Target2. By signing up it provides its business partners the benefits that arise from the standardisation and integration of operating processes in the field of financial services in the European Union.

The financial and economic ratios posted by the Bank confirm that the year 2007 was a good year for Banka Koper. Operating profit before taxation of 31.3 million euros and price/cost efficiency outperformed the budget. In doing so, the Bank remained on track when it comes to a conservative approach to credit risk assessment.

Operating cost control was a high-profile task also in 2007. As regards curbing costs, the so-called classical cost-cutting measures do not suffice but remain indispensable. If we are to streamline business processes to deploy new solutions and facilitate compliance, we have to continue with the overhaul of our technological procedures and with investments in information technology - the tasks already assigned top priority when it comes to the management and rationalisation of business processes.

The Bank's financial statements for 2007 have been audited by an independent certified auditor and the auditor has issued an unqualified audit opinion. The ratings awarded to Banka Koper by major rating firms place it among the best-rated banks in Slovenia.

As regards exercising corporate social responsibility, Banka Koper's commitment to the promotion of good environmental practice and sustainable development, as well as commitment to the development and welfare of local community, were made tangible also in 2007 through sponsorships and donations. The Bank's involvement in the community did not pass unobserved as numerous recognitions of sponsorships and donations demonstrate.

Managing the Bank's business responsibly and sensitively means to recognise the need to develop and motivate people who work with us. Tomorrow's success depends on talented, committed employees and education and on-the-job training are seen as crucial to long-term success. By investing in education, the Bank sought in 2007 to build solid foundations for professional and personal development of each and every individual. By building the skills and confidence of our staff, we foster loyalty to the Bank. New financial sector legislation and the harmonisation with the rules in place in the Intesa Sanpaolo Group demanded additional effort from the Bank's employees in 2007.

Sound business results posted in 2007 create a good starting position for the new financial year, even though the economic outlook for 2008 is all but optimistic. The endorsed business plan is a challenge for the Bank and its employees. Expanding the volume of operations and spreading the retail network, further improving of economic and particularly cost efficiency, and tapping into the synergies created by strengthening ties within the Intesa Sanpaolo Group, are the identifiable objectives and at the same time they are also demanding but attainable tasks.

President of the Management Board

Vojko Čok

Morning / 2006 / Acryle on canvas / 60 x 80 cm

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR 2007

In accordance with the third paragraph of Article 272 of the Companies Act (ZGD), the Management Board of Banka Koper d.d. has drawn up and sent to the members of the Supervisory Board the following documents for review and approval:

- Audited Annual Report for the Financial Year 2007,
- Auditor's report drawn up by the independent auditor - PricewaterhouseCoopers, and
- The proposal for the appropriation of profit.

Pursuant to the provisions laid down in Article 282 a of the Companies Act, the Supervisory Board has examined the received documents and hereby presents its findings to the Annual General Meeting of Shareholders of Banka Koper d.d. as follows

R E P O R T

1. The way and scope of verification of the management of Banka Koper during the financial year 2007.

In the course of the financial year 2007, the Supervisory Board of Banka Koper d.d. met at four regular sessions to address strategic and operating issues regarding the Bank's development, implementation of the business policy and current results posted by the Bank, annual and other reports of the Management Board, as well as other important issues relevant to the Bank's operations. At three sessions held by correspondence, the Supervisory Board passed decisions to approve the business deals that require approval by the Bank's Supervisory Board since the limit on the Bank's exposure to the respective customers had to be exceeded, and examined other on-going activities. The material for the sessions was sent to the members of the Supervisory Board in compliance with the Rules of Procedures for the Activities of the Supervisory Board and functions were discharged in line with the aforementioned act.

The composition of the Supervisory Board changed in 2007 when Mr. Flavio Gianetti and Mr. Carlo Moretti resigned from the Bank's Supervisory Board and the Annual General Meeting of Shareholders elected on 5 September 2007 Mr. Massimo Pierdicchi in Dr. Gyorgy Suranyi to the Bank's Supervisory Board

The Supervisory Board performed its duties in accordance with its principal function, i.e. supervision of the Bank's business run by the Management Board and the Bank's performance in accordance with its powers and mainly engaged in the following areas:

- monitoring and assessing on a regular basis the compliance with the Bank's business policy for 2007 and the fulfilment of the goals set out within the policy framework,
- examining the annual report on the carrying out of internal control and the measures that arise from the Money Laundering Prevention Act for the year 2006,

- examining and approving the Annual Report of the Internal Audit Department for the year 2006,
- verifying the activities and reviewing the findings of the Internal Audit Department during the current year,
- examining the Report on external examinations carried out within the framework of supervision of Banka Koper in 2006,
- appointing the audit committee and the adopting the rules of procedure for the work of the audit committee of Banka Koper d.d.,
- appointing Mr. Ezio Salvai as Deputy President of the Management Board of Banka Koper,
- addressing other issues in accordance with powers conferred upon it under law and the Bank's Articles of Association.

The Supervisory Board assesses that it had at its disposal timely and adequate data, reports and information, as well as additional clarifications and explanations when required at sessions it held, so as to be able to monitor throughout the financial year the Bank's operations with due attention, as well as the internal audit function and supervise the running of the Bank. A more comprehensive report on operations and results achieved in the year 2007 determined on the basis of unaudited financial statements was duly examined by the Supervisory Board earlier in March 2008. In addition, the Supervisory Board examined and approved the plan of internal audit assignments for 2008.

The Supervisory Board hereby states that all its members have examined carefully the Annual Report, the Report of the Certified Auditor, Financial Statements, Notes to the Financial Statements, and other notes presented therein. Furthermore, the Supervisory Board assesses that the Annual Report of the Management Board gives a true and fair view of the business events and provide comprehensive information as to operations during the past financial year, and thus complements and expands the information already presented to the Supervisory Board in the course of the financial year. The set goals were exceeded. The Bank has safeguarded a high level of operational safety and effectively manages risks it is exposed to in the course of its day-to-day business. Therefore, the Supervisory Board has assessed that the Bank was successfully run during the period under review.

The Supervisory Board also assessed that the work of the Internal Audit Department was well planned and effective, since it has become an indispensable element for the activities of the Management Board and an aid to the Supervisory Board when forming opinions and making assessments.

2. The position with regard to the Auditor's Report

The Supervisory Board hereby concludes that the external auditor has expressed the opinion in relation to the financial statements prepared by Banka Koper d.d.. Therefore, the Supervisory Board hereby adopts the following

Position:

that the Supervisory Board has no objection to the Auditor's report of PricewaterhouseCoopers, Chartered Accountants and Registered Auditors.

3. Endorsement of the Annual Report for the financial year 2007

On the basis of the insight into operations carried out by the Bank in the course of the financial year and after due examination of the audited Annual Report and the unqualified opinion stated in the external auditor's report, the Supervisory Board hereby

approves and adopts

Annual Report of Banka Koper d.d. for the Financial Year 2007.

4. Endorsement of the proposal for profit appropriation

The members of the Supervisory Board have examined the proposals for the appropriation of profit to be finally validated by the Annual General Meeting. By taking into consideration the Bank's goals for the year 2008 and beyond, the Bank will have to strengthen its capital in order to maintain adequate capital adequacy and sustain the planned volume of its operations. The proposal made by the Management Board as to the profit distribution is oriented towards bracing the Bank's reserve. After due examination, the Supervisory Board hereby gives unconditional

a p p r o v a l

To the proposal of the Management Board as to the balance sheet profit appropriation.

Done at Koper, 23 April 2008

Chairman of the Supervisory Board

Giuseppe Cuccurese

CORPORATE GOVERNANCE BODIES

In 2007, the Supervisory Board of Banka Koper was composed of the representatives of the Intesa Sanpaolo Group, the Bank's majority shareholder , and the representatives of Intereuropa, Istrabenz and Luka Koper.

Giuseppe Cuccurese	Chairman
Andrej Lovšin, M.Sc.	Deputy Chairman
Massimo Pierdicchi	Member
Michele Raris	Member
Gyorgy Suranyi, Ph.D.	Member
Marjan Babič, M.Sc.	Member
Janko Kosmina	Member

Management Board

In 2007, Banka Koper was run by the Management Board composed of three members, as laid down in the Bank's Articles of Association. The Management Board had two advisers.

Vojko Čok	President
Gianfranco Ugo	Deputy President
Igor Kragelj	Member
Aleksander Lozej, M.Sc.	Adviser
Viljem Semolič	Adviser

Management - Directors of Divisions and Heads of Departments

Boris Bjelica	Back Office
Tatjana Faust	Treasury
Rado Grdina	Organisation and HR
Aleksander Milostnik	Accounting and Controlling
Mojca Plahuta	Information Technology
Dario Radešič	Retail Banking
Ida Tomišič	Corporate Banking
Igor Bahčič, M.Sc.	Investment Banking
Elena Guštin	Internal Audit
Bojan Knez	Custody Banking
Franc Ohnjec	Marketing
Maja Soban	Legal Affairs
Ladi Škrinjar, M.Sc.	Risk Management
Luciano Vierin	Credit Management

Bull / 2007 / Acryle on canvas / 60 x 80 cm

GENERAL ECONOMIC AND BANKING ENVIRONMENT

The year 2007 recorded the highest economic growth and the lowest unemployment rate since Slovenia's independence, gained in 1991. However, the overall macroeconomic picture was partly marred by rising inflation, which grew at a rate higher than elsewhere in the euro area, reaching 5.6 per cent.

The situation on the labour market in 2007 was good, resulting in growing employment, especially in construction, manufacturing industry and services. A relatively good macroeconomic environment in the European Union assisted the growth in exports of goods, especially machinery, chemicals and pharmaceuticals, metal products, iron and steel. The growth in exports of services was primarily underpinned by increased exports of services with knowledge-based added value.

The economic growth measured by GDP reached 6.1 per cent, twice the growth in the euro area. Such growth rate was stimulated by a hike in exports and high investment levels.

Economic growth was also supported by particularly strong growth of gross fixed capital formation, especially investments in construction, machinery and equipment, resulting in improved production capacities.

Consumer prices in the euro area increased in 2007. Inflation peaked at 5.6 per cent in Slovenia, fuelled by more expensive food and liquid fuel, a result of world market trends in commodities prices, which affected Slovenia more than other eurozone countries.

In 2007, the total assets of the Slovenian banking system increased by 25 per cent. Enhanced lending to the corporate sector, households and sole proprietors was recorded, while lending to the public sector decreased. An increase in deposits placed by the corporate sector, household sector, sole proprietors and the public sector was recorded, as well as in interbank borrowing.

The profit before tax of the Slovenian banking system in 2007 was higher by 31 per cent in comparison to 2006, reaching 513.5 million euros. The growth in operating expenses lagged behind the growth in total assets.

Sequences / 1982 / Screen printing / 100 x 70 cm

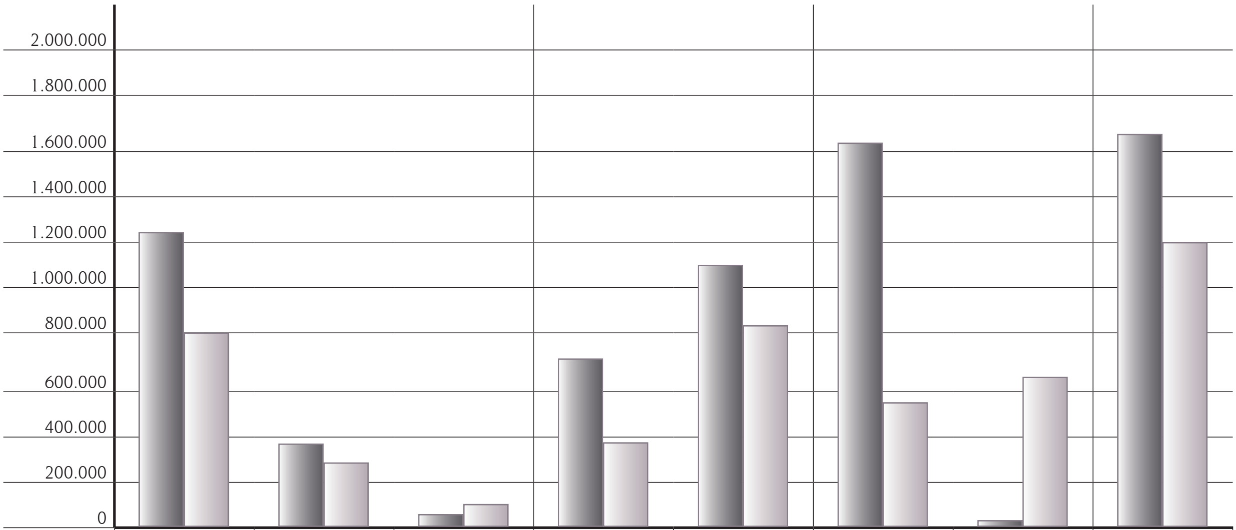
Lending operations

The most important economic and banking developments influencing increased lending to the non-bank sector in 2007 were high economic growth, favourable export developments and conjunctural conditions in the European Union, and increasingly keen competition. The Bank efficiently reacted to changed economic conditions by continuously improving its offer of products and services.

In 2007, the Bank's gross lending to the non-bank sector increased to reach 505.2 million euros, i.e. by 41 per cent in comparison to 2006. The Bank's non-bank lending market share increased from 5.9 per cent at end-2006 to 6 per cent at end-2007.

In terms of currency, lending in euro still largely prevailed in 2007 with 97.9 per cent. As for the maturity structure, the trend of increasing long-term over short-term loans was recorded also in 2007. Short-term loans accounted only for 33 per cent of the total.

An overview of gross lending to the non-bank sector in thousands of euros.



	Corporate	Households	Government	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2007	1.319.535	375.963	47.649	574.688	1.168.459	1.706.453	36.694	1.743.147
31.12.2006	850.488	300.575	86.923	385.886	852.099	577.995	659.990	1.237.986

Loans to the corporate sector amounted to 1,319.5 million euros or 75.7 per cent, representing the largest portion of loans to the non-bank sector. Loans to the corporate sector increased by 7 percentage points year-on-year.

Lending to households, private individuals and sole proprietors, reached 376 million euros or 21.6 per cent of all loans to the non-bank sector. Compared to 2006 loans to this sector increased by 75.4 million euros or 25 per cent. As in 2006, households mostly borrowed on a long-term basis and, while borrowing in foreign currency remained on a low level. Booming housing lending largely contributed to the growth in household loans.

In 2007, the Bank somewhat scaled down from financing provided to the government/public sector. Loans to government institutions thus decreased by 39.3 million euros or 45.2 per cent year-on-year. The government mostly borrowed by raising euro-denominated long-term loans.

Deposits

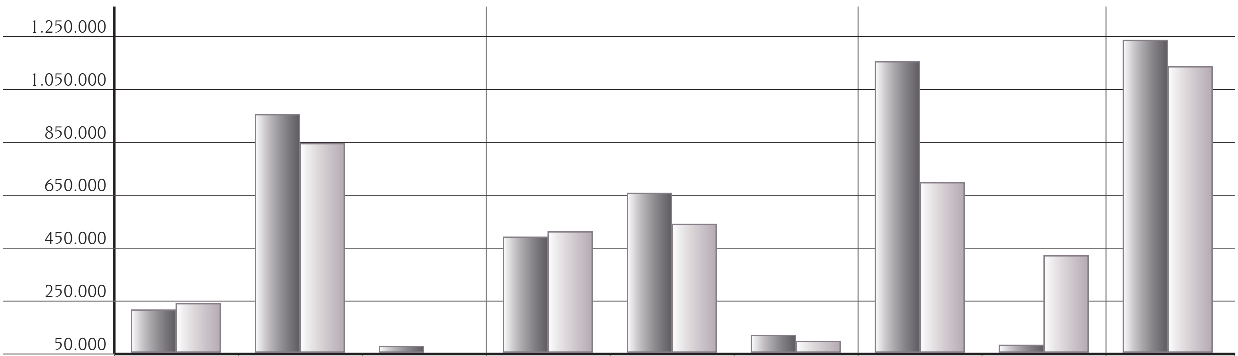
Customer deposits increased by 11 per cent or 124 million euros in 2007, which can be attributed mainly to higher interest rates.

The market share of customer deposits, recorded at end-2007, was 6.4 per cent, same as a year earlier. In 2007, the Bank gained ground in terms of long-term deposit market share while the opposite trend was recorded for sight i.e redeemable at notice and short-term deposits.

Short-term deposits prevailed with 53 per cent over sight deposits (39 per cent) and long-term deposits (8 per cent). The deposit structure in terms of currency was dominated by euro-denominated deposits with 94.8 per cent.

While the Bank managed to bolster its market share in terms of household and government deposits, it somewhat lagged behind when it comes to corporate deposits.

Overview of deposit in thousands of Euros



	Corporate	Households	Government	Sight	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2007	221.910	952.028	69.742	485.253	658.289	100.138	1.179.111	64.569	1.243.680
31.12.2006	240.469	849.568	30.679	505.711	537.350	77.656	699.936	420.783	1.120.716

The volume of the deposits placed by legal persons dropped by 15.1 per cent (18.6 million euros). The Bank's market share in this segment thus decreased from 4.5 per cent to 3.9 per cent.

Deposits from households account for 77 per cent of all non-bank deposits and at end-2007 totalled 952 million euros, i.e. 12 per cent more year-on-year.

Compared to 2006, deposits placed by the government increased by 39.1 million euros in 2007. At end-December 2007 the share of such deposits in the deposit portfolio was 6 per cent, mainly short-term and euro-denominated deposits.

Card operations in the Activa system

The Activa system

In 2007 the area of card operations in Banka Koper was characterised by moving towards the EMV standard (migration of cards, POS terminals and ATMs) and the SEPA environment, as well as by the 15th anniversary of the Activa system, marked with a business conference on the SEPA project and new trends in card technology.

In cooperation with the Chamber of Small Businesses and Crafts of Slovenia, the Bank also launched the first prepaid card in Slovenia, so-called Obrtnik card.

The number of issued cards rose by 3 per cent year-on-year to 1.11 million in 2007. The volume of transactions carried out with payment cards in the Activa system topped 1.88 billion euros in 2007, increasing by 13.5 per cent in comparison with 2006.

The number of points of sale accepting Activa cards has been growing from year to year; in 2007 a 13 per cent growth compared to 2006 was recorded. At the end of 2007, 29,050 points of sale were included in the system.

The Bank's card operations

In line with its role of the founder the Activa system, Banka Koper launched a number of initiatives in 2007 with the aim to promote the system to the benefit of its member banks. The Bank completed the migration to the smart-card technology (with the exception of the Activa card), while significantly expanding its POS network and introducing its own ATM network.

The acquisition of a 75 per cent stake in the limited liability company Centurion d.o.o., a licensed issuer of American Express cards, was an important step for the Bank, allowing it to engage in the marketing of American Express cards and concluding contracts with merchants for accepting the cards at points of sale.

The Bank's cooperation with the Chamber of Small Businesses and Crafts of Slovenia gained momentum in 2007 when the Obrtnik card, tailored to meet the needs of small businesses, was issued to the members of the Chamber who are also the Bank's customers. In addition, the prepaid Obrtnik cards were distributed to the members of the Chamber, potential new customers of Banka Koper.

In 2007, the number of issued cards exceeded 283,000; 17 per cent more than a year earlier, mainly on account of the prepaid Obrtnik card and the American Express cards. Transactions increased by 16.7 per cent year-on-year and topped 530 million euros, this being 28 per cent of all transactions within the Activa system.

The points of sale accepting Activa cards grew by 14.2 per cent in 2007 to 12,300 points of sale, while the number of rented POS terminals increased by 20 per cent to reach 4,716.

Electronic banking (i-Net Banka)

The growth in e-banking for individuals and legal persons through the i-Net Banka carried over into 2007 as a result of facilitated access to banking services and the confidence of the customers in the security of electronic business.

The number of individual users of the i-Net Banka reached nearly 30,000 in 2007 (16 per cent more than in 2006) who executed 2.5 million transactions - 18 per cent more than a year earlier.

The number of legal persons using the i-Net Banka increased by 25 per cent to reach 8,700 users in 2007. They executed 2.9 million transactions or 7 per cent more than in 2006.

Cash transactions

In 2007, incoming cash payments totalled 879.3 million euros, while outgoing cash payments amounted to a total of 564 million euros. The aggregate value of incoming cash payments increased by 288 million euros year-on-year, especially from February onward. The increase in incoming, as well as outgoing cash payments was most probably a result of the changeover to the euro.

ATM business

Banka Koper has been continuously expanding its ATM network which at present consists of 81 ATMs located across Slovenia.

In 2007, roughly 4.1 million transactions were carried out at the Bank's ATMs, slightly less than in 2006. Again, the introduction of the new national currency somewhat affected customer behaviour, resulting in a lower number of cash withdrawals, while in terms of value, the volume of these withdrawals increased from 172.5 million euros in 2006 to 202.6 million euros in 2007.

Despite the drop in the aggregate number of transactions carried out at ATMs, an increase in transactions made with Visa (21.7 per cent) and MasterCard (20.3 per cent) cards was recorded in 2007.

Personal accounts

In 2007, 2,500 new accounts were opened. The trend of increased consumption and borrowing is also reflected in negative balances on personal accounts. The aggregate value of authorised overdrafts thus increased by 1.9 million euros, while actually utilised overdrafts rose by 1.2 million euros.

During the year under review, unauthorised negative balance on personal accounts ranged between 3.3 and 3.4 million euros.

Standing orders and direct debits

The number of standing orders and direct debits arranged with the Bank increased by approximately 34,000 (12.7 per cent) and was constantly going up - a rise stimulated by strong promotion of these payment instruments, especially when it comes to insurance companies and mobile network operators. Lower commission charged on cashless payments is an edge that increases the convenience of these payment instruments .

Marketing mutual funds

In the area of mutual funds, the Bank recorded good results in 2007, with 1,028 new contracts and 8.5 million euros invested in Slovenian funds, and 3,260 new contracts and 18.3 million euros invested in the Sanpaolo International Fund (SPIF).

The average monthly investment in domestic mutual funds amounted to 0.7 million euros, thus exceeding the plan on account of investments in the area of the Balkans which proved to be extremely attractive to investors.

Investments in Sanpaolo International Funds peaked in October 2007 with 5.6 million euros. Increasing profitability of these funds has been attracting more and more investors and almost two thirds of all paid-in funds were invested in the Equity China fund.

National Housing Savings Scheme

Within the framework of the sixth National Housing Savings Scheme, by end-September 2007 the Bank concluded 1,071 contracts, for a total of 1,703 lots. Due to the downward trend in savings under the housing scheme, in June 2007 the Bank requested 1,000 lots only within the framework of the seventh scheme.

Distributing insurance policies

Banka Koper has been distributing insurance policies for the insurance company Adriatic Slovenica Zavarovalna družba d.d. Despite favourable terms and conditions applying to these products, the number of concluded contracts increased by a modest 12 per cent to 1,037 in comparison to 2006 mainly thanks to property insurance policies.

Leasing

Banka Koper engaged in marketing the standard array of leasing products provided by Finor Leasing d.o.o., a wholly owned subsidiary, as well as special offers, prepared by Finor in cooperation with the Bank, through its ranch offices across Slovenia.

In 2007, 182 leasing contract worth 4.75 million euros were concluded, of which the largest portion involved commercial vehicles (46%), followed by personal vehicles (30%), and production and other equipment (24%).

Open-ended Mutual Pension Fund of Banka Koper (OVPS)

Banka Koper has been a pro-active player in the voluntary supplementary pension insurance system since 2001 when it established the Open-ended Mutual Pension Fund of Banka Koper d.d. (OVPS). The OVPS is intended both for collective and individual supplementary pension insurance.

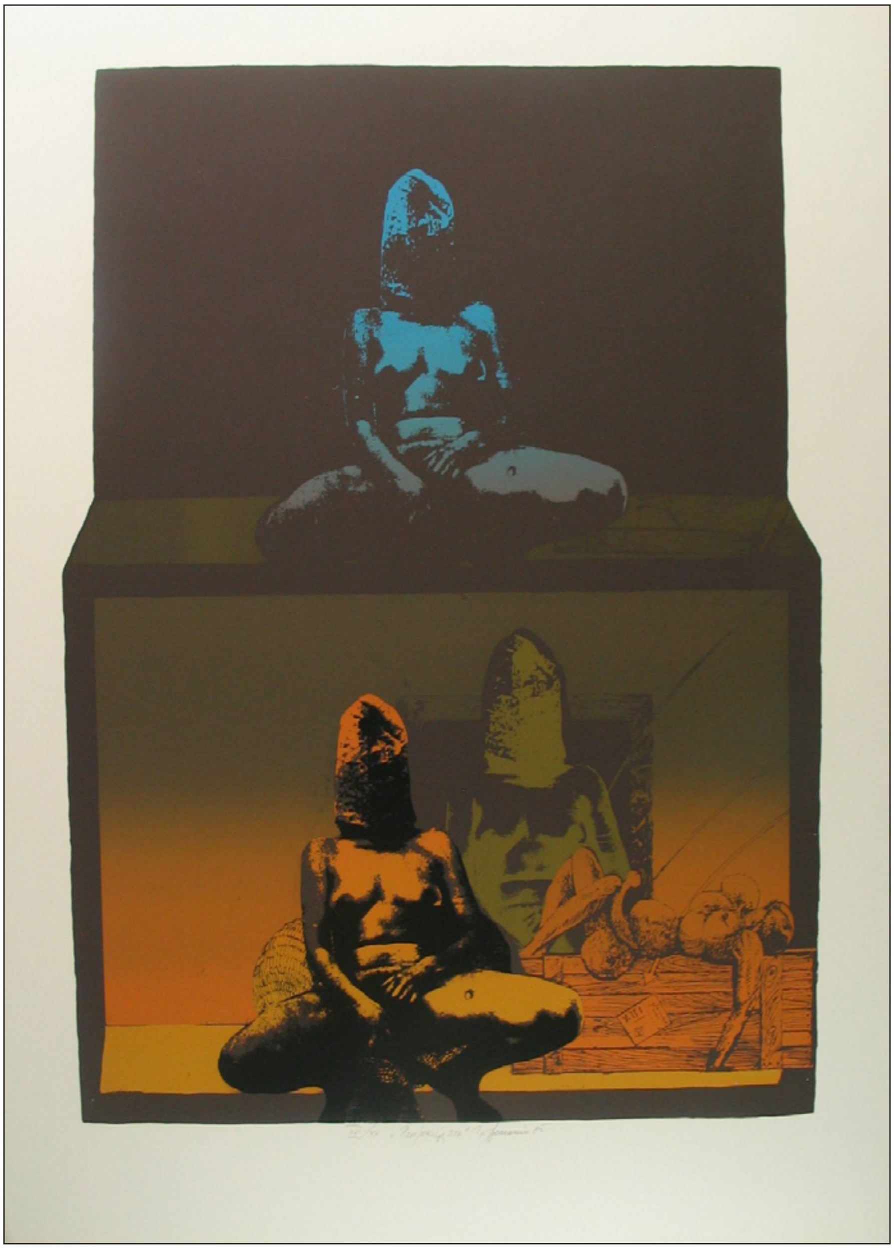
As at 31 December 2007, the OVPS posted total assets of 21.4 million euros, which means a 33.1 per cent growth with regard to year-end 2006. At the end of 2007, the OVPS had 5,496 members or 6.6 per cent more than a year earlier, of which 4,919 were collectively insured and 577 were individually insured. The number of companies participating in the scheme increased from 93 to 101 companies.

Unit asset value increased by 8.6 per cent in 2007 and the persons ensured enjoyed higher yield than the guaranteed one. Consequently, the Bank as founder and fund manager was not exposed to liabilities arising from the payment of the difference to up to the guaranteed yield.

Custody banking

Banka Koper launched custody services in 2003. In 2007, the Bank provided these services to thirty-two investment funds, with a volume of assets approaching 1.4 billion euros. In terms of asset value of the investment funds in question, the Bank ranks second among banks providing custody services in Slovenia.

In 2007, preparations started for complementing the range of custody services with administrative services for investment funds, for which the Bank obtained authorisation from the Bank of Slovenia in January 2008.

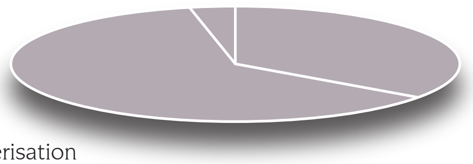


Projection 216 / 1980 / Screen printing / 100 x 70 cm

Investments in fixed assets

In 2007, Banka Koper invested 7.2 million euros in business computerisation, business premises and other equipment.

Investments in 2007



With 4.4 million euros, computerisation of banking operations accounted for the biggest portion of capital investments - 60.8 per cent of investment spending made by the Bank. As increasingly stricter security requirements regarding card operations force banks to increase their investments in this area of card business, the Bank invested almost half of the money (2.1 million euros) in card operations, predominately to purchase NCR ATMs, additional licenses and new equipment.

For the expansion of the branch network and refurbishment, the Bank allocated 2.2 million euros, i.e. 30.5 per cent of all capital investments. Five new branches were opened in 2007, while one was closed down.

In 2007, 0.6 million euros were allocated to other equipment, i.e. 8.3 per cent of all investments, the bulk of which refers to the procurement of new vehicles and new equipment for the Bank's vaults.

Information and technological development

In 2007, the activities carried out in the area of IT and technological development were channelled in:

- **modernisation of the information network, by moving towards the MPLS technology** in order to ensure a higher level of reliability, i.e. accessibility of the network and the possibility of upgrading the network with minimum costs;

- **elaboration of an interface for payments according to the ZBS XML standard for the ERP systems SAP and Microsoft Dynamics NAV,** allowing the integration of the user's information system with the payment system of any bank compliant with the standard. The user may thus access treasury functionalities and centralised supervision, as well as carry out payments in individual or associated companies.

- **setting up the Bank's own ATM network**, bringing self-sufficiency, room for new technologies, and more efficient use of ATM functions with upgrading possibilities. For this purpose, separate security and information infrastructure was provided.

Activities relating to the modernisation of the Bank's information system were primarily focused on the integration of new support functions with the Bank's underlying infrastructure, among which solutions for depositing and saving of legal persons, protection of investments and transactions with securities. The Bank successfully concluded preparations for entering the TARGET2 international payment system and became a participant in 2007.

The data warehouse was upgraded to ensure compliance with the requirements of the Basel II, the SISBON system and for general reporting purposes.

Electronic banking was further improved with the Bank's new website and some new functions, while carrying on the project of a new e-bank where all services will be just a click away.

In the area of card operations the Bank launched the prepaid card developed in cooperation with the Chamber of Small Businesses and Crafts, concluded the migration to the smart-card technology and the certification of new POS terminals, upgraded the Mercator Pika system and started the migration of banks users of process services to the Exact card system.

Scene 235 / 1982 / Screen printing / 100 x 70 cm

Headcount and the educational structure of employees

At year-end, the Bank employed 817 employees. The average age of its employees was 42.0 years. The aggregate years of service averaged 20.4 years, the number of years spent working for the Bank was 16.2 years.

The rate of staff turnover in 2007 was 4.1 per cent.

Number of employees by educational level

Level of education	V or lower	VI	VII or higher	Total
Number of employees	467	95	255	817
Share (in %)	57.2	11.6	31.2	100.0

Education and training of employees

In 2007, the aggregate number of attendants of education/training in the Bank totalled 1,665. The Bank's employees spent 13,292 educational hours at seminars and on-the-job (in-house) training. In average, 2 training programs were attended by each employee.

The Bank was successful in carrying out in-house training, attended by 1,390 employees in 2007, and was particularly efficient in organising in-house training on the basis of insourcing (attendance at such training rose by 17.8 per cent).

The Bank also acknowledges the importance of formal education and fully supports its employees in their efforts. In 2007, the Bank granted financial contributions for education purposes to 35 employees.

Indicators of processes and education - education and training of employees

	Banka Koper d.d.
Number of employees	817
Annual number of employees included in education and training	578
Share of employees included in education and training (in %)	70.7
Annual number of hours in education and training	13,292
Annual number of hours in education and training per employee	16.3

The Bank's social responsibility

For decades now, the Bank's development has been closely connected with its immediate environment. The social commitment of Banka Koper is predominately manifested in sponsorship and donorship activities.

The Bank takes great pride in hosting exhibitions in its premises, while also supporting events related to culture and arts, taking place across Slovenia.

The cooperation between the Bank and the University of Primorska further consolidated in 2007 with joint participation in the project Podjetna Primorska ("Enterprising Primorska"), aimed at encouraging start-ups and creating opportunities for the realisation of their projects.

For the third year in a row, Banka Koper engaged in the sponsorship of the WTA tennis tournament, the Banka Koper Slovenia Open, and of several sport societies and events in the regions where the Bank's presence is most accentuated.

The Bank has always been attentive to humanitarian causes and has been cooperating with numerous humanitarian organisations and participating in fund-raising actions. For several years now it has been devolving part of the funds otherwise intended for business gifts to different organisations.

Tramontane wind / 2007 / Acryle on canvas / 60 x 80 cm

POSITIONING BUSINESS FOR GROWTH IN 2008

The main strategic orientation pursued by Banka Koper is staying true to its reputation of a reliable, but modern bank, providing a universal spectrum of banking services and products that meet the highest standards of quality. To round out its offer the Bank provides finance and operating lease through its subsidiary, Finor Leasing d.o.o..

The Bank's commitment to growth and development will be realised through organic growth;

- By synergy with Intesa Sanpaolo,
- By expanding the branch network,
- By launching new products,
- By intensifying commercial activities across the Bank's branch network,
- By better exploiting modern distribution channels,
- By putting in place adequate technological support,
- By on-going education and training of staff,
- By appropriate organisational adjustment.

The Bank's objectives in 2008

The Bank's majority shareholder is Intesa Sanpaolo, the third largest banking group of the euro area. By expanding its branch network and bringing some new products to the market, Banka Koper will improve its market position and increase earnings. The trend of increasing profitability of recently introduced products is expected to continue in upcoming years.

In cooperation with Privredna banka Zagreb, also parented by Intesa Sanpaolo, Banka Koper will be in charge of card products and card transaction processing for banks of the Group from other countries in the region. Experience and know-how gained and developed in Banka Koper for more than a decade will be shared with other banks of the Group. An important project scheduled for 2008 is the re-branding of the banks in the Group, set up for achieving a uniform corporate image at Group level, while preserving the original names of the banks.

- The strengthening of the market share: the Bank is committed to improving its market position and increasing its market share. The Bank does most of its business in its domicile region where it has a majority share and its principal task will be to maintain the already acquired market share in this region, while increasing its market share in other Slovenian regions. For this purpose, the opening of 7 new branches is planned for 2008, which will add-up to the already well-distributed branch network.

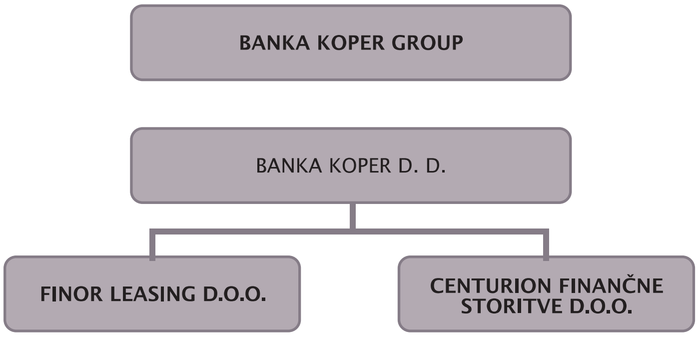
- Launching new products: the Bank will continue to expand its range of products and services also in 2008. By offering standard products and products derived from them, the Bank aims at satisfying the needs of all customer segments, especially small and medium-sized enterprises. Complementary products, such as Franklin Templeton mutual funds and blends of investment and insurance products in cooperation with Generali, will be offered.

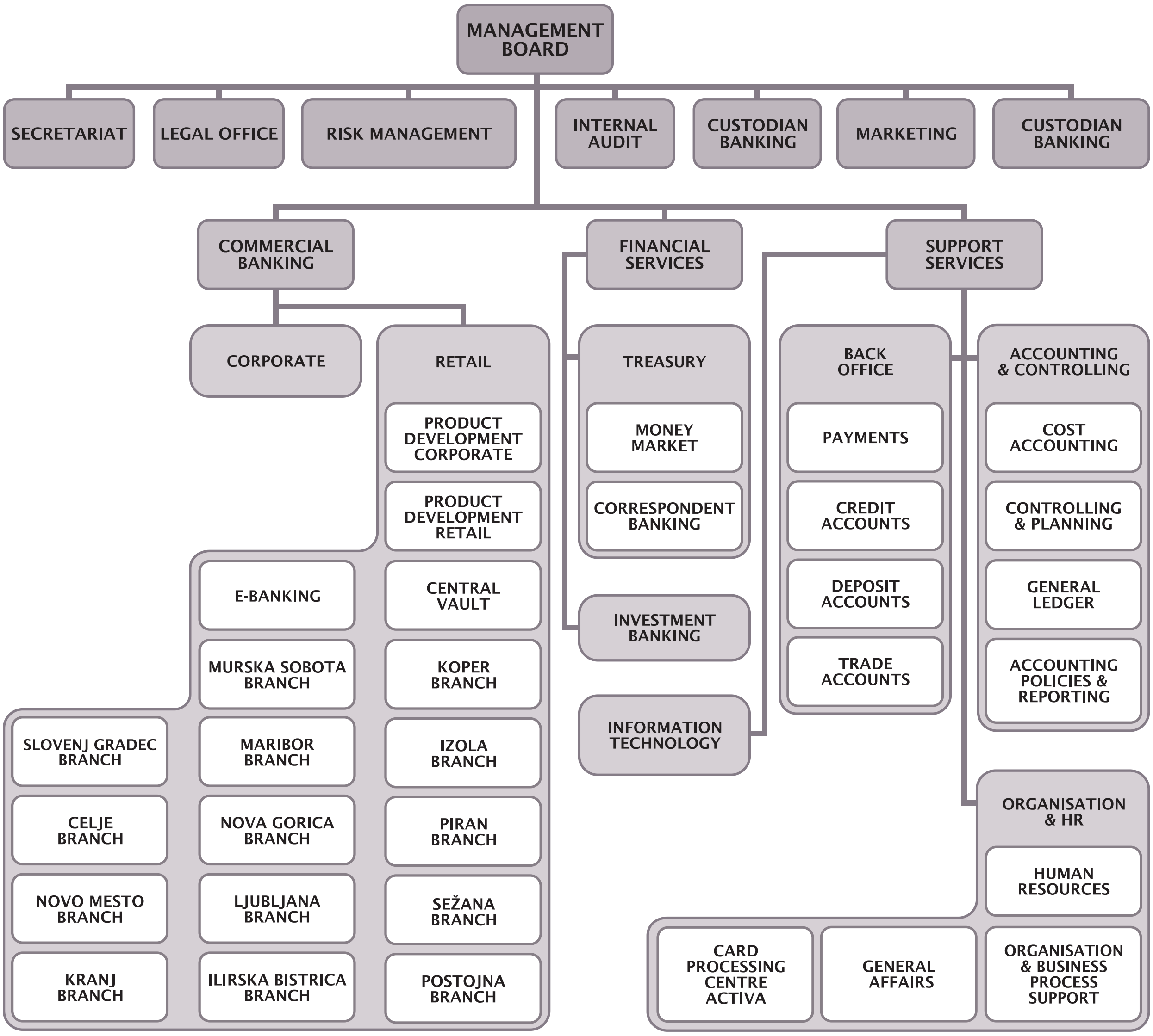
- Information support development: In 2008, the Bank is planning to continue with the development of the data warehouse project, as well as to upgrade and modernise some of the IT applications and thus be in a position to deliver quality and responsive services.

SHAREHOLDERS

	SHAREHOLDER	31 Dec 2007	% of capital 31 Dec 2006
1.	Intesa Sanpaolo S.p.A.	91.21	66.21
2.	Istrabenz d.d.	1.67	10.00
3.	Luka Koper d.d.	1.67	10.00
4.	Intereuropa d.d.	1.67	10.00
5.	Minority shareholders	3.78	3.79

ORGANISATIONAL CHART





STATEMENT OF MANAGEMENT'S RESPONSABILITIES

The management is responsible for preparing financial statements for each financial year that present fairly the state of affairs of the Bank and its subsidiaries as at the end of the financial year and of the profit or loss for that period.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2007. The management also confirms that applicable International Accounting Standards have been followed and that the financial statements have been prepared on the going concern basis.

The management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Bank and its subsidiaries and to prevent and detect fraud and other irregularities.

Koper, 17 March 2008

Member	President
Igor Kragelj	Vojko Čok

BANKA KOPER d.d. 1
Banka Koper

Income statement

(all amounts expressed in thousands of EUR)

	Notes	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
		Year ended 31 December			
Interest income	5	99,882	84,747	102,030	85,447
Interest expense	5	(46,260)	(37,044)	(47,178)	(37,312)
Net interest income		**53,622**	**47,703**	**54,852**	**48,135**
Dividend income	6	508	1,880	508	1,880
Fee and commission income	7	34,989	32,922	38,261	33,014
Fee and commission expense	7	(4,543)	(4,841)	(5,870)	(4,843)
Net fee and commission income		**30,446**	**28,081**	**32,391**	**28,171**
Gains less losses from financial assets and liabilities not recognised at fair value through profit and loss	8	1,291	15,200	1,291	15,200
Gains less losses from financial assets and liabilities held for trading	9	670	2,503	670	2,503
Gains less losses from foreign exchange transactions		392	(156)	393	(167)
Gains less losses on derecognition of non-current assets other than held for sale	10	1,039	(91)	987	(140)
Other operating gains less losses	11	906	558	1,435	1,124
Administrative expenses	12	(43,312)	(40,494)	(45,927)	(41,020)
Amortisation and depreciation	13	(5,711)	(5,392)	(6,234)	(5,676)
Provisions:		(4,209)	(118)	(4,236)	(110)
- provisions	14	(3,306)	(532)	(3,285)	(524)
- retirement benefit obligations	14	(903)	414	(951)	414
Impairment losses on loans and advances	15	(4,350)	(5,780)	(5,222)	(5,812)
Operating profit		**31,292**	**43,894**	**30,908**	**44,088**
Income tax expense	16	(7,114)	(10,691)	(6,999)	(10,732)
Net profit for the period		**24,178**	**33,203**	**23,909**	**33,356**
Attributable to:					
Equity holders of the parent		24,178	33,203	24,090	33,356
Minority interest		-	-	(181)	-
		24,178	33,203	23,909	33,356
Earnings per share (basic and diluted) (expresses in EUR per share)	17	45.58	63.44	45.42	63.73

The following notes on pages 46 to 109 form an integral part of these consolidated financial statements.

Balance sheet

(all amounts expressed in thousands of EUR)

	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2007	2006	2007	2006
ASSETS					
Cash and balances with central banks	19	31,062	58,935	31,113	58,935
Financial instruments held for trading:		52,227	28,103	52,227	28,103
- trading assets	20	50,047	26,215	50,047	26,215
- derivative financial instruments	21	2,180	1,888	2,180	1,888
Investment securities available for sale	22	300,196	239,470	300,196	239,470
Loans and advances:		1,768,323	1,395,791	1,792,458	1,407,309
- to banks	23	81,452	127,209	81,452	127,209
- to customers	24	1,686,871	1,268,582	1,711,006	1,280,100
Investment securities held to maturity	22	2,013	70,604	2,013	70,604
Pledged assets	40	19,211	17,117	19,211	17,117
Goodwill	25	-	-	905	905
Property, plant and equipment	26	30,747	30,980	34,357	32,824
Investment property	27	518	559	518	559
Intangible assets	28	4,945	3,439	4,990	3,442
Investment in subsidiaries	29	5,214	3,688	-	-
Income tax assets		8,513	3,735	9,057	3,847
- current income tax		6,399	-	6,476	47
- deferred income tax	38	2,114	3,735	2,581	3,800
Other assets	30	16,242	12,169	17,201	12,200
Total assets		2,239,211	1,864,590	2,264,246	1,875,315
LIABILITIES					
Liabilities to CB	31	30,046	-	30,046	-
Financial instruments held for trading:		17,262	3,218	17,262	3,218
- derivative financial instruments	21	17,262	3,218	17,262	3,218
Liabilities carried at amortised cost:		1,923,463	1,620,205	1,940,010	1,629,705
- deposits from banks	32	116,250	83,385	116,250	83,385
- due to customers	33	1,248,003	1,123,806	1,247,973	1,123,287
- other borrowed funds from banks	34	558,942	412,588	575,519	422,608
- other borrowed funds from other customers	35	268	426	268	426
Provisions:		23,732	21,079	23,784	21,098
- provisions for liabilities and charges	36	20,183	18,044	20,154	18,037
- retirement benefit obligations	37	3,549	3,035	3,630	3,061
Income tax liabilities:		9,051	9,643	9,140	9,644
- current income tax		343	2,794	432	2,794
- deferred income tax	38	8,708	6,849	8,708	6,849
Other liabilities	39	16,543	7,379	23,839	7,775
Total liabilities		2,020,097	1,661,524	2,044,081	1,671,440
SHAREHOLDERS´ EQUITY					
Ordinary shares	41	22,173	22,173	22,173	22,173
Share premium	41	7,499	7,499	7,499	7,499
Revaluation reserves	42	26,583	21,453	26,583	21,453
Reserves from profit (retained earning included)	43	149,126	133,064	149,935	133,712
Treasury shares	41	(49)	(49)	(49)	(49)
Net profit for the period		13,782	18,926	13,694	19,087
Minority interest		-	-	330	-
Total shareholders´ equity		219,114	203,066	220,165	203,875
Total equity and liabilities		2,239,211	1,864,590	2,264,246	1,875,315

The Supervisory Board approved financial statements for the year 2007 on 5 March 2008.

The following notes on pages 46 to 109 form an integral part of these consolidated financial statements.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

Unconsolidated statement of changes in shareholders' equity

(all amounts expressed in thousands of EUR)

	Notes	Ordinary share	Share premium	Treasury shares	Revaluation reserves	Reserves from profit	Net profit for the period	Total
		........................Attributable to equity holders of the parent						
Balance at 31 December 2005		**22,173**	**2,527**	**(660)**	**24,205**	**118,672**	**11,075**	**177,992**
Net profit for the year		-	-	-	-	-	33,203	33,203
Dividend and other		-	-	-	-	-	(10,938)	(10,938)
Sale of treasury shares	41,43	-	4,972	611	-	-	-	5,583
Net fair value gains, net of tax on available-for-sale investments	42	-	-	-	(2,760)	-	-	(2,760)
Valuation of other assets	42	-	-	-	8	-	-	8
Transfer to legal reserves	43	-	-	-	-	1,660	(1,660)	-
Transfer to statutory reserves	43	-	-	-	-	12,732	(12,732)	-
Other		-	-	-	-	-	(22)	(22)
Balance at 31 December 2006		**22,173**	**7,499**	**(49)**	**21,453**	**133,064**	**18,926**	**203,066**
Net profit for the year		-	-	-	-	-	24,178	24,178
Dividend and other	43	-	-	-	-	(611)	(12,649)	(13,260)
Net fair value gains, net of tax on available-for-sale investments	42	-	-	-	5,130	-	-	5,130
Transfer to legal reserves	43	-	-	-	-	1,209	(1,209)	-
Transfer to statutory reserves	43	-	-	-	-	15,464	(15,464)	-
Balance at 31 December 2007		**22,173**	**7,499**	**(49)**	**26,583**	**149,126**	**13,782**	**219,114**

The share capital of the Bank is divided in 531,359 shares. Each share has equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

The following notes on pages 46 to 109 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

Consolidated statement of changes in shareholders' equity

(all amounts expressed in thousands of EUR)

		Attributable to equity holders of the parent						Minority interest	Total
	Notes	Ordinary share	Share premium	Treasury shares	Revaluation reserves	Reserves from profit	Net profit for the period		
Balance at 31 December 2005		**22,173**	**2,527**	**(660)**	**24,205**	**120,136**	**10,267**	**-**	**178,648**
Net profit for the year		-	-	-	-	-	33,356	-	33,356
Dividend and other	43	-	-	-	-	(816)	(10,122)	-	(10,938)
Sale of treasury shares	41,43	-	4,972	611	-	-	-	-	5,583
Net fair value gains, net of tax on available-for-sale investments	42	-	-	-	(2,760)	-	-	-	(2,760)
Valuation of other assets	42	-	-	-	8	-	-	-	8
Transfer to legal reserves	43	-	-	-	-	1,660	(1,660)	-	-
Transfer to statutory reserves	43	-	-	-	-	12,732	(12,732)	-	-
Other		-	-	-	-	-	(22)	-	(22)
Balance at 31 December 2006		**22,173**	**7,499**	**(49)**	**21,453**	**133,712**	**19,087**	**-**	**203,875**
Net profit for the year		-	-	-	-	-	24,090	-	24,090
Dividend and other	43	-	-	-	-	(611)	(12,649)	-	(13,260)
Net fair value gains, net of tax on available-for-sale investments	42	-	-	-	5,130	-	-	-	5,130
Transfer to legal reserves	43	-	-	-	-	1,209	(1,209)	-	-
Transfer to statutory reserves	43	-	-	-	-	15,464	(15,464)	-	-
Transfer to retained earnings	43	-	-	-	-	161	(161)		
Other		-	-	-	-	-	-	330	330
Balance at 31 December 2007		**22,173**	**7,499**	**(49)**	**26,583**	**149,935**	**13,694**	**330**	**220,165**

The following notes on pages 46 to 109 form an integral part of these consolidated financial statements.

Cash flow statement

(all amounts expressed in thousands of EUR)

	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		86,360	79,625	80,886	80,747
Interest paid		(22,262)	(39,343)	(22,659)	(39,629)
Dividends received		508	1,880	508	1,880
Fee and commission receipts		33,305	30,842	35,901	30,952
Net trading income and other income		3,563	17,808	177	18,393
Recoveries on loans previously written off		333	91	3,083	91
Cash payments to employees and suppliers		(40,058)	(40,494)	(41,880)	(41,020)
Income tax paid		(13,225)	(12,314)	(13,257)	(12,349)
Cash flows from operating profits before changes in operating assets and liabilities		48,524	38,095	42,759	39,065
Changes in operating assets and liabilities					
Trading assets		(4,962)	82,683	(4,962)	82,683
Loans and advances to banks		1,666	-	1,748	-
Loans and advances to customers		(395,980)	(222,094)	(381,286)	(225,559)
Other assets		(7,535)	(2,063)	(11,882)	(2,128)
Deposits from banks		30,000	43,915	30,000	43,915
Other deposits		-	(6,613)	-	(6,613)
Trading liabilities		647	33,227	647	33,227
Due to customers		120,970	94,597	121,458	94,597
Other liabilities		1,371	(19,217)	1,371	(19,034)
Net cash flow from operating activities		(205,299)	42,530	(200,147)	40,153
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of subsidiaries, net of cash acquired		(1,896)	1,377	(1,896)	-
Purchase of property and equipment		(6,813)	(9,368)	(6,900)	(10,054)
Proceeds from sale of property and equipment		1,823	951	1,823	1,108
Purchase of investment securities		(41,593)	(627,555)	(41,593)	(627,555)
Proceeds from sale and redemption of investment securities		68,422	719,830	68,422	719,830
Net cash flow used in investing activities		19,943	85,235	19,856	83,329
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowed funds and debt securities		178,124	603,409	176,353	613,405
Repayments of borrowed funds and debt securities		(19,028)	(727,805)	(22,241)	(733,518)
Sale of treasury shares		-	5,632	-	5,632
Dividends paid		(13,262)	(10,935)	(13,262)	(10,935)
Net cash from financing activities		145,834	(129,699)	140,850	(125,416)
Effect of exchange rate changes on cash and cash equivalents		(6,582)	(3,851)	(6,582)	(3,851)
Net increase in cash and cash equivalents		(46,104)	(5,785)	(46,023)	(5,785)
Cash and cash equivalents at beginning of year	45	138,907	144,692	138,907	144,692
Cash and cash equivalents at end of year	45	92,803	138,907	92,884	138,907

The following notes on pages 46 to 109 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Banka Koper is a universal bank with the full range of banking services: commercial banking, investment banking, custody banking, private banking, international operations and financial and operating leasing through its subsidiary Finor Leasing d.o.o..

Banka Koper is a public limited company with the head office in Pristaniška 14, Koper. Finor Leasing is a limited liability company, 100% owned by the Bank, with the share capital of 2,045 thousand EUR and the head office in Pristaniška 14, Koper. Since the end of February 2007 the Bank owns a 75% stock in Centurion, a financial company operating in credit card business. Centurion is a limited liability company with the share capital of 1,648 thousand EUR and the head office in Slovenčeva 24, Ljubljana.

Since 2002, Banka Koper is a part of the banking group SanPaolo IMI, one of the leading banking groups in Italy. As at January 1st 2007 the banking group SanPaolo IMI was merged by Bancha Intesa. The name of the new banking group is Intesa Sanpaolo. Intesa Sanpaolo has a head office in Piazza San Carlo 166, Turin, Italy and one secondary office in Via Monte di Pietá 8, Milano, Italy.

Banka Koper has a status of a significant subsidiary bank, therefore is submitted to disclose information about capital and internal capital on consolidated basis.

For IFRS purposes the Bank is obligated to present financial statements on consolidated basis, but according to Slovene corporate Law all corporate entities have to prepare Annual Report also on a separate base.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the consolidated financial statements are set out below:

2.1. Basis of preparation

Presentation of financial statements

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale investment securities, financial assets and financial liabilities at fair value through profit or loss, all derivative contracts and investment property.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The principal accounting policies applied in the preparation of these financial statements are set out below.

Amendments to published standards and interpretations effective 1 January, 2007

- IAS 1 (Amendment) - Capital disclosures (effective 1 January, 2007); IFRS 7, Financial instruments: Disclosures (effective 1 January 2007);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March, 2006); IFRIC 8, Scope of IFRS 2 (effective 1 May, 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June, 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November, 2006);
- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January, 2007): IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has applied IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- IFRIC 8, Scope of IFRS 2, interpretates the issue whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. The group has applied IFRS 2 consistently including IFRIC 8.
  The application of the IFRIC 7, IFRIC 9 and IFRIC 10 have not affected the significant accounting policies of the Group's financial statements.

Standards, interpretations and amendments issued but not yet effective

The Group has chosen not to early adopt the following standards and interpretations that have been issued but which do not take effect yet for accounting periods beginning on 1 January 2007:

- IFRS 8, Operating Segments (effective 1 January 2009);
- IFRIC 11, IFRS 2 - Group Treasury Share Transactions (effective 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008);
- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009);
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009);
- IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008).

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

2.2. Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has the power to exercise control over the operations, have been fully consolidated. Subsidiary is consolidated from the date on which effective control is transferred to the Group and is no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiary has been changed to ensure consistency with the policies adopted by the Bank. Disclosure of minority interest is made in consolidated statement of changes in equity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7.). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2.3. Segmental reporting

The Bank has chosen not to report segment information. Its securities are not publicly traded.

2.4. Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. Financial statements are presented in euro, which has been the Group's functional and presentation currency since 01 January 2007. Before 01 January 2007 Group's functional and presentation currency was tollar, which has been translated into euro at exchange rate 239.64.

Transactions and balances

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities 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, are included in the fair value reserve in equity.

Income and expenses arising in foreign currencies are translated at the official rates of exchange as at the transaction date.

Gains and losses resulting from foreign currency purchases and sales for trading purposes are included in the income statement as net gains or losses from dealing in foreign currencies.

2.5. Associated undertakings

Investments in associated undertakings are accounted for using the equity method of accounting. These are undertakings where the Group generally has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control.

Equity method of accounting involves recognizing in the income statement the Group's share of the associates' profit or loss for the year. The Group's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on acquisition.

Stand alone investments in associated undertakings are measured at cost.

2.6. Goodwill and Excess of acquirer's interest

On acquisition of a subsidiary, the Bank calculates the difference between the fair value of the assets and liabilities acquired and the fair value of the consideration given. For additionally acquired shares in existing subsidiaries, the Bank uses the partial step up method and calculates the difference between the fair value of the assets and liabilities acquired and the fair value of consideration at the date of the latest share purchase, but only to the extent of the additional purchase. Where the consideration given exceeds the net assets acquired, goodwill arises. Goodwill is allocated to cash generating units for the purpose of impairment testing on a yearly basis.

Where the bank's share of identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition, a reassessment is made of the completeness of identification and measurement, and any remaining excess ("negative goodwill") is recognised immediately in profit.

2.7. Financial assets

a) Classification

Financial assets at fair value through profit or loss

This category has two sub-categories: financial instruments held for trading and financial instruments designated at fair value through profit or loss at inception. Financial instrument is classified in this group if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. The bank does not apply hedge accounting.

b) Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market.

c) Held-to-maturity

Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity.

d) Available-for-sale

Available for sale assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular way: Purchases and sales of financial instruments at fair value through profit and loss, held to maturity and available for sale are recognised on trade date. Loans are recognised when cash is advanced to the borrowers. All other purchases and sales are recognised as derivative forward transactions until settlement.

e) Measurement and Recognition

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss.

Financial assets at fair value through profit and loss and financial assets available for sale are subsequently measured at fair value. Gains and losses from changes in the fair value of the financial assets at fair value through profit and loss are included in the income statement in the period in which they arise. Gains and losses from changes in the fair value of available for sale financial assets are recognised in equity, until the financial asset is derecognised or impaired at which time the effect previously included in equity is recognised in the income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for -sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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

f) Derecognition of financial instruments

Financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and transfer qualifies for derecognition. Financial liability is derecognised only when it is extinguished - i.e. when the obligation specified in the contract is discharged or cancelled or expires.

g) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date. If a quoted market price is not available, the fair value of the instruments is estimated using discounted cash flow techniques or pricing models.

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

2.8. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.9. Derivative financial instruments

Derivative financial instruments, including forward and futures contracts, swaps and options, are initially recognised on balance sheet at their cost, which is the fair value of related consideration given or received. Derivative financial instruments are subsequently remeasured at their fair value. Fair values are obtained from quoted market price, discounted cash flow models or pricing models, as appropriate. All derivatives are carried at their fair value in assets when favourable to the Bank, and in liabilities when unfavourable to the Bank.

Certain derivative financial instruments, while providing effective economic hedges, do not qualify for hedge accounting under the specific accounting rules and are therefore treated as derivatives held for trading.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day 1, if not, they will be recognised at the next valuation (monthly).

2.10. Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accruals basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and accrued discounts and premium on securities. Once financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

2.11. Fees and commission income

Fees and commission are generally recognised when the service has been provided. Fees and commissions consist mainly of fees received from payment and from the managing of funds on behalf of legal entities and citizens, together with commissions from guarantees.

Fees receivable that represent a return for services provided are credited to income when the related service is performed.

2.12. Non - current assets held for sale

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

2.13. Sale and repurchase agreements

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, with the counterparty liability is included in deposits from banks or customers as appropriate. Securities sold subject to sale and repurchase agreements 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. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest rate method.

2.14. Impairment of financial assets

a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of on or more events that occurred after the initial recognition of the asset ('a loss event') and that loss event (or events) has an impact on the estimated future cash flows.

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

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investment has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (in case of variable interest rate the last effective interest rate is taken). The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the income statement.

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

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (on the basis of the Group's internal grading process that considers all relevant factors).

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows and historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology and assumptions used for estimating future cash flows are reviewed regularly.

If the amount of the impairment subsequently decreases due to an event occurring after the write down, the reversal of loss is credited as a reduction of an allowance for loan impairment.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written of after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

b) Assets carried at fair value

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

2.15. Intangible assets

Intangible assets, which relates to software licences and development, are stated at cost, less accumulated amortisation and impairment losses.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Amortisation is provided on a straight-line basis at rates designed to write off the cost of software over its estimated useful life. Assets in the course of transfer or construction/ implementation are not amortised until they are brought into use.

	Estimated useful lives (in years):
Licences	5 - 10
Other intangible assets	5 - 10

2.16. Investment property

Investment property is property (land or a building) - or part of a building - or both) held to earn rentals and/or for capital appreciation or both, rather than for administrative purposes or sale in the ordinary course of business.

Investment property is initially recognised at its historical cost plus transaction costs. After initial recognition, investment property of the Group are carried at their cost less accumulated depreciation and accumulated impairment losses, if any (cost model), i.e. the same as property, plant and equipment. Valuation of investment property is done at every five years.

The recognition and derecognition policies and methods of accounting for depreciation are defined under property, plant and equipment (Note 2.18).

2.17. Property, plant and equipment

All property, plant and equipment are initially recorded at cost. The Group assesses each year whether there are indications that assets may be impaired. If any such indication exists, the Group estimates the recoverable amount. Recoverable amount is the higher of net selling price and value in use. If value in use exceeds the carrying value, the assets are not impaired.

Subsequent costs are included in the asset's carrying amount when is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to expenses during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis at rates designed to write off the cost or valuation of buildings and equipment to their residual values over their estimated useful lives.

Assets in the course of transfer or construction are not depreciated until they are brought into use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

	Estimated useful lives (in years):
Buildings	16,6 - 33,3
Computers and software	2
Equipment	4 - 5
Motor vehicles	4 - 8

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.

2.18. Accounting for leases

- **a Group company is the lessee**

Leases entered into by the Group are all operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

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

- **a Group company is the lessor**

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. Income from finance leasing transactions is apportioned systematically over the primary lease period, reflecting a constant periodic return on the lessor's net investment outstanding.

When assets are leased out under a operating lease payments made under operating leases are recognised as income on a straight-line basis over the period of the lease.

2.19. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and balances with central banks except for obligatory reserve, securities held for trading, loans to banks and debt securities not held for trading with contractual maturity up to 90 days.

2.20. Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction cost incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

If the Group purchases its own debt, it is removed from the balance sheet.

2.21. Provisions

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

2.22. Inventories

Inventories are stated at cost plus all corresponding direct cost of purchase. or net realizable value. Cost is determined using the weighted average cost formula. Inventories are carried at "first in first out" (FIFO) method.

2.23. Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

2.24. Taxation

Income tax is calculated by each Group member according to local legislation. For the year 2007 the income tax rate was 23% (2006: 25%).

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates currently enforced are used to determine deferred income tax. The principal temporary differences arise from the valuation of financial assets and liabilities including derivatives and provisions for employees. For the year 2007 deferred tax was calculated using the 22% tax rate that is in line with the change of corresponding legislation earmarking a gradual decrease of the tax rate from 25% to 20% till the year 2010 (for the year 2006 23% rate was used).

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

Deferred tax related to fair value re-measurement of available for sale investments is charged or credited directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

2.25. Employee benefits

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long - services benefits. Valuations of these obligations are carried out by independent qualified actuaries. The main actuarial assumptions included in the calculation of the obligation for other long - term employee benefits are:

- Discount rate of 5.4% and
- Future salary increases for 3.5% p.a., promotions and increases in salaries according to past years of services.

The Bank and its Slovene subsidiaries make contributions to a defined contribution plan according to Slovenian legislation. Once contributions have been paid, the Group has no further payment obligation. The regular contributions constitute net periodic costs for the year in which they are due and such are included in staff costs.

According to Slovenian legislation employees retire after 40 years of working life, when, if fulfilling certain conditions they are entitled to indemnity paid in lump sum. Employees are also entitled to long services bonus for every ten years of employment with the Bank.

These obligations are measured at the present value of the future cash outflows. All gains and losses are recognised in the income statement.

2.26. Share capital

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.

Treasury shares

Where the Bank or other member of the consolidated 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.

2.27. Fiduciary activities

The Group manages assets on behalf of legal entities and citizens. A fee is charged for this service. These assets are not shown in the consolidated balance sheet.

2.28. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. RISK MANAGEMENT ORGANISATION

Risk management in the Group is organised in Risk Management Department and Credit Management Department. Risk Management Department is responsible for monitoring and control of market and liquidity risk, for measuring operational risk and risk associated with the structure and quality of the Group's credit portfolio. The Risk Management Department is also responsible for planning and maintaining the capital adequacy ratio at the adequate level. The Credit Management Department is responsible for assessing and monitoring credit standing of the Group's debtor (borrowers). Both departments are directly accountable to the Management Board in accordance with the guidelines and requirements for independent management of risk in a group organization.

Risk management process includes identification, measurement, reporting and control of risk. The measurement and control of risk exposures frequency depends on the characteristics of risk, dynamics of changes and the size of activities with related amount of potential losses.

The objective of risk management is to control risk in accordance with the nature and complexity of Group's business and ensuring safe and sound conduct of business. The Group harmonizes the methodology and risk management processes with the practice of the Intesa Sanpaolo Group.

3.1. Capital adequacy and Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bank of Slovenia (the Authority), for supervisory purposes. The required information is filled with the Authority on a quarterly basis.

Capital adequacy is measured by the ratio between the Group's capital and risk-weighted assets in accordance with law and regulations of the Bank of Slovenia. The Group's capital comprises all sources intended to cover group's risks and to safeguard the ordinary creditors. The risk-weighted assets comprise main risk exposures, which are adequately measurable. The regulatory minimum ratio between capital and risk-weighted assets is 8 per cent.

The adequate capital amount and capital ratio value ensures the necessary confidence and support for the long-term steady growth of the Group in line with strategic objectives. The minimal internally established capital adequacy ratio of 9 percent should enable the Group to fulfil regulatory minimum ratio in changing business conditions and growing operations. The Group maintains the capital adequacy mainly with the distribution of profits to reserves. Capital adequacy is planned for short and mid-term. If the planned capital adequacy does not reach the minimal regulatory value, measures such as increase of equity from the parent group or issuance of hybrid debt instruments, will be undertaken. Risk management quarterly observes the ratio of capital adequacy and reports to the ALCO committee.

Capital adequacy as at 31 December 2007 - unconsolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2007	**2006**	**2007**	**2006**
Balance sheet assets (net of provisions)				
Due from other banks	81,452	127,209	16,290	19,139
Loans and advances to customers	1,686,871	1,268,582	1,454,614	1,000,786
Trading and investment securities	371,467	336,289	32,174	12,566
Derivative financial instruments	2,180	1,888	-	-
Property investments	518	559	518	559
Intangible fixed assets	4,945	3,439	-	-
Property, plant and equipment	30,747	30,980	30,747	30,980
Other assets	29,969	36,709	16,462	11,961
Total balance sheet assets			**1,550,806**	**1,075,989**
Off - balance sheet positions				
Credit related commitments	477,272	437,320	91,571	85,185
Forwards-based derivative instruments	5,018	6,742	1,925	3,038
Total off-balance sheet positions			**93,496**	**88,223**
Total credit risk- weighted assets			1,644,302	1,164,212
Unassigned market-risk components			80,025	85,745
Total risk weighted assets			**1,724,327**	**1,249,957**
Tier 1 capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			8,581	5,712
Statutory reserves			134,487	106,407
General reserves			49	49
Retained earning			6,009	6,620
less specific country risk items			(17,725)	(1,609)
less intangible assets			(4,945)	(3,439)
Total qualifying Tier 1 capital			**156,079**	**143,362**
Revaluation reserve(80% revaluation of AFS shares)			11,599	10,140
Total qualifying Tier 2 capital			**11,599**	**10,140**
Diminution of capital				
- less investment in subsidiaries			(5,214)	(3,689)
- less non-liquid assets				(127)
Total diminution of capital			**(5,214)**	**(3,816)**
Total regulatory capital			**162,464**	**149,686**
Basel ratio			**9.42**	**11.98**

Capital adequacy as at 31 December 2007 - consolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2007	**2006**	**2007**	**2006**
Balance sheet assets (net of provisions)				
Due from other banks	81,452	127,209	16,290	19,139
Loans and advances to customers	1,711,006	1,280,100	1,478,749	1,011,271
Trading and investment securities	371,467	336,289	32,174	12,566
Derivative financial instruments	2,180	1,888	-	-
Property investments	518	559	518	559
Intangible fixed assets	4,990	3,441	-	-
Property, plant and equipment	34,357	32,824	34,357	32,824
Other assets	27,163	34,069	17,965	13,136
Total balance sheet assets			**1,580,054**	**1,089,495**
Off - balance sheet positions				
Credit related commitments	474,225	436,483	90,558	85,185
Forwards-based derivative instruments	5,018	6,742	1,925	3,038
Total off-balance sheet positions			**92,483**	**88,223**
Total credit risk- weighted assets			1,672,537	1,177,718
Unassigned market-risk components			74,575	85,745
Total risk weighted assets			**1,747,112**	**1,263,463**
Tier 1 capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			8,581	5,712
Statutory reserves			134,487	106,405
General reserves			49	49
Retained earning			6,818	6,620
less specific country risk items			(17,705)	(1,609)
less intangible assets			(4,990)	(3,441)
less Goodwill			(905)	(905)
Minority interest			330	-
Total qualifying Tier 1 capital			**156,288**	**142,453**
Revaluation reserve(80% revaluation of AFS shares)			11,599	10,140
Total qualifying Tier 2 capital			**11,599**	**10,140**
Diminution of capital				
- less investment in subsidiaries			-	-
- less non-liquid assets			-	(127)
Total diminution of capital			**-**	**(127)**
Total regulatory capital			**167,887**	**152,466**
Basel ratio			**9.61**	**12.07**

3.2. Credit risk

Credit risk is a risk of not being able to honour obligations i.e. repay debts by debtors, assumed obligations arising from given guarantees or inability to fulfil other contractual obligations by contract partners i.e. contractual parties, due to which the Group suffers economic damage i.e. loss. Credit risk is by scope and given the business orientation of the Group the most important risk.

Credit Risk Measurement

The Group controls and measures credit risk directly through estimates i.e. assessments and classifications of its credit portfolio or indirectly by measuring i.e. valuing assets at fair value. This is also affected by the issuer's credit standing. The Group's credit portfolio includes all monetary assets i.e. investments and claims and assumed obligations, with the exception of investments in securities and capital investments in subsidiaries i.e. affiliates and investment property, which are measured i.e. valued at fair value. Exposure arising from transactions with deferred execution date is determined by using the replacement value method. The Group is exposed in such transactions, when market conditions for entering into a new replacement transaction are less favourable than the contract terms.

Credit Classification

The classification of debtors is carried out in accordance with the regulatory criteria for the classification of claims on debtors and internal procedures for analysing debtors credit worthiness. Investments in credit portfolio are slotted in five prudential groups i.e. grades where claims on debtors awarded the maximum credit worthiness or having adequate state guarantee are classified in the category A, claims on debtors with a lower rating (credit standing) are slotted in the group E. Debtors of the Group are classified in individual categories with regard to the assessed ability for repayment of claims.

The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal ratings scale and mapping of external ratings

Group's rating	Description of the grade	External rating: Standard & Poor's equivalent
A	Group A	AAA, AA+, AA-, A+, A-, BBB+, BBB, BBB-
B	Group B	B+, BB, BB-, B+, B
C	Group C	B-, CCC, CC,C
D,E	Group D,E	D

The ratings of the major rating agency shown in the table above are mapped to our rating classes based on the long-term average default rates for each external grade.

Group's rating	2007		2006	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
A	70	0,8	72	0,8
B	27	7,5	21	8,8
C	2	19,6	5	9,9
D	0	39,1	1	43,9
E	1	85,4	1	82,9
	100	3,7	100	3,9

Specific provisions assessment

Based on estimates of a debtor's payment ability and collateral pledged, specific provisions for credit risks are earmarked for claims. Specific provisions are earmarked for that portion of claims for which it is assessed that will not be repaid. Specific provisions on individual basis are estimated for debtors whose total exposure exceeds EUR 75,000 and for which incurred loss has been ascertained. Individual assessment is performed through the estimation of cash-flows, expected to be collected from the debtor, guarantor or from collateral pledged, discounted at contractual interest rate.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. For the purpose of collective assessment the credit portfolio is divided in two main parts: legal persons and individuals. Exposures to individuals are sequentially split into:

- Housing loans,
- Long-term consumer loans,
- Short-term consumer loans,
- Approved overdrafts on transactions account.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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

Large Exposures

Credit risk is controlled by hedging the highest exposure of individual counterparties and a group, which is limited by law and can not exceed 25 percent of the bank's capital. Exposure includes the bank's claims to each debtor, shown in the credit portfolio without assets valued at fair value, which are included in the trading portfolio. The sum of the large limits on the 31 of December 2007 equalled 430 percent of the bank's capital.

Group's credit risk related portfolio as at 31 December 2007

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Perfor-ming	Share in %	Non perfor-ming	Share in %	Provisions for impairment on performing portfolio	Rate of coverage perfor-ming portfolio	Provisions for impairment on non performing portfolio	Rate of coverage non perfor-ming portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	218.069	37.868	2%	37.868	1%	-	0%	-	0%	-	0%
Corporate entities	2.003.146	1.812.716	77%	1.764.898	78%	47.818	71%	55.040	3%	17.279	36%
Banks	184.191	85.696	4%	84.275	4%	1.421	2%	-	0%	1.421	100%
Private individuals	401.490	401.387	17%	383.355	17%	18.032	27%	4.512	1%	7.679	43%
Total	2.806.896	2.337.667	100%	2.270.396	100%	67.271	100%	59.552	3%	26.379	39%

Group's credit risk related portfolio as at 31 December 2006

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Perfor-ming	Share in %	Non perfor-ming	Share in %	Provisions for impairment on performing portfolio	Rate of coverage perfor-ming portfolio	Provisions for impairment on non performing portfolio	Rate of coverage non perfor-ming portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	344,098	148,332	8%	148,332	8%	-	0%	-	0%	-	0%
Corporate entities	1,533,441	1,315,910	69%	1,265,954	69%	49,956	76%	41,852	3%	23,743	48%
Banks	169,229	109,658	6%	108,231	6%	1,427	2%	-	0%	1,421	100%
Private individuals	333,203	333,111	17%	318,750	17%	14,361	22%	4,587	1%	6,756	47%
Total	2,379,971	1,907,011	100%	1,841,267	100%	65,744	100%	46,439	3%	31,920	49%

The Group's credit portfolio as at 31 December 2007 shows that as much as 90 per cent of all credits i.e. loans and advances and other claims and off-balance sheet commitments and contingencies is classified as performing. Non performing portfolio is composed mostly of corporate debtors that carry on average 39 per cent provisions.

Credit risk is also managed by limiting maximum exposures to individual debtors. Maximum exposure to individual debtors and their related entities is limited by law and must not exceed 25 per cent of the Group's capital (own funds). Large exposure includes all claims the Group has on an individual debtor, presented in the credit portfolio and assets i.e. investments carried at fair value, which are not allocated to the credit portfolio.

Maximum exposure

(all amounts expressed in thousands of EUR)

	Maximum exposure			
	Banka Koper		Consolidated	
	2007	2006	2007	2006
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	81,452	127,209	81,452	127,209
Loans and advances to customers:	1,686,871	1,268,582	1,711,006	1,280,100
Loans to individuals:	305,848	245,257	335,241	245,257
- Overdrafts	29,614	29,108	29,614	29,108
- Credit cards	7,455	6,642	26,769	6,642
- Term loans	116,263	95,209	126,342	95,209
- Mortgages	152,516	114,298	152,516	114,298
Loans to sole proprietors	59,003	43,718	64,527	43,718
Loans to corporate entities	1,322,020	979,607	1,311,238	991,125
Investment securities available for sale	198,439	153,274	198,439	153,274
- Debt securities	179,275	136,238	179,275	136,238
- Equity securities	19,164	17,036	19,164	17,036
Investment securities held to maturities	2,013	70,604	2,013	70,604
- Debt securities	2,013	70,604	2,013	70,604
Pledged assets	19,211	17,117	19,211	17,117
Other assets	66,179	54,570	67,028	53,777
Credit risk exposures relating to off-balance sheet items are as follows:				
Guarantees	72,731	104,674	72,731	104,674
Credit commitments and other credit related liabilities	391,262	324,401	388,244	323,572
At 31 December	**2,518,158**	**2,120,431**	**2,540,124**	**2,130,327**

Maximum exposure to credit risk represents a worse case scenario of credit risk exposure to the Group at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Loans and advances

Loans and advances are summarised as follows:

(all amounts expressed in thousands of EUR)

Unconsolidated	31 December 2007 Loans and advances to customers	31 December 2007 Loans and advances to bank	31 December 2006 Loans and advances to customers	31 December 2006 Loans and advances to bank
Neither past due but performing	1,689,125	81,452	1,213,403	127,209
Past due but performing	2,725	-	1,167	-
Non performing	60,213	1,421	111,801	1,421
Gross	**1,752,063**	**82,873**	**1,326,371**	**128,630**
Impairment losses on loans and advances	(65,192)	(1,421)	(57,789)	(1,421)
Net	**1,686,871**	**81,452**	**1,268,582**	**127,209**

(all amounts expressed in thousands of EUR)

Consolidated	31 December 2007 Loans and advances to customers	31 December 2007 Loans and advances to bank	31 December 2006 Loans and advances to customers	31 December 2006 Loans and advances to bank
Neither past due but performing	1,698,397	81,452	1,224,179	127,209
Past due but performing	2,725	-	1,167	-
Non performing	76,086	1,421	112,679	1,421
Gross	**1,777,208**	**82,873**	**1,338,025**	**128,630**
Impairment losses on loans and advances	(66,202)	(1,421)	(57,925)	(1,421)
Net	**1,711,006**	**81,452**	**1,280,100**	**127,209**

(all amounts expressed in thousands of EUR)

31 December 2007 - Unconsolidated	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due but performing A	29,879	7,725	109,912	140,465	41,279	893,130	1,222,390
Neither past due but performing B	-	-	2,294	6,896	15,225	442,320	466,735
Neither past due but non performing C	-	-	3,565	5,117	2,256	21,943	32,881
Neither past due but non performing D	-	-	820	622	216	433	2,091
Neither past due but non performing E	70	-	276	562	14	0	922
Past due but performing A	-	-	7	2	472	87	568
Past due but performing B	-	-	88	15	379	1,675	2,157
Past due but non performing C	-	-	200	35	328	1,765	2,328
Past due but non performing D	-	-	148	11	1,151	6,114	7,424
Past due but non performing E	3,389	-	2,360	857	1,326	6,635	14,567
Gross	**33,338**	**7,725**	**119,670**	**154,582**	**62,646**	**1,374,102**	**1,752,063**
Impairment losses on loans and advances	(3,724)	(270)	(3,407)	(2,066)	(3,643)	(52,082)	(65,192)
Net	**29,614**	**7,455**	**116,263**	**152,516**	**59,003**	**1,322,020**	**1,686,871**

(all amounts expressed in thousands of EUR)

31 December 2007 - Consolidated	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due but performing A	29,879	13,387	119,861	140,465	41,279	886,791	1,231,662
Neither past due but performing B	-	1	2,294	6,896	15,225	442,320	466,736
Neither past due but non performing C	-	-	3,565	5,117	2,256	21,943	32,881
Neither past due but non performing D	-	-	820	622	216	433	2,091
Neither past due but non performing E	70	-	276	562	14	0	922
Past due but performing A	-	-	7	2	472	87	568
Past due but performing B	-	10,185	88	15	379	1,675	12,342
Past due but non performing C	-	193	200	35	328	1,765	2,521
Past due but non performing D	-	4,016	460	11	1,151	7,280	12,918
Past due but non performing E	3,389	-	2,360	857	1,326	6,635	14,567
Gross	**33,338**	**27,782**	**129,931**	**154,582**	**62,646**	**1,368,929**	**1,777,208**
Impairment losses on loans and advances	(3,724)	(1,013)	(3,589)	(2,066)	(3,658)	(52,152)	(66,202)
Net	**29,614**	**26,769**	**126,342**	**152,516**	**58,988**	**1,316,777**	**1,711,006**

(all amounts expressed in thousands of EUR)

31 December 2006 - Unconsolidated	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due but performing A	30,150	6,862	90,590	107,234	36,284	643,067	914,187
Neither past due but performing B	-	-	1,239	3,880	5,819	288,278	299,216
Neither past due but non performing C	-	-	3,039	3,203	974	77,830	85,046
Neither past due but non performing D	-	-	512	468	153	3,659	4,792
Neither past due but non performing E	13	-	188	477	-	-	678
Past due but performing A	-	-	4	4	363	175	546
Past due but performing B	-	-	57	10	154	400	621
Past due but non performing C	-	-	180	26	156	1,501	1,863
Past due but non performing D	-	-	124	14	1,208	3,744	5,090
Past due but non performing E	3,268	-	2,101	749	1,301	6,913	14,332
Gross	**33,431**	**6,862**	**98,034**	**116,065**	**46,412**	**1,025,567**	**1,326,371**
Impairment losses on loans and advances	(4,323)	(220)	(2,825)	(1,767)	(2,694)	(45,960)	(57,789)
Net	**29,108**	**6,642**	**95,209**	**114,298**	**43,718**	**979,607**	**1,268,582**

(all amounts expressed in thousands of EUR)

31 December 2006 - Consolidated	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due but performing A	30,150	6,862	90,590	107,234	36,284	653,843	924,963
Neither past due but performing B	-	-	1,239	3,880	5,819	288,278	299,216
Neither past due but non performing C	-	-	3,039	3,203	974	77,830	85,046
Neither past due but non performing D	-	-	512	468	153	3,659	4,792
Neither past due but non performing E	13	-	188	477	0	0	678
Past due but performing A	-	-	4	4	363	175	546
Past due but performing B	-	-	57	10	154	400	621
Past due but non performing C	-	-	180	26	156	1,501	1,863
Past due but non performing D	-	-	124	14	1,208	4,622	5,968
Past due but non performing E	3,268	-	2,101	749	1,301	6,913	14,332
Gross	**33,431**	**6,862**	**98,034**	**116,065**	**46,412**	**1,037,221**	**1,338,025**
Impairment losses on loans and advances	(4,323)	(220)	(2,825)	(1,767)	(2,694)	(46,096)	(57,925)
Net	**29,108**	**6,642**	**95,209**	**114,298**	**43,718**	**991,125**	**1,280,100**

(all amounts expressed in thousands of EUR)

31 December 2007 - Unconsolidated	Individuals								TOTAL individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	-	3,158	-	-	95	314	17	110	3,694
Past due 30 - 60 days	-	26	-	-	-	245	-	85	356
Past due 60 - 90 days	-	47	-	-	-	108	-	32	187
Past due over 90 days	-	158	-	-	-	2,041	-	676	2,875
Total	**-**	**3,389**	**-**	**-**	**95**	**2,708**	**17**	**903**	**7,112**

	Sole proprietors		Corporate entities		TOTAL
	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	258	197	1,210	1,078	2,743
Past due 30 - 60 days	434	126	155	186	901
Past due 60 - 90 days	18	35	135	433	621
Past due over 90 days	141	2,447	262	12,891	15,741
Total	**851**	**2,805**	**1,762**	**14,588**	**20,006**

(all amounts expressed in thousands of EUR)

31 December 2007 - Consolidated	Individuals								TOTAL individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	-	3,158	-	9,725	95	314	17	110	13,419
Past due 30 - 60 days	-	26	-	460	-	245	-	85	816
Past due 60 - 90 days	-	47	-	193	-	420	-	32	692
Past due over 90 days	-	158	-	4,017	-	2,041	-	676	6,892
Total	**-**	**3,389**	**-**	**14,395**	**95**	**3,020**	**17**	**903**	**21,819**

	Sole proprietors		Corporate entities		TOTAL
	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	258	197	1,210	1,409	3,074
Past due 30 - 60 days	434	126	155	284	999
Past due 60 - 90 days	18	35	135	503	691
Past due over 90 days	141	2,447	262	13,558	16,408
Total	**851**	**2,805**	**1,762**	**15,754**	**21,172**

(all amounts expressed in thousands of EUR)

31 December 2006 - Unconsolidated	Individuals								TOTAL individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	-	3,046	-	-	49	159	10	26	3,290
Past due 30 - 60 days	-	25	-	-	12	112	4	14	167
Past due 60 - 90 days	-	45	-	-	-	90	-	43	178
Past due over 90 days	-	152	-	-	-	2,045	-	707	2,904
Total	**-**	**3,268**	**-**	**-**	**61**	**2,406**	**14**	**790**	**6,539**

	Sole proprietors		Corporate entities		TOTAL
	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	105	14	209	2,484	2,812
Past due 30 - 60 days	88	40	366	446	940
Past due 60 - 90 days	237	8	-	424	669
Past due over 90 days	87	2,832	-	10,730	13,649
Total	**517**	**2,894**	**575**	**14,084**	**18,070**

(all amounts expressed in thousands of EUR)

31 December 2006 - Consolidated	Individuals								TOTAL individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	-	3,046	-	-	49	159	10	26	3,290
Past due 30 - 60 days	-	25	-	-	12	112	4	14	167
Past due 60 - 90 days	-	45	-	-	-	90	-	43	178
Past due over 90 days	-	152	-	-	-	2,045	-	707	2,904
Total	**-**	**3,268**	**-**	**-**	**61**	**2,406**	**14**	**790**	**6,539**

	Sole proprietors		Corporate entities		TOTAL
	Performing	Non performing	Performing	Non performing	
Past due up to 30 days	105	14	209	2,496	2,824
Past due 30 - 60 days	88	40	366	541	1,035
Past due 60 - 90 days	237	8	-	471	716
Past due over 90 days	87	2,832	-	11,454	14,373
Total	**517**	**2,894**	**575**	**14,962**	**18,948**

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

Loans and advances individually impaired

(all amounts expressed in thousands of EUR)

31 December 2007	Individuals						
	Overdrafts	Credit cards	Term loans	Mortgages	Sole proprietors	Corporate entities	TOTAL
Individually impaired loans	0	0	0	0	1,188	11,344	12,532
Fair value of collateral	0	0	0	0	616	4,375	4,991

31 December 2006	Individuals						
	Overdrafts	Credit cards	Term loans	Mortgages	Sole proprietors	Corporate entities	TOTAL
Individually impaired loans	0	0	0	0	1,305	20,924	22,229
Fair value of collateral	0	0	0	0	680	11,579	12,259

3.3. Liquidity risk

Insufficient liquidity of credit institutions leads to occasional and in extreme cases to permanent inability to fulfil monetary obligations. Due to the influence of the banking system on the stability of the financial system and through it on the development of the economy (the real sector), the supervisory authority (the Bank of Slovenia) determines the minimum liquidity to be ensured by banks. The minimum liquidity to be maintained by banks is regulated by the regulation on the mandatory reserve and the regulation on the minimum liquidity determined by the minimum liquidity ratio for assets having maturity of one month.

The Risk Management Department quarterly measures the long-medium term structural liquidity, where a minimum amount of long-medium term assets funding with long-medium term liabilities is determined. By means of the internal policy for liquidity management, the roles and responsibilities for taking measures aimed at ensuring the Group's ability to execute payments in extraordinary liquidity situation are also determined.

The Group's Treasury Division is responsible for daily planning of the Group's liquidity and for meeting internal or external minimum liquidity requests. At the operating level, liquidity is managed by means of careful planning of daily flows and by planning business activities and acquiring adequate sources of funding in accordance with the planned volume of assets. The Group's liquidity is ensured also by adequately large portfolio of quality securities (in terms of credit risk and marketability i.e. tradability), which could be pledged for refinancing with the central bank. Particular attention is paid to high-quality information technology support for ensuring accurate and up-to-date data i.e. information for efficient planning of cash flows.

The Group regularly fulfils minimal liquidity requirements and internally determined long-medium term funding rules.

(all amounts expressed in thousands of EUR)

Non- derivative cash flows

As at 31 December 2007	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**TOTAL**
ASSETS						
Cash and balances with central banks	11,570	-	-	-	19,492	31,062
Financial instruments held for trading:	49,051	-	2	994	-	50,047
- trading assets	49,051	-	2	994	-	50,047
Investment securities available for sale	35,160	14,243	55,531	159,584	35,678	300,196
Loans and advances:	228,238	156,995	494,835	627,090	261,165	1,768,323
- to banks	76,077	2,139	3,236	-	-	81,452
- to customers	152,161	154,856	491,599	627,090	261,165	1,686,871
Investment securities held to maturity	57	-	-	1,956	-	2,013
Pledged assets	-	321	-	18,890	-	19,211
Property, plant and equipment	-	-	-	6,352	24,395	30,747
Investment property	-	-	-	518	-	518
Intangible assets	-	-	-	4,945	-	4,945
Investment in subsidiaries	-	-	-	-	5,214	5,214
Income tax assets	-	-	6,399	2,114	-	8,513
- current income tax	-	-	6,399	-	-	6,399
- deferred income tax	-	-	-	2,114	-	2,114
Other assets	14,423	1,241	213	365	-	16,242
Total assets	338,499	172,800	556,980	822,808	345,944	2,237,031
LIABILITIES						
Liabilities to CB	30,046	-	-	-	-	30,046
Liabilities carried at amortised cost:	834,130	270,121	576,532	206,560	36,120	1,923,463
- deposits from banks	11,017	0	13,498	70,726	21,009	116,250
- due to customers	822,272	266,473	137,598	18,487	3,173	1,248,003
- other borrowed funds from banks	838	3,642	425,411	117,211	11,840	558,942
- other borrowed funds from other customers	3	6	25	136	98	268
Provisions:	-	-	-	-	23,732	23,732
- provisions for liabilities and charges	-	-	-	-	20,183	20,183
- retirement benefit obligations	-	-	-	-	3,549	3,549
Income tax liabilities:	-	-	343	8,708	-	9,051
- current income tax	-	-	343	-	-	343
- deferred income tax	-	-	-	8,708	-	8,708
Other liabilities	13,229	3,081	233	-	-	16,543
Total liabilities	877,405	273,202	577,108	215,268	59,852	2,002,835
Net liquidity gap	(538,906)	(100,402)	(20,128)	607,540	286,092	234,196
As at 31 December 2006						
Total assets	296,550	180,003	449,487	629,381	307,281	1,862,702
Total liabilities	812,083	192,376	485,078	96,365	72,404	1,658,306
Net liquidity gap	**(515,533)**	**(12,373)**	**(35,591)**	**533,016**	**234,877**	**204,396**

Maturities of assets and liabilities - unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

Derivative cash flows - derivatives settled on a net basis

As at 31 December 2007	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**TOTAL**
DERIVATIVE ASSETS						
Derivatives held for trading:						
- Currency swaps	8	-	-	-	-	8
- Interest rate swaps	-	-	8	746	-	754
- Options	-	-	-	647	-	647
- Forward agreement on marketable shares	-	771	-	-	-	771
Total	8	771	8	1,393	-	2,180
DERIVATIVE LIABILITIES						
Derivatives held for trading:						
- Currency swaps	621	-	-	-	-	621
- Interest rate swaps	50	-	57	815	-	922
- Options	-	-	-	647	-	647
- Forward agreement on marketable shares	-	14,425	-	647	-	15,072
Total	671	14,425	57	2,109	-	17,262
Net liquidity gap	**(663)**	**(13,654)**	**(49)**	**(716)**	**-**	**(15,082)**
As at 31 December 2006						
Total derivative assets	1,248	19	419	202	-	1,888
Total derivative liabilities	231	56	2,668	263	-	3,218
Net liquidity gap	**1,017**	**(37)**	**(2,249)**	**(61)**	**-**	**(1,330)**

Maturities of assets and liabilities - unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

Derivative cash flows - derivatives settled on a gross basis

As at 31 December 2007	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**TOTAL**
Derivatives held for trading:						
- Currency swaps						
- Outflow	30,528	-	-	-	-	30,528
- Inflow	30,518	-	-	-	-	30,518
- Interest rate swaps						
- Outflow	16,485	22,053	13,109	717	-	52,364
- Inflow	10,095	982	9,525	31,185	-	51,787
- Options						
- Outflow	-	-	9,886	9,886	-	19,772
- Inflow	-	-	-	19,772	-	19,772
- Forward agreement on marketable shares						
- Outflow	-	33,756	-	-	-	33,756
- Inflow	-	33,667	-	-	-	33,667
Total outflow	**47,013**	**55,809**	**22,995**	**10,603**	**-**	**136,420**
Total inflow	**40,613**	**34,649**	**9,525**	**50,957**	**-**	**135,744**

Maturities of assets and liabilities - unconsolidated and consolidated

Derivative cash flows - derivatives settled on a gross basis (all amounts expressed in thousands of EUR)

As at 31 December 2006	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**TOTAL**
Derivatives held for trading:						
- Currency swaps						
- Outflow	102	779	772	-	-	1,653
- Inflow	102	779	772	-	-	1,653
- Interest rate swaps						
- Outflow	-	1,469	4,691	2,452	-	8,612
- Inflow	-	1,469	4,691	2,452	-	8,612
- Currency/interest rate swap						
- Outflow	26,553	21,057	-	-	-	47,610
- Inflow	10,330	-	-	37,368	-	47,698
- Forward agreement on marketable shares						
- Outflow	19,848	5,997	36,832	-	-	62,677
- Inflow	19,612	5,935	35,592	-	-	61,139
Total outflow	**46,503**	**29,302**	**42,295**	**2,452**	**-**	**120,552**
Total inflow	**30,044**	**8,183**	**41,055**	**39,820**	**-**	**119,102**

Maturities of assets and liabilities - consolidated

(all amounts expressed in thousands of EUR)

Non derivative cash flows

As at 31 December 2007	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**TOTAL**
ASSETS						
Cash and balances with central banks	11,621	-	-	-	19,492	31,113
Financial instruments held for trading:	49,051	-	2	994	-	50,047
- trading assets	49,051	-	2	994	-	50,047
Investment securities available for sale	35,160	14,243	55,531	159,584	35,678	300,196
Loans and advances:	249,361	155,107	500,768	619,124	268,098	1,792,458
- to banks	76,077	2,139	3,236	-	-	81,452
- to customers	173,284	152,968	497,532	619,124	268,098	1,711,006
Investment securities held to maturity	57	-	-	1,956	-	2,013
Pledged assets	-	321	-	18,890	-	19,211
Goodwill	-	-	-	-	905	905
Property, plant and equipment	-	-	-	8,963	25,394	34,357
Investment property	-	-	-	518	-	518
Intangible assets	-	-	-	4,990	-	4,990
Income tax assets	-	-	6,476	2,581	-	9,057
- current income tax	-	-	6,476	-	-	6,476
- deferred income tax	-	-	-	2,581	-	2,581
Other assets	15,382	1,241	213	365	-	17,201
Total assets	360,632	170,912	562,990	817,965	349,567	2,262,066
LIABILITIES						
Liabilities to CB	30,046	-	-	-	-	30,046
Liabilities carried at amortised cost:	835,769	267,464	585,997	214,660	36,120	1,940,010
- deposits from banks	11,017	-	13,498	70,726	21,009	116,250
- due to customers	822,242	266,473	137,598	18,487	3,173	1,247,973
- other borrowed funds from banks	2,507	985	434,876	125,311	11,840	575,519
- other borrowed funds from other customers	3	6	25	136	98	268
Provisions:	-	-	-	-	23,784	23,784
- provisions for liabilities and charges	-	-	-	-	20,154	20,154
- retirement benefit obligations	-	-	-	-	3,630	3,630
Income tax liabilities:	-	-	432	8,708	-	9,140
- current income tax	-	-	432	-	-	432
- deferred income tax	-	-	-	8,708	-	8,708
Other liabilities	13,229	10,377	233	-	-	23,839
Total liabilities	879,044	277,841	586,662	223,368	59,904	2,026,819

Maturities of assets and liabilities - consolidated (continued)

(all amounts expressed in thousands of EUR)

Non derivative cash flows

As at 31 December 2007	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**TOTAL**
Net liquidity gap	(518,412)	(106,929)	(23,672)	594,597	289,663	235,247
As at 31 December 2006						
Total assets	296,550	180,038	452,880	630,013	313,946	1,873,427
Total liabilities	811,564	192,773	485,078	96,365	82,442	1,668,222
Net liquidity gap	**(515,014)**	**(12,735)**	**(32,198)**	**533,648**	**231,504**	**205,205**

Maturities of off-balance sheet items - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2007	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Documentary and commercial letters of credit	9,954	343	-	10,297
Guarantees	41,532	26,119	5,080	72,731
Derivative financial instruments	3,241	1,636	-	4,877
Credit commitments	364,052	12,036	-	376,088
Total	**418,779**	**40,134**	**5,080**	**463,993**
As at 31 December 2006				
Total	**366,389**	**55,366**	**7,320**	**429,075**

Maturities of off-balance sheet items - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2007	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Documentary and commercial letters of credit	9,954	343	-	10,297
Guarantees	41,532	26,119	5,080	72,731
Derivative financial instruments	3,241	1,636	-	4,877
Credit commitments	361,034	12,036	-	373,070
Total	**415,761**	**40,134**	**5,080**	**460,975**
As at 31 December 2006				
Total	**365,560**	**55,366**	**7,320**	**428,246**

3.4. Financial risk

Financial risks originates from the sensitivity of group's net worth or net income to changes in interest rates or currency rates or from direct impact of volatile market prices on financial instruments in the Group's portfolio.

3.4.1. Currency Risk

Currency rate changes in relation to the open positions in individual currencies influences the financial result of the Group. The open currency position in individual currencies is a difference between assets and liabilities in foreign currency. For the purpose of measuring currency risk, the Group takes into account the overall position, which is a sum of all investment and liabilities in foreign currency and all concluded and unsettled currency contracts: spot transactions and deals involving derivative financial instruments.

The Group identifies and measures currency risk on a daily basis as follows:

- as a notional open position in individual currencies
- as Value at Risk (VAR) for the aggregate exposure for all currencies.

Value at Risk is a statistical calculation of the maximum potential loss, which could occur during the subsequent ten working days with a statistical confidence of 99 per cent. The evaluation of Value at Risk takes into account the figures for the amount of the open position in an individual currency, volatility of foreign exchange rates and the correlation among currencies.

Group VAR by risk type

(all amounts expressed in thousands of EUR)

	12 months to 31 December 2007			12 months to 31 December 2006		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk (trading and non-trading portfolio)	8	39	1	12	32	2
Equities risk (trading portfolio)	1,653	2,045	1,049	845	1,063	538
Total VAR	**1,661**	**2,084**	**1,050**	**857**	**1,095**	**540**

The Group manages exposure to currency risk by means of setting:

- limits for the maximum allowed open position in individual currencies
- limits for the maximum allowed Value at Risk.

The Risk management Department controls exposure to currency risk on a daily basis, considering the end of the day position.

Currency risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2007	EUR	USD	Other	TOTAL
ASSETS				
Cash and balances with central banks	30,206	430	426	31,062
Financial instruments held for trading:	52,227	-	-	52,227
- trading assets	50,047	-	-	50,047
- derivative financial instruments	2,180	-	-	2,180
Investment securities available for sale	297,511	2,685	-	300,196
Loans and advances:	1,698,866	22,998	46,459	1,768,323
- to banks	47,676	22,546	11,230	81,452
- to customers	1,651,190	452	35,229	1,686,871
Investment securities held to maturity	2,013	-	-	2,013
Pledged assets	19,211	-	-	19,211
Property, plant and equipment	30,747	-	-	30,747
Investment property	518	-	-	518
Intangible assets	4,945	-	-	4,945
Investment in subsidiaries	5,214	-	-	5,214
Income tax assets	8,513	-	-	8,513
- current income tax	6,399	-	-	6,399
- deferred income tax	2,114	-	-	2,114
Other assets	16,174	50	18	16,242
Total assets	2,166,145	26,163	46,903	2,239,211
LIABILITIES				
Liabilities to CB	30,046	-	-	30,046
Financial instruments held for trading:	17,262	-	-	17,262
- derivative financial instruments	17,262	-	-	17,262
Liabilities carried at amortised cost:	1,822,584	53,200	47,679	1,923,463
- deposits from banks	116,250	-	-	116,250
- due to customers	1,183,381	53,200	11,422	1,248,003
- other borrowed funds from banks	522,685	-	36,257	558,942
- other borrowed funds from other customers	268	-	-	268
Provisions:	23,732	-	-	23,732
- provisions for liabilities and charges	20,183	-	-	20,183
- retirement benefit obligations	3,549	-	-	3,549
Income tax liabilities:	8,460	591	-	9,051
- current income tax	343	-	-	343
- deferred income tax	8,117	591	-	8,708
Other liabilities	16,467	53	23	16,543
Total liabilities	1,918,551	53,844	47,702	2,020,097
Net balance sheet position	247,594	(27,681)	(799)	219,114
Credit commitments	479,309	1,276	1,705	482,290

As at 31 December 2006	EUR	USD	Other	TOTAL
Total assets	1,789,535	63,571	11,484	1,864,590
Total liabilities	1,586,411	62,698	12,415	1,661,524
Net balance sheet position	**203,124**	**873**	**(931)**	**203,066**
Credit commitments	433,541	6,938	3,582	444,061

Currency risk- consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2007	EUR	USD	Other	TOTAL
ASSETS				
Cash and balances with central banks	30,257	430	426	31,113
Financial instruments held for trading:	52,227	-	-	52,227
- trading assets	50,047	-	-	50,047
- derivative financial instruments	2,180	-	-	2,180
Investment securities available for sale	297,511	2,685	-	300,196
Loans and advances:	1,724,128	22,998	45,332	1,792,458
- to banks	47,676	22,546	11,230	81,452
- to customers	1,676,452	452	34,102	1,711,006
Investment securities held to maturity	2,013	-	-	2,013
Pledged assets	19,211	-	-	19,211
Goodwill	905	-	-	905
Property, plant and equipment	34,357	-	-	34,357
Investment property	518	-	-	518
Intangible assets	4,990	-	-	4,990
Income tax assets	9,057	-	-	9,057
- current income tax	6,476	-	-	6,476
- deferred income tax	2,581	-	-	2,581
Other assets	17,133	50	18	17,201
Total assets	2,192,307	26,163	45,776	2,264,246
LIABILITIES				
Liabilities to CB	30,046	-	-	30,046
Financial instruments held for trading:	17,262	-	-	17,262
- derivative financial instruments	17,262	-	-	17,262
Liabilities carried at amortised cost:	1,839,131	53,200	47,679	1,940,010
- deposits from banks	116,250	-	-	116,250
- due to customers	1,183,351	53,200	11,422	1,247,973
- other borrowed funds from banks	539,262	-	36,257	575,519
- other borrowed funds from other customers	268	-	-	268
Provisions:	23,784	-	-	23,784
- provisions for liabilities and charges	20,154	-	-	20,154
- retirement benefit obligations	3,630	-	-	3,630
Income tax liabilities:	8,549	591	-	9,140
- current income tax	432	-	-	432
- deferred income tax	8,117	591	-	8,708
Other liabilities	23,763	53	23	23,839
Total liabilities	1,942,535	53,844	47,702	2,044,081
Net balance sheet position	249,772	(27,681)	(1,926)	220,165
Credit commitments	476,687	1,276	1,280	479,243

As at 31 December 2006	EUR	USD	Other	TOTAL
Total assets	1,800,260	63,571	11,484	1,875,315
Total liabilities	1,596,327	62,698	12,415	1,671,440
Net balance sheet position	**203,933**	**873**	**(931)**	**203,875**
Credit commitments	432,704	6,938	3,582	443,224

The adoption of the EURO in Slovenia on January 1st 2007 has among other benefits also significantly decreased foreign currency exchange risk.

3.4.2. Interest rate risk

Through the relation between interest rate sensitive assets and interest rate sensitive liabilities changes of interest rates influence the net interest margin. The Group manages the structure of interest sensitive assets and liabilities by taking into account acceptable exposure to interest rate risk.

The Group evaluates interest rate risk at the level of the entire interest-bearing balance sheet items and non-interest earning items that otherwise do not bear interest, but their value is implicitly dependent on the movement of interest rates (currency forwards). Interest rate risk is measured on a regular basis from two points of view:

- from the position of sensitivity of net interest income generated by the Group on interest rate changes,
- from the position of sensitivity of interest-earning net position, as a difference between net current value of interest-earning assets and liabilities, discounted at market rates of interest.

The first measure tracks a short-term influence of hypothetical interest rate change on interest bearing assets and liabilities in the current business year. On the 31 December 2007 the effect of rising the interest rate for 1 % amounts to EUR 4.3 million, while the effect for USD position is negligible. The sensitivity analysis is made with assumption of a parallel shift of the yield curve for 100 b.p. for interest bearing assets and liabilities, with the exception of demand deposits, for which the interest rate shift is assumed to be 25b.p.. The interest rate income will drop for the same amount if the interest rate drops by 1%.

Estimation of the impact, for increasing the interest rate by 1 percent, on net present value of interest bearing assets and liabilities, amounts to EUR 6.03 million. Demand deposits are selected into time buckets until one year in accordance with the estimation of on demand deposit's sensitivity on the changes of long-term interest rate.

At the moment, the limit is applied only to the sensitivity of the net present value for the Treasury division portfolio for an increase of 25 b.p. The limit amount is EUR 1.65 million and the interest rate sensitivity equals something less than EUR 1 million. Interest rate risk is reported monthly to the ALCO committee.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Maturity dates do not differ significantly from the contract dates, except for the maturity of EUR 868,856 thousand (2006: EUR 875,171 thousand) of Due to customers up to 1 month, of which 60% (2006: 60%) represent balances on current accounts considered by the Group as a relatively stable core source of funding for its operations.

(all amounts expressed in thousands of EUR)

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	TOTAL
ASSETS							
Cash and balances with central banks	11,570	-	-	-	19,492	-	31,062
Financial instruments held for trading:	26	-	202	793	-	-	-
- trading assets	26	-	202	793	-	49,026	50,047
- derivative financial instruments	-	-	-	-	-	2,180	2,180
Investment securities available for sale	11,883	52,428	72,618	90,097	30,679	42,491	300,196
Loans and advances:	904,833	451,930	324,340	61,573	13,625	12,022	1,768,323
- to banks	71,901	2,139	3,236	-	-	4,176	81,452
- to customers	832,932	449,791	321,104	61,573	13,625	7,846	1,686,871
Investment securities held to maturity	2,013	-	-	-	-	-	2,013
Pledged assets	-	321	2,000	16,890	-	-	19,211
Property, plant and equipment	-	-	-	-	-	30,747	30,747
Investment property	-	-	-	-	-	518	518
Intangible assets	-	-	-	-	-	4,945	4,945
Investment in subsidiaries	-	-	-	-	-	5,214	5,214
Income tax assets	-	-	-	-	-	8,513	8,513
- current income tax	-	-	-	-	-	6,399	6,399
- deferred income tax	-	-	-	-	-	2,114	2,114
Other assets	-	-	-	-	-	16,242	16,242
Total assets	930,325	504,679	399,160	169,353	63,796	171,898	2,239,211
LIABILITIES							
Liabilities to CB	30,046	-	-	-	-	-	30,046
Financial instruments held for trading:	-	-	-	-	-	17,262	17,262
- derivative financial instruments	-	-	-	-	-	17,262	17,262
Liabilities carried at amortised cost:	925,663	534,666	409,408	31,949	21,110	667	1,923,463
- deposits from banks	55,939	-	8,996	30,198	21,009	108	116,250
- due to customers	868,883	262,190	114,753	1,615	3	559	1,248,003
- other borrowed funds from banks	838	272,470	285,634	0	0	-	558,942
- other borrowed funds from other customers	3	6	25	136	98	-	268
Provisions:	-	-	-	-	-	23,732	23,732
- provisions for liabilities and charges	-	-	-	-	-	20,183	20,183
- retirement benefit obligations	-	-	-	-	-	3,549	3,549
Income tax liabilities:	-	-	-	-	-	9,051	9,051
- current income tax	-	-	-	-	-	343	343
- deferred income tax	-	-	-	-	-	8,708	8,708
Other liabilities	-	-	-	-	-	16,543	16,543
Total liabilities	955,709	534,666	409,408	31,949	21,110	67,255	2,020,097
Total interest repricing gap	(25,384)	(29,987)	(10,248)	137,404	42,686		

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	TOTAL
Total assets	674,820	323,272	429,204	205,514	67,275	164,505	1,864,590
Total liabilities	1,150,586	339,447	86,243	37,156	33	48,059	1,661,524
Total interest repricing gap	**(475,766)**	**(16,175)**	**342,961**	**168,358**	**67,242**		

Interest rate risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	TOTAL
ASSETS							
Cash and balances with central banks	11,621	-	-	-	19,492	-	31,113
Financial instruments held for trading:	26	-	202	793	-	51,206	52,227
- trading assets	26	-	202	793	-	49,026	50,047
- derivative financial instruments	-	-	-	-	-	2,180	2,180
Investment securities available for sale	11,883	52,428	72,618	90,097	30,679	42,491	300,196
Loans and advances:	918,522	441,338	325,877	61,591	13,625	31,505	1,792,458
- to banks	71,901	2,139	3,236	-	-	4,176	81,452
- to customers	846,621	439,199	322,641	61,591	13,625	27,329	1,711,006
Investment securities held to maturity	2,013	-	-	-	-	-	2,013
Pledged assets	-	321	2,000	16,890	-	-	19,211
Goodwill	-	-	-	-	-	905	905
Property, plant and equipment	-	-	-	-	-	34,357	34,357
Investment property	-	-	-	-	-	518	518
Intangible assets	-	-	-	-	-	4,990	4,990
Income tax assets	-	-	-	-	-	9,057	9,057
- current income tax	-	-	-	-	-	6,476	6,476
- deferred income tax	-	-	-	-	-	2,581	2,581
Other assets	-	-	-	-	-	17,201	17,201
Total assets	944,065	494,087	400,697	169,371	63,796	192,230	2,264,246
LIABILITIES							
Liabilities to CB	30,046	-	-	-	-	-	30,046
Financial instruments held for trading:	-	-	-	-	-	17,262	17,262
- derivative financial instruments	-	-	-	-	-	17,262	17,262
Liabilities carried at amortised cost:	932,902	528,634	417,248	39,449	21,110	667	1,940,010
- deposits from banks	55,939	-	8,996	30,198	21,009	108	116,250
- due to customers	868,853	262,190	114,753	1,615	3	559	1,247,973
- other borrowed funds from banks	8,107	266,438	293,474	7,500	-	-	575,519
- other borrowed funds from other customers	3	6	25	136	98	-	268
Provisions:	-	-	-	-	-	23,784	23,784
- provisions for liabilities and charges	-	-	-	-	-	20,154	20,154
- retirement benefit obligations	-	-	-	-	-	3,630	3,630
Income tax liabilities:	-	-	-	-	-	9,140	9,140
- current income tax	-	-	-	-	-	432	432
- deferred income tax	-	-	-	-	-	8,708	8,708
Other liabilities	-	-	-	-	-	23,839	23,839
Total liabilities	962,948	528,634	417,248	39,449	21,110	74,692	2,044,081
Total interest repricing gap	(18,883)	(34,547)	(16,551)	129,922	42,686		

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	TOTAL
Total assets	686,338	323,272	429,204	205,514	67,275	163,712	1,875,315
Total liabilities	1,155,075	341,447	89,254	37,156	33	48,475	1,671,440
Total interest repricing gap	**(468,737)**	**(18,175)**	**339,950**	**168,358**	**67,242**		

The table below summarises the effective annual interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss:

	2007			2006		
	EUR	USD	other	EUR	USD	other
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	3.90	4.70	3.82	3.54	5.28	2.72
Loans and advances to customers	5.73	6.31	3.56	4.80	6.91	2.88
Trading assets	3.59	-	-	3.39	-	-
Investment securities available for sale	4.29	-	-	4.00	3.63	-
Investment securities held to maturity	12.52	-	-	3.65	-	-
Liabilities						
Deposits from banks	4.42	-	-	3.50	-	-
Due to customers	2.43	2.71	1.03	1.55	2.18	0.63
Other borrowed funds	4.84	-	2.98	3.84	-	-

3.4.3. Market (price) risk

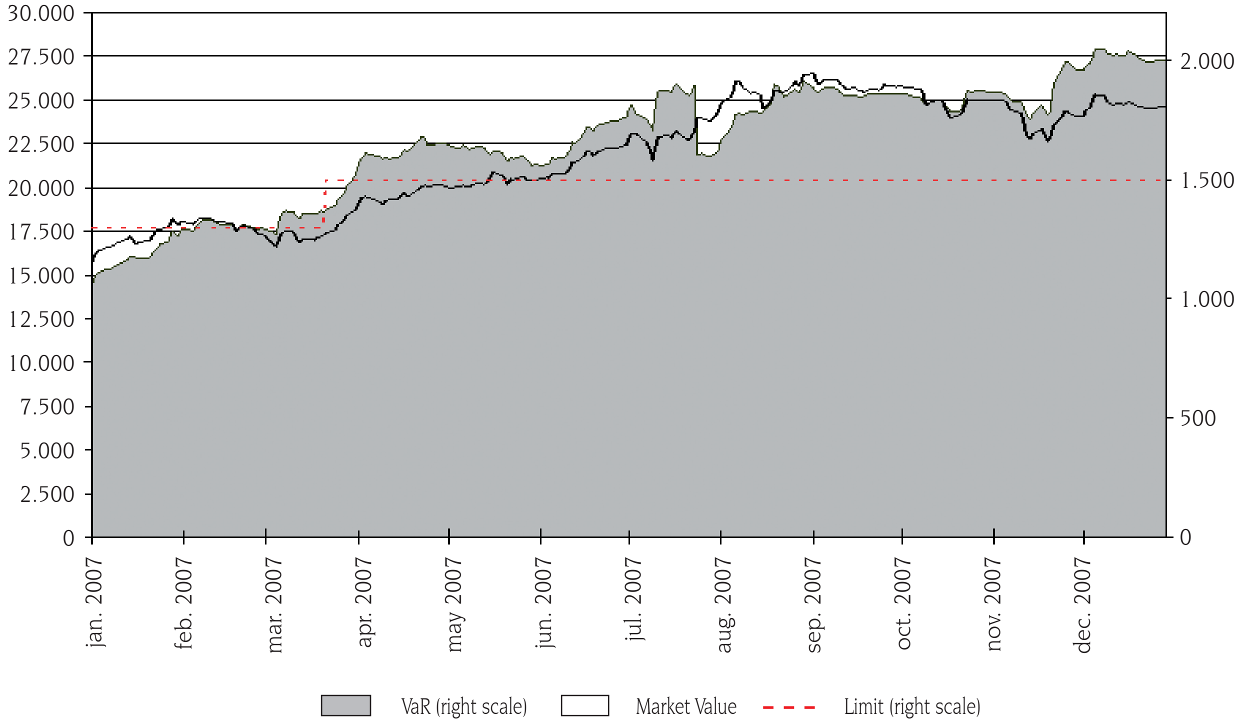
Market risk is associated with the Group's trading transactions, since gain realised on trading transactions is largely a result of a change in market prices. Trading activities in the Group are defined as investments of the Investment Banking Department in equity and debt securities, deals involving derivative financial instruments and forex trading.

Market risks inherent in individual activities are managed by putting in place the following limits:

- Trading position in derivative financial instruments are offset by counter underlying deals. Counterparty risk is calculated as a credit replacement cost daily and checked with the limits determined for the type of exposure.
- Trading in equity securities (stock) held in the Group's trading portfolio is subject of daily measurement and control by the Risk Management Department. Exposures are measured by applying the Value At Risk method calculated as 99 per cent statistical confidence and for 10-day horizon. In line with it, a limit is set for value at risk i.e. the maximum allowed potential loss. The limit is EUR 1.5 million, VAR on 31 December 2007 amounted to EUR 2 million and exceeded the limit due to the increase of portfolio's market prices. The management board allowed the excess of the limit banning any new equity acquisition. Risk management weekly reports to the management board and monthly assesses the financial effects of investments.

The movement of market value and of Var equity instruments for the year 2007

(all amounts expressed in thousands of EUR)



- Exposure arising from bonds in trading portfolio is measured by sensitivity of the portfolio net present value to interest rate changes. Correspondingly, the limit on the highest allowed interest rate sensitivity of the portfolio is set at EUR 0.65 million, while the exposure equals EUR 0.3 million. Interest rate sensitivity is measured as a shift of portfolio's net present value on a change of interest rate by 25 b.p.. Credit risk to issuers is limited by the prescribed quality of issuers and exposure limits to each issuer.
- Risk inherent in forex trading is controlled in accordance with the point addressing currency risk. Speculative forex trading is limited by capping the maximum trading amount for an individual trader and the maximum loss after which the position must be closed (stop-loss limits).

Quality control is also enabled by the organization and separation of responsibilities between the organizational unit which engages in trading and the organizational units which settles, records and matches positions arising from trading transactions.

3.5. Operational risk

The new capital regulation, which was introduced in the Slovenian legislation with a new banking law (ZBan-1) and set of Bank of Slovenia's decisions, defines and systematically arranges operational risk. In order with the requirements of this regulation, the Group defined operational risk as a risk to an incurred loss resulting from inadequate or failed internal processes, people and systems or from external events.

The operational risk policy defines that the operational risk management system is formed by an organizational scheme, process of operational risk management and system of internal controls. The process of operational risk management is performed through procedures of identification, measurement or evaluation, management and monitoring of operational risk. Data loss collection, the process of identification operational risk, is supported by an IT application. Risk management quarterly prepares reports for the Group's operational risk group and for the management board. The Group also established a process of reporting and taking immediate actions in the case of an important operational loss.

Operational risk is managed at two levels: at an individual organizational unit level and at a level of the Group as a whole. At the first level, risk management is processed within the working tasks, competences and responsibilities of an individual organizational unit. The management of the operational risk at the second level is put in place in accordance with the methodologies and approaches used by the banking group Intesa Sanpaolo.

3.6. Fair value of financial assets and financial liabilities

Since the credit portfolio with long-term maturity and variable interest rate over 5 years accounts for merely 2.5%, we assess that there are no significant differences between fair value of loans and their balance-sheet value.

The Group does not have long-term debt financial instruments held to maturity; hence there are no significant differences between fair value of loans and their balance-sheet value of these instruments.

Since the Group practically has no deposits with long-term maturity and variable interest rates over five years, we assess that there are no significant differences between fair value of loans and their balance-sheet value.

4. MORE SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

a) Impairment of financing and claims

With the aim to put in place a tool for impairment recognition, the Bank reviews its financing portfolio on a monthly basis. Prior to taking a decision whether a loss has to be recognised in the income statement, the Bank checks whether there is information indicating to a fall in estimated cash flows arising from group financing. Evidence includes information on the deterioration of payment ability of debtors or deterioration in economic conditions and circumstances. Future cash flows in a group of financial assets are assessed on the basis of past record and losses incurred under assets associated with credit risk similar to assets in a group. Individual estimates are made based on projections of future cash flows by taking into account all relevant information with regard to the financial position and payment ability of the debtor. The cash flow projections are verified by independent entities. Small exposures are verified as a group. The methodology and assumptions used for assessing future cash flows are subject to verifications on a regular basis in order to reduce differences between assessed i.e. estimated and actual losses.

b) Fair values of financial instruments

Fair values of financial instruments not traded on the organised i.e. active market are determined by using valuation models. The valuation models used for determining fair values are reviewed by independent entities on a regular basis. All used models are tested in order to ensure that the results reflect market terms. The models are based on market information in the highest possible degree, even though is still necessary to use also estimates to determine market risk, volatility and correlations. Any changes in estimates regarding these factors may affect reported fair value of financial instruments.

c) Equity instruments available for sale

Equity instruments available for sale are impaired in case that a significant or prolonged decline in their fair value below cost price should occur. The decision what is to be considered as a significant or prolonged decline in fair value is based on estimates. When these estimates are made, in addition to other factors, the Bank takes into account volatility of share prices. Impairment is also marked by evidence on the deterioration of the financial position of the issuer of the instrument, the impairment of the economic sector (industry), changes in technology and operations.

d) Financial assets held to maturity

The Group classifies in the financial assets carried as a group of assets held to maturity those financial assets with determined or determinable payments and determined maturity. Prior to the classification, the Group checks the purpose and the ability to hold such investments i.e. assets until their maturity. In the event that the Group would not be able to hold the investments i.e. assets to maturity, the consequence would be that the entire group of such financial assets would have to be classified as financial assets available for sale. Should that be the case, such investments i.e. assets would have to be valued i.e. measured at fair value, and that would result in the increase in the value of assets, and would consequently push equity capital up.

5. NET INTEREST INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Interest income				
Central bank deposits	847	317	847	317
Loans and advances (including finance leases):	87,475	69,573	89,623	70,273
From banks	4,269	3,874	4,269	3,874
From other customers	83,206	65,699	85,354	66,399
Investment securities (AFS and HTM)	10,203	12,829	10,203	12,829
Investment securities HFT	1,332	1,586	1,332	1,586
Other	25	442	25	442
	99,882	84,747	102,030	85,447
Interest expense				
Bank deposits and loans	3,976	3,018	3,976	3,018
Other customers	23,346	19,662	24,264	19,930
Other borrowed funds	17,246	12,782	17,246	12,782
Debt securities in issue	-	87	-	87
Investment securities HFT	1,689	1,484	1,689	1,484
Other	3	11	3	11
	46,260	37,044	47,178	37,312
	53,622	47,703	54,852	48,135

At the end of 2007 the Group accrued on impaired financial assets interest income in the amount of EUR 6,548 thousand (2006: EUR 9,688 thousand). These interest income are not recognised in income statement till their repayment.

6. DIVIDEND INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Trading securities	207	1,591	207	1,591
Investment securities	301	289	301	289
	508	1,880	508	1,880

7. NET FEE AND COMMISSION INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
Fee and commission income				
Guarantees	872	818	872	818
Debit/credit card money transaction	19,842	19,053	22,992	19,053
Payment transaction	7,544	7,724	7,544	7,724
Brokers intermediation and management of securities portfolio	1,277	634	1,277	634
Current account	2,495	2,425	2,495	2,425
Custody	1,020	504	1,020	504
Other	1,939	1,764	2,061	1,856
	34,989	32,922	38,261	33,014
Fee and commission expense				
Bank services	3,534	3,853	4,648	3,853
Money transfer	802	806	923	806
Intermediation and management	174	133	174	133
Other	33	49	125	51
	4,543	4,841	5,870	4,843
	30,446	28,081	32,391	28,171

8. GAINS LESS LOSSES FROM FINANCIAL ASSETS AND LIABILITIES NOT RECOGNISED AT FAIR VALUE THROUGH PROFIT AND LOSS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
Loss/income due to sale of investment securities	1,291	15,200	1,291	15,200
	1,291	15,200	1,291	15,200

In the year 2006 the Group sold her stake in Lama Dekani and Splošna Plovba Portorož. Capital gain from this disposals amounted to EUR 13,662 thousand.

9. GAINS LESS LOSSES FROM FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
Trading of derivatives	(11,986)	(8,982)	(11,986)	(8,982)
Currency trading	518	2,066	518	2,066
Trading of debt securities	8	40	8	40
Trading of equity securities	12,130	9,379	12,130	9,379
	670	2,503	670	2,503

10. GAINS LESS LOSSES ON DERECOGNITION OF NON-CURRENT ASSETS OTHER THAN HELD FOR SALE

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Profit on sale of property and equipment	1,203	326	1,258	354
Bad debts written off directly	(150)	(396)	(150)	(396)
Other	(14)	(21)	(121)	(98)
	1,039	(91)	987	(140)

11. OTHER OPERATING GAINS LESS LOSSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Rent	461	475	985	937
Taxes	(78)	(144)	(78)	(144)
Membership fees	(132)	(117)	(132)	(117)
Other	655	344	660	448
	906	558	1,435	1,124

In the year 2007, the Group did not post income from fees earned on services such as asset management and financial intermediation for the account of third parties.

12. ADMINISTRATIVE EXPENSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Staff cost:	28,624	26,651	29,430	26,924
Salaries	19,557	18,100	20,155	18,277
Social security cost	3,030	2,874	3,132	2,889
Pension costs	1,751	1,623	1,759	1,647
Other	4,286	4,054	4,384	4,111
	14,688	13,843	16,497	14,096
Material costs	1,931	1,632	2,030	1,641
Maintenance costs	2,337	2,268	2,340	2,352
Rent	976	951	1,043	991
Professional services	5,947	5,848	6,931	5,897
Advertising and marketing	2,018	1,813	2,412	1,817
Other services	1,479	1,331	1,741	1,398
	43,312	40,494	45,927	41,020

13. AMORTISATION AND DEPRECIATION

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Amortisation	886	640	918	641
Depreciation	4,825	4,752	5,316	5,035
	5,711	5,392	6,234	5,676

14. PROVISIONS

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Provisions for off-balance sheet exposures	3,306	195	3,285	187
Provisions for National Saving Housing Scheme	-	(163)	-	(163)
Provisions for legal proceedings	-	500	-	500
Retirement and long service bonus	710	(414)	758	(414)
Short service bonus	193	-	193	-
	4,209	118	4,236	110

Some of provisions have been recognised for expected cost of premiums from the National Saving Housing Scheme paid to savers that the Bank will most probably need to repay to the National Saving Housing Scheme.

National Saving Housing Scheme includes requirement that premiums must be repaid to the state if the saver does not take a loan. In that case the Bank has a responsibility to return premiums, while the saver retains them. As this Scheme is not as successful as the government hoped it would be, a lot of savers do not take a loan after the end of 5 or 10-year period.

The Bank creates provisions for those premiums that the government already gave to savers but based on historical data the Bank knows that they won't take a loan and the Bank will have to repay the premium.

15. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Amounts due from other banks	-	(94)	-	(94)
Loans and advances to customers	3,980	5,876	4,857	5,877
Other assets	-	(2)	(2)	29
Goodwill	-	-	367	-
Investment in subsidiaries	370	-	-	-
	4,350	5,780	5,222	5,812

16. INCOME TAX EXPENSE

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Current tax	4,808	11,491	4,944	11,548
Deferred tax (note 38)	2,306	(800)	2,055	(816)
	7,114	10,691	6,999	10,732

Further information about deferred income tax is presented in note 38. The tax on the Group´s profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	31,292	43,894	30,908	44,088
Prima facie tax calculated at a tax rate of 23 % (2006: 25%)	7,197	10,973	7,109	11,022
Income not assessable for tax	(539)	(912)	(561)	(943)
Income assessable for tax (not recognised in income statement)	-	44	-	44
Expenses not deductible for tax purposes:				
- Negative valuation of securities and derivatives HFT	85	1,271	326	1,310
- Expenses related to employees benefits	-	65	-	66
- Staff costs not assessable for tax	179	190	181	192
- Other non deductible expenses	233	99	239	102
Redemption of income tax due to deductible expenses	(2,013)	(793)	(2,013)	(793)
Additional income tax due to changes in tax legislation	-	640	-	642
Redemption of income tax due to changes in tax legislation	(37)	-	(37)	-
Deferred tax claims (Note 38)	-	(800)	(251)	(817)
Deferred tax liabilities (Note 38)	2,306	-	2,306	-
Tax relief	(297)	(86)	(300)	(93)
Tax on profit	7,114	10,691	6,999	10,732

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records within 5 years subsequent to the reported tax year and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

The last tax inspection was in the year 2006, when tax authorities inspected Bank's books and records for the year 2005.

17. EARNINGS PER SHARE

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Net profit for the year	24,178	33,203	24,090	33,356
Weighted average number of ordinary shares in issue	530,398	523,405	530,398	523,405
Basic and diluted profit per share (expressed in EUR per share)	45,58	63,44	45,42	63,73

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares. There are no diluted potential ordinary shares. There are no share options schemes.

18. INCOMES AND EXPENSES ACHIEVED ON FOREIGN MARKETS

The revenues generated by the Group in the foreign markets do not constitute the important part of the Group's total revenues.

In 2007 and 2006 the Group realised in foreign markets a significant part of the expenses with regards to funding granted by Intesa Sanpaolo Group banks (note 47).

19. CASH AND BALANCES WITH CENTRAL BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Cash in hand	11,570	10,407	11,651	10,407
Balances with central banks	-	27,370	-	27,370
Cash and cash equivalents (note 45)	11,570	37,777	11,651	37,777
Mandatory reserve deposits with central banks	19,492	21,158	19,462	21,158
	31,062	58,935	31,113	58,935

The Bank is required to maintain a mandatory reserve with the central bank (Bank of Slovenia), relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as mandatory reserve is 2% of time deposits and debt securities issued up to two years.

The Bank maintains sufficient liquid assets to fully comply with central bank requirements.

20. TRADING ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Debt securities:				
- bonds included in cash and cash equivalents (note 45)	1,021	1,048	1,021	1,048
Equity securities:				
- Listed	48,867	24,887	48,867	24,887
- Unlisted	159	280	159	280
	50,047	26,215	50,047	26,215

As at 31.12.2007 and 31.12.2006 there are not any trading assets pledged.

21. DERIVATIVE FINANCIAL INSTRUMENTS AND TRADING LIABILITIES (BANKA KOPER AND CONSOLIDATED)

Forward agreements on sale of marketable shares represent commitments to sell shares at the future date under the price stipulated in the contract. From the day of the signing of the contract the securities are already in the possession of the Bank and the Bank does not trade in these securities until the expiration of the contracting period. Therefore the Bank is not exposed to any market risk within the framework of these transactions. The maturity period for forward agreements is usually between six months and two years. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market price, market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table:

(all amounts expressed in thousands of EUR)

As at 31 December 2007	Contract/notional amount	Fair values	
		Assets	Liabilities
Foreign exchange derivatives			
Currency swaps	29,949	8	621
Interest rate derivatives			
Interest rate swap	51,972	754	922
Other derivatives			
Forward agreement on sale of marketable shares	33,756	771	15,072
Equity options	9,886	647	647
Total derivative assets/(liabilities) held for trading		2,180	17,262

(all amounts expressed in thousands of EUR)

As at 31 December 2006	Contract/notional amount	Fair values Assets	Liabilities
Interest rate derivatives			
Interest rate swap	8,591	437	273
Cross-currency interest rate swaps	47,154	1,040	296
Other derivatives			
Forward agreement on sale of marketable shares	60,853	382	2,627
Forward agreement on sale of non marketable shares	286	6	-
Currency forward	1,638	23	22
Total derivative assets/(liabilities) held for trading		1,888	3,218

22. INVESTMENT SECURITIES (AVAILABLE FOR SALE AND HELD TO MATURITY SECURITIES)

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Debt securities:				
- Listed	257,699	204,578	257,699	204,578
- included in cash and cash equivalents (Note 45)	6,496	-	6,496	-
- Unlisted:	55	3,041	55	3,041
- included in cash and cash equivalents (Note 45)	-	1,034	-	1,034
Equity securities:				
- Listed	23,198	14,735	23,198	14,735
- Unlisted	19,244	17,116	19,244	17,116
Total securities available for sale	300,196	239,470	300,196	239,470
Debt securities:				
- Listed	2,013	2,502	2,013	2,502
- Unlisted	-	68,102	-	68,102
Total securities held to maturity	2,013	70,604	2,013	70,604

The Bank adopted its own valuation model in cases where investments are not listed. In 2007 the Bank made the valuation for one of its investments in the amount of EUR 2,185 thousand (2006:EUR 4,583 thousand).

Movement

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated 2007 AFS	2007 HTM	2006 AFS	2006 HTM
At beginning of the year	239,470	70,604	215,767	196,134
Additions	103,558	72	102,253	569,597
Exchange differences on monetary assets	(60)	-	641	(2,278)
Interest accrual	5,970	57	5,179	298
Disposals (sale and redemption)	(55,022)	(68,720)	(80,834)	(693,147)
Gains/losses from changes in fair value	6,280	-	(3,536)	-
At end of year	300,196	2,013	239,470	70,604

23. LOANS AND ADVANCES TO BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Items in course of collection from other banks	5,129	15,423	5,129	15,423
Placements with other banks	68,587	83,625	68,587	83,625
Cash and cash equivalents (note 45)	73,716	99,048	73,716	99,048
Placements with other banks not included in cash and cash equivalents	9,157	29,582	9,157	29,582
Impairment losses on loans and advances to banks	(1,421)	(1,421)	(1,421)	(1,421)
	81,452	127,209	81,452	127,209

As at 31 December 2007 no placements with other banks are shown under Pledged assets (2006: EUR 1,927 thousand).

Movement in provisions for impairment losses on loans and advances to banks as follows

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated
As at 31 December 2005	1,515
Provision for loan impairment	68
Amounts recovered during the year	(162)
Included in income statement	(94)
As at 31 December 2006	1,421
Provision for loan impairment	-
Amounts recovered during the year	-
Included in income statement	-
As at 31 December 2007	1,421

24. LOANS AND ADVANCES TO CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Loans to individuals:	315,315	254,392	345,633	254,392
Overdrafts	33,338	33,431	33,338	33,431
Credit cards	7,725	6,862	27,782	6,862
Term loans	119,670	98,034	129,931	98,034
Mortgages	154,582	116,065	154,582	116,065
Loans to sole proprietors	62,646	46,412	68,185	46,412
Loans to corporate entities	1,374,102	1,025,567	1,363,390	1,037,221
Gross loans and advances	1,752,063	1,326,371	1,777,208	1,338,025
Less provision for impairment	(65,192)	(57,789)	(66,202)	(57,925)
	1,686,871	1,268,582	1,711,006	1,280,100

Movement in provisions for impairment losses on loans and advances to customers as follows

(all amounts expressed in thousands of EUR)

	............................Loans to individuals - Banka Koper			....	Total loans to individuals - Banka Koper
	Overdrafts	Credit cards	Term loans	Mortgages	
As at 31 December 2005	3,586	81	2,103	1,434	7,204
Provision for loan impairment	1,210	192	1,857	1,099	4,358
Amounts recovered during the year	(473)	(53)	(1,135)	(766)	(2,427)
Included in income statement	737	139	722	333	1,931
As at 31 December 2006	4,323	220	2,825	1,767	9,135
Provision for loan impairment	456	134	1,075	1,739	3,404
Amounts recovered during the year	(1,055)	(84)	(493)	(1,440)	(3,072)
Included in income statement	(599)	50	582	299	332
As at 31 December 2007	3,724	270	3,407	2,066	9,467

(all amounts expressed in thousands of EUR)

	.... Loans to individuals - Consolidated			....	Total loans to individuals - Consolidated
	Overdrafts	Credit cards	Term loans	Mortgages	
As at 31 December 2005	3,586	81	2,103	1,434	7,204
Provision for loan impairment	1,210	192	1,857	1,099	4,358
Amounts recovered during the year	(473)	(53)	(1,135)	(766)	(2,427)
Included in income statement	737	139	722	333	1,931
As at 31 December 2006	4,323	220	2,825	1,767	9,135
Provision for loan impairment	456	987	1,257	1,739	4,439
Amounts recovered during the year	(1,055)	(194)	(493)	(1,440)	(3,182)
Included in income statement	(599)	793	764	299	1,257
As at 31 December 2007	3,724	1,013	3,589	2,066	10,392

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	Sole proprietors	**Corporate entities**	**Sole proprietors**	**Corporate entities**
As at 31 December 2005	2,539	43,168	2,539	43,303
Provision for loan impairment	2,396	40,030	2,396	40,031
Amounts recovered during the year	(1,988)	(36,493)	(1,988)	(36,493)
Included in income statement	408	3,537	408	3,538
Bed debts written off against specific provisions for impairment	(253)	(745)	(253)	(745)
As at 31 December 2006	2,694	45,960	2,694	46,096
Provision for loan impairment	2,304	46,959	2,304	47,110
Amounts recovered during the year	(1,347)	(44,268)	(1,347)	(44,467)
Included in income statement	957	2,691	957	2,643
Bed debts written off against specific provisions for impairment	(8)	(384)	(8)	(402)
Abolished provisions for impairment not recognised in income statement	-	3,815	15	3,815
As at 31 December 2007	3,643	52,082	3,658	52,152

Customer loan portfolio by economic sector

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
Government	37,860	48,708	37,860	48,708
Trade	194,579	131,797	194,579	131,797
Services	682,417	513,243	671,609	524,897
Construction	34,795	21,597	34,795	21,597
Manufacturing	341,635	221,609	341,635	221,609
Agriculture	32,576	9,680	32,576	9,680
Individuals	315,315	254,392	345,633	254,392
Sole proprietors	62,646	46,412	68,185	46,412
Other	50,240	78,933	50,336	78,933
Gross loans and advances to customers	1,752,063	1,326,371	1,777,208	1,338,025
Less provision for impairment	(65,192)	(57,789)	(66,202)	(57,925)
Net loans and advances to customers	1,686,871	1,268,582	1,711,006	1,280,100

Slovenian customers and customers from other European countries accounted for 97% and 3% of geographic sector risk concentration within the customer loan portfolio, respectively.

Analysis of finance leases by residual maturity

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated 2007	2006
Gross investment in finance leases:		
Not later than 1 year	8,924	6,440
Later than 1 year and not later than 5 years	20,261	13,693
Later than 5 years	10,547	7,663
	39,732	27,796
Unearned future interest income on finance leases	(8,274)	(5,408)
Net investment in finance leases:	31,458	22,388
Not later than 1 year	6,975	5,197
Later than 1 year and not later than 5 years	16,114	11,043
Later than 5 years	8,369	6,149
	31,458	22,389

Loans and advances are further analysed as a part of the balance sheet in the following notes: Currency Risk Note 3.4.1., Interest Rate Risk Note 3.4.2., Liquidity Risk Note 3.3, Fair value Note 3.6. and Related Party Transactions Note 47.

25. GOODWILL

Analysis of finance leases by residual maturity

(all amounts expressed in thousands of EUR)

	Consolidated 2007	2006
Opening net book amount	905	905
Acquisition of a subsidiary	367	-
Abolishment due to the valuation of the subsidiary	(367)	-
Closing net book amount	905	905

26. PROPERTY, PLANT AND EQUIPMENT

(all amounts expressed in thousands of EUR)

	Banka Koper Land and buildings	Banka Koper Hardware equipment	Banka Koper Other equipment	Total Banka Koper	Consolidated Land and buildings	Consolidated Hardware equipment	Consolidated Other equipment	Total consolidated
As at 31 December 2006								
Cost	41,461	14,004	13,107	68,572	41,461	14,004	15,919	71,384
Accumulated depreciation	(15,850)	(12,065)	(9,677)	(37,592)	(15,850)	(12,065)	(10,645)	(38,560)
Net book amount as at 31 December 2006	25,611	1,939	3,430	30,980	25,611	1,939	5,274	32,824
Movement in year 2007								
Opening net book amount	25,611	1,939	3,430	30,980	25,611	1,939	5,274	32,824
Additions	1,334	2,011	1,827	5,172	2,809	2,578	3,387	8,774
Disposals	(628)	-	(12)	(640)	(1,104)	(103)	(778)	(1,985)
Depreciation charge	(1,920)	(1,441)	(1,404)	(4,765)	(1,920)	(1,538)	(1,798)	(5,256)
Closing net book amount	24,397	2,509	3,841	30,747	25,396	2,876	6,085	34,357
As at 31 December 2007								
Cost	41,986	15,125	14,650	71,761	42,985	15,692	18,256	76,933
Accumulated depreciation	(17,589)	(12,616)	(10,809)	(41,014)	(17,589)	(12,816)	(12,171)	(42,576)
Net book amount as at 31 December 2007	24,397	2,509	3,841	30,747	25,396	2,876	6,085	34,357

In the year 2007 there were no property, plant and equipment pledged (2006; nil) and they were all owned by the Group.

27. INVESTMENT PROPERTY

Customer loan portfolio by economic sector

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
At beginning of the year	559	1,704	559	1,569
Depreciation	(60)	(61)	(60)	(61)
Transfer to fixed assets	-	(1,096)	-	(1,096)
Additions	19	366	19	366
Disposals	-	(354)	-	(219)
At end of year	518	559	518	559

The item other operating income from property investments carries rents in the amount of EUR 77 thousand (2006: EUR 78 thousand). In the year 2007 there were no maintenance costs incurred under property investments (2006: EUR 0,7 thousand).

28. INTANGIBLE ASSETS

Customer loan portfolio by economic sector

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
As at 31 December 2006				
Cost	3,927	5,851	3,927	5,857
Accumulated amortisation	(2,843)	(3,496)	(2,843)	(3,499)
Net book amount as at 31 December 2006	1,084	2,355	1,084	2,358
Movement in year 2007				
Opening net book amount	1,084	2,355	1,084	2,358
Additions	861	1,667	861	1,798
Disposals	-	(136)	-	(193)
Amortisation	(242)	(644)	(242)	(676)
Closing net book amount	1,703	3,242	1,703	3,287
As at 31 December 2007				
Cost	4,556	7,612	4,556	7,749
Accumulated amortisation	(2,853)	(4,370)	(2,853)	(4,462)
Net book amount as at 31 December 2007	1,703	3,242	1,703	3,287

29. INVESTMENT IN SUBSIDIARIES

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2007	2006
At beginning of the year	3,688	2,311
Additional investment	-	1,377
Acquisition of a subsidiary	1,896	-
Valuation	(370)	-
At end of year	5,214	3,688

At the end of November 2006 the Bank increased the Finor's equity for EUR 1,377 thousand. The Bank is and was a 100% owner of Finor.

At end of February 2007 the group acquired a 75 per cent stock in Centurion Ljubljana, a financial company operating in credit card business. The contract of EUR 1,896 thousand was signed on the February 28th 2007.

30. OTHER ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Commission receivables	465	346	465	346
Accruals	343	1,137	343	1,137
Advances	101	35	101	35
Transition accounts receivables	1,775	1,010	1,775	1,010
Cheques	25	130	25	130
Claims to citizens	90	6,289	90	6,289
Claims to Europay	11,085	1,276	11,085	1,276
Other	2,358	1,946	3,346	2,008
Less provision for impairment	-	-	(29)	(31)
	16,242	12,169	17,201	12,200

On 31 December 2007 the Group had EUR 348 thousand of fixed assets from possessed collateral, which are meant to be sold.

Movement in provisions for impairment on other assets

(all amounts expressed in thousands of EUR)

	Banka Koper	Consolidated
As at 31 December 2005	98	95
Additional provision for impairment	1	45
Amounts recovered during the year	(3)	(16)
Included in income statement	(2)	29
Abolished provisions for impairment not recognised in income statement	(96)	(93)
As at 31 December 2006	-	31
Additional provision for impairment	-	38
Amounts recovered during the year	-	(40)
Included in income statement	-	(2)
As at 31 December 2007	-	29

31. LIABILITIES TO CB

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Term deposits	30,046	-	30,046	-
	30,046	-	30,046	-

32. DEPOSITS FROM BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Sight deposits	376	1,009	376	1,009
Term deposits	115,874	82,376	115,874	82,376
	116,250	83,385	116,250	83,385

33. DUE TO CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
Individuals				
- sight deposits	366,781	394,500	366,781	394,500
- term deposits	559,369	438,149	559,369	438,149
Sole proprietors				
- sight deposits	22,004	17,193	22,004	17,193
- term deposits	7,249	2,804	7,249	2,804
Corporate customers				
- sight deposits	96,468	94,017	96,438	93,498
- term deposits	196,132	177,143	196,132	177,143
	1,248,003	1,123,806	1,247,973	1,123,287

As at 31 December 2007 EUR 47,395 thousand of deposits have been pledged for covering potential credit risk on assets (2006: EUR 28,400 thousand).

34. OTHER BORROWED FUNDS FROM BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2007		2006		2007		2006	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
- in local currency	253,491	269,194	351,057	61,531	262,548	276,714	361,077	61,531
- in foreign currency	36,257	-	-	-	36,257	-	-	-
	289,748	269,194	351,057	61,531	298,805	276,714	361,077	61,531
	558,942		412,588		575,519		422,608	

35. OTHER BORROWED FUNDS FROM OTHER CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2007		2006		2007		2006	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
- in local currency	-	268	-	426	-	268	-	426
	-	268	-	426	-	268	-	426
	268		426		268		426	

36. PROVISIONS FOR LIABILITIES AND CHARGES

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Provisions for off-balance sheet liabilities	18,297	14,986	18,268	14,979
Provisions for National Saving Housing Scheme	1,790	2,558	1,790	2,558
Legal proceedings due to employees	96	500	96	500
Total	20,183	18,044	20,154	18,037

Movement in provisions:

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
At beginning of year	18,045	17,391	18,037	17,391
Additional provision	31,903	27,535	31,882	27,527
Amounts recovered during the year	(28,597)	(27,003)	(28,597)	(27,003)
Included in income statement	3,306	532	3,285	524
Additional provision not recognised in income statement	-	121	-	122
Repayment of the premiums for National Saving Housing Scheme	(768)	-	(768)	-
Utilised provisions	(400)	-	(400)	-
At end of year	20,183	18,044	20,154	18,037

37. RETIREMENT BENEFIT OBLIGATION

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Retirement severance pay and long service bonuses	2,774	2,559	2,855	2,585
Other	-	20	-	20
Redemption of employees	444	456	444	456
Holiday not used	331	-	331	-
	3,549	3,035	3,630	3,061

Movement

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
At beginning of year	3,035	3,711	3,061	3,737
Additional provisions	903	12	951	12
Released during the year	-	(426)	-	(426)
Charged to income statement	903	(414)	951	(414)
Additional provisions not recognised in income statement	-	-	14	-
Utilised provisions	(389)	(262)	(396)	(262)
At end of year	3,549	3,035	3,630	3,061

38. DEFERRED INCOME TAXES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	2006	2007	2006
At beginning of year	3,114	5,710	3,049	5,661
Income statement charge	2,306	(800)	2,055	(816)
Additions during the year	-	-	(151)	-
Investment securities (fair value remeasurement)*	1,090	(1,663)	1,090	(1,663)
Retirement and other employee benefits*	-	789	-	789
Provision for loan losses*	-	(1,392)	-	(1,392)
Provision for losses on off-balance sheet liabilities*	-	208	-	208
Other*	84	262	84	262
At end of year	6,594	3,114	6,127	3,049
Deferred income tax liabilities				
Other	345	261	345	261
Available-for-sale securities	8,363	6,588	8,363	6,588
	8,708	6,849	8,708	6,849
Deferred income tax assets				
Retirement and other employee benefits	653	629	660	636
Provision for loan losses	-	-	460	58
Available-for-sale securities	867	182	867	182
Trading securities and derivative financial instruments	165	2,161	165	2,161
Provisions for National Saving Housing Scheme	394	588	394	588
Provision for legal proceedings	21	115	21	115
Deferred income	-	60	-	60
Other	14	-	14	-
	2,114	3,735	2,581	3,800
Retirement and other employee benefits	24	520	25	519
Provision for loan losses	-	-	250	17
Trading securities and derivative financial instruments	(1,990)	377	(1,990)	377
Provisions for National Saving Housing Scheme	(176)	(41)	(176)	(41)
Deferred income	(58)	(22)	(58)	(22)
Provision for legal proceedings	(93)	115	(93)	115
Other	14	-	14	-
Reduction due to diminuition of tax rate from 25 % to 23 %:				
- Trading securities and derivative financial instruments	(7)	(86)	(7)	(86)
- Retirement and other employee benefits	-	(9)	-	(9)
- Provisions for National Saving Housing Scheme	(18)	(51)	(18)	(51)
- Provision for legal proceedings	(2)	-	(2)	-
- Deferred income	-	(3)	-	(3)
	(2,306)	800	(2,055)	816

* All abolishment's made in 2006 refer to adoption of IFRS also for tax return purposes. In 2005 the tax return was made considering local accounting standards. Due to that the Group recognised deferred taxes due to the tax return requirements and due to the different valuation of financial instruments in local accounting standards and IFRS.

39. OTHER LIABILITIES

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Amount waiting transfer to deposits accounts	7,794	129	7,794	129
Deferred income	2,820	1,716	2,841	1,739
Creditors	2,980	1,922	9,313	2,040
Salaries	1,692	1,642	1,716	1,662
Liabilities for unpaid dividend	148	145	148	145
Other	1,109	1,825	2,027	2,060
	16,543	7,379	23,839	7,775

40. PLEDGED ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Placements with central bank	-	1,927	-	-
Available-for-sale securities:				
- government bonds	17,792	13,771	-	-
- banks´ bonds	1,419	1,419	-	-
Total	19,211	17,117	-	-

41. SHARE CAPITAL

(all amounts expressed in thousands of EUR)

Banka Koper and consolidated	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2005	531,359	22,173	2,527	(660)
Sale of treasury shares	-	-	4,972	611
As at 31 December 2006	531,359	22,173	7,499	(49)
Sale of treasury shares	-	-	-	-
As at 31 December 2007	531,359	22,173	7,499	(49)

The total authorised number of ordinary shares at year end was 531.359 (2006: 531.359). All issued shares are fully paid.

42. REVALUATION RESERVES

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Revaluation reserves	26,583	21,453	26,583	21,453
Total	26,583	21,453	26,583	21,453

Movement - Banka Koper and consolidated

(all amounts expressed in thousands of EUR)

	Revaluation reserves
As at 31 December 2005	24,205
Valuation of available-for-sale securities	(2,760)
Valuation of other assets	8
As at 31 December 2006	21,453
Valuation of available-for-sale securities	5,130
As at 31 December 2007	26,583

43. RESERVES FROM PROFIT

(all amounts expressed in thousands of EUR)

	Banka Koper 2007	Banka Koper 2006	Consolidated 2007	Consolidated 2006
Legal reserves	8,581	7,372	8,581	7,372
Statutory reserves	134,487	119,023	134,487	119,023
Retained earnings	6,009	6,620	6,818	7,268
Other	49	49	49	49
Total	149,126	133,064	149,935	133,712

Movement - Banka Koper

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Other reserves	TOTAL RESERVES
As at 31 December 2005	5,712	106,291	6,009	660	118,672
Sale of treasury shares	-	-	611	(611)	-
Transfer from net profit for the period	1,660	12,732	-	-	14,392
As at 31 December 2006	7,372	119,023	6,620	49	133,064
Transfer from net profit for the period	1,209	15,464	-	-	16,673
Dividend	-	-	(611)	-	(611)
As at 31 December 2007	8,581	134,487	6,009	49	149,126

Movement - consolidated

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Other reserves	TOTAL RESERVES
As at 31 December 2005	5,712	106,291	7,473	660	120,136
Sale of treasury shares	-	-	611	(611)	-
Transfer from net profit for the period	1,660	12,732	-	-	14,392
Dividend	-	-	(816)	-	(816)
As at 31 December 2006	7,372	119,023	7,268	49	133,712
Transfer from net profit for the period	1,209	15,464	161	-	16,834
Dividend	-	-	(611)	-	(611)
As at 31 December 2007	8,581	134,487	6,818	49	149,935

Legal reserves

The Bank shall create the legal reserves to such an amount that the sum of legal reserves and those capital reserves that are added to the legal reserves when the required amount of legal reserves is ascertained equals the double of the capital stock of the Bank.

Statutory reserves

The Bank creates the statutory reserves until they achieve the eight-fold amount of the Bank's registered capital stock. In each financial year, a part of the net profit that remained after any losses carried forward, legal reserves and reserves for own shares have been covered, shall be allocated to the statutory reserves.

44. DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified at the Annual General Meeting. For the year 2006 a dividend of EUR 25 per share was paid out, amounting to a total of EUR 13,261 thousand. The financial statements for the year ended 31 December 2007 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2008.

Definition of the profit for distribution

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2007	**2006**
Net profit for the period	24,178	33,203
Allocation of the profit to the legal reserves (5%)	(1,209)	(1,660)
	22,969	31,543
Allocation of the profit to the statutory reserves (40%)	(9,187)	(12,617)
Net profit for distribution	**13,782**	**18,926**
Sale of treasury shares	-	611
PROFIT, distributed at the AGM:	**13,782**	**19,537**
- for dividends		13,261
- to the statutory reserves		6,276

45. CASH AND CASH EQUIVALENTS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
Cash and balances with central bank	11,570	37,777	11,651	37,777
Loans and advances to banks	73,716	99,048	73,716	99,048
Investment securities available for sale	6,496	1,034	6,496	1,034
Trading assets	1,021	1,048	1,021	1,048
Total	92,803	138,907	92,884	138,907

46. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As at 31 December 2007 there were no significant legal proceedings outstanding against the Group.

Capital commitments. At 31 December 2007 the Group had no capital commitments (2006: nil).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts by the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2007	**2006**	**2007**	**2006**
Documentary and commercial letters of credit	11,033	13,697	11,033	13,697
Guarantees	76,181	108,050	76,181	108,050
Derivative financial instruments	5,018	6,742	5,018	6,742
Credit commitments:				
- original maturity up to 1 year	304,941	255,931	302,894	255,094
- original maturity over 1 year	85,117	59,641	84,117	59,641
	482,290	444,061	479,243	443,224
Provisions for off-balance sheet liabilities:				
documentary and commercial letters of credit	(736)	(999)	(736)	(999)
guarantees	(3,450)	(3,376)	(3,450)	(3,376)
derivative financial instruments	(141)	(111)	(141)	(111)
credit commitments	(13,970)	(10,500)	(13,941)	(10,492)
Total	463,993	429,075	460,975	428,246

47. RELATED PARTY TRANSACTIONS

(all amounts expressed in thousands of EUR)

	Directors and advisers		Management board		Supervisory board		Major shareholders		Subsidiaries	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Loans										
At beginning of the year	194	219	-	-	-	-	159,686	107,214	10,732	9,344
Loans issued during the year	11	19	-	-	21	-	412,500	2,426,055	33,888	3,393
Loan repayments during the year	(58)	(44)	-	-	(8)	-	(490,700)	(2,373,583)	(12,621)	(2,005)
At end of year	147	194	-	-	13	-	81,486	159,686	31,999	10,732
Interest income earned	11	10	-	-	-	-	4,544	5,096	956	2,983
Deposits										
At beginning of the year	1,244	1,218	459	430	313	551	327,496	320,955	30	117
Deposits received during the year	5,870	5,117	3,663	3,246	1,364	1,333	1,105,766	2,293,960	38	4,180
Deposits repaid during the year	(5,275)	(5,091)	(3,505)	(3,217)	(1,677)	(1,571)	(1,331,692	(2,287,419)	(53)	(4,267)
At end of year	1,839	1,244	617	459	-	313	101,570	327,496	15	30
Interest expense on deposits	60	38	16	12	17	14	2,710	12,783	2	13
Other revenue – fee income	-	-	-	-	-	-	6	2	58	10
Guarantees issued by the bank and commitments	-	-	-	-	-	-	13,989	13,090	-	-
Remuneration	2,192	1,874	680	730	62	59				

By major shareholders are meant all companies of the Intesa Sanpaolo Group, all companies of the Luka Koper Group and all companies of the Intereuropa Group.

By supervisory board are meant all members of the Supervisory Board.

48. ACQUISITIONS AND DISPOSALS

(a) Acquisition

On 28 February 2007, the Group acquired 75% of the capital of a small finance company operating in credit cards business in Slovenia. The acquired company contributed operating loss of EUR 905 thousands to the Group for the period from 28 February to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group profit before allocations would have been EUR 24.190 thousands.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows:

Cash and cash equivalents	52
Loans and advances to customers	18,404
Other assets	1,290
Due to customers	(12,244)
Other liabilities	(5,463)
Goodwill	367
Total purchase consideration paid (discharged by cash)	2,406
Cost of acquisition	2,406
Less: cash and cash equivalents in subsidiary acquired	(52)
Cash outflow on acquisition	2,354

The goodwill is attributable to the synergies expected to arise. Fair value of assets and liabilities acquired are based on discounted cash flow models.

No acquisition provisions were created. There were no acquisitions in 2006.

(b) Disposals

In the 2007 there are no disposals of subsidiaries (2006: nil).

49. POST BALANCE SHEET EVENTS

On 1 January 2008 the new capital accord, the so called Basel II, was implemented. Basel II is the second of the Basel Accords, which are recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision. The purpose of Basel II, which was initially published in June 2004, is to create an international standard that banking regulators can use when creating regulations about how much capital banks need to put aside to guard against the types of financial and operational risks banks face.

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Independent auditor's report

To the Shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of **Banka Koper d.d.** which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Acts. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Banka Koper d.d.** as of 31 December 2007, and of 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 and with the requirements of the Slovene Corporation and Banking Acts.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Directors' Report in accordance with the Slovene Corporation Act. We are required by the Slovene Corporation Act to read the Directors' Report and to express an opinion whether the Directors' Report is consistent with the financial statements of the Bank.

In our opinion, the Directors' Report is consistent with the accompanying financial statements of the Bank as of 31 December 2007.

Ljubljana, March 17, 2008

PricewaterhouseCoopers d.o.o.

Leon Živec

Certified Auditor

Francois Mattelaer

Partner

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Independent auditor's report

To the Shareholders of Banka Koper d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banka Koper d.d. and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Acts. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of 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 and with the requirements of the Slovene Corporation and Banking Acts.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Directors' Report in accordance with the Slovene Corporation Act. We are required by the Slovene Corporation Act to read the Directors' Report and to express an opinion whether the Directors' Report is consistent with the consolidated financial statements of the Group.

In our opinion, the Directors' Report is consistent with the accompanying consolidated financial statements of the Group as of 31 December 2007.

Ljubljana, March 17, 2008

PricewaterhouseCoopers d.o.o.

Leon Živec

Certified Auditor

Francois Mattelaer

Partner

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The company is registered by District court in Ljubljana under the number 12156800 as well in to the register of the Auditing companies by Slovene Audit Institute under the number RD-A-014. The amount of the registered share capital is EUR 34.802. The list of employed auditors is available at the registered office of the company.

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