ANNUAL REPORT 2009

BANKA KOPER

Bank of INTESA SANPAOLO

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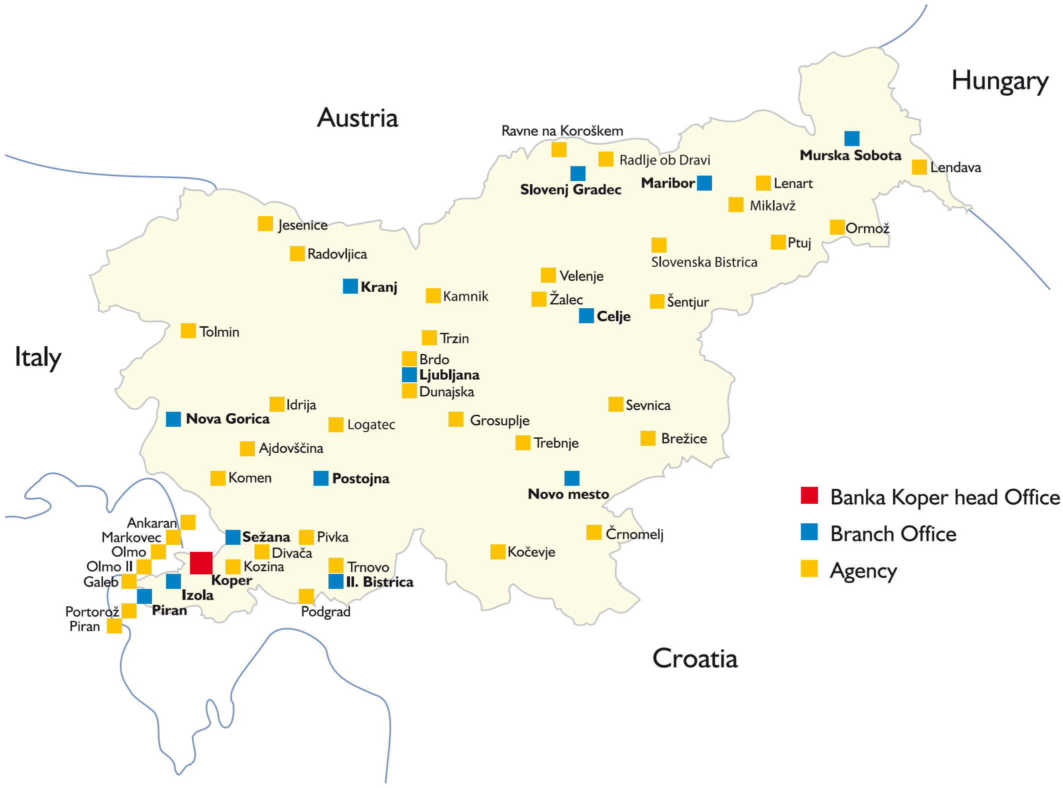
OVERVIEW OF BANKA KOPER



Banka Koper became member of the banking group Sanpaolo IMI, one of the leading banking groups in Italy in 2002. As of 1 January 2007, the majority shareholder of Banka Koper is Intesa Sanpaolo. The financial group Intesa Sanpaolo holds the 5th place by market capitalisation in the euro zone. The fact that Banka Koper belongs to the Group became visible in 2008 with the re-branding project when Banka Koper kept its name and added to it the essential characteristics of the Intesa Sanpaolo brand.

International ratings

Rating agency	Long-term rating	Short-term rating	Individual	Outlook
FITCH RATINGS	A+	F1	C	Stable

The international rating agency FitchRatings based in London confirmed once more high ratings awarded to Banka Koper. Consequently, the Bank's long-term rating remains A+, the short-term rating is F1, support rating is 1 and individual rating is C and a stable outlook for the long-term rating.

The ratings awarded by FitchRatings are based upon standard rating principles. The long-term and short-term issuer default and support ratings are based on extremely high potential support from the Bank's majority owner - Intesa Sanpaolo.

REMINDERS, 2008-2010, mixed technique/canvas, 90 x 100 cm

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.

2008 – The banking group Intesa Sanpaolo S.p.A increases its equity holding in Banka Koper to 97.22 per cent following the acquisition of 26,570 shares held by Intereuropa, d.d. Istrabenz,d.d. and Luka Koper - a combined 5 per cent holding. The rebranding project is completed at Banka Koper and the Bank's corporate image is changed to transpose the new visual identity shared by the parent bank and its subsidiary banks. The Bank's retail network expands by opening six new branches and at the end of the year under review, Banka Koper boasts the network composed of 52 branches.

2009 – Two communication campaigns were carried out at Group level; the corporate campaign "With closed eyes" and the product campaign "Deposit", both focused on customers, while the internal communication campaign "We are Intesa Sanpaolo Group" was designed to promote the Group's values and strengthen the sense of belonging of the Group's employees. In the second half of the year, departments and offices were involved in the reorganisation process, aimed at improving efficiency and adapting to the organisational model promoted by the Group. In order to comply with these requirements, the Bank's Management Board now appoints seven members.


REMINDERS, 2008-2010, mixed technique/canvas, 90 x 100 cm

BUSINESS REPORT

1. REPORT OF THE MANAGEMENT BOARD

The year 2009 saw the adverse economic trends come true as forecast: recession both on the global and national level. It has to be noted that Slovenia followed these trends with a certain time deferral. Adverse tendencies were seen in particular in the declining credit demand due to aggravated economic situation. Even the inflation level-off could not mitigate the situation resulting from declining GDP and export volume combined with rising unemployment. What is more, an inadequate structure of financing sources in the economic sector facing the dramatic losses of value of securities and real estate was just fuel to the flames. Despite such utmost adverse economic situation, Banka Koper was doing well in the critical year 2009.

These circumstances required from us to focus on priorities to enhance the intensity of business relations with customers, implementing development-related tasks for new products to be launched, customizing the business processes to the requirements of financial and banking regulators, to the needs and expectations of partners in business, and to harmonization programs within the Intesa Sanpaolo Group.

The immediate and successful response of the bank to the given situation, combined with the organized action plan of the Intesa Sanpaolo Group for a concerted approach to the aggravating economic crisis were a decisive support to the effective operation of Banka Koper. The favourable background was felt in particular in the availability of financial sources, expanded investment opportunities at home and abroad and new products that were launched to the market. With our experience in card operations, Banka Koper has greatly contributed to the successful formation of our new subsidiary Intesa Sanpaolo Card. All that has strengthened the position of the Bank on a sound basis and inspired confidence to the business and wider environment.

Banka Koper has concluded the year 2009 with a balance sheet total at EUR 2.426 million and holds a market share of about 5 % under this criterion. In line with the risk-spread principle, our exposure levels have slightly shifted from the corporate sector to residents (retail banking) and small businesses (sole traders).

The deposits of non-banking sector were 11.1 % or EUR 144.3 million higher, which improved the market share of the Bank in the corporate segment. For sources of financing, the bank has a reliable and strong support in Intesa Sanpaolo Group.

The core commercial activities by Banka Koper relied on credit risk management and deposit-acquiring activities, intense marketing and communication addressed to the environment, and the new products launched. The underlying guideline for concrete activities to be undertaken by the bank, as well as for offering the range of services to customers of Banka Koper, was to maintain and further develop comprehensive customer relations, relying on the joint project '100 % Open Ear' that was introduced to perceive the customer's needs for banking and financial services in advance. The credibility of the Bank and capability for a timely response to the change in the given situation once again proved to be our vital advantages in retaining the appropriate income position.

In addition to deposit and credit operations, Banka Koper strengthened its market position in the frame of corporate business policy also by other commercial activities, such as card operations within the Activa System and with our joint enterprise Intesa Sanpaolo Card, whose core business is payment card processing and development, by payment transactions, internet banking (the products Banka IN and 'i-Net banka' which have won recognition in the market), the marketing for mutual funds, insurance broking, the commercial marketing for leasing through the business units of Banka Koper and through the company Finor leasing d.o.o. The bank was successful with the offer of additional collective voluntary pension insurance and the custodial services for investment funds.

Efficient risk management and prudent investing policy have set clearly cut constraints and thresholds for the implementation of investing activities. In this way the Bank has gradually incorporated the security standards required under Basel 2 and numerous Directives by financial and banking regulators in the EU, in addition to the standards of the Group.

Physical and economic indices confirm that the year 2009 was a successful year for Banka Koper in the given economic situation. The profit before taxes came to EUR 28.2 million, or 22.3 million as the resulting net profit. The bank has retained a conservative approach in credit risk assessment and persisted on the always topical business approach of cost management, by putting a curb on the operating costs in particular.

The financial statements 2009 were audited by the external certified audit firm Ernest &Young, who issued the affirmative opinion. The credit rating awarded to Banka Koper by the Fitch Ratings of London have again confirmed our trustworthy position and high rating, which rank Banka Koper among the top-rating banks in Slovenia, based on a well-spread commercial network that corresponds to the profitability achieved, adequate provisions made for credit risks, their favourable effect and the positioning of the bank in the Intesa Sanpaolo Group.

Moreover, Banka Koper has been building up its integration into the environment by contributing to it in the form of sponsorship and donation. These funds are mostly spent on sports, cultural, educational and humanitarian activities, as well as on the cooperation with university and research institutions. An event that met with a wide response was the Milan Football Camp, held in 2009 and organized jointly with Intesa Sanpaolo. The bank responded to the difficult situation which resulted from the recession by increased humanitarian contributions.

The necessary alignment with the organizational standards of the Group and the requirements for higher efficiency of employees brought about organizational changes in the Bank. Employees are part of the comprehensive internal communication process within the project 'We are intesa Sanpaolo Group', under which is published our internal bulletin Obzorje. The education and training process continued in the reporting year, and an additional survey on internal climate was carried out among the employees, the results of which will add to target-focused leadership in the organization. That will contribute to professional and career-based development of each individual, in accordance with the methodology of the Group, and strengthen the loyalty to the bank and the Group.

Despite persisting economic difficulties in certain segments that are still traced in a great deal of Slovenian macro-environment and quite unpredictable global trends, the business objectives of Banka Koper for the year 2010 are precisely determined. The adopted business plan represents a great challenge for the Bank and our employees. Increased operating volume and the consolidation of corporate network, further improvement of economic efficiency, especially of cost-effectiveness, the achievement of synergies based on stronger ties within the Intesa Sanpaolo Group are well recognizable goals and demanding, but achievable tasks.

2. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2009

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

- The Audited Annual Report for the Financial Year 2009,
- The Auditor's Report drawn up by the independent auditor Ernst & Young d.o.o. Ljubljana, 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 2009.

In the course of the financial year 2009, the Supervisory Board of Banka Koper d.d. met four times at regular sessions and three times at correspondence sessions and examined the strategic and operating matters in relation to 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 business. The Supervisory Board voted on proposed business deals where due to being in excess of the limit on exposure determined for a particular customer, the Supervisory Board of Banka Koper has to grant its approval and on other matters of interest. In addition, the Supervisory Board took note of the notices resigning their respective positions received from the president of the Management Board of Banka Koper d.d. and the members of the Supervisory Board. The materials for the sessions were forwarded to the members of the Supervisory Board in compliance with the Rules of Procedures governing the discharging of the functions of the Supervisory Board and those functions were discharged in line with the aforementioned enactment.

The composition of the Supervisory Board of Banka Koper d.d. was changed in 2009. Mr. Vojko Čok was elected member of the Supervisory Board on 1 January 2009 and became Chairman on 16 January 2009. On the basis of the notice of resignation from the position of Deputy Chairman of the Supervisory Board, given by Mr. Giuseppe Cuccurese on the grounds of new tasks and responsibilities assumed within the Group, on 18 June 2009 the Supervisory Board appointed Mr. Massimo Pierdicchi as Deputy Chairman of the Supervisory Board. At the General Meeting of Shareholders of 18 May 2009, Mr. Borut Bratina, Mr. Roberto Civalleri and Mr. Laszlo Török were appointed members of the Supervisory Board. Mr. Laszlo Török gave notice of resignation from such position on 30 June 2009 due to new responsibilities assumed outside the context of the Group.

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 focused attention to the following areas:

- monitoring and assessing on a regular basis the compliance with the Bank's business policy for 2009 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 2009,
- examining and approving the Annual Report of the Internal Audit Department for 2009,
- 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 the year 2009,
- After changes and amendments of the Articles of Association of Banka Koper d.d. were adopted in the first half of 2009 and new members were appointed, since 1 July 2009 the Management Board is composed of seven members and chaired by Mr. Ezio Salvai. The Supervisory Board has appointed Mr. Igor Kragelj, until then member of the Management Board, as Deputy Chairman of the Management Board.
- addressing other issues in accordance with powers conferred upon it under law and the 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. In March 2010 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2009, arising from the unaudited accounting statements.

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 despite deteriorating conditions in the financial markets. 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.

Furthermore, 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 in the Report the opinion in relation to the financial statements prepared by Banka Koper d.d.. Therefore, the Supervisory Board hereby adopts the following

P o s i t i o n:

that the Supervisory Board has no objection to the Report of Ernst & Young.

3. Approval of the Annual Report for the financial year 2009

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

The Annual Report of Banka Koper d.d. for the Financial Year 2009.

4. Approval of the proposal on profit appropriation

The members of the Supervisory Board have analysed the proposal on the appropriation of the balance-sheet profit. The final decision on the matter is to be adopted by the General Meeting of Shareholders of Banka Koper. By taking into account the Bank's goals set for the financial year 2010 and beyond, the Bank will have to strengthen its capital base in order to maintain the adequate capital adequacy ratio and sustain the planned volume of its operations. The proposal of the Management Board of Banka Koper on the appropriation of the profit aims at strengthening the reserves as well as allocating an appropriate portion of the profit for the payment of dividends. After due examination of the proposal, the Supervisory Board hereby fully

a g r e e s

with the Management Board's proposal on the appropriation of the profit.

Koper, 21 April 2010

Chairman of the Supervisory Board
Vojko Čok

3. CORPORATE GOVERNANCE BODIES

Supervisory Board

The Supervisory Board of Banka Koper is chaired by the former President of the Bank's Management Board. Its members are external experts and representatives of the Bank's majority shareholder and strategic partner, the Intesa Sanpaolo Group.

Supervisory Board on 31 December 2009:

Vojko Čok	Chairman
Massimo Pierdicchi	Deputy Chairman
Roberto Civalleri	Member
Borut Bratina, Ph.D.	Member
Michele Raris	Member

On the basis of the notice of resignation from the position of Deputy Chairman of the Supervisory Board, given by Mr. Giuseppe Cuccurese on the grounds of new tasks and responsibilities assumed within the Group, on 18 June 2009 the Supervisory Board appointed Mr. Massimo Pierdicchi as Deputy Chairman of the Supervisory Board. At the General Meeting of Shareholders of 18 May 2009, Mr. Borut Bratina, Mr. Roberto Civalleri and Mr. Laszlo Török were appointed members of the Supervisory Board. Mr. Laszlo Török gave notice of resignation from such position on 30 June 2009 due to new responsibilities assumed outside the context of the Group.

Management Board on 31 December 2009:

In the period from 1 January 2009 until 1 July 2009 Banka Koper was run by the Management Board composed of two members, namely:

Ezio Salvai	President
Igor Kragelj	Member

After changes and amendments of the Articles of Association of Banka Koper d.d., which were adopted in the first half of 2009, new members were appointed. Since 1 July 2009, the Management Board is composed of seven members and chaired by Mr. Ezio Salvai. The Supervisory Board appointed Mr. Igor Kragelj, until then member of the Management Board, as Deputy Chairman of the Management Board.

Management Board on 31 December 2009:

Ezio Salvai	Chairman
Igor Kragelj	Deputy Chairman
Rado Grdina	Member
Aleksander Lozej, M.Sc.	Member
Aleksander Milostnik	Member
Dario Radešič	Member
Armando Sala	Member

4. GENERAL ECONOMIC AND BANKING ENVIRONMENT

The short-term indicators for 2009 in Slovenia, as well as the entire eurozone, show a slow recovery of the economy, however, the credit crunch persists and the conditions on the labour market continue to deteriorate. Such conditions reflect in worsening budget difficulties in most of the countries of the economic and monetary union. The short-term measures adopted under economic policies thus concentrate primarily on the labour market, financial markets and the consolidation of public finances. Such measures are consistent with the structural reforms aimed at achieving long-term sustainable development. Favoured by improving economic conditions in its main trade partners, Slovenia has been experiencing slightly improving indicators of economic activity in most areas, however, adverse trends are expected to persist in 2010.

In 2009, the prices of consumer goods increased by 1.8 per cent, one of the highest inflation rates in the euro area, mainly owing to the adopted economic policy measures. In 2009, the trend in consumer prices was driven by oil prices, weak economic activity and surging prices of services resulting from fiscal changes. The increase in excise duties accounts for 1.0 percentage point of the 1.8 per cent inflation.

In the second half of 2009 loans to companies and non-financial institutions raised at domestic banks decreased and less borrowing of households was recorded. The growth in lending is thus further slowing. In October, domestic companies and non-financial institutions recorded increased borrowing abroad, largely owing to the high difference in lending interest rates in Slovenia and the euro area as a whole.

Recent data and events in the economy indicate that improving economic activity can be expected in 2010, while conditions on the labour market will further deteriorate. Encouraging the lending activity will be key to bringing business back to normal. The economic policies will need to remain focussed on the labour market and financial markets, as well as continue addressing the issue of public finances consolidation, in order to design an efficient exit strategy. Structural adjustments will be necessary in order to achieve sustainable consolidation of public finances, especially in the areas of competitveness and social protection systems.

5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2009

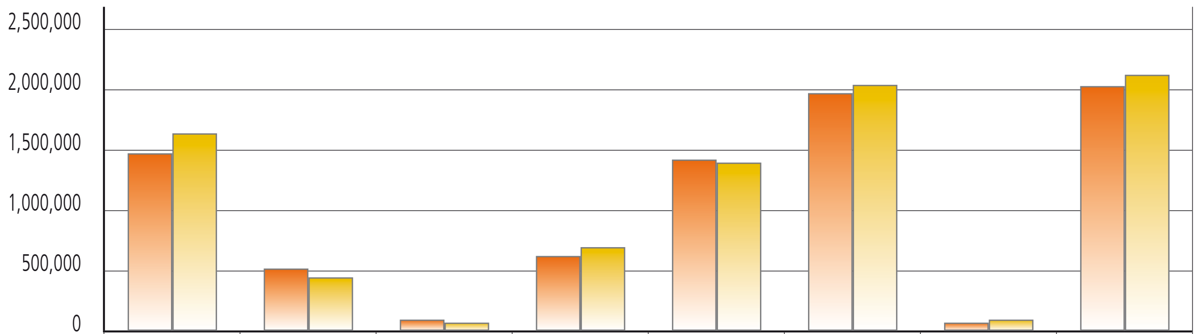
5.1 LENDING OPERATIONS

In 2009, a slowdown in the lending activity of domestic banks was recorded and gradually came to a near-stop due to fierce conditions at international interbank markets. Despite harsh conditions at foreign financial markets, the borrowing of domestic companies and non-financial institutions abroad increased, largely owing to the unfavourable lending interest rates in Slovenia – the highest of the eurozone.

In 2009, the Bank's gross lending to the non-bank sector decreased by 90.6 million euros, i.e. by 4.3 per cent in comparison to 2008. The Bank's non-bank lending market share was 5.8 per cent at year-end 2009.

In terms of currency, lending in euro still largely prevailed in 2009 with a 97.3 per cent share in total lending activities. As for the maturity structure, the trend of increasing long-term over short-term loans was recorded also in 2009. Short-term loans accounted only for 29.7 per cent of total loans.

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
31.12.2009	1,464,158	501,365	57,657	601,441	1,421,739	1,968,016	55,164	2,023,180
31.12.2008	1,613,377	458,133	42,222	698,672	1,415,060	2,025,662	88,070	2,113,732

Loans to the corporate sector amounted to 1,464.2 million euros or 72.4 per cent, representing the largest portion of loans to the non-bank sector.

Lending to households, private individuals and sole proprietors, reached 501.4 million euros or 24.8 per cent of all loans to the non-bank sector. Compared to 2008 loans to this sector increased by 43.2 million euros or 9.4 per cent. As in 2008, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level.

In 2009, the Bank somewhat increased financing of the government. Loans to government institutions increased by 15.4 million euros or 36.6 per cent year-on-year. The government mostly borrowed by raising euro-denominated long-term loans.

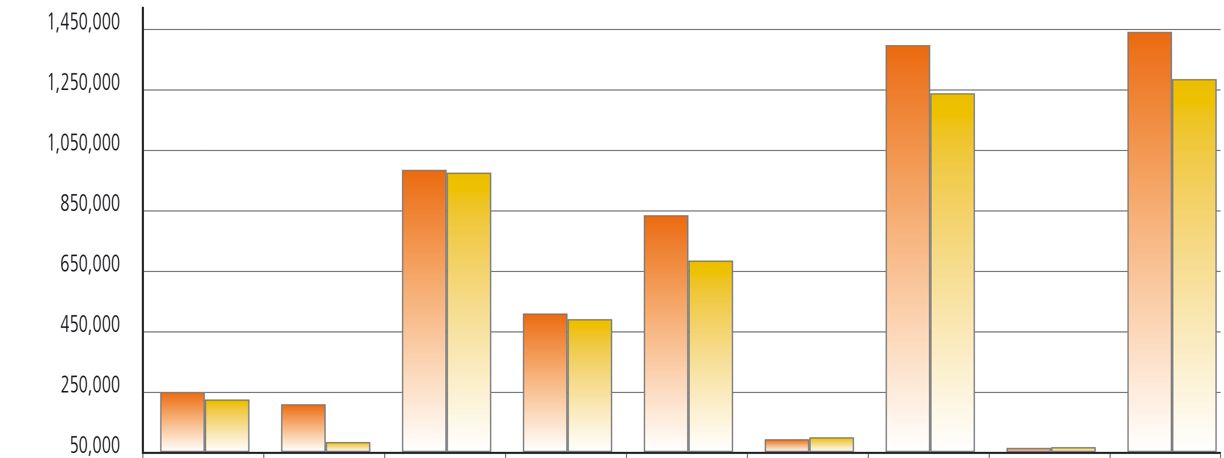
5.2 DEPOSITS

Customer deposits increased by 11.1 per cent or 144.3 million euros in 2009 and reached a 6.1 per cent market share in total deposits at end-2009.

Short-term deposits prevailed with 57.9 per cent over sight deposits (35.3 per cent) and long-term deposits (6.8 per cent). The deposit structure in terms of currency was dominated by deposits in euro with 96.1 per cent.

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

Overview of deposit in thousands of Euros



	Corporate	Government	Households	Sight	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2009	245,931	200,319	994,345	506,610	835,927	98,058	1,384,116	56,479	1,440,595
31.12.2008	218,514	87,675	990,084	489,958	701,579	104,736	1,236,308	59,965	1,296,273

The volume of the deposits placed by legal persons increased by 12.5 per cent (by 27.4 million euros). The Bank's market share in this segment thus increased from 3.9 per cent to 4.3 per cent.

Deposits from households account for 69.0 per cent of all non-bank deposits and at year-end 2009 totalled 994.3 million euros, i.e. 4.2 million euros more year-on-year.

Compared to 2008, deposits placed by the government increased by 112.6 million euros in 2009. At end-December 2009 the share of such deposits in the deposit portfolio was 13.9 per cent, representing mainly short-term and euro-denominated deposits.

5.3 CARD OPERATIONS IN THE ACTIVA SYSTEM

Activa payment system

In the area of card business, in 2009 the Bank was engaged in developing and testing products and services; SMS notifications of payment card transactions, tests of revolving cards and the PayPass payment services trial involving the employees of Banka Koper and selected points of sale.

The number of issued cards rose by 2 per cent year-on-year to 1.15 million in 2009. The volume of transactions carried out with payment cards in the Activa system increased by 1.3 per cent in comparison with 2008.

The number of points of sale accepting Activa cards has been growing from year to year; in 2009 an 8 per cent growth compared to 2008 was recorded. At the end of 2009, 33,600 points of sale were included in the system.

Card business

In 2009, ISP Card, a new card development and processing company was established within the Intesa Sanpaolo Group. The company was established by joining the Croatia-based PBZ Card and Banka Koper's card processing centre Activa, by which a part of the card operations of Banka Koper, independent of the commercial support, were transferred to the new card company.

Banka Koper continued in 2009 to work closely with the Chamber of Small Business and Crafts of Slovenia in the area of issuing cards for their members: the business cards VBE and the prepaid card Obrtnik. The number of issued pre-paid cards in 2009 totalled 4,956 and the number of all cards issued was 45,487.

The increase in the use of Activa VisaBusinessElectron payment cards can be attributed to the upgraded e-banking solution of Banka Koper, the i-Net, now accessible also with the Activa VisaBusinessElectron card and the OTP reader.

The number of cards issued in 2009 exceeds 290,000. In comparison with 2008, the card business grew by 3 per cent. The turnover generated by using cards increased in 2009 to total approximately 695 million euros, which accounts for a 31 per cent share of the aggregate turnover generated by all banks in the Activa payment system and 2.6 per cent growth year-on-year.

During the year under review, Banka Koper expanded the number of points of sale to 16,104, which translates into a 20 per cent growth. The number of POS terminals decreased in 2009 by 4 per cent, bringing the total figure to 5,006 POS terminals.

5.4 MODERN BANKING CHANNELS

Banka IN, the first on-line bank with its wide range of services available to users was introduced in 2008. Being completely web-based, Banka IN can offer almost every banking service online, making trips to the Bank's branch office virtually unnecessary. Throughout 2009, Banka IN attracted more than 1,500 satisfied users. During the last four months of the year, a large-scale marketing campaign with attractive prizes, designed to promote the product, was carried out. In the beginning of 2010, Banka IN launched an attractive loyalty programme based on bonus points.

Infotel, the telephone banking solution of Banka Koper is an independent service as well as a complementary feature of Banka IN. Banking over the phone is easy and convenient, as a wide variety of banking services are available through this channel. Infotel is also the source of information on the Bank's offer. In 2009, it helped answer the questions of 4,629 callers, while 17,661 persons were offered products and services tailored to their needs.

5.5 MARKETING MUTUAL FUNDS

Interest in mutual funds increased slightly in 2009, even though the payments, compared to the record inflows of two years ago, remain low. Prices in capital markets reached their lowest values in March 2009 and have since then gradually recuperated to reach values that are, in the opinion of some experts, too high to reflect the real performance of companies. Still, investor interest was very modest despite increasing share prices.

The Bank recorded relatively high inflows in the Eurizon EasyFund and the Franklin Templeton Investment Fund only in the last two months of the year, when the Bank charged no entry fees. Payments made in mutual funds amounted to 2.7 million euros gross at year-end. In addition to the more substantial inflows in funds (1.2 million euros), November and December recorded a somewhat increased interest in saving plans.

5.6 DISTRIBUTING INSURANCE POLICIES

Banka Koper sells non-life insurance (car insurance and home insurance) for the account of the Slovenian insurer, Adriatic Slovenica and markets life assurance policies for Generali. Towards the end of the year the Bank and Generali concluded a contract under which the Bank began marketing car insurance and accident insurance products for the account of the insurance company.

5.7 LEASING

Also in 2009, the commercial approach to finance lease for property through the branch offices of Banka Koper was carried out within the framework of the regular array of lease products offered by Finor Leasing d.o.o. by launching special offers prepared by Finor Leasing, as well as within the framework of various marketing campaigns of Banka Koper prepared for particular groups of business entities; these campaigns included also the benefits provided under the leasing business (the marketing campaign tailored to attract newly established businesses, farmers, offers made as a part of the project to supply the card Obrtnik to the members of the Chamber of Small Businesses and Crafts of Slovenia, special offers at the time of the international small businesses trade fair - MOS Celje, individual agreements clinched by particular branch offices, etc.). A breakdown of the lease business reveals that the best-sellers were cars, followed by commercial vehicles and manufacturing and other equipment .

5.8 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 2009, the OVPS posted total assets of 29.7 million euros, which means a 24 per cent growth with regard to year-end 2008. At the end of 2009, the OVPS had 6,022 members or 3 per cent more than a year earlier, of which 5,337 were collectively insured and 685 were individually insured.

Unit asset value increased by 5.19 per cent year-on-year to reach 8.2 euros at end-2009. Since the establishment of the fund in 2001 the unit asset value increased by 98 per cent.

5.9 CUSTODY BANKING

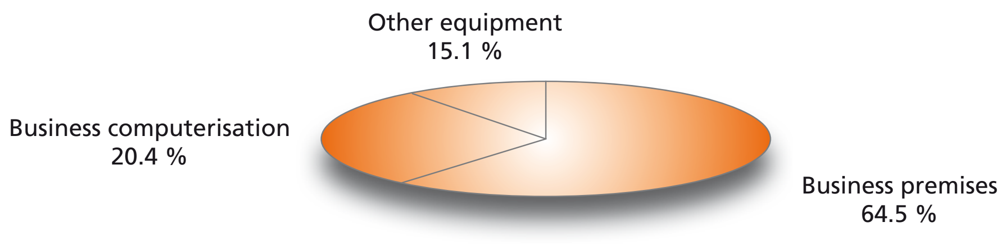
Since 2003, Banka Koper d.d. has been providing custodian services for investment funds as the first bank in Slovenia to qualify for the authorisation for taking up and the pursuit of the business of a custodian. The global financial crisis has hit the capital markets hard in 2009 and the Bank's custodian business segment has shared the common destiny of the fund management industry.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

Capital investments

Also in 2009, Banka Koper continued with the implementation of the long-term development programme and invested 5.2 million euros in the computerisation of its operations, in office space and in other equipment.

Structure of capital investments in 2009



The lion's share of capital investments (gross capital formation) – 3.4 million euros or 64.5 per cent of all investments - was allocated in 2009 to the retail network and the renovation of the premises in order to make them meet the needs of a modern banking service.

Banka Koper allocated 1.1 million euros in 2009 to the computerisation of banking operations, of which 0.3 million euros was spent on the development of computer software and 0.6 million euros was paid to purchase hardware such as POS terminals and ATMs. Substantial investments in the area of card operations are inevitable in order to meet ever-stricter security requirements in this area.

In 2009, 0.7 million euros were allocated to "other equipment", i.e. 15.1 per cent of all investments, of which 0.4 million euros were invested in the development of Banka IN and other software.

Information and technological development

Banka IN is closely connected with the CRM system, which ensures the integration of different distribution channels (GSM, VoIP, e-mail, automated teller machines, bank units/ branches) and by means of integration with other elements of the banking system provides all necessary information about the customer and puts Banka Koper in a position to be well-placed to make an offer tailored to the needs and wishes of a particular client by deploying the best suited distribution channel.

As regards the payment systems, in 2009 Banka Koper was engaged in the implementation of the Payment Services and Systems Act, transposing the Payment Services Directive to Slovenia's regulatory framework. The PSD Directive provides the legal foundation for the creation of an EU-wide single market for payments to foster greater efficiency and cost reduction. The Bank's business terms and conditions, adapted to meet regulatory requirements, called for changed business processes and information solutions (i-Net, Banka IN, BO).

In the area of corporate lending, the Bank provided support for a variety of new products that add up to its offer, e.g. credit line granted on the basis of claims assignment and revolving loan. In 2009 the Bank was very busy with modernising its credit processes – an extensive project due to conclude in 2010.

The data warehouse was enlarged by adding new content and functionalities in order to respond to the need of data integrity on a daily basis. In addition, an analytical tool was put in place for the purpose of fast and efficient preparation and analysis of final reports and data supplied for the needs of the Bank's management board, the commercial departments and other organisational units of Banka Koper.

In the area of the card business, Banka Koper focused effort on the pilot project of implementing PayPass payment services. Under the PayPass brand, MasterCard has developed a contactless payment solution allowing users to pay with cards, mobile phones and other PayPass-enabled devices at participating points of sale. PayPass cards and devices are particularly suitable for small-value payments that require no authorisation and identification of the cardholder – no PIN, no signature, no slip.

7. ORGANIC GROWTH

Headcount and the educational structure of employees

At year-end, the Bank employed 783 employees. The average age of its employees was 41.9 years. The aggregate years of service averaged 20.0 years, the number of years spent working for the Bank was 15.6 years.

The rate of staff turnover in 2009 was 12.2 per cent, however, it should be taken into account that 56 employees were transferred from the Bank to the new company ISP Card Slovenija d.o.o. on 1 August 2009. This said, a more realistic figure expressing the rate of fluctuation is 5.35 per cent.

Number of employees by educational level

Level of education	V or lower	VI	VII or higher	Total
Number of employees	399	88	296	783
Share (in %)	51.0	11.2	37.8	100.0

Education and training of employees

In 2009, various types of educational events attracted 2,026 participants that attended 15,367 educational hours. The average number of educational hours per employee of Banka Koper was 19.6.

Banka Koper increased in 2009 the scope of the internal professional education and training system (1,806 participants).

The in-house training system involved 1,806 participants. The system of e-learning is a valuable resource that complements in-house training with the aim of:

- Providing employees with learning resources available at the workplace, thus reducing the time of absence of the employees from work due to training,
- Providing learning possibilities and access to information when necessary and on a continuing basis,
- Creating a knowledge base that every employee can access with a click of the mouse.

The Bank also acknowledges the importance of formal education and fully supports its employees in their efforts. In 2009, the Bank granted financial contributions for education purposes to 25 employees.

Indicators of processes and education – education and training of employees

	Banka Koper d.d.
Number of employees	783
Annual number of employees included in education and training	731
Share of employees included in education and training (in %)	93.4
Annual number of hours in education and training	15,367
Annual number of hours in education and training per employee	19.6

Development of key staff and human capital potentials:

The vision and strategy of the Bank serve as reference for identifying the number and profile of the staff that the Bank needs to pursue its objectives. Human capital potential is one of the key factors in achieving the desired performance today and tomorrow. The Intesa Sanpaolo Group understands that performance and human capital go hand in hand and has identified HR management as one of its priority areas.

The project of development of human capital potentials involves young employees who have been identified as talented and over-achieving. The project consists of several phases to ultimately identify the development path most suitable for individual candidates, serving as basis for elaborating tailored career plans for a period of 2-3 years.

Corporate Social Responsibility

For many years, Corporate Social Responsibility (CSR) has been widely adopted as part of the strategic development agenda of Banka Koper. The commitment of Banka Koper to responsible corporate citizenship and responsible banking is manifested through sustainable relationships based on the values of trust, putting customers first and innovation, as well as in the way we allocate sponsor funding and philanthropic donations.

The social responsibility in the area of culture is manifested by providing funding for fine art exhibitions and theatre, musical and other artistic events. Banka Koper engages with Obalne galerije (Coastal Art Galleries) to organise theme exhibitions at regular time intervals. Last year it hosted in its premises three exhibitions by renowned artists. In 2009, Banka Koper once again was a sponsor of a host of events staged in the Auditorium of Portoro, the International Summer Festival Lent in Maribor, and the Summer Festival of the Coastal Region (Primorski poletni festival) widely acknowledged as the most important cultural event of the Slovenian coast.

Banka Koper develops relationships with academic circles - the University of Primorska is a show case in this area. In addition to the co-operation in the area of applied research within the framework of the Incubator for start-up businesses of the University of Primorska, Banka Koper also participated in the project called Podjetna Primorska (Entrepreneurial Coastal Region). The idea was to adopt a pro-active stance to encouraging and developing the entrepreneurial spirit in young people. Banka Koper also took part in several projects conceived by the University of Ljubljana and the University of Maribor (international student organisation Aiesec, etc.).

As a long standing partner, in 2009 the Bank once again backed financially the project called Gazele. The idea is to identify the fastest growing businesses (corporate entities and sole proprietors in Slovenia), score their performance and proclaim the regional and then the overall winner. Banka Koper finances the development of business activities through the project Najpodjetniška ideja (the best entrepreneurial idea). The project classifies new business ideas in several groups ranging from business ideas of entrepreneurs who have still not set up their own business to the important and well-known Slovenian companies.

In 2009, under the auspices of the Intesa Sanpaolo Group and in cooperation with the AC Milan football club, Banka Koper organised for the first time the AC Milan Junior Camp. More than 100 boys from across Slovenia attended this top-level football camp, aiming to promote sports among children. For the fifth time in a row, in 2009 Banka Koper played the role of the main sponsor of a high-profile sports event – the international female WTA women's tennis tournament Banka Koper - Slovenia Open, featuring the top Russian player Dinara Safina. Ski fans could compete once more for the cup of Banka Koper organised for members of ski clubs from the coastal region and the hinterland.

Humanitarian activities funded by Banka Koper have become a tradition with the Bank being largely perceived as a generous donor for worthy causes. For a number of years Banka Koper has been allocating to the humanitarian organisations a part of the money it would have spent on giving gifts to its business partners for Christmas and New Year. In 2009, the recipients were the Red Cross and Karitas and the funds were distributed by the Bank's branches that cover a particular area. In a time of considerable social distress resulting from the economic crisis these gestures are appreciated by the community more than ever.

Banka Koper participated in numerous humanitarian campaigns, among which the auction of wine stored in barrique barrels, organised by the local winemaker Vinakoper, the humanitarian initiative to raise funds for equipping the retirement home of Koper and various contributions to the purchase of medical equipment and relief aid to alleviate the distress of people in need.

8. POSITIONING BUSINESS FOR GROWTH IN 2010

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.

Objectives of Banka Koper in 2010

Banka Koper is committed to strengthening its position in 2010 and increasing its market share by opening a new branch in the country's capital and by launching new services.

- 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 Primorska 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 1 new branch is planned for 2010, 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 2010. 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 2010, the Bank is planning to continue with the development as well as to upgrade and modernise some of the IT applications and thus be in a position to deliver quality and responsive services.

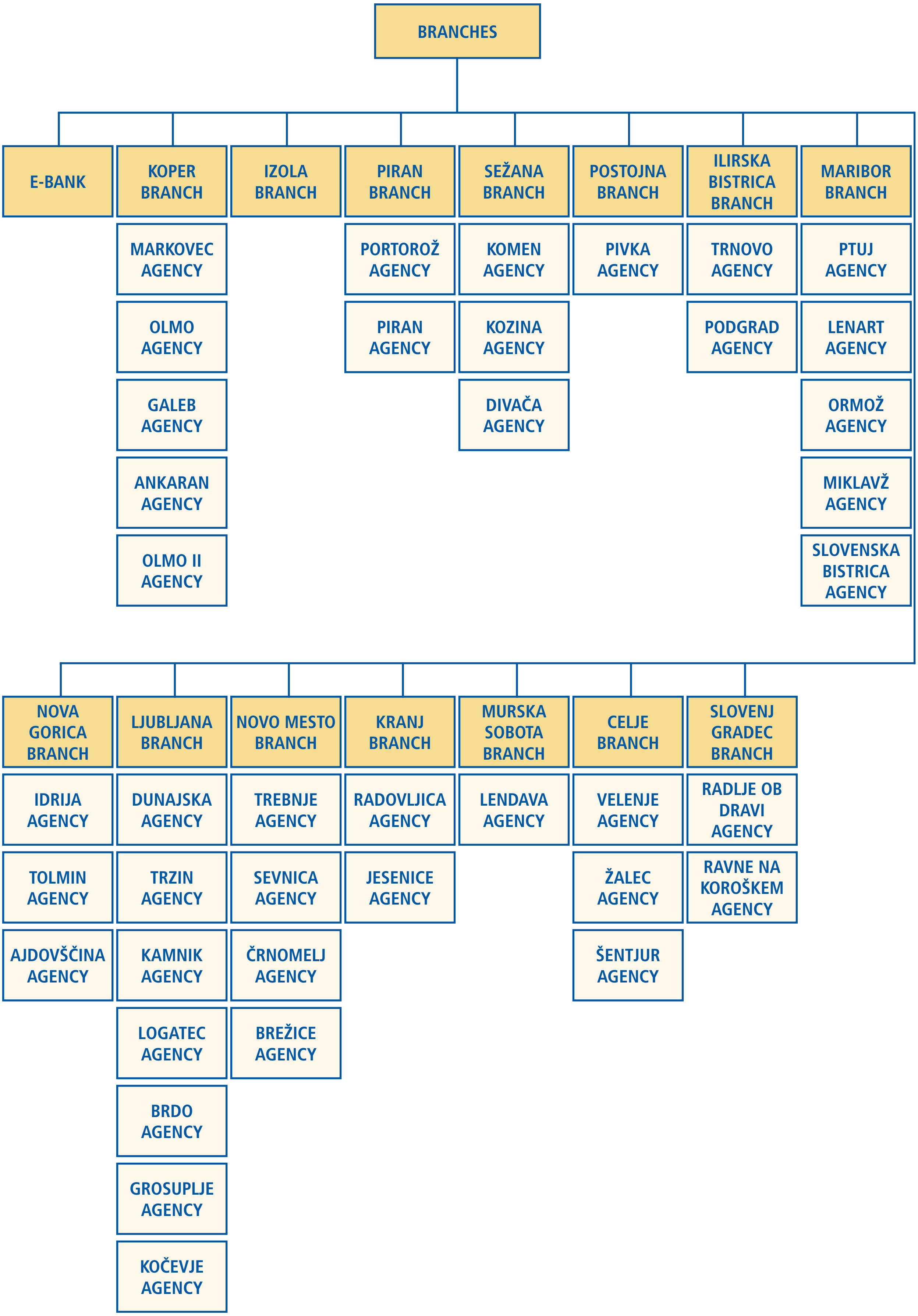
9. SHAREHOLDERS

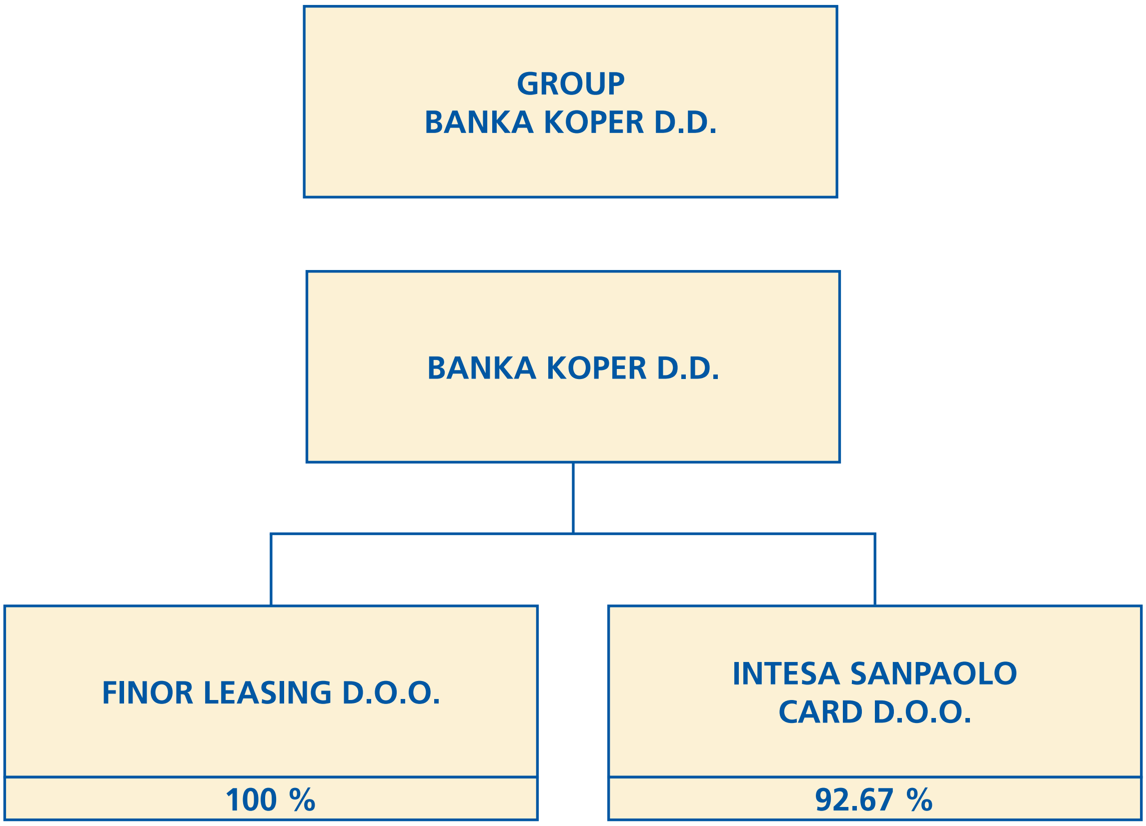
The share capital of Banka Koper is divided into 531,359 shares and amounts to 22,173,220 euros. The no-par value shares do not have a nominal amount. The shares are no-par value shares. Every no-par value share has the same participation and amount in the share capital. The participation of an individual no-par value share in the share capital is determined on the basis of the number of issued no-par value shares. The shares in Banka Koper are held by 630 shareholders.

Shareholder structure of Banka Koper d.d.

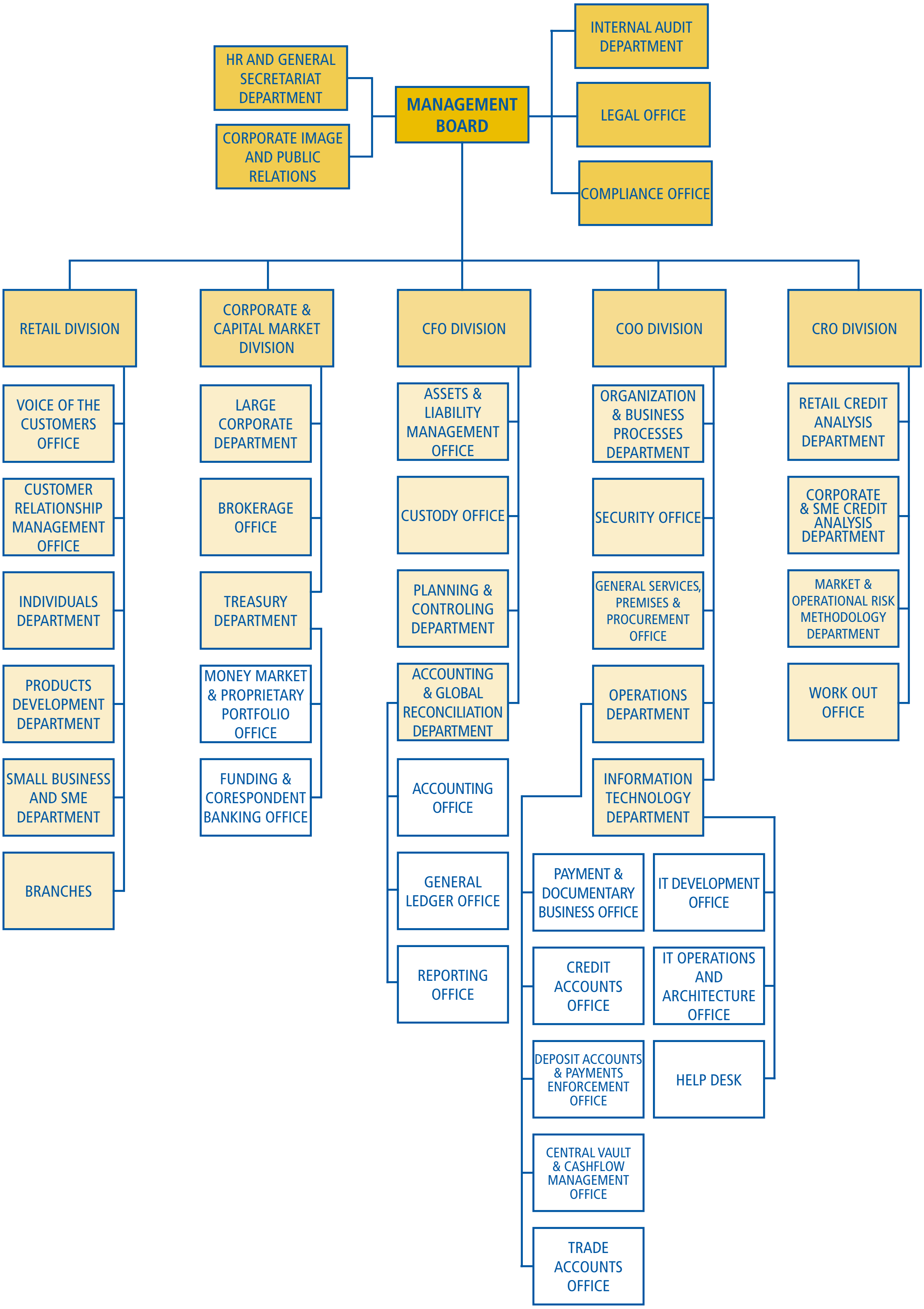
		% of capital	
	Shareholder	31 Dec 2008	31 Dec 2009
1.	Intesa Sanpaolo S. p. A.	97.2	97.3
2.	Elektro Primorska d.d	0.7	0.7
3.	Kraški vodovod Sežana d.o.o.	0.3	0.3
4.	Minority shareholders	1.8	1.7

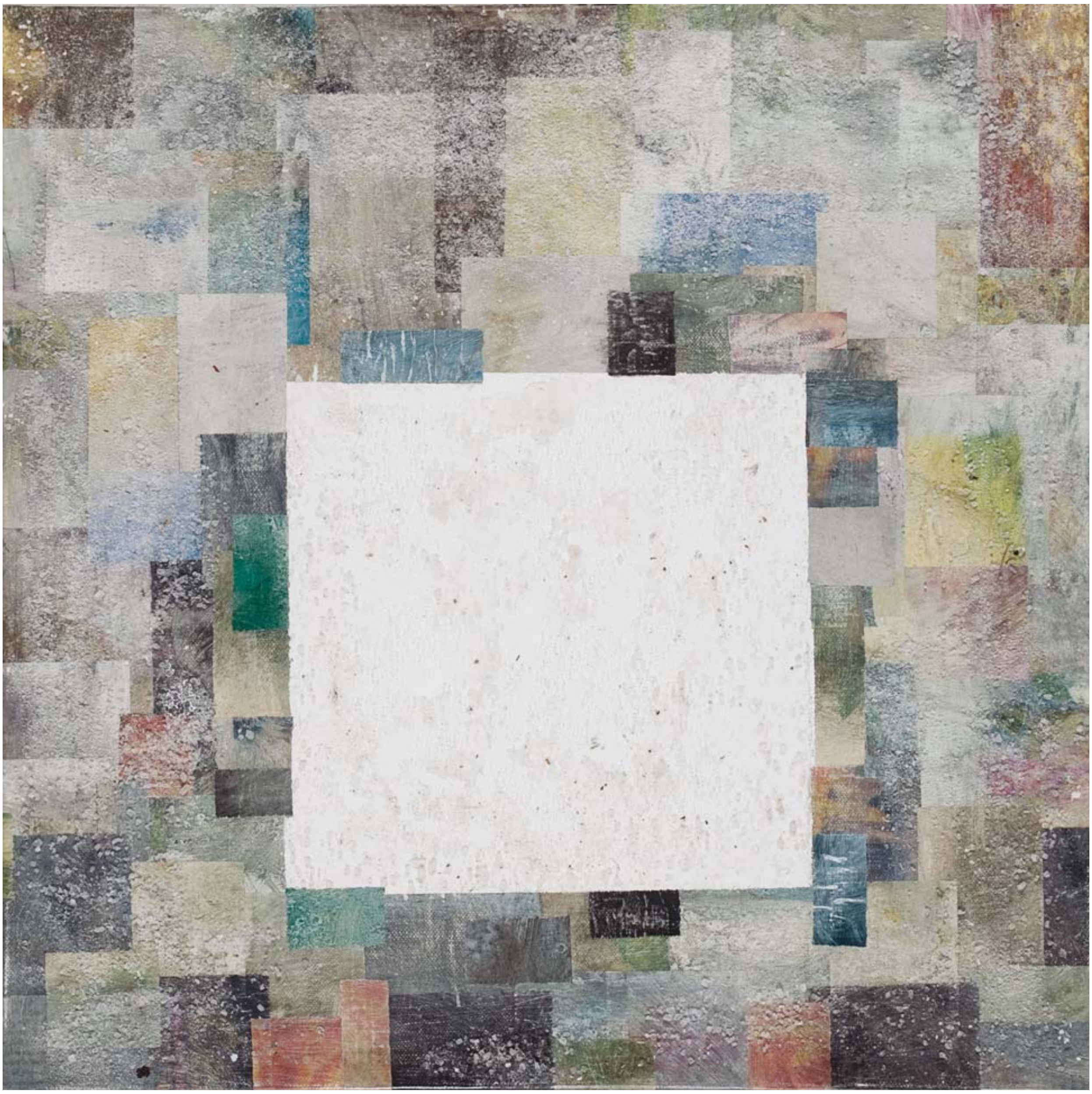
10. ORGANISATIONAL CHART AS AT 31 DECEMBER 2009




GROUP
BANKA KOPER D.D.
BANKA KOPER D.D.
FINOR LEASING D.O.O.
100 %
INTESA SANPAOLO
CARD D.O.O.
92.67 %

ORGANISATIONAL CHART AS AT 31 DECEMBER 2009





POINT OF VIEW, 2009, mixed technique/canvas, 100 x 100 cm

ERNST & YOUNG

TRANSLATION OF THE INDEPENDENT AUDITORS' 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 statement of financial position as at December 31, 2009, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows 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 Slovenian Companies Act related to the preparation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Banka Koper d.d., as of December 31, 2009, 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 Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited financial statements.

Ljubljana, 12 March 2010

Janez Uranič
Director
Certified Auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno svetovanje d.o.o., Ljubljana 1

ERNST & YOUNG

TRANSLATION OF THE INDEPENDENT AUDITORS' 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 Group, which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows 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 consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements. This responsibility includes: designing, implementing and maintaining internal control 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 control 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 consolidated financial statements present fairly, in all material respects, the financial position of Banka Koper Group as of December 31, 2009, 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 Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the business report in accordance with the Slovenian Companies Act. Our responsibility is to assess whether the business report is consistent with the audited consolidated financial statements. Our work regarding the business report is performed in accordance with ISA 720, and restricted to assessing whether the business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

The business report is consistent with the audited consolidated financial statements.

Ljubljana, 12 March 2010

Janez Uranič
Director
Certified Auditor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 1

SOLITAIRE, 2009, mixed technique/canvas, 100 x 100 cm

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

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 judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2009. 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.

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.

Koper, 08 March 2010

Member
Aleksander Milostnik

President
Ezio Salvai

PERFECT DOUBLE FACE, 2009, mixed technique/canvas, 120 x 100 cm

1. STATEMENT OF INCOME

Statement of income

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2009	2008	2009	2008
Interest income	4	95,991	134,052	99,002	136,387
Interest expense	4	(35,131)	(72,676)	(35,937)	(73,627)
Net interest income		**60,860**	**61,376**	**63,065**	**62,760**
Dividend income	5	418	995	118	995
Fee and commission income	6	35,389	36,506	40,559	40,532
Fee and commission expense	6	(8,201)	(6,538)	(8,055)	(7,980)
Net fee and commission income		**27,188**	**29,968**	**32,504**	**32,552**
Gains less losses from financial assets and liabilities not recognised at fair value through profit and loss	7	3,562	3,356	3,562	3,356
Gains less losses from financial assets and liabilities held for trading	8	2,167	7,602	2,167	7,602
Gains less losses from foreign exchange transactions		(775)	(5,101)	(773)	(5,207)
Gains less losses on derecognition of non-current assets other than held for sale	9	550	(40)	559	(94)
Other operating gains less losses	10	1,143	1,098	1,300	1,936
Administrative expenses	11	(44,929)	(47,342)	(49,832)	(50,291)
Amortisation and depreciation	12	(6,247)	(6,366)	(7,309)	(7,165)
Provisions:		2,241	74	2,156	109
- provisions	13	2,545	574	2,545	609
- retirement benefit obligations	13	(304)	(500)	(389)	(500)
Impairment losses on loans and advances	14	(18,007)	(10,235)	(19,063)	(10,810)
Operating profit		**28,171**	**35,385**	**28,454**	**35,743**
Income tax expense	15	(5,866)	(7,608)	(6,036)	(7,675)
Net profit for the period		**22,305**	**27,777**	**22,418**	**28,068**
Attributable to:					
Equity holders of the parent		22,305	27,777	22,365	28,064
Non-controlling interest		-	-	53	4
		22,305	27,777	22,418	28,068
Earnings per share (basic and diluted)					
(expressed in EUR per share)	16	42.05	52.37	42.17	52.91

The following notes on pages 51 to 138 form an integral part of these financial statements.

2. STATEMENT OF COMPREHENSIVE INCOME

Statement of comprehensive income

(all amounts expressed in thousands of EUR)

	Year ended 31 December			
	Banka Koper		Consolidated	
	2009	**2008**	**2009**	**2008**
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**22,305**	**27,777**	**22,418**	**28,068**
OTHER COMPREHENSIVE INCOME NET OF TAX	**1,428**	**(12,916)**	**1,428**	**(12,916)**
Available-for-sale financial assets	**1,569**	**(16,780)**	**1,569**	**(16,780)**
- valuation gains (losses) taken to equity	6,833	(16,089)	6,833	(16,089)
- transferred to profit or loss	(5,264)	(691)	(5,264)	(691)
Income tax relating to components of other comprehensive income	**(141)**	**3,864**	**(141)**	**3,864**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**23,733**	**14,861**	**23,846**	**15,152**
a) Attributable to owners of the parent			23,793	15,149
b) Attributable to non-controlling interests			53	3

3. STATEMENT OF FINANCIAL POSITION

Statement of financial position

(all amounts expressed in thousands of EUR)

	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2009	2008	2009	2008
ASSETS					
Cash and balances with Central Banks	18	57,296	38,440	57,297	38,450
Financial instruments held for trading:		35,692	49,905	35,692	49,905
- trading assets	19	34,873	48,736	34,873	48,736
- derivative financial instruments	20	819	1,169	819	1,169
Investment securities available for sale	21	324,483	298,328	324,483	298,328
Loans and advances:		1,952,757	2,051,263	2,011,339	2,087,426
- to banks	22	20,679	11,276	20,679	11,276
- to customers	23	1,932,078	2,039,987	1,990,660	2,076,150
Investment securities held to maturity	21	929	1,528	929	1,528
Goodwill	24	-	-	905	905
Property, plant and equipment	25	28,185	29,513	30,938	31,925
Investment property	26	403	457	403	457
Intangible assets	27	6,077	7,321	6,913	7,455
Investment in subsidiaries	28	6,928	5,214	-	-
Income tax assets		3,174	2,221	3,946	2,829
- current income tax		1,654	-	1,654	18
- deferred income tax	37	1,520	2,221	2,292	2,811
Other assets	29	10,564	17,674	13,204	20,694
Total assets		**2,426,488**	**2,501,864**	**2,486,049**	**2,539,902**
LIABILITIES					
Liabilities to Central Bank	30	90,292	158,654	90,292	158,654
Financial instruments held for trading:		14,473	14,832	14,473	14,832
- derivative financial instruments	20	14,473	14,832	14,473	14,832
Liabilities carried at amortised cost:		2,020,515	2,044,235	2,069,558	2,073,610
- deposits from banks	31	102,961	170,114	102,961	170,114
- due to customers	32	1,440,372	1,296,027	1,440,342	1,295,996
- other borrowed funds from banks	33	476,959	577,848	526,032	607,254
- other borrowed funds from other customers	34	223	246	223	246
Provisions:		20,000	22,837	20,102	22,854
- provisions for liabilities and charges	35	16,508	19,412	16,411	19,348
- retirement benefit obligations	36	3,492	3,425	3,691	3,506
Income tax liabilities:		4,428	8,059	4,600	8,130
- current income tax		-	3,360	172	3,431
- deferred income tax	37	4,428	4,699	4,428	4,699
Other liabilities	38	19,071	19,271	27,862	26,506
Total liabilities		**2,168,779**	**2,267,888**	**2,226,887**	**2,304,586**
SHAREHOLDERS´ EQUITY					
Ordinary shares	39	22,173	22,173	22,173	22,173
Share premium	39	7,499	7,499	7,499	7,499
Revaluation reserves	40	15,096	13,668	15,096	13,668
Reserves from profit	41	200,289	184,676	200,289	184,676
Treasury shares	39	(49)	(49)	(49)	(49)
Retained earnings (including income from the current year)	41	12,701	6,009	13,768	7,016
Non-controlling interest		-	-	386	333
Total shareholders´ equity		**257,709**	**233,976**	**259,162**	**235,316**
Total equity and liabilities		**2,426,488**	**2,501,864**	**2,486,049**	**2,539,902**

The following notes on pages 51 to 138 form an integral part of these financial statements.

4. UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

31 December 2009 – Unconsolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**13,668**	**184,676**	**6,009**	**(49)**	**233,976**
Comprehensive income for the financial year after tax	40	-	-	1,428	-	22,305	-	**23,733**
Transfer of net profit to reserves from profit	41	-	-	-	15,613	(15,613)	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**15,096**	**200,289**	**12,701**	**(49)**	**257,709**
PROFIT AVAILABLE FOR DISTRIBUTION		-	-	-	-	6,692	-	6,692

31 December 2008 – Unconsolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**26,583**	**143,117**	**19,791**	**(49)**	**219,114**
Comprehensive income for the financial year after tax	40	-	-	(12,915)	-	27,777	-	**14,862**
Transfer of net profit to reserves from profit	41	-	-	-	41,559	(41,559)	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**13,668**	**184,676**	**6,009**	**(49)**	**233,976**
AVAILABLE PROFIT FOR DISTRIBUTION		-	-	-	-	-	-	-

The following notes on pages 51 to 138 form an integral part of these financial statements.

5. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

31 December 2009 – Consolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**13,668**	**184,676**	**7,016**	**(49)**	**234,983**	**333**	**235,316**
Consolidated Comprehensive Income for the financial year after tax	40	-	-	1,428		22,365		23,793	53	23,846
Transfer of net profit to reserves from profit	41	-	-	-	15,613	(15,613)	-	-	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**15,096**	**200,289**	**13,768**	**(49)**	**258,776**	**386**	**259,162**

31 December 2008 – Consolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**26,583**	**143,117**	**20,511**	**(49)**	**219,834**	**330**	**220,164**
Consolidated Comprehensive Income for the financial year after tax	40	-	-	(12,915)	-	28,064	-	15,149	3	15,152
Transfer of net profit to reserves from profit	41	-	-	-	41,559	(41,559)	-	-	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**13,668**	**184,676**	**7,016**	**(49)**	**234,983**	**333**	**235,316**

The following notes on pages 51 to 138 form an integral part of these financial statements.

6. STATEMENT OF CASH FLOWS

Statement of cash flows

(all amounts expressed in thousands of EUR)

	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2009	2008	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		28,171	35,387	28,780	35,607
Depreciation		6,247	6,366	7,393	7,165
Impairments of capital investments in subsidiaries, associates and joint ventures		-	-	-	-
Net (gains) / losses from exchange differences		373	4,660	369	4,763
Net (gains) / losses from sale of tangible assets and investment properties		(649)	40	(658)	94
Net (gains) / losses from sale of intangible fixed assets		99	-	99	-
Net (gains) / losses from investing activities		(3,827)	-	(3,827)	
Unrealised (gains) / losses from financial assets measured at fair value		23	(36)	23	(36)
Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)		3,428	(17,202)	3,428	(17,202)
Other adjustments to total profit or loss before tax		(2,503)	(238)	(2,294)	(238)
Cash flow from operating activities before changes in operating assets and liabilities		**31,362**	**28,977**	**33,313**	**30,153**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**98,023**	**(353,261)**	**74,979**	**(366,852)**
Net (increase) / decrease in balances with central banks		(1,625)	(6,735)	(1,625)	(6,735)
Net (increase) / decrease in financial assets held for trading		15,691	2,355	15,691	2,355
Net (increase) / decrease in financial assets available for sale		(26,155)	14,580	(26,155)	14,580
Net (increase) / decrease in loans and receivables		102,868	(362,032)	79,976	(373,362)
Net (increase) / decrease in other assets		7,244	(1,429)	7,092	(3,690)
(Increases) / decreases in operating liabilities		**(92,530)**	**249,694**	**(70,734)**	**262,198**
Net increase / (decrease) in financial liabilities to central bank		(68,362)	128,608	(68,362)	128,608
Net increase / (decrease) in financial liabilities held for trading		(359)	(2,129)	(359)	(2,129)
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost		(23,724)	120,425	(3,535)	133,170
Net increase / (decrease) in other liabilities		(85)	2,790	1,522	2,549
Cash flow from operating activities		**36,855**	**(74,590)**	**37,558**	**(74,501)**
Income taxes (paid) refunded		(10,570)	1,590	(10,804)	1,418
Net cash flow from operating activities		**26,285**	**(73,000)**	**26,754**	**(73,083)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**815**	**605**	**1,155**	**608**
Receipts from the sale of tangible assets and investment properties		52	35	392	38
Receipts from the sale of financial assets held to maturity		763	570	763	570
Cash payments on investing activities		**(3,628)**	**(6,417)**	**(4,447)**	**(6,377)**
Cash payments to acquire tangible assets and investment properties		(3,463)	(3,606)	(4,260)	(3,648)
Cash payments to acquire intangible fixed assets		-	(2,811)	(22)	(2,729)
Cash payment for the investment in subsidiaries, associates and joint ventures		-	-	-	-
Cash payments to acquire held to maturity investments		(165)	-	(165)	-
Net cash flow from investing activities		**(2,813)**	**(5,812)**	**(3,292)**	**(5,769)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash proceeds from financing activities		-	-	-	-
Cash proceeds from subordinated liabilities issued		-	-	-	-
Cash proceeds from issuing shares and other equity instruments		-	-	-	-
Cash proceeds from the sale of treasury shares		-	-	-	-
Other cash proceeds related to financial activities		-	-	-	-
Cash payments on financing activities		-	-	-	-
Dividends paid		-	-	-	-
Net cash flow from financing activities		-	-	-	-
Effects of change in exchange rates on cash and cash equivalents		(402)	(439)	(402)	(439)
Net increase in cash and cash equivalents		**23,472**	**(78,812)**	**23,462**	**(78,852)**
Opening balance of cash and cash equivalents	43	**24,545**	**103,796**	**24,586**	**103,877**
Closing balance of cash and cash equivalents	43	**47,615**	**24,545**	**47,646**	**24,586**

Operational cash flows of interest and dividends

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Interest paid	(39,571)	(72,474)	(40,377)	(73,425)
Interest received	101,711	127,408	104,722	129,743
Dividends Received	418	995	118	995

As at 31st December 2009 the Bank's has had undrawn credit lines and loans already committed of EUR 531,506 thousand (2008: EUR 528,268 thousand).

The Bank has credit lines and other facilities in amount of EUR 531,506 thousand that is available for financing future business operations without any restrictions.

The following notes on pages 51 to 138 form an integral part of these financial statements.

PERFECT DOUBLE FACE, 2009, mixed technique/canvas, 120 x 100 cm

NOTES TO 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 its head office in Pristaniška 14, Koper. Finor Leasing is a limited liability company, 100 % owned by the Bank, with share capital of 2,045 thousand EUR and its head office in Pristaniška 14, Koper. Since the end of February 2007 the Bank owns 75 % of Centurion finančne storitve d.o.o. Ljubljana, a financial company operating in the credit card business. Centurion finančne storitve d.o.o. Ljubljana is a limited liability company with share capital of 1,648 thousand EUR and its head office in Slovenčeva 24, Ljubljana. In June 2009 the company Centurion finančne storitve d.o.o. Ljubljana, was renamed to ISP Card d.o.o., Ljubljana. From 1st August 2009 Banka Koper d.d., on the initiative of the parent bank, spun off its credit card processing activity. As a result, the credit card business, that is tangible and intangible fixed assets, contract obligations and employees, was transferred to ISP Card d.o.o., Ljubljana. The fair value of the transferred intangible and tangible fixed assets represented an additional stake of Banka Koper in ISP Card d.o.o., which on 31st December 2009 amounted to 92,67 %.

Since 2002, Banka Koper is a part of the banking group Intesa Sanpaolo (originally SanpaoloIMI), one of the leading banking groups in Italy. As at January 1st 2007 the banking group Sanpaolo IMI merged with Banca Intesa. Banka Koper is owned directly by the ultimate parent bank Intesa Sanpaolo. It has a head office in Piazza San Carlo 166, Turin, Italy and a secondary office in Via Monte di Pietá 8, Milano, Italy.

Banka Koper has the status of a significant subsidiary bank, and therefore is required to disclose information related to the 3rd and 4th item of article 207 of the Banking act and articles 12 and 13 of the Decree of necessary disclosures of financial institution, which is about capital and internal capital on a consolidated basis.

According to the Slovene Companies Act, the Bank has to prepare separate and consolidated financial statements.

The date of the Management Board statement quoted ahead of the Financial Statements is to be considered as the approval date of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted for the preparation of the separate and 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 and 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 most significant uses of accounting estimates and assumptions are the following:

a) Impairment of loans and advances
With the aim to put in place a tool for impairment recognition, the Bank reviews its loan portfolio on a monthly basis. Prior to taking a decision whether a loss has to be recognised in the statement of income, the Bank checks whether there is information indicating to a fall in estimated cash flows arising from contractually agreed repayments and the capability to realise the collateral. Evidence includes information on the deterioration of the 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 previous experience and losses incurred under assets associated with credit risk similar to assets in the group. Individual estimates are made by individual loan officers and are 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 subsequently verified by independent officers in the Credit Management division. The methodology and assumptions used for assessing future cash flows are subject to verification on a regular basis in order to reduce differences between assessed and actual losses. Exposures where individual assessment shows no need of impairment and small exposures are classified in groups and assessed for impairment on a collective basis taking into account similar risk characteristics.

b) Fair values of financial instruments

Fair values of financial instruments not traded on an organised active market are determined by using valuation models. The valuation models used for determining fair values are reviewed by independent valuers on a regular basis. All models used 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 it is still necessary to use also estimates to determine market risk, volatility and correlations. Any changes in estimates regarding these factors may affect the reported fair value of financial instruments.

c) Equity instruments available for sale

Equity instruments available for sale are impaired if 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 the 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), and 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 assets until their maturity. In the event that the Group would not be able to hold the 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 assets would have to be measured at fair value, and that would result in the increase in the value of assets, and would consequently increase equity by EUR 83 thousands.

The accounting policies adopted are consistent with those used in the previous year.

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

The accounting policies used are consistent with those applied in the previous year, except for the newly adopted standards and interpretations as presented below.

IAS 1 Revised Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income; it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 Borrowing Costs (Revised)

The Standard has been revised to require capitalisation of borrowing costs on qualifying assets and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the Standard this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred prior to this date that have been expensed.

IFRS 2 Share-based Payment - Vesting Conditions and Cancellations

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures and the liquidity risk disclosures are impacted by the amendments. (See note 3.10)

IFRS 8 Operating Segments

This Standard replaces IAS 14: Segment Reporting. The new Standard requires an entity to adopt "management approach" to reporting on the financial performance of its operating segments. If the numbers used by management for internal performance measurement of operating segments are different to the numbers reported in the financial statements, this requires a reconciliation of numbers used by management to the financial statements. The Group has not applied this standard as its shares are not quoted on the stock exchange.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

These amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRIC 12 Service Concession Agreement

This interpretation outlines the approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for infrastructure as property, plant and equipment, but rather recognize a financial asset and/or intangible asset. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRIC 13 Customer Loyalty Programmes

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRIC 15 Agreement for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The below mentioned improvements did not have any impact on the financial position of the Group.

IAS 1 Presentation of Financial Statements

Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Clarifies that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period

Clarifies that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, Plant and Equipment

Replaces the term "net selling price" with "fair value less costs to sell" to be consistent with IFRS 5 and IAS 36. The Company/Group amended its accounting policy accordingly, which did not result in any change in its financial position.

Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items and the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

IAS 18 Revenue

Replaces the term 'direct costs' with 'transaction costs' as defined in IAS 39

IAS 19 Employee Benefits

Curtailments and negative past service costs

Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

Plan administration costs
Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
Replacement of term 'fall due'
Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
Guidance on contingent liabilities
Deletes the reference to the recognition of contingent liabilities to ensure consistency with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance
Government loans with no interest or a below-market interest rate
Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

IAS 23 Borrowing Costs
The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly.

IAS 27 Consolidated and Separate Financial Statements
Measurement of a subsidiary held for sale in separate financial statements
When a parent entity accounts for a subsidiary at fair value in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

IAS 28 Investments in Associates
Required disclosures when investments in associates are accounted for at fair value through profit or loss
If an associate is accounted for at fair value through profit or loss, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
Impairment of investment in an associate
An investment in an associate is a single asset for the purpose of conducting the impairment test - including any reversal of impairment. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.

IAS 29 Financial Reporting in Hyperinflationary Economies
Description of measurement basis in financial statements
Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

IAS 31 Interests in Joint Ventures

Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss

If a joint venture is accounted for at fair value, the only disclosure requirements of IAS 31 are those relating to the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expenses.

IAS 34 Interim Financial Reporting

Clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

IAS 36 Impairment of Assets

Disclosure of estimates used to determine recoverable amount

When discounted cash flows are used to estimate 'fair value less costs to sell', the same disclosures are required as when discounted cash flows are used to estimate 'value in use'.

IAS 38 Intangible Assets

Unit of production method of amortisation

The improvement deletes references to there being rarely, if ever, persuasive evidence to support an amortisation method for finite life intangible assets that results in a lower amount of accumulated amortisation than under the straight-line method, thereby effectively allowing the use of the unit of production method. The Group reassessed the useful lives of intangible assets and found the straight-line method still applicable.

Advertising and promotional activities

Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. This amendment has no impact on the Group.

IAS 39 Financial instruments: Recognition and Measurement

Reclassification of derivatives into or out of the classification of at fair value through profit or loss

Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.

When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of IFRS 4 Insurance Contracts, this is a change in circumstance, not a reclassification.

Designation and documentation of hedges at the segment level

Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.

Applicable effective interest rate on cessation of fair value hedge accounting

Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

IAS 40 Investment property

Property under construction or development for future use as investment property

Revises the scope (and the scope of IAS 16 Property, Plant and Equipment) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until fair value can be determined or construction is complete.

Revises the conditions for a voluntary change in accounting policy to be consistent with IAS 8. Clarifies that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IAS 41 Agriculture

Additional biological transformations

Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Discount rate for fair value calculations

Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or a post-tax discount rate depending on the valuation methodology used.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Plan to sell the controlling interest in a subsidiary

When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale. This amendment is effective for periods commencing 1 July 2009.

IFRS 7 Financial Instruments Disclosures

Removes the reference to 'total interest income' as a component of finance costs.

Early application of IFRS and IFRIC's interpretations not yet effective

The Group has not early adopted any standards or interpretations issued and not yet effective. Unless otherwise described below, the new standards, improvements and interpretations not yet effective are not expected to have a significant effect on Group financial statements.

The following new and amended IFRIC will be adopted in future periods as required by International Financial Reporting Standards:

IFRIC 17 Distribution of Non-Cash Assets to Owners

IFRIC 17 becomes effective for annual periods beginning on 1 July 2009. The interpretation provides guidance on how to account for non-cash distribution of assets to owners. The interpretation clarifies when an entity should recognize the liability, how it should be measured, and how to recognize and measure the related assets, as well as when such assets and liabilities should be derecognised in books of accounts.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 applies to transfers of assets from customers on or after 1 July 2009. The interpretation provides guidance on how to account for property, plant and equipment transferred from customers or cash received for acquisition or construction of certain assets. This guidance applies only to assets used by an entity to connect the customer to a network or to provide the customer with an ongoing access to a supply of goods, services or, in some cases, to do both. The entity must identify the service or services rendered and allocate the received payment (the fair value of assets) to each identifiable service. Revenue should be recognised on delivery or performance of each individual service by the entity.

The following new and amended IFRIC's will be adopted in future periods as required by International Financial Reporting Standards and if adopted by the EU.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation becomes effective on 1 July 2010 and provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments (a debt for equity swaps). The interpretation clarifies how to measure and recognise such swaps.

The following new standards will be adopted in future periods as required by International Financial Reporting Standards and the EU.

IFRS 3R Business Combinations and IAS 27R – Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

The following new and amended standards will be adopted in future periods as required by International Financial Reporting Standards, if endorsed by the EU:

IFRS 2 Cash-Settled Share-Based Payment Transactions in the Group
Applicable for periods beginning on or after 1 January 2009.
Amendments to IFRS 2 comprise three basic amendments: revised definition of share-based transactions and agreements, the scope of IFRS2, and additional clarification of how to account for cash-settled share-based payment transactions in the group.

IAS 32 Financial Instruments: Presentation, Classification of the Option to Purchase Shares Denominated in a Foreign Currency
Applicable for periods beginning on or after 1 January 2010.
The amended Standard allows an entity issuing puttable financial instruments denominated in foreign currency not to account for these rights as derivatives but rather to recognize the effects in the profit or loss. These rights are classified as equity if they fulfil a number of specified criteria.

IAS 24 Related Party Disclosures
Applicable for periods beginning after 1 January 2011.
Amendments to IAS 24 define in more detail and simplify definition of a related party. Furthermore the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities.

IFRS 9 Financial Instruments
The Standard replaces IAS 39 and is applicable for periods beginning on 1 January 2013. The first part of the standard introduces new requirements for classifying and measuring financial assets.

Improvements to IFRSs

In April 2009 the Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. So far these amendments have not been endorsed by the EU.

IFRS 2 – Share-Based Payments – specification when to apply IFRS 2 and IFRS 3
IFRS 5 – Non-current Assets Held for Sale – Disclosure
IFRS 8 – Operating Segments – Disclosure of Segments' assets
IAS 1 – Presentation of Financial Statements – current/non-current liabilities for swap instruments
IAS 7 – Statement of Cash Flows – classifying expenditure for unrecognized assets
IAS 17 – Leases – classifying land and buildings
IAS 18 – Revenue – designation whether an entity acts as a principal or an agent
IAS 36 – Impairment of Assets – the maximum unit to which goodwill may be attributed
IAS 38 – Intangible Assets – amendments as a result of new IFRS 3 Standard and amendments in relation to determining fair value

IAS 39 – Financial Instruments – assessment of liquidating damages for prepayment of a credit as a derivative, cash flow hedges
IFRIC 9 – Reassessment of Embedded Derivatives – impact of IFRS 3 and IFRIC 9
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation– amendment of restriction to an entity allowed to have a hedge

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. The subsidiaries are consolidated from the date on which effective control is transferred to the Group and are 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 subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Disclosure of non-controlling interest is made in the consolidated statement of changes in shareholders' equity.

2.3 REPORTING ON OPERATING SEGMENTS

The Bank has chosen not to report operating 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 1 January 2007. Before 1 January 2007, the Group's functional and presentation currency was the Tolar, 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 statement of income. 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 on 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 statement of income as net gains or losses from dealing in foreign currencies.

2.5 INVESTMENT IN SUBSIDIARIES AND GOODWILL

Investments in subsidiaries in the standalone financial statements are measured and accounted for at the cost of acquisition. The cost of 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.

In the consolidated financial statements, the purchase method of accounting is used for the acquisition of subsidiaries by the Group. 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 purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Non-controlling interest is the interest in subsidiaries not held by the Group. Non-controlling interest at the reporting date represents the minority shareholders' proportionate share in the net assets of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Non-controlling interest is presented within equity.

Losses allocated to non-controlling interest do not exceed the non-controlling interest in the equity of the subsidiary unless there is a binding obligation of the non-controlling interest to fund the losses. All such losses are allocated to the Group.

The Group accounts for business combinations achieved in stages as separate steps and any additional interest acquired does not affect the goodwill previously recognised.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group test goodwill for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment of goodwill is determined by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the statement of income which cannot be reversed in future periods.

2.6 ASSOCIATED UNDERTAKINGS

In the standalone financial statements, investments in associated undertakings are measured at cost.

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.

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

2.7 RELATED PARTIES

For the purposes of the financial statements, related parties include all the enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the reporting enterprise (this includes parents, subsidiaries and fellow subsidiaries), associated companies, managers and directors of the Bank and enterprises in which managers and directors of the Bank are able to exercise significant influence (participation in the financial and operating policy decisions of an enterprise).

2.8 FINANCIAL ASSETS

Classification

a) 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 instruments are 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. In general the loans are collateralised with one or more type of collateral. The decision on the adequateness of the type and value of the collateral depends on the creditworthiness of the customer and the type, value and maturity of the credit transaction. The customer manager monitors the efficiency of the collateral in relation to the possible increase in the risk or decrease of the value of the collateral and, if necessary, request that the customer provide extra collateral (of another type or of more value).

The revaluation of the collateral shall be carried out with respect to the type of collateral:
- the market value of securities and investment fund assets units taken as collateral is determined on daily basis,
- the revaluation of real estate (housing unit) should be carried out at least every three years,
- the revaluation of real estate (business premises) shall be carried out at least once a year,
- movable property should be revaluated at least once a year.

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.

Recognition and measurement

a) Date of recognition

Regular way purchases and sales: 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.

b) "Day 1" profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a "Day 1" profit) in the statement of income in "Net trading income". In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

c) Value of recognition and subsequent measurement

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 statement of income 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 other comprehensive income, until the financial asset is derecognised or impaired, at which time the effect previously included in other comprehensive income is recognised in the statement of income. 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 statement of income. Dividends on available-for-sale equity instruments are recognised in the statement of income when the entity's right to receive payment is established.

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

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved only based on the restructuring. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject of an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial instruments

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer meets criteria for derecognition.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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 reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

2.9 OFFSETTING

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

2.10 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments, including forward and futures contracts, and swaps and options, are initially recognised on the statement of financial position 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 prices, discounted cash flow models or pricing models, as appropriate. All derivatives are carried at their fair value as assets when favourable to the Bank, and as 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 (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 (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, profits are not recognised on day 1, but if and when such evidence becomes available.

2.11 INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts and premium on securities. Once a 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.

2.12 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.

2.13 NON - CURRENT ASSETS HELD FOR SALE

Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the 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 classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

2.14 SALE AND REPURCHASE AGREEMENTS

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, with the counterparty liability 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.

2.15 IMPAIRMENT OF FINANCIAL ASSETS

a) Assets carried at amortised cost

The Group assesses at each reporting 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 one 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 a 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 statement of income.

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. In the case that the provision for loan impairment does not exist the write off is recognised directly in the statement of income under gains less losses from financial assets and liabilities not recognised at fair value through profit and loss. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are shown as income in the statement of income.

b) Assets carried at fair value

The Group assesses at each reporting 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. In line with Group accounting policies, a significant decrease is when financial instrument's fair value decreases by more than 40% below average cost. Prolonged decline in the fair value is generally when the fair value of a financial instrument is below its average cost for at least 9 months. 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 other comprehensive income and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. 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 statement of income.

2.16 INTANGIBLE ASSETS

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

Costs associated with researching 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.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year-end.

Intangible assets

	Estimated useful lives (in years)
Licences	3–10
Investments in research and development	3–5
Other investment in intangibles	10
Software	2–3

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset.

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The assessment for impairment is done at least at each reporting date.

2.17 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 is carried at cost less accumulated depreciation and accumulated impairment losses, if any.

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

2.18 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are initially recorded at cost/purchase price. Costs which can be attributed to the acquisition of property, plant and equipment increase the purchase price (such as imports and unrefundable charges/levies, commissions, employee benefits, cost related to removal and restoration…). Interest expenses from the acquisition of fixed assets are included in the cost value and amortized during the life period of the asset.
The purchase price of property, plant and equipment, swapped with another asset, is measured at fair value.

The Group assesses the impairment each year whether there are indications that assets may be impaired. If any such indication exists, the Group estimates the recoverable amount. The recoverable amount is the higher of the net selling price and value in use. If the recoverable amount exceeds the carrying value, the assets are not impaired.

Subsequent costs are included in the asset's carrying amount when it 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.

Property, planet and equipment

	Estimated useful lives (in years)
Buildings	16,6–33,3
Computers and software	2–3
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.

2.19 ACCOUNTING FOR LEASES

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

• A Group company is the lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

A finance lease is a lease which transfers substantially all the risks and rewards of ownership to the lessee. Property, plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and any impairment losses. Property, plant and equipment acquired under finance lease are depreciated over the useful life of the asset. If there is no assurance that the lessee shall take over the ownership of the leased asset until the end of the lease term, the leased asset is depreciated entirely during the shorter of the term of the lease or its useful life.

• 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 an operating lease, payments made under operating leases are recognised as income on a straight-line basis over the period of the lease.

2.20 CASH AND CASH EQUIVALENTS

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

2.21 BORROWINGS

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of the 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 statement of income over the period of the borrowings using the effective yield method.

If the Group purchases its own debt, it is removed from the statement of financial position.

2.22 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.

2.23 INVENTORIES

Inventories are stated at cost plus all corresponding direct costs 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.

2.24 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 statement of income 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 reporting 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 statement of income and classified as other operating expenses.

2.25 TAXATION

Income tax is calculated by each Group member according to local legislation. For 2009 the income tax rate was 21 % (2008: 22 %).

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 2009 deferred tax was calculated using a 20 % 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 2008, a 21 % rate was used).

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

Deferred tax related to fair value re-measurement of available for sale investments is charged or credited directly to other comprehensive income and is subsequently recognised in the statement of income 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.

2.26 EMPLOYEE BENEFITS

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long – service 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 5.7 % (2008: 5.4 %) and
- Future salary increases of 3.9 % (2008: 3.5 %) p.a..

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 an indemnity paid in a lump sum. Employees are also entitled to long service bonuses 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 statement of income.

2.27 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 members 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.

2.28 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 statement of financial position.

2.29 COMPARATIVES

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

3. RISK MANAGEMENT ORGANISATION

The risk management process includes internal organizational requirements, risk management procedures at the level of the Group's products and activities as well as measurement and control of every single type of Group level risk. The strategic orientation and characteristics of business segments in which the Group operates, define the risk profile of the Group. On this ground the most important risks are identified and the risk management approaches established.

The most important risks in terms of exposure are credit risk, banking book financial risks and operational risk. The two most important banking book financial risks are interest rate and liquidity risk. Other important risk for the Group are strategic risk, reputational risk, market risk, credit concentration risk and equity investment risk.

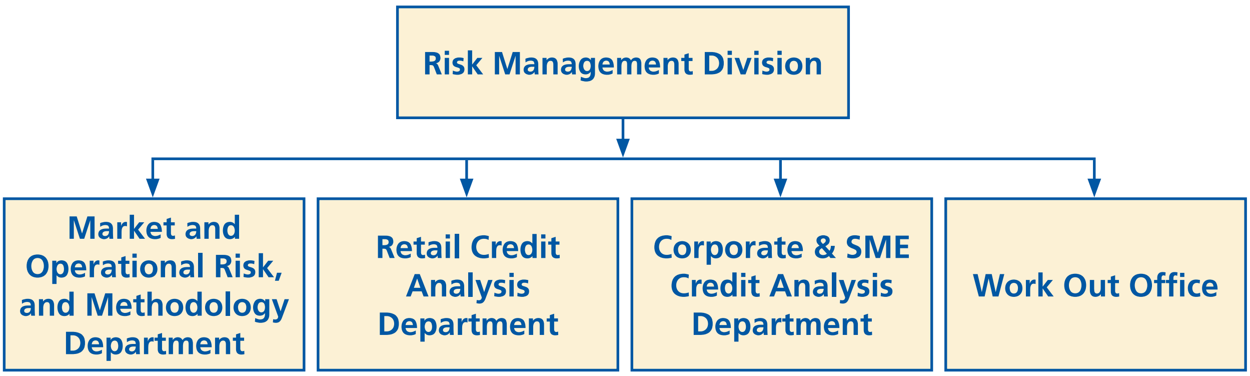
The objective of risk management is to control risk according to the risk appetite and derived willingness of the Group managing and ownership structures to assume risk. Since the Group is part of the larger Banking Group Intesa Sanpaolo, the methodologies and risk management processes are gradually being harmonized with the Parent Group's approaches.

3.1 RISK MANAGEMENT STRUCTURE

Risk management process

The adequateness of the risk management activity of the Group is the responsibility of Risk management division. The person responsible for the division is a member of the Management Board. With the redesign of the internal organization chart in year 2009, four units were established in the area of risk management. In addition a compliance office, reporting to Management Board directly, was established.

The organisation scheme of the Risk Management Division:



The Market and Operational Risk and Methodology Department is responsible for operational, financial and market risks, capital adequacy and implementation of risk measurement methodologies. In the credit risk area it proposes credit risk policies and carries out control over the quality of the credit portfolio.

The Retail Credit Analysis Department carries out the assessment and monitoring over the credit soundness of individuals and small entities.

The Corporate & SME Credit Analysis Department evaluates and monitors credit soundness of large and medium-sized entities.

The work-out office manages the bad-debt portfolio of all borrower segments and is responsible for credit recovery.

According to the internal statute and risk management policies, the following internal roles are defined:

Supervisory Board approves the strategic decisions regarding risk management policies and verifies the efficiency and adequacy of the overall risk process within the Group.

Management Board is responsible for the approval of risk management policies and internal controls; it ensures organizational and other conditions for execution of those policies and controls.

Asset and Liability Committee (ALCO) evaluates the exposure to main financial risks and deliberates on important banking operations or decisions that have a significant impact on risk exposure.

Asset Quality Board monitors the loan portfolio and its quality and takes necessary measures in order to prevent and mitigate lending losses.

Internal Audit Department verifies processes, policies and general performing of activities, with the aim to evaluate the efficiency and effectiveness of internal controls and risk management.

Compliance office assesses and manages the compliance risk in relation to domestic and international rules and internal regulation or enacting of Supervisory and Management Board, in order to prevent legal penalties, financial losses and reputational risk.

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

Own funds include all liability components that are designed to absorb the Group's losses and safeguard ordinary creditors. It plays an important role as a buffer against potential losses.

The own funds management and capital adequacy are governed by regulatory capital adequacy and internal capital adequacy assessment.

3.2.1 Fulfillment of regulatory capital requirements

Regulatory capital adequacy is the ratio between the Group's own funds and risk-weighted assets that has to be at least 8 %. The components of risk-weighted assets are credit risk, market risk and operational risk.

The Group maintains the capital adequacy by drawing up a strategic plan, which projects the own fund growth in line with the increasing risk activities. The past bank activity increase has been sustained by a proportional distribution of net profit into Group's capital reserves. Capital adequacy is regularly monitored by the Group managing bodies.

Capital adequacy as at 31 December 2009 – unconsolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2009	2008	2009	2008
Exposures to banking book				
Exposures to state and central bank	356,233	317,890	67	161
Exposures to local municipalities	22,821	10,711	11,375	4,131
Exposures to public sector	9,833	11,733	2,873	5,170
Exposures to development banks	1,673	2,389	-	-
Exposures to institutions	214,235	268,230	101,178	122,702
Exposures to enterprises	1,212,218	1,370,261	1,058,746	1,203,961
Exposures to retail banking	804,002	776,028	517,678	492,795
Past due exposures	55,407	17,680	78,251	22,860
Exposures to highly risk exposures	46,881	50,158	67,603	72,553
Exposures to investments funds	28,026	23,203	28,026	23,203
Exposures to other assets	86,199	74,536	72,435	59,108
Total	**2,837,528**	**2,922,819**	**1,938,232**	**2,006,644**
Credit risk weighted assets			1,938,232	2,006,644
Market risk weighted assets			4,700	36,163
Operational risk weighted assets			167,038	157,038
Total risk weighted assets			**2,109,970**	**2,199,845**
Regulatory capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			11,085	9,970
Statutory reserves			189,155	174,657
Treasury shares fund reserves			49	49
Retained earning			6,009	6,009
Less specific country risk items			-	-
Less intangible assets			(6,076)	(7,321)
Total qualifying Tier 1 capital			**229,845**	**212,987**
Revaluation reserve (80% of positive revaluation of AFS shares)			11,948	13,065
Revaluation reserve (100% of negative revaluation of AFS shares)			(1,622)	(65)
Total qualifying Tier 2 capital			**10,326**	**13,000**
Diminution of capital				
- less investment in subsidiaries			(6,928)	(5,214)
Total diminution of capital			**(6,928)**	**(5,214)**
Total regulatory capital			**233,243**	**220,773**
Capital Adequacy ratio			**11.05**	**10.04**

Capital adequacy as at 31 December 2009 – consolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2009	2008	2009	2008
Exposures to banking book				
Exposures to state and central bank	357,010	318,715	67	161
Exposures to local municipalities	22,821	10,716	11,375	4,134
Exposures to public sector	9,839	11,734	2,876	5,170
Exposures to development banks	1,673	2,389	-	-
Exposures to institutions	214,235	263,215	101,178	120,798
Exposures to enterprises	1,201,374	1,346,918	1,053,809	1,184,738
Exposures to retail banking	832,984	806,548	539,414	515,684
Past due exposures	63,957	23,330	90,613	31,119
Exposures to highly risk exposures	73,113	74,624	105,083	105,873
Exposures to investments funds	28,026	23,203	28,026	23,203
Exposures to other assets	89,732	79,726	75,966	64,289
Total	**2,894,764**	**2,961,118**	**2,008,407**	**2,055,169**
Credit risk weighted assets			2,008,407	2,055,169
Market risk weighted assets			4,700	36,163
Operational risk weighted assets			170,738	160,200
Total risk weighted assets			**2,183,845**	**2,251,532**
Regulatory capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			11,085	9,970
Statutory reserves			189,155	174,657
Treasury shares fund reserves			49	49
Retained earning			6,009	6,009
Less specific country risk items			-	-
Less intangible assets			(6,914)	(7,455)
Less goodwill			(905)	(905)
Non-controlling interest			386	333
Total qualifying Tier 1 capital			**228,488**	**212,281**
Revaluation reserve (80% of positive revaluation of AFS shares)			11,948	13,065
Revaluation reserve (100% of negative revaluation of AFS shares)			(1,622)	(65)
Total qualifying Tier 2 capital			**10,326**	**13,000**
Diminution of capital				
- less investment in subsidiaries			-	-
- less non liquid assets			-	-
Total diminution of capital			**-**	**-**
Total regulatory capital			**238,814**	**225,281**
Capital Adequacy ratio			**10.94**	**10.01**

3.2.2 Internal capital adequacy assessment (ICAAP)

ICAAP is a process, introduced by the new Basel II regulation, which determines the minimum requirements of managing risk, encompassing the internal organization, systems and self-evaluation of required internal capital (capital needs). The purpose of ICAAP is to complement the regulatory capital requirements in the valuation of all relevant risks.

The ICAAP process for the Group is based on a unified methodology and risk management processes within the Parent company, taking into consideration the specific circumstances under which the Group operates.

The Parent company defines the methodology and makes the assessment of internal capital. The capital needs are assessed by pursuing the risk coverage with a confidence level of 99,9 % over 1 year time-horizon.

The internally assessed own funds needed to meet internal capital requirements (referred to as Available financial resources), include regulatory own funds and current profits, expected not to be paid-out as dividends.

Internal assessment of capital needs is carried out for the risks, and their components, as follows:

Credit risk is the risk that at maturity the counterparty will default on settling financial commitments. Internal capital equals the amount of regulatory capital requirements, reduced by capital requirements on assets subject to more detailed assessment under other risk typologies (real estate risk and equity risk).

Market risk is the risk of fair value losses originated in trading activities. Internal capital is equal to the regulatory capital requirements.

Operational risk is the risk arising from the conduct of people, inadequate processes and systems or external events. It includes legal risk. Internal capital is equal to capital requirements for operational risk.

Banking book financial risk relates to equity risk, interest rate risk, real estate risk and liquidity risk.

Banking book equity risk covers the risk of unconsolidated equity investments, classified as available for sale, which are not acquired for trading purposes. Capital requirements are calculated with a historical simulation, applying daily historical changes over a period of 5 years.

Banking book interest rate risk is defined as the risk of a change in the market interest rate that has an disadvantageous impact on net interest income of non-trading interest rate sensitive positions. Internal capital is calculated with a historical simulation, applying daily changes over a 5-years long historical data series. Such obtained risk scenarios are the basis for the evaluation of net interest income and net economic value sensitivity at the chosen statistical confidence level.

Banking book proprietary real estate risk is the risk of losses due to changes in the value of real estate in the Group’s possession. The risk is measured with a historical simulation, by using a proper real estate price index.

Strategic risk includes the risk of changes in the business environment, inappropriate business decisions and insufficient responsiveness to changes. Internal capital is set in relation to the risk of disadvantageous evolvement of every major component of the business margin on the revenue and cost side, presented by a parametric VaR.

Internally assessed capital requirements as of 30. 9. 2009

Risk	(all amounts expressed in millions of EUR) Economic (Internal) Capital
• Credit Risk	157.70
• Market Risk	3.10
• Operational Risk	13.66
• Banking Book Risk:	44.64
- Interest Rate Risk	8.89
- Equity Risks	28.99
- Real Estate Proprietary Risk	6.76
• Strategic Risk	4.29
Total capital requirements	**223.39**
Available financial resources	**238.71**

3.3 CREDIT RISK

Credit risk represents the risk of loss arising from the debtor's failure to settle the contractual and financial obligations. Credit risk is, by scope and business strategic orientation, the most important risk for the Group.

The main part of Group's credit risk arises from financial assets measured at amortized cost (loans and other claims). For those assets and commitments credit risk is evaluated by credit classification and the determination of impairments for statement of financial position assets and provision for off-balance sheet commitments and contingencies. The level of impairments and provisions has to reflect the amount of expected losses.

For financial instruments measured at fair value, credit risk is evaluated by observing market value changes, which are influenced also by the eventual credit deterioration of the issuer.

Credit risk of derivative contracts is measured at replacement cost. The replacement cost is made up of the positive value of the deal, which is the positive difference between the settlement value and the fair value of the instrument and the mark-up that reflects the future volatility of values exchanged.

The total Group's credit exposure on the 31st of December 2009 equalled to EUR 3,065 million, which is 5 % less than on 31st of December 2008. In the Group's credit portfolio of 31st of December 2009, 95 % of all credit exposures are classified as performing (A and B rating).

Group's credit risk related portfolio as at 31 December 2009

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	241,580	22	0 %	22	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	2,104,136	1,980,398	77 %	1,887,827	77 %	92,571	76 %	62,998	3 %	27,598	30 %
Banks	169,599	45,367	2 %	45,367	2 %	-	0 %	-	0 %	-	0 %
Private individuals	549,698	549,222	21 %	520,225	21 %	28,997	24 %	6,195	0 %	15,028	52 %
Total	**3,065,013**	**2,575,009**	**100 %**	**2,453,441**	**100 %**	**121,568**	**100 %**	**69,193**	**3 %**	**42,626**	**35 %**

Group's credit risk related portfolio as at 31 December 2008

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	309,159	25,121	1 %	25,121	1 %	-	0 %	-	0 %	-	0 %
Corporate entities	2,259,439	2,112,364	79 %	2,069,567	79 %	42,797	65 %	62,785	3 %	14,884	35 %
Banks	148,960	19,040	1 %	17,619	1 %	1,421	2 %	-	0 %	1,421	100 %
Private individuals	509,594	509,350	19 %	487,773	19 %	21,577	33 %	5,941	1 %	12,073	56 %
Total	**3,227,152**	**2,665,875**	**100 %**	**2,600,080**	**100 %**	**65,795**	**100 %**	**68,726**	**3 %**	**28,378**	**43 %**

Credit Risk Measurement

The Group controls and measures credit risk directly through the assessment and classification of the credit portfolio or indirectly by measuring fair value of assets, where the fair value is influenced by the credit standing of the issuer. The Group's credit portfolio includes all monetary assets and assumed commitments, with the exception of investments in securities, capital investments in subsidiaries and investment properties, which are measured at fair value. Credit exposure on derivative instruments and similar deferred deals is measured at replacement cost.

The credit risk toward single counterparties is managed with the arrangement of credit authorities and sound credit granting process. The credit granting process is based on a careful analysis of the debtor and the underlying project, for which the financing is provided. The eligibility criteria of the counterparty to enter into a credit relationship with the Group, is an adequate credit standing, which can be upheld by proper collateral. The monitoring of credit exposure toward financial instruments and derivatives is supported by Kondor+ (KGL module), which ensures a real-time fair value measurement and derived credit exposure assessment.

Maximum exposure

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	20,679	11,276	20,679	11,276
Loans and advances to customers:	1,932,078	2,039,987	1,990,660	2,076,150
Loans to individuals:	397,049	367,667	428,475	396,041
- overdrafts	37,229	33,906	37,229	33,906
- credit cards	7,781	7,891	28,731	28,961
- term loans	122,524	116,569	122,524	116,569
- mortgages	229,515	209,301	229,515	209,301
- finance leases	-	-	10,476	7,304
Loans to sole proprietors	84,660	77,179	93,533	85,344
Loans to corporate entities	1,450,369	1,595,141	1,468,652	1,594,765
Investment securities available for sale	324,483	298,328	324,483	298,328
- debt securities	284,586	273,241	284,586	273,241
- equity securities	39,897	25,087	39,897	25,087
Investment securities held to maturities	929	1,528	929	1,528
- debt securities	929	1,528	929	1,528
Other assets	55,331	62,400	56,309	64,265
Credit risk exposures relating to off-balance sheet items are as follows:				
Guarantees	100,139	92,318	100,101	92,318
Credit commitments and other credit related liabilities	359,597	391,085	352,122	387,174
At 31 December	**2,793,236**	**2,896,922**	**2,845,283**	**2,931,039**

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Group at 31 December 2009 and 2008, 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 statement of financial position.

Credit Classification

The classification of debtors is carried out in line with internal procedure for analysing debtors' creditworthiness, which is harmonized with regulatory requirements. Investments in the credit portfolio are classified into five prudential groups, established by the Bank of Slovenia. Within those 5 credit groups there are 9 internally defined credit classes. Claims on debtors awarded the maximum credit worthiness or having an adequate state guarantee are classified in the category A, claims on debtors with a lowest rating (credit standing) are classified in group E.

The A to E classification is based on the debtor's ability to repay debt on schedule. The evaluation takes into account the debtor financial position, cash-flow capacity for repayment of debt, collateral pledged and the debt repayment record in the past periods.

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 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

	2009		2008	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
A	59	0,8	65	0,9
B	36	6,1	32	6,3
C	2	17,8	1	18,4
D	2	38,0	1	34,5
E	1	82,9	1	85,5
	100	**4,3**	**100**	**3,6**

Impairments and Provisions

Based on estimates of a debtor's credit capacity and collateral pledged, credit risk provisions are set aside against the Group assets. Provisions, collective or individual, are set against the portion of claims, which are judged with a high probability of not being repaid. Provisions on individual basis are estimated for debtor's whose total exposure exceeds EUR 75,000 and for which an incurred loss has been ascertained. Individual assessment is carried out with the estimation of cash-flows, expected to be collected from the debtor, guarantor or from collateral pledged, discounted at the contractual interest rate.

Collectively assessed impairments and provisions are evaluated for individuals and legal persons separately. Legal persons' evaluation is based on the underlying collateral, while the exposures toward individuals are split into the following groups:
- Housing loans,
- Long-term consumer loans,
- Short-term consumer loans,
- Approved overdrafts on transactions accounts.

Collective assessment of impairments and provisions are ascertained with the expected loss, estimated with the measurement of probabilities of default and recovery rates, collected from the available Group's data. The methodology and assumptions behind the expected loss calculation are reviewed and updated annually.

When a loan is unrecoverable, it is written off against the provision set for loan impairment. Such loans are written off after all the available legal devices have been used and the amount of the loss is definitively ascertained. 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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized within the statement of income in impairment charges for credit losses.

Large Exposures

In order to limit the risk against single borrowers that may account for a significant percentage of the total exposure, the Group controls and manages the single-name credit concentration risk. The maximum exposure against a single borrower and connected entities is limited by law and should not exceed 25 per cent of the Group's capital (own funds). The Group reaches the highest legally permissible exposure in only one case. The sum of the single-name large exposures on the 31st of December 2009 equalled 152.67 percent of the bank's capital (permitted maximum 800 per cent). In addition, with the aim to control credit concentration, the Group calculates the indices of industry and single-name credit concentration. Indices are measured with the methodology established by the Bank of Slovenia.

3.4 ANALYSIS OF PAST DUE LOANS

Loans and advances are summarised as follows:

Loans and advances by maturity (past due) – unconsolidated

(all amounts expressed in thousands of EUR)

	31 December 2009		31 December 2008	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,890,897	20,679	2,030,578	11,276
Past due but not impaired	19,239	-	24,577	-
Impaired	113,044	-	58,577	1,421
Gross	**2,023,180**	**20,679**	**2,113,732**	**12,697**
Impairment losses on loans and advances	(91,102)	-	(73,745)	(1,421)
Net	**1,932,078**	**20,679**	**2,039,987**	**11,276**

Loans and advances by maturity (past due) – consolidated

(all amounts expressed in thousands of EUR)

	31 December 2009		31 December 2008	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,931,842	20,679	2,060,487	11,276
Past due but not impaired	33,254	-	29,631	-
Impaired	120,675	-	62,781	1,421
Gross	**2,085,771**	**20,679**	**2,152,899**	**12,697**
Impairment losses on loans and advances	(95,111)	-	(76,749)	(1,421)
Net	**1,990,660**	**20,679**	**2,076,150**	**11,276**

Loans and advances to customers by maturity and credit rating – unconsolidated

(all amounts expressed in thousands of EUR)

31 December 2009 - Unconsolidated	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due nor impaired A	37,673	8,063	114,718	210,073	60,108	714,106	1,144,741
Neither past due nor impaired B	-	-	4,966	10,602	17,055	713,533	746,156
Neither past due nor impaired C	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-
Not past due but impaired	-	-	3,945	10,840	6,124	30,610	51,519
Past due or impaired	3,848	-	4,121	1,710	7,519	63,566	80,764
Gross	**41,521**	**8,063**	**127,750**	**233,225**	**90,806**	**1,521,815**	**2,023,180**
Impairment losses on loans and advances	(4,292)	(282)	(5,226)	(3,710)	(6,146)	(71,446)	(91,102)
Net	**37,229**	**7,781**	**122,524**	**229,515**	**84,660**	**1,450,369**	**1,932,078**

Loans and advances to customers by maturity and credit rating – consolidated

(all amounts expressed in thousands of EUR)

31 December 2009 - Consolidated	Individuals					Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases			
Neither past due nor impaired A	37,673	17,348	114,718	210,073	9,252	68,079	728,543	1,185,686
Neither past due nor impaired B	-	-	4,966	10,602	-	17,055	713,533	746,156
Neither past due nor impaired C	-	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Not past due but impaired	-	-	3,945	10,840	856	6,278	32,835	54,754
Past due or impaired	3,848	15,071	4,121	1,710	567	8,510	65,348	99,175
Gross	**41,521**	**32,419**	**127,750**	**233,225**	**10,675**	**99,922**	**1,540,259**	**2,085,771**
Impairment losses on loans and advances	(4,292)	(3,688)	(5,226)	(3,710)	(199)	(6,389)	(71,607)	(95,111)
Net	**37,229**	**28,731**	**122,524**	**229,515**	**10,476**	**93,533**	**1,468,652**	**1,990,660**

Loans and advances to customers by maturity and credit rating – unconsolidated

(all amounts expressed in thousands of EUR)

31 December 2008 - Unconsolidated	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due nor impaired A	34,304	8,177	108,023	190,516	54,579	951,546	1,347,145
Neither past due nor impaired B	-	-	6,181	13,438	18,276	645,538	683,433
Neither past due nor impaired C	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-
Not past due but impaired	317	-	3,533	6,946	3,550	12,983	27,329
Past due or impaired	3,280	-	2,818	1,236	5,108	43,383	55,825
Gross	**37,901**	**8,177**	**120,555**	**212,136**	**81,513**	**1,653,450**	**2,113,732**
Impairment losses on loans and advances	(3,968)	(286)	(4,023)	(2,825)	(4,334)	(58,309)	(73,745)
Net	**33,933**	**7,891**	**116,532**	**209,311**	**77,179**	**1,595,141**	**2,039,987**

Loans and advances to customers by maturity and credit rating – consolidated

(all amounts expressed in thousands of EUR)

31 December 2008 - Consolidated	Individuals: Overdrafts	Individuals: Credit Cards	Individuals: Term loans	Individuals: Mortgages	Individuals: Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	34,304	24,924	108,023	190,516	6,939	62,793	949,555	1,377,054
Neither past due nor impaired B	-	-	6,181	13,438	-	18,276	645,538	683,433
Neither past due nor impaired C	-	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Not past due but impaired	317	-	3,533	6,946	512	3,550	14,494	29,352
Past due or impaired	3,280	7,235	2,818	1,236	-	5,108	43,383	63,060
Gross	**37,901**	**32,159**	**120,555**	**212,136**	**7,451**	**89,727**	**1,652,970**	**2,152,899**
Impairment losses on loans and advances	(3,968)	(3,198)	(4,023)	(2,825)	(147)	(4,383)	(58,205)	(76,749)
Net	**33,933**	**28,961**	**116,532**	**209,311**	**7,304**	**85,344**	**1,594,765**	**2,076,150**

Ageing of past due loans and advances to customers by rating, type of customers and product – unconsolidated

(all amounts expressed in thousands of EUR)

31 December 2009 - Unconsolidated	Individuals: Overdrafts Not impaired	Overdrafts Impaired	Credit cards Not impaired	Credit cards Impaired	Term loans Not impaired	Term loans Impaired	Mortgages Not impaired	Mortgages Impaired	Total individuals
Past due up to 30 days	-	189	-	-	231	550	74	177	1,221
Past due 30 - 60 days	-	55	-	-	272	160	-	30	517
Past due 60 - 90 days	-	42	-	-	-	136	-	20	198
Past due over 90 days	-	3,562	-	-	-	2,772	-	1,409	7,743
Total	**-**	**3,848**	**-**	**-**	**503**	**3,618**	**74**	**1,636**	**9,679**

	Sole proprietors Not impaired	Sole proprietors Impaired	Corporate entities Not impaired	Corporate entities Impaired	TOTAL
Past due up to 30 days	722	443	6,865	1,001	9,031
Past due 30 - 60 days	150	81	3,240	11,096	14,567
Past due 60 - 90 days	260	153	823	849	2,085
Past due over 90 days	494	5,216	6,108	33,584	45,402
Total	**1,626**	**5,893**	**17,036**	**46,530**	**71,085**

Renegotiated loans in 2009 amounted to EUR 42,443 thousands.

Ageing of past due loans and advances to customers by rating, type of customers and product – consolidated

(all amounts expressed in thousands of EUR)

31 December 2009 - Consolidated	Individuals										Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	-	189	10,352	26	231	550	74	177	73	9	11,681
Past due 30 - 60 days	-	55	499	19	272	160	-	30	32	20	1,087
Past due 60 - 90 days	-	42	272	22	-	136	-	20	24	32	548
Past due over 90 days	-	3,562	1,353	2,528	-	2,772	-	1,409	43	334	12,001
Total	**-**	**3,848**	**12,476**	**2,595**	**503**	**3,618**	**74**	**1,636**	**172**	**395**	**25,317**

	Sole proprietors		Corporate entities		Total
	A, B	C, D, E	A, B	C, D, E	
Past due up to 30 days	795	445	7,302	1,050	9,592
Past due 30 - 60 days	520	90	3,446	11,137	15,193
Past due 60 - 90 days	285	157	935	935	2,312
Past due over 90 days	529	5,689	6,217	34,326	46,761
Total	**2,129**	**6,381**	**17,900**	**47,448**	**73,858**

In 2009 renegotiated loans in the Group amounted to EUR 43,252 thousands.

Ageing of past due loans and advances to customers by rating, type of customers and product – unconsolidated

(all amounts expressed in thousands of EUR)

31 December 2008 - Unconsolidated	Individuals								Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	-	103	-	-	246	361	113	106	929
Past due 30 - 60 days	-	58	-	-	1	74	-	5	138
Past due 60 - 90 days	-	30	-	-	1	50	-	2	83
Past due over 90 days	-	3,089	-	-	1	2,084	-	1,010	6,184
Total	**-**	**3,280**	**-**	**-**	**249**	**2,569**	**113**	**1,123**	**7,334**

	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	1,355	128	15,368	2,284	19,135
Past due 30 - 60 days	230	22	526	2,583	3,361
Past due 60 - 90 days	184	46	1,240	194	1,664
Past due over 90 days	356	2,787	4,956	16,232	24,331
Total	**2,125**	**2,983**	**22,090**	**21,293**	**48,491**

Ageing of past due loans and advances to customers by rating, type of customers and product – consolidated

(all amounts expressed in thousands of EUR)

31 December 2008 - Consolidated	Individuals								Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	-	103	3,443	22	246	361	113	106	4,394
Past due 30 - 60 days	-	58	443	25	1	74	-	5	606
Past due 60 - 90 days	-	30	183	25	1	50	-	2	291
Past due over 90 days	-	3,089	985	2,109	1	2,084	-	1,010	9,278
Total	**-**	**3,280**	**5,054**	**2,181**	**249**	**2,569**	**113**	**1,123**	**14,569**

	Sole proprietors		Corporate entities		TOTAL
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	1,355	128	15,368	2,284	19,135
Past due 30 - 60 days	230	22	526	2,583	3,361
Past due 60 - 90 days	184	46	1,240	194	1,664
Past due over 90 days	356	2,787	4,956	16,232	24,331
Total	**2,125**	**2,983**	**22,090**	**21,293**	**48,491**

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, is as follows:

Loans and advances individually impaired

(all amounts expressed in thousands of EUR)

31 December 2009	Individuals	Sole proprietors	Corporate entities	TOTAL
Individually impaired loans	-	5,334	272,547	277,881
Fair value of collateral	-	7,620	451,012	458,632

31 December 2008	Individuals	Sole proprietors	Corporate entities	TOTAL
Individually impaired loans	-	5,151	295,565	300,716
Fair value of collateral	-	7,122	352,585	359,707

3.5 LIQUIDITY RISK

Liquidity risk is defined as the risk that the bank will not able to meet its payment obligations when they fall due, due to difficulties to obtain funds on the money market, or liquidate its marketable assets, taking into account losses that may be incurred due to forced actions.

The minimum liquidity to be maintained by banks is regulated by the Bank of Slovenia regulation on the mandatory reserve and the regulation on the minimum liquidity, establishing the minimum liquidity ratio for assets and liabilities with a maturity up to 1-month.

In order to manage the liquidity, the Group monitors the liquidity ratio and mandatory reserves on a daily basis, enabling it to maintain the position within the established minimum levels. At operating level the liquidity is managed by a careful daily cash-flow planning, carried out by the Group's Treasury. The Treasury Department keeps an adequate amount of eligible assets as collateral for obtaining funds from the Euro system and other money market participants. The structural liquidity is preserved by the definition of the minimum ratio between long-term assets and short-term liabilities.

The Market and Operational Risk and Methodology Department monitors the short-term liquidity and structural liquidity position under normal and stressed conditions, applying appropriate assumptions for assets and liabilities of uncertain maturity.

The Market and Operational Risk and Methodology Department, at least on a monthly basis, measures and reports the liquidity ratios to ALCO Committee and monitors the compliance with minimum established ratio levels. The Group established two key internal measures:

- the internal short-term liquidity ratio between expected inflows and outflows with residual maturity up to one month has to be equal to 1 or higher;
- the amount of medium/long term assets cannot exceed the amount of sources, deemed to be appropriate for financing longer-term assets.

The eventual liquidity crisis is addressed by a Contingency Liquidity Plan, which establishes early warning indicators and roles and actions to be undertaken to counteract the adverse financial conditions.

Maturities of assets and liabilities - unconsolidated

(all amounts expressed in thousands of EUR)

Non-derivative cash flows by Expected maturities As at 31 December 2009	Up to 1 month	1-3 months	3-12 months	Residual maturity 1- 5 years	Over 5 years	Total
ASSETS						
Cash and balances with central banks	29,444	-	-	-	27,852	57,296
Financial instruments held for trading:	278	1	32,094	2,053	447	34,873
- trading assets	278	1	32,094	2,053	447	34,873
Investment securities available for sale	33,493	35,803	29,714	184,365	41,108	324,483
Loans and advances:	152,885	179,588	606,727	719,178	294,379	1,952,757
- to banks	5,615	41	15,023	-	-	20,679
- to customers	147,270	179,547	591,704	719,178	294,379	1,932,078
Investment securities held to maturity	327	-	301	301	-	929
Property, plant and equipment	-	-	-	4,065	24,120	28,185
Investment property	-	-	-	403	-	403
Intangible assets	-	-	-	6,077	-	6,077
Investment in subsidiaries	-	3,240	-	-	3,688	6,928
Income tax assets:	406	103	1,678	662	325	3,174
- current income tax	-	-	1,654	-	-	1,654
- deferred income tax	406	103	24	662	325	1,520
Other assets	2,892	6,911	370	391	-	10,564
Total assets	**219,725**	**225,646**	**670,884**	**917,495**	**391,919**	**2,425,669**
LIABILITIES						
Liabilities to Central Bank	-	-	90,292	-	-	90,292
Liabilities carried at amortised cost:	893,738	418,614	454,006	213,692	40,465	2,020,515
- deposits from banks	47,943	-	6,840	31,848	16,330	102,961
- due to customers	824,434	414,983	184,791	13,650	2,514	1,440,372
- other borrowed funds from banks	21,361	3,631	262,358	168,058	21,551	476,959
- other borrowed funds from other customers	-	-	17	136	70	223
Provisions:	-	-	549	1,621	17,830	20,000
- provisions for liabilities and charges	-	-	549	314	15,645	16,508
- retirement benefit obligations	-	-	-	1,307	2,185	3,492
Income tax liabilities:	3,734	85	71	440	98	4,428
- current income tax	-	-	-	-	-	-
- deferred income tax	3,734	85	71	440	98	4,428
Other liabilities	13,351	5,720	-	-	-	19,071
Total liabilities	**910,823**	**424,419**	**544,918**	**215,753**	**58,393**	**2,154,306**
Net liquidity gap	**(691,098)**	**(198,773)**	**125,966**	**701,742**	**333,526**	**271,363**
As at 31 December 2008						
Total assets	319,446	226,238	639,354	927,272	388,385	2,500,695
Total liabilities	1,028,081	341,367	587,111	238,328	58,169	2,253,056
Net liquidity gap	**(708,635)**	**(115,129)**	**52,243**	**688,944**	**330,216**	**247,639**

Maturities of assets and liabilities - unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

Derivative cash flows by expected maturity – derivatives settled on a net basis As at 31 December 2009	Up to 1 month	1-3 months	Residual maturity 3-12 months	1- 5 years	Over 5 years	Total
DERIVATIVE ASSETS						
Derivatives held for trading:						
- currency swaps	39	-	-	-	-	39
- Interest rate swaps	-	-	77	61	-	138
- options	-	-	9	-	-	9
- forward agreement on marketable shares	548	-	-	-	-	548
- forward currency agreement	-	1	2	-	-	3
- interest rate cap	-	-	-	82	-	82
Total	**587**	**1**	**88**	**143**	**-**	**819**
DERIVATIVE LIABILITIES						
Derivatives held for trading:						
- currency swaps	63	-	-	-	-	63
- interest rate swaps	-	-	2	61	-	63
- options	-	-	9	-	-	9
- forward agreement on marketable shares	14,253	-	-	-	-	14,253
- forward currency agreement	1	1	1	-	-	3
- interest rate cap	-	-	-	82	-	82
Total	**14,317**	**1**	**12**	**143**	**-**	**14,473**
Net liquidity gap	**(13,730)**	**-**	**76**	**-**	**-**	**(13,654)**
As at 31 December 2008						
Total derivative assets	298	430	345	96	-	1,169
Total derivative liabilities	44	14,338	117	333	-	14,832
Net liquidity gap	**254**	**(13,908)**	**228**	**(237)**	**-**	**(13,663)**

Derivative cash flows by expected maturities – derivatives settled on a gross basis

(all amounts expressed in thousands of EUR)

As at 31 December 2009	Up to 1 month	1 - 3 months	Residual maturity 3 - 12 months	1 - 5 years	Total
Derivatives held for trading:					
- Currency swaps					
- outflow	34,872	-	-	-	34,872
- inflow	34,872	-	-	-	34,872
- Interest rate swaps					
- outflow	-	-	8	51	59
- inflow	-	-	83	51	134
- Options					
- outflow	-	-	9	-	9
- inflow	-	-	9	-	9
- Interest rate cap					
- outflow	-	-	-	82	82
- inflow	-	-	-	82	82
- Forward agreement on marketable shares					
- outflow	-	-	-	-	-
- inflow	16,337	-	-	-	16,337
- Forward currency agreement					
- outflow	159	62	34	-	255
- inflow	158	62	34	-	254
Total outflow	**35,031**	**62**	**51**	**133**	**35,277**
Total inflow	**51,367**	**62**	**126**	**133**	**51,688**

Maturities of assets and liabilities - unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

Derivative cash flows expected maturities – derivatives settled on a gross basis As at 31 December 2008	Up to 1 month	1 - 3 months	Residual maturity 3 - 12 months	1 - 5 years	Total
Derivatives held for trading:					
- Currency swaps					
- outflow	33,338	-	-	-	33,338
- inflow	33,451	-	-	-	33,451
- Interest rate swaps	-	-	-	-	-
- outflow	-	1	7	238	246
- inflow	-	1	154	238	393
- Options	-	-	-	-	-
- outflow	-	-	-	-	-
- inflow	-	-	-	-	-
- Forward agreement on marketable shares	-	-	-	-	-
- outflow	-	-	-	-	-
- inflow	-	22,463	-	-	22,463
- Forward currency agreement	-	-	-	-	-
- outflow	-	-	709	-	709
- inflow	-	-	709	-	709
Total outflow	**33,338**	**1**	**716**	**238**	**34,293**
Total inflow	**33,451**	**22,464**	**863**	**238**	**57,016**

Maturities of assets and liabilities - consolidated

(all amounts expressed in thousands of EUR)

Non derivative cash flows by expected maturities As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	Residual maturity 1- 5 years	Over 5 years	Total
ASSETS						
Cash and balances with central banks	29,475	-	-	-	27,822	57,297
Financial instruments held for trading:	278	1	32,094	2,053	447	34,873
- trading assets	278	1	32,094	2,053	447	34,873
Investment securities available for sale	33,493	35,803	29,714	184,365	41,108	324,483
Loans and advances:	171,657	176,141	600,620	744,614	318,307	2,011,339
- to banks	5,615	41	15,023	-	-	20,679
- to customers	166,042	176,100	585,597	744,614	318,307	1,990,660
Investment securities held to maturity	327		301	301	-	929
Goodwill	-	-	-	-	905	905
Property, plant and equipment	-	-	-	6,818	24,120	30,938
Investment property	-	-	-	403	-	403
Intangible assets	-	-	-	6,913	-	6,913
Income tax assets	1,178	103	1,678	662	325	3,946
- current income tax	-	-	1,654	-	-	1,654
- deferred income tax	1,178	103	24	662	325	2,292
Other assets	3,070	9,373	370	391	-	13,204
Total assets	**239,478**	**221,421**	**664,777**	**946,520**	**413,034**	**2,485,230**
LIABILITIES						
Liabilities to Central Bank	-	-	90,292	-	-	90,292
Liabilities carried at amortised cost:	894,581	418,889	455,631	259,992	40,465	2,069,558
- deposits from banks	47,943	-	6,840	31,848	16,330	102,961
- due to customers	824,404	414,983	184,791	13,650	2,514	1,440,342
- other borrowed funds from banks	22,234	3,906	263,983	214,358	21,551	526,032
- other borrowed funds from other customers	-	-	17	136	70	223
Provisions:	-	-	549	1,654	17,899	20,102
- provisions for liabilities and charges	-	-	549	314	15,548	16,411
- retirement benefit obligations	-	-	-	1,340	2,351	3,691
Income tax liabilities:	3,734	257	71	440	98	4,600
- current income tax	-	172	-	-	-	172
- deferred income tax	3,734	85	71	440	98	4,428
Other liabilities	15,180	12,682	-	-	-	27,862
Total liabilities	**913,495**	**431,828**	**546,543**	**262,086**	**58,462**	**2,212,414**
Net liquidity gap	**(674,017)**	**(210,407)**	**118,234**	**684,434**	**354,572**	**272,816**
As at 31 December 2008						
Total assets	340,866	225,572	641,677	927,106	403,512	2,538,733
Total liabilities	1,030,156	348,941	588,807	263,728	58,186	2,289,818
Net liquidity gap	**(689,290)**	**(123,369)**	**58,870**	**663,378**	**345,236**	**248,915**

Expected maturities of off-balance sheet items - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2009	No later than 1 year	1-5 years	Over 5 years	Total
			Residual maturity	
Documentary and commercial letters of credit	2,033	-	-	2,033
Guarantees	39,687	45,522	14,930	100,139
Derivative financial instruments	16,241	172	-	16,413
Credit commitments	318,677	20,190	2,284	341,151
Total	**376,638**	**65,884**	**17,214**	**459,736**

As at 31 December 2008	No later than 1 year	1-5 years	Over 5 years	Total
Total	**405,092**	**41,031**	**37,280**	**483,403**

Expected maturities of off-balance sheet items - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2009	No later than 1 year	1-5 years	Over 5 years	Total
			Residual maturity	
Documentary and commercial letters of credit	2,033	-	-	2,033
Guarantees	39,649	45,522	14,930	100,101
Derivative financial instruments	16,241	172	-	16,413
Credit commitments	311,202	20,190	2,284	333,676
Total	**369,125**	**65,884**	**17,214**	**452,223**

As at 31 December 2008	No later than 1 year	1-5 years	Over 5 years	Total
Total	**402,578**	**39,634**	**37,280**	**479,492**

Unconsolidated contractual un-discounted non-derivative cash flows of financial liabilities

(all amounts expressed in thousands of EUR)

As at 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	90,670	-	-	90,670
Liabilities carried at amortized cost:						
- deposits from banks	47,983	-	6,874	32,644	17,147	104,648
- due to customers	826,220	416,781	187,193	14,537	2,841	1,447,572
- other borrowed funds from banks	21,376	3,636	263,499	171,713	22,488	482,712
- other borrowed funds from other customers	-	-	21	162	83	266
Financial guarantees issued	1,394	2,464	9,330	26,251	2,346	41,785

Consolidated contractual un-discounted non-derivative cash flows of financial liabilities

(all amounts expressed in thousands of EUR)

As at 31 December 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	90,670	-	-	90,670
Liabilities carried at amortised cost:						
- deposits from banks	47,983	-	6,874	32,644	17,147	104,648
- due to customers	826,190	416,781	187,193	14,537	2,841	1,447,542
- other borrowed funds from banks	22,250	3,912	265,131	219,020	22,488	532,801
- other borrowed funds from other customers	-	-	21	162	83	266
Financial guaranties issued	1,394	2,464	9,291	26,251	2,346	41,746

Unconsolidated contractual un-discounted non-derivative cash flows of financial liabilities

(all amounts expressed in thousands of EUR)

As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	158,654	-	-	-	-	158,654
Liabilities carried at amortized cost:						
- deposits from banks	33,661	51,589	28,841	42,145	19,254	175,490
- due to customers	846,364	291,738	173,420	26,410	2,939	1,340,871
- other borrowed funds from banks	4,498	4,642	401,298	171,826	15,577	597,841
- other borrowed funds from other customers	3	6	27	141	78	255
Financial guaranties issued	1,447	3,618	10,930	7,319	2,423	25,737

Consolidated contractual un-discounted non-derivative cash flows of financial liabilities

(all amounts expressed in thousands of EUR)

As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	158,654	-	-	-	-	158,654
Liabilities carried at amortized cost:						
- deposits from banks	33,661	51,589	28,841	42,145	19,254	175,490
- due to customers	846,332	291,738	173,420	26,410	2,938	1,340,838
- other borrowed funds from banks	6,677	4,927	402,979	198,105	15,577	628,265
- other borrowed funds from other customers	3	6	27	141	78	255
Financial guaranties issued	1,447	3,618	10,930	7,319	2,423	25,737

3.6 INTEREST RATE RISK OF BANKING BOOK

The Group regularly measures the following sources of interest rate risk:

- Repricing risk that arises from a different timing of interest rate changes for assets and liabilities. Assets and liabilities rates are reprised at maturity (fixed interest rate) or at contractual adjustment dates (floating interest rate);
- Basis risk for the risk imperfect correlation of different types of interest rates or interest rate basis;
- Risk related to various non-market rate indices, like currency clauses and price indexes.

Interest rate risk affects the economic performance of the Group with an impact on the present value of future cash flows and on the net interest income earned on interest-bearing assets and liabilities.

The Group measures interest rate risk by considering the net present value sensitivity of interest-bearing assets and liabilities as well as sensitivity of net interest income. Periodically, a report containing the following sensitivities is prepared and presented to the ALCO Committee:

- Sensitivity of net interest income on 100 b.p. parallel shift of yield curve over 1 year time horizon;
- Sensitivity of economic value, that is difference between the present value of interest-sensitive assets and liabilities in the conditions of a 25 b.p. yield curve parallel shift;

The first measure takes into consideration a short-term impact of rate shock on Group's earnings, while the second measure gives a long-term view on the sensitivity to interest rate fluctuations. The funds with nonexistent contractual maturities (demand deposits) are recasted by using models in order to financially present implicit rate sensitivities.

Sensitivity of net interest income on 100 b.p. parallel shift of yield curve

(all amounts expressed in thousands of EUR)

Currency	On Dem.	1M	2M	3M	4M	5M	6M	9M	1Y	Total
EUR	(710)	8,970	(161)	(1,036)	(270)	(301)	(31)	(158)	9	6,312
USD	(28)	73	(42)	(38)	(12)	(2)	(10)	96	-	37
CHF	(4)	33	(20)	17	(4)	(1)	(1)	-	-	20
Other	(5)	29	-	-	-	-	-	-	-	24
Total Shift	(747)	9,105	(223)	(1,057)	(286)	(304)	(42)	(62)	9	**6,393**

The net interest income sensitivity of the Group to an interest rates increase of 100 basis points at 31. 12. 2009 equalled:

- EUR 6,312 thousand for currency EUR,
- EUR 37 thousand for currency USD,
- EUR 19 thousand for currency CHF,
- EUR 24 thousand for other currencies.

In circumstances of market interest rates increases, the Group's net interest income is positively affected, while it is the other way around when the market rates decrease.

The impact of 25 b.p. interest rate shift on net present value – Bank's capital (year average)

(all amounts expressed in thousands of EUR)

Currency	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y	Total
EUR	4	(219)	(321)	(503)	(232)	(21)	(1,292)
USD	(25)	-	-	-	-	-	(25)
CHF	1	-	-	-	-	-	1
Other	1	-	-	-	-	-	1
Total Shift	(19)	(219)	(321)	(503)	(232)	(21)	**(1,315)**

On the upward movement of market rates the economic value is negatively affected, while in the downward trend the economic value is positively impacted.

In 2009, the Group aligned itself with the limit framework of the Parent company and established an economic value sensitivity limit, based on a 25 b.p. yield curve parallel shift. The limit is set up at EUR 2.2 million. As of 31. 12. 2009 the exposure stood at EUR 1.3 million.

The table below summarizes the effective annual interest rate by major currencies for monetary financial instruments not carried at fair value through profit or loss. The assets and liabilities are expressed with a book value, while the residual maturity is presented by a contractual maturity for fixed-rate positions and by next reprising date for floating rate positions.

Interest rate risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2009	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	29,444	-	-	-	27,852	-	57,296
Financial instruments held for trading:	25	1,007	207	847	447	33,159	35,692
- trading assets	25	1,007	207	847	447	32,340	34,873
- derivative financial instruments	-	-	-	-	-	819	819
Investment securities available for sale	33,200	85,954	31,797	96,950	36,685	39,897	324,483
Loans and advances:	1,483,443	263,734	158,424	27,188	8,328	11,640	1,952,757
- to banks	2,422	5,041	10,023	-	-	3,193	20,679
- to customers	1,481,021	258,693	148,401	27,188	8,328	8,447	1,932,078
Investment securities held to maturity	929	-	-	-	-	-	929
Property, plant and equipment	-	-	-	-	-	28,185	28,185
Investment property	-	-	-	-	-	403	403
Intangible assets	-	-	-	-	-	6,077	6,077
Investment in subsidiaries	-	-	-	-	-	6,928	6,928
Income tax assets:	-	-	-	-	-	3,174	3,174
- current income tax	-	-	-	-	-	1,654	1,654
- deferred income tax	-	-	-	-	-	1,520	1,520
Other assets	-	-	-	-	-	10,564	10,564
Total assets	**1,547,041**	**350,695**	**190,428**	**124,985**	**73,312**	**140,027**	**2,426,488**
LIABILITIES							
Liabilities to Central Bank	-	-	90,292	-	-	-	90,292
Financial instruments held for trading:	-	-	-	-	-	14,473	14,473
- derivative financial instruments	-	-	-	-	-	14,473	14,473
Liabilities carried at amortised cost:	1,280,790	529,805	207,649	1,899	119	253	2,020,515
- deposits from banks	74,959	-	28,002	-	-	-	102,961
- due to customers	862,380	411,803	164,124	1,763	49	253	1,440,372
- other borrowed funds from banks	343,451	118,002	15,506	-	-	-	476,959
- other borrowed funds from other customers	-	-	17	136	70	-	223
Provisions:	-	-	-	-	-	20,000	20,000
- provisions for liabilities and charges	-	-	-	-	-	16,508	16,508
- retirement benefit obligations	-	-	-	-	-	3,492	3,492
Income tax liabilities:	-	-	-	-	-	4,428	4,428
- current income tax	-	-	-	-	-	-	-
- deferred income tax	-	-	-	-	-	4,428	4,428
Other liabilities	-	-	-	-	-	19,071	19,071
Total liabilities	**1,280,790**	**529,805**	**297,941**	**1,899**	**119**	**58,225**	**2,168,779**
Total interest repricing gap	**266,251**	**(179,110)**	**(107,513)**	**123,086**	**73,193**		
As at 31 December 2008							
Total assets	1,560,378	465,097	252,055	35,352	36,149	152,833	2,501,864
Total liabilities	1,532,479	456,313	206,277	5,319	85	67,415	2,267,888
Total interest repricing gap	**27,899**	**8,784**	**45,778**	**30,033**	**36,064**		

Interest rate risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2009	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	29,475	-	-	-	27,822	-	57,297
Financial instruments held for trading:	25	1,007	207	847	447	33,159	35,692
- trading assets	25	1,007	207	847	447	32,340	34,873
- derivative financial instruments	-	-	-	-	-	819	819
Investment securities available for sale	33,200	85,954	31,797	96,950	36,685	39,897	324,483
Loans and advances:	1,487,643	308,177	167,967	27,584	8,328	11,640	2,011,339
- to banks	2,422	5,041	10,023	-	-	3,193	20,679
- to customers	1,485,221	303,136	157,944	27,584	8,328	8,447	1,990,660
Investment securities held to maturity	929	-	-	-	-	-	929
Good will	-	-	-	-	-	905	905
Property, plant and equipment	-	-	-	-	-	30,938	30,938
Investment property	-	-	-	-	-	403	403
Intangible assets	-	-	-	-	-	6,913	6,913
Income tax assets:	-	-	-	-	-	3,946	3,946
- current income tax	-	-	-	-	-	1,654	1,654
- deferred income tax	-	-	-	-	-	2,292	2,292
Other assets	-	-	-	-	-	13,204	13,204
Total assets	**1,551,272**	**395,138**	**199,971**	**125,381**	**73,282**	**141,005**	**2,486,049**
LIABILITIES							
Liabilities to Central Bank	-	-	90,292	-	-	-	90,292
Financial instruments held for trading:	-	-	-	-	-	14,473	14,473
- derivative financial instruments	-	-	-	-	-	14,473	14,473
Liabilities carried at amortised cost:	1,288,633	571,005	207,649	1,899	119	253	2,069,558
- deposits from banks	74,959	-	28,002	-	-	-	102,961
- due to customers	862,350	411,803	164,124	1,763	49	253	1,440,342
- other borrowed funds from banks	351,324	159,202	15,506	-	-	-	526,032
- other borrowed funds from other customers	-	-	17	136	70	-	223
Provisions:	-	-	-	-	-	20,102	20,102
- provisions for liabilities and charges	-	-	-	-	-	16,411	16,411
- retirement benefit obligations	-	-	-	-	-	3,691	3,691
Income tax liabilities:	-	-	-	-	-	4,600	4,600
- current income tax	-	-	-	-	-	172	172
- deferred income tax	-	-	-	-	-	4,428	4,428
Other liabilities	-	-	-	-	-	27,862	27,862
Total liabilities	**1,288,633**	**571,005**	**297,941**	**1,899**	**119**	**67,290**	**2,226,887**
Total interest repricing gap	**262,639**	**(175,867)**	**(97,970)**	**123,482**	**73,163**		
As at 31 December 2008							
Total assets	1,556,210	456,045	259,397	59,782	53,770	154,698	2,539,902
Total liabilities	1,537,248	480,919	206,277	5,319	85	74,738	2,304,586
Total interest repricing gap	**18,962**	**(24,874)**	**53,120**	**54,463**	**53,685**		

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

	2009			2008		
	EUR	USD	Other	EUR	USD	Other
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	1.68	0.07	0.79	-	-	0.82
Loans and advances to customers	3.68	4.48	1.63	6.32	4.83	3.2
Trading assets	2.35	-	-	3.24	-	-
Investment securities available for sale	2.7	-	-	5.02	-	-
Investment securities held to maturity	6.1	-	-	9.92	-	-
Liabilities						
Deposits from banks	1.00	0.28	-	3.71	2.43	-
Due to customers	1.28	0.83	0.41	2.81	1.44	0.93
Other borrowed funds	0.87	-	0.23	3.05	1.61	0.48

3.7 EQUITY RISKS OF BANKING BOOK

The risk is defined as the risk of unexpected losses of available-for sale equity investments (shares or participations), not consolidated into financial statements of the Group. The exposure to quoted shares is measured with the Value-at-Risk (VaR) calculation. The VaR is an assessment, based on statistical methods, of the highest expected loss of the portfolio that comprises volatility of market prices, position holding period and statistical confidence level. For the specific portfolio a parametric VaR is used, based on a variance/covariance matrix of market prices, with a normal distribution of financial losses and gains assumed.

The VaR limit for exposures to quoted equities is EUR 600,000. The limit has been exceeded in August 2009, after the seizure of shares handed over as collateral to a defaulted loan. For this reason the Group took possession of 230,471 lots of Pivovarna Laško and 78,070 lots of Mercator. During the second half of 2009, the market exposure significantly decreased, mainly due to the fall in share price volatility. Despite all those reasons, the VaR limit was still exceeded and as at the 31. 12. 2009 equalled to EUR 715,614.

3.8 MARKET RISK

Market risk is connected to trading activities, which comprise buying or selling financial instruments on its own behalf (the purpose of them is a short-term sale with the intent to realize a gain, or earnings generated from the selling and buying price differences, resulting from actual or expected short-term price movements), or for the purpose of a present or future transaction with a client. The profit from trading is a result of the price or interest rate change, the difference between the buying and selling price, or the margin charged to the client. Trading activities also include transactions for the purpose of trading position hedging. The trading instrument acquisition purpose has to be established before the actual contract is closed.

The Group's main trading activities are proprietary equity and debt instruments trading, foreign currency trades and derivative deals. Trading activities are considered activities with an elevated risk, which is correspondingly closely monitored by the Group. The long-term goal of the Group is to reduce to minimum the exposure to market risk in proprietary trading.

The operational risk arising from trading activities is managed on the basis of a clear division between the front and back-office operations, which ensures the required internal controls and the division of incompatible roles.

3.8.1 Equity Instruments

Equity instruments' position risk is measured and monitored daily. The position risk is limited by the VaR and stop-loss limits. The exposure is measured with the VaR indicator, which as of 31. 12. 2009 equalled to EUR 7,110. The VaR is calculated for a 1-day holding period, 99 % confidence level and 1 year historical data series. The Var limit amount is EUR 50,000.

Alongside the VaR limit, the stop-loss limit is established, which aims to prevent the escalation of losses. The theoretical loss of one day is limited to EUR 50,000 (the maximum allowed one-day loss), while the theoretical one-month loss cannot exceeds EUR 229,000.

To determine the reliability of the VaR model, back-testing is regularly performed by comparing the theoretical losses with the VaR estimates. Back-testing for 2009 showed no excessive number of daily losses exceeding VaR.

3.8.2 Debt Instruments

The market value of trading debt instrument portfolio on 31. 12. 2009 equalled EUR 2.5 million. The portfolio risk is measured with a shift sensitivity of portfolio market value against a 1 b.p. parallel shift of a yield curve. As at 31. 12. 2009 the interest rate sensitivity amounted to EUR 586, while the corresponding limit established was EUR 2,000.

3.8.3 Derivative instruments

The derivative deals the Group undertakes are the ones driven by customers' demands. Every single deal with a customer is correspondingly hedged in order to offset the position risk on a deal by deal basis (risk of decrease in the fair value, resulting from price change of the underlying instrument). The Group assumes only credit risk toward the deal counterparty. Credit risk is measured on a replacement cost basis and assumed only toward counterparties with sound credit standing, to which a credit line is granted. On the inter-bank market, derivative deals are done only with first-rate participants.

3.8.4 Currency Risk

Currency risk is the result of open position in a particular currency and the volatility of exchange rate. The open currency position in an individual currency is the difference between claims and obligations in that foreign currency. For the purpose of measuring currency risk, the Group takes into account the overall position, which is the sum of all investment and liabilities in foreign currencies and all unsettled currency deals: spot transactions and derivative contracts.

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

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

Value at Risk is a statistical calculation of a maximum potential loss, which can occur during the next working day with a 99 % statistical confidence. The Value at Risk measure combines the amount of the open position in single currencies and their exchange rate volatilities and correlations.

Due to intensive daily volatility of exchange rates, the currency nominal limits are set within relatively narrow boundaries, which allow the ordinary commercial activity of the Group to be carried out smoothly.

Group VAR by risk type

(all amounts expressed in million of EUR)

	12 months to 31 December 2009			12 months to 31 December 2008		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	6	17	1	10	34	3
Equities risk	636	1.599	320	592	753	347
Equities risk (banking book)	622	1.585	304	367	397	335
Equities risk (trading portfolio)	13	18	7	14	15	13
Total VAR	**642**	**1.616**	**321**	**602**	**787**	**350**

Currency risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2009	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	56,470	340	486	57,296
Financial instruments held for trading:	35,692	-	-	35,692
- trading assets	34,873	-	-	34,873
- derivative financial instruments	819	-	-	819
Investment securities available for sale	324,483	-	-	324,483
Loans and advances:	1,895,379	25,917	31,461	1,952,757
- to banks	16,527	584	3,568	20,679
- to customers	1,878,852	25,333	27,893	1,932,078
Investment securities held to maturity	929	-	-	929
Property, plant and equipment	28,185	-	-	28,185
Investment property	403	-	-	403
Intangible assets	6,077	-	-	6,077
Investment in subsidiaries	6,928	-	-	6,928
Income tax assets:	3,174	-	-	3,174
- current income tax	1,654	-	-	1,654
- deferred income tax	1,520	-	-	1,520
Other assets	10,515	45	4	10,564
Total assets	**2,368,235**	**26,302**	**31,951**	**2,426,488**
LIABILITIES				
Liabilities to Central Bank	90,292	-	-	90,292
Financial instruments held for trading:	14,473	-	-	14,473
- derivative financial instruments	14,473	-	-	14,473
Liabilities carried at amortised cost:	1,940,435	47,624	32,456	2,020,515
- deposits from banks	100,869	2,092	-	102,961
- due to customers	1,383,893	45,532	10,947	1,440,372
- other borrowed funds from banks	455,450	-	21,509	476,959
- other borrowed funds from other customers	223	-	-	223
Provisions:	20,000	-	-	20,000
- provisions for liabilities and charges	16,508	-	-	16,508
- retirement benefit obligations	3,492	-	-	3,492
Income tax liabilities:	4,428	-	-	4,428
- current income tax	-	-	-	-
- deferred income tax	4,428	-	-	4,428
Other liabilities	18,583	485	3	19,071
Total liabilities	**2,088,211**	**48,109**	**32,459**	**2,168,779**
Net balance sheet position	**280,024**	**(21,807)**	**(508)**	**257,709**
Credit commitments	**368,394**	**938**	**2,941**	**372,273**

As at 31 December 2008				
Total assets	2,404,031	59,817	38,016	2,501,864
Total liabilities	2,144,299	85,421	38,168	2,267,888
Net balance sheet position	**259,732**	**(25,604)**	**(152)**	**233,976**
Credit commitments	**395,430**	**251**	**352**	**396,033**

Currency risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2009	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	56,471	340	486	57,297
Financial instruments held for trading:	35,692	-	-	35,692
- trading assets	34,873	-	-	34,873
- derivative financial instruments	819	-	-	819
Investment securities available for sale	324,483	-	-	324,483
Loans and advances:	1,952,184	25,917	33,238	2,011,339
- to banks	16,527	584	3,568	20,679
- to customers	1,935,657	25,333	29,670	1,990,660
Investment securities held to maturity	929	-	-	929
Goodwill	905	-	-	905
Property, plant and equipment	30,938	-	-	30,938
Investment property	403	-	-	403
Intangible assets	6,913	-	-	6,913
Income tax assets:	3,946	-	-	3,946
- current income tax	1,654	-	-	1,654
- deferred income tax	2,292	-	-	2,292
Other assets	13,155	45	4	13,204
Total assets	**2,426,019**	**26,302**	**33,728**	**2,486,049**
LIABILITIES				
Liabilities to Central Bank	90,292	-	-	90,292
Financial instruments held for trading:	14,473	-	-	14,473
- derivative financial instruments	14,473	-	-	14,473
Liabilities carried at amortised cost:	1,987,519	47,624	34,415	2,069,558
- deposits from banks	100,869	2,092	-	102,961
- due to customers	1,383,863	45,532	10,947	1,440,342
- other borrowed funds from banks	502,564	-	23,468	526,032
- other borrowed funds from other customers	223	-	-	223
Provisions:	20,102	-	-	20,102
- provisions for liabilities and charges	16,411	-	-	16,411
- retirement benefit obligations	3,691	-	-	3,691
Income tax liabilities:	4,600	-	-	4,600
- current income tax	172	-	-	172
- deferred income tax	4,428	-	-	4,428
Other liabilities	27,374	485	3	27,862
Total liabilities	**2,144,360**	**48,109**	**34,418**	**2,226,887**
Net balance sheet position	**281,659**	**(21,807)**	**(690)**	**259,162**
Credit commitments	**360,786**	**938**	**2,941**	**364,665**
As at 31 December 2008				
Total assets	2,439,996	59,817	40,089	2,539,902
Total liabilities	2,178,390	85,421	40,775	2,304,586
Net balance sheet position	**261,606**	**(25,604)**	**(686)**	**235,316**
Credit commitments	**391,454**	**251**	**352**	**392,057**

3.9 OPERATIONAL RISK

Operational risk is the risk of incurring losses in the event of inadequate, improper or inefficient implementation of internal processes, conduct of people, functioning of systems or external events. An integral part of operational risk is legal risk, which is a loss arising from the uncertainty of legal proceedings and defected legal documentation, as well compliance risk, which is the risk of the failure to comply with laws, rules, regulations, agreements and practices. Similar to the regulatory definition, strategic risk and reputational risk are not included in this framework and are managed separately.

The objective of operational risk management is to:

- Protect assets, preserve and safeguard material and the intellectual component of the Group's assets.
- Control and proactively monitor processes in a way that significant risks are identified without delay.
- Observe and comply with processes and conform with internal and external rules.

The process of operational risk management is performed through the identification, measurement or evaluation, management and monitoring of operational risk. The process of operational risk measurement and management is supported by the IT system, developed by the Parent company, which sustains the following operational risk approaches:

- Loss data collection,
- Business environment evaluation,
- Scenario analysis,
- Mitigation actions management,
- Informing about findings related to operational losses in the Parent company.

A systematic loss collection method enables an immediate analysis of loss event causes and sources, which led to an operational risk loss. This procedure supports the compliance with general operational risk management standards.

The management of operational risk starts at the level of a single operational unit as an actual responsibility of a unit's head. The process is supplemented with the management of risk at a centralized level, delegated to the Market and Operational Risk, and Methodology Department, which is in charge of organizing operational risk loss collection and carrying out self-assessments. Self-assessment is a method used to estimate risk exposure of the assessed organizational units and the Group, as well as to assess the risk-appetite of the bank.

The Market and Operational Risk, and Methodology Department assisted by the Operational risk group, reports on a quarterly basis to the Management Board and proposes remedial measures. In 2009, for the second time the Group carried out a company-wide self-assessment, focusing on the most important processes. The assessment was prepared according to the methodology developed by the Parent company.

The most important change, that affected the operational risk in 2009, is the spin-off of the card processing activity to a separate Parent company entity - Intesa SanPaolo Card. This substantially decreased the operational risk exposure of the Group, since the card processing activity, taking into account its business characteristics and complexity, is considered highly risky operation area. In 2009, the Group's subsidiary Finor Leasing d.o.o was included in the monitoring of the operational risk.

3.10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Since the credit portfolio with long-term maturity and invariable interest rate over 5 years accounts for merely 0.4 % of the total, we assess that there are no significant differences between the fair value of loans and their balance-sheet value.

The Group does not have significant 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 maturities 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.

Fair value of financial assets and liabilities – unconsolidated

(all amounts expressed in thousands of EUR)

	Banka Koper					
	2009			2008		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	57,296	57,296	-	38,440	38,440	-
Financial instruments held for trading:	35,692	35,692	-	49,905	49,905	-
- trading assets	34,873	34,873	-	48,736	48,736	-
- derivative financial instruments	819	819	-	1,169	1,169	-
Investment securities available for sale	324,483	324,483	-	298,328	298,328	-
Loans and advances:	1,952,757	1,952,757	-	2,051,263	2,051,263	-
- to banks	20,679	20,679	-	11,276	11,276	-
- to customers	1,932,078	1,932,078	-	2,039,987	2,039,987	-
Investment securities held to maturity	929	946	17	1,528	1,611	83
Property, plant and equipment	28,185	34,424	6,239	29,513	36,033	6,520
Investment property	403	1,021	618	457	1,021	564
Intangible assets	6,077	6,077	-	7,321	7,321	-
Investment in subsidiaries	6,928	6,023	(905)	5,214	4,309	(905)
Income tax assets	3,174	3,174	-	2,221	2,221	-
Other assets	10,564	10,564	-	17,674	17,674	-
Total assets	**2,426,488**	**2,432,457**	**5,969**	**2,501,864**	**2,508,126**	**6,262**
LIABILITIES						
Liabilities to Central Bank	90,292	90,292	-	158,654	158,654	-
Financial instruments held for trading:	14,473	14,473	-	14,832	14,832	-
- derivative financial instruments	14,473	14,473	-	14,832	14,832	-
Liabilities carried at amortised cost:	2,020,515	2,020,515	-	2,044,235	2,044,235	-
- deposits from banks	102,961	102,961	-	170,114	170,114	-
- due to customers	1,440,372	1,440,372	-	1,296,027	1,296,027	-
- other borrowed funds from banks	476,959	476,959	-	577,848	577,848	-
- other borrowed funds from other customers	223	223	-	246	246	-
Provisions:	20,000	20,000	-	22,837	22,837	-
- provisions for liabilities and charges	16,508	16,508	-	19,412	19,412	-
- retirement benefit obligations	3,492	3,492	-	3,425	3,425	-
Income tax liabilities	4,428	4,428	-	8,059	8,059	-
Other liabilities	19,071	19,071	-	19,271	19,271	-
Total liabilities	**2,168,779**	**2,168,779**	**-**	**2,267,888**	**2,267,888**	**-**

Fair value of financial assets and liabilities – consolidated

(all amounts expressed in thousands of EUR)

	Banka Koper					
	2009			2008		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	57,297	57,297	-	38,450	38,450	-
Financial instruments held for trading:	35,692	35,692	-	49,905	49,905	-
- trading assets	34,873	34,873	-	48,736	48,736	-
- derivative financial instruments	819	819	-	1,169	1,169	-
Investment securities available for sale	324,483	324,483	-	298,328	298,328	-
Loans and advances:	2,011,339	2,011,339	-	2,087,426	2,087,426	-
- to banks	20,679	20,679	-	11,276	11,276	-
- to customers	1,990,660	1,990,660	-	2,076,150	2,076,150	-
Investment securities held to maturity	929	946	17	1,528	1,611	83
Goodwill	905	905	-	905	905	-
Property, plant and equipment	30,938	37,177	6,239	31,925	38,445	6,520
Investment property	403	1,021	618	457	1,021	564
Intangible assets	6,913	6,913	-	7,455	7,455	-
Income tax assets	3,946	3,946	-	2,829	2,829	-
Other assets	13,204	13,204	-	20,694	20,694	-
Total assets	**2,486,049**	**2,492,923**	**6,874**	**2,539,902**	**2,547,069**	**7,167**
LIABILITIES						
Liabilities to Central Bank	90,292	90,292	-	158,654	158,654	-
Financial instruments held for trading:	14,473	14,473	-	14,832	14,832	-
- derivative financial instruments	14,473	14,473	-	14,832	14,832	-
Liabilities carried at amortised cost:	2,069,558	2,069,558	-	2,073,610	2,073,610	-
- deposits from banks	102,961	102,961	-	170,114	170,114	-
- due to customers	1,440,342	1,440,342	-	1,295,996	1,295,996	-
- other borrowed funds from banks	526,032	526,032	-	607,254	607,254	-
- other borrowed funds from other customers	223	223	-	246	246	-
Provisions:	20,102	20,102	-	22,854	22,854	-
- provisions for liabilities and charges	16,411	16,411	-	19,348	19,348	-
- retirement benefit obligations	3,691	3,691	-	3,506	3,506	-
Income tax liabilities	4,600	4,600	-	8,130	8,130	-
Other liabilities	27,862	27,862	-	26,506	26,506	-
Total liabilities	**2,226,887**	**2,226,887**	**-**	**2,304,586**	**2,304,586**	**-**

Fair value of financial instruments

Derivatives

Derivative products are valued by using observable and unobservable valuation inputs.

The observable inputs are used to value interest rate swaps, interest rate caps, structured-deposit embedded option, foreign exchange swaps and forward foreign exchange contracts. All derivatives, except for the embedded option, are valued with the support of Kondor+ front-office system. Derivatives are valued with a net present value method, by discounting contractual cash-flows obtained with forward rates.

Interest rate caps are valued with the Black-Scholes approach to calculate the price of the different caplets composing the cap from the value of the forward rates.

Embedded options are valued by the Parent undertaking, with the risk-neutral pricing.

For forward equity contracts with unquoted underlying instruments there are not available observable inputs and the contract credit exposure is presented by the full nominal value.

Held for trading and available for sale financial instruments

Available for sale instruments valued with a valuation model are unquoted equities. They are valued with the application of a discounting cash flow method. The method incorporates some non-observable assumptions for the future financial performance of the instrument issuer and for the industry in which the issuing company operates.

The valuation of financial instruments that are not quoted, wherever it is possible, the valuation is done by qualified outside evaluators and due to that in some cases the sensitivity test is difficult to implement.

Brake down of financial instrument measured at fair value – unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

	2009				2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset								
Derivatives	-	271	548	**819**	-	740	429	**1,169**
HFT	2,786	2,466	29,621	**34,873**	1,320	17,795	29,621	**48,736**
- debt	2,533	-	-	**2,533**	1,055	-	-	**1,055**
- equities	253	2,466	29,621	**32,340**	265	17,795	29,621	**47,681**
AFS	308,195	-	15,638	**323,833**	279,699	-	18,143	**297,842**
- debt	284,586	-	-	**284,586**	273,241	-	-	**273,241**
- equities	23,609	-	15,638	**39,247**	6,458	-	18,143	**24,601**
Liabilities								
Derivatives	-	220	14,253	**14,473**	-	495	14,337	**14,832**

There were no transfers of financial assets and financial liabilities between fair value levels in 2009 or 2008.

Movement of financial instrument included in level 3 – unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

	At 1January 2009	Purchase/Sales	Unrealized gains/loses recorded in P&L	Unrealized gains/loses recorded in revaluation reserve	Realized gains/loses recorded in P&L	At 31 December 2009
Asset						
HFT derivatives	**429**	**-**	**1,196**	**-**	**(1,077)**	**548**
- forward agreement on sale of non marketable shares	429	-	1,196	-	(1,077)	548
HFT equities	**29,621**	**-**	**-**	**-**	**-**	**29,621**
AFS equities	**18,143**	**(2,979)**	**-**	**(2,287)**	**2,761**	**15,638**
Liabilities						
HFT derivatives	**(14,337)**	**-**	**(143)**	**-**	**227**	**(14,253)**
- forward agreement on sale of non marketable shares	(14,337)	-	(143)	-	227	(14,253)

Movement of financial instrument included in level 3 – unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

	At 1January 2008	Purchase/Sales	Unrealized gains/loses recorded in P&L	Unrealized gains/loses recorded in revaluation reserve	Realized gains/loses recorded in P&L	At 31 December 2008
Asset						
HFT derivatives	**771**	**-**	**718**	**-**	**(1,060)**	**429**
- forward agreement on sale of non marketable shares	771	-	718	-	(1,060)	429
HFT equities	**47,252**	**(17,500)**	**-**	**(848)**	**717**	**29,621**
AFS equities	**18,418**	**141**	**-**	**(416)**	**-**	**18,143**
Liabilities						
HFT derivatives	**(15,072)**	**-**	**(1,172)**	**-**	**1,907**	**(14,337)**
- forward agreement on sale of non marketable shares	(15,072)	-	(1,172)	-	1,907	(14,337)

4. NET INTEREST INCOME

Net interest income

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Interest income				
Central bank deposits	377	1,038	377	1,038
Loans and advances (including finance leases):	84,838	120,672	87,849	123,007
- from banks	294	1,533	294	1,533
- from other customers*	84,544	119,139	87,555	121,474
Investment securities (AFS and HTM)	9,976	11,275	9,976	11,275
Investment securities HFT	777	1,048	777	1,048
Other	23	19	23	19
	95,991	**134,052**	**99,002**	**136,387**
Interest expense				
Bank deposits and loans	2,793	6,159	2,793	6,159
Other customers	21,892	34,908	21,892	34,908
Other borrowed funds	9,841	29,954	10,647	30,905
Derivatives	605	1,655	605	1,655
Other	-	-	-	-
	35,131	**72,676**	**35,937**	**73,627**
	60,860	**61,376**	**63,065**	**62,760**

At the end of 2009, the Group accrued interest income on impaired financial assets of EUR 9,822 thousands (2008: EUR 9,151 thousands). This interest income is not recognised in the statement of income until payment.

*In 2009, the Bank realized EUR 9,444 thousands of interest income from impaired assets (2008: EUR 6,761 thousands). The Group figures are EUR 9,701 thousands (2008: EUR 6,893 thousands) respectively.

5. DIVIDEND INCOME

Dividend income

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Trading securities	5	436	5	436
Investment securities	413	559	113	559
	418	**995**	**118**	**995**

6. NET FEE AND COMMISSION INCOME

Net fee and commission income

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Fee and commission income				
Guarantees	1,119	990	1,119	990
Debit/credit card money transaction	17,982	20,020	22,988	23,916
Payment transaction	8,784	8,467	8,682	8,404
Brokers' intermediation and management of securities portfolio	321	478	321	478
Current account	4,247	2,951	4,247	2,951
Custody	523	801	523	801
Other	2,413	2,799	2,679	2,992
	35,389	**36,506**	**40,559**	**40,532**
Fee and commission expense				
Bank services	6,917	5,022	6,870	4,987
Money transfer	881	866	782	771
Intermediation and management	238	583	238	583
Other	165	67	165	1,639
	8,201	**6,538**	**8,055**	**7,980**
	27,188	**29,968**	**32,504**	**32,552**

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

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 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Loss/income due to sale of investment securities*	3,647	3,503	3,647	3,503
Write offs of loans and other assets	(224)	(333)	(224)	(333)
Recoveries from write offs of loans and other assets	139	186	139	186
	3,562	**3,356**	**3,562**	**3,356**

*As realized revaluation reserve EUR 5,264 thousands (2008: EUR 691 thousands).

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

Gains less losses from financial assets and liabilities held for trading

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Trading of derivatives	1,601	7,873	1,601	7,873
Currency trading	501	618	501	618
Trading of debt securities	23	40	23	40
Trading of equity securities	42	(929)	42	(929)
	2,167	**7,602**	**2,167**	**7,602**

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

Gains less losses on derecognition of non-current assets other than held for sale

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Profit on sale of property and equipment	649	(40)	658	21
Other	(99)	-	(99)	(115)
	550	**(40)**	**559**	**(94)**

10. OTHER OPERATING GAINS LESS LOSSES

Other operating gains less losses

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Rent	604	470	1,504	975
Taxes	(90)	(79)	(90)	(79)
Membership fees	(138)	(146)	(138)	(146)
Other	767	853	24	1,186
	1,143	**1,098**	**1,300**	**1,936**

11. ADMINISTRATIVE EXPENSES

Administrative expenses

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Staff cost:	**31,014**	**31,673**	**32,942**	**32,639**
Salaries	21,205	20,923	22,636	21,583
Social security cost	3,465	3,290	3,697	3,416
Pension costs	1,880	1,915	1,933	1,927
Other	4,464	5,545	4,676	5,713
General and administrative expenses:	**13,915**	**15,669**	**16,890**	**17,652**
Material costs	1,737	1,865	1,860	1,995
Maintenance costs	2,569	2,847	2,731	2,934
Rent	992	1,001	1,143	1,111
Professional services	5,230	6,302	7,218	7,249
Advertising and marketing	1,851	2,007	2,098	2,300
Other services*	1,536	1,647	1,840	2,063
	44,929	47,342	49,832	50,291

*In this auditor services

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Auditor services:				
- financial statements audit	93	112	118	133
- other non-audit services	33	37	40	38
	126	149	158	171

12. AMORTISATION AND DEPRECIATION

Amortisation and depreciation

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Amortisation	2,203	1,814	2,482	2,009
Depreciation	4,044	4,552	4,827	5,156
	6,247	6,366	7,309	7,165

13. PROVISIONS

Provisions

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Provisions for off-balance sheet exposures	2,343	574	2,343	609
Provisions for NSVS	202	-	202	-
Retirement and long service bonus	(262)	(500)	(347)	(500)
Short service bonus	(42)	-	(42)	-
	2,241	74	2,156	109

14. IMPAIRMENT LOSSES

Impairment losses

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Available for sale equity securities	80	378	80	378
Loans and advances to customers	17,927	9,857	18,983	10,432
	18,007	10,235	19,063	10,810

15. INCOME TAX EXPENSE

Income tax expense

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Current tax	5,578	7,516	5,931	7,706
Deferred tax (note 37)	288	92	105	(31)
	5,866	7,608	6,036	7,675

Further information about deferred income tax is presented in note 37. The tax on the Group´s profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Income tax expense (continued)

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Profit before tax	28,171	35,385	28,780	35,743
Prima facie tax calculated at a tax rate of 21%	5,916	7,785	6,044	7,864
Income from already taxed released provisions	(42)	-	(67)	-
Income form already taxed dividends	(87)	(158)	(87)	(158)
Income assessable for tax (not recognized in income statement)	-	1	-	1
Expenses not deductible for tax purposes:				
- negative valuation of securities and derivatives HFT	-	83	110	195
- expenses related to employees benefits	-	-	-	-
- staff costs not assessable for tax	201	193	205	193
- other non tax deductible expenses	97	202	238	202
-. abolished tax reliefs considered in previous tax return	12	2	12	2
- release of deferred tax assets due to disposal of investments and liabilities	(253)	(286)	(256)	(286)
Tax reliefs	(266)	(306)	(268)	(307)
Current tax on profit	**5,578**	**7,516**	**5,931**	**7,706**
Deferred tax	288	92	105	(31)
Total income tax	**5,866**	**7,608**	**6,036**	**7,675**

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.

16. EARNINGS PER SHARE

Earnings per share

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Net profit for the year	22,305	27,777	22,365	28,064
Weighted average number of ordinary shares in issue	530,398	530,398	530,398	530,398
Basic and diluted profit per share (expressed in EUR per share)	**42.05**	**52.37**	**42.17**	**52.91**

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.

17. INCOMES AND EXPENSES ACHIEVED ON FOREIGN MARKETS

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

In 2009 and 2008, the Group realised a significant part of expenses, with regards to funding granted by Intesa Sanpaolo Group banks, in foreign markets (note 45).

18. CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Cash in hand	13,756	15,418	13,756	15,418
Balances with central banks	43,540	23,022	43,541	23,032
	57,296	38,440	57,297	38,450
From this: mandatory reserve liability to central banks	27,852	26,227	27,822	26,196

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 with maturities up to two years.

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

19. TRADING ASSETS

Trading assets

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Debt securities	2,533	1,055	2,533	1,055
Equity securities:				
- listed	253	265	253	265
- unlisted	32,087	47,416	32,087	47,416
	34,873	**48,736**	**34,873**	**48,736**

As at 31 December 2009 and 31 December 2008 there are no trading assets pledged.

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

The Bank uses FX swaps mainly for foreign exchange management purposes, and in smaller volumes, FX swaps are offered as a banking service to its customers.

The Banking group concludes Interest rate swaps (IRS) above all to protect the bank's interest income and then as a standardized offer to its clients. The IRSs are determined so that the reprising dates are in line with the mentioned interest rate swaps.

In 2007, the Banking group issued a structural deposit which amounted to EUR 10 million (1 lot equals to EUR 1,000) and whose profitability is guaranteed to be at least 1.5 % and can be as high as 6.5 %, depending on the movement of three equity indices, more precisely the Standard & Poor's 500, Dow Jones EURO STOXX 50 and Nikkei 225.

If one of the above mentioned equity indices' value at the beginning of each observed year falls below or equal 95 % of their value at the end of each observed year, then the customer structural deposit will bear interest of 1.5 %. On the other hand, if all equity indices stay above 95 % in the observed period, then their structural deposit will bear interest of 6.5 %. The bank has broken down the above mentioned instrument into two parts. The first part consists of the deposit valued at its repayment value bearing a fixed interest rate, whereas the second part consists of the sold option to depositors, which is linked to the above mentioned equity indices. To avoid interest rate exposure the Bank has bought an equal option from Intesa Sanpaolo.

Forward agreements on the sale of marketable shares represent commitments to sell shares at a future date at a price stipulated in the contract. From the day of signing the contract, the securities are already in the possession of the Bank and the Bank does not trade in these securities until the expiry of the contracting period. Therefore, the Bank is not exposed to any market risk within the framework of these transactions. Nevertheless, the Bank, in the case of an overall drop in the share's market prices, is exposed to credit risk. Due to that, these exposures are subject to an impairment test. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the 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:

Derivative financial instruments and trading liabilities (Banka Koper and consolidated)

(all amounts expressed in thousands of EUR)

As at 31 December 2009	Contract/notional amount	Fair values Assets	Fair values Liabilities	Provisions
Foreign exchange derivatives				
Currency swaps	34,872	39	63	-
Currency forwards	390	3	3	-
Interest rate derivatives				
Interest rate swap	12,815	138	63	8
Interest rate cap	30,000	82	82	-
Other derivatives				
Forward agreement on sale of non marketable shares	16,337	548	14,253	1,234
Equity options	19,672	9	9	-
Total derivative assets/(liabilities) held for trading		**819**	**14,473**	**1,242**
As at 31 December 2008				
Foreign exchange derivatives				
Currency swaps	39,722	298	44	-
Currency forwards	1,419	12	11	-
Interest rate derivatives				
Interest rate swap	29,425	350	360	1
Other derivatives				
Forward agreement on sale of non marketable shares	22,463	429	14,337	1,042
Equity options	19,709	80	80	-
Total derivative assets/(liabilities) held for trading		**1,169**	**14,832**	**1,043**

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

Investment securities

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Government securities:				
- listed	159,955	140,916	159,955	140,916
- unlisted	-	-	-	-
Other debt securities:				
- listed	124,631	132,325	124,631	132,325
- unlisted	-	-	-	-
Equity securities:				
- listed	23,610	6,458	23,610	6,458
- unlisted	16,287	18,629	16,287	18,629
Total securities available for sale	**324,483**	**298,328**	**324,483**	**298,328**
Debt securities:				
- listed	929	1,528	929	1,528
Total securities held to maturity	**929**	**1,528**	**929**	**1,528**

The Bank adopted its own valuation model in cases where investments are not listed.

The Group has pledged securities of EUR 90,290 thousand (2008: EUR 208,961 thousand). They refer to government and first grade Bank bonds, that are bonds from banks with investment grade higher than A-. These securities are pledged to cover the borrowings received from the European central bank.

Movement

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated			
	2009		2008	
	AFS	HTM	AFS	HTM
At beginning of the year	**298,328**	**1,528**	**319,407**	**2,013**
Additions	97,598	-	78,867	-
Exchange differences on monetary assets	(476)	-	263	-
Interest accrual	186	81	(1,076)	85
Disposals (sale and redemption)	(73,202)	(680)	(81,698)	(570)
Gains/losses from changes in fair value	2,049	-	(17,435)	-
At end of year	**324,483**	**929**	**298,328**	**1,528**

22. LOANS AND ADVANCES TO BANKS

Loans and advances to banks

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Items in course of collection from other banks	3,194	7,902	3,194	7,902
Placements with other banks	17,485	4,795	17,485	4,795
Cash and cash equivalents (note 44)	20,679	12,697	20,679	12,697
Impairment losses on loans and advances to banks	-	(1,421)	-	(1,421)
	20,679	**11,276**	**20,679**	**11,276**

As at 31 December 2009 no placements with other banks are shown under Pledged assets (2008: nil).

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

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated
As at 31 December 2007	**1,421**
Provision for loan impairment	-
Amounts recovered during the year	-
Included in statement of income	-
As at 31 December 2008	**1,421**
Write off	(1,421)
As at 31 December 2009	-

23. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Loans to individuals:	410,559	378,769	445,591	410,202
Overdrafts	41,521	37,901	41,521	37,901
Credit cards	8,063	8,177	32,419	32,159
Term loans	127,750	120,555	127,750	120,555
Mortgages	233,225	212,136	233,225	212,136
Finance leases	-	-	10,676	7,451
Loans to sole proprietors	90,806	81,513	99,922	89,727
Loans to corporate entities	1,521,815	1,653,450	1,540,258	1,652,970
Gross loans and advances	**2,023,180**	**2,113,732**	**2,085,771**	**2,152,899**
Less provision for impairment	(91,102)	(73,745)	(95,111)	(76,749)
	1,932,078	**2,039,987**	**1,990,660**	**2,076,150**

Movement of provisions for impairment losses on loans and advances to retail customers as follows - unconsolidated

(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 2007	**3,724**	**270**	**3,407**	**2,066**	**9,467**
Provision for loan impairment	786	132	1.770	1,929	4,617
Amounts recovered during the year	(542)	(116)	(869)	(1,170)	(2,697)
Included in statement of income	244	16	901	759	1,920
Write off provisions already made	-	-	(285)	-	(285)
As at 31 December 2008	**3,968**	**286**	**4,023**	**2,825**	**11,102**
Provision for loan impairment	3,192	646	6,917	6,838	17,593
Amounts recovered during the year	(2,868)	(650)	(5,709)	(5,951)	(15,178)
Included in statement of income	324	(4)	1,208	887	2,415
Write off provisions already made	-	-	(5)	(2)	(7)
As at 31 December 2009	**4,292**	**282**	**5,226**	**3,710**	**13,510**

Movement of provisions for impairment losses on loans and advances to retail customers as follows - consolidated

(all amounts expressed in thousands of EUR)

	Loans to individuals – Consolidated					Total loans to individuals - Consolidated
	Overdrafts	Credit cards	Term loans	Mortgages	Finance leases	
As at 31 December 2007	**3,724**	**2,775**	**3,407**	**2,066**	**74**	**12,046**
Provision for loan impairment	786	622	1,770	1,929	73	5,180
Amounts recovered during the year	(542)	(199)	(869)	(1,170)	-	(2,780)
Included in statement of income	244	423	901	759	73	2,400
Write off provisions already made	-	-	(285)	-	-	(285)
As at 31 December 2008	**3,968**	**3,198**	**4,023**	**2,825**	**147**	**14,161**
Provision for loan impairment	3,192	1,770	6,917	6,838	88	18,805
Amounts recovered during the year	(2,868)	(1,260)	(5,709)	(5,951)	(48)	(15,836)
Included in statement of income	324	510	1,208	887	40	2,969
Write off provisions already made	-	(20)	(5)	(2)	(10)	(37)
As at 31 December 2009	**4,292**	**3,688**	**5,226**	**3,710**	**177**	**17,093**

Movement of provisions for impairment losses on loans and advances to corporate customers as follows – unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	Sole proprietors	Corporate entities	Sole proprietors	Corporate entities
As at 31 December 2007	**3,643**	**52,082**	**3,665**	**51,972**
Provision for loan impairment	2,568	55,655	2,595	55,723
Amounts recovered during the year	(1,857)	(48,429)	(1,857)	(48,429)
Included in statement of income	711	7,226	738	7,294
Write off provisions already made	(20)	(999)	(20)	(1,061)
As at 31 December 2008	**4,334**	**58,309**	**4,383**	**58,205**
Provision for loan impairment	4,718	118,406	4,923	118,751
Amounts recovered during the year	(2,906)	(104,706)	(2,924)	(104,736)
Included in statement of income	1,812	13,700	1,999	14,015
Write off provisions already made	-	(609)	-	(630)
Impairment on interest	-	46	-	46
As at 31 December 2009	**6,146**	**71,446**	**6,382**	**71,636**

Customer loan portfolio by economic sector

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Government	-	25,099	-	25,099
Trade	302,333	314,493	302,333	314,493
Services	634,399	659,507	652,770	658,958
Construction	88,211	94,827	88,211	94,827
Manufacturing	394,606	451,750	394,606	451,750
Agriculture	36,150	45,761	36,150	45,761
Individuals	410,559	378,769	445,591	410,202
Sole proprietors	90,806	81,513	99,922	89,727
Other	66,116	62,013	66,188	62,082
Gross loans and advances to customers	**2,023,180**	**2,113,732**	**2,085,771**	**2,152,899**
Less provision for impairment	(91,102)	(73,745)	(95,111)	(76,749)
Net loans and advances to customers	**1,932,078**	**2,039,987**	**1,990,660**	**2,076,150**

Slovenian customers and customers from other European countries (Serbia, Croatia, Bosnia and Herzegovina, Romania, Germany, Italy) accounted for 94 % and 6 % of geographic sector risk concentration within the customer loan portfolio, respectively.

Analysis of finance leases by residual

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated	
	2009	2008
Gross investment in finance leases:		
Not later than 1 year	18,535	14,839
Later than 1 year and not later than 5 years	39,423	32,712
Later than 5 years	28,349	23,586
	86,307	71,137
Unearned future interest income on finance leases	(11,573)	(15,459)
Net investment in finance leases:		
Not later than 1 year	16,134	11,795
Later than 1 year and not later than 5 years	33,704	25,435
Later than 5 years	24,896	18,448
	74,734	55,678

Loans and advances are further analysed as a part of the balance sheet in the following notes: Analysis of past due loans 3.4,Currency Risk Note 3.8.4., Interest Rate Risk Note 3.6., Liquidity Risk Note 3.5., Fair value Note 3.10, and Related Party Transactions Note 45.

Analyses by type of collateral

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2009		2008		2009		2008	
	Net loans	Fair value of collateral	Net loans	Fair value of collateral	Net loans	Fair value of collateral	Net loans	Fair value of collateral
Real estate	511,172	1,346,271	308,790	689,166	550,176	1.385.275	336,464	716,840
Bank guarantees	146,244	172,631	226,712	236,851	146,244	172,631	221,697	231,836
Personal guarantees	253,691	199,156	172,507	354,878	253,691	199,156	172,507	354,878
Debt securities	79,470	190,711	110,630	967,877	79,470	190,711	110,630	967,877
Government guarantees	99,357	101,254	79,402	79,403	99,357	101,254	79,402	79,403
Other collateral	98,468	54,835	46,954	84,534	129,001	85,368	72,801	110,381
Deposits	33,798	36,538	42,937	44,509	33,798	36,538	42,937	44,509
Insurance company guarantees	185,356	195,643	35,968	38,398	185,356	195,643	35,968	38,398
Shares	15,538	27,891	8,884	14,452	15,538	27,891	8,884	14,452
TOTAL collateralised net loans	**1,423,094**	**2,324,930**	**1,032,784**	**2,510,068**	**1,492,631**	**2,394,467**	**1,081,290**	**2,558,574**
Unsecured	508,984		1,007,203		498,029		994,860	
TOTAL net loans	**1,932,078**		**2,039,987**		**1,990,660**		**2,076,150**	

24. GOODWILL

Goodwill

(all amounts expressed in thousands of EUR)

	Consolidated	
	2009	2008
Opening net book amount	905	905
Acquisition of a subsidiary	-	-
Impairment	-	-
Closing net book amount	905	905

25. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2009		2008		2009		2008	
	Land and buildings	Hardware equipment	Other equipment	Total Banka Koper	Land and buildings	Hardware equipment	Other equipment	Total consolidated
Movement in year 2008								
Opening net book amount	24,397	2,509	3,841	30,747	25,396	2,876	6,085	34,357
Transfer to other equipment	-	-	-	-	-	(367)	367	-
Additions	1,084	874	1,579	3,537	1,084	881	3,336	5,301
Disposals	-	(208)	(72)	(280)	(999)	(210)	(1,429)	(2,638)
Depreciation charge	(1,976)	(1,095)	(1,420)	(4,491)	(1,976)	(1,097)	(2,022)	(5,095)
Closing net book amount	23,505	2,080	3,928	29,513	23,505	2,083	6,337	31,925
As at 31 December 2008								
Cost	43,072	12,172	12,776	68,020	43,072	12,209	16,269	71,550
Accumulated depreciation	(19,567)	(10,092)	(8,848)	(38,507)	(19,567)	(10,126)	(9,932)	(39,625)
Net book amount as at 31 December 2008	**23,505**	**2,080**	**3,928**	**29,513**	**23,505**	**2,083**	**6,337**	**31,925**
Movement in year 2009								
Opening net book amount	23,505	2,080	3,928	29,513	23,505	2,083	6,337	31,925
Transfer to other equipment	-	156	-	156	-	189	(33)	156
Additions	2,903	386	679	3,968	2,903	2,847	3,331	9,081
Disposals	(312)	(142)	(1,014)	(1,468)	(312)	(2,371)	(2,774)	(5,457)
Depreciation charge	(1,976)	(960)	(1,048)	(3,984)	(1,976)	(1,012)	(1,779)	(4,767)
Closing net book amount	24,120	1,520	2,545	28,185	24,120	1,736	5,082	30,938
As at 31 December 2009								
Cost	44,328	8,908	11,299	64,535	44,328	11,468	16,208	72,004
Accumulated depreciation	(20,208)	(7,388)	(8,754)	(36,350)	(20,208)	(9,732)	(11,126)	(41,066)
Net book amount as at 31 December 2009	**24,120**	**1,520**	**2,545**	**28,185**	**24,120**	**1,736**	**5,082**	**30,938**

In 2009 there was no property, plant and equipment pledged (2008; nil).

About 46 % of property, plant and equipment is completely written off, but the items are still in use.

In addition to its own premises, the Bank hired premises at 31 locations. From leases contracts proceeds the sum of future rental in the amount of EUR 4,569 thousands, of this:

(all amounts expressed in thousands of EUR)

Up to 1 year	1 to 5 years	Over 5 years
465	1,831	2,273

26. INVESTMENT PROPERTY

For Investment Property there are no special restrictions in terms of duration and use.

On 31st December 2009 no stipulated contracts for the acquisition or construction of Investment Property are in place in Banka Koper. No substantial investments in the repair, maintenance or expansion of these investments are planned in 2010.

Movement of investment property

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
At beginning of the year	**457**	**518**	**457**	**518**
Depreciation	(60)	(61)	(60)	(61)
Transfer to fixed assets	-	-	-	-
Additions	6	-	6	-
Disposals	-	-	-	-
At end of year	**403**	**457**	**403**	**457**

In the item other operating gains and losses (see note 10) income from property investments carries rents of EUR 84 thousand (2008: EUR 341 thousand). In 2009, there were no maintenance costs incurred for property investments (2008: nil).

27. INTANGIBLE ASSETS

Intangible assets

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Development	Licenses	Software and other	Total Banka Koper	Development	Licenses	Software and other	Total consolidated
Movement in year 2008								
Opening net book amount	1,703	2,026	1,216	4,945	1,703	2,071	1,216	4,990
Transfer from tangible assets	-	-	208	208	-	1	449	450
Additions	1,257	380	2,345	3,982	1,257	382	2,430	4,069
Disposals	-	-	-	-	-	(45)	-	(45)
Amortisation	(628)	(832)	(354)	(1,814)	(628)	(833)	(548)	(2,009)
Closing net book amount	2,332	1,574	3,415	7,321	2,332	1,576	3,547	7,455
As at 31 December 2008								
Cost	5,812	6,066	7,184	19,062	5,812	6,072	7,540	19,424
Accumulated amortisation	(3,480)	(4,492)	(3,769)	(11,741)	(3,480)	(4,496)	(3,993)	(11,969)
Net book amount as at 31 December 2008	**2,332**	**1,574**	**3,415**	**7,321**	**2,332**	**1,576**	**3,547**	**7,455**
Movement in year 2009								
Opening net book amount	2,332	1,574	3,415	7,321	2,332	1,576	3,547	7,455
Transfer from tangible assets	-	20	(176)	(156)	-	20	(176)	(156)
Additions	927	384	539	1,850	927	384	5,981	7,292
Disposals	(97)	(605)	(33)	(735)	(97)	(605)	(4,494)	(5,196)
Amortisation	(995)	(664)	(544)	(2,203)	(995)	(665)	(822)	(2,482)
Closing net book amount	2,167	709	3,201	6,077	2,167	710	4,036	6,913

Intangible assets (continued)

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Development	Licenses	Software and other	Total Banka Koper	Development	Licenses	Software and other	Total consolidated
As at 31 December 2009								
Cost	6,475	2,322	6,674	15,471	6,475	2,328	12,472	21,275
Accumulated amortisation	(4,308)	(1,613)	(3,473)	(9,394)	(4,308)	(1,618)	(8,436)	(14,362)
Net book amount as at 31 December 2009	**2,167**	**709**	**3,201**	**6,077**	**2,167**	**710**	**4,036**	**6,913**

The Group has not pledged any intangible fixed assets.

The Group does not have any evidence of future contractual obligations for the acquisition of intangible long term assets.

About 41 % of intangible long term assets are completely amortized, but they are still in use. The amortized equipment relates mostly to software.

The Bank does not have any intangible fixed assets in management.

In 2009, the Group has not recognized any expenditure related to research and development in the statement of income. All expenditure has been capitalized as intangible fixed assets, even staff expenses of EUR 413 thousands.

28. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2009	2008
At beginning of the year	**5,214**	**5,214**
Additional investment	1,714	-
Acquisition of a subsidiary	-	-
Provision for impairment	-	-
At end of year	**6,928**	**5,214**

At the end of February 2007, the group acquired a 75 % stake in Centurion finančne storitve d.o.o. Ljubljana, a financial company operating in the credit card business. A contract for EUR 1,896 thousand was signed on February 28th 2007.

On 1st August 2009, the Bank increased its capital share in the subsidiary company ISP Card Ljubljana d.o.o., from 75 % to 92.6661 %. The increment of the participating interest occurred in the form of a contribution in-kind, to be exact, as a transfer of tangible and intangible fixed assets destined for the credit card processing activity. The transfer was done on carrying value basis. In the consolidated financial statements, the contribution in kind resulted in transaction between owners of the Group as a decrease in the share of non-controlling interest from 25 % to 7.3339 % and increase in the share of the owners of the parent.

29. OTHER ASSETS

Other assets

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Commission receivables	543	537	542	538
Accruals	458	324	459	327
Advances	561	87	1,002	2,383
Transition accounts receivables	1,104	1,371	2,623	1,526
Cheques	7	11	7	11
Claims to citizens	476	244	476	244
Claims to Europay	6,042	13,077	6,042	13,077
Other	1,373	2,023	2,144	2,664
Less provision for impairment	-	-	(91)	(76)
	10,564	**17,674**	**13,204**	**20,694**

On 31 December 2009 the Bank had fixed assets from repossessed collateral EUR 391 thousand (2008: EUR 348 thousand), the Group EUR 738 thousand respectively (2008: EUR 348 thousand – stand alone and consolidated). The assets 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 2007	**-**	**58**
Additional provision for impairment	-	21
Amounts recovered during the year	-	(3)
Included in income statement	-	18
As at 31 December 2008	**-**	**76**
Additional provision for impairment	-	41
Amounts recovered during the year	-	(21)
Included in income statement	-	20
Write off of impairment	-	(5)
As at 31 December 2009	**-**	**91**

30. LIABILITIES TO CENTRAL BANK

Liabilities to Central Bank

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Loans granted	90,292	158,654	90,292	158,654
	90,292	**158,654**	**90,292**	**158,654**

31. DEPOSITS FROM BANKS

Deposits from banks

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Demand deposits	79	92	79	92
Term deposits	102,882	170,022	102,882	170,022
	102,961	**170,114**	**102,961**	**170,114**

32. DUE TO CUSTOMERS

Due to customers

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Individuals				
- demand deposits	391,435	375,477	391,435	375,477
- term deposits	591,809	612,558	591,809	612,558
Sole proprietors				
- demand deposits	26,911	24,952	26,911	24,952
- term deposits	6,739	4,881	6,739	4,881
Corporate customers				
- demand deposits	88,264	89,530	88,234	89,499
- term deposits	335,214	188,629	335,214	188,629
	1,440,372	**1,296,027**	**1,440,342**	**1,295,996**

As at 31 December 2009, deposits of EUR 38,623 thousand have been pledged for covering potential credit risk on assets (2008: EUR 42,863 thousand).

33. OTHER BORROWED FUNDS FROM BANKS

The Bank and its subsidiaries repaid their obligations regularly. At the date of the financial statements, there are no obligations which are overdue.

Other borrowed funds from banks

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2009		2008		2009		2008	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
In local currency	223,908	231,542	330,229	220,885	223,928	286,153	331,417	249,103
In foreign currency	21,509	-	26,734	-	13,991	1,960	26,734	-
	245,417	231,542	356,963	220,885	237,919	288,113	358,151	249,103
	476,959		577,848		526,032		607,254	

34. OTHER BORROWED FUNDS FROM OTHER CUSTOMERS

Other borrowed funds from other customers

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
	Long term	Long term	Long term	Long term
Building bought on financial lease	223	246	223	246
	223	246	223	246

The residual maturity of the financial liability is shown in note 3.5.- Liquidity risk.

35. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for premium pay-back are intended to cover the bank's liabilities raised by the Law on National Housing Saving Scheme. The bank is obliged to pay back to the Housing Fund all premiums, paid to individuals taking part in the scheme, who within 2 years after the end of the saving period do not proceed to take a loan from the bank in line with the law's conditions.

The amount of premiums the bank is obliged to pay back to the Housing Fund is estimated considering the suggestion of the Bank of Slovenia, the historical pay-back patterns and expected future conditions in the housing loan segment. The obligation to pay back premiums in case that savings are not used under eligible purposes, applies to the 2nd, 3rd, 4th and 5th tender. The amount of provisions required as at 31. 12. 2009 amount to EUR 989 thousand. The amount is based on the estimation that 80 % of all saved funds will be used unpurposely.

The Bank also makes credit risk provisions for off-balance sheet items. The above credit risk provisions recorded by Banka Koper refer to contractual commitments for issued guarantees and letters of credits and irrevocable contractual commitments for granted, but undrawn loans.

Provisions for liabilities and charges

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Provisions for off-balance sheet liabilities	15,375	17,720	15,278	17,656
Provisions for National Saving Housing Scheme	989	1,557	989	1,557
Provisions for infrastructure arrangements for the disabled	48	39	48	39
Legal proceedings due to employees	96	96	96	96
Total	**16,508**	**19,412**	**16,411**	**19,348**

Movement in provisions

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
At beginning of year	**19,412**	**20,183**	**19,348**	**20,154**
Additional provision	28,438	35,983	28,300	35,948
Amounts recovered during the year	(30,964)	(36,517)	(30,859)	(36,517)
Included in statement of income under provisions	(2,502)	(494)	(2,535)	(529)
Included in statement of income under staff costs	(24)	(40)	(24)	(40)
Repayment of the premiums for National Saving Housing Scheme	(367)	(237)	(367)	(237)
Investment in facilities for disable people	(11)	-	(11)	-
At end of year	**16,508**	**19,412**	**16,411**	**19,348**

36. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Retirement severance pay and long service bonuses	3,160	3,093	3,359	3,174
Provision for redundancies	332	332	332	332
Holiday not used	-	-	-	-
	3,492	**3,425**	**3,691**	**3,506**

Movements

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
At beginning of year	**3,425**	**3,549**	**3,506**	**3,630**
Additional provisions	261	500	379	500
Charged to statement of income	261	500	379	500
Additional provisions not recognised in statement of income	-	-	-	-
Utilised provisions	(194)	(293)	(194)	(293)
Transfer of liabilities of untaken leave to short term accruals	-	(331)	-	(331)
At end of year	**3,492**	**3,425**	**3,691**	**3,506**

37. DEFERRED INCOME TAXES

Deferred income taxes

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Deferred income tax liabilities				
Non-current assets held for sale	2	2	2	2
Available-for-sale securities	4,426	4,697	4,426	4,697
	4,428	**4,699**	**4,428**	**4,699**
Deferred income tax assets				
Retirement and other employee benefits	551	569	559	576
Provision for loan losses	-	-	764	583
Available-for-sale securities	654	1,145	654	1,145
Trading securities and derivative financial instruments	87	147	87	147
Provisions for National Saving Housing Scheme	198	327	198	327
Provision for legal proceedings	19	20	19	20
Provision for employees	11	13	11	13
	1,520	**2,221**	**2,292**	**2,811**
Movement of deferred income taxes (offsetting of assets and liabilities)				
At beginning of year	2,478	6,594	1,888	6,127
Statement of income charge	288	92	105	(31)
Deferred taxes from loan losses from acquired subsidiary	-	-	-	-
Investment securities (fair value remeasurement)	142	(3,865)	142	(3,865)
Payment of deferred taxes liabilities made applying IFRS	-	(343)	-	(343)
Other	-	-	1	-
At end of year	**2,908**	**2,478**	**2,136**	**1,888**
Deferred income taxes charged in statement of income				
Retirement and other employee benefits	(13)	(83)	(3)	(83)
Provision for loan losses	-	-	135	99
Trading securities and derivative financial instruments	(56)	(13)	(56)	(13)
Provisions for National Saving Housing Scheme	(119)	(51)	(119)	(51)
Deferred income	-	-	-	-
Provision for legal proceedings	-	-	-	-
Impairment of AFS securities	(79)	83	(79)	83
Other	-	(1)	-	(1)

Deferred income taxes (continued)

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Reduction due to diminution of tax rate from 25 % to 23 %:				
- trading securities and derivative financial instruments	(1)	(1)	(1)	(1)
- retirement and other employee benefits	(5)	(1)	(4)	(1)
- provisions for National Saving Housing Scheme	(10)	(16)	(10)	(16)
- provision for legal proceedings	(1)	(1)	(1)	(1)
- impairment of AFS securities	-	(4)	-	(4)
- impairment of Investment in subsidiary	(4)	(4)	(4)	(4)
- impairment of loans	-	-	37	24
	(288)	(92)	(105)	31

38. OTHER LIABILITIES

Other liabilities

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Amount awaiting transfer to deposit accounts	6,826	7,774	6,816	7,774
Deferred income	5,600	4,756	5,617	4,756
Creditors	1,737	2,382	8,184	8,855
Salaries	1,858	2,341	1,885	2,364
Liabilities for unpaid dividend	148	149	148	149
Other	2,902	1,869	5,212	2,608
	19,071	19,271	27,862	26,506

39. SHARE CAPITAL

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 2007	531,359	22,173	7,499	(49)
As at 31 December 2008	531,359	22,173	7,499	(49)
As at 31 December 2009	531,359	22,173	7,499	(49)

The total authorised number of ordinary shares at year end was 531,359 (2008: 531,359) with a par value of EUR 41.73 per share (2008: EUR 41.73 per share). All issued shares are fully paid.

The share capital of the Bank is divided into 531,359 shares. Each share has an 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.

40. REVALUATION RESERVE

Revaluation reserves

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Revaluation reserves	15,096	13,668	15,096	13,668
Total	**15,096**	**13,668**	**15,096**	**13,668**

Movement – Banka Koper and consolidated

(all amounts expressed in thousands of EUR)

	Revaluation reserves
As at 31 December 2007	**26,583**
Valuation of available-for-sale securities	(12,915)
As at 31 December 2008	**13,668**
Valuation of available-for-sale securities	1,428
As at 31 December 2009	**15,096**

41. RESERVES FROM PROFIT AND RETAINED EARNINGS

Reserves from profit and retained earnings

(all amounts expressed in thousands of EUR)

	Banka Koper 2009	Banka Koper 2008	Consolidated 2009	Consolidated 2008
Legal reserves	11,085	9,970	11,085	9,970
Statutory reserves	189,155	174,657	189,155	174,657
Retained earnings	12,701	6,009	13,768	7,016
Other	49	49	49	49
Total	**212,990**	**190,685**	**214,057**	**191,692**

Movement – Banka Koper

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Other reserves	Total reserves
As at 31 December 2007	**8,581**	**134,487**	**6,009**	**49**	**149,126**
Transfer from net profit for the period	1,389	26,388	-	-	27,777
Transfer from net profit for the year 2007	-	13,782	-	-	13,782
As at 31 December 2008	**9,970**	**174,657**	**6,009**	**49**	**190,685**
Transfer from net profit for the period	1,115	14,498	6,692	-	22,305
As at 31 December 2009	**11,085**	**189,155**	**12,701**	**49**	**212,990**

Movement – consolidated

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Other reserves	Total reserves
As at 31 December 2007	**8,581**	**134,487**	**6,817**	**49**	**149,934**
Transfer from net profit for the period	1,389	40,170	199	-	41,758
As at 31 December 2008	**9,970**	**174,657**	**7,016**	**49**	**191,692**
Transfer from net profit for the period	1,115	14,498	6,752	-	22,365
As at 31 December 2009	**11,085**	**189,155**	**13,768**	**49**	**214,057**

Legal reserves

The Bank creates legal reserves to a level such 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 share capital of the Bank.

Statutory reserves

The Bank creates statutory reserves until they achieve an amount which is eight-fold that 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, is allocated to statutory reserves.

42. DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. By the date the financial statements were authorised by the Management Board no dividends were proposed or declared. For 2008 the Bank's current profit was transferred to the legal and statutory reserves.

Distribution of the profit of the year

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2009	2008
Net profit for the period	22,305	27,777
Allocation of the profit to the legal reserves (5 %)	(1,115)	(1,389)
Residual net profit available for other reserves or distribution	21,190	26,388
Allocation of the profit to the statutory reserves (40 %)	(14,498)	(26,388)
Residual net profit available for distribution at the AGM	**6,692**	**-**

43. CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Cash and balances with central bank	29,444	12,213	29,475	12,254
Trading assets	2,533	1,056	2,533	1,056
Loans and advances to banks	15,638	11,276	15,638	11,276
Total	**47,615**	**24,545**	**47,646**	**24,586**

44. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As at 31 December 2009 there were no significant legal proceedings outstanding against the Group.

Capital commitments. At 31 December 2009 the Group had no capital commitments (2008: 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 risky 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 losses in an amount equal to the total unused commitments. However, the likely amount of losses, 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, secondly, from these drawings subsequently not being repaid as and when 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.

Contingent liabilities and commitments

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2009	2008	2009	2008
Documentary and commercial letters of credit	2,295	7,246	2,295	7,246
Guarantees	103,525	95,318	103,487	95,318
Derivative financial instruments	17,655	24,250	17,655	24,250
Credit commitments:				
- original maturity up to 1 year	288,582	305,024	285,842	302,446
- original maturity over 1 year	63,054	69,286	58,222	67,889
	475,111	**501,124**	**467,501**	**497,149**
Provisions for off-balance sheet liabilities:				
Documentary and commercial letters of credit	(262)	(809)	(262)	(809)
Guarantees	(3,386)	(3,000)	(3,386)	(3,000)
Derivative financial instruments	(1,242)	(1,043)	(1,242)	(1,043)
Credit commitments	(10,485)	(12,868)	(10,388)	(12,804)
Total	**459,736**	**483,403**	**452,223**	**479,492**

45. RELATED PARTY TRANSACTIONS

Related party transactions

(all amounts expressed in thousands of EUR)

	Directors and advisers		Management board		Supervisory board members		Major shareholders		Subsidiaries	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Loans										
At beginning of the year	118	147	-	-	-	13	4,742	81,486	40,495	31,999
Loans issued during the year	385	-	64	-	-	-	201,742	640,203	78,219	63,377
Loan repayments during the year	(266)	(29)	(21)	-	-	(13)	(193,145)	(716,947)	(82,214)	(54,881)
At end of year	**237**	**118**	**43**	**-**	**-**	**-**	**13,339**	**4,742**	**36,500**	**40,495**
Impairment as at 31 December	-	2	-	-	-	-	-	-	345	338
Collateral received as at 31 December	694	230	193	-	-	-	-	-	-	5,017
Deposits										
At beginning of the year	1,355	1,839	583	617	-	-	652,645	101,570	31	15
Deposits received during the year	3,378	5,255	6,186	3,778	3,243	50	1,402,879	3,918,966	209,465	171,916
Deposits repaid during the year	(3,584)	(5,739)	(4,744)	(3,812)	(2,458)	(50)	(1,541,074)	(3,367,891)	(209,467)	(171,900)
At end of year	**1,149**	**1,355**	**2,025**	**583**	**785**	**-**	**514,450**	**652,645**	**29**	**31**
Interest expense on deposits	31	66	70	35	27	1	4,217	27,567	-	-
Interest income earned	5	8	2	-	-	1	95	7,139	906	2,158
Other revenue – fee income	1	-	1	-	-	-	1,191	1,584	316	87
Guarantees issued by the bank and commitments	-	-	-	-	-	-	-	-	38	-
Remuneration	2,284	3,233	1,160*	1,476	43*	57				

Major shareholders, in this context, include all companies of the Intesa Sanpaolo Group and till 18th December 2008 all companies of the Luka Koper Group and all companies of the Intereuropa Group.

* Listed by names

Management board	Gross salary	Bonuses	Other	Total
Ezio Salvai	200	169	4	**373**
Igor Kragelj	201	141	4	**346**
Aleksander Lozej	90	-	1	**91**
Aleksander Milostnik	85	-	2	**87**
Armando Sala	70	-	3	**73**
Dario Radešič	92	-	2	**94**
Rado Grdina	93	-	3	**96**
Total	**831**	**310**	**19**	**1,160**

Supervisory board members

	Attendance fee	Bonuses	Total
Vojko Čok	1	-	**1**
Borut Bratina	1	-	**1**
Massimo Pierdicchi	1	-	**1**
Michele Raris	1	-	**1**
Roberto Civalleri	3	-	**3**
Andrej Lovšin (member until 18. 12. 2008)	-	12	**12**
Janko Kosmina (member until 18. 12. 2008)	-	12	**12**
Marjan Babič (member until 18. 12. 2008)	-	12	**12**
Total	**7**	**36**	**43**

46. EVENTS AFTER THE REPORTING PERIOD

According to the plan of integration of the total processing services card business within the group Intesa Sanpaolo, the Bank will invest in the company ISP Zagreb Card EUR 5.2 million and obtain a 15.34 % equity share in March 2010. Consequently, ISP Card Zagreb will buy from Banka Koper the whole share (92.67 %) in the company ISP Card Ljubljana.

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