Igor Banfi, DREVO - ZIMSKA POKRAJINA, 2009, oil on canvas, (cut)

ANNUAL REPORT 2010

BANKA KOPER

Bank of INTESA SANPAOLO

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POSVEČENI VRT, 2010, oil on canvas, 80 x 120 cm

BANKA KOPER AT A GLANCE

In 2002, Banka Koper became member of one of the leading banking groups in Italy - Sanpaolo IMI Group. After the corporate marriage of two major Italian banks, Intesa Sanpaolo became the majority shareholder of Banka Koper on 1 January 2007. The Intesa Sanpaolo Group is the 8th banking group by market capitalization 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

A respectable international credit rating agency, Fitch Ratings from London, has confirmed the credit ratings of Banka Koper. The long-term credit rating remains A+, the short-term credit rating is F1, its external support rating at 1, and its individual rating at C. The outlook for its long-term rating is stable.

Long-term, short-term credit ratings and support ratings are a reflection of the AA-long-term credit rating awarded to Intesa Sanpaolo, the parent undertaking of Banka Koper. Intesa Sanpaolo is the second largest Italian banking group with a relatively extensive network in Central and Eastern Europe and on other continents.

International ratings

	Rating 2010	Rating 2008
Long-term	A+	A+
Short-term	F1	F1
Individual	C	C
Support	1	1

Banka Koper boasts a high individual rating thanks to its widespread branch network in the coastal region of Slovenia, high performance ratios, adequate provisions for credit risk and the synergy with the parent undertaking and sister banks.

EMBRIONALNI OGENJ, 2009, oil on canvas, 150 x 240 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 and registered as the Bank's subsidiary for the lease business.

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.

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 – 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.

2010 – The focus of Banka Koper is on risk management, deposit gathering, launching new products tailored to meet specific customer needs. In the commercial area, advertising of loans provided to home buyers lasted throughout the year and spurred demand, and in the second half of 2010, the users of the i-Net started to migrate to a more modern and versatile electronic banking channel - Banka IN. Within the framework of the Group-wide EDU Program Listening 100 % - Banka Koper pencilled in an important action plan for improvements in the customer service area that started with training sessions for all employees.

ARKTIČNA SONATA, 2009, oil on canvas, 150 x 240 cm

BUSINESS REPORT

1. REPORT OF THE MANAGEMENT BOARD

Slovenia and the Slovenian economy were delayed in entering the global financial crisis. Accordingly, other economic movements were also delayed compared to world markets. In 2010, global superpowers were already showing the first signs of recovery, while Slovenia was still at the height of its crisis period. Although developed economies are slowly recovering, neither the global nor the Slovenian economy can yet be considered stable.

The conditions Banka Koper has been operating under have included a general downturn of economic activity, a high level of indebtedness of companies, low creditworthiness, an increasing unemployment rate, a growing number of bankruptcies and a weakening of the property market (particularly in the field of construction). Despite the problems of its business environment, the bank successfully maintained a stable performance and finished the business year as one of the most profitable banks in Slovenia. At the same time, Banka Koper also increased its capital adequacy and maintained its high international credit rating.

The difficult economic conditions required a re-evaluation of priorities, an ever increasing intensity of business relations with clients, the development and introduction of new products and the adapting of business processes to the demands of financial and banking regulators, to the needs and expectations of business partners and to harmonisation programmes within the framework of the Intesa Sanpaolo banking group.

The crucial factor for maintaining the steady and stable role of Banka Koper in the Slovenian banking market was its affiliation with the stable Intesa Sanpaolo banking group, which held a high position on the 2010 world ranking of the safest banks as well as being awarded the title of "Bank of the Year in Western Europe". Another contributing factor was its immediate and effective response to the worsening economic crisis.

At the end of 2010, Banka Koper posted a balance sheet total of 2,260 million euros and a 4.5 per cent market share, ranking in 8th place in term of total assets. The bank generated a gross profit of 21.3 million euros and a net profit of 17.4 million euros. The pre-tax profit in 2010 was 6.9 million euros lower than the previous year, which is a consequence of the planned formation of additional provisions and impairments. The 7.6 per cent pre-tax return on capital and 0.9 per cent pre-tax return on assets place Banka Koper among the most successful banks in Slovenia.

In 2010, particularly as a consequence of the economic crisis, the loan activities of Slovenian banks continued to stagnate and Banka Koper was no exception. The bank's gross credits to the non-banking sector decreased by 83 million euros in 2010, totalling 1,940 million euros at the end of the year and giving Banka Koper a 5.3 per cent market share. The main factors influencing the reduced volume of loans were the high level of indebtedness of companies, low creditworthy demand, the bank's stricter loan security policy and the bank's business orientation, which is geared towards limiting high exposure and concentrating the credit portfolio. Despite this, the bank successfully increased its market share in loans to retail clients to 6.0 per cent, which is equal to 543 million euros or 28.0 per cent of all loans to the non-banking sector.

In the field of accepting deposits, Banka Koper improved its market share compared to the banking system in the segment of households. Compared to the banking system, its market share increased to a total of 7.4 per cent. Deposits from households continue to represent the largest share among its non-banking sector deposits, namely 76.9 per cent or 1,053.7 million euros, which is 59.4 million euros more than in 2009.

Banka Koper regulated its capital adequacy by increasing its profit reserves. At the end of 2010, its total capital adequacy ratio equalled 12.04 per cent or 12.66 per cent after the bank allocated 70 per cent of its 2010 profit to reserves. Thus, the bank also recorded a high Core Tier 1 ratio (the highest quality capital), which totalled as much as 11.50 per cent or 12.12 per cent after the allocation of 70 per cent of the 2010 profit to reserves.

Deposit and loan banking continued to be Banka Koper's primary activity in 2010. Within its business framework, the bank also strengthened its market position through other commercial activities in diverse fields. Some of the most visible and effective of these activities include card transactions within the Activa system and the joint Intesa Sanpaolo Card company, payment transactions, online banking with the Banka IN and i-Net products, mutual fund marketing, insurance policy brokerage, lease marketing, offering voluntary supplementary pension insurance and custody services for investment funds.

In addition to established products, several changes and new products were introduced. Banka IN continues to be the only real online bank in Slovenia, redefining the foundations of modern banking. Banka Koper therefore decided to replace the well-established i-Net with Banka IN, providing former users of i-Net with access to new dimensions of banking transactions. Meanwhile, new additions to the available mutual funds comprise of four Eurizon Manager Selection Funds.

Banka Koper continues to be oriented towards constant investments in development and technological improvements. The largest share of the bank's investments – 44 per cent of the 2.9 million euros total – is intended for the renovation of Banka Koper branch premises into a modern banking service that is designed to match the visual identity of the banking group. 41.6 per cent of the total investment money has been assigned to the computerisation of business operations, particularly for the development of applications and software.

Banka Koper uses sponsorships and donations to strengthen its connection to the environment in which it operates and to which it belongs. The experience of the Intesa Sanpaolo Group is becoming increasingly helpful in this area. The bank sponsors and makes donations to diverse sports, cultural, education and humanitarian activities and works together with various institutions.

Along with the many promotional, sponsorship and donation activities, Banka Koper has also been focusing on two important social spheres – humanitarianism and environmental protection. A sense of sympathy toward others was particularly important at the time of the catastrophic floods in September, which affected the entire country. Banka Koper made donations towards relief efforts and offered favourable loan conditions to victims of the floods. The bank demonstrated its dedication to protecting the environment and supporting sustainable resources through its offer of environmental loans and the financing of renewable energy sources, its support for the successful Clean up Slovenia cleaning campaign and its involvement in Bike Sharing, an international project of the parent company, which was very well accepted by the employees.

The bank continued its process of educating and training employees, with special focus upon the project of developing potential human resources, for which the bank received an award at the 2010 Human Resources Management Conference. Virtually every employee has been involved in the Listening 100% project, the goal of which is to communicate the importance of customer satisfaction to employees, and new guidelines for improving customer satisfaction have been prepared. Banka Koper also carried out research regarding the internal work atmosphere, which will contribute to goal oriented management in this field.

The bank's financial statements for 2010 were reviewed and approved by external authorised auditor Ernst & Young. The credit rating assigned to Banka Koper by the London-based international ratings agency Fitch Ratings reaffirms the bank's business orientation and places it among the highest ranking banks in Slovenia.

While economic problems continue to be present within most of the Slovenian macro environment, optimism can be detected in global trends. Based upon this, Banka Koper has established its 2011 business objectives and adopted a business plan that poses a significant challenge to the bank and its employees. An increase in the volume of operations, the strengthening and growth of the business network, further improvements in terms of economic efficiency, particularly of cost effectiveness, and the implementation of synergies based upon strengthening connections within the Intesa Sanpaolo Group – these are identifiable and ambitious goals to which all our employees are committed.

2. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2010

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 2010,
- 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 2010

In the course of the financial year 2010, the Supervisory Board of Banka Koper d.d. met six 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. 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 2010. On 27 June 2010, the terms of office expired for the following members of the Supervisory Board of Banka Koper: Massimo Pierdicchi, Michele Raris, Mr. Borut Bratina, PhD and Roberto Civalleri. Mr. Fabrizio Centrone, Ms. Elena Breno, Mr. Borut Bratina, PhD and Mr. Roberto Civalleri were elected on 4 June 2010 as the new members of the Supervisory Board of Banka Koper effective 28 June 2010. Mr. Fabrizio Centrone became the deputy chairman of the Supervisory Board of Banka Koper.

REPORT OF THE SUPERVISORY BOARD

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

- monitoring and assessing on a regular basis the compliance with the Bank's business policy for 2010 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 2010;
- examining and approving the Annual Report of the Internal Audit Department for 2010;
- 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 2010;
- Mr. Armando Sala resigned his position as a member of the Management Board effective 31 March 2010 to take up a position at the Group level. Mr. Dario Radešič retired on 31 August 2010 and the Supervisory Board appointed Mr. Francesco Del Genio and Mr. Mario Henjak as the new members of the Management Board of Banka Koper;
- 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 February 2011 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2010, 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 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 considering the circumstances under which the Bank conducted business, the Bank's management and performance were successful 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 supports 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 the auditor Ernst & Young.

3. Approval of the Annual Report for the financial year 2010

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 2010.

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 2011 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 2011

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 a strategic partner, the Intesa Sanpaolo Group.

On 27 June 2010, the terms of office expired for the following members of the supervisory board of Banka Koper: Massimo Pierdicchi, Michele Raris, dr. Borut Bratina and Roberto Civalleri. Mr. Fabrizio Centrone, Ms. Elena Breno, Dr. Borut Bratina and Mr. Roberto Civalleri were elected on 4 June 2010 as the new members of the supervisory board of Banka Koper effective 28 June 2010. Mr. Fabrizio Centrone became the deputy chairman of the supervisory board of Banka Koper.

Supervisory Board on 31 December 2010:

Vojko Čok	Chairman
Fabrizio Centrone	Deputy Chairman
Elena Breno	Member
Roberto Civalleri	Member
Dr. Borut Bratina	Member

Management Board

The Management Board is composed of seven members and chaired by Mr. Ezio Salvai.

Mr. Armando Sala resigned his position as a member of the Management Board effective 31 March 2010 to take up a position at the Group level. Mr. Dario Radešič retired on 31 August 2010 and the supervisory board appointed Mr. Francesco Del Genio and Mr. Mario Henjak as the new members of the Management Board of Banka Koper.

The composition of the Management Board on 31 December 2010:

Ezio Salvai	President
Igor Kragelj	Deputy President
Rado Grdina	Member
Aleksander Lozej, M.Sc	Member
Aleksander Milostnik	Member
Francesco Del Genio	Member
Mario Henjak	Member

4. GENERAL ECONOMIC AND BANKING ENVIRONMENT

During the year under review, the consumer price index grew moderately in Slovenia as expected. The price increase figure of 1.9 per cent was in line with the consumer price rise across the euro zone.

The inflation movement in 2010 was similar to the movement experienced in 2009 both in Slovenia and in the entire euro zone since it was under the strong influence of the feeble economic activity. The core inflation being a reflection of that influence remained relatively low and subdued also during the year under review. At the same time, the first eight months of 2010 left a deep footprint on the inflation rate in Slovenia just as it was the case in 2009 due to the government measures taken in the fiscal area. The 1.9 per cent inflation rate at the end of 2010 contained approximately 0.3 basis points contributed by higher excise duty levied on petroleum products and the combined effect of higher charges accounted for 0.7 to 0.8 basis points due to the fact that also the excise duty on tobacco and alcohol rose, as well as other levies.

The effect on inflation of higher crude oil prices in the world markets against the backdrop of the adverse exchange rate movements USD/EUR during the year under review had a direct effect on higher liquid fuel prices and an indirect effect mainly through higher prices of gas and remote heating. The combined higher prices of energy added some 0.9 basis points to the inflation rate. Predominately during the last months of 2010, driven by higher food prices at the international level, the pressures to increase locally produced food were stepped up.

The aggregate net lending increased during the year under review by more than one fifth in comparison with a year earlier, and the increase was generated by lending to individuals and partly by lending to the government institutions. In December 2010, net loan repayments started to flow in from corporate customers and non-financial institutions for the first time in 2010 in significant amounts thus exceeding the combined net borrowings of individuals and the government bodies. Slovenia is one of few countries in the euro zone that have failed to experience recovery in lending to corporate customers and non-financial institutions after the 2009 credit crunch. The first half of the year was characterised with net borrowing of corporate customers and non-financial institutions as opposed to the second half of 2010 when the net repayments by borrowers to domestic banks prevailed. On the other hand, net loans granted to individuals during the year under review were by more than a half above the figures for 2009, as a consequence of borrowing to finance home purchases that rose by a quarter above the highest level experienced back in 2008.

In December 2010, banks had to set aside more funds as additional impairments and provisions - a record high amount of 168.6 million euros and 757.3 million euros for 2010 or more than a half above the figure posted a year earlier. The liquidity of the banking system slightly improved in November 2010. After two lean months, banks saw net deposit inflows from the government and from households, and continued to pay back cross-border deposits and credit facilities.

5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2010

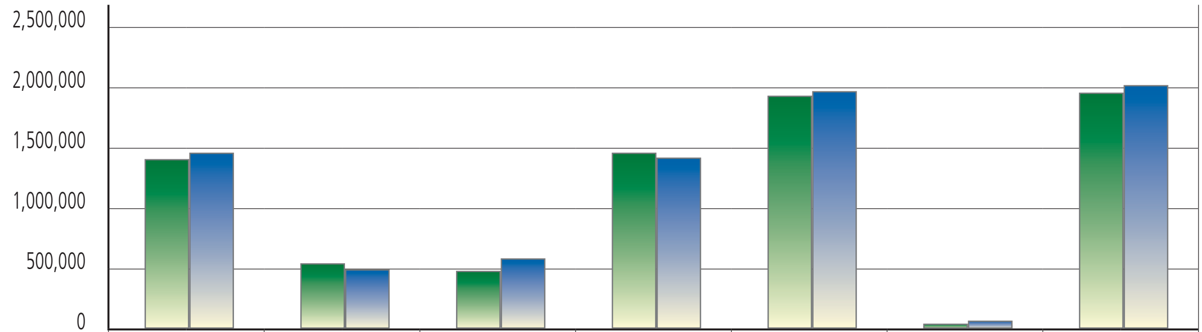
5.1 LENDING OPERATIONS

In 2010, lending activities at the banks operating in Slovenia remained sluggish. The impasse in financing was due to the level of indebtedness of the local companies, low credit standing of potential borrowers, stricter credit policy terms dictated by the Slovenian banks particularly regarding collateral, and high surcharges on the reference interest rates. The dynamics of credit growth during the year under review in all bank groups was lower than a year earlier.

In 2010, the Bank's gross lending to the non-bank sector decreased by 83.0 million euros, i.e. by 4.1 per cent in comparison with 2009. The Bank's non-bank lending market share was 5.3 per cent at year-end 2010.

In terms of currency, lending in euro still largely prevailed in 2010 with a 99.2 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 2010. Short-term loans accounted only for 24.9 per cent of total loans.

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



	Legal entities	Households	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2010	1,397,129	543,099	483,597	1,456,631	1,925,040	15,188	1,940,228
31.12.2009	1,464,158	501,365	601,441	1,421,739	1,968,016	55,164	2,023,180

Loans to the legal entities amounted to 1,397.1 million euros or 72.0 per cent, representing the largest portion of loans to the non-bank sector.

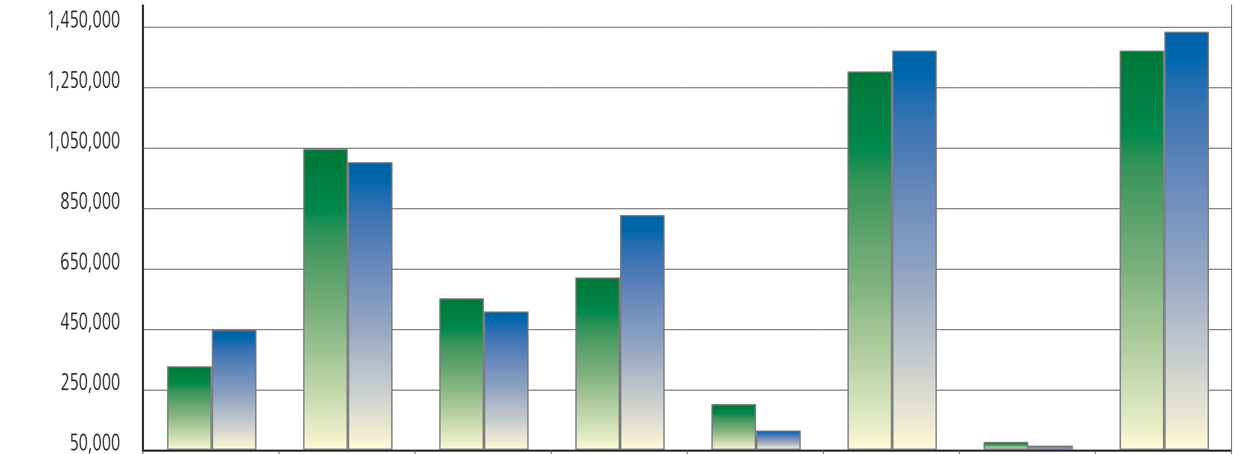
Lending to households - private individuals and sole proprietors - reached 543.1 million euros or 28.0 per cent of total lending to the non-bank sector. Compared with 2009, lending to this customer segment increased by 41.7 million euros or 8.3 per cent. As in 2009, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level.

5.2 DEPOSITS

Customer deposits and received loans decreased by 4.9 per cent or 70.1 million euros in 2010 and thereby the Bank lost a 0.7 basis points of market share in total deposits at the end of 2010.

Short-term deposits prevailed with 45.7 per cent over sight deposits (40.2 per cent) and long-term deposits (14.1 per cent). The deposit structure in terms of currency was dominated by deposits denominated in euro with 95.3 per cent.

An overview of deposits and loans to the non-bank sector in thousands of euros.



	Legal entities	Households	Sight	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2010	316,748	1,053,726	550,900	625,764	193,810	1,306,559	63,915	1,370,474
31.12.2009	446,250	994,345	506,610	835,927	98,058	1,384,116	56,479	1,440,595

The volume of the **deposits placed by legal entities** decreased by 29.0 per cent (by 129.5 million euros) comparing with 2009. The Bank's market share in this segment thus decreased from 7.8 per cent to 5.1 per cent.

Deposits from **households** account for 76.9 per cent of all non-bank deposits and at the end of 2010 totalled 1,053.7 million euros, i.e. 59.4 million euros more year-on-year.

5.3 CARD OPERATIONS IN THE ACTIVA SYSTEM

Activa payment system

During 2010, the newly established card company ISP Card was consolidated in line with the company's mission to provide development and processing of card operations to the banks – members of the Activa system. In addition, most activities associated with card operations were run at the changeover from the existing card operations platform to a new, technologically advanced eXact platform with focus on ensuring compliance with the PCI DSS standard. A variety of new products has been added. The expansion of the use of SMS information sent to the Bank's customers about transactions deserves to be mentioned here.

The Activa system embarked during the year under review on a widespread marketing campaign designed to boost card payments by giving awards to "big spenders" – Prenovimo vaše življenje (Let's makeover your life). The campaign was yet another step taken by the Activa system every year with the aim to increase cardholder awareness of the advantages of paying by card and not any payment card but the Activa-branded cards.

Card business

During 2010, Banka Koper continued with the project for the implementation of the contactless payments card technology, the expansion of its offering by pro-active marketing of American Express cards, continuing collaboration in the project to provide card payments and e-payments for administrative bodies, as well as the co-operation with the Chamber of Crafts and Small Business of Slovenia by issuing the Obrtnik payment card.

The number of cards issued in 2010 exceeds 300,000. In comparison with 2009, the card business grew by 3 per cent. The turnover generated by using cards in 2010 remains at the same level as in 2009, primarily as a result of the macroeconomic environment.

5.4 MODERN BANKING CHANNELS

Banka IN – since 2008, Banka IN remains the foremost personal bank on the Internet thanks to its specifically designed operations – the communication between the Bank and the customer – and its highly appreciated attributes have laid down the foundations of modern banking. The simplicity, integrity and versatility of Banka IN are some of numerous advantages that bring value added to its users and an additional – if not the only – channel for transacting with Banka Koper. It is the desire to bring a full range of banking services under customers' fingertips that tipped the scale in the last quarter of 2010 in favour of Banka IN and the phasing out of the "good old" i-Net. The changeover from the i-Net to Banka IN will open a new dimension of banking operations for its users. The migration from the first generation internet banking of Banka Koper to the second generation launched at the end of 2010 is scheduled to be completed by the end of April 2011. The triumphant march of Banka IN will continue and ever more convenient and efficient solutions will follow.

5.5 MARKETING MUTUAL FUNDS

At Banka Koper, we have offered a full spate of mutual funds to our customers and in May 2010 we started marketing four new funds of Eurizon Manager Selection Fund (EMSF). These are the funds of funds with globally oriented investment policy, which means that investments are allocated to the funds of the global renowned management companies.

As regards mutual funds marketing, the results achieved in 2010 are lacklustre. Investors remained wary despite the positive trend in the world capital markets also during the year under review; hence funds remained on the margins of investor interest. Two marketing campaigns launched by Banka Koper fell short of the target (lower entry costs and benefits for renewed contracts on the savings scheme) expected to draw attention of investors to place their savings in the funds offered by Banka Koper. The figures show that 2.7 million euros in total gross assets was invested on the Eurizon EasyFund, Eurizon Manager Selection Fund and Franklin Templeton Investment Fund, whereas the funds of the Slovenian management companies marketed through Banka Koper attracted total gross assets in the amount of 1 million euros.

5.6 DISTRIBUTING INSURANCE POLICIES

During the year under review, Banka Koper continued its co-operation with the insurance companies Adriatic Slovenica and Generali. The Bank's co-operations with Generali has been expanded. The Bank has also started to offer home insurance policies.

The volume of the sold contracts slightly increased during the year under review in comparison with 2009 by an average of ten insurance policies per month, mostly in the motor vehicle business segment sold by Generali. Life insurance polices are set to remain unattractive as long as the interest for investments in funds remains subdued.

5.7 LEASING

The commercial approach to the marketing of financial leasing of moveable property through the branch network of Banka Koper was carried out also during the year under review within the framework of the regular offering of Finor Leasing d.o.o. (hereinafter: Finor Leasing), as well as within the framework of various marketing campaigns launched by the Bank for the specific groups of businesses.

The Bank's full subsidiary Finor Leasing concluded 546 contracts in the aggregate amount of 29.7 million euros. The majority of contracts were concluded for passenger cars - 252 contracts in the amount of 7.7 million euros, followed by commercial vehicles - 187 contracts in the amount of 5.5 million euros, manufacturing and other equipment - 119 contracts in the amount of 4.4 million euros, real estate, the strongest group in value terms - 32 contracts in the amount of 16.2 million euros, and the smallest group of contracts for the purchase of yachts - 12 contracts in the amount of 0.7 million euros.

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 2010, the OVPS posted total assets of 35.8 million euros, which means a 20.5 per cent growth with regard to year-end 2009. At the end of 2010, the OVPS had 6,345 members or 5.4 per cent more than a year earlier, of which 5,658 were collectively insured and 687 were individually insured.

Unit asset value increased by 1.8 per cent year-on-year and reached 8.4 euros at the end of 2010. Since the establishment of the fund in 2001 the unit asset value increased by 101.5 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 that begun in the second half of 2008, has still influenced on business in Slovenian investment funds and consequently also on the Bank's custodian business segment.

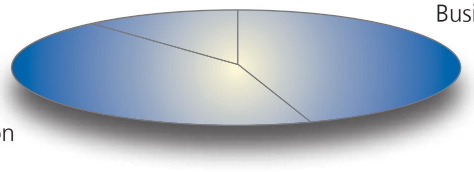
In 2010 Banka Koper developed and successfully marketed a new service designed to run its administrative services in the event of an emergency in management companies.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

Capital investments

Also in 2010, Banka Koper continued with the implementation of the long-term development programme and invested 2.9 million euros in the computerisation of its operations, in office space and in other equipment.

Structure of capital investments in 2010



The lion's share of capital investments (gross capital formation) – 1.3 million euros or 44.0 per cent of all investments - was allocated in 2010 to the renovation of the premises in order to make them meet the needs of a modern banking service and according to integrated image of the banking group (Agencies in Piran, Slovenj Gradec, Novo mesto).

Banka Koper allocated 1.0 million euros in 2010 to the computerisation of banking operations, of which 0.6 million euros was spent on the development of banking applications and 0.4 million euros on software development. Investments were mainly in the development of Banka IN, updates of the existing applications and the development of CRM. Substantial investments in the area of card operations were inevitable in order to meet ever-stricter security requirements in this area.

Information and technological development

In 2010 the Bank upgraded the existing functionalities of its electronic bank for individuals (**Banka IN**), and at the same time it embarked on the project for a mass migration of the users of its first electronic bank – the i-Net to Banka IN. Banka IN enables virtual communication between a customer and his/her personal banker through different channels (telephone, Internet), while catering to all customer needs by a convenient provision of the full range of banking services without having to walk to a branch. In addition, Banka Koper gave a facelift to its website and upgraded the functions offered alongside the re-branding undertaken with the aim to align the corporate image of Banka Koper with the graphics used by the Intesa Sanpaolo Group.

As regards **payment services**, Banka Koper implemented successfully the SEPA payment scheme for direct debits (DB), the modifications associated with the SEPA scheme for credit payments, the universal payment order and the support for the exchange and payment of e-invoices.

The Bank **has overhauled the system for keeping loans approved to natural persons, as well as the area of card operations**. The result of the overhaul is a better support to business processes and the optimal information and data integration of the systems. Regarding legal persons, Banka Koper has developed a new product – the line of credit with a forfeiting possibility.

In line with the upgrade of the information technology system of the Ljubljana Stock Exchange, the Bank has also upgraded the internal information technology stock exchange system and the technical infrastructure necessary to support the processes.

The archiving of electronic documents was centralised during in 2010 and necessary arrangements were made in order to have in place a reliable electronic archive.

The data warehouse was extended in 2010 by adding new contents and functionalities with the aim to ensure the data integrity at a daily level for various needs of Banka Koper and external regulators. In line with the relevant legal requirements, Banka Koper overhauled the system for reporting to Central Bank and amended reporting to the SISBON system. Furthermore, Banka Koper introduced the analytical tool for fast and efficient preparation and analysis of final reports and data/information complied to serve the needs of the management board and other expert services of Banka Koper.

As regards the Bank's business processes, the deepest changes in its organisational set-up and business processes were conducted on the process for the approval of loans/investments and collection of debt.

As to the **technical infrastructure**, Banka Koper renovated during 2010 under review the local network and introduced VoIP telephony and in line with the requirements laid down in the PCI DSS Standard, it implemented a product for the central collection and analysis of logs for all active network elements.

7. ORGANIC GROWTH AND CORPORATE SOCIAL RESPONSIBILITY

Headcount and the educational structure of employees

At the end of 2010, the Bank employed 771 employees. The average age of its employees was 41.8 years. The aggregate years of service averaged 19.8 years, the number of years spent working for the Bank was 15.3 years. The rate of staff turnover in 2010 was 6.9 per cent.

Number of employees by educational level

Level of education	V or lower	VI	VII or higher	Total
Number of employees	376	87	308	771
Share (in %)	48.8	11.3	39.9	100.0

Education and training of employees

In 2010, various types of educational events attracted 2,987 participants that attended 22,334 educational hours. The average number of educational hours per employee of Banka Koper was 29.0. Banka Koper increased in 2010 the scope of the internal professional education and training system (2,689 participants).

The Bank also acknowledges the importance of formal education and fully supports its employees in their efforts. In 2010, the Bank granted financial contributions for education purposes to 24 employees.

Indicators of processes and education – education and training of employees

Indicators of processes and education – education and training of employees	Banka Koper d.d.
Number of employees on 31st of December 2010	771
Annual number of employees included in education and training	725
Share of employees included in education and training (in %)	94.3
Annual number of hours in education and training	22,334
Annual number of hours in education and training per employee	4.27

Development of key staff and human capital potentials:

Also during the year under review, Banka Koper was highly active within the framework of the project designed to develop young people into successful bank managers and experts started in 2008. Banka Koper applied also for the nomination for the selection of the 2010HRM project, organised for the eight consecutive year by Planeta GV in effort to identify bets practice regarding human resource management in the Slovenian companies. The project of Banka Koper was placed third.

Corporate Social Responsibility

The support to the community in which Banka Koper operates is a crucial part of the business strategy. By being deeply involved with the local people and their needs demonstrates the Bank's corporate social responsibility and defines its role in shaping the future.

The Bank allocates funds as a sponsor as part of its effort to foster good business relationships and help promote a series of sports, cultural and educational associations and organisations and facilitates the organisation of various social events. During the year under review, Banka Koper helped finance the area of culture and arts by sponsoring art exhibitions, as well as theatre and cultural performances. At the head office of Banka Koper in Koper, three theme exhibitions of the renowned artists were staged in collaboration with Obalne galerije Piran (art galleries from Piran). The tradition of sponsoring various popular events at Auditorium of Portorož, the international summer festival Lent in Maribor and Primorski poletni festival (the summer festival of the coastal region) in 2010 will continue also in 2011.

The collaboration between Banka Koper and the University of Primorska has been traditionally good as regards applied research within the framework of Incubator of the University of Primorska. Also in the course of 2010, Banka Koper paid a pro-active role in encouraging and developing opportunities for young entrepreneurs through a prize-winning competition Podjetna Primorska – Entrepreneurial Coastal Region.

As a long-time sponsor, Banka Koper took part in the project and the in the award-giving ceremony for the fastest growing enterprises of the Primorsko–notranjska region – Primorsko-notranjske gazelle. The idea is to identify, short-list and announce the fastest growing companies and sole proprietors in Slovenia and the competition for the best entrepreneurial ideas - Najpodjetniške ideje. The latter looks into the development of business activities and fresh business ideas, as well as into both Slovenian start-up companies and the companies with long tradition.

Banka Koper is committed to responsible environment management and natural resources as clearly demonstrated by an array of loans for ecological purposes and by financing the renewable sources of energy and, above all, the use of solar energy - photovoltaic. The purchase of bicycles for the employees of Banka Koper shows that Banka Koper is included in the international project of the parent company »Bike Sharing«, and it has endorsed also the annual campaign Let's Clean Slovenia that manages to recruit volunteers from all over Slovenia ready to help get rid of garbage.

The year 2010 saw the intensification in the collaboration between Banka Koper and the parent undertaking Intesa Sanpaolo in the organisation of sports activities. In June 2010, Banka Koper staged for the second year in a row the international school of football of Banka Koper AC Milan Junior and a football tournament for young players - 1st Intesa Sanpaolo Banka Koper U15 football tournament. The event took place in Koper and attracted many young sportsmen from all over Slovenia. In May at Lipica under the umbrella of the parent company, the first Golf tournament of Banka Koper way played with strong competition of both Slovenian and international golfers. For the sixth time Banka Koper was the main sponsor of a high-profile sports event – the international women WTA tennis tournament of Banka Koper – Slovenija Open. As the tennis tournament moves to Baku (Azerbaijan), the Bank's successful sponsorship comes to an end.

The humanitarian activity of Banka Koper is demonstrated through its donations to a number of institutions such as the local associations of Red Cross of Slovenia, Karitas and other institutions having a similar mission. Banka Koper participates in the auctions for humanitarian causes BARIKI VINAKOPER and in donations at a smaller scale for the purchase of medical equipment for hospitals or to help families and individuals of poor financial standing.

The Bank has been donating for years already funds allocated to business gifts to various charities proposed by the Bank's branches. This time, Banka Koper earmarked funds to the people hit hard by floods in the Slovenian regions of Primorska, Central Slovenia and Dolenjska. The Bank has prepared also special credit terms for the individuals and the families from the regions where the natural disasters dealt a heavy blow to the local population.

8. POSITIONING BUSINESS FOR GROWTH IN 2011

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. 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 on-going education and training of staff,
- By appropriate organisational adjustment.

Objectives of Banka Koper in 2011

Banka Koper is committed to strengthening its position in 2011 by constantly improving the existing services to clients and by launching new ones, as well as to increasing its share of the market by opening new branches in Slovenia's capital.

- **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 the 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 new branches is planned for 2011, which will strengthen further its already well-branched network. In addition, the Bank is going to give impetus to the commercial activities across its existing retail network.

- **Launching new products**: the Bank will continue to expand its range of products and services also in the next year. In 2011, the Bank is planning to introduce new prepaid cards, to issue more structured deposits and grant housing loans with interest cap and more. 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.

- **IT support development**: in 2011, the Bank will stay on track of IT development and will review and upgrade some of its software applications and thus continue to provide expertise and leadership in the banking industry.

9. SHAREHOLDERS

The share capital of Banka Koper is divided into 531,359 shares and amounts to 22.2 million euros. The no-par value shares do not have a nominal amount. 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.

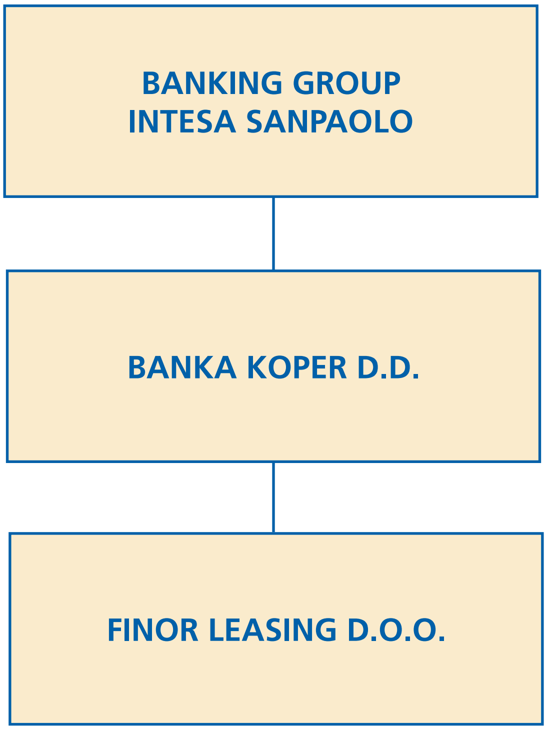
Shareholder structure of Banka Koper d.d.:

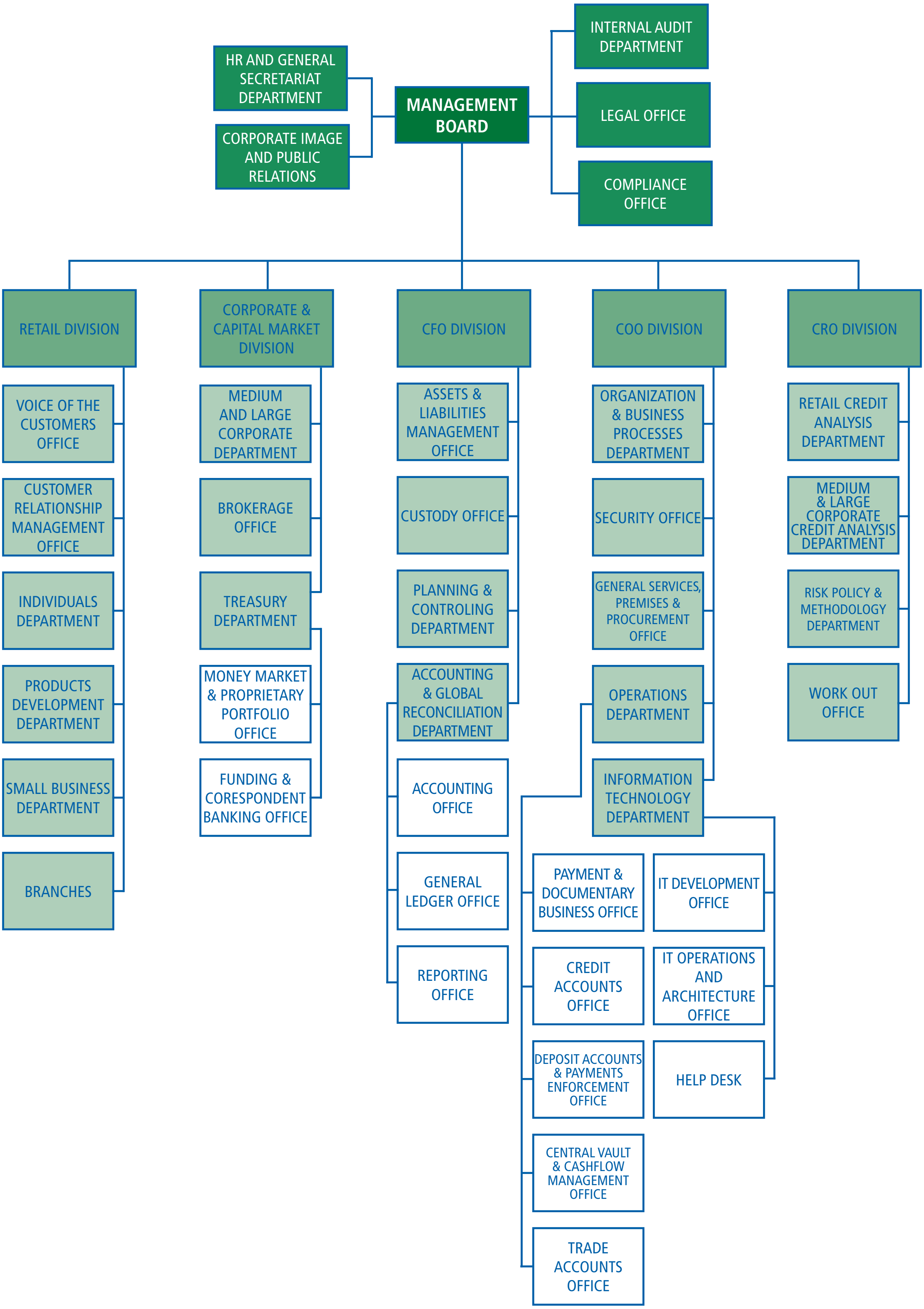
		% of capital	
	SHAREHOLDER	**31 Dec. 2010**	**31 Dec. 2009**
1.	Intesa Sanpaolo S. P. A.	97.5 %	97.3 %
2.	Elektro Primorska d.d	0.7 %	0.7 %
3.	Kraški vodovod Sežana d.o.o.	0.3 %	0.3 %
4.	Minority shareholders	1.5 %	1.7 %

10. ORGANISATIONAL CHART AS AT 31 DECEMBER 2010

- RETAIL DIVISION
  - KOPER BRANCH
    - MARKOVEC AGENCY
    - OLMO AGENCY
    - GALEB AGENCY
    - ANKARAN AGENCY
    - OLMO II AGENCY
  - IZOLA BRANCH
  - PIRAN BRANCH
    - PORTOROŽ AGENCY
    - PIRAN AGENCY
  - SEŽANA BRANCH
    - KOMEN AGENCY
    - KOZINA AGENCY
    - DIVAČA AGENCY
  - POSTOJNA BRANCH
    - PIVKA AGENCY
  - ILIRSKA BISTRICA BRANCH
    - TRNOVO AGENCY
    - PODGRAD AGENCY
  - MARIBOR BRANCH
    - PTUJ AGENCY
    - LENART AGENCY
    - ORMOŽ AGENCY
    - MIKLAVŽ AGENCY
    - SLOVENSKA BISTRICA AGENCY
  - NOVA GORICA BRANCH
    - IDRIJA AGENCY
    - TOLMIN AGENCY
    - AJDOVŠČINA AGENCY
  - LJUBLJANA BRANCH
    - DUNAJSKA AGENCY
    - TRZIN AGENCY
    - KAMNIK AGENCY
    - LOGATEC AGENCY
    - BRDO AGENCY
    - GROSUPLJE AGENCY
    - KOČEVJE AGENCY
  - NOVO MESTO BRANCH
    - TREBNJE AGENCY
    - SEVNICA AGENCY
    - ČRNOMELJ AGENCY
    - BREŽICE AGENCY
  - KRANJ BRANCH
    - RADOVLJICA AGENCY
    - JESENICE AGENCY
  - MURSKA SOBOTA BRANCH
    - LENDAVA AGENCY
  - CELJE BRANCH
    - VELENJE AGENCY
    - ŽALEC AGENCY
    - ŠENTJUR AGENCY
  - SLOVENJ GRADEC BRANCH
    - RADLJE OB DRAVI AGENCY
    - RAVNE NA KOROŠKEM AGENCY

ORGANISATIONAL CHART AS AT 31 DECEMBER 2010




MANAGEMENT BOARD
HR AND GENERAL SECRETARIAT DEPARTMENT
CORPORATE IMAGE AND PUBLIC RELATIONS
INTERNAL AUDIT DEPARTMENT
LEGAL OFFICE
COMPLIANCE OFFICE
RETAIL DIVISION
VOICE OF THE CUSTOMERS OFFICE
CUSTOMER RELATIONSHIP MANAGEMENT OFFICE
INDIVIDUALS DEPARTMENT
PRODUCTS DEVELOPMENT DEPARTMENT
SMALL BUSINESS DEPARTMENT
BRANCHES
CORPORATE & CAPITAL MARKET DIVISION
MEDIUM AND LARGE CORPORATE DEPARTMENT
BROKERAGE OFFICE
TREASURY DEPARTMENT
MONEY MARKET & PROPRIETARY PORTFOLIO OFFICE
FUNDING & CORESPONDENT BANKING OFFICE
CFO DIVISION
ASSETS & LIABILITIES MANAGEMENT OFFICE
CUSTODY OFFICE
PLANNING & CONTROLING DEPARTMENT
ACCOUNTING & GLOBAL RECONCILIATION DEPARTMENT
ACCOUNTING OFFICE
GENERAL LEDGER OFFICE
REPORTING OFFICE
COO DIVISION
ORGANIZATION & BUSINESS PROCESSES DEPARTMENT
SECURITY OFFICE
GENERAL SERVICES, PREMISES & PROCUREMENT OFFICE
OPERATIONS DEPARTMENT
INFORMATION TECHNOLOGY DEPARTMENT
PAYMENT & DOCUMENTARY BUSINESS OFFICE
CREDIT ACCOUNTS OFFICE
DEPOSIT ACCOUNTS & PAYMENTS ENFORCEMENT OFFICE
CENTRAL VAULT & CASHFLOW MANAGEMENT OFFICE
TRADE ACCOUNTS OFFICE
IT DEVELOPMENT OFFICE
IT OPERATIONS AND ARCHITECTURE OFFICE
HELP DESK
CRO DIVISION
RETAIL CREDIT ANALYSIS DEPARTMENT
MEDIUM & LARGE CORPORATE CREDIT ANALYSIS DEPARTMENT
RISK POLICY & METHODOLOGY DEPARTMENT
WORK OUT OFFICE

ZVEZDNATO NEBO, 2010, oil on canvas,120 x 140 cm

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

ERNST & YOUNG

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Banka Koper d.d., which comprise the statement of financial position as at December 31, 2010, 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 information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, 2010, and its financial performance and 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, March 14, 2011

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

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

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Banka Koper d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banka Koper Group, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statement of income, 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 information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, 2010, and its financial performance and 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, March 14, 2011

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

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

DEŽEVNA DEŽELA, 2010, oil on canvas,120 x 140 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 2010. 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, 10 March 2011

Member
Aleksander Milostnik

Deputy president
Igor Kragelj

President
Ezio Salvai

Member
Mag. Aleksander Lozej

Member
Rado Grdina

Member
Mario Henjak

Member
Francesco Del Genio

DREVO - ZIMSKA POKRAJINA, 2009, oil on canvas, 150 x 200 cm

1. STATEMENT OF INCOME

Statement of income

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2010	2009	2010	2009
Interest income	4	79,088	95,991	81,534	99,002
Interest expense	4	(21,448)	(35,131)	(22,381)	(35,937)
Net interest income		**57,640**	**60,860**	**59,153**	**63,065**
Dividend income	5	938	418	638	118
Fee and commission income	6	35,658	35,389	35,943	40,559
Fee and commission expense	6	(10,712)	(8,201)	(10,752)	(8,055)
Net fee and commission income		**24,946**	**27,188**	**25,191**	**32,504**
Gains less losses from financial assets and liabilities not recognised at fair value through profit and loss	7	3,202	3,562	3,202	3,562
Gains less losses from financial assets and liabilities held for trading	8	2,027	2,167	2,027	2,167
Gains less losses from foreign exchange transactions		907	(775)	860	(773)
Gains less losses on derecognition of non-current assets other than held for sale	9	1,740	550	1,716	559
Other operating gains less losses	10	1,351	1,143	2,041	1,300
Administrative expenses	11	(41,490)	(44,929)	(42,283)	(49,832)
Amortisation and depreciation	12	(5,429)	(6,247)	(5,924)	(7,309)
Provisions:		7,823	2,241	7,825	2,156
- provisions	13	7,938	2,545	7,946	2,545
- retirement benefit obligations	13	(115)	(304)	(121)	(389)
Impairment losses on loans and advances	14	(32,397)	(18,007)	(32,980)	(19,063)
Operating profit		**21,258**	**28,171**	**21,466**	**28,454**
Income tax expense	15	(3,852)	(5,866)	(3,967)	(6,036)
Net profit for the period		**17,406**	**22,305**	**17,499**	**22,418**
Attributable to:					
Equity holders of the parent		-	-	17,499	22,365
Non-controlling interest		-	-	-	53
		-	-	17,499	22,418
Earnings per share (basic and diluted) (expressed in EUR per share)	16	32.82	42.05	32.99	42.17

The following notes on pages 51 to 140 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	
	2010	2009	2010	2009
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**17,406**	**22,305**	**17,499**	**22,418**
OTHER COMPREHENSIVE INCOME NET OF TAX	**(2,218)**	**1,428**	**(2,218)**	**1,428**
Available-for-sale financial assets	**(2,772)**	**1,569**	**(2,772)**	**1,569**
- valuation gains (losses) taken to equity	(152)	6,833	(152)	6,833
- transferred to profit or loss	(2,620)	(5,264)	(2,620)	(5,264)
Income tax relating to components of other comprehensive income	554	(141)	554	(141)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**15,188**	**23,733**	**15,281**	**23,846**
a) Attributable to owners of the parent			15,281	23,793
b) Attributable to non-controlling interests			-	53

3. STATEMENT OF FINANCIAL POSITION

Statement of financial position

(all amounts expressed in thousands of EUR)

	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2010	2009	2010	2009
ASSETS					
Cash and balances with Central Banks	18	37,871	57,296	37,871	57,297
Financial instruments held for trading:		1,684	35,692	1,684	35,692
- trading assets	19	1,665	34,873	1,665	34,873
- derivative financial instruments	20	19	819	19	819
Investment securities available for sale	21	312,977	324,483	312,977	324,483
Loans and advances:		1,857,791	1,952,757	1,914,386	2,011,339
- to banks	22	34,057	20,679	34,057	20,679
- to customers	23	1,823,734	1,932,078	1,880,329	1,990,660
Investment securities held to maturity	21	316	929	316	929
Goodwill	24	-	-	905	905
Property, plant and equipment	25	25,727	28,185	26,988	30,938
Investment property	26	940	403	940	403
Intangible assets	27	5,645	6,077	5,646	6,913
Investment in subsidiaries	28	3,688	6,928	-	-
Income tax assets		2,824	3,174	3,112	3,946
- current income tax		708	1,654	708	1,654
- deferred income tax	37	2,116	1,520	2,404	2,292
Other assets	29	10,088	10,564	10,899	13,204
Total assets		**2,259,551**	**2,426,488**	**2,315,724**	**2,486,049**
LIABILITIES					
Liabilities to Central Bank	30	-	90,292	-	90,292
Financial instruments held for trading:		519	14,473	519	14,473
- derivative financial instruments	20	519	14,473	519	14,473
Liabilities carried at amortised cost:		1,957,368	2,020,515	2,011,239	2,069,558
- deposits from banks	31	128,566	102,961	128,566	102,961
- due to customers	32	1,360,262	1,440,372	1,358,756	1,440,342
- other borrowed funds from banks	33	458,328	476,959	513,705	526,032
- other borrowed funds from other customers	34	10,212	223	10,212	223
Provisions:		11,168	20,000	11,148	20,102
- provisions for liabilities and charges	35	8,170	16,508	8,077	16,411
- retirement benefit obligations	36	2,998	3,492	3,071	3,691
Income tax liabilities:		4,114	4,428	4,119	4,600
- current income tax		-	-	5	172
- deferred income tax	37	4,114	4,428	4,114	4,428
Other liabilities	38	20,134	19,071	21,021	27,862
Total liabilities		**1,993,303**	**2,168,779**	**2,048,046**	**2,226,887**
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	12,878	15,096	12,878	15,096
Reserves from profit	41	212,476	200,289	212,476	200,289
Treasury shares	39	(49)	(49)	(49)	(49)
Retained earnings (including income from the current year)	41	11,271	12,701	12,701	13,768
Non-controlling interest		-	-	-	386
Total shareholders´ equity		**266,248**	**257,709**	**267,678**	**259,162**
Total equity and liabilities		**2,259,551**	**2,426,488**	**2,315,724**	**2,486,049**

The following notes on pages 51 to 140 form an integral part of these financial statements.

4. UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

In the year 2010 – 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**	**15,096**	**200,289**	**12,701**	**(49)**	**257,709**
Comprehensive income for the financial year after tax	40	-	-	(2,218)	-	17,406	-	15,188
Appropriation of (accounting for) dividends	41	-	-	-	-	(6,689)	-	(6,689)
Transfer of net profit to reserves from profit	41	-	-	-	12,187	(12,187)	-	-
Other-outdated dividends not disbursed to shareholders	41	-	-	-	-	40	-	40
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**11,271**	**(49)**	**266,248**
PROFIT AVAILABLE FOR DISTRIBUTION		-	-	-	-	5,262	-	-

In the year 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**
AVAILABLE PROFIT FOR DISTRIBUTION		-	-	-	-	6,692	-	6,692

The following notes on pages 51 to 140 form an integral part of these financial statements.

5. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

In the year 2010 – 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**	**15,096**	**200,289**	**13,768**	**(49)**	**258,776**	**386**	**259,162**
Consolidated Comprehensive Income for the financial year after tax	40	-	-	(2,218)	-	17,499	-	15,281	-	15,281
Appropriation of (accounting for) dividends	41	-	-	-	-	(6,689)	-	(6,689)	-	(6,689)
Transfer of net profit to reserves from profit	41	-	-	-	12,187	(12,187)	-	-	-	-
Other-retained earnings due to change of entities involved in consolidation	41	-	-	-	-	270	-	270	(386)	(116)
Other-outdated dividends not disbursed to shareholders	41	-	-	-	-	40	-	40	-	40
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**12,701**	**(49)**	**267,678**	**-**	**267,678**

In the year 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**

The following notes on pages 51 to 140 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	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		21,258	28,171	21,466	28,780
Depreciation		5,428	6,247	5,923	7,393
Impairments of capital investments in subsidiaries, associates and joint ventures		(370)	-	(370)	-
Net (gains) / losses from exchange differences		746	373	794	369
Net (gains) / losses from sale of tangible assets and investment properties		(89)	(649)	(65)	(658)
Net (gains) / losses from sale of intangible fixed assets		(1,651)	99	(1,651)	99
Unrealised (gains) / losses from financial assets measured at fair value		11	23	11	23
Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)		(2,773)	3,428	(2,773)	3,428
Other adjustments to total profit or loss before tax		(9,389)	(6,330)	(9,391)	(6,121)
Cash flow from operating activities before changes in operating assets and liabilities		**13,172**	**31,362**	**13,944**	**33,313**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**147,652**	**98,023**	**142,975**	**74,979**
Net (increase) / decrease in balances with central banks		2,054	(1,625)	2,027	(1,625)
Net (increase) / decrease in financial assets held for trading		32,937	15,691	32,937	15,691
Net (increase) / decrease in financial assets available for sale		11,506	(26,155)	11,506	(26,155)
Net (increase) / decrease in loans and receivables		101,227	102,868	96,406	79,976
Net (increase) / decrease in other assets		(72)	7,244	53	7,092
(Increases) / decreases in operating liabilities		**(167,170)**	**(92,530)**	**(162,836)**	**(70,734)**
Net increase / (decrease) in financial liabilities to central bank		(90,292)	(68,362)	(90,292)	(68,362)
Net increase / (decrease) in financial liabilities held for trading		(13,954)	(359)	(13,954)	(359)
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost		(63,147)	(23,724)	(58,415)	(3,535)
Net increase / (decrease) in other liabilities		224	(85)	(175)	1,522
Cash flow from operating activities		**(6,346)**	**36,855**	**(5,962)**	**37,558**
Income taxes (paid) refunded		(3,248)	(10,570)	(3,430)	(10,804)
Net cash flow from operating activities		**(9,594)**	**26,285**	**(9,392)**	**26,754**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**5,974**	**815**	**6,069**	**1,155**
Receipts from the sale of tangible assets and investment properties		17	52	139	392
Receipts from the disposal of subsidiaries, associates and joint ventures		5,261	-	5,234	
Receipts from the sale of financial assets held to maturity		696	763	696	763
Cash payments on investing activities		**(1,880)**	**(3,628)**	**(2,202)**	**(4,447)**
Cash payments to acquire tangible assets and investment properties		(637)	(3,463)	(959)	(4,260)
Cash payments to acquire intangible fixed assets		(1,160)	-	(1,160)	(22)
Cash payments to acquire held to maturity investments		(83)	(165)	(83)	(165)
Net cash flow from investing activities		**4,094**	**(2,813)**	**3,867**	**(3,292)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash proceeds from financing activities		**-**	**-**	**-**	**-**
Cash payments on financing activities		**(6,689)**	**-**	**(6,689)**	**-**
Dividends paid		(6,689)	-	(6,689)	-
Net cash flow from financing activities		**(6,689)**	**-**	**(6,689)**	**-**
Effects of change in exchange rates on cash and cash equivalents		1,653	(402)	1,653	(402)
Net increase in cash and cash equivalents		**(12,189)**	**23,472**	**(12,214)**	**23,462**
Opening balance of cash and cash equivalents	43	**47,615**	**24,545**	**47,646**	**24,586**
Closing balance of cash and cash equivalents	43	**37,079**	**47,615**	**37,085**	**47,646**

As at 31 December

STATEMENT OF CASH FLOWS

Operational cash flows of interest and dividends

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Interest paid	(22,322)	(39,571)	(23,255)	(40,377)
Interest received	81,496	101,711	83,942	104,722
Dividends Received	938	418	638	118

As at 31st December 2010, the Bank and Group had undrawn credit lines and loans already committed of EUR 521,587 thousand (2009: EUR 531,506 thousand).

The Bank and the Group have credit lines and other facilities of EUR 521,587 thousand that are available for financing future business operations without any restrictions.

Sale of subsidiary

	(all amounts expressed in thousands of EUR)
Cash and cash equivalents	27
Loans	20,950
Other assets	4,722
Borrowed funds	(14,402)
Other liabilities	(8,057)
Total sale assets	**3,240**
Cash received from sale	5,261
Less cash and cash equivalents from subsidiary	(27)
Net cash inflow from sale	**5,234**

The following notes on pages 51 to 140 form an integral part of these financial statements.

SAM, 2009, oil on canvas, 150 x 200 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 owned 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 %. According to the initiative of the parent Bank, Banka Koper sold the investment in ISP Card d.o.o. Ljubljana to ISP Card d.o.o. Zagreb in March 2010.

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.

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.

Amendment to IFRS 2 – *Cash-Settled Share-Based Payment Transactions in the Group*

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. IFRIC 8 and 11 are replaced by the amendment. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

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 minority interests. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

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 adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRIC 17 *Distribution of Non-Cash Assets to Owners*
IFRIC 17 became 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. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

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 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.

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*

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

Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for first time adopters
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.

IAS 32 F*inancial Instruments: Presentation, Classification of the Option to Purchase Shares Denominated in a Foreign Currency*

Applicable for periods beginning on or after 1 February 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.

IFRIC 14 P*repayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

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

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.

Amendment to IFRS 7 - *Financial instruments* - Disclosures to enhance the transparency of disclosure requirements for the transfer of financial assets. Issued in October 2010.

The amendments will assist users to understand the implications of transfers of financial assets and the potential risks that may remain with the transferor.

IAS 34 Interim Financial Reporting, effective for annual periods beginning on or after 1 January 2011.

This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements.

IAS 12 Deferred tax: Recovery of Underlying Assets (Amended)

The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment concerns the determination of deferred tax on investment property measured at fair value and also incorporates SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16. The aim of this amendment is to include a) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and b) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. This amendment has not yet been endorsed by the EU. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

Improvements to IFRS (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

IFRS 3 - Business Combinations
IFRS 7 - Financial Instruments: Disclosures
IAS 1 - Presentation of Financial Statements
IAS 27 - Consolidated and Separate Financial Statements
IFRIC 13 Customer Loyalty Programmes

2.2 CONSOLIDATION

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent bank, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

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.

Business combinations from 1 January 2010

In the consolidated financial statements business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2010
In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.6 ASSOCIATED UNDERTAKINGS

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

In the consolidated financial statements, 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.

IFRS 7 states that each company from 1st January 2009, should disclosure the inputs used to evaluate the investments at fair value (assets held for trading or available for sale), classifying these financial instruments in three levels of fair value.

In the **first level** are classified assets which prices are available on an active market.

In the **second level** are classified assets which market prices are considered inappropriate because the market is not active. In these cases other inputs for their valuation are directly or indirectly taken from the market, such as:

- prices of the evaluated asset formed on non-active markets;
- prices of similar assets;
- valuation techniques that use only input directly visible on the market, or input assailable to market prices (yield curves, input from correlation techniques, etc.).

For assets classified in second level only insignificant adjustments to the market input could be used.

In the **third level** are classified financial instruments with fair value determined by different internal valuation models and where assumptions or variables used are not directly available on the market.

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 or when the derivative is derecognised.

Derecognition of the derivatives occurs only when through a legal transaction that transfers ownership of a financial instrument to the buyer, the seller also transfers substantially all the risks and future rewords of ownership of the financial instrument.

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
Other investment in intangibles	10
Software	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
Equipment	4–5
Motor vehicles	5
Computers and software	3

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 rents 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.

2.25 TAXATION

Income tax is calculated by each Group member according to local legislation. For 2010 the income tax rate was 20 % (2009: 21 %).

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 2010 deferred tax was calculated using a 20 % tax rate. 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 % (2009: 5.7 %) and
- Future salary increases of 3.9 % (2009: 3.9 %) 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 risks for the Group are strategic risk, reputational risk, market risk, credit concentration risk and equity investment risk.

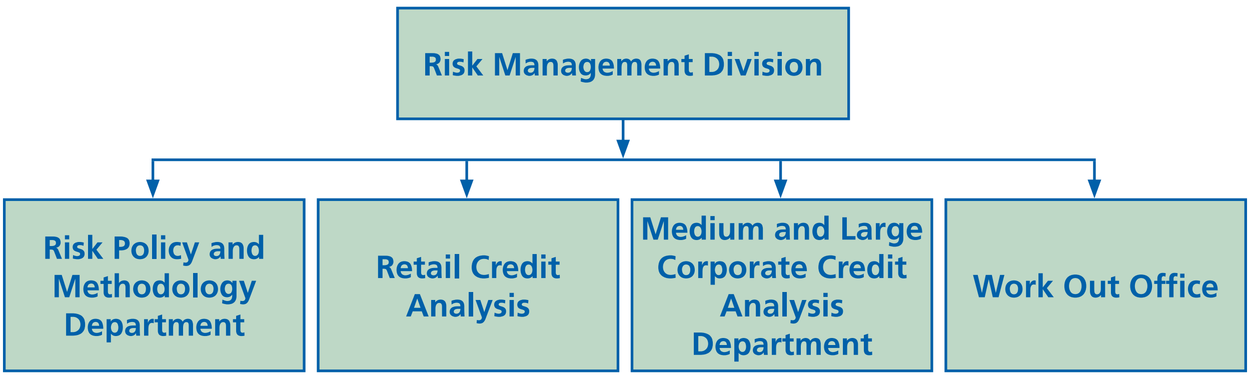
The objective of risk management is to control risk according to the risk appetite and derived willingness of the Group managing and ownership structures to assume risk. Since the Group is part of the larger Banking Group Intesa Sanpaolo, the methodologies and risk management processes are gradually 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 2010, 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 Risk Policy 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 Medium and Large Corporate Credit Analysis Department evaluates and monitors credit soundness of large and medium-sized entities.

We rearranged classes in October 2010 and the performing part of old C1 class were shifted to a newly introduced class B3. B3 is the last performing notch and it includes debtors being subject to a watch list. Classes C, D and E hence represent the non-performing Bank's credit exposure. The Work-Out office monitors the non-performing portfolio regarding all borrower segments and is responsible for credit recovery. The part of legal office, responsible for credit recovery, has been reorganised as part of to the work-out office, so that Risk Management Division now has full control of the recovery process.

We started with the new process of handling high-risk exposures in October 2010. The process is based on various indicators which help us to detect exposures with increased risk. When we get acquainted of negative symptoms and damaging events the committee for managing high-risk meets and takes the preventive measures to secure the risk of the Bank. The committee is the decision-making body and adopts preventive measures to mitigate the exposure of the Bank.

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 2010 – unconsolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2010	2009	2010	2009
Exposures to banking book				
Exposures to state and central bank	332,892	356,233	17	67
Exposures to local municipalities	37,805	22,821	18,122	11,375
Exposures to public sector	9,007	9,833	2,466	2,873
Exposures to development banks	1,115	1,673	-	-
Exposures to institutions	165,486	214,235	62,755	101,178
Exposures to enterprises	1,056,818	1,212,218	930,302	1,058,746
Exposures to retail banking	821,932	804,002	533,201	517,678
Past due exposures	83,390	55,407	103,096	78,251
Exposures to highly risk exposures	34,795	46,881	40,564	67,603
Exposures to investments funds	32,303	28,026	32,303	28,026
Exposures to other assets	99,102	86,199	86,045	72,435
Total	**2,674,645**	**2,837,528**	**1,808,871**	**1,938,232**
Credit risk weighted assets			1,808,871	1,938,232
Market risk weighted assets			625	4,700
Operational risk weighted assets			165,775	167,038
Total risk weighted assets			**1,975,271**	**2,109,970**
Regulatory capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			11,955	11,085
Statutory reserves			200,472	189,155
Treasury shares fund reserves			49	49
Retained earnings			6,009	6,009
Revaluation reserve (100% of negative revaluation of AFS shares)			(1,305)	(1,622)
Less intangible assets			(5,644)	(6,076)
Total qualifying Tier 1 capital			**241,159**	**228,223**
Revaluation reserve (80% of positive revaluation of AFS shares)			12,580	11,948
Total qualifying Tier 2 capital			**12,580**	**11,948**
Diminution of capital:				
- less investment in subsidiaries			(3,688)	(6,928)
Total diminution of capital			**(3,688)**	**(6,928)**
Total regulatory capital			**250,051**	**233,243**
Capital Adequacy ratio			**12.66**	**11.05**

Capital adequacy as at 31 December 2010 – consolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2010	2009	2010	2009
Exposures to banking book				
Exposures to state and central bank	333,183	357,010	17	67
Exposures to local municipalities	37,805	22,821	18,122	11,375
Exposures to public sector	9,045	9,839	2,484	2,876
Exposures to development banks	1,115	1,673	-	-
Exposures to institutions	165,486	214,235	62,755	101,178
Exposures to enterprises	1,049,272	1,201,374	931,076	1,053,809
Exposures to retail banking	854,722	832,984	557,794	539,414
Past due exposures	98,307	63,957	124,910	90,613
Exposures to highly risk exposures	35,762	73,113	41,951	105,083
Exposures to investments funds	32,303	28,026	32,303	28,026
Exposures to other assets	102,850	89,732	89,793	75,966
Total	**2,719,850**	**2,894,764**	**1,861,205**	**2,008,407**
Credit risk weighted assets			1,861,205	2,008,407
Market risk weighted assets			625	4,700
Operational risk weighted assets			170,200	170,738
Total risk weighted assets			**2,032,030**	**2,183,845**
Regulatory capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			11,955	11,085
Statutory reserves			200,472	189,155
Treasury shares fund reserves			49	49
Retained earnings			6,009	6,009
Revaluation reserve (100 % of negative revaluation of AFS shares)			(1,305)	(1,622)
Less intangible assets			(5,646)	(6,914)
Less goodwill			(905)	(905)
Minority interest			-	386
Total qualifying Tier 1 capital			**240,252**	**226,866**
Revaluation reserve (80 % of positive revaluation of AFS shares)			12,580	11,948
Total qualifying Tier 2 capital			**12,580**	**11,948**
Diminution of capital:				
- less investment in subsidiaries			-	-
- less non liquid assets			-	-
Total diminution of capital			-	-
Total regulatory capital			**252,832**	**238,814**
Capital Adequacy ratio			**12.44**	**10.94**

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 detached assessment within other risk typology (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 mandatory capital requirements for operational risk.

Banking book financial risk relates to equity risk, interest rate 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. Internal capital or capital needs 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 joint net interest income and net economic value sensitivity at the chosen statistical confidence level.

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.

In 2010 the Group discontinued the calculation of internal capital for Proprietary real estate risk, since this risk typology was evaluated as not materially affecting the Group's capital position. At the same time the Group introduced the assessment of stress scenario under ICAAP and evaluated internal capital for rare but possible events, that supplements the baseline internal capital.

Internal capital on stress-test

Stress-test are identified and if found relevant they are applied to all types of risks that influence the calculation of capital needs. The effects of stress tests are estimated separately for internal capital and Available financial resources:

- In terms of credit risk, the Group assesses the impact of a 3 percentage points lower GDP growth than the one planned (1 % annual growth).
- In terms of operational risk, the Group assesses the impact of the most relevant among 5 scenarios, with the one with the largest foreseeable loss identified through operational risk scenario evaluation selected.
- The banking book interest rate scenario is based on a 200 b.p. parallel shift on the yield curve.
- Equity market risk is assessed as the impact of a 20 % decrease of the Ljubljanska borza stock exchange official index SBI TOP.
- In terms of strategic risk, the effects of stress scenarios are identified which are based on movements in several macroeconomic indices over last two decades (like GDP, interest rate, inflation), considering the statistical relationship with income & cost components.

Internally assessed capital requirements as of 30. 9. 2010 on consolidated level

(all amounts expressed in millions of EUR)

Risk	Economic (Internal) Capital
• Credit Risk	147.57
• Market Risk	0.58
• Operational Risk	13.62
• Banking Book Risk	42.10
- Interest Rate Risk	13.69
- Equity Risks	28.41
• Strategic Risk	3.37
Stress test scenario	**8.01**
Total capital requirements	**215.25**
Available financial resources	**249.15**

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 2010 equalled to EUR 2,781 million, which is 10 % less than on 31st of December 2009. In the Group's credit portfolio of 31st of December 2010, 90 % of all credit exposures are classified as performing (A and B rating).

Banka Koper's credit risk related portfolio as at 31 December 2010

(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	72,089	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,937,328	1,799,028	75 %	1,589,983	73 %	209,045	90 %	26,853	2 %	85,162	41 %
Banks	175,846	56,683	2 %	56,683	3 %	-	0 %	-	0 %	-	0 %
Private individuals	554,522	553,811	23 %	529,365	24 %	24,446	10 %	1,019	0 %	10,755	44 %
Total	**2,739,785**	**2,409,553**	**100 %**	**2,176,062**	**100 %**	**233,491**	**100 %**	**27,872**	**1 %**	**95,917**	**41 %**

Banka Koper'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	2,092,548	1,968,810	78 %	1,880,091	78 %	88,719	79 %	63,302	3 %	26,896	30 %
Banks	169,599	45,367	2 %	45,367	2 %	-	0 %	-	0 %	-	0 %
Private individuals	507,999	507,523	20 %	483,636	20 %	23,887	21 %	5,350	1 %	11,017	46 %
Total	**3,011,726**	**2,521,722**	**100 %**	**2,409,116**	**100 %**	**112,606**	**100 %**	**68,652**	**3 %**	**37,913**	**34 %**

Group's credit risk related portfolio as at 31 December 2010

(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	72,089	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,968,006	1,833,394	75 %	1,619,048	73 %	214,346	89 %	26,775	2 %	86,133	40 %
Banks	175,846	56,683	2 %	56,683	3 %	-	0 %	-	0 %	-	0 %
Private individuals	565,263	564,552	23 %	538,499	24 %	26,053	11 %	1,053	0 %	10,992	42 %
Total	**2,781,204**	**2,454,660**	**100 %**	**2,214,261**	**100 %**	**240,399**	**100 %**	**27,828**	**1 %**	**97,125**	**40 %**

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 %**

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	
	2010	2009	2010	2009
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	34,057	20,679	34,057	20,679
Loans and advances to customers:	1,823,734	1,932,078	1,880,329	1,990,660
Loans to individuals:	449,830	397,049	460,274	428,475
- overdrafts	40,407	37,229	40,407	37,229
- credit cards	7,928	7,781	7,928	28,731
- term loans	118,521	122,524	118,521	122,524
- mortgages	282,974	229,515	282,974	229,515
- finance leases	-	-	10,444	10,476
Loans to sole proprietors	71,806	84,660	79,338	93,533
Loans to corporate entities	1,302,098	1,450,369	1,340,717	1,468,652
Investment securities available for sale	312,977	324,483	312,977	324,483
- debt securities	256,903	284,586	256,903	284,586
- equity securities	56,074	39,897	56,074	39,897
Investment securities held to maturities	316	929	316	929
- debt securities	316	929	316	929
Other assets	48,912	55,331	48,490	56,309
Credit risk exposures relating to off-balance sheet items are as follows:				
Guarantees	141,787	100,139	141,787	100,101
Credit commitments and other credit related liabilities	284,332	359,597	270,580	352,122
At 31 December	**2,646,115**	**2,793,236**	**2,688,536**	**2,845,283**

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Group at 31 December 2010 and 2009, 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.

Banka Koper's rating

	2010		2009	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
A	64	0.4	58	0.8
B	26	3.5	37	6.1
C	4	31.0	3	17.8
D	5	41.0	1	41.1
E	1	73.9	1	80.1
	100	**5.1**	**100**	**4.2**

Group's rating

	2010		2009	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
A	64	0.3	59	0.8
B	26	3.5	36	6.1
C	4	31.0	2	17.8
D	5	39.6	2	38.0
E	1	73.9	1	82.9
	100	**5.1**	**100**	**4.3**

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 are classified as non-performing 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). 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)

Unconsolidated	31 December 2010		31 December 2009	
	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	1,688,039	34,057	1,890,897	20,679
Past due but not impaired	26,304	-	19,239	-
Impaired	225,885	-	113,044	-
Gross	**1,940,228**	**34,057**	**2,023,180**	**20,679**
Impairment losses on loans and advances	(116,494)	-	(91,102)	-
Net	**1,823,734**	**34,057**	**1,932,078**	**20,679**

Loans and advances by maturity (past due) – consolidated

(all amounts expressed in thousands of EUR)

Consolidated	31 December 2010		31 December 2009	
	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	1,738,017	34,057	1,931,842	20,679
Past due but not impaired	27,397	-	33,254	-
Impaired	232,539	-	120,675	-
Gross	**1,997,953**	**34,057**	**2,085,771**	**20,679**
Impairment losses on loans and advances	(117,624)	-	(95,111)	-
Net	**1,880,329**	**34,057**	**1,990,660**	**20,679**

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

(all amounts expressed in thousands of EUR)

31 December 2010 - Unconsolidated	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due nor impaired A	40,456	7,957	110,031	260,275	42,127	724,311	1,185,157
Neither past due nor impaired B	-	-	4,470	13,158	20,811	464,443	502,882
Neither past due nor impaired C	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-
Not past due but impaired	-	-	4,186	10,571	6,836	74,844	96,437
Past due or impaired	2,974	-	4,432	2,812	12,003	133,531	155,752
Gross	**43,430**	**7,957**	**123,119**	**286,816**	**81,777**	**1,397,129**	**1,940,228**
Impairment losses on loans and advances	(3,023)	(29)	(4,598)	(3,842)	(9,971)	(95,031)	(116,494)
Net	**40,407**	**7,928**	**118,521**	**282,974**	**71,806**	**1,302,098**	**1,823,734**

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

(all amounts expressed in thousands of EUR)

31 December 2010 - 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	40,456	7,957	110,031	260,275	9,005	48,979	758,432	1,235,135
Neither past due nor impaired B	-	-	4,470	13,158	-	20,811	464,443	502,882
Neither past due nor impaired C	-	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Not past due but impaired	-	-	4,186	10,571	547	7,093	77,544	99,941
Past due or impaired	2,974	-	4,432	2,812	1,162	12,671	135,944	159,995
Gross	**43,430**	**7,957**	**123,119**	**286,816**	**10,714**	**89,554**	**1,436,363**	**1,997,953**
Impairment losses on loans and advances	(3,023)	(29)	(4,598)	(3,842)	(271)	(10,186)	(95,675)	(117,624)
Net	**40,407**	**7,928**	**118,521**	**282,974**	**10,443**	**79,368**	**1,340,688**	**1,880,329**

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**

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 2010 - 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	-	254	-	-	102	20	102	6	484
Past due 30 - 60 days	-	58	-	-	168	211	87	129	653
Past due 60 - 90 days	-	69	-	-	28	164	11	55	327
Past due over 90 days	-	2,593	-	-	28	3,711	3	2,419	8,754
Total	**-**	**2,974**	**-**	**-**	**326**	**4,106**	**203**	**2,609**	**10,218**

	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	823	654	7,673	975	10,125
Past due 30 - 60 days	330	449	1,340	1,335	3,454
Past due 60 - 90 days	27	184	7,750	1,440	9,401
Past due over 90 days	398	9,138	7,434	105,584	122,554
Total	**1,578**	**10,425**	**24,197**	**109,334**	**145,534**

Renegotiated loans in 2010 amounted to EUR 2,914 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 2010 - Consolidated	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	Finance leases Not impaired	Finance leases Impaired	Total individuals
Past due up to 30 days	-	254	-	-	102	20	102	6	64	139	687
Past due 30 - 60 days	-	58	-	-	168	211	87	129	34	9	696
Past due 60 - 90 days	-	69	-	-	28	164	11	55	16	380	723
Past due over 90 days	-	2,593	-	-	28	3,711	3	2,419	10	510	9,274
Total	**-**	**2,974**	**-**	**-**	**326**	**4,106**	**203**	**2,609**	**124**	**1,038**	**11,380**

	Sole proprietors Not impaired	Sole proprietors Impaired	Corporate entities Not impaired	Corporate entities Impaired	Total
Past due up to 30 days	896	690	8,041	1,105	10,732
Past due 30 - 60 days	375	460	1,531	1,383	3,749
Past due 60 - 90 days	46	193	7,832	1,703	9,774
Past due over 90 days	417	9,594	7,606	106,743	124,360
Total	**1,734**	**10,937**	**25,010**	**110,934**	**148,615**

In 2010 renegotiated loans in the Group amounted to EUR 2,914 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 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**

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
	Not impaired	Impaired	Not impaired	Impaired	
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**

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)

	Banka Koper and consolidated			
31 December 2010	**Individuals**	**Sole proprietors**	**Corporate entities**	**Total**
Individually impaired loans	-	11,462	180,026	191,488
Fair value of collateral	-	27,872	271,390	299,262
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

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 Risk Policy 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 Risk Policy 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 2010	Up to 1 month	1-3 months	Residual maturity 3-12 months	1- 5 years	Over 5 years	Total
ASSETS						
Cash and balances with central banks	12,073	-	-	-	25,798	37,871
Financial instruments held for trading:	-	-	200	1,202	263	1,665
- trading assets	-	-	200	1,202	263	1,665
Investment securities available for sale	4,209	14,575	39,778	200,924	53,491	312,977
Loans and advances:	229,480	140,807	510,852	666,929	309,723	1,857,791
- to banks	13,695	10,127	1,919	8,316	-	34,057
- to customers	215,785	130,680	508,933	658,613	309,723	1,823,734
Investment securities held to maturity	316	-	-	-	-	316
Property, plant and equipment	-	-	-	3,119	22,608	25,727
Investment property	-	-	-	940	-	940
Intangible assets	-	-	-	5,645	-	5,645
Investment in subsidiaries	-	-	-	-	3,688	3,688
Income tax assets:	9	32	897	1,403	483	2,824
- current income tax	-	-	708	-	-	708
- deferred income tax	9	32	189	1,403	483	2,116
Other assets	3,024	6,477	196	391	-	10,088
Total assets	**249,111**	**161,891**	**551,923**	**880,553**	**416,054**	**2,259,532**
LIABILITIES						
Liabilities to Central Bank	-	-	-	-	-	-
Liabilities carried at amortised cost:	990,065	469,915	352,771	103,142	41,475	1,957,368
- deposits from banks	84,885	-	6,839	22,842	14,000	128,566
- due to customers	850,655	258,180	230,997	17,543	2,887	1,360,262
- other borrowed funds from banks	54,523	211,731	112,902	54,646	24,526	458,328
- other borrowed funds from other customers	2	4	2,033	8,111	62	10,212
Provisions:	-	-	442	7,728	2,998	11,168
- provisions for liabilities and charges	-	-	442	7,728	-	8,170
- retirement benefit obligations	-	-	-	-	2,998	2,998
Income tax liabilities:	3,934	10	28	121	21	4,114
- current income tax	-	-	-	-	-	-
- deferred income tax	3,934	10	28	121	21	4,114
Other liabilities	14,308	5,826	-	-	-	20,134
Total liabilities	**1,008,307**	**475,751**	**353,241**	**110,991**	**44,494**	**1,992,784**
Net liquidity gap	**(759,196)**	**(313,860)**	**198,682**	**769,562**	**371,560**	**266,748**
As at 31 December 2009						
Total assets	219,725	225,646	670,884	917,495	391,919	2,425,669
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**

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 2010	Residual maturity Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Total
DERIVATIVE ASSETS						
Derivatives held for trading:						
- currency swaps	8	-	-	-	-	8
- forward currency agreement	2	1	-	-	-	3
- interest rate cap	-	-	-	8	-	8
Total	**10**	**1**	**-**	**8**	**-**	**19**
DERIVATIVE LIABILITIES						
Derivatives held for trading:						
- currency swaps	508	-	-	-	-	508
- forward currency agreement	2	1	-	-	-	3
- interest rate cap	-	-	-	8	-	8
Total	**510**	**1**	**-**	**8**	**-**	**519**
Net liquidity gap	**(500)**	**-**	**-**	**-**	**-**	**(500)**
As at 31 December 2009						
Total derivative assets	587	1	88	143	-	819
Total derivative liabilities	14,317	1	12	143	-	14,473
Net liquidity gap	**(13,730)**	**-**	**76**	**-**	**-**	**(13,654)**

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

(all amounts expressed in thousands of EUR)

As at 31 December 2010	Residual maturity Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Total
Derivatives held for trading:					
- Currency swaps					
- outflow	21,065	-	-	-	21,065
- inflow	71,273	-	-	-	71,273
- Interest rate cap					
- outflow	-	-	-	8	8
- inflow	-	-	-	8	8
- Forward currency agreement					
- outflow	38	36	-	-	74
- inflow	38	36	-	-	74
Total outflow	**21,103**	**36**	**-**	**8**	**21,147**
Total inflow	**71,311**	**36**	**-**	**8**	**71,355**

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 - consolidated

(all amounts expressed in thousands of EUR)

Non derivative cash flows by expected maturities As at 31 December 2010	Up to 1 month	1-3 months	Residual maturity 3-12 months	1- 5 years	Over 5 years	Total
ASSETS						
Cash and balances with central banks	12,073	-	-	-	25,798	37,871
Financial instruments held for trading:	-	-	200	1,202	263	1,665
- trading assets	-	-	200	1,202	263	1,665
Investment securities available for sale	4,209	14,575	39,778	200,924	53,491	312,977
Loans and advances:	230,915	143,110	518,668	685,967	335,726	1,914,386
- to banks	13,696	10,127	1,918	8,316	-	34,057
- to customers	217,219	132,983	516,750	677,651	335,726	1,880,329
Investment securities held to maturity	316	-	-	-	-	316
Goodwill	-	-	-	-	905	905
Property, plant and equipment	-	-	-	4,380	22,608	26,988
Investment property	-	-	-	940	-	940
Intangible assets	-	-	-	5,646	-	5,646
Income tax assets:	297	32	897	1,403	483	3,112
- current income tax	-	-	708	-	-	708
- deferred income tax	297	32	189	1,403	483	2,404
Other assets	3,835	6,477	196	391	-	10,899
Total assets	**251,645**	**164,194**	**559,739**	**900,853**	**439,274**	**2,315,705**
LIABILITIES						
Liabilities to Central Bank	-	-	-	-	-	-
Liabilities carried at amortised cost:	986,403	470,188	356,224	150,199	48,225	2,011,239
- deposits from banks	84,885	-	6,838	22,843	14,000	128,566
- due to customers	849,148	258,180	230,998	17,543	2,887	1,358,756
- other borrowed funds from banks	52,368	212,004	116,356	101,701	31,276	513,705
- other borrowed funds from other customers	2	4	2,032	8,112	62	10,212

Maturities of assets and liabilities - consolidated (continued)

(all amounts expressed in thousands of EUR)

Non derivative cash flows by expected maturities	Residual maturity					
As at 31 December 2010	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**Total**
Provisions:	-	-	442	7,635	3,071	11,148
- provisions for liabilities and charges	-	-	442	7,635	-	8,077
- retirement benefit obligations	-	-	-	-	3,071	3,071
Income tax liabilities:	3,939	10	28	121	21	4,119
- current income tax	5	-	-	-	-	5
- deferred income tax	3,934	10	28	121	21	4,114
Other liabilities	15,195	5,826	-	-	-	21,021
Total liabilities	**1,005,537**	**476,024**	**356,694**	**157,955**	**51,317**	**2,047,527**
Net liquidity gap	**(753,892)**	**(311,830)**	**203,045**	**742,898**	**387,957**	**268,178**
As at 31 December 2009						
Total assets	239,478	221,421	664,777	946,520	413,034	2,485,230
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**

Expected maturities of off-balance sheet items - unconsolidated

(all amounts expressed in thousands of EUR)

	Residual maturity			
As at 31 December 2010	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Documentary and commercial letters of credit	622	-	-	622
Guarantees	54,390	69,670	17,728	141,788
Derivative financial instruments	739	83	-	822
Credit commitments	267,575	15,314	-	282,889
Total	**323,326**	**85,067**	**17,728**	**426,121**
As at 31 December 2009	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Total	**376,638**	**65,884**	**17,214**	**459,736**

Expected maturities of off-balance sheet items - consolidated

(all amounts expressed in thousands of EUR)

	Residual maturity			
As at 31 December 2010	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Documentary and commercial letters of credit	622	-	-	622
Guarantees	54,390	69,669	17,728	141,787
Derivative financial instruments	739	83	-	822
Credit commitments	262,729	6,314	-	269,043
Total	**318,480**	**76,066**	**17,728**	**412,274**
As at 31 December 2009	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Total	**369,125**	**65,884**	**17,214**	**452,223**

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

(all amounts expressed in thousands of EUR)

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	-	-	-
Liabilities carried at amortized cost:						
- deposits from banks	84,954	-	6,871	23,395	14,678	129,898
- due to customers	851,445	258,660	232,286	18,032	3,048	1,363,471
- other borrowed funds from banks	54,573	212,115	113,516	56,133	25,861	462,198
- other borrowed funds from other customers	2	4	2,044	8,348	66	10,464
Financial guaranties issued	1,644	4,840	27,941	51,233	-	85,658

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

(all amounts expressed in thousands of EUR)

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	-	-	-
Liabilities carried at amortised cost:						
- deposits from banks	84,954	-	6,871	23,395	14,678	129,898
- due to customers	849,937	258,660	232,286	18,032	3,048	1,361,963
- other borrowed funds from banks	52,415	212,388	116,989	104,470	32,979	519,241
- other borrowed funds from other customers	2	4	2,044	8,348	66	10,464
Financial guaranties issued	1,644	4,841	27,963	51,426	-	85,874

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 guaranties 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 amortized 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

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. and 200 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 inserted by using models in order to financially present implicit rate sensitivities.

Sensitivity of net interest income of the Group on 100 b.p. parallel shift of yield curve as of 31. 12. 2010

(all amounts expressed in thousands of EUR)

Currency	On Dem.	1-7 days	7-15 days	16-31 days	2M	3M	4M	5M	6M	9M	1Y	Total
EUR	(763)	(2,191)	(534)	7,868	(524)	274	(465)	(194)	27	(76)	(14)	**3,408**
USD	(35)	281	185	(76)	(43)	(39)	(13)	(12)	(9)	-	-	**239**
CHF	(6)	5	(1)	18	(1)	12	(2)	(2)	(1)	-	-	**22**
Other	(5)	24	-	-	-	6	-	-	-	-	-	**25**
Total Shift	**(809)**	**(1,881)**	**(350)**	**7,810**	**(568)**	**253**	**(480)**	**(208)**	**17**	**(76)**	**(14)**	**3,694**

The net interest income sensitivity of the Group to an interest rates increase of 100 basis points at 31. 12. 2010 equalled:

- EUR 3,408 thousand for currency EUR;
- EUR 239 thousand for currency USD;
- EUR 22 thousand for currency CHF;
- EUR 25 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 of the Group, as of 31. 12. 2010

(all amounts expressed in thousands of EUR)

Currency	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y	Total
EUR	98	(129)	(713)	(771)	(85)	(11)	**(1,611)**
USD	15	-	-	-	-	-	**15**
CHF	(1)	-	-	-	-	-	**(1)**
Other	-	-	-	-	-	-	**-**
Total Shift	**112**	**(129)**	**(713)**	**(771)**	**(85)**	**(11)**	**(1,597)**

The impact of 25 b.p. interest rate shift on net present value of the Group, as of 31. 12. 2009

(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)**

The impact of 25 b.p. interest rate shift on net present value of the Group defined for each time bucket tenor is introduced as follows

(all amounts expressed in thousands of EUR)

Time bucket	Amount - 31. 12. 2010	Amount - 31. 12. 2009
a. 0 – 18 months	112	(19)
b. from 18 m – 3 years	(129)	(219)
c. from 3 – 5 years	(713)	(321)
d. from 5 – 10 years	(771)	(503)
e. >10 years	(96)	(253)

The impact of 200 b.p. interest rate shift on net present value of the Group as of 31. 12. 2010 – Group'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	780	(1,028)	(5,705)	(6,173)	(678)	(87)	**(12,891)**
USD	118	-	-	-	-	-	**118**
CHF	(8)	-	-	-	-	-	**(8)**
Other	3	-	-	-	-	-	**3**
Total	**893**	**(1,028)**	**(5,705)**	**(6,173)**	**(678)**	**(87)**	**(12,778)**

The impact of 200 b.p. interest rate shift on net present value of the Group as of 31. 12. 2009 – Group'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	573	(1,690)	(2,571)	(3,937)	(1,848)	(166)	**(9,639)**
USD	(265)	-	-	-	-	-	**(265)**
CHF	13	-	-	-	-	-	**13**
Other	5	-	-	-	-	-	**5**
Total	**326**	**(1,690)**	**(2,571)**	**(3,937)**	**(1,848)**	**(166)**	**(9,887)**

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

Banka Koper d. d. has a limit framework, which is aligned with the limit framework of the Parent company. The limit is set up at EUR 2.2 million and has been established in order to measure and compare the economic value sensitivity, based on a 25 b.p. yield curve parallel shift, for the whole duration of the Groups balance. As of 31. 12. 2010 the exposure stood at EUR 1.6 million. In the month of December 2010 the above mentioned limit structure has been enhanced with the limits for each time bucket tenor and is introduced as follows:

Time bucket	Limit
0 – 18 months	+/- 700
from 18 m – 3 years	+/- 500
from 3 – 5 years	+/- 850
from 5 – 10 years	+/- 1,250
>10 years	+/- 550

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 2010	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	12,073	-	-	-	25,798	-	37,871
Financial instruments held for trading:	-	1,000	200	-	262	222	1,684
- trading assets	-	1,000	200	-	262	203	1,665
- derivative financial instruments	-	-	-	-	-	19	19
Investment securities available for sale	27,108	54,332	26,868	100,409	48,186	56,074	312,977
Loans and advances:	1,431,484	271,681	118,928	18,827	6,123	10,748	1,857,791
- to banks	12,591	19,111	-	-	-	2,355	34,057
- to customers	1,418,893	252,570	118,928	18,827	6,123	8,393	1,823,734
Investment securities held to maturity	316	-	-	-	-	-	316
Property, plant and equipment	-	-	-	-	-	25,727	25,727
Investment property	-	-	-	-	-	940	940
Intangible assets	-	-	-	-	-	5,645	5,645
Investment in subsidiaries	-	-	-	-	-	3,688	3,688
Income tax assets:	-	-	-	-	-	2,824	2,824
- current income tax	-	-	-	-	-	708	708
- deferred income tax	-	-	-	-	-	2,116	2,116
Other assets	-	-	-	-	-	10,088	10,088
Total assets	**1,470,981**	**327,013**	**145,996**	**119,236**	**80,369**	**115,956**	**2,259,551**
LIABILITIES							
Liabilities to Central Bank	-	-	-	-	-	-	-
Financial instruments held for trading:	-	-	-	-	-	519	519
- derivative financial instruments	-	-	-	-	-	519	519
Liabilities carried at amortised cost:	1,326,537	360,327	261,024	8,822	183	475	1,957,368
- deposits from banks	102,897	-	25,669	-	-	-	128,566
- due to customers	873,697	257,422	219,837	8,710	121	475	1,360,262
- other borrowed funds from banks	349,941	102,901	5,486	-	-	-	458,328
- other borrowed funds from other customers	2	4	10,032	112	62	-	10,212
Provisions:	-	-	-	-	-	11,168	11,168
- provisions for liabilities and charges	-	-	-	-	-	8,170	8,170
- retirement benefit obligations	-	-	-	-	-	2,998	2,998
Income tax liabilities:	-	-	-	-	-	4,114	4,114
- current income tax	-	-	-	-	-	-	-
- deferred income tax	-	-	-	-	-	4,114	4,114
Other liabilities	-	-	-	-	-	20,134	20,134
Total liabilities	**1,326,537**	**360,327**	**261,024**	**8,822**	**183**	**36,410**	**1,993,303**
Total interest repricing gap	**144,444**	**(33,314)**	**(115,028)**	**110,414**	**80,186**		

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
Total assets	1,547,041	350,695	190,428	124,985	73,312	140,027	2,426,488
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**		

Interest rate risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2010	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	12,073	-	-	-	25,798	-	37,871
Financial instruments held for trading:	-	1,000	200	-	262	222	1,684
- trading assets	-	1,000	200	-	262	203	1,665
- derivative financial instruments	-	-	-	-	-	19	19
Investment securities available for sale	27,108	54,332	26,868	100,409	48,186	56,074	312,977
Loans and advances:	1,446,738	305,873	126,004	18,900	6,123	10,748	1,914,386
- to banks	12,591	19,111	-	-	-	2,355	34,057
- to customers	1,434,147	286,762	126,004	18,900	6,123	8,393	1,880,329
Investment securities held to maturity	316	-	-	-	-	-	316
Good will	-	-	-	-	-	905	905
Property, plant and equipment	-	-	-	-	-	26,988	26,988
Investment property	-	-	-	-	-	940	940
Intangible assets	-	-	-	-	-	5,646	5,646
Income tax assets:	-	-	-	-	-	3,112	3,112
- current income tax	-	-	-	-	-	708	708
- deferred income tax	-	-	-	-	-	2,404	2,404
Other assets	-	-	-	-	-	10,899	10,899
Total assets	**1,486,235**	**361,205**	**153,072**	**119,309**	**80,369**	**115,534**	**2,315,724**
LIABILITIES							
Liabilities to Central Bank	-	-	-	-	-	-	-
Financial instruments held for trading:	-	-	-	-	-	519	519
- derivative financial instruments	-	-	-	-	-	519	519
Liabilities carried at amortised cost:	1,333,058	407,676	261,024	8,822	184	475	2,011,239
- deposits from banks	102,897	-	25,669	-	-	-	128,566
- due to customers	872,190	257,422	219,837	8,711	121	475	1,358,756
- other borrowed funds from banks	357,969	150,250	5,486	-	-	-	513,705
- other borrowed funds from other customers	2	4	10,032	111	63	-	10,212
Provisions:	-	-	-	-	-	11,148	11,148
- provisions for liabilities and charges	-	-	-	-	-	8,077	8,077
- retirement benefit obligations	-	-	-	-	-	3,071	3,071
Income tax liabilities:	-	-	-	-	-	4,119	4,119
- current income tax	-	-	-	-	-	5	5
- deferred income tax	-	-	-	-	-	4,114	4,114
Other liabilities	-	-	-	-	-	21,021	21,021
Total liabilities	**1,333,058**	**407,676**	**261,024**	**8,822**	**184**	**37,282**	**2,048,046**
Total interest repricing gap	**153,177**	**(46,471)**	**(107,952)**	**110,487**	**80,185**		

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
Total assets	1,551,272	395,138	199,971	125,381	73,282	141,005	2,486,049
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**		

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 effective annual interest rate of individual finance – Banka Koper

	2009			2008		
	EUR	USD	Other	EUR	USD	Other
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	1.98	0.18	0.81	1.68	0.07	0.79
Loans and advances to customers	3.53	4.38	1.98	3.68	4.48	1.63
Trading assets	1.54	-	-	2.35	-	-
Investment securities available for sale	2.43	-	-	2.70	-	-
Investment securities held to maturity	6.10	-	-	6.10	-	-
Liabilities						
Deposits from banks	0.99	0.27	0.50	1.00	0.28	-
Due to customers	1.15	0.36	0.18	1.28	0.83	0.41
Other borrowed funds	1.10	-	0.26	0.87	-	0.23

The effective annual interest rate of individual finance – Consolidated

	2009			2008		
	EUR	USD	Other	EUR	USD	Other
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	1.98	0.18	0.81	1.68	0.07	0.79
Loans and advances to customers	3.54	4.38	1.97	3.69	4.48	1.67
Trading assets	1.54	-	-	2.35	-	-
Investment securities available for sale	2.43	-	-	2.70	-	-
Investment securities held to maturity	6.10	-	-	6.10	-	-
Liabilities						
Deposits from banks	0.99	0.27	0.50	1.00	0.28	-
Due to customers	1.15	0.36	0.18	1.28	0.83	0.41
Other borrowed funds	1.10	-	0.26	0.87	-	0.23

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 had been breached continuously up to mid March 2010, when due to the fall in price volatility, the market exposure significantly decreased. The VaR limit has been again breached and the exposure remained above the limit continually since the beginning of July, due to the upward revaluation of the Pivovarna Laško shares. In line with the internal document of Measurement of Equity investment the Pivovarna Laško shares were declared illiquid and since then the price is measured according to an internal model. The Equity VaR as at 31. 12. 2010 equalled EUR 605,293 (31. 12. 2009: 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. 2010 equalled EUR 3,396. 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 2010 showed no excessive number of daily losses exceeding VaR.

3.8.2 Debt Instruments

The market value of the trading debt instrument portfolio as of 31. 12. 2010 equalled EUR 1.5 million (31. 12. 2009: 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. 2010 the interest rate sensitivity amounted to EUR 289 (31. 12. 2009: EUR 586), while the corresponding limit established was EUR 2,000 (31. 12. 2009: 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 2010			12 months to 31 December 2009		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	4	19	1	6	17	1
Equities risk	529	732	407	636	1,599	320
Equities risk (banking book)	524	725	404	622	1,585	304
Equities risk (trading portfolio)	5	7	3	13	18	7
Total VAR	**533**	**751**	**408**	**642**	**1,616**	**321**

Currency risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2010	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	37,102	278	491	37,871
Financial instruments held for trading:	1,684	-	-	1,684
- trading assets	1,665	-	-	1,665
- derivative financial instruments	19	-	-	19
Investment securities available for sale	312,977	-	-	312,977
Loans and advances:	1,835,321	1,554	20,916	1,857,791
- to banks	26,408	1,486	6,163	34,057
- to customers	1,808,913	68	14,753	1,823,734
Investment securities held to maturity	316	-	-	316
Property, plant and equipment	25,727	-	-	25,727
Investment property	940	-	-	940
Intangible assets	5,645	-	-	5,645
Investment in subsidiaries	3,688	-	-	3,688
Income tax assets:	2,824	-	-	2,824
- current income tax	708	-	-	708
- deferred income tax	2,116	-	-	2,116
Other assets	10,031	51	6	10,088
Total assets	**2,236,255**	**1,883**	**21,413**	**2,259,551**
LIABILITIES				
Liabilities to Central Bank	-	-	-	-
Financial instruments held for trading:	519	-	-	519
- derivative financial instruments	519	-	-	519
Liabilities carried at amortised cost:	1,883,110	52,840	21,418	1,957,368
- deposits from banks	124,635	2,071	1,860	128,566
- due to customers	1,296,348	50,769	13,145	1,360,262
- other borrowed funds from banks	451,915	-	6,413	458,328
- other borrowed funds from other customers	10,212	-	-	10,212
Provisions:	11,168	-	-	11,168
- provisions for liabilities and charges	8,170	-	-	8,170
- retirement benefit obligations	2,998	-	-	2,998
Income tax liabilities:	4,114	-	-	4,114
- current income tax	-	-	-	-
- deferred income tax	4,114	-	-	4,114
Other liabilities	20,115	16	3	20,134
Total liabilities	**1,919,026**	**52,856**	**21,421**	**1,993,303**
Net balance sheet position	**317,229**	**(50,973)**	**(8)**	**266,248**
Credit commitments	**287,599**	**230**	**-**	**287,829**

Currency risk - unconsolidated (continued)

(all amounts expressed in thousands of EUR)

As at 31 December 2010	EUR	USD	Other	Total
Total assets	2,368,235	26,302	31,951	2,426,488
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**

Currency risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2010	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	37,102	278	491	37,871
Financial instruments held for trading:	1,684	-	-	1,684
- trading assets	1,665	-	-	1,665
- derivative financial instruments	19	-	-	19
Investment securities available for sale	312,977	-	-	312,977
Loans and advances:	1,891,841	1,554	20,991	1,914,386
- to banks	26,408	1,486	6,163	34,057
- to customers	1,865,433	68	14,828	1,880,329
Investment securities held to maturity	316	-	-	316
Goodwill	905	-	-	905
Property, plant and equipment	26,988	-	-	26,988
Investment property	940	-	-	940
Intangible assets	5,646	-	-	5,646
Income tax assets:	3,112	-	-	3,112
- current income tax	708	-	-	708
- deferred income tax	2,404	-	-	2,404
Other assets	10,842	51	6	10,899
Total assets	**2,292,353**	**1,883**	**21,488**	**2,315,724**
LIABILITIES				
Liabilities to Central Bank	-	-	-	-
Financial instruments held for trading:	519	-	-	519
- derivative financial instruments	519	-	-	519
Liabilities carried at amortised cost:	1,936,981	52,840	21,418	2,011,239
- deposits from banks	124,635	2,071	1,860	128,566
- due to customers	1,294,842	50,769	13,145	1,358,756
- other borrowed funds from banks	507,292	-	6,413	513,705
- other borrowed funds from other customers	10,212	-	-	10,212
Provisions:	11,148	-	-	11,148
- provisions for liabilities and charges	8,077	-	-	8,077
- retirement benefit obligations	3,071	-	-	3,071
Income tax liabilities:	4,119	-	-	4,119
- current income tax	5	-	-	5
- deferred income tax	4,114	-	-	4,114
Other liabilities	21,002	16	3	21,021
Total liabilities	**1,973,769**	**52,856**	**21,421**	**2,048,046**
Net balance sheet position	**318,584**	**(50,973)**	**67**	**267,678**
Credit commitments	**287,829**	**230**	**-**	**288,059**

As at 31 December 2009	EUR	USD	Other	Total
Total assets	2,426,019	26,302	33,728	2,486,049
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**

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 2010, for the third 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.

In the year 2009, the Group's Subsidiary Finor Leasing d.o.o. was included in the monitoring of the operational risk, although formally it was included in the Self-Diagnosis Process in 2010.

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 fixed 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					
	2010			2009		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	37,871	37,871	-	57,296	57,296	-
Financial instruments held for trading:	1,684	1,684	-	35,692	35,692	-
- trading assets	1,665	1,665	-	34,873	34,873	-
- derivative financial instruments	19	19	-	819	819	-
Investment securities available for sale	312,977	312,977	-	324,483	324,483	-
Loans and advances:	1,857,791	1,857,791	-	1,952,757	1,952,757	-
- to banks	34,057	34,057	-	20,679	20,679	-
- to customers	1,823,734	1,823,734	-	1,932,078	1,932,078	-
Investment securities held to maturity	316	313	(3)	929	946	17
Property, plant and equipment	25,727	34,812	9,085	28,185	34,424	6,239
Investment property	940	1,600	660	403	1,021	618
Intangible assets	5,645	5,645	-	6,077	6,077	-
Investment in subsidiaries	3,688	3,688	-	6,928	6,023	(905)
Income tax assets	2,824	2,824	-	3,174	3,174	-
Other assets	10,088	10,088	-	10,564	10,564	-
Total assets	**2,259,551**	**2,269,293**	**9,742**	**2,426,488**	**2,432,457**	**5,969**
LIABILITIES						
Liabilities to Central Bank	-	-	-	90,292	90,292	-
Financial instruments held for trading:	519	519	-	14,473	14,473	-
- derivative financial instruments	519	519	-	14,473	14,473	-
Liabilities carried at amortised cost:	1,957,368	1,957,368	-	2,020,515	2,020,515	-
- deposits from banks	128,566	128,566	-	102,961	102,961	-
- due to customers	1,360,262	1,360,262	-	1,440,372	1,440,372	-
- other borrowed funds from banks	458,328	458,328	-	476,959	476,959	-
- other borrowed funds from other customers	10,212	10,212	-	223	223	-
Provisions:	11,168	11,168	-	20,000	20,000	-
- provisions for liabilities and charges	8,170	8,170	-	16,508	16,508	-
- retirement benefit obligations	2,998	2,998	-	3,492	3,492	-
Income tax liabilities	4,114	4,114	-	4,428	4,428	-
Other liabilities	20,134	20,134	-	19,071	19,071	-
Total liabilities	**1,993,303**	**1,993,303**	**-**	**2,168,779**	**2,168,779**	**-**

Fair value of financial assets and liabilities – consolidated

(all amounts expressed in thousands of EUR)

	Consolidated					
	2010			2009		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	37,871	37,871	-	57,297	57,297	-
Financial instruments held for trading:	1,684	1,684	-	35,692	35,692	-
- trading assets	1,665	1,665	-	34,873	34,873	-
- derivative financial instruments	19	19	-	819	819	-
Investment securities available for sale	312,977	312,977	-	324,483	324,483	-
Loans and advances:	1,914,386	1,914,386	-	2,011,339	2,011,339	-
- to banks	34,057	34,057	-	20,679	20,679	-
- to customers	1,880,329	1,880,329	-	1,990,660	1,990,660	-
Investment securities held to maturity	316	313	(3)	929	946	17
Goodwill	905	905	-	905	905	-
Property, plant and equipment	26,988	36,073	9,085	30,938	37,177	6,239
Investment property	940	1,600	660	403	1,021	618
Intangible assets	5,646	5,646	-	6,913	6,913	-
Income tax assets	3,112	3,112	-	3,946	3,946	-
Other assets	10,899	10,899	-	13,204	13,204	-
Total assets	**2,315,724**	**2,325,466**	**9,742**	**2,486,049**	**2,492,923**	**6,874**
LIABILITIES						
Liabilities to Central Bank	-	-	-	90,292	90,292	-
Financial instruments held for trading:	519	519	-	14,473	14,473	-
- derivative financial instruments	519	519	-	14,473	14,473	-
Liabilities carried at amortised cost:	2,011,239	2,011,239	-	2,069,558	2,069,558	-
- deposits from banks	128,566	128,566	-	102,961	102,961	-
- due to customers	1,358,756	1,358,756	-	1,440,342	1,440,342	-
- other borrowed funds from banks	513,705	513,705	-	526,032	526,032	-
- other borrowed funds from other customers	10,212	10,212	-	223	223	-
Provisions:	11,148	11,148	-	20,102	20,102	-
- provisions for liabilities and charges	8,077	8,077	-	16,411	16,411	-
- retirement benefit obligations	3,071	3,071	-	3,691	3,691	-
Income tax liabilities	4,119	4,119	-	4,600	4,600	-
Other liabilities	21,021	21,021	-	27,862	27,862	-
Total liabilities	**2,048,046**	**2,048,046**	**-**	**2,226,887**	**2,226,887**	**-**

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 no 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 for unquoted or illiquid equities are valued according to the document of Measurement of Equity investment. Pivovarna Laško d.d. shares, which are quoted on the Ljubljana Stock Exchange, but do not meet the total market liquidity criteria (total market liquidity, calculated according to CGT) have been according to the liquidity criteria for shares classified into auction trading valuated in accordance with Comparable stock-exchange pricing model. On the 30. 12. 2010 the effect of the valuation has been positive in the amount of EUR 2,539 thousand.

In accordance with the assumption that comparable companies are priced similarly, the value of the estimated company can be determined based on the comparison of market prices of shares and market multiples of comparable companies listed on the stock exchange. The model can be applied if at least two comparable companies exist and are listed. As comparable companies are consider those that are listed on a regulated market and are also comparable across most of the following characteristics:

- Industry;
- Market Capitalization;
- Size of Capital;
- Geographical location of business;

Merkur's shares are valued at cost method and according to the impairment test performed in 2010 by using the method of comparable stock price, the shares were impaired.

Whenever it is possible the valuation is done by qualified external evaluators and due to that in some cases the sensitivity test is difficult to implement.

Split of financial instrument measured at fair value to fair value hierarchy levels – unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset								
Derivatives	-	19	-	**19**	-	271	548	**819**
HFT:	1,665	-	-	**1,665**	2,786	2,466	29,621	**34,873**
- debt	1,462	-	-	**1,462**	2,533	-	-	**2,533**
- equities	203	-	-	**203**	253	2,466	29,621	**32,340**
AFS:	274,138	6,244	23,553	**303,935**	308,195	-	15,638	**323,833**
- debt	256,904	-	-	**256,904**	284,586	-	-	**284,586**
- equities	17,234	6,244	23,553	**47,031**	23,609	-	15,638	**39,247**
Liabilities								
Derivatives	-	519	-	**519**	-	220	14,253	**14,473**

In 2010 the Bank changed the method of valuation of the capital investment in Pivovarna Laško (EUR 6,244 thousands), due to that, a transfer from level 1 to level 2 was done. There were no transfers from level 2 to level 1 in 2010.

In 2009, there were no transfers between levels 1 and 2.

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

(all amounts expressed in thousands of EUR)

	At 1January 2010	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 2010
Asset						
HFT derivatives	**548**	**(548)**	**-**	**-**	**-**	**-**
- forward agreement on sale of non marketable shares	548	(548)	-	-	-	-
HFT equities	29,621	(29,621)	-	-	-	-
AFS equities	15,638	6,494	-	1,421	-	23,553
Liabilities						
HFT derivatives	**14,253**	**(14,232)**	**-**	**-**	**(21)**	**-**
- forward agreement on sale of non marketable shares	14,253	(14,232)	-	-	(21)	-

Valuation of Cimos d.d. for the year 2010 has been done by a qualified external evaluator. In evaluating the estimated value of the company's equity two methods have been used:

- method of comparable companies listed on a stock exchange;
- discounted cash flow method.

In the method of comparable companies listed on a stock exchange, a sample of seven comparable companies from the USA, Germany, Great Britain, Sweden and Italy, has been selected.

In the method of discounted cash flows the following assumptions were used:

- movement of net sales:

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
8.6 %	8 %	8 %	6 %	6 %	6 %	6 %	4 %	4 %	4 %

- risk-free rate of return:
- 4 % (yield of Slovenian 10 year government bonds with maturity in 2019)
- Interest rate:
  - the nominal cost of debt 5.6 %

The range of the estimated values for one share was made according to the following assumptions:

- estimated range of weighted average cost of capital ranges between 8.3 % up to 9.3 %;
- estimated growth rate ranges between 1 % up to 3 %;
- estimated value for one share ranges between EUR 6.69 up to EUR 11.71.

1 share in EUR

	GROWTH RATE		
WACC	**1 %**	**2 %**	**3 %**
8.30 %	8.12	9.64	11.71
8.80 %	7.37	8.66	10.39
9.30 %	6.69	7.81	9.27

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)

4. NET INTEREST INCOME

Net interest income

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Interest income				
Central bank deposits	275	377	275	377
Loans and advances (including finance leases):	71,243	84,838	73,689	87,849
- to banks	251	294	251	294
- to other customers*	70,992	84,544	73,438	87,555
Investment securities (AFS and HTM)	7,348	9,976	7,348	9,976
Investment securities HFT	209	777	209	777
Other	13	23	13	23
	79,088	95,991	81,534	99,002
Interest expense				
Bank deposits and loans	831	2,793	831	2,793
Other customers	15,959	21,892	15,959	21,892
Other borrowed funds	4,604	9,841	5,537	10,647
Derivatives	54	605	54	605
	21,448	35,131	22,381	35,937
	57,640	60,860	59,153	63,065

At the end of 2010, the Group accrued interest income on impaired financial assets of EUR 13,634 thousands (2009: EUR 9,822 thousands). This interest income is not recognised in the statement of income until payment.

*In 2010, the Bank realized EUR 8,852 thousands of interest income from impaired assets (2009: EUR 9,444 thousands). The Group figures are EUR 9,110 thousands (2009: EUR 9,701 thousands).

5. DIVIDEND INCOME

Dividend income

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Trading securities	10	5	10	5
Investment securities	928	413	628	113
	938	**418**	**638**	**118**

6. NET FEE AND COMMISSION INCOME

Net fee and commission income

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Fee and commission income				
Guarantees	1,214	1,119	1,214	1,119
Debit/credit card money transaction	14,623	17,982	14,623	22,988
Payment transaction	8,867	8,784	8,867	8,682
Brokers' intermediation and management of securities portfolio	396	321	396	321
Current account	4,484	4,247	4,484	4,247
Custody	442	523	442	523
Loans activities (non recognised in effective interest rate)	3,312	-	3,312	-
Other	2,320	2,413	2,605	2,679
	35,658	**35,389**	**35,943**	**40,559**
Fee and commission expense				
Bank services	9,390	6,917	9,390	6,870
Money transfer	868	881	868	782
Intermediation and management	325	238	325	238
Other	129	165	169	165
	10,712	**8,201**	**10,752**	**8,055**
	24,946	**27,188**	**25,191**	**32,504**

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 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Loss/income due to sale of investment securities*	3,460	3,647	3,460	3,647
Write offs of loans and other assets	(397)	(224)	(397)	(224)
Recoveries from write offs of loans and other assets	139	139	139	139
	3,202	**3,562**	**3,202**	**3,562**

*As realized revaluation reserve EUR 2,620 thousands (2009: EUR 5,264 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	
	2010	2009	2010	2009
Trading of derivatives	12,945	1,601	12,945	1,601
Currency trading	652	501	652	501
Trading of debt securities	21	23	21	23
Trading of equity securities	(11,591)	42	(11,591)	42
	2,027	2,167	2,027	2,167

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	
	2010	2009	2010	2009
Profit on sale of property and equipment	89	649	115	658
Profit on sale of subsidiary	1,651	-	1,601	-
Other	-	(99)	-	(99)
	1,740	550	1,716	559

10. OTHER OPERATING GAINS LESS LOSSES

Other operating gains less losses

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Rent	728	604	1,293	1,504
Taxes	(86)	(90)	(86)	(90)
Membership fees	(151)	(138)	(151)	(138)
Other	860	767	985	24
	1,351	1,143	2,041	1,300

11. ADMINISTRATIVE EXPENSES

Administrative expenses

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Staff cost	**28,781**	**31,014**	**29,283**	**32,942**
Salaries	19,759	21,205	20,101	22,636
Social security cost	3,204	3,465	3,270	3,697
Pension costs	1,788	1,880	1,799	1,933
Other	4,030	4,464	4,113	4,676
General and administrative expenses	**12,709**	**13,915**	**13,000**	**16,890**
Material costs	1,552	1,737	1,568	1,860
Maintenance costs	1,803	2,569	1,840	2,731
Rent	853	992	859	1,143
Professional services	4,924	5,230	5,102	7,218
Advertising and marketing	1,701	1,851	1,728	2,098
Other services*	1,876	1,536	1,903	1,840
	41,490	**44,929**	**42,283**	**49,832**

*In this auditor services

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Auditor services:				
- financial statements audit	90	93	90	118
- other non-audit services	31	33	31	40
	121	**126**	**121**	**158**

12. AMORTISATION AND DEPRECIATION

Amortisation and depreciation

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Amortisation	1,990	2,203	1,993	2,482
Depreciation	3,439	4,044	3,931	4,827
	5,429	**6,247**	**5,924**	**7,309**

13. PROVISIONS

Provisions

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Provisions for off-balance sheet exposures	8,080	2,343	8,088	2,343
Provisions for National Housing Saving Scheme	162	202	162	202
Provisions for legal proceedings	(304)	-	(304)	-
Retirement and long service bonus	(115)	(262)	(121)	(347)
Short service bonus	-	(42)	-	(42)
	7,823	2,241	7,825	2,156

14. IMPAIRMENT LOSSES

Impairment losses

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Available for sale equity securities	3,017	80	3,017	80
Loans and advances to customers	29,750	17,927	30,286	18,983
Investment in subsidiaries (sale)	(370)	-	(370)	-
Other assets	-	-	47	-
	32,397	18,007	32,980	19,063

Impairment losses on AFS securities relate to Merkur shares.

15. INCOME TAX EXPENSE

Income tax expense

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Current tax	4,205	5,578	4,392	5,931
Deferred tax (note 37)	(353)	288	(425)	105
	3,852	5,866	3,967	6,036

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 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Profit before tax	21,258	28,171	21,466	28,454
Prima facie tax calculated at a tax rate of 20%	4,252	5,916	4,366	6,044
Income from already taxed released provisions	(32)	(42)	(32)	(67)
Income form already taxed dividends	(188)	(87)	(188)	(87)
Income from disposal of equity securities	(184)	-	(184)	-
Expenses not deductible for tax purposes:				
- negative valuation of securities and derivatives HFT	603	-	674	110
- staff costs not assessable for tax	181	201	183	205
- other non tax deductible expenses	164	97	166	238
- abolished tax reliefs considered in previous tax return	-	12	-	12
- release of deferred tax assets due to disposal of investments and liabilities	(306)	(253)	(306)	(256)
Tax reliefs	(285)	(266)	(287)	(268)
Current tax on profit	4,205	5,578	4,392	5,931
Deferred tax	(353)	288	(425)	105
Total income tax	3,852	5,866	3,967	6,036

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 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Net profit for the year	17,406	22,305	17,499	22,365
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)	32.82	42.05	32.99	42.17

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 2010 and 2009, 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	
	2010	2009	2010	2009
Cash in hand	13,056	13,756	13,056	13,756
Balances with central banks	24,815	43,540	24,815	43,541
	37,871	**57,296**	**37,871**	**57,297**
From this: mandatory reserve liability to central banks	25,798	27,852	25,798	27,822

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	
	2010	2009	2010	2009
Debt securities	1,462	2,533	1,462	2,533
Equity securities:				
- listed	203	253	203	253
- unlisted	-	32,087	-	32,087
	1,665	**34,873**	**1,665**	**34,873**

As at 31 December 2010 and 31 December 2009 there were 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 2010	Contract/notional amount	Fair values Assets	Fair values Liabilities	Provisions
Foreign exchange derivatives				
Currency swaps	72,101	8	508	-
Currency forwards	155	3	3	-
Interest rate derivatives				
Interest rate cap	30,000	8	8	-
Total derivative assets/(liabilities) held for trading		**19**	**519**	**-**

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**

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

Investment securities (available for sale and held to maturity securities)

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	**2009**	**2010**	**2009**
Government securities:				
- listed	135,041	159,955	135,041	159,955
- unlisted	-	-	-	-
Other debt securities:				
- listed	121,862	124,631	121,862	124,631
- unlisted	-	-	-	-
Equity securities:				
- listed	23,457	23,610	23,457	23,610
- unlisted	32,617	16,287	32,617	16,287
Total securities available for sale	**312,977**	**324,483**	**312,977**	**324,483**
Debt securities:				
- listed	316	929	316	929
Total securities held to maturity	**316**	**929**	**316**	**929**

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

At the end of 2010 there are not any securities pledged (2009: EUR 90,290 thousand; they refer to government and first grade Bank bonds, which are bonds from banks with investment grade higher than A-. These securities were pledged to cover the borrowings received from the European central bank).

Movement

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated			
	2010		2009	
	AFS	HTM	AFS	HTM
At beginning of the year	**324,483**	**929**	**298,328**	**1,528**
Additions	137,791	-	97,598	-
Exchange differences on monetary assets	-	-	(476)	-
Interest accrual	7,933	-	9,909	81
Expired coupons	(9,395)	-	(9,723)	-
Disposals (sale and redemption)	(141,761)	(613)	(73,202)	(680)
Gains/losses from changes in fair value	(6,074)	-	2,049	-
At end of year	**312,977**	**316**	**324,483**	**929**

22. LOANS AND ADVANCES TO BANKS

Loans and advances to banks

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Items in course of collection from other banks	3,408	3,194	3,408	3,194
Placements with other banks	30,649	17,485	30,649	17,485
	34,057	**20,679**	**34,057**	**20 ,679**

As at 31 December 2010 no placements with other banks are shown under Pledged assets (2009: nil).

23. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Loans to individuals:	461,322	410,559	472,036	445,591
Overdrafts	43,430	41,521	43,430	41,521
Credit cards	7,957	8,063	7,957	32,419
Term loans	123,119	127,750	123,119	127,750
Mortgages	286,816	233,225	286,816	233,225
Finance leases	-	-	10,714	10,676
Loans to sole proprietors	81,777	90,806	89,554	99,922
Loans to corporate entities	1,397,129	1,521,815	1,436,363	1,540,258
Gross loans and advances	**1,940,228**	**2,023,180**	**1,997,953**	**2,085,771**
Less provision for impairment	(116,494)	(91,102)	(117,624)	(95,111)
Net loans and advances	**1,823,734**	**1,932,078**	**1,880,329**	**1,990,660**

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: Overdrafts	Credit cards	Term loans	Mortgages	Total loans to individuals - Banka Koper
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**
Provision for loan impairment	4,094	29	6,550	7,605	18,278
Amounts recovered during the year	(3,979)	(282)	(7,154)	(7,473)	(18,888)
Included in statement of income	115	(253)	(604)	132	(610)
Write off provisions already made	(1,384)	-	(24)	-	(1,408)
As at 31 December 2010	**3,023**	**29**	**4,598**	**3,842**	**11,492**

LOANS AND ADVANCES TO CUSTOMERS

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 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**
Provision for loan impairment	4,094	29	6,550	7,605	158	18,436
Amounts recovered during the year	(3,979)	(282)	(7,154)	(7,473)	(33)	(18,921)
Included in statement of income	115	(253)	(604)	132	125	(485)
Write off provisions already made	(1,384)	-	(24)	-	(31)	(1,439)
Released provisions for loan impairment due to sale of subsidiary	-	(3,406)	-	-	-	(3,406)
As at 31 December 2010	**3,023**	**29**	**4,598**	**3,842**	**271**	**11,763**

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 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**
Provision for loan impairment	9,936	163,214	10,012	163,348
Amounts recovered during the year	(6,055)	(136,735)	(6,083)	(136,506)
Included in statement of income	3,881	26,479	3,929	26,842
Write off provisions already made	(56)	(2,962)	(125)	(3,007)
Impairment on interest	-	68	-	68
Additional provisions for loan impairment realised due to change of entities belonging to consolidation group	-	-	-	136
As at 31 December 2010	**9,971**	**95,031**	**10,186**	**95,675**

LOANS AND ADVANCES TO CUSTOMERS

Customer loan portfolio by economic sector

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Trade	260,903	302,333	260,903	302,333
Services	598,747	634,399	637,362	652,770
Construction	75,455	88,211	75,455	88,211
Manufacturing	361,740	394,606	361,740	394,606
Agriculture	19,155	36,150	19,155	36,150
Individuals	461,322	410,559	472,036	445,591
Sole proprietors	81,777	90,806	89,554	99,922
Other	81,129	66,116	81,748	66,188
Gross loans and advances to customers	**1,940,228**	**2,023,180**	**1,997,953**	**2,085,771**
Less provision for impairment	(116,494)	(91,102)	(117,624)	(95,111)
Net loans and advances to customers	**1,823,734**	**1,932,078**	**1,880,329**	**1,990,660**

Slovenian customers and customers from other European countries (Serbia, Croatia, Bosnia and Herzegovina, Romania, Italy) accounted for 97 % and 3 % of geographic sector risk concentration within the customer loan portfolio, respectively.

Analysis of finance leases by residual maturity

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated	
	2010	2009
Gross investment in finance leases:		
Not later than 1 year	20,748	18,535
Later than 1 year and not later than 5 years	39,960	39,423
Later than 5 years	31,963	28,349
	92,671	**86,307**
Unearned future interest income on finance leases	(14,376)	(11,573)
Net investment in finance leases:		
Not later than 1 year	17,856	16,134
Later than 1 year and not later than 5 years	33,016	33,704
Later than 5 years	27,423	24,896
	78,295	**74,734**

Loans and advances are further analysed as a part of the statement of financial position 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			
	2010		2009		2010		2009	
	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	506,658	1,443,997	511,172	1,346,271	554,148	1,491,487	550,176	1.385.275
Bank guarantees	87,051	90,080	146,244	172,631	87,051	90,080	146,244	172,631
Personal guarantees	230,556	566,209	253,691	199,156	230,556	566,209	253,691	199,156
Debt securities	47,287	126,033	79,470	190,711	47,287	126,033	79,470	190,711
Government guarantees	97,930	102,760	99,357	101,254	97,930	102,760	99,357	101,254
Other collateral	112,321	230,626	98,468	54,835	141,857	260,162	129,001	85,368
Deposits	24,865	27,548	33,798	36,538	24,865	27,548	33,798	36,538
Insurance company guarantees	191,692	203,301	185,356	195,643	191,692	203,301	185,356	195,643
Shares	25,012	43,473	15,538	27,891	25,012	43,473	15,538	27,891
Total collateralised net loans	**1,323,372**	**2,834,027**	**1,423,094**	**2,324,930**	**1,400,398**	**2,911,053**	**1,492,631**	**2,394,467**
Unsecured	500,362		508,984		479,931		498,029	
Total net loans	**1,823,734**		**1,932,078**		**1,880,329**		**1,990,660**	

24. GOODWILL

Goodwill

(all amounts expressed in thousands of EUR)

	Consolidated	
	2010	2009
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 2010 / 2009 Land and buildings	Hardware equipment	Other equipment	Total Banka Koper	Consolidated 2010 / 2009 Land and buildings	Hardware equipment	Other equipment	Total consolidated
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**
Movement in year 2010								
Opening net book amount	24,120	1,520	2,545	28,185	24,120	1,736	5,082	30,938
Transfer to investment property	(41)	-	-	(41)	(41)	-	-	(41)
Additions	468	373	579	1,420	468	388	894	1,750
Disposals	-	(94)	(356)	(450)	-	(308)	(1,493)	(1,801)
Depreciation charge	(1,937)	(775)	(675)	(3,387)	(1,937)	(780)	(1,141)	(3,858)
Closing net book amount	22,610	1,024	2,093	25,727	22,610	1,036	3,342	26,988
As at 31 December 2010								
Cost	44,669	7,806	10,724	63,199	44,669	7,826	13,183	65,678
Accumulated depreciation	(22,059)	(6,782)	(8,631)	(37,472)	(22,059)	(6,790)	(9,841)	(38,690)
Net book amount as at 31 December 2010	**22,610**	**1,024**	**2,093**	**25,727**	**22,610**	**1,036**	**3,342**	**26,988**

In 2010 there was no property, plant and equipment pledged (2009; nil).

About 30 % 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. Future minimum lease payments under lease contracts amount to EUR 4,600 thousand, of this:

(all amounts expressed in thousands of EUR)

Banka Koper and consolidated 2010 Up to 1 year	1 to 5 years	Over 5 years	2009 Up to 1 year	1 to 5 years	Over 5 years
465	1,862	2,273	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 2010 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 2011.

Movement of investment property

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
At beginning of the year	**403**	**457**	**403**	**457**
Depreciation	(52)	(60)	(73)	(60)
Transfer to fixed assets	41	-	41	-
Additions	548	6	569	6
Disposals	-	-	-	-
At end of year	**940**	**403**	**940**	**403**

In the item other operating gains and losses (see note 10) income from property investments carries rents of EUR 81 thousand (2009: EUR 84 thousand). In 2010, there were no maintenance costs incurred for property investments (2009: 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 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
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**
Movement in year 2010								
Opening net book amount	2,167	709	3,201	6,077	2,167	710	4,036	6,913
Additions	1,042	349	567	1,958	1,042	349	568	1,959
Disposals	(95)	(277)	(28)	(400)	(95)	(277)	(861)	(1,233)
Amortisation	(1,101)	(324)	(565)	(1,990)	(1,101)	(325)	(567)	(1,993)
Closing net book amount	2,013	457	3,175	5,645	2,013	457	3,176	5,646
As at 31 December 2010								
Cost	7,227	2,148	7,214	16,589	7,227	2,154	7,220	16,601
Accumulated amortisation	(5,214)	(1,691)	(4,039)	(10,944)	(5,214)	(1,697)	(4,044)	(10,955)
Net book amount as at 31 December 2010	**2,013**	**457**	**3,175**	**5,645**	**2,013**	**457**	**3,176**	**5,646**

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 53 % 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 2010, the Group has not recognized any expenditure related to research and development in the statement of income. All development expenditure in 2010 was capitalized as intangible fixed assets, out of which staff expenses amounted to EUR 557 thousand.

28. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2010	**2009**
At beginning of the year	**6,928**	**5,214**
Additional investment	-	1,714
Disposal of a subsidiary	(5,261)	-
Disposal surplus	1,651	-
Release of impairment	370	-
At end of year	**3,688**	**6,928**

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. (previously named Centurion finančne storitve 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. In accordance with the project of transferring credit card processing to a single entity within the Intesa Sanpaolo Group, the bank sold its investment in ISP Card d.o.o. Ljubljana to ISP Card d.o.o. Zagreb in March 2010.

29. OTHER ASSETS

Other assets

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Commission receivables	439	543	530	542
Accruals	341	458	342	459
Advances	118	561	481	1,002
Transition accounts receivables	1,070	1,104	1,070	2,623
Cheques	13	7	13	7
Claims to citizens	711	476	711	476
Claims to Europay	5,931	6,042	5,931	6,042
Other	1,465	1,373	1,948	2,144
Less provision for impairment	-	-	(127)	(91)
	10,088	10,564	10,899	13,204

On 31 December 2010 the Bank had fixed assets from repossessed collateral EUR 391 thousand (2009: EUR 391 thousand), the Group EUR 627 thousand respectively (2009: EUR 738 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 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**
Additional provision for impairment	-	61
Amounts recovered during the year	-	(14)
Included in income statement	-	46
Write off of impairment	-	(11)
As at 31 December 2010	**-**	**127**

30. LIABILITIES TO CENTRAL BANK

Liabilities to Central Bank

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Loans granted	-	90,292	-	90,292
	-	90,292	-	90,292

31. DEPOSITS FROM BANKS

Deposits from banks

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Demand deposits	291	79	291	79
Term deposits	128,275	102,882	128,275	102,882
	128,566	**102,961**	**128,566**	**102,961**

32. DUE TO CUSTOMERS

Due to customers

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Individuals				
- demand deposits	418,897	391,435	418,897	391,435
- term deposits	598,582	591,809	598,582	591,809
Sole proprietors				
- demand deposits	28,944	26,911	28,944	26,911
- term deposits	7,303	6,739	7,303	6,739
Corporate customers				
- demand deposits	103,059	88,264	103,053	88,234
- term deposits	203,477	335,214	201,977	335,214
	1,360,262	**1,440,372**	**1,358,756**	**1,440,342**

As at 31 December 2010, deposits of EUR 27,548 thousand have been pledged for covering potential credit risk on assets (2009: EUR 36,538 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			
	2010		2009		2010		2009	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
In local currency	255,310	196,605	223,908	231,542	255,310	251,982	223,928	286,153
In foreign currency	6,413	-	21,509	-	6,413	-	13,991	1,960
	261,723	196,605	245,417	231,542	261,723	251,982	237,919	288,113
	458,328		**476,959**		**513,705**		**526,032**	

34. OTHER BORROWED FUNDS FROM OTHER CUSTOMERS

Other borrowed funds from other customers

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010 Long term	2009 Long term	2010 Long term	2009 Long term
Building bought on financial lease	199	223	199	223
Other loans	10,013	-	10,013	-
	10,212	223	10,212	223

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. 2010 amount to EUR 442 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	
	2010	2009	2010	2009
Provisions for off-balance sheet liabilities	7,295	15,375	7,202	15,278
Provisions for National Saving Housing Scheme	442	989	442	989
Provisions for infrastructure arrangements for the disabled	33	48	33	48
Legal proceedings due to employees	400	96	400	96
Total	8,170	16,508	8,077	16,411

Movement in provisions

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
At beginning of year	**16,508**	**19,412**	**16,411**	**19,348**
Additional provision	25,252	28,438	25,244	28,300
Amounts recovered during the year	(33,165)	(30,964)	(33,165)	(30,859)
Included in statement of income under provisions	(7,938)	(2,502)	(7,946)	(2,535)
Included in statement of income under staff costs	25	(24)	25	(24)
Additional provisions not included in income statement due to change of entities included in consolidation	-	-	12	-
Repayment of the premiums for National Saving Housing Scheme	(385)	(367)	(385)	(367)
Investment in facilities for disable people	(40)	(11)	(40)	(11)
At end of year	8,170	16,508	8,077	16,411

36. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
Retirement severance pay and long service bonuses	2,872	3,160	2,945	3,359
Provision for redundancies	126	332	126	332
	2,998	**3,492**	**3,071**	**3,691**

Movements

(all amounts expressed in thousands of EUR)

	Banka Koper 2010	Banka Koper 2009	Consolidated 2010	Consolidated 2009
At beginning of year	**3,492**	**3,425**	**3,691**	**3,506**
Additional provisions	349	261	355	379
Amounts recovered during the year	(234)	-	(234)	-
Charged to statement of income	115	261	121	379
Utilised provisions	(769)	(194)	(901)	(194)
Transfer of liabilities of untaken leave to short term accruals	160	-	160	-
At end of year	**2,998**	**3,492**	**3,071**	**3,691**

37. DEFERRED INCOME TAXES

Deferred income taxes

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Deferred income tax liabilities				
Non-current assets held for sale	2	2	2	2
Available-for-sale securities	4,112	4,426	4,112	4,426
	4,114	**4,428**	**4,114**	**4,428**
Deferred income tax assets				
Retirement and other employee benefits	425	551	434	559
Provision for loan losses	-	-	279	764
Available-for-sale securities	1,500	654	1,500	654
Trading securities and derivative financial instruments	13	87	13	87
Provisions for National Saving Housing Scheme	88	198	88	198
Provision for legal proceedings	80	19	80	19
Other - depreciation above tax prescribed rate	10	11	10	11
	2,116	**1,520**	**2,404**	**2,292**
Movement of deferred income taxes (offsetting of assets and liabilities)				
At beginning of year	2,908	2,478	2,136	1,888
Statement of income charge	(353)	288	(425)	105
Investment securities (fair value remeasurement)	(557)	142	(557)	142
Release of deferred taxes on impairment of loans due to sale of subsidiary	-	-	556	-
Other	-	-	-	1
At end of year	**1,998**	**2,908**	**1,710**	**2,136**
Deferred income taxes charged in statement of income				
Retirement and other employee benefits	(126)	(13)	(125)	(3)
Provision for loan losses	-	-	71	135
Trading securities and derivative financial instruments	(74)	(56)	(74)	(56)
Provisions for National Saving Housing Scheme	(110)	(119)	(110)	(119)
Provision for legal proceedings	61	-	61	-
Impairment of AFS securities	603	(79)	603	(79)
Other	(1)	-	(1)	-
Reduction due to diminution of tax rate from 21 % to 20 %:				
- trading securities and derivative financial instruments	-	(1)	-	(1)
- retirement and other employee benefits	-	(5)	-	(4)
- provisions for National Saving Housing Scheme	-	(10)	-	(10)
- provision for legal proceedings	-	(1)	-	(1)
- impairment of Investment in subsidiary	-	(4)	-	(4)
- impairment of loans	-	-	-	37
	353	(288)	425	(105)

38. OTHER LIABILITIES

Other liabilities

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Amount awaiting transfer to deposit accounts	7,253	6,826	7,253	6,816
Deferred income	5,730	5,600	5,839	5,617
Creditors	2,062	1,737	2,696	8,184
Salaries	1,953	1,858	1,982	1,885
Liabilities for unpaid dividend	112	148	112	148
Other	3,024	2,902	3,139	5,212
	20,134	19,071	21,021	27,862

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 2008	531,359	22,173	7,499	(49)
As at 31 December 2009	531,359	22,173	7,499	(49)
As at 31 December 2010	531,359	22,173	7,499	(49)

The share capital of the Bank is divided into 531,359 no-par 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		Consolidated	
	2010	2009	2010	2009
Revaluation reserves	12,878	15,096	12,878	15,096
Total	12,878	15,096	12,878	15,096

Movement – Banka Koper and consolidated

(all amounts expressed in thousands of EUR)

	Revaluation reserves
As at 31 December 2008	**13,668**
Valuation of available-for-sale securities	1,428
As at 31 December 2009	**15,096**
Valuation of available-for-sale securities	(2,218)
As at 31 December 2010	**12,878**

41. RESERVES FROM PROFIT AND RETAINED EARNINGS

Reserves from profit and retained earnings

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Legal reserves	11,955	11,085	11,955	11,085
Statutory reserves	200,472	189,155	200,472	189,155
Retained earnings	11,271	12,701	12,701	13,768
Other	49	49	49	49
Total	223,747	212,990	225,177	214,057

Movement – Banka Koper

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Other reserves	Total reserves
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**
Transfer from net profit for the period	870	11,314	5,222	-	17,406
Dividends	-	-	(6,689)	-	(6,689)
Outdated dividends not disbursed to shareholders	-	-	40	-	40
Transfer to statutory reserves	-	3	(3)	-	-
As at 31 December 2010	11,955	200,472	11,271	49	223,747

Movement – consolidated

				(all amounts expressed in thousands of EUR)	
	Legal reserves	Statutory reserves	Retained earnings	Other reserves	Total reserves
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**
Transfer from net profit for the period	870	11,314	5,585	-	17,769
Dividends	-	-	(6,689)	-	(6,689)
Outdated dividends not disbursed to shareholders	-	-	40	-	40
Transfer to statutory reserves	-	3	(3)	-	-
As at 31 December 2010	**11,955**	**200,472**	**12,701**	**49**	**225,177**

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 2009, the Bank disbursed for dividends EUR 6,689 thousand i.e. EUR 12.61 per share.

Distribution of the profit of the year

	(all amounts expressed in thousands of EUR)	
	Banka Koper	
	2009	2008
Net profit for the period	17,406	22,305
Allocation of the profit to the legal reserves (5 %)	(870)	(1,115)
Residual net profit available for other reserves or distribution	16,536	21,190
Allocation of the profit to the statutory reserves	(11,314)	(14,498)
Outdated dividends not disbursed to shareholders	40	-
Residual net profit available for distribution at the AGM	**5,262**	**6,692**

43. CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2010	2009	2010	2009
Cash and balances with central bank	12,073	29,444	12,079	29,475
Trading assets	1,462	2,533	1,462	2,533
Loans and advances to banks	23,544	15,638	23,544	15,638
Total	**37,079**	**47,615**	**37,085**	**47,646**

44. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As at 31 December 2010, the Bank and Group were involved in several legal proceedings against it. Contingent liabilities in this respect are estimated at EUR 416 thousand. To this end, the Bank established provisions of EUR 400 thousand.

Capital commitments. At 31 December 2010, the Group had no capital commitments (2009: 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	
	2010	**2009**	**2010**	**2009**
Documentary and commercial letters of credit	627	2,295	627	2,295
Guarantees	144,136	103,525	144,136	103,487
Derivative financial instruments	822	17,655	822	17,655
Credit commitments:				
- original maturity up to 1 year	238,816	288,582	238,816	285,842
- original maturity over 1 year	49,013	63,054	35,168	58,222
	433,414	**475,111**	**419,569**	**467,501**
Provisions for off-balance sheet liabilities:				
Documentary and commercial letters of credit	(5)	(262)	(5)	(262)
Guarantees	(2,349)	(3,386)	(2,349)	(3,386)
Derivative financial instruments	-	(1,242)	-	(1,242)
Credit commitments	(4,941)	(10,485)	(4,848)	(10,388)
Total	**426,119**	**459,736**	**412,367**	**452,223**

45. RELATED PARTY TRANSACTIONS

Related party transactions

(all amounts expressed in thousands of EUR)

	Directors and advisers and their direct family members 2010	2009	Management board and their direct family members 2010	2009	Supervisory board members and their direct family members 2010	2009	Major shareholders 2010	2009	Subsidiaries 2010	2009
Loans										
At beginning of the year	237	118	43	-	-	-	13,339	4,742	36,500	40,495
Loans issued during the year	39	385	-	64	-	-	415,747	201,742	48,229	78,219
Loan repayments during the year	(61)	(266)	(43)	(21)	-	-	(397,523)	(193,145)	(64,159)	(82,214)
At end of year	215	237	-	43	-	-	31,563	13,339	20,570	36,500
Impairment as at 31 December	-	-	-	-	-	-	-	-	139	345
Collateral received as at 31 December	466	694	-	193	-	-	-	-	-	-
Deposits										
At beginning of the year	1,149	1,355	2,025	583	785	-	514,449	652,645	29	31
Deposits received during the year	2,508	3,378	6,344	6,186	1,450	3,243	1,596,206	1,402,879	71,293	209,465
Deposits repaid during the year	(2,408)	(3,584)	(5,609)	(4,744)	(1,454)	(2,458)	(1,630,670)	(1,541,074)	(69,816)	(209,467)
At end of year	1,249	1,149	2,760	2,025	781	785	479,985	514,450	1,506	29
Interest expense on deposits	36	31	75	70	24	27	4,293	4,217	-	-
Interest income earned	6	5	-	2	-	-	660	95	432	906
Other revenue – fee income	1	1	1	1	-	-	1,840	1,191	35	316
Guarantees issued by the bank and commitments	-	-	-	-	-	-	20,795	-	-	38
Remuneration	1,430	2,284	2,327*	1,160	124*	43				

There were no transactions made with companies in which the Management board, Supervisory board, directors, advisors, or their direct family members would have significant influence.

* Management board

	Gross salary	Bonuses	Other	Payments under pension plan	Severance	Total
Ezio Salvai	227	169	12	9	-	**417**
Igor Kragelj	230	141	9	3	-	**383**
Aleksander Lozej	187	54	8	3	-	**252**
Aleksander Milostnik	175	54	4	3	-	**236**
Rado Grdina	190	54	10	3	-	**257**
Francesco Del Genio (member from 8. 6. 2010)	92	-	21	5	-	**118**
Mario Henjak (member from 21. 9. 2010)	67	-	36	-	-	**103**
Armando Sala (member until 31. 3. 2010)	36	33	2	2	-	**73**
Dario Radešič (member until 31. 8. 2010)	121	54	35	2	276	**212**
Total	**1,325**	**559**	**137**	**30**	**276**	**2,327**

*** Supervisory board members**

(all amounts expressed in thousands of EUR)

	Attendance fee	Bonuses	Total
Vojko Čok	3	64	**67**
Fabrizio Centrone (member from 28. 6. 2010)	1	-	**1**
Borut Bratina	3	20	**23**
Elena Breno (member from 28. 6. 2010)	1	-	**1**
Roberto Civalleri	11	20	**31**
Michele Raris (member until 27. 6. 2010)	1	-	**1**
Total	**20**	**104**	**124**

46. EVENTS AFTER THE REPORTING PERIOD

There were no significant adjusting or non-adjusting events after the reporting period.

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