ANNUAL REPORT 2012

BANKA KOPER

Thinking ahead with you.

Bank of INTESA SANPAOLO

ANNUAL REPORT 2012

Banka Koper d. d.

Koper, march 2013

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HUMANITY

Always there when you need it

Peace in the Home, Soleirolia soleirolii or Helxine soleirolii

BUSINESS REPORT 2012

BANKA KOPER AT A GLANCE

Banka Koper, established back in 1955, is the eight largest banking institution in Slovenia in terms of total assets and it operates through a network of 54 branch offices throughout the country with more branches concentrated in Primorska – the coastal region. Banka Koper is a universal bank offering a comprehensive roster of banking services including commercial and custodian banking, retail banking, international banking operations, as well as financial and operating leasing, mutual funds marketing and selling insurance products. Banka Koper has been increasing its visibility in the Slovenian market of bespoke services for small and medium-sized enterprises and sole proprietors, and it has safeguarded its market share of corporate banking. It boasts over 160 thousand customers and it is a leading Slovenian financial institution in the area of modern electronic banking operations.

Mission and vision

Stability, imagination, humanity and hope are the values connecting Banka Koper with the Intesa Sanpaolo international banking group. To accept and observe these values means to fulfil the mission of Banka Koper. All the four values are also related to the colours representing the logo of Banka Koper. Orange stands for sun and energy, a symbol of humanity. Green symbolises plants, growth, future and responsibility toward the environment. Blue represents the sea, air, movement, and with that proactivity and innovation, which is reflected in efficient banking products and services. Earth golden represents soil and work, symbolising stability.

Shareholder structure of Banka Koper d.d.

		Equity holding in %	
	Shareholder	**31. 12. 2012**	**31. 12. 2011**
1.	Intesa Sanpaolo S. P. A.	97.6%	97.5%
2	Elektro Primorska d.d	0.7%	0.7%
3	Kraški vodovod Sežana d.o.o.	0.3%	0.3%
4.	Minority shareholders	1.4%	1.5%

Intesa Sanpaolo international banking group, the majority shareholder of Banka Koper, was founded in 2007 with the merger of Banca Intesa and Sanpaolo IMI. Intesa Sanpaolo is one of the leading banking groups in the eurozone and the leading bank in Italy operating with individuals, corporate banking and asset management. Its international operation focuses on Central and Easter Europe and the Mediterranean.

The international connection with the Group delivers knowledge transfer, experience sharing and the development of innovative products and services, which places Banka Koper among the most successful Slovenian banks.

International ratings

The international rating agency – Fitch Ratings London – downgraded the credit rating for Banka Koper: its long-term credit rating from A- to BBB+, its short-term credit rating remained unchanged on the level F2, the viability rating dropped from BB+ to BB. Fitch Ratings downgraded the Bank's credit rating for external support from 1 to 2.

Despite the downgrade, in 2012 Banka Koper keeps the highest credit rating among the Slovenian banks as it stands out from Slovenian banks in terms of bank performance, capital base and benefits of having the Italian Bank Intesa Sanpaolo among its shareholders.

The short-term and the long-term credit ratings are founded on the strong link between Banka Koper and its parent undertaking - Intesa Sanpaolo. Fitch Ratings believes that there is a high degree of probability that the Bank's parent undertaking will provide funding to its Slovenian subsidiary should it be necessary. In addition, Fitch Ratings assesses that Banka Koper has adequate liquidity, a well-developed retail network, and an adequate capital adequacy ratio. At the same time it assesses that Banka Koper is a strategically important bank in Intesa Sanpaolo Group.

	Rating 2012	**Rating 2011**
Long-term	BBB+	A-
Short-term	F2	F2
Viability	BB	BB+
Support	2	1

MILESTONES IN THE BANK'S CORPORATE HISTORY

1955 • Foundation of Istrska komunalna the bank
1961 • Komunalna the bank Koper is established to serve banking needs of several coastal municipalities
1965 • Venturing into new lines of business results in establishing Kreditna banka Koper.
1978 • LB Splošna the bank 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 the bank and develops the first Slovenian payment card – Activa.
1997 • New corporate image and new name – Banka Koper.
1998 • The branch network expands.

1999 • Banka Koper takes over M the bank.
2000 • The Bank is run by a two-man management board. The Bank's shares are listed on the Ljubljana Stock Exchange.
2001 • 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.
2004 • 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.
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. 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.
2010 • The focus of Banka Koper is on risk management, deposit gathering, launching new products. Within the framework of the Group-wide EDU The programme for 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.
2011 • Banka Koper introduces three new products in the area of retail lending with clear benefits for households borrowing from Banka Koper in terms of the purpose of borrowing, maturity and borrower protection. The electronic banking via the Internet - Banka IN – is further adjusted to the users of mobile devices and the new application is born for Mobilna Banka IN. By keeping abreast with the high-tech advances, Banka Koper is aligned with the latest trends and responds quickly to the demands of more demanding users of banking services. In the very centre of Ljubljana Banka Koper opens its first "green branch office" where payment or withdrawal slips are signed electronically without using paper forms. This means that banking transactions are executed virtually at the teller's window or at a desk of a bank officer. The customer is asked to sign an electronic document using his/her smart bank card with a chip with the digital certificate and by punching in his/her PIN code using a special touch screen.
2012 • Banka Koper executes the reorganisation of its branch network in effort to be more friendly to the segment of small and medium-sized enterprises and in line with commitment to step up efficiency and expertise of its staff working with small and medium-sized enterprises (SMEs). Banka Koper celebrates the 10th anniversary of membership of the international banking group Intesa Sanpaolo. To highlight the occasion, the bank becomes a sponsor of the concert of the world-famous pianista Giovanni Allevi. Banka Koper spins out the provision of investment and ancillary investment services to the management company ALTA Invest. This strategic move is taken in order to enable the bank to enable the customers to make higher returns on their assets on the one hand and to enhance the bank's position in the area of the custodian banking. The card system Activa celebrates the 20th anniversary in business and undisputed success in the payment cards market. The process serving to reinvent the bank's branch offices within the framework of its retail network to become "green branch offices" is completed.

SIGNIFICANT EVENTS IN 2012

Customers

Increasing operating efficiency with small and medium-sized enterprises

With the aim to enable Banka Koper to come even closer to the segment of small and medium-sized enterprises, at the beginning of the year 2012, the bank's business (branch office) network was transformed and as a result, the bank created ten specialized enterprise centres for small and medium-sized enterprises (SMEs), which are distributed in the western part of the country, in Slovenia's central part and in the eastern part of Slovenia. By making this move, Banka Koper has established a business model with which it strives to achieve a higher degree of efficiency and expertise of its employees for serving the specific needs of small and medium-sized enterprises (SMEs).

The provision of banking services to the financially sensitive segment of population

Banka Koper offers to the customers a wide array of products and services, which meet various needs for financing. While doing so, Banka Koper takes into consideration also that segment of Slovenia's population, which is either faced with important points in life or are disadvantaged when it comes to gaining access to financing they need to meet their needs. This segment of Slovenia's population includes pupils and students to whom the bank offers loans at a more favourable interest rates and at lower charges - lower costs of loan approval. By launching marketing campaigns and tailored offers, Banka Koper also caters for the needs of young people who wish to buy their own home. With the new loan for retired people, Banka Koper has come closer to the segment of Slovenia's population often turned down by credit institutions since their age and low personal income create a barrier to getting a loan.

Driven by a wish to provide as high financial security to borrowers during the repayment of a loan as possible, Banka Koper wraps up the credit products with insurance products. In addition to the traditional loan insurance coverage, the bank also offers a combination of insurance coverage for the borrower and loan insurance. It is a special form of insurance, which provides an individual the financially security by making it possible for the borrower to take put insurance coverage for death, inability to work and/or being laid off, while at the same time the borrower takes out insurance for its obligations vis-à-vis the bank arising from the loan taken.

The quality of customer relationship

Banka Koper has been striving all along to raise the level of quality of its relations with the customers, and it has carried out on more than one occasion the activities, which are not of purely commercial nature. During the year under review, Banka Koper carried out for natural persons certain educational activities such as:

- How the internet banking works within the framework of education "Digitalno opismenjevanje starejših" – whowing the way through the cyberspace to senior citizens organised in collaboration with Ljudska univerza in Koper.
- Education for the retired staff of Banka Koper (former employees of Banka Koper) with the aim to recruit the bank's former employees to win new customers for the bank and market the bank's services and products for a fee.
- By means of video recording to educate the wider public through the internet portal of Banka Koper and the expanded internet portal Youtube on the use of the electronic Banka IN.

In the area of legal persons and sole proprietors, the bank:

- organised specialised seminars for the customers - legal persons – regarding the migration from direct debits to SEPA direct debits (SEPA DD).
- Started with breakfast sessions organised for its existing and potential new business partners/ customers, where hot topics are discussed (such as expectations regarding interest rate fluctuations in the market, presentation of the possibilities for insuring claims on customers – trade receivables).

- organised educational day for exporters and importers and for enterprises, which are only preparing to make an entry into the international markets, where it presented the services provided by TradeWay – a comprehensive information solution suited for a personal presentation in international markets, seeking new business partners and obtaining other useful information.
- in collaboration with Intesa Sanpaolo Eurodesk, Banka Koper organised an expert seminar for the existing and potential customers interested in obtaining direct non-refundable funds/ grants from the European Union.

The natural and business enivornment

Banka Koper continued in the course of 2012 with the activities undertaken with the aim to achieve alignment of its branch offices with the new environmental standards followed by the Intesa Sanpaolo group and the in-house standard, the bank set itself within the framework of represented performance values. During the year under review, almost all SME branch offices were already equipped with the technology for carrying out paperless banking transactions, and by cutting back on paper slips, these branch offices were transformed into the green, environment-friendly branch offices.

Also in other areas the bank continued with the activities within the framework of the project titled «Trajnostni razvoj spogledom 360 stopinj« - sustainable development with a 360 degree vision. Banka Koper within the framework of office material (stationery) uses only FSC paper (A4 format), its car fleet now features also hybrid vehicles, in certain business premises sensor for lights have been installed to cut down on electricity consumption and last but not least, Banka Koper has been making continuous efforts for awareness of the importance of sustainable development of employees as well as the general public.

Within the framework of the celebrations of the Work day of the environment, the bank organised a press conference where the media could learn about all the activities undertaken by the bank in the area of the environment protection and sustainable development. At the same time, through the internal communication channels (ATMs, direct mail and LCD screens), the customers could learn about the bank's achievements and about the activities in the area of the protection of the environment.

For its strivings made in the area of the environment protection within the framework of the project »Trajnostni razvoj s pogledom 360 stopinj«, Banka Koper was nominated last year for the prestigious first prize awarded within the framework of the best European projects in the area of energy efficiency, renewable energy sources and clean transport – 2012 Sustainable Energy Europe Awards.

Local community

Having to live with the slashed budget for the marketing activities, the bank continued to invest the same degree of enthusiasm and zest the applications received for sponsorships and donations. To this end, Banka Koper focused attention on those projects and individual initiatives, which strive to keep alive the social activities in the towns and cities in which Banka Koper operates with a particular stress on the activities designed for young people and for the societies active in culture, arts and charity work.

The media

The bank has been building its reputation also through transparent collaboration with the media. The organisation of press conferences, informing the media about important events in relation to the bank and informing journalists about the important aspects of the banking operations and cooperation with the prominent public institutions, particularly when the economic situation becomes difficult, are the regular communication activities with the stakeholders. Banka Koper organised in the course of 2012 several press conferences and info events and sent out a number of messages for the media. Two events have to be underlined as very important ones: the meeting of the Slovenian banks with the representatives of the media with the analysis of the financial results posted by the banks as the topic where the bank participated actively with the Banking Association of Slovenia in the organisation of the event, and the key-note interview given by the president of the management board of Banka Koper, Mr. Giancarlo Miranda in Sobotna priloga – the supplement to the daily newspaper Delo published on Saturdays.

RESPONSIBILITY

Growth is a responsible step by step path

Money Plant,
Crassula ovata

MANAGEMENT OVERVIEW 2012

01. REPORT OF THE MANAGEMENT BOARD

The drop in economic activity and in household demand is but a piece in the puzzle of the stressful circumstances Banka Koper was facing in 2012. Another very important piece was a drastic drop in Euribor rates, which exceeded our expectations, and, looking at the domestic environment, the sudden failure of several of Slovenia's leading construction companies. The consequence of the Euribor drop was a negative effect on interest rate revenue, amounting to EUR 6 million, while poor macroeconomic conditions prompted the bank to make more impairments and build reserves compared to the previous year.

Despite these extremely unfavourable conditions, Banka Koper has yet again proven to be a solid institution, remaining among the few profitable banks in the Slovenian banking system. We have mainly achieved this by maintaining a strict control of operating costs and risks. Thus, we managed to achieve net profits for 2012 in the amount of EUR 7.2 million.

The worsening of the debt crisis and the deterioration of the conditions in the Slovenian banking sector have led to a drop in the scope of loans in the entire system. In spite of this, Banka Koper was one of the few banks that managed to achieve definite growth in the field of loans. In 2012, gross loans to clients who are not from the banking sector increased by EUR 46.7 million (+ 2.4 per cent), while the banking system saw a 3.5 per cent decrease in credit activity), which means that the Bank's market share in the non-banking credit sector increased from 5.4 to 5.7 per cent.

In 2012, the Bank earmarked no less than 31.8 per cent of all loans to the non-banking sector for the needs of the households, i.e. ordinary citizens and sole traders. Household loans increased by EUR 26.2 million (+ 4.3 per cent), owing chiefly to the competitive offering of housing loans, which translated to an increase from 6.5. to 7.1 per cent.

We are proudest of the considerable increase in the scope and market share in the field of customer deposits. This proves that a growing number of Slovenes and companies trust Banka Koper and consider it to be a stable and reputable bank. The Bank has thus seen a considerable increase in the collected deposits of clients from the non-banking sector, EUR 172.3 (+12.8 per cent), and from a 5.5 per cent market share in 2011 to 6.3 per cent in 2012. We first detected this trend in non-financial companies, where the volume of deposits increased by 29.7 per cent. The Bank also saw a growth of deposits from citizens, accounting for the largest part of non-banking sector deposits. Among citizen deposits, long-term deposits increased the most, by 9.0 per cent.

This constant growth in deposits has enabled us to improve our loan vs. deposit ratio, which is today considerably lower than the Slovenian banking system average. The aforementioned ratio improved by 13 percentage points and was 1.23 on the last day of 2012; on the same day in 2011, the ratio was 1.36. This positive trend has continued in the first months of 2013. Constantly lowering the loan vs. deposit ratio means that the Bank is less dependent on other sources to fund its operations. The Slovenian banking system reached a ratio 1.30 in 2012, while the indicator at the end of 2011 was 1.36.

In spite of the increased volume of loans to customers, the Bank further increased its credit adequacy. The end of 2012 showed a high capital adequacy ratio of 13.53 per cent. It should be pointed out that the Tier 1 capital ratio is 3.14 and increased by 0.45-percentage points compared to 2011.

On the last day of 2012, the long term credit rating of Banka Koper was BBB+, the highest among rated Slovenian banks, due mainly to prudent business results, adequate regulatory capital and the positive effects the Bank enjoys thanks to support from its parent group, Intesa Sanpaolo. Banka Koper's affiliation with the Intesa Sanpaolo banking group, which is profitable, liquid and very solid in terms of capital, gives us strength and boosts our confidence in our operations.

In addition to focusing on credit and deposit operations, Banka Koper was very active in 2012 in the field of developing new products and distribution channels, in the improvement of customer relationships and in exercising its principles in the field of social responsibility.

With a great deal of attention to the times and the conditions in which we currently operate, we have created a selection of new products for the most vulnerable population segment. For secondary school and higher education students, the Bank has created a special offer of loans with advantageous interest rates and lower granting costs. In order to ensure better financial security for our borrowers, Banka Koper, in cooperation with Generali Insurance Group, has broadened its offer of life insurance for its borrowers (CPI), even for consumer loans. We have also created a special loan type for retired citizens because age and low income are frequently the factors in why pensioners are refused loans. Pensioners also benefit from lower bill payment commissions at selected Banka Koper branch offices.

In the field of bank card operations, Banka Koper has reconfirmed its leading status by issuing the first stored value card in the Slovenian market, offering card users a new payment tool that is especially handy for online shopping and travelling.

It would also be safe to say that Banka Koper is the leader when it comes to electronic banking. In addition to the online 'Banka IN', it has developed a mobile version serving four mobile operating systems. Both versions have received rave reviews in Monitor, Slovenia's leading IT magazine.

A special turning point of 2012 is surely the transfer of investment and ancillary investment services to be managed by ALTA Invest Company. Banka Koper and ALTA Invest have thus managed to take advantage of optimum synergy effects and improve the quality of their integral offer. For the Bank, the collaboration with ALTA Invest meant it could start providing trust services for their mutual funds, consolidating Banka Koper's position and moving to the very foreground in the field of trust banking.

The mission of "Posluh 100 per cent" project ("Hearing 100 per cent"), which the Bank has been implementing with success for several years, is continuous improvement of client relations. In 2012, several activities were carried out as part of this project, but special mention should be made of the effects of the latest business network reorganisation, which prompted the most positive reaction in the SME sector. The increased satisfaction in this client category was confirmed in our latest customer satisfaction review where the satisfaction levels were determined according to the European Customer Satisfaction Index – ECSI.

Of course, our placement among the country's best business institutions comes with the responsibility of looking beyond the confines of banking operations in the strict sense and, taking into account various factors, trying to improve everything associated with them. When it comes to social responsibility, what really counts is not only the number of sponsorship or donation contributions, but, first and foremost, the creation of a shared environment where it will be more pleasurable to live. We may say that we make small but determined and important steps in this direction. And so, for instance, in 2012, we completed the refurbishment of our branch offices according to the standards of environmentally friendly offices: their main characteristic being that they are equipped with technology allowing us to provide paperless banking transactions. All transactions (cash withdrawal, bill payments, deposit contracts, etc.) can be made without using paper, using a smart payment card and a special touch-sensitive screen, either at the counter or in a bank representative's office. For our environmental protection endeavours that were part of the 'Sustainable Development with a 360 Degree View' Project, Banka Koper was nominated for the prestigious main award within the framework of the 2012 Sustainable Energy Europe Concourse.

The fact that we never cease to pursue our ethical principles, carefully manage risks and operating expenses, introduce new technologies and train our employees, to whom we are extremely grateful for their contribution and sense of responsibility, is the solid foundation of Banka Koper's past achievements in the Slovenian market. These are also the key factors behind Banka Koper's positive business figures in 2012 and what has placed it among the country's few profitable banks, allowing us to face 2013 with great confidence.

02. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2012

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 2012,
The Auditor's Report drawn up by the independent auditor KPMG 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

Report

1. The way and scope of verification of the management of Banka Koper during the financial year 2012

In the course of the financial year 2012, the Supervisory Board of Banka Koper d.d. met five times at regular sessions and four 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 not changed in 2012.

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 2012 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 2011;
- examining and approving the Annual Report of the Internal Audit Department for 2011;
- 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 2011;
- monitored the Bank's capital adequacy;
- took note of a given letter of resignation by Mario Henjak, member of the management board, on taking on other duties and tasks outside the country of Slovenia from 01.01.2013 on.
- addressing other issues in accordance with powers conferred upon it under law and the Articles of Association.

The Supervisory Board assesses that it had at its disposal timely and adequate data, reports and information, as well as additional clarifications and explanations when required at sessions it held, so as to be able to monitor throughout the financial year the Bank's operations with due attention, as well as the internal audit function and supervise the running of the Bank. In March 2013 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2012, arising from the audited 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

Position

that the Supervisory Board has no objection to the Report of the auditor KPMG Ljubljana.

3. Approval of the Annual Report for the financial year 2012

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 2012.

4. Approval of the proposal on profit appropriation

The members of the Supervisory Board have analysed the proposal regarding the appropriation of the balance-sheet profit. They have found the proposal for the adoption of the distributable profit, to be in line with the dividend policy of the bank. After due examination of the proposal, the Supervisory Board hereby fully

Agrees

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

Koper, 7 May 2013

Chairman of the Supervisory Board
Vojko Čok

03. BODIES OF CORPORATE GOVERNANCE

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 its parent undertaking, the Intesa Sanpaolo Group.

In 2012 there were no changes in the composition of the Supervisory Board.

Supervisory Board as at 31 December 2012:

Vojko Čok	>	Chairman
Ivan Šramko	>	Deputy Chairman
Fabrizio Centrone	>	Member
Elena Breno	>	Member
Roberto Civalleri	>	Member
Ph.D. Borut Bratina	>	Member

Management Board

The Management Board is composed of seven members and chaired by Mr. Giancarlo Miranda.

In 2012 there were no changes in the composition of the Management Board.

The composition of the management board as at 31 December 2012:

Giancarlo Miranda, M.Sc.	>	President
Igor Kragelj	>	Deputy President
Rado Grdina	>	Member
Aleksander Lozej, M.Sc	>	Member
Aleksander Milostnik	>	Member
Francesco Del Genio	>	Member
Mario Henjak, M.Sc.	>	Member

04. GENERAL ECONOMIC AND BANKING ENVIRONMENT

The European economic activity was modest during the year under review. The situation was deteriorating in the labour market and, at the same time the expectations that the economic crisis would come to an end in the year 2013 were becoming more distant. The difficult situation in the interbank market did not improve even though the conditions in the financial and equity markets somewhat improved in the face of the crisis. The International Monetary Fund issued its estimate for 2012 saying that the already lame economic activities were set to deteriorate even further also in the year 2013. The agreement achieved to form a European banking union was well accepted by the markets and slightly reduced the uncertainty regarding public finances in the countries at the periphery of the EU and contributed at the end of 2012 to a rise in the exchange rate of the euro vis-à-vis most important currencies.

The situation in the Slovenian economy remained relatively good in the industry and in other sectors, predominately linked to exports, but deteriorated in the sectors mostly dependent on domestic demand, markets and the service activity. The relatively favourable activity in industry/manufacturing in comparison with the euro area was still mostly a consequence of the shift to sales to the markets in other currencies. At the end of 2012, the indicators of business sentiment and confidence slightly increased in all types of economic activities, but still remained below the average values for many years.

The difficult situation in the labour market and consequently lower possibilities for employment led during the fourth quarter of 2012 to the registered unemployment rate of 12.1 per cent. The number of people in the so-called active population in the private sector was visibly falling down during the last months of 2012 as a result od the measures aimed at cost cutting and consolidation dragging down also employment in the public sector. At the end of December 2012, the number of the registered unemployed persons took at 118 thousand persons and it was a record high figure after the year 1999.

The weak activities in the private sector and the savings measures undertaken by the government took a toll on average salaries and their sluggish growth.

In Slovenia, the inflation rate for the year 2012 was 2.7 per cent, as opposed to a year earlier what this figure was 2.1 per cent. As it was the case throughout the euro area, the main reasons for a higher inflation rate also in Slovenia were price hikes for fuels, foodstuffs and services. The rise in excise duty on petroleum products and tobacco contributed to the annual inflation 0.9 percentage point. Despite the rise, the core inflation remains below the average for the euro area.

During the year under review, the deterioration and shrinking of the balance sheet assets of banks continued. The shrinking was mostly affected by the banks' repayments of the funds borrowed abroad. After several months when the volume of deposits of the non-banking sector was decreasing, in October 2012 it increased, mostly owing to the deposits placed by the government. The instable economic conditions and the falling confidence in banks' operations continued to fuel the rise of household deposits withdrawn from the banks. A decrease in the lending activities to the non-banking sector slowed down slightly in October as lending to the government increased. The negative annual dynamics of lending to the non-financial companies gained momentum at the end of 2012, while the volume of lending to households stagnated. The banks posted losses before tax until the end of October 2012 in the amount of 155 million euros, mostly due to higher costs of impairments and provisions. These costs accounted for nearly two thirds of the gross income generated by the banks.

05. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2012

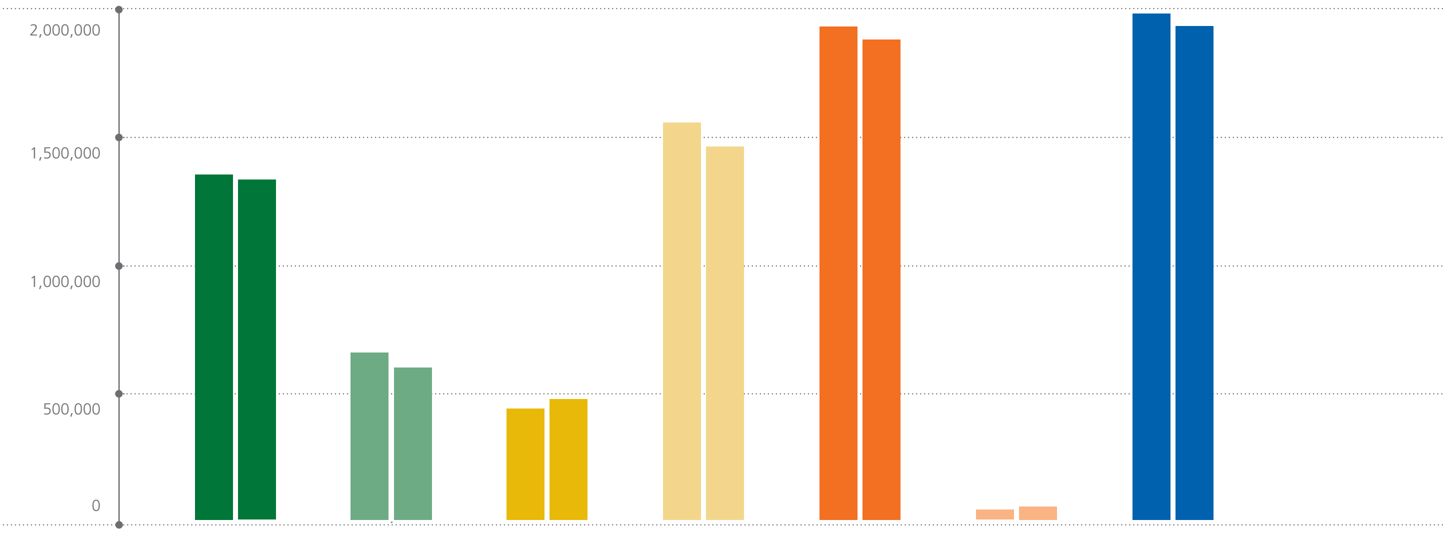
5.1 Lending operations

The fall in the volume of lending of the Slovenian banking system to the non-banking sectors was highly pronounced in 2012. The bigger portion of these decreases was a consequence of deleveraging by enterprises and the non-financial institutions, households also repaid more loans, while loans extended to the government somewhat increased. During the year under review, the volume of lending granted by the domestic banks to the domestic non-banking sectors decreased by 1.2 billion euros, which is nearly 60.0 per cent more than in the year 2011. The net repayments of obligations at maturity to foreign creditors slowed down in December and the deposits of the government from the banking system decreased, while household deposits increased considerably influenced by seasonal factors.

In 2012, the Bank's gross lending to the non-banking sector increased by 46.7 million euros, i.e. by 2.4 per cent in comparison with 2011. The Bank's non-banking lending market share also increased from 5.4 per cent at the end of 2011 to 5.7 per cent at year-end 2012.

In terms of currency, lending in euro still largely prevailed in 2012 with a 97.6 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 2012. Short-term loans accounted only for 22.1 per cent of total loans.

An overview of gross lending to the non-banking sector in thousands of euros
(in thousands of EUR)



31. 12. 2012	1,357,357	633,811	440,304	1,550,864	1,943,996	47,172	1,991,168
31. 12. 2011	1,336,840	607,646	477,614	1,466,872	1,891,386	53,100	1,944,486

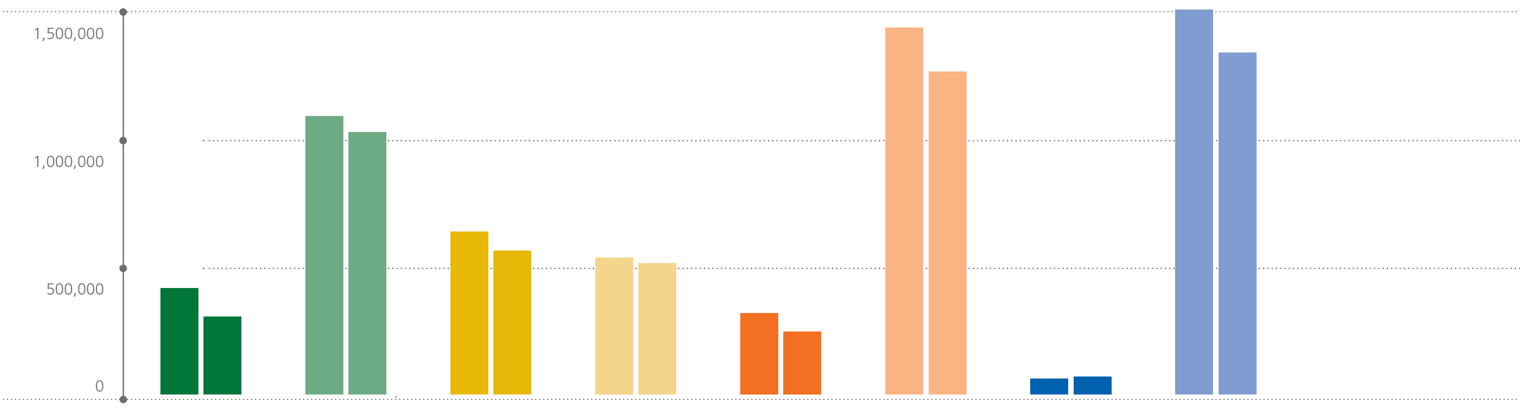
Legal entities
Households
Short-term
Long-term
Domestic currency
Foreign currency
Total

Loans to the corporate sector amounted to 1,357.4 million euros or 68.2 per cent, representing the largest portion of loans to the non-banking sector.

Lending to households - private individuals and sole proprietors - reached 633.8 million euros or 31.8 per cent of total lending to the non-banking sector. Compared with 2011, lending to this customer segment increased by 26.2 million euros or 4.3 per cent, mainly due to an increase of mortgage loans. As in 2011, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level. Most of long-term loans are mortgage loans. Market share of loans to private individuals and sole proprietors amounts to 6.8 per cent, and to corporate sector 5.7 per cent.

5.2 Deposits

An overview of deposits and loans from the non-banking sector in thousands of euros
(in thousands of EUR)



31. 12. 2012	422,876	1,090,967	644,151	544,553	325,139	1,444,196	69,647	1,513,843
31. 12. 2011	311,938	1,029,618	568,513	521,723	251,320	1,269,324	72,232	1,341,556

Legal entities
Households
Sight
Short-term
Long-term
Domestic currency
Foreign currency
Total

Customer deposits and received loans increased by 12.8 per cent or 172.3 million euros in 2012 meaning that the Bank gained 0.8 basis points of its market share. At the end of 2012, Banka Koper achieved a 6.3 per cent market share measured by deposits placed by the non-banking sector.

The sight deposits accounted for a 42.4 per cent share of all deposits followed by short-term deposits (38.9 per cent) and long-term deposits trailing at 18.7 per cent. The deposit structure in terms of currency was dominated by deposits denominated in euro with 94.6 per cent.

The volume of the deposits placed by legal persons increased by 35.6 per cent (by 110.9 million euros) comparing with 2011. The sight deposits increased by 13.3 per cent, short-term deposits by 4.4 per cent, and long-term deposits by 29.4 per cent compared to the previous year. Also in 2012, the deposit structure in terms of currency was dominated by deposits denominated in euro.

Household deposits account for 72.1 per cent of all non-bank deposits and at the end of 2012 totalled 1,091 million euros, i.e. 61.4 million euros more year-on-year. Household deposits were mainly denominated in local currency.

5.3 Other services

5.3.1 Card business

Activa payment system
During the year under review, the Activa System reached a new milestone – the 20th anniversary of operation and the issuance of the first Slovenian payment card Activa. To mark the occasion, the Activa system issued a gift card Activa in the value of 10 euros and the participants of the business conference »The trends and innovations in the area of card operations« could make a donation to the Association of Blind persons and persons with impaired eyesight.

In the area of new card products and services, the system Activa has introduced a debit business card Activa Maestro and offered to all card holders the services of security SMS messages for payment transactions with the cards of the Activa family.

The Activa System also continued during the year under review with the promotional and award giving campaign – My Activa card benefits from its use with the slogan "More Activa for less cash". The objective of this promotional and award giving campaign is to encourage the use of payment cards instead of using cash to pay for goods and services, to stress the advantages of paying with payment cards and to increase the activation of the use of cards and the cementing of the visibility and loyalty of the Activa brand by giving away practical awards.

Banka Koper
During the year under review, Banka Koper issued the first prepayment card Activa Visa Electron called »MOJA« (my). It is the first such card in the Slovenian market that does not require a person to be a customer of the bank with a bank account opened with Banka Koper d.d. in order to become a holder of the card. The card has been designed for wider use and the target group comprises savers, internet shoppers and travellers.

During the year under review, the integration of the card scheme American Express in the portfolio with the offers of card products of Banka Koper continued and to that end, the card offering was expanded and the card portfolio of this type of products was enriched with one of the most visible brands in the world.

In line with the strategy of the banking group Intesa Sanpaolo, Banka Koper joined the development of the joint debit payment card Activa Visa Debit named »Inspire«, which will be launched on the Slovenian market in the course of 2013.

5.3.2 New products
During the year under review, Banka Koper offered to its customers more products in its offer designed by taking into account customers' expectations, market conditions and regulatory requirements. The products that proved to be the most interesting were the following:

- The investment deposit with maturity of 2,5 years, where the higher yield is connected to the movement in the 6-month Euribor;
- The provision of the domestic SEPA direct debits;
- The offer made to enterprises for adjusting to SEPA direct debits through an interface;
- Offering life insurance to borrowers for consumer credits;
- Offering loans for debt restructuring;
- The services for small and medium-sized enterprises from the group Intesa Sanpaolo within the framework of the project »Easy SMEs«;
- Offering the instrument called »Izvršnica« that serves to enforce overdue payments in accordance with law;
- Offering a package designed for loyal customers – MOJ Paket – which provides benefits for the bank's long-term customers.

5.3.3 Electronic banking
Banka IN – it is more than a common website of Banka Koper – it is the first personal bank on the Internet that enables customers of Banka Koper to attend to their banking needs in a fast and easy way without having to pay a visit to the Bank's brick-and-mortar branches. It is an advanced channel for communication between the bank and the customer, all the bank's products and services are at the customer's finger tips and it is a versatile bank, so it does not take long to get used to it With its ground-breaking solutions Banka IN stands out from the crowd of e-banking providers. Also during the year under review, the number of users of the electronic bank on the internet - Banka IN kept increasing and exceeded 40.000. In addition, also the new service - the mobile Banka IN developed for the modern mobile devices attracted many customers and thus fulfilled the bank's goal: to make the internet bank Banka IN more popular. The new Banka IN has been winning customers in all age groups, since the mobile Banka IN is user friendly and enables the bank to develop a number of useful operations.

5.3.4 Marketing mutual funds
During the year under review, the negative trend experienced a year earlier in the area of mutual funds marketing continued. The values of the stock exchanges indices in most international markets increased, but it failed to convince Slovenian investors. The net outflow from the Slovenian mutual funds was record high during the year under review. This disappointing result was also attributable to the overall deterioration in the economic situation forcing savers to withdraw their nest eggs despite good results posted by the mutual funds.

Due to the unfavourable climate for selling the mutual funds, the results fall short of expectations, since Banka Koper experienced more than 1.3 million euros in net outflows from foreign funds it offers to customers (Eurizon Manager Selection Fund, Eurizon EasyFund and Franklin Templeton Investment Fund) in the course of 2012. Lacklustre results were achieved also in the saving scheme deposits on the basis of contracts concluded for monthly payments in funds.

During the year under review, the bank concluded a contract for the marketing of mutual funds with the Slovenian management company Alta skladi.

5.3.5 Distributing insurance policies

At Banka Koper, we act as an intermediary for taking out insurance coverage by borrowers (CPI), for purchasing car insurance, for non-life insurance, for life insurance and for life insurance with discretionary participation feature – unit linked policies. Banka Koper collaborates with Generali Zavarovalnica d.d. and with the insurance company Adriatic Slovenica d.d. During the year under review, special marketing activities were carried out for providing insurance for borrowers (CPI) and the marketing campaign for purchasing a policy for home loans taken earlier. This campaign took place during the period from April to July 2012 and there was another marketing campaign: to take out insurance coverage for consumer credits arranged in earlier periods, which lasted from October to December 2012.

5.3.6 Leasing operations

The company Finor leasing specialised in selling all types of leasing in the area of the entire Slovenia, both for natural persons and for legal persons. In its branch offices in Koper, Ljubljana and Maribor, Finor leasing has 12 employees. In 2012, Finor Leasing d.o.o. concluded 1,106 contracts in the aggregate amount of 48.7 million euros. The majority of contracts were concluded for commercial vehicles - 470 contracts in the amount of 12.8 million euros, followed by passenger cars - 415 contracts in the amount of 7.8 million euros, manufacturing and other equipment - 173 contracts in the amount of 10.3 million euros, real estate, the strongest group in value terms - 34 contracts in the amount of 17.1 million euros, and the smallest group of contracts for the purchase of yachts - 8 contracts in the amount of 0.7 million euros.

During the year under review, Finor leasing achieved in the segment of newly concluded leasing contracts a 5.02 per cent market share and among 16 leasing companies, it climbed to the 8th place. In terms of total assets, which total 110,4 million euros, its market share stands at 2.35 per cent.

5.3.7 Open-ended mutual pension fund managed by 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. (the OVPS of Banka Koper). The OVPS is intended both for collective and individual supplementary pension insurance.

As at 31 December 2012, the OVPS posted total assets of 31.34 million euros, which means a 7.11 per cent decrease with regard to year-end 2011. This decrease is mostly a consequence of the aggregate effect of the world economic crisis and the expiry of the 10-year membership of the OVPS supplementary pension scheme. In addition, most of the former employees in companies which are in bankruptcy proceedings drew down the saved funds from the pension fund OVPS, even though the personal income tax bill is to soar due to the “windfall” income.

At the end of 2012, the OVPS of Banka Koper had 5,963 members or 4.18 per cent less than a year earlier, of which 5,325 persons were collectively insured and 638 were individually insured. The number of companies – sponsors of the collective schemes fell by one company; hence, at the end of 2012, the OVPS had 104 companies.

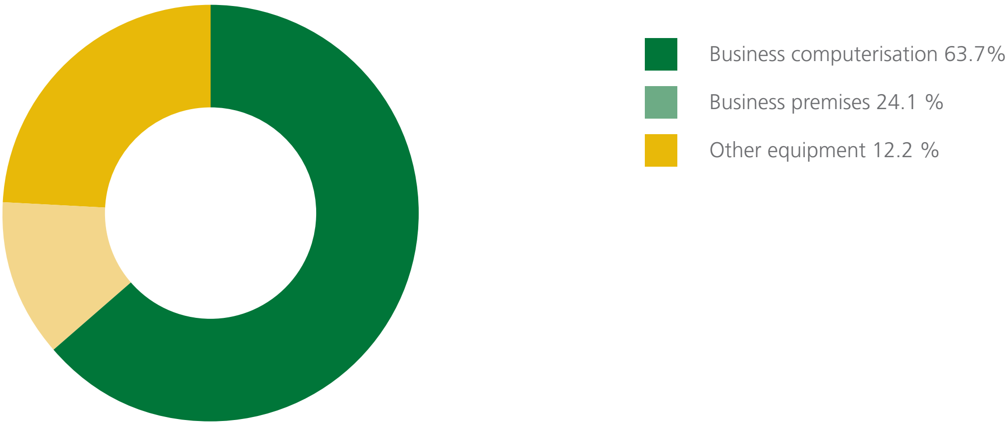
The unit asset value increased by 4.41 per cent year-on-year and reached 8.5715 euros at the end of 2012. It is worth mentioning that the value of asset unit has practically doubled over the long-term horizon, and the return on the funds’ assets has surged since it was established to 105.41 per cent by the end of 2012.

06. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

6.1 Capital investments

Also in 2012, Banka Koper continued with the implementation of the long-term development programme and invested 3.2 million euros in the computerisation of its operations, in office space and in other equipment. Bank's capital investments in 2012 were lower by 38.1 per cent or 2.0 million euro compared to 2011.

Structure of capital investments in 2012



The biggest portion of capital investments (gross capital formation) – 2.0 million euros or 63.7 per cent of all investments - was allocated in 2012 to the computerisation of banking operations, of which the biggest portion for the development of the banking applications for managing liquidity risk and for the preparation of the system of internal credit rating systems. Substantial investments in the area of card operations were inevitable in order to meet ever-stricter security requirements in this area.

In 2012 Banka Koper allocated only 0.8 million euros, that is, 24.1 per cent of total investments to renovation and refurnishment of premises and modern state-of-the-art banking service, as well as the refurbishment of its branches to be in line with the corporate image of the parent banking group.

6.2 Information technology and technological development

During the year under review, Banka Koper continued with the implementation of the »Green branch offices«, which, among other things, enable our customers to use **electronic signing of documents**. The customers have been using for electronic signing the already existing payment cards with a chip on which also a digital certificate is downloaded. The customer signs a transaction using his/her PIN code right after agreeing with the cintent of the transaction, that is, of the contract. There is also a system for electronic archiving of documents.

The project is an additional element within the framework of the environmental project »Trajnostni razvoj s pogledom 360 stopinj«, where also with a series of other activities executed by the bank together with our customer we demonstrate that we do care for a better tomorrow.

During the year under review, there was the intensive development of the electronic bank **Banka IN** for business entities, which will provide in the course of 2013 with its new solution new functionalities and advanced approaches in the direction of paperless banking transactions. With the completion of the project, the overhaul of the bank's internet operations will be completed both for legal persons and for natural persons. The comprehensive solution has value added also in mobility, since with practically all its functionalities is can be reached also on the phone sets with iOS, Android, Windows and Java operating systems.

During the year under review, the bank prepared and implemented for its loyal customers a package of benefits (MOJ PAKET) with which it is offering more favourable conditions for doing business to all those customers, which have a bank account (TRR) opened with Banka Koper and at least one form of long-term savings.

In the area of the provision of **payment services**, Banka Koper completed successfully the migration of direct debits to the SEPA DD scheme and implemented the possibilities for mass payments to be compatible with the latest version of the XML standards. Furthermore, the bank in the area of payment transactions and e-invoices continued with the B2B linking of major enterprises; hence, the bank was able to provide a larger volume of mass transactions and a direct connection to the ERP environment of the enterprises, which enables a more optimal and more rational provision of business processes for the bank and for the enterprises.

During the year under review, the bank offered its customers a new card MOJA Activa Visa Electron. It is the international prepayment card, which enables safe shopping from various points of sale (also on the internet) and withdrawing cash in Slovenia and abroad. The card is tailored for the customers and also for non-customers, so it offers an opportunity to increase the number of customers, step up cross-selling and boost the number of transactions.

In the area of lending and deposit taking operations, the bank offered to the customers a few new products, with which it also covered the specific needs of its customers.

In collaboration with the parent bank, the activities were carried out in the area of establishing the system for **the management of liquidity risks**. The project will be completed in the course of 2013.

The activities were highly intensive on the project for providing an IT platform for the process of approving loans and the process for leading the so-called soft debt collection both for natural persons and for legal persons. Both projects will be wrapped up in the first half of 2013 and will enable efficient management of the bank's claims, making records of all contacts made with the customers, monitoring the execution of the agreements made and, at the end of the day, achieving a higher degree of and faster financial effects.

In accordance with the guidelines issued by the parent bank, during the year under review, the project for the establishment of the central data base and the adequate processes for the needs of the **area of credit risks** were carried out. The result of the environment prepared as described above are the standardised reports, which enable to get an insight into the credit risks and also serve as a tool for taking adequate measures at the level of the bank.

The technological support for the support for sales (CRM) as well as also the central Data warehouse was amended with new content and functionalities with the aim to enable comprehensive data/information at a daily level for various needs of the bank and of external regulators.

During the year under review, Banka Koper established a new technological solution for the intranet, which enables all the employees a better insight into the functioning, that is, developments in Banka Koper, the possibility of access to all internal information and documents necessary for carrying out the work processes at one place. In addition, the new solution takes into account the common guidelines of the group from the position of the functional approach and the active participation of all the employees in creating the content and this in turn serves to raise the level of the satisfaction of the employees.

During the year under review, in the area of the **technical infrastructure**, the bank completed the project for the migration of the workstations to the MS Windows 7 operating system, it carried out the renewal of the switches in the DMZ network of the bank and in the area of the virtual server environment, it migrated to a newer system version making it possible for the bank to exploit some new functionalities.

07. HUMAN RESOURCES

The structure

As at 31 December 2012 Banka Koper had 770-strong staff, of which 184 male and 586 female employees. Two employees come from the Intesa Sanpaolo group. We hired 30 persons and 45 persons left Banka Koper.

Number of employees by educational level

Level of education	In or lower	VI	VII or higher	Total
Number of employees	327	91	352	770
Share (in %)	42.5%	11.8%	45.7%	100%

Education and training

Despite harsh economic conditions and the cost cutting measures performed at all levels, among other areas also in the education and training area, Banka Koper paid particular attention during the year under review also to training its employees. The portion of funds allocated to education and training in 2012 was 1.3 per cent of the total expenditure of Banka Koper (without labour costs). In the course of 2012, 1,831 participants had 15,549 hours of education and/or training. The average number of hours the Bank's employee spent at a seminar or a workshop in 2012 was 20.2 hours.

The training sessions organised within the Bank prevailed in 2012 with as much as 87.6 per cent of training delivered of which the internal lecturers and coaches accounted for a 46.2 per cent share and the external (outsourced) lecturers/coaches delivered 41.3 per cent of training. Following the re-organisation of the area of business (retail) network, in collaboration with the parent bank, extensive training was carried out for the sales staff dealing with customers - natural persons in the area of sales skills, while through the year Banka Koper also took care of making all the employees aware of the significance of the prevention of money laundering and terrorist financing, and the compliance function for the entire bank and its operations.

The development of key personnel

During the year under review, in the area of the development of the bank's staff with a high potential, certain modifications were made with the aim to enable a more systematic key staff management in Banka Koper. In the area of the development of such key staff, Banka Koper will have two separate programmes and namely:

- The programme for the development of the highly perspective staff: for the young potential that currently occupies expert workposts with a potential for managerial positions in the sales or in the professionals segments.
- The programme for the development of managers: tailored to meet the needs of the employees occupying managerial positions up to the level of a coordinator and project leaders..

THE PROGRAMME FOR THE DEVELOPMENT OF STAFF WITH HIGH POTENTIAL

Back in 2009, Banka Koper embarked on the project for the development of its promising employees with the aim to establish a system for timely spotting, development and retention of the best people in Banka Koper seen as being the backbone of the Bank's human resource management at present and in the future so that its employees can be readily promoted when necessary. Through the project, the candidates of the first generation could develop in the professional and personal areas and through the process obtain knowledge and experience for their present positions, that is, for their future positions. During this period, these employees attended the general and specific training courses tailored to meet the needs of their development course, that is, the career for which these talented people were chosen. The set objective was also achieved for the first generation, since starting with the project launch, whenever there was a vacancy in managerial ranks, potential incumbents were first look for in the so-called »pool« of eligible employees. In the pool there were the employees identified by Banka Koper as meeting the requirements and also trained to take over more demanding positions.

At the end of the year 2012, the development of the perspective staff included a new round of the second generation of candidates. The programme for the staff development was improved and Banka Koper took the necessary steps to harmonise it with the prescribed competence model, prescribed by the ISP group. The programme is composed of two parts: the on-the-job development and systematic training.

THE PROGRAMME FOR MANAGER DEVELOPMENT
In addition to the care for the career and personal development of young staff with a perspective, it is also very important to groom another group of key staff – managers. In the programme for the development of managers, all employees at the positions from being a head to the coordinator and project leaders are included, since for the purpose of introducing changes in the area of interpersonal relations it is of paramount importance that all heads/managers are included in the training process. The training programme for management comprises the same elements as the training programme for staff with high potential groomed for future managers. Every year the managerial staff in Banka Koper will attend a workshop about management to take them to the next management level.

08. POSITIONING BUSINESS FOR GROWTH IN 2013

By being closely knitted with the banking group Intesa Sanpaolo, Banka Koper can benefit from numerous advantages and synergies both in the area of the transfer of knowledge, technology and the use of the international subsidiary network, as well as in the area of winning new business partners. Banka Koper will continue to foster the concept of a universal bank and it plans also to continue to expand its business at a steady pace in all lines of business.

Banka Koper will continue also in the future with the organic growth of its operations. Banka Koper will focus effort on the maintenance of a high quality of its credit portfolio. Personal attention will be paid to the segment of individuals and small and micro enterprises.

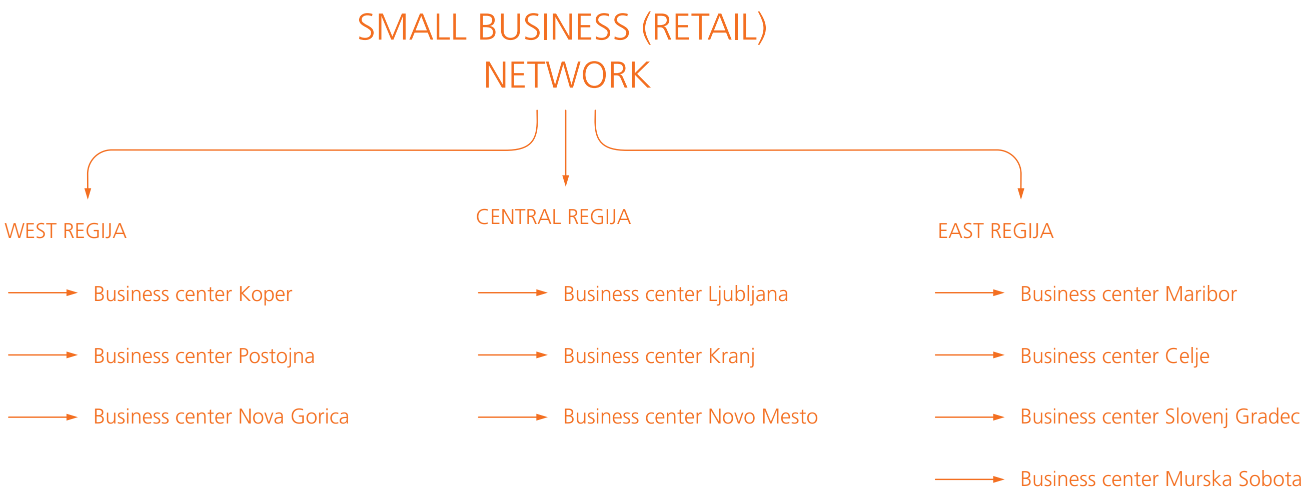
Objectives of Banka Koper in 2013:

- **The strengthening of the market share**: Banka Koper is committed to improving its market position and increasing its market share in 2013. The Bank still clinches most business deals in the Coastal and Karst zones, where it is the market leader. Nevertheless, over the past few years, it has built a widespread retail network with 54 branches in effort to win clients also in other parts of Slovenia. For the year 2013, Banka Koper is planning a rationalisation of its business network and strengthening of its commercial activities across the territory.
- **Launching new products**: It is the aim of Banka Koper to continue with the launch of new products and services expected to expand its sources of income. In the year 2013, in the area of card business, a new debit card will be issued - Visa Inspire (the common debit card for all banks in the Intesa Sanpaolo group) and the VIP black card Activa Visa Infinite. Banka Koper will continue to provide housing loans at a favourable interest rate, as well as housing loans with the capped interest rate that shelter borrowers against hikes in the ECB key refinancing rate. The idea is to reach out to a wide range of customers in various segments by offering standard products and by diversifying a number of different products with a special emphasis on the products tailored to meet the needs of small and micro enterprises.
- **To become a market leader in the area of custodian banking**: Banka Koper currently has a 36 per cent market share in the area of custodian banking. In the year 2013, Banka Koper is planning to continue to attract clients in that area with the aim to increase the existing market share.

- **Monitoring customers and customer relationship management**: for a number of years Banka Koper has been implementing the project Listening 100% with the slogan »Ask us, only together with you we can grow«, within the framework of which more than one improvement has been made. To listen to what the customers have to say is the rule followed in the bank's business serving for the bank to improve the quality of its services and develop successful cooperation to mutual satisfaction. The opinions of the customers are a valuable contribution and help in developing the bank's products, the quality of the services offered and the bank's operations in general. Also in the course of 2013, the care for the customers remains at the centre of the banking operations with the emphasis on the advising functions and personalised treatment of customer in line with the commitment made by Banka Koper.

ORGANISATIONAL CHART AS AT 31 DECEMBER 2012

Small business (retail) network



RETAIL CENTER
KOPER

Branch Koper
Branch Markovec
Branch Olmo
Branch Galeb
Branch Ankaran

RETAIL CENTER
LUCIJA

Branch Lucija
Branch Portorož
Branch Piran

RETAIL CENTER
POSTOJNA

Branch Postojna
Branch Pivka

RETAIL CENTER
MARIBOR

Branch Maribor
Branch Ptuj
Branch Lenart
Branch Ormož
Branch Miklavž
Branch Slovenska Bistrica

RETAIL CENTER
IZOLA

Branch Izola

RETAIL CENTER
SEŽANA

Branch Sežana
Branch Kozina
Branch Komen
Branch Divača

RETAIL CENTER
ILIRSKA BISTRICA

Branch Ilirska Bistrica
Branch Trnovo
Branch Podgrad

RETAIL NETWORK

RETAIL CENTER
NOVA GORICA

Branch Nova Gorica
Branch Idrija
Branch Tolmin
Branch Ajdovščina

RETAIL CENTER
NOVO MESTO

Branch Novo Mesto
Branch Trebnje
Branch Sevnica
Branch Črnomelj
Branch Brežice

RETAIL CENTER
MURSKA SOBOTA

Branch Murska Sobota

RETAIL CENTER
SLOVENJ GRADEC

Branch Slovenj Gradec
Branch Radlje ob Dravi
Branch Ravne na Koroškem

RETAIL CENTER
LJUBLJANA

Branch Ljubljana Center
Branch Trzin
Branch Kamnik
Branch Logatec
Branch Brdo
Branch Grosuplje
Branch Kočevje
Branch Slovenska
Branch Dunajska

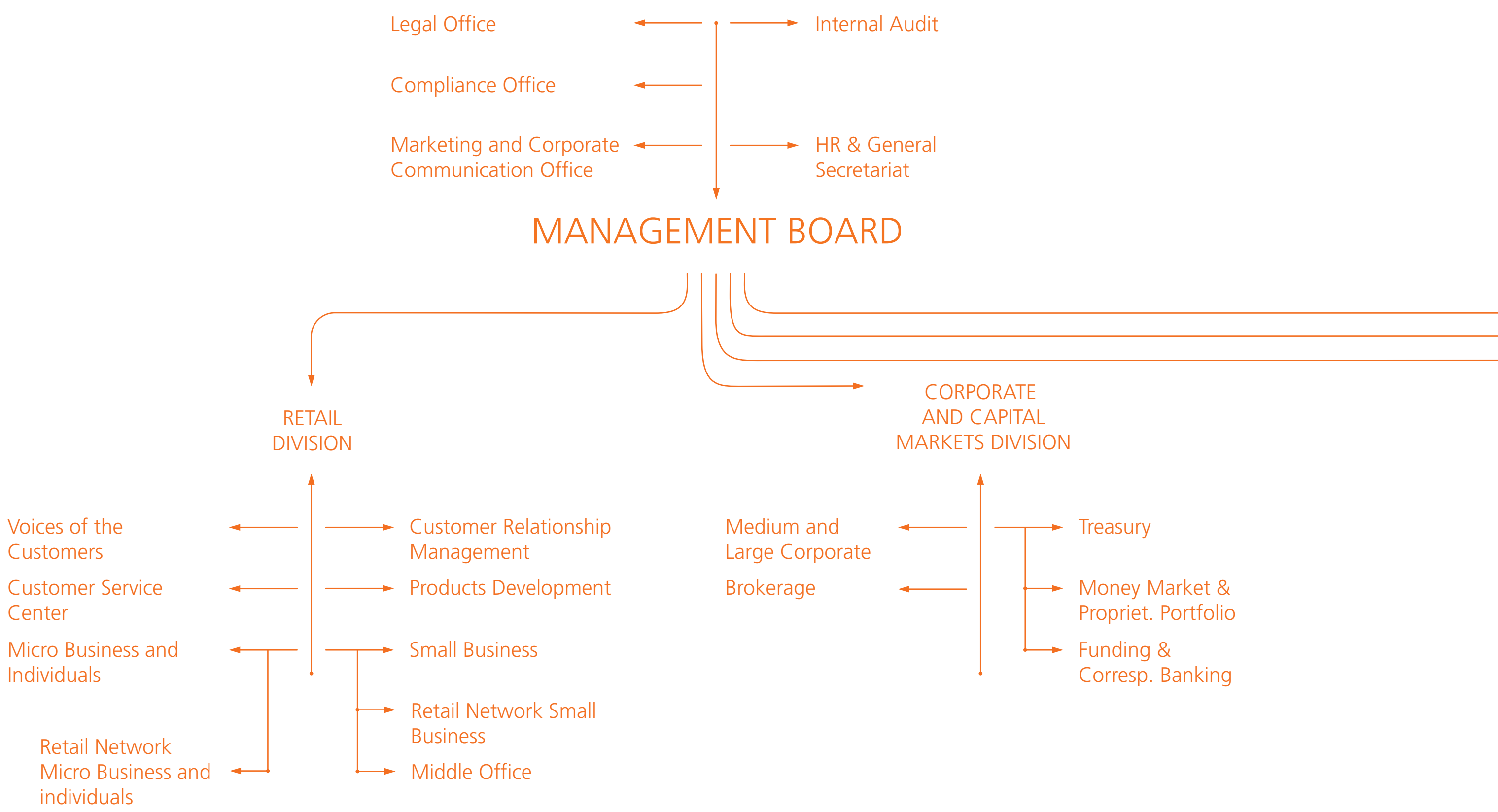
RETAIL CENTER
KRANJ

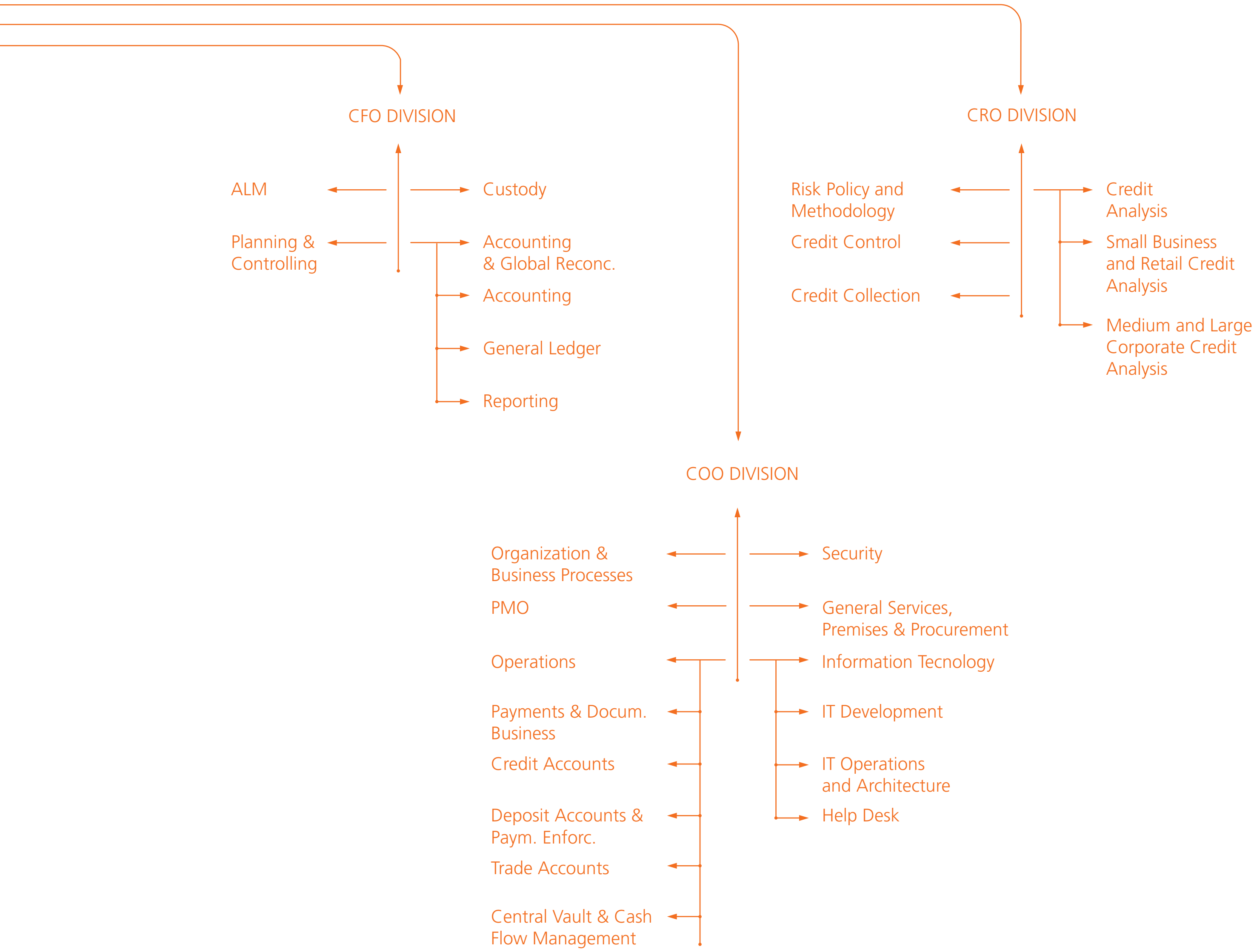
Branch Kranj
Branch Radovljica
Branch Jesenice
Branch Globus

RETAIL CENTER
CELJE

Branch Celje
Branch Velenje
Branch Žalec
Branch Šentjur

INTERNAL ORGANISATION CHART




CFO DIVISION
ALM
Planning &
Controlling
Custody
Accounting
& Global Reconc.
Accounting
General Ledger
Reporting
CRO DIVISION
Risk Policy and
Methodology
Credit Control
Credit Collection
Credit
Analysis
Small Business
and Retail Credit
Analysis
Medium and Large
Corporate Credit
Analysis
COO DIVISION
Organization &
Business Processes
PMO
Operations
Payments & Docum.
Business
Credit Accounts
Deposit Accounts &
Paym. Enforc.
Trade Accounts
Central Vault & Cash
Flow Management
Security
General Services,
Premises & Procurement
Information Tecnology
IT Development
IT Operations
and Architecture
Help Desk

STABILITY

A global bank with a local touch.

Olive Tree _ Olea europaea

FINANCIAL STATEMENTS 2012

KPMG

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 31 December 2012, the income statement and the statement of comprehensive income, the statement of changes in equity and the 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 EU, 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 about 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 at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

mag .Simona Korošec Lavrič	Boris Drobnič
Certified Auditor	*Partner*

KPMG Slovenija, d.o.o.
2

Ljubljana, 18 March 2013

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

KPMG

Independent Auditor's Report

To the Shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the group Banka Koper, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 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 EU, 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 about 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 consolidated financial statements present fairly, in all material respects, the financial position of the group Banka Koper as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

mag. Simona Korošec Lavrič
Certified Auditor

Boris Drobnič
Partner

KPMG Slovenija, d.o.o.
4

Ljubljana, 18 March 2013

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only and is not to be signed.

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.

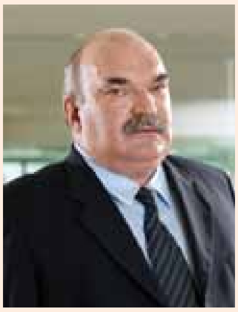
The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2012. The management also confirms that the financial statements have been prepared on the going concern basis and in accordance with the applicable laws and International Financial Reporting Standards, as adopted by the EU.

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, 15 March 2013

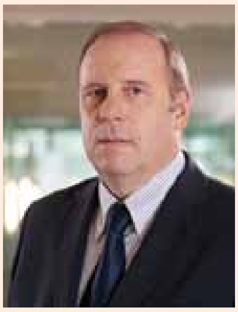
Member
Aleksander Milostnik



Deputy president
Igor Kragelj

President
Giancarlo Miranda, M.Sc

Member
Aleksander Lozej, M.Sc



Member
Rado Grdina

Member
Francesco Del Genio

FINANCIAL STATEMENTS

01. STATEMENT OF INCOME

all amounts expressed in thousands of EUR

Year ended 31 December	Notes	Banka Koper		Consolidated	
		2012	2011	2012	2011
Interest income	4	79,955	86,273	83,435	89,509
Interest expense	4	(29,525)	(26,408)	(30,632)	(27,819)
Net interest income		**50,430**	**59,865**	**52,803**	**61,690**
Dividend income	5	1,572	1,038	972	638
Fee and commission income	6	40,446	40,456	41,136	40,888
Fee and commission expense	6	(15,811)	(13,515)	(15,848)	(13,550)
Net fee and commission income		**24,635**	**26,941**	**25,288**	**27,338**
Gains less losses from financial assets and liabilities not recognised at fair value through profit and loss	7	(896)	1,495	(896)	1,495
Gains less losses from financial assets and liabilities held for trading	8	247	1,652	247	1,652
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		70	-	70	-
Fair value adjustments in hedge accounting	9	234	29	234	29
Gains less losses from foreign exchange transactions		(31)	(1,330)	(34)	(1,324)
Gains less losses on derecognition of non-current assets other than held for sale	10	87	(232)	133	(214)
Other operating gains less losses	11	1,043	1,192	1,680	1,868
Administrative expenses	12	(39,393)	(42,100)	(40,342)	(42,980)
Amortisation and depreciation	13	(5,143)	(5,034)	(5,618)	(5,477)
Provisions:		(1,285)	456	(1,319)	403
- provisions	14	(865)	701	(894)	655
- retirement benefit obligations	14	(420)	(245)	(425)	(252)
Impairment losses on loans and advances	15	(22,758)	(22,204)	(23,752)	(22,935)
Operating profit		**8,812**	**21,768**	**9,466**	**22,183**
Income tax expense	16	(1,627)	(4,095)	(1,863)	(4,247)
Net profit for the period		**7,185**	**17,673**	**7,603**	**17,936**
Attributable to:					
Equity holders of the parent		7,185	17,673	7,603	17,936
Non-controlling interest		-	-	-	-
		7,185	17,673	7,603	17,936
Earnings per share (basic and diluted)					
(expressed in EUR per share)	17	13.55	33.32	14.33	33.82

The following notes on pages 45 to 129 form an integral part of these financial statements.

02. STATEMENT OF COMPREHENSIVE INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	Year 2012	**Year 2011**	**Year 2012**	**Year 2011**
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	7,185	17,673	7,603	17,936
OTHER COMPREHENSIVE INCOME NET OF TAX	6,478	(10,568)	6,478	(10,568)
Available-for-sale financial assets	**7,701**	**(13,211)**	**7,701**	**(13,211)**
- valuation gains (losses) taken to equity	3,793	(15,310)	3,793	(15,310)
- transferred to profit or loss	3,908	2,099	3,908	2,099
Income tax relating to components of other comprehensive income	**(1,223)**	**2,643**	**(1,223)**	**2,643**
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	13,663	7,105	14,081	7,368
a) Attributable to owners of the parent			14,081	7,368
b) Attributable to non-controlling interests			-	-

03. STATEMENT OF FINANCIAL POSITION

(all amounts expressed in thousands of EUR)

As at 31 December		Banka Koper		Consolidated	
	Notes	2012	2011	2012	2011
ASSETS					
Cash and balances with Central Banks	19	29,388	35,463	29,388	35,463
Financial instruments held for trading:		290	3,318	290	3,318
- trading assets	20	-	1,292	-	1,292
- derivative financial instruments	21	290	2,026	290	2,026
Financial assets designated at fair value through profit or loss		282	-	282	-
Investment securities available for sale	22	304,090	288,218	304,090	288,218
Loans and advances:		1,941,582	1,878,871	1,986,394	1,938,636
- to banks	23	58,308	44,889	58,308	44,889
- to customers	24	1,863,839	1,824,563	1,913,776	1,883,362
- advances	25	19,435	9,419	14,310	10,385
Goodwill	26	-	-	905	905
Property, plant and equipment	27	26,333	27,785	27,567	29,081
Investment property	28	1,028	1,112	6,445	1,112
Intangible assets	29	4,236	4,229	4,337	4,230
Investments in subsidiaries	30	3,688	3,688	-	-
Income tax assets		4,681	5,857	5,244	6,292
- current income tax		3,229	-	3,229	-
- deferred income tax	40	1,452	5,857	2,015	6,292
Other assets	31	888	1,249	10,491	1,489
Total assets		**2,316,486**	**2,249,790**	**2,375,433**	**2,308,744**
LIABILITIES					
Liabilities to Central Bank	32	201,750	150,042	201,750	150,042
Financial instruments held for trading:		184	1,135	184	1,135
- derivative financial instruments	21	184	1,135	184	1,135
Liabilities carried at amortised cost:		1,823,723	1,811,794	1,880,275	1,868,606
- deposits from banks	33	75,359	233,741	75,359	233,741
- due to customers	34	1,507,316	1,332,896	1,507,301	1,332,894
- other borrowed funds from banks	35	214,170	207,551	270,211	263,636
- other borrowed funds from other customers	36	6,527	8,660	6,527	8,660
- other financial liabilities	37	20,351	28,946	20,877	29,675
Derivatives – Hedge accounting	21	1,573	992	1,573	992
Provisions:		11,386	10,451	11,454	10,485
- provisions for liabilities and charges	38	8,220	7,483	8,202	7,436
- retirement benefit obligations	39	3,166	2,968	3,252	3,049
Income tax liabilities:		-	5,078	64	5,190
- current income tax		-	1,535	64	1,647
- deferred income tax	40	-	3,543	-	3,543
Other liabilities	41	1,415	2,207	1,567	2,510
Total liabilities		**2,040,031**	**1,981,699**	**2,096,867**	**2,038,960**

SHAREHOLDERS´ EQUITY					
Ordinary shares	42	22,173	22,173	22,173	22,173
Share premium	42	7,499	7,499	7,499	7,499
Revaluation reserves	43	8,788	2,310	8,788	2,310
Reserves from profit	44	225,209	224,847	225,209	224,847
Treasury shares	42	(49)	(49)	(49)	(49)
Retained earnings (including income from the current year)	44	12,835	11,311	14,946	13,004
Non-controlling interest		-	-	-	-
Total shareholders´ equity		**276,455**	**268,091**	**278,566**	**269,784**
Total equity and liabilities		**2,316,486**	**2,249,790**	**2,375,433**	**2,308,744**

The following notes on pages 45 to 129 form an integral part of these financial statements.

04. UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

(all amounts expressed in thousands of EUR)

In the year 2012 – Unconsolidated	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss **	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**11,311**	**(49)**	**268,091**
Comprehensive income for the financial year after tax	**43**	**-**	**-**	**6,478**	**-**	**7,185**	**-**	**13,663**
Appropriation of (accounting for) dividends	44	-	-	-	-	(5,299)	-	(5,299)
Transfer of net profit to reserves from profit	44	-	-	-	362	(362)	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**8,788**	**225,209**	**12,835**	**(49)**	**276,455**
PROFIT AVAILABLE FOR DISTRIBUTION		**-**	**-**	**-**	**-**	**6,826**	**-**	**6,826**
In the year 2011 – Unconsolidated								
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**11,271**	**(49)**	**266,248**
Comprehensive income for the financial year after tax	**43**	**-**	**-**	**(10,568)**	**-**	**17,673**	**-**	**7,105**
Appropriation of (accounting for) dividends	44	-	-	-	-	(5,262)	-	(5,262)
Transfer of net profit to reserves from profit	44	-	-	-	12,371	(12,371)	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**11,311***	**(49)**	**268,091**
PROFIT AVAILABLE FOR DISTRIBUTION		**-**	**-**	**-**	**-**	**5,302**	**-**	**5,302**

The following notes on pages 45 to 129 form an integral part of these financial statements.

* Retained earnings in the amount of EUR 6,009 thousands arose from accounting differences in transition from local accounting standards to IFRS. Under the Management Board’s decision this part of retained earnings it is not available for distribution to shareholders.
** Including income from the current year.

05. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

(all amounts expressed in thousands of EUR)

In the year 2012 – Consolidated	Notes	Ordinary share	Share premium	Revalua-tion reserves	Reserves from profit	Retained earnings or loss **	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**13,004**	**(49)**	**269,784**	**269,784**
Consolidated Comprehensive Income for the financial year after tax	**43**	**-**	**-**	**6,478**	**-**	**7,603**	**-**	**14,081**	**14,081**
Appropriation of (accounting for) dividends	44	-	-	-	-	(5,299)	-	(5,299)	(5,299)
Transfer of net profit to reserves from profit	44	-	-	-	362	(362)	-	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**8,788**	**225,209**	**14,946**	**(49)**	**278,566**	**278,566**
In the year 2011 – Consolidated									
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**12,701**	**(49)**	**267,678**	**267,678**
Consolidated Comprehensive Income for the financial year after tax	**43**	**-**	**-**	**(10,568)**	**-**	**17,936**	**-**	**7,368**	**7,368**
Appropriation of (accounting for) dividends	44	-	-	-	-	(5,262)	-	(5,262)	(5,262)
Transfer of net profit to reserves from profit	44	-	-	-	12,371	(12,371)	-	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**13,004***	**(49)**	**269,784**	**269,784**

The following notes on pages 45 to 129 form an integral part of these financial statements.

* Retained earnings in the amount of EUR 6,009 thousands arose from accounting differences in transition from local accounting standards to IFRS. Under the Management Board's decision this part of retained earnings it is not available for distribution to shareholders.
** Including income from the current year

06. STATEMENT OF CASH FLOWS

(all amounts expressed in thousands of EUR)

		Banka Koper		Consolidated	
	Notes	2012	2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		8,812	21,768	9,466	22,183
Depreciation		5,143	5,034	5,618	5,477
Net (gains) / losses from exchange differences		(725)	2,301	(722)	2,295
Net (gains) / losses from sale of tangible assets and investment properties		(87)	232	(133)	214
Unrealised (gains) / losses from financial assets measured at fair value		(2)	46	(2)	46
Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)		7,700	(13,210)	7,700	(13,210)
Other adjustments to total profit or loss before tax		(30)	(456)	4	(403)
Cash flow from operating activities before changes in operating assets and liabilities		**20,811**	**15,715**	**21,931**	**16,602**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**(45,231)**	**9,839**	**(45,151)**	**7,494**
Net (increase) / decrease in balances with central banks		12,835	(1,064)	12,835	(1,064)
Net (increase) / decrease in financial assets held for trading		1,810	(1,878)	1,810	(1,878)
Net (increase) / decrease in financial assets designated at fair value through profit or loss		(282)	-	(282)	-
Net (increase) / decrease in financial assets available for sale		(15,872)	24,758	(15,872)	24,758
Net (increase) / decrease in loans and receivables		(33,718)	(11,744)	(24,339)	(13,697)
Net (increase) / decrease in other assets		(10,004)	(233)	(19,303)	(625)
Increases / (decreases) in operating liabilities		**63,846**	**(15,936)**	**63,645**	**(13,479)**
Net increase / (decrease) in financial liabilities to central bank		51,708	150,042	51,708	150,042
Net increase / (decrease) in financial liabilities held for trading		(951)	616	(951)	616
Net increase / (decrease) in deposits and loans measured at amortised cost		20,974	(174,519)	15,153	(172,206)
Net increase / (decrease) in liability – derivatives – hedge accounting		581	992	581	992
Net increase / (decrease) in other liabilities		(8,466)	6,933	(2,846)	7,077
Cash flow from operating activities		**39,426**	**9,618**	**40,425**	**10,617**
Income taxes (paid) / refunded		(6,708)	(3,503)	(7,007)	(3,690)
Net cash flow from operating activities		**32,718**	**6,115**	**33,418**	**6,927**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**103**	**656**	**313**	**847**
Receipts from the sale of tangible assets and investment properties		103	330	313	521
Receipts from matured financial assets held to maturity		-	326	-	326
Cash payments on investing activities		**(2,228)**	**(6,277)**	**(3,125)**	**(7,284)**
Cash payments to acquire tangible assets and investment properties		(1,162)	(3,198)	(2,059)	(4,205)
Cash payments to acquire intangible fixed assets		(1,066)	(3,069)	(1,066)	(3,069)
Cash payments to acquire held to maturity investments		-	(10)	-	(10)
Net cash flow from investing activities		**(2,125)**	**(5,621)**	**(2,812)**	**(6,437)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash proceeds from financing activities		**-**	**-**	**-**	**-**
Cash payments on financing activities		**(5,299)**	**(5,259)**	**(5,299)**	**(5,259)**
Dividends paid		(5,299)	(5,259)	(5,299)	(5,259)
Net cash flow from financing activities		**(5,299)**	**(5,259)**	**(5,299)**	**(5,259)**
Effects of change in exchange rates on cash and cash equivalents		(756)	971	(756)	971
Net increase in cash and cash equivalents		**25,294**	**(4,765)**	**25,307**	**(4,769)**
Opening balance of cash and cash equivalents	**44**	**33,285**	**37,079**	**33,287**	**37,085**
Closing balance of cash and cash equivalents	**44**	**57,823**	**33,285**	**57,838**	**33,287**

Operational cash flows of interest and dividends
(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Interest paid	(13,156)	(28,606)	(14,263)	(30,017)
Interest received	79,980	85,038	83,460	88,274
Dividends Received	1,572	1,038	972	638

Operational cash flows of interest and dividend is part of total profit before tax.

As at 31st December 2012, the Bank and Group had undrawn credit lines and loans already committed of EUR 370,000 thousand (2011: EUR 430,000 thousand).

The Bank and the Group have credit lines and other facilities of EUR 370,000 thousand that are available for financing future business operations without any restrictions.

The following notes on pages 45 to 129 form an integral part of these financial statements.

EFFECTIVENESS

Simplicity is the way to effectivenes

Flaming Katy –
Kalanchoe blossfeldiana

NOTES TO FINANCIAL STATEMENTS

01. 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 article 23. c and d of the Changes in Decree of necessary disclosures of financial institution, Banka Koper is required to make disclosures about information of significant business contacts and other rules and politics for avoiding conflicts of interest of members of the Management Board and Supervisory bodies of subsidiary financial entities with headquarters outside the Republic of Slovenia.

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.

02. 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.

Basis of measurement

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.

Use of estimates and judgements

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.

Use of estimates and judgements are applied for:

- Impairment of loans and advances
- Fair value of financial instruments
- Impairment of instruments available of sale

More detailed discloser is shown under chapter 2.14 Impairment of financial assets.

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

Standards issued but not yet effective and not early adopted

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements:

Standard/Interpretation	Nature of impending change in accounting policy	Example wording regarding the possible impact on financial statements
Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively.)	The Amendments contain new disclosure requirements for financial assets and liabilities that are: • offset in the statement of financial position; or • subject to master netting arrangements or similar agreements.	The entity does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements[1 2] *(Effective for annual periods beginning on or after 1 January 2014; Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)* *This Standard is to be applied retrospectively when there is a change in control conclusion.*	IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when: • it is exposed or has rights to variable returns from its involvements with the investee; • it has the ability to affect those returns through its power over that investee; and • there is a link between power and returns. The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).	The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.
IFRS 11 Joint Arrangements[1] (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)	IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: • a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. • A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement. IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements.	The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

Standard/Interpretation	Nature of impending change in accounting policy	Example wording regarding the possible impact on financial statements
IFRS 12 Disclosure of Interests in Other Entities [1 3] (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted.	IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.	It is expected that the new Standard, when initially applied, might have a significant impact on the level of disclosure in the financial statements. However, the Group is not able to prepare an analysis of the impact this will have on the financial statements until the date of initial application.
IFRS 13 Fair Value Measurement (Effective **prospectively** for annual periods beginning on or after 1 January 2013. Earlier application is permitted.)	IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that se significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.	The entity does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.
Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.)	The amendments: • require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. • change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income, however, other titles are also allowed to be used.	The impact of the initial application of the amendments will depend on the specific items of other comprehensive income at the date of initial application. If the entity were to adopt the amendments from 1 January 2012, then any amount and item of other comprehensive income would never be reclassified to profit or loss.

[1] The **Transition guidance** (Amendments to IFRS 10, IFRS 11 and IFRS 12) issued 28 June 2012 by the IASB has **NOT been endorsed by the EU** as at 7 January 2013. The Transition guidance adds further paragraphs to the transitional provisions of IFRS 10 and IFRS 11 and IFRS 12 providing further relief from full retrospective application.

[2] Also **Investment Entities** (Amendments to IFRS 10, IFRS 12 and IAS 27) issued on 31 October 2012 by the IASB has **NOT been endorsed by the EU** as at 7 January 2013. This amendment provides consolidation relief for qualifying investment entities.

[3] Providing some of the disclosures required by IFRS 12 before the effective date does not compel the entity to comply with all the requirements of IFRS 12 or to apply IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) early.)

Standard/Interpretation	Nature of impending change in accounting policy	Example wording regarding the possible impact on financial statements
Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Earlier application is permitted.)	The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.	The amendments are not relevant to the Group's financial statements, since the Group does not have any investment properties measured using the fair value model in IAS 40.
IAS 19 (2011) Employee Benefits (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply. Earlier application is permitted.)	The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation.	The amendments are not relevant to the entity's financial statements, since the entity does not have any defined benefit plans.
IAS 27 (2011) Separate Financial Statements (Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.)	IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.	[In separate financial statements] The Company does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity's accounting policy. [In consolidated financial statements there is no need to separately disclose the change in IAS 27 since the remaining portion of IAS 27 relates only to separate financial statements and the portion of IAS 27 that relates to the consolidated financial statements should be addressed as part of the IFRS 10 discussion.]

Standard/Interpretation	Nature of impending change in accounting policy	Example wording regarding the possible impact on financial statements
IAS 28 (2011) Investments in Associates and Joint Ventures (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.)	There are limited amendments made to IAS 28 (2008): • Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture. • Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.	The entity does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities *(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities must also be made.)*	The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: • not contingent on a future event; and • enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.	The entity does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

Standard/Interpretation	Nature of impending change in accounting policy	Example wording regarding the possible impact on financial statements
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (Effective for annual periods beginning on or after 1 January 2013. It applies prospectively to production stripping costs incurred on or after the beginning of the earliest period presented. Earlier application is permitted.)	The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets. To the extent that benefits from production stripping are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 Inventories. Production stripping costs that improve access to ore to be mined in the future are recognised as a non-current asset if, and only if, all of the following criteria are met: • it is probable that future economic benefits will flow to the entity; • the entity can identify the component of the ore body for which access has been improved; and • the costs relating to the stripping activity associated with that component can be measured reliably. The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. The stripping activity asset shall initially be recognised at cost while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part. The Interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a 'relevant' production measure.	The entity does not expect the Interpretation to have any impact on the financial statements since it does not have any stripping activities.

The Bank and Group are reviewing the impact of standards and interpretations which are not yet mandatory and have not yet been endorsed by the EU and, for the time being, have not assessed the impact of new pronouncements on its financial statements. The Bank and Group will apply new standards and interpretations in accordance with their requirements, if endorsed by the EU.

2.2 Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2012.

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.

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. All entities included in consolidation use Euro as functional currency. Financial statements are presented in Euro, which has been the Group's presentation currency since 1 January 2007.

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 Investments in subsidiaries and goodwill

Investments in subsidiaries in the standalone financial statements are measured and accounted for at the cost of acquisition. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In the consolidated financial statements 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 non-controlling 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.

2.6 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).

2.7 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.

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, other then:

- those that the entity intends to sell immediately or in the short term, which are classified as held-for-trading and those that the entity designates at fair value through profit or loss upon initial recognition;
- those that the entity designates as available for sale upon initial recognition; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

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 Bank or Group has the positive intention and ability to hold to maturity.

d) Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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 or Group immediately recognise 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 Bank and Group seek 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 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 or Group 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 or Group has transferred substantially all the risks and rewards of the asset, or
  - the Bank or Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank or Group 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 reporting 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 should disclose 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:

- **Level 1.** Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2.** Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3.** Fair values measured using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

More detailed disclosure is shown under chapter 3.9 Fair value of assets and liabilities, held for trading and available for sale financial instruments.

2.8 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.

2.9 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 fair value. 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 Bank or Group recognise 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.

2.10 Hedge accounting

The Bank and the Group use derivative financial instruments to manage exposures to its interest rate risk. Such derivative financial instruments are initially recognized at fair value on the date on which they are entered to and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.
For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction;
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Bank and the Group formally designate and document the hedge relationship to which the Bank or the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank or the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

a) Fair value hedges

Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a certain risk, if such a risk should actually occur.

The following types of hedging transactions are used:

- fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities, of binding commitments and portfolios of financial assets and liabilities, including "core deposits", as permitted by IAS 39 endorsed by the European Commission.

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 interest 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 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.

2.14 Impairment of financial assets

a) Assets carried at amortised cost

The Bank or Group assess 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 Bank or Group first assess whether objective evidence of impairment exists for financial assets that are individually significant. If the Bank or Group determines that no objective evidence of impairment exists for an individually assessed financial asset 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 individual significant 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 Bank or 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 Bank or Group accounting policies, a significant decrease is when financial instrument's fair value decreases by more than 30 % 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 24 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.

2.15 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	3–5
Investments in research and development	3
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.

2.16 Investment property

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

Investment property is initially recognised at its historical cost plus transaction costs. After initial recognition, investment property of the Bank or 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 2.17).

2.17 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
Other investment in intangibles	16,6-33,3
Equipment	5
Motor vehicles	5-8
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.

2.18 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.

The Bank or a Group company is the lessee

Leases which do not transfer to the Bank or Group 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.

The Bank or 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.

2.19 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.

2.20 Financial liabilities

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 interest method.

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

2.21 Provisions

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

2.22 Inventories

Inventories are stated at cost plus all corresponding direct 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.

2.23 Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation, calculated to recognise in the 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.

2.24 Taxation

Income tax is calculated by each Group member according to local legislation. For 2012 the income tax rate was 18 % (2011: 20 %). According to new tax legislation income tax rate will be diminished by 1 % on yearly basis until reaching 15 % tax rate.

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 2012 deferred tax was calculated using a 17 % or 16 % or 15 % tax rate, depending on residual maturity of financial instruments which generate temporary differences as the base for deferred tax.

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.

2.25 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 5.2 % (2011: 5.2 %) and
- Future salary increases of 3.5 % (2011: 3.5 %) p.a..

The Bank and its Slovene subsidiaries make contributions to a defined contribution plan according to Slovenian legislation. Once contributions have been paid, the Bank or 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 or in her subsidiary.

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

2.26 Share capital

Dividends on ordinary shares

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

Treasury shares

Where the Bank or other 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.

2.27 Fiduciary activities

The Bank or Group manage 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.

2.28 Comparatives

The same accounting policies as for the reporting period have been applied for comparative figures.

03. 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.

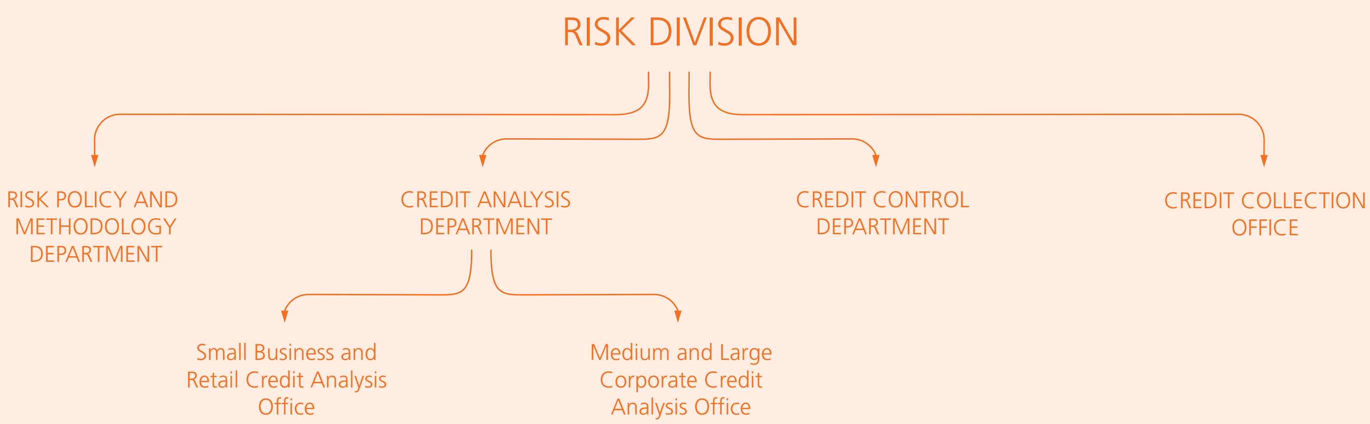
The objective of risk management is to control risk according to the risk appetite and derived willingness of the Group managing and ownership structures to assume risk. Since the Group is part of the larger Banking Group Intesa Sanpaolo, the methodologies and risk management processes are gradually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

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 Small Business and Retail Credit Analysis Office carries out the assessment and monitoring over the credit soundness of individuals and small entities.

The Medium and Large Corporate Credit Analysis Office evaluates and monitors credit soundness of large and medium-sized entities.

The Credit Control Department monitors the portfolio of high- risk exposures, manages the process of handling with high-risk exposures and defines the recovery strategy for high-risk exposures.

The Collection Office ensures a reduction of the losses of the bank by means of setting up adequate measures for the collection of the unsettled claims in the course of legal collection.

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 Bank's or 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 Fulfilment of regulatory capital requirements

Regulatory capital adequacy is the ratio between the Bank's or 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 Bank or 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 Bank`s or Group's capital reserves. Capital adequacy is regularly monitored by the Bank or Group managing bodies.

Capital adequacy as at 31 December 2012– unconsolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount		Capital Requirements	
	2012	2011	2012	2011	2012	2011
EXPOSURES TO BANKING BOOK						
Exposures to state and central bank	449,136	345,454	8	9	1	1
Exposures to local municipalities	65,340	43,741	12,938	8,476	1,035	678
Exposures to public sector	11,555	4,392	4,074	1,946	326	156
Exposures to development banks	503	718	-	-	-	-
Exposures to institutions	130,961	169,905	43,536	67,877	3,483	5,430
Exposures to enterprises	1,032,079	954,904	891,015	842,569	71,281	67,406
Exposures to retail banking	973,536	927,088	603,743	573,718	48,299	45,897
Past due exposures	22,487	105,192	25,826	136,653	2,066	10,932
Exposures to highly risk exposures	87,540	67,187	101,240	85,551	8,099	6,844
Exposures to investments funds	31,454	33,832	31,454	33,832	2,516	2,707
Exposures to other assets	92,166	92,484	80,156	77,558	6,412	6,205
Total	**2,896,757**	**2,744,897**	**1,793,990**	**1,828,189**	**143,518**	**146,256**
Credit risk weighted assets			1,793,990	1,828,189	143,518	146,256
Market risk weighted assets			913	3,088	73	247
Operational risk weighted assets			154,625	163,588	12,370	13,087
Total risk weighted assets			**1,949,528**	**1,994,865**	**155,961**	**159,590**
REGULATORY CAPITAL						
Ordinary shares			22,173	22,173		
Share premium			7,499	7,499		
Treasury shares			(49)	(49)		
Legal reserves			13,198	12,839		
Statutory reserves			211,962	211,959		
Treasury shares fund reserves			49	49		
Retained earnings			6,009	6,009		
Revaluation reserve (100% of negative revaluation of AFS shares)			-	(1,221)		
Less intangible assets			(4,236)	(4,228)		
Total qualifying Tier 1 capital			**256,605**	**255,030**		
Revaluation reserve (80% of positive revaluation of AFS shares)			7,440	10,990		
Total qualifying Tier 2 capital			**7,440**	**10,990**		
DIMINUTION OF CAPITAL						
- less investment in subsidiaries			-	(3,688)		
Total diminution of capital			**-**	**(3,688)**		
Total regulatory capital			**264,045**	**262,332**		
Capital Adequacy ratio			**13.54**	**13.15**		

Capital adequacy as at 31 December 2012 – Consolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount		Capital Requirements	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
EXPOSURES TO BANKING BOOK						
Exposures to state and central bank	450,224	345,930	8	9	1	1
Exposures to local municipalities	68,540	47,128	13,578	9,153	1,086	732
Exposures to public sector	11,714	4,421	4,153	1,961	332	157
Exposures to development banks	503	718	-	-	-	-
Exposures to institutions	130,961	169,905	43,536	67,877	3,483	5,430
Exposures to enterprises	1,008,585	952,001	868,907	842,146	69,513	67,372
Exposures to retail banking	1,015,651	963,923	635,330	601,344	50,826	48,108
Past due exposures	38,645	118,951	49,494	156,578	3,960	12,526
Exposures to highly risk exposures	91,707	68,273	107,443	87,164	8,595	6,973
Exposures to investments funds	31,454	33,832	31,454	33,832	2,516	2,707
Exposures to other assets	104,680	96,595	87,138	81,668	6,971	6,533
Total	**2,952,664**	**2,801,677**	**1,841,041**	**1,881,732**	**147,283**	**150,539**
Credit risk weighted assets			1,841,041	1,881,732	147,283	150,539
Market risk weighted assets			913	3,088	73	247
Operational risk weighted assets			158,238	166,538	12,659	13,323
Total risk weighted assets			**2,000,192**	**2,051,358**	**160,015**	**164,109**
REGULATORY CAPITAL						
Ordinary shares			22,173	22,173		
Share premium			7,499	7,499		
Treasury shares			(49)	(49)		
Legal reserves			13,198	12,839		
Statutory reserves			211,962	211,959		
Treasury shares fund reserves			49	49		
Retained earnings			6,009	6,009		
Revaluation reserve (100 % of negative revaluation of AFS shares)			-	(1,221)		
Less intangible assets			(4,337)	(4,230)		
Less goodwill			**(905)**	**(905)**		
Minority interest			-	-		
Total qualifying Tier 1 capital			**255,599**	**254,123**		
Revaluation reserve (80 % of positive revaluation of AFS)			7,440	10,990		
Total qualifying Tier 2 capital			**7,440**	**10,990**		
Total regulatory capital			**263,039**	**265,113**		
Capital Adequacy ratio			**13.15**	**12.92**		

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 Bank or Group is based on a unified methodology and risk management processes within the Parent company, taking into consideration the specific circumstances under which the Bank or 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.

In year 2012 the Bank maintained the available financial resources at levels that meet all internally established capital position minimum thresholds, relative to size and structure of the capital. The Bank provides as well the amount of available financial resources that meets all the minimum thresholds, established by the central bank on annual basis, upon the assessment of the Bank's risk profile and communicated to the Bank within the SREP dialogue.

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.

Credit concentration risk considers single-name concentration of the credit risk portfolio and concentration risk by industries. The Bank applies the simplified methodology, devised by the central bank for the industry concentration, whereas for the single-name concentration the central bank methodology is prudentially adjusted by the Bank.

Internal capital on stress-test

The assessment of internal capital (capital needs) under ordinary conditions is supplemented with the risk assessment under extreme, but plausible events (stress-test), in front of which additional capital needs are ascertained. Stres-test represents a forward-looking view as a combination of annual plan and relative stress scenarios.

Stress-tests 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 2.5 percentage points lower GDP growth than the one planned.
- In terms of operational risk, the Group selects a scenario among 5 largest assessed with the self-diagnosis analysis. The scenario selected is the one believed most likely.
- For the banking book interest rate risk is estimated the impact of a 200 b.p. parallel yield curve shift and other selected scenarios on the capital needs. Next to this is evaluated the impact of unfavourable interest rate shift on internally assessed available capital.
- For equity risk the impact on capital needs is evaluated with the simulation of portfolio equity price changes observed over last 5 years. Likewise is evaluated the impact of unfavourable market indices movements on investments valuation and on available capital.
- 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 31. 12. 2012:
(all amounts expressed in millions of EUR)

Risk	Economic (internal) capital
Credit Risk	144.56
Market Risk	0.07
Operational Risk	12.66
Banking Book Risk	46.71
- Interest Rate Risk	31.34
- Equity Risk	15.37
Strategic Risk	9.54
Concentration of credit risk	2.89
Profitability risk	5.84
Stress test scenario	11.59
Total capital charges	**233.86**
Available financial resources	**259.61**

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 2012 equalled to EUR 3.238 million, which is 7 % more than on 31st of December 2011. In the Group's credit portfolio of 31st of December 2012, 91 % of all credit exposures are classified as performing. Banka Koper's credit portfolio at the end December 2012 amounted to EUR 3.189 million of which 91 % is classified as performing.

Banka Koper's credit risk related portfolio as at 31 December 2012

(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 p ortfolio	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	518,432	95,113	4 %	95,113	4 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,794,807	1,748,936	65 %	1,528,975	63 %	219,961	94 %	20,203	1 %	102,583	47 %
Banks	150,955	103,861	4 %	103,834	4 %	27	0 %	-	0 %	25	93 %
Private individuals	725,094	725,094	27 %	711,013	29 %	14,081	6 %	2,388	0 %	9,299	66 %
Total	**3,189,288**	**2,673,004**	**100 %**	**2,438,935**	**100 %**	**234,069**	**100 %**	**22,591**	**1 %**	**111,907**	**48 %**

Banka Koper's credit risk related portfolio as at 31 December 2011

(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	262,901	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,830,454	1,711,470	69 %	1,503,772	66 %	207,698	93 %	20,825	1 %	94,071	45 %
Banks	183,112	103,962	4 %	103,962	5 %	-	0 %	-	0 %	-	0 %
Private individuals	688,224	687,593	27 %	671,533	29 %	16,060	7 %	2,027	0 %	9,509	59 %
Total	**2,964,691**	**2,503,056**	**100 %**	**2,279,298**	**100 %**	**223,758**	**100 %**	**22,852**	**1 %**	**103,580**	**46 %**

Group's credit risk related portfolio as at 31 December 2012

(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	518,432	95,113	3 %	95,113	4 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,832,126	1,789,943	66 %	1,557,491	63 %	232,452	94 %	19,941	1 %	104,896	45 %
Banks	150,955	103,861	4 %	103,834	4 %	27	0 %	-	0 %	25	93 %
Private individuals	736,111	736,111	27 %	720,431	29 %	15,680	6 %	2,427	0 %	9,639	61 %
Total	**3,237,624**	**2,725,028**	**100 %**	**2,476,869**	**100 %**	**248,159**	**100 %**	**22,368**	**1 %**	**114,560**	**46 %**

Group's credit risk related portfolio as at 31 December 2011

(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	262,901	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,873,592	1,758,296	69 %	1,543,389	66 %	214,907	92 %	20,699	1 %	95,600	44 %
Banks	183,112	103,962	4 %	103,962	5 %	-	0 %	-	0 %	-	0 %
Private individuals	698,595	697,964	27 %	680,460	29 %	17,504	8 %	2,061	0 %	9,785	56 %
Total	**3,018,200**	**2,560,253**	**100 %**	**2,327,842**	**100 %**	**232,411**	**100 %**	**22,760**	**1 %**	**105,385**	**45 %**

Analyses by type of collateral

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2012		2011		2012		2011	
	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	483,629	1,486,820	358,773	1,125,715	539,334	1,542,525	411,871	1,178,813
Bank guarantees	32,808	34,748	35,147	37,305	32,808	34,748	35,147	37,305
Personal guarantees	201,527	555,481	129,967	359,012	201,527	555,481	129,967	359,012
Debt securities	20,185	68,635	32,471	94,448	20,185	68,635	32,471	94,448
Government guarantees	87,158	88,374	93,913	98,269	87,158	88,374	93,913	98,269
Other collateral	102,636	286,564	42,075	144,962	139,561	323,489	73,643	176,530
Deposits	1,166	11,937	23,341	25,411	1,166	11,937	23,341	25,411
Insurance company guarantees	123,209	139,606	120,448	132,615	123,209	139,606	120,448	132,615
Shares	32,107	53,298	16,951	28,548	32,107	53,298	16,951	28,548
Total collateralised net loans	**1,084,425**	**2,725,463**	**853,086**	**2,046,285**	**1,177,055**	**2,818,093**	**937,752**	**2,130,951**
Unsecured	779,414		971,477		736,721		945,610	
Total net loans	**1,863,839**		**1,824,563**		**1,913,776**		**1,883,362**	

Credit Risk Measurement

The Bank or 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 and capital investments measured at fair value and investment properties, which are measured at purchase 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	
	2012	**2011**	**2012**	**2011**
CREDIT RISK EXPOSURES RELATING TO ON-BALANCE SHEET ASSETS ARE AS FOLLOWS:				
Loans and advances to banks	58,308	44,889	58,308	44,889
Loans and advances to customers:	1,863,839	1,824,563	1,913,776	1,883,362
Loans to individuals:	552,932	524,161	563,561	534,197
- overdrafts	40,655	40,642	40,655	40,642
- credit cards	20,791	22,910	20,791	22,910
- term loans	124,446	125,186	124,446	125,186
- mortgages	367,040	335,423	367,040	335,423
- finance leases	-	-	10,629	10,036
Loans to sole proprietors	61,549	61,711	72,106	70,599
Loans to corporate entities	1,249,358	1,238,691	1,278,109	1,278,566
Advances	19,435	9,419	14,310	10,385
Investment securities available for sale	304,090	288,218	304,090	288,218
- debt securities	264,793	243,024	264,793	243,024
- equity securities	39,297	45,194	39,297	45,194
Other assets	40,854	43,920	54,989	43,109
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS ARE AS FOLLOWS:				
Guarantees	216,470	171,899	216,470	171,899
Credit commitments and other credit related liabilities	368,608	334,447	366,839	329,491
At 31 December	**2,871,604**	**2,717,355**	**2,928,782**	**2,771,353**

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Group at 31 December 2012 and 2011, 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 12 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. The Bank and Group consider as performing loans exposures towards clients classified A and B, and, starting from 2011, also the exposures towards individuals classified into C cluster.

	2012		2011	
Banka Koper's rating	**Loans and advances (%)**	**Impairment loss (%)**	**Loans and advances (%)**	**Impairment loss (%)**
A	71	0.5	70	0.5
B	19	2.3	21	2.6
C	2	12.9	2	18.5
D	4	38.5	3	34.9
E	4	63.2	4	65.0
	100	**5.0**	**100**	**5.0**

	2012		2011	
Group's rating	**Loans and advances (%)**	**Impairment loss (%)**	**Loans and advances (%)**	**Impairment loss (%)**
A	71	0.5	70	0.5
B	19	2.3	20	2.6
C	2	12.9	2	18.5
D	4	36.2	4	33.6
E	4	62.6	4	65.0
	100	**5.0**	**100**	**5.0**

Impairments

Based on estimates of a debtor's credit capacity and collateral pledged, credit risk impairments are set aside against the Bank and Group assets. Impairments, collective or individual, are set against the portion of claims, which are judged with a high probability of not being repaid. Impairments on individual basis are estimated for corporate debtors and entrepreneurs 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, which is generally equal to effective 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
- Credit card claims

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 Bank's or Group's data. The methodology and assumptions behind the incurred 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 Bank or 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% of the Bank's or Group's capital (own funds). In addition, with the aim to control credit concentration, the Bank or Group calculates the indices of industry and single-name credit concentration. Indices are measured with the methodology established by the Bank of Slovenia.

Financial instrument`s breakdown by country risk

Country risk – unconsolidated as at 31 December 2012
(all amounts expressed in thousands of EUR)

	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	29,388	-	-	-	-	29,388
Financial instruments held for trading:	2	288	288	-	-	290
- derivative financial instruments	2	288	288	-	-	290
Financial assets designated at fair value through profit or loss	-	282	282	-	-	282
Investment securities available for sale	194,027	104,758	87,473	5,305	-	304,090
Loans and advances:	1,799,706	51,414	46,017	49,654	40,808	1,941,582
- to banks	10,629	46,620	43,275	381	678	58,308
- to customers	1,775,680	4,119	2,741	49,262	34,778	1,863,839
- advances	13,397	675	1	11	5,352	19,435
Investments in subsidiaries	3,688	-	-	-	-	3,688
Other assets	710	148	43	26	4	888
Contingent liabilities and commitments	542,002	41,253	41,253	1,045	63	584,363
TOTAL EXPOSURES	**2,569,523**	**198,143**	**175,356**	**56,030**	**40,875**	**2,864,571**

Country risk – unconsolidated as at 31 December 2011
(all amounts expressed in thousands of EUR)

	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	35,463	-	-	-	-	35,463
Financial instruments held for trading:	1,292	1,960	1,818	66	-	3,318
- trading assets	1,292	-		-	-	1,292
- derivative financial instruments	-	1,960	1,818	66	-	2,026
Investment securities available for sale	178,741	101,275	61,451	7,207	995	288,218
Loans and advances:	1,754,185	24,804	13,733	54,283	45,599	1,878,871
- to banks	12,238	21,567	12,995	10,465	619	44,889
- to customers	1,737,997	2,562	734	43,781	40,223	1,824,563
- advances	3.950	675	4	37	4.757	9.419
Investments in subsidiaries	3,688	-	-	-	-	3,688
Other assets	1,146	94	2	6	3	1,249
Contingent liabilities and commitments	440,853	48,570	48,570	6,968	-	496,391
TOTAL EXPOSURES	**2,415,368**	**176,703**	**125,574**	**68,530**	**46,597**	**2,707,198**

Country risk – consolidated as at 31 December 2012
(all amounts expressed in thousands of EUR)

	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	29,388	-	-	-	-	29,388
Financial instruments held for trading:	2	288	288	-	-	290
- derivative financial instruments	2	288	288	-	-	290
Financial assets designated at fair value through profit or loss	-	282	282	-	-	282
Investment securities available for sale	194,027	104,758	87,473	5,305	-	304,090
Loans and advances:	1,844,518	51,414	46,017	49,654	40,808	1,986,394
- to banks	10,629	46,620	43,275	381	678	58,308
- to customers	1,825,617	4,119	2,741	49,262	34,778	1,913,776
- advances	8,272	675	1	11	5,352	14,310
Other assets	10,313	148	43	26	4	10,491
Contingent liabilities and commitments	540,269	41,253	41,253	1,045	63	582,630
TOTAL EXPOSURES	**2,618,517**	**198,143**	**175,356**	**56,030**	**40,875**	**2,913,565**

Country risk – consolidated as at 31 December 2011
(all amounts expressed in thousands of EUR)

	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	35,463	-	-	-	-	35,463
Financial instruments held for trading:	1,292	1,960	1,818	66	-	3,318
- trading assets	1,292	-		-	-	1,292
- derivative financial instruments	-	1,960	1,818	66	-	2,026
Investment securities available for sale	178,741	101,275	61,451	7,207	995	288,218
Loans and advances:	1,813,950	24,804	13,733	54,283	45,599	1,938,636
- to banks	12,238	21,567	12,995	10,465	619	44,889
- to customers	1,796,796	2,562	734	43,781	40,223	1,883,362
- advances	4,916	675	4	37	4,757	10,385
Other assets	1,386	94	2	6	3	1,489
Contingent liabilities and commitments	435,897	48,570	48,570	6,968	-	491,435
TOTAL EXPOSURES	**2,466,729**	**176,703**	**125,574**	**68,530**	**46,597**	**2,758,559**

On 31.12.2012 the group of Banka Koper was exposed towards selected EU countries (Portugal, Ireland, Greece, Italy and Spain) only to Italy in the amount of EUR 175,356 thousand, within exposure to parent company amouned to EUR 84,739 thousand.

3.4 Financial instrument`s breakdown by country risk

Past due financial instruments relate only to loans and advances portfolio, other financial instrument portfolios not recorded delays.

Loans and advances are summarised as follows:

Loans and advances by maturity (past due) – unconsolidated
(all amounts expressed in thousands of EUR)

	31 December 2012		31 December 2011	
Unconsolidated	**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	1,758,239	58,308	1,712,997	44,889
Past due but not impaired	9,712	-	12,700	-
Impaired	223,212	-	218,789	-
Gross	**1,991,163**	**58,308**	**1,944,486**	**44,889**
Impairment losses on loans and advances	(127,324)	-	(119,923)	-
Net	**1,863,839**	**58,308**	**1,824,563**	**44,889**

Loans and advances by maturity (past due) – consolidated

(all amounts expressed in thousands of EUR)

	31 December 2012		31 December 2011	
Consolidated	**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	1,794,857	58,308	1,763,156	44,889
Past due but not impaired	11,461	-	14,447	-
Impaired	237,230	-	227,442	-
Gross	**2,043,548**	**58,308**	**2,005,045**	**44,889**
Impairment losses on loans and advances	(129,772)	-	(121,683)	-
Net	**1,913,776**	**58,308**	**1,883,362**	**44,889**

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

(all amounts expressed in thousands of EUR)

	Individuals						
31 December 2012	**Overdrafts**	**Credit Cards**	**Term loans**	**Mortgages**	**Sole proprietors**	**Corporate entities**	**Total loans and advances to customers**
Neither past due nor impaired A	40,021	19,069	115,267	335,403	31,440	792,621	1,333,821
Neither past due nor impaired B	370	98	5,605	20,651	24,235	362,379	413,338
Neither past due nor impaired C	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-
Total neither past due nor impaired	**40,391**	**19,167**	**120,872**	**356,054**	**55,675**	**1,155,000**	**1,747,159**
Not past due but impaired	**123**	**541**	**3,174**	**11,583**	**3,296**	**52,070**	**70,787**
Past due or impaired	2,350	2,364	3,792	2,685	11,764	150,262	173,217
Gross	**42,864**	**22,072**	**127,838**	**370,322**	**70,735**	**1,357,332**	**1,991,163**
Impairment losses on loans and advances	(2,209)	(1,281)	(3,392)	(3,282)	(9,186)	(107,974)	(127,324)
Net	**40,655**	**20,791**	**124,446**	**367,040**	**61,549**	**1,249,358**	**1,863,839**

Loans and advances to customers by maturity and credit rating – consolidated
(all amounts expressed in thousands of EUR)

31 December 2012	Individuals: Overdrafts	Individuals: Credit Cards	Individuals: Term loans	Individuals: Mortgages	Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	40,021	19,069	115,267	335,403	9,263	40,658	810,758	1,370,439
Neither past due nor impaired B	370	98	5,605	20,651	-	24,235	362,379	413,338
Neither past due nor impaired C	-	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Total neither past due nor impaired	**40,391**	**19,167**	**120,872**	**356,054**	**9,263**	**64,893**	**1,173,137**	**1,783,777**
Not past due but impaired	**123**	**541**	**3,174**	**11,583**	**614**	**3,569**	**57,198**	**76,802**
Past due or impaired	2,350	2,364	3,792	2,685	1,132	13,332	157,314	182,969
Gross	**42,864**	**22,072**	**127,838**	**370,322**	**11,009**	**81,794**	**1,387,649**	**2,043,548**
Impairment losses on loans and advances	(2,209)	(1,281)	(3,392)	(3,282)	(379)	(9,686)	(109,543)	(129,772)
Net	**40,655**	**20,791**	**124,446**	**367,040**	**10,630**	**72,108**	**1,278,106**	**1,913,776**

Loans and advances to customers by maturity and credit rating – unconsolidated
(all amounts expressed in thousands of EUR)

31 December 2011	Individuals: Overdrafts	Individuals: Credit Cards	Individuals: Term loans	Individuals: Mortgages	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	39,941	20,399	115,456	308,935	34,882	759,238	1,278,851
Neither past due nor impaired B	172	680	4,971	16,086	19,932	382,718	424,559
Neither past due nor impaired C	69	442	2,788	6,288	-	-	9,587
Neither past due nor impaired D	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-
Total neither past due nor impaired	**40,182**	**21,521**	**123,215**	**331,309**	**54,814**	**1,141,956**	**1,712,997**
Not past due but impaired	**55**	**8**	**1,940**	**5,174**	**5,309**	**57,937**	**70,423**
Past due or impaired	2,469	2,226	3,823	2,738	12,863	136,947	161,066
Gross	**42,706**	**23,755**	**128,978**	**339,221**	**72,986**	**1,336,840**	**1,944,486**
Impairment losses on loans and advances	(2,064)	(845)	(3,792)	(3,798)	(11,275)	(98,149)	(119,923)
Net	**40,642**	**22,910**	**125,186**	**335,423**	**61,711**	**1,238,691**	**1,824,563**

Loans and advances to customers by maturity and credit rating – consolidated
(all amounts expressed in thousands of EUR)

31 December 2011	Individuals: Overdrafts	Individuals: Credit Cards	Individuals: Term loans	Individuals: Mortgages	Individuals: Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	39,941	20,399	115,456	308,935	8,766	43,153	792,360	1,329,010
Neither past due nor impaired B	172	680	4,971	16,086	-	19,932	382,718	424,559
Neither past due nor impaired C	69	442	2,788	6,288	-	-	-	9.587
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Total neither past due nor impaired	**40,182**	**21,521**	**123,215**	**331,309**	**8,766**	**63,085**	**1,175,078**	**1,763,156**
Not past due but impaired	**55**	**8**	**1,940**	**5,174**	**568**	**5,514**	**61,797**	**75,056**
Past due or impaired	2,469	2,226	3,823	2,738	1,012	13,700	140,865	166,833
Gross	**42,706**	**23,755**	**128,978**	**339,221**	**10,346**	**82,299**	**1,377,740**	**2,005,045**
Impairment losses on loans and advances	(2,064)	(845)	(3,792)	(3,798)	(310)	(11,700)	(99,174)	(121,683)
Net	**40,642**	**22,910**	**125,186**	**335,423**	**10,036**	**70,559**	**1,278,566**	**1,883,362**

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 2012 – Unconsolidated	Individuals: Overdrafts		Credit cards		Term loans		Mortgages		Total individuals
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	323	-	897	22	5	57	1	1	1,306
Past due 30 - 60 days	60	-	211	33	293	74	238	42	951
Past due 60 - 90 days	57	1	67	50	62	53	43	25	358
Past due over 90 days	22	1,887	-	1,084	12	3,236	26	2,309	8,576
Total	**462**	**1,888**	**1,175**	**1,189**	**372**	**3,420**	**308**	**2,377**	**11,191**

	Sole proprietors		Corporate entities		
	Not impaired	Impaired	Not impaired	Impaired	Total
Past due up to 30 days	264	272	6,134	4,268	10,938
Past due 30 - 60 days	88	265	499	495	1,347
Past due 60 - 90 days	74	199	255	537	1,065
Past due over 90 days	8	10,594	72	138,002	148,676
Total	**434**	**11,330**	**6,960**	**143,302**	**162,026**

There were any renegotiated loans in 2012 (2011: EUR 27,743 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 2012 – 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	323	-	897	22	5	57	1	1	83	9	1,398
Past due 30 - 60 days	60	-	211	33	293	74	238	42	36	15	1,002
Past due 60 - 90 days	57	1	67	50	62	53	43	25	20	10	388
Past due over 90 days	22	1,887	-	1,084	12	3,236	26	2,309	15	944	9,535
Total	**462**	**1,888**	**1,175**	**1,189**	**372**	**3,420**	**308**	**2,377**	**154**	**978**	**12,323**

	Sole proprietors Not impaired	Sole proprietors Impaired	Corporate entities Not impaired	Corporate entities Impaired	Total
Past due up to 30 days	395	292	6,589	4,354	11,630
Past due 30 - 60 days	145	277	751	591	1,764
Past due 60 - 90 days	96	207	414	619	1,336
Past due over 90 days	50	11,870	549	143,447	155,916
Total	**686**	**12,646**	**8,303**	**149,011**	**170,646**

There were any renegotiated loans in 2012 (2011: EUR 27,743 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 2011 - 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	283	-	1,304	66	4	11	-	4	1,672
Past due 30 - 60 days	109	-	135	48	431	91	215	55	1,084
Past due 60 - 90 days	53	1	48	45	71	68	33	37	356
Past due over 90 days	27	1,996	1	579	14	3,133	4	2,390	8,144
Total	**472**	**1,997**	**1,488**	**738**	**520**	**3,303**	**252**	**2,486**	**11,256**

	Sole proprietors Not impaired	Sole proprietors Impaired	Corporate entities Not impaired	Corporate entities Impaired	Total
Past due up to 30 days	234	323	3,869	2,850	7,276
Past due 30 - 60 days	87	811	2,644	4,591	8,133
Past due 60 - 90 days	45	399	3,057	12,918	16,419
Past due over 90 days	9	10,955	23	106,995	117,982
Total	**375**	**12,488**	**9,593**	**127,354**	**149,810**

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 2011 – Consolidated	Individuals										
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		Total individuals
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	283	-	1,304	66	4	11	-	4	71	92	1,835
Past due 30 - 60 days	109	-	135	48	431	91	215	55	37	22	1,143
Past due 60 - 90 days	53	1	48	45	71	68	33	37	16	8	380
Past due over 90 days	27	1,996	1	579	14	3,133	4	2,390	12	754	8,910
Total	**472**	**1,997**	**1,488**	**738**	**520**	**3,303**	**252**	**2,486**	**136**	**876**	**12,268**

	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	335	356	4,374	3,052	8,117
Past due 30 - 60 days	151	833	2,997	4,662	8,643
Past due 60 - 90 days	88	432	3,227	12,995	16,742
Past due over 90 days	48	11,457	359	109,199	121,063
Total	**622**	**13,078**	**10,957**	**129,908**	**154,565**

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 2012	**Individuals**	**Sole proprietors**	**Corporate entities**	**Total**
Individually impaired loans	-	9,295	188,329	197,624
Fair value of collateral	-	20,104	280,828	300,932
31 December 2011	**Individuals**	**Sole proprietors**	**Corporate entities**	**Total**
Individually impaired loans	-	10,919	177,761	188,680
Fair value of collateral	-	25,037	267,083	292,120

In 2012, the Bank received EUR 10,224 thousands from the sale of pledged collateral.

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 Bank or 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 Bank's or 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

Non-derivative cash flows by Expected maturities as at 31 December 2012
(all amounts expressed in thousands of EUR)

	Expected maturity							
	Up to 1 month	1-3 months	3-12 months	Total to 1 Year	1- 5 years	Over 5 years	Total over 1 year	Total
ASSETS								
Cash and balances with central banks	15,361	-	-	**15,361**	-	14,027	**14,027**	**29,388**
Financial assets designated at fair value through profit or loss	-	-	-	**-**	282	-	**282**	**282**
Investment securities available for sale	5,906	4,462	56,657	**67,025**	192,841	44,224	**237,065**	**304,090**
Loans and advances:	239,161	101,995	435,271	**776,427**	690,983	474,172	**1,165,155**	**1,941,582**
- to banks	43,324	5,139	9,845	**58,308**	-	-	**-**	**58,308**
- to customers	191,302	87,930	419,452	**698,684**	690,983	474,172	**1,165,155**	**1,863,839**
- advances	4,535	8,926	5,974	**19,435**	-	-	**-**	**19,435**
Property, plant and equipment	-	-	-	**-**	3,152	23,181	**26,333**	**26,333**
Investment property	-	-	-	**-**	1,028	-	**1,028**	**1,028**
Intangible assets	-	-	-	**-**	4,236	-	**4,236**	**4,236**
Investment in subsidiaries	-	-	-	**-**	-	3,688	**3,688**	**3,688**
Income tax assets:	1	3	3,314	**3,318**	1,053	310	**1,363**	**4,681**
- current income tax	-	-	3,229	**3,229**	-	-	**-**	**3,229**
- deferred income tax	1	3	85	**89**	1,053	310	**1,363**	**1,452**
Other assets	117	46	334	**497**	391	-	**391**	**888**
Total assets	**260,546**	**106,506**	**495,576**	**862,628**	**893,966**	**559,602**	**1,453,568**	**2,316,196**
LIABILITIES								
Liabilities to Central Bank	-	-	-	**-**	201,750	-	**201,750**	**201,750**
Liabilities carried at amortised cost:	947,490	221,146	407,574	**1,576,210**	150,810	96,703	**247,513**	**1,823,723**
- deposits from banks	9,189	-	47,503	**56,692**	8,167	10,500	**18,667**	**75,359**
- due to customers	891,063	187,334	347,599	**1,425,996**	78,233	3,087	**81,320**	**1,507,316**
- other borrowed funds from banks	30,699	29,988	10,451	**71,138**	59,916	83,116	**143,032**	**214,170**
- other borrowed funds from other customers	7	5	2,021	**2,033**	4,494	-	**4,494**	**6,527**
- other financial liabilities	16,532	3,819	-	**20,351**	-	-	**-**	**20,351**
Provisions:	-	-	623	**623**	7,597	3,166	**10,763**	**11,386**
- provisions for liabilities and charges	-	-	623	**623**	7,597	-	**7,597**	**8,220**
- retirement benefit obligations	-	-	-	**-**	-	3,166	**3,166**	**3,166**
Other liabilities	749	666	-	**1,415**	-	-	**-**	**1,415**
Total liabilities	**948,239**	**221,812**	**408,197**	**1,578,248**	**360,157**	**99,869**	**460,026**	**2,038,274**
NET LIQUIDITY GAP	**(687,693)**	**(115,306)**	**87,379**	**(715,620)**	**533,809**	**459,733**	**993,542**	**277,922**
As at 31 December 2011								
Total assets	285,567	127,085	521,120	**933,772**	822,756	491,236	**1,313,992**	**2,247,764**
Total liabilities	892,652	432,313	274,267	**1,599,232**	262,023	118,317	**380,340**	**1,979,572**
Net liquidity gap	**(607,085)**	**(305,228)**	**246,853**	**(665,460)**	**560,733**	**372,919**	**933,652**	**268,192**

Maturities of assets and liabilities - unconsolidated and consolidated

Derivative cash flows by expected maturity – derivati ves settled on a net basis as at 31 December 2012
(all amounts expressed in thousands of EUR)

	Expected maturity							
	Up to 1 month	**1-3 months**	**3-12 months**	**Total to 1 Year**	**1- 5 years**	**Over 5 years**	**Total over 1 year**	**Total**
DERIVATIVE ASSETS								
Derivatives held for trading:								
- forward currency	2	-	-	**2**	-	-	**-**	**2**
- interest rate cap	-	-	-	**-**	-	112	**112**	**112**
- interest option (CALL)	-	-	-	**-**	176	-	**176**	**176**
Total	**2**	**-**	**-**	**2**	**176**	**112**	**288**	**290**
DERIVATIVE LIABILITIES								
Derivatives held for trading:								
- forward currency	2	-	-	**2**	-	-	**-**	**2**
- currency swaps	12	-	-	**12**	-	-	**-**	**12**
- interest rate cap	-	-	-	**-**	-	9	**9**	**9**
- interest option (PUT)	-	-	-	**-**	161	-	**161**	**161**
Total	**14**	**-**	**-**	**14**	**161**	**9**	**170**	**184**
NET LIQUIDITY GAP	**(12)**	**-**	**-**	**(12)**	**15**	**103**	**118**	**106**
As at 31 December 2011								
Total derivative assets	786	-	-	**786**	1,111	129	**1,240**	**2,026**
Total derivative liabilities	1	-	-	**1**	1,102	32	**1,134**	**1,135**
NET LIQUIDITY GAP	**785**	**-**	**-**	**785**	**9**	**97**	**106**	**891**

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	Total to 1 Year	1- 5 years	Over 5 years	Total over 1 year	Total
DERIVATIVE ASSETS								
Derivatives held for hedge accounting	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
DERIVATIVE LIABILITIES								
Derivatives held for hedge accounting:	-	-	-	-	1,573	-	**1,573**	**1,573**
Total	-	-	-	-	1,573	-	**1,573**	**1,573**
NET LIQUIDITY GAP	-	-	-	-	**(1,573)**	-	**(1,573)**	**(1,573)**

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	Total to 1 Year	1- 5 years	Over 5 years	Total over 1 year	Total
DERIVATIVE ASSETS								
Derivatives held for hedge accounting:	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
DERIVATIVE LIABILITIES								
Derivatives held for hedge accounting:	-	-	-	-	992	-	**992**	**992**
Total	-	-	-	-	992	-	**992**	**992**
NET LIQUIDITY GAP	-	-	-	-	**(992)**	-	**(992)**	**(992)**

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

(all amounts expressed in thousands of EUR)

	Expected maturity						
As at 31 December 2012	Up to 1 month	1 - 3 months	3 - 12 months	Total to 1 year	1 - 5 years	Total over 1 year	Total
DERIVATIVES HELD FOR TRADING:							
- Currency swaps							
- outflow	-	-	-	-	-	-	-
- inflow	24,172	-	-	**24,172**	-	-	**24,172**
- Currency forward							
- outflow	82	-	-	82	-	-	82
- inflow	80	-	-	80	-	-	80
Total outflow	**82**	-	-	**82**	-	-	**82**
Total inflow	**24,252**	-	-	**24,252**	-	-	**24,252**

	Expected maturity						
As at 31 December 2011	Up to 1 month	1 - 3 months	3 - 12 months	Total to 1 year	1 - 5 years	Total over 1 year	Total
DERIVATIVES HELD FOR TRADING:							
- Currency swaps							
- outflow	13,924	-	-	**13,924**	-	-	**13,924**
- inflow	68,323	-	-	68,323	-	-	68,323
Total outflow	**13,924**	-	-	**13,924**	-	-	**13,924**
Total inflow	**68,323**	-	-	**68,323**	-	-	**68,323**

Cash flows on gross basis are exchanged only for currency swaps. For the other type of derivative instruments the settlement is made on net basis.

Maturities of assets and liabilities - consolidated

Non derivative cash flows by expected maturities
(all amounts expressed in thousands of EUR)

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	Total to 1 year	1- 5 years	Over 5 years	Total over 1 year	Total
	Expected maturity							
ASSETS								
Cash and balances with central banks	15,361	-	-	**15,361**	-	14,027	**14,027**	**29,388**
Financial assets designated at fair value through profit or loss	-	-	-	**-**	282	-	**282**	**282**
Investment securities available for sale	5,906	4,462	56,657	**67,025**	192,841	44,224	**237,065**	**304,090**
Loans and advances:	235,681	104,868	433,449	**773,998**	715,259	497,137	**1,212,396**	**1,986,394**
- to banks	43,324	5,139	9,845	**58,308**	-	-	**-**	**58,308**
- to customers	186,973	90,803	423,604	**701,380**	715,259	497,137	**1,212,396**	**1,913,776**
- advances	5,384	8,926	-	**14,310**	-	-	**-**	**14,310**
Goodwill	-	-	-	**-**	-	905	**905**	**905**
Property, plant and equipment	-	-	-	**-**	4,386	23,181	**27,567**	**27,567**
Investment property	-	-	-	**-**	6,445	-	**6,445**	**6,445**
Intangible assets	-	-	-	**-**	4,337	-	**4,337**	**4,337**
Income tax assets:	564	3	3,314	**3,881**	1,053	310	**1,362**	**5,244**
- current income tax	-	-	3,229	**3,229**	-	-	**-**	**3,229**
- deferred income tax	564	3	85	**652**	1,053	310	**1,363**	**2,015**
Other assets	117	46	9,937	**10,100**	391	-	**391**	**10,491**
Total assets	**257,629**	**109,379**	**503,357**	**870,365**	**924,994**	**579,784**	**1,504,778**	**2,375,143**
LIABILITIES								
Liabilities to Central Bank	-	-	-	**-**	201,750	-	**201,750**	**201,750**
Liabilities carried at amortised cost:	947,492	221,697	427,573	**1,596,762**	179,810	103,703	**283,513**	**1,880,275**
- deposits from banks	9,189	-	47,503	**56,692**	8,167	10,500	**18,667**	**75,359**
- due to customers	891,048	187,334	347,599	**1,425,981**	78,233	3,087	**81,320**	**1,507,301**
- other borrowed funds from banks	30,716	30,013	30,450	**91,179**	88,916	90,116	**179,032**	**270,211**
- other borrowed funds from other customers	7	5	2,021	**2,033**	4,494	-	**4,494**	**6,527**
- other financial liabilities	16,532	4,345	-	**20,877**	-	-	**-**	**20,877**
Provisions:	-	-	623	**623**	7,579	3,252	**10,831**	**11,454**
- provisions for liabilities and charges	-	-	623	**623**	7,579	-	**7,579**	**8,202**
- retirement benefit obligations	-	-	-	**-**	-	3,252	**3,252**	**3,252**
Income tax liabilities:	64	-	-	**64**	-	-	**-**	**64**
- current income tax	64	-	-	**64**	-	-	**-**	**64**
Other liabilities	901	666	-	**1,567**	-	-	**-**	**1,567**
Total liabilities	**948,457**	**222,363**	**428,196**	**1,599,016**	**389,139**	**106,955**	**496,094**	**2,095,110**
Net liquidity gap	**(690,828)**	**(112,984)**	**75,161**	**(728,651)**	**535,855**	**472,829**	**1,008,684**	**280,033**

As at 31 December 2011								
Total assets	287,055	129,861	528,327	945,243	844,815	516,660	1,361,475	2,306,718
Total liabilities	893,879	432,313	274,267	1,600,459	310,976	125,398	436,374	2,036,833
Net liquidity gap	**(606,824)**	**(302,452)**	**254,060**	**(655,216)**	**533,839**	**391,262**	**925,101**	**269,885**

Expected maturities of off-balance sheet items - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Expected maturity			
	No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	73	-	-	**73**
Guarantees	125,717	70,554	20,199	**216,470**
Derivative financial instruments	245	344	126	**715**
Credit commitments	356,118	11,702	-	**367,820**
Total	**482,153**	**82,600**	**20,325**	**585,078**
As at 31 December 2011				
Total	**395,215**	**91,778**	**19,353**	**506,346**

Expected maturities of off-balance sheet items - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Expected maturity			
	No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	73	-	-	**73**
Guarantees	125,717	70,554	20,199	**216,470**
Credit commitments	354,367	11,702	-	**366,069**
Other	245	344	126	**715**
Total	**480,402**	**82,600**	**20,325**	**583,327**
As at 31 December 2011				
Total	**395,211**	**86,826**	**19,353**	**501,390**

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

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	37,511	-	37,511
Liabilities carried at amortized cost:	948,626	221,674	410,534	156,229	103,510	1,840,573
- deposits from banks	9,200	-	47,828	8,447	11,220	76,695
- due to customers	892,151	187,792	350,146	81,099	3,313	1,514,501
- other borrowed funds from banks	30,736	30,058	10,525	62,028	88,977	222,324
- other borrowed funds from other customers	7	5	2,035	4,655	-	6,702
- advances	16,532	3,819	-	-	-	20,351
Financial guaranties issued	22,265	13,353	21,716	60,439	7,667	125,440

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

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	37,511	-	37,511
Liabilities carried at amortised cost:	948,628	222,225	430,674	186,252	111,004	1,898,783
- deposits from banks	9,200	-	47,828	8,447	11,220	76,695
- due to customers	892,136	187,792	350,146	81,099	3,313	1,514,486
- other borrowed funds from banks	30,753	30,083	30,665	92,051	96,471	280,023
- other borrowed funds from other customers	7	5	2,035	4,655	-	6,702
- advances	16,532	4,345	-	-	-	20,877
Financial guaranties issued	22,265	13,353	21,716	60,439	7,667	125,440

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

(all amounts expressed in thousands of EUR)

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	154,543	-	154,543
Liabilities carried at amortized cost:	866,287	426,172	274,273	109,643	127,025	1,803,400
- deposits from banks	21,085	180,968	11,458	9,813	12,864	236,188
- due to customers	842,872	242,118	211,441	38,095	2,482	1,337,008
- other borrowed funds from banks	1,839	3,082	49,326	55,194	111,645	221,086
- other borrowed funds from other customers	491	4	2,048	6,541	34	9,118
Financial guaranties issued	13,088	12,302	16,899	38,567	7,002	87,858

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

(all amounts expressed in thousands of EUR)

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	154,543	-	154,543
Liabilities carried at amortised cost:	866,370	426,172	274,273	161,146	134,739	1,862,700
- deposits from banks	21,085	180,968	11,458	9,813	12,864	236,188
- due to customers	842,870	242,118	211,441	38,095	2,482	1,337,006
- other borrowed funds from banks	1,924	3,082	49,326	106,697	119,359	280,388
- other borrowed funds from other customers	491	4	2,048	6,541	34	9,118
Financial guaranties issued	13,088	12,302	16,899	38,567	7,002	87,858

3.6 Equity risks of banking book

The risk is defined as the risk of unexpected losses of available-for sale equity investments (shares or capital investments), not consolidated into financial statements of the Bank or Group.

The Group does not manage the equity portfolio for proprietary trading purposes, but manage the investments acquired through the repossession of equity stakes, originally pledged as collateral to loans extended to its customers. The Bank is actively looking for any possibility to dispose the assets to eventual strategic or other interested groups of investors.

3.7 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 Bank's or Group's main trading activities are foreign currency trades and derivative deals.

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.

3.7.1 Derivative instruments

The derivative deals the Bank or 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 Bank or 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.

3.7.2 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 Bank or 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 Bank or Group to be carried out smoothly.

Group VAR by risk type
(all amounts expressed in millions of EUR)

	12 months to 31 December 2012			*12 months to 31 December 2011*		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk (trading and non-trading portfolio)	4	11	2	5	23	-
Bond risk (banking book)	1,657	2,571	930	-	-	-
Total VAR	**1,661**	**2,582**	**932**	**5**	**23**	**-**

Currency risk - unconsolidated
(all amounts expressed in thousands of EUR)

As at 31 December 2012	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	28,563	300	525	29,388
Financial instruments held for trading:	290	-	-	290
- derivative financial instruments	290	-	-	290
Financial assets designated at fair value through profit or loss	282	-	-	282
Investment securities available for sale	304,090	-	-	304,090
Loans and advances:	1,853,490	64,964	23,128	1,941,582
- to banks	16,632	29,995	11,681	58,308
- to customers	1,817,474	34,919	11,446	1,863,839
- advances	19,384	50	1	19,435
Property, plant and equipment	26,333	-	-	26,333
Investment property	1,028	-	-	1,028
Intangible assets	4,236	-	-	4,236
Investment in subsidiaries	3,688	-	-	3,688
Income tax assets:	4,681	-	-	4,681
- current income tax	3,229	-	-	3,229
- deferred income tax	1,452	-	-	1,452
Other assets	888	-	-	888
Total assets	**2,227,569**	**65,264**	**23,653**	**2,316,486**
LIABILITIES				
Liabilities to Central Bank	201,750	-	-	201,750
Financial instruments held for trading:	184	-	-	184
- derivative financial instruments	184	-	-	184
Liabilities carried at amortised cost:	1,710,066	89,821	23,836	1,823,723
- deposits from banks	67,049	5,826	2,484	75,359
- due to customers	1,437,668	48,480	21,168	1,507,316
- other borrowed funds from banks	179,002	35,168	-	214,170
- other borrowed funds from other customers	6,527	-	-	6,527
- other financial liabilities	19,820	347	184	20,351
Derivatives – hedge accounting	1,573	-	-	1,573
Provisions:	11,386	-	-	11,386
- provisions for liabilities and charges	8,220	-	-	8,220
- retirement benefit obligations	3,166	-	-	3,166
Other liabilities	1,415	-	-	1,415
Total liabilities	**1,926,374**	**89,821**	**23,836**	**2,040,031**
Net balance sheet position	**301,195**	**(24,557)**	**(183)**	**276,455**
Credit commitments	**372,263**	**118**	**-**	**372,381**

As at 31 December 2011	EUR	USD	Other	Total
Total assets	2,187,523	41,120	21,147	2,249,790
Total liabilities	1,863,689	96,390	21,620	1,981,699
Net balance sheet position	**323,834**	**(55,270)**	**(473)**	**268,091**
Credit commitments	**328,319**	**148**	**-**	**328,467**

Currency risk- consolidated
(all amounts expressed in thousands of EUR)

As at 31 December 2012	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	28,563	300	525	29,388
Financial instruments held for trading:	290	-	-	290
- derivative financial instruments	290	-	-	290
Financial assets designated at fair value through profit or loss	282	-	-	282
Investment securities available for sale	304,090	-	-	304,090
Loans and advances:	1,897,709	64,964	23,721	1,986,394
- to banks	16,632	29,995	11,681	58,308
- to customers	1,866,818	34,919	12,039	1,913,776
- advances	14,259	50	1	14,310
Goodwill	905	-	-	905
Property, plant and equipment	27,567	-	-	27,567
Investment property	6,445	-	-	6,445
Intangible assets	4,337	-	-	4,337
Income tax assets:	5,244	-	-	5,244
- current income tax	3,229	-	-	3,229
- deferred income tax	2,015	-	-	2,015
Other assets	10,491	-	-	10,491
Total assets	**2,285,923**	**65,264**	**24,246**	**2,375,433**
LIABILITIES				
Liabilities to Central Bank	201,750	-	-	201,750
Financial instruments held for trading:	184	-	-	184
- derivative financial instruments	184	-	-	184
Liabilities carried at amortised cost:	1,766,618	89,821	23,836	1,880,275
- deposits from banks	67,049	5,826	2,484	75,359
- due to customers	1,437,653	48,480	21,168	1,507,301
- other borrowed funds from banks	235,043	35,168	-	270,211
- other borrowed funds from other customers	6,527	-	-	6,527
- other financial liabilities	20,346	347	184	20,877
Derivatives – hedge accounting	1,573	-	-	1,573
Provisions:	11,454	-	-	11,454
- provisions for liabilities and charges	8,202	-	-	8,202
- retirement benefit obligations	3,252	-	-	3,252
Income tax liabilities:	64	-	-	64
- current income tax	64	-	-	64
Other liabilities	1,567	-	-	1,567
Total liabilities	**1,983,210**	**89,821**	**23,836**	**2,096,867**
Net balance sheet position	**302,713**	**(24,557)**	**410**	**278,566**
Credit commitments	**370,512**	**118**	**-**	**370,630**

As at 31 December 2011	EUR	USD	Other	Total
Total assets	2,246,377	41,120	21,247	2,308,744
Total liabilities	1,920,950	96,390	21,620	2,038,960
Net balance sheet position	**325,427**	**(55,270)**	**(373)**	**269,784**
Credit commitments	**323,316**	**148**	**-**	**323,464**

Economic hedge of net balance sheet position in USD is done by continuously USD swap transactions in the amount of FX mismatch.

3.7.3 Interest rate risk

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 2012	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	15,361	-	-	-	14,027	-	29,388
Financial instruments held for trading:	-	147	141	-	-	2	290
- derivative financial instruments	-	147	141	-	-	2	290
Financial assets designated at fair value through profit or loss	-	-	-	-	-	282	282
Investment securities available for sale	12,221	11,870	59,551	142,232	38,919	39,297	304,090
Loans and advances:	323,064	321,256	1,209,305	22,121	25,935	39,901	1,941,582
- to banks	40,371	5,139	9,845	-	-	2,953	58,308
- to customers	282,693	316,117	1,199,460	22,121	25,935	17,513	1,863,839
- advances	-	-	-	-	-	19,435	19,435
Property, plant and equipment	-	-	-	-	-	26,333	26,333
Investment property	-	-	-	-	-	1,028	1,028
Intangible assets	-	-	-	-	-	4,236	4,236
Investment in subsidiaries	-	-	-	-	-	3,688	3,688
Income tax assets:	-	-	-	-	-	4,681	4,681
- current income tax	-	-	-	-	-	3,229	3,229
- deferred income tax	-	-	-	-	-	1,452	1,452
Other assets	-	-	-	-	-	888	888
Total assets	**350,646**	**333,273**	**1,268,997**	**164,353**	**78,881**	**120,336**	**2,316,486**
LIABILITIES							
Liabilities to Central Bank	201,750	-	-	-	-	-	201,750
Financial instruments held for trading:	-	35	136	-	-	13	184
- derivative financial instruments	-	35	136	-	-	13	184
Liabilities carried at amortised cost:	961,480	267,721	474,450	96,270	3,076	20,726	1,823,723
- deposits from banks	9,190	-	66,169	-	-	-	75,359
- due to customers	892,189	187,334	346,566	78,151	3,076	-	1,507,316
- other borrowed funds from banks	60,094	80,382	55,694	18,000	-	-	214,170
- other borrowed funds from other customers	7	5	6,021	119	-	375	6,527
- other financial liabilities	-	-	-	-	-	20,351	20,351
Derivatives – Hedge accounting	-	1,573	-	-	-	-	1,573
Provisions:	-	-	-	-	-	11,386	11,386
- provisions for liabilities and charges	-	-	-	-	-	8,220	8,220
- retirement benefit obligations	-	-	-	-	-	3,166	3,166
Other liabilities	-	-	-	-	-	1,415	1,415
Total liabilities	**1,163,230**	**269,329**	**474,586**	**96,270**	**3,076**	**33,540**	**2,040,031**
Total interest repricing gap	**(812,584)**	**63,944**	**794,411**	**68,083**	**75,805**		

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Total assets	360,315	338,526	1,188,567	147,772	90,646	123,964	2,249,790
Total liabilities	1,135,708	525,349	266,075	7,347	62	47,158	1,981,699
Total interest repricing gap	**(775,393)**	**(186,823)**	**922,492**	**140,425**	**90,584**		

Interest rate risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2012	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	15,361	-	-	-	14,027	-	29,388
Financial instruments held for trading:	-	147	141	-	-	2	290
- derivative financial instruments	-	147	141	-	-	2	290
Financial assets designated at fair value through profit or loss	-	-	-	-	-	282	282
Investment securities available for sale	12,221	11,870	59,551	142,232	38,919	39,297	304,090
Loans and advances:	342,459	348,613	1,209,513	23,126	27,907	34,776	1,986,394
- to banks	40,371	5,139	9,845	-	-	2,953	58,308
- to customers	302,088	343,474	1,199,668	23,126	27,907	17,513	1,913,776
- advances	-	-	-	-	-	14,310	14,310
Good will	-	-	-	-	-	905	905
Property, plant and equipment	-	-	-	-	-	27,567	27,567
Investment property	-	-	-	-	-	6,445	6,445
Intangible assets	-	-	-	-	-	4,337	4,337
Income tax assets:	-	-	-	-	-	5,244	5,244
- current income tax	-	-	-	-	-	3,229	3,229
- deferred income tax	-	-	-	-	-	2,015	2,015
Other assets	-	-	-	-	-	10,491	10,491
Total assets	**370,041**	**360,630**	**1,269,205**	**165,358**	**80,853**	**129,346**	**2,375,433**
LIABILITIES							
Liabilities to Central Bank	201,750	-	-	-	-	-	201,750
Financial instruments held for trading:	-	35	136	-	-	13	184
- derivative financial instruments	-	35	136	-	-	13	184
Liabilities carried at amortised cost:	1,000,194	285,033	474,450	96,270	3,076	21,252	1,880,275
- deposits from banks	9,190	-	66,169	-	-	-	75,359
- due to customers	892,174	187,334	346,566	78,151	3,076	-	1,507,301
- other borrowed funds from banks	98,823	97,694	55,694	18,000	-	-	270,211
- other borrowed funds from other customers	7	5	6,021	119	-	375	6,527
- other financial liabilities	-	-	-	-	-	20,877	20,877
Derivatives-Hedge accounting	-	1,573	-	-	-	-	1,573
Provisions:	-	-	-	-	-	11,454	11,454
- provisions for liabilities and charges	-	-	-	-	-	8,202	8,202
- retirement benefit obligations	-	-	-	-	-	3,252	3,252
Income tax liabilities:	-	-	-	-	-	64	64
- current income tax	-	-	-	-	-	64	64
Other liabilities	-	-	-	-	-	1,567	1,567
Total liabilities	**1,201,944**	**286,641**	**474,586**	**96,270**	**3,076**	**34,350**	**2,096,867**
Total interest repricing gap	**(831,903)**	**73,989**	**794,619**	**69,088**	**77,777**		

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Total assets	346,652	401,808	1,194,580	148,735	92,850	124,119	2,308,744
Total liabilities	1,191,791	525,349	266,075	7,347	62	48,336	2,038,960
Total interest repricing gap	**(845,139)**	**(123,541)**	**928,505**	**141,388**	**92,788**		

Sensitivity of net interest income of the Group on 100 b.p. parallel shift of yield curve as of 31. 12. 2012
(mln EUR)

		+50 b.p.			+100 b.p.			-50 b.p.			-100 b.p.		
		Sight	**Term**	**Total**	**Sight**	**Term**	**Total**	**Sight**	**Term**	**Total**	**Sight**	**Term**	**Total**
Total		0.21	2.06	**2.27**	0.42	4.14	**4.56**	(0.26)	(1.89)	**(2.15)**	(0.27)	(1.99)	**(2.26)**
Asset		0.73	6.8	7.53	1.47	13.60	15.07	(0.51)	(5.46)	(5.97)	(0.52)	(5.61)	(6.13)
Sight Loans		0.73	-	0.73	1.47	-	1.47	(0.51)	-	(0.51)	(0.52)	-	(0.52)
	FX	-	0.15	0.15	-	0.31	0.31	-	(0.13)	(0.13)	-	(0.13)	(0.13)
Securities	FL	-	0.1	0.1	-	0.21	0.21	-	(0.08)	(0.08)	-	(0.08)	(0.08)
	FX	-	0.29	0.29	-	0.58	0.58	-	(0.25)	(0.25)	-	(0.29)	(0.29)
Loans	FL	-	6.26	6.26	-	12.5	12.5	-	(5)	(5)	-	(5.11)	(5.11)
Other Financial Assets	FX												
	FL												
Liabilities		(0.52)	(4.59)	(5.11)	(1.05)	(9.16)	(10.21)	0.25	3.5	3.75	0.25	3.57	3.82
Sight Deposits		(0.52)	-	(0.52)	(1.05)	-	-	0.25	-	0.25	0.25	-	0.25
Securities Issued	FX												
	FL												
	FX	-	(2.81)	(2.81)	-	(5.61)	(5.61)	-	2.23	2.23	-	2.26	2.26
Debts	FL	-	(1.78)	(1.78)	-	(3.55)	(3.55)	-	1.27	1.27	-	1.31	1.31
Other Financial Liabilities	FX												
	FL												
Derivatives		-	(0.15)	(0.15)	-	(0.3)	(0.3)	-	0.07	0.07	-	0.05	0.05

The sensitivity of net interest income on 100 b.p. interest rate equalled in increase/decrease of profit 2012 as follows:

- 50 b.p. increase: 2,3 mln EUR;
- 100 b.p. increase: 4,6 mln EUR;
- 50 b.p. decrease: (2,2) mln EUR;
- 100 b.p. decrease: (2,3) mln EUR;

The impact of 100 b.p. interest rate shift on net present value of the Group, as of 31. 12. 2012
(mln EUR)

Currency (mln EUR)	**Total**	**0-18m**	**18m-3Y**	**3Y-5Y**	**5Y-10Y**	**10Y-15Y**	**>15Y**
EUR	**(15.33)**	(1.11)	(2.32)	(2.93)	(5.12)	(2.65)	(1.20)
USD	**0.04**	0.07	(0.01)	(0.01)	(0.01)	-	-
CHF	**(0.11)**	(0.03)	-	(0.01)	(0.03)	(0.02)	(0.02)
Total Shift	**(15.40)**	(1.07)	(2.33)	(2.95)	(5.16)	(2.67)	(1.22)
Limit	**8.8**						
Utilization %	**164 %**						

Time bucket	Limit	Exposure
0 – 18 months	+/- 2,8	-1.2
from 18 m – 3 years	+/- 2,0	-2.3
from 3 – 5 years	+/- 3,4	-2.9
from 5 – 10 years	+/- 5,0	-5.2
>10 years	+/- 2,2	-3.9

The Bank currently exceeds the total limit as well as the one in the 18 months to 3 years, and above 10 years, but it is testing the sight deposit model, with which interest rate presentation of sight deposit will be more accurately represented. With this modification, the Bank's sensitivity will decrease from 15.4 mln EUR to 8.2 mln EUR and therefore within the level authorized for taking this kind of risk. The model will be implemented before the end of the 1Q2013.

The impact of 200 b.p. interest rate shift on net present value of the Group, as of 31. 12. 2012
(zneski v mio evrih)

Currency (mln EUR)	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(29.26)**	(2.20)	(4.45)	(5.71)	(9.76)	(4.96)	(2.18)
USD	**0.09**	0.14	(0.01)	(0.02)	(0.02)	-	-
CHF	**(0.20)**	(0.06)	(0.01)	(0.01)	(0.05)	(0.04)	(0.03)
Other	**0.01**	0.01	-	-	-	-	-
Total Shift	**(29.36)**	(2.11)	(4.47)	(5.74)	(9.83)	(5.0)	(2.21)
Reg.Capital (Sept 12)	**259.6**						
20 % of Reg. Capital	**11 %**						

Economic value of the Group is negatively affected in conditions of rising interest rate and contrary when interest rates are falling.

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 financial instruments – unconsolidated

	2012			2011		
	EUR	**USD**	**Other**	**EUR**	**USD**	**Other**
ASSETS						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	2.14	0.74	0.60	2.48	-	0.91
Loans and advances to customers	3.10	2.90	2.14	4.01	3.22	2.04
Trading assets	-	-	-	1.73	-	-
Investment securities available for sale	3.30	-	-	3.23	-	-
LIABILITIES						
Deposits from banks	1.51	0.28	0.13	2.09	0.24	0.47
Due to customers	1.52	0.32	0.14	1.36	0.83	0.13
Other borrowed funds	1.30	1.97	-	2.03	2.12	-

The effective annual interest rate of individual financial instruments – consolidated

	2012			2011		
	EUR	USD	Other	EUR	USD	Other
ASSETS						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	2.14	0.74	0.60	2.48	-	0.91
Loans and advances to customers	3.17	2.90	2.15	4.05	3.22	2.08
Trading assets	-	-	-	1.73	-	-
Investment securities available for sale	3.30	-	-	3.23	-	-
LIABILITIES						
Deposits from banks	1.51	0.28	0.13	2.09	0.24	0.47
Due to customers	1.52	0.32	0.14	1.36	0.83	0.13
Other borrowed funds	1.30	1.97	-	2.10	2.12	-

3.8 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 as 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 Risk, Policy and Methodology Department assisted by the Operational risk group, reports on a quarterly basis to the Management Board and proposes remedial measures. In 2011, 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.

3.9 Fair value of assets and 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.

Since the Bank or 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 assets and liabilities– unconsolidated
(all amounts expressed in thousands of EUR)

	Banka Koper					
	2012			2011		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	29,388	29,388	-	35,463	35,463	-
Financial instruments held for trading:	290	290	-	3,318	3,318	-
- trading assets	-	-	-	1,292	1,292	-
- derivative financial instruments	290	290	-	2,026	2,026	-
Financial assets designated at fair value through profit or loss	282	282	-	-	-	-
Investment securities available for sale	304,090	304,090	-	288,218	288,218	-
Loans and advances:	1,941,582	1,941,582	-	1,878,871	1,878,871	-
- to banks	58,308	58,308	-	44,889	44,889	-
- to customers	1,863,839	1,863,839	-	1,824,563	1,824,563	-
- advances	19,435	19,435	-	9,419	9,419	-
Investment in subsidiaries	3,688	3,688	-	3,688	3,688	-
Other assets	888	888	-	1,249	1,249	-
Total assets	**2,280,208**	**2,280,208**	**-**	**2,210,807**	**2,210,807**	**-**
LIABILITIES						
Liabilities to Central Bank	201,750	201,750	-	150,042	150,042	-
Financial instruments held for trading:	184	184	-	1,135	1,135	-
- derivative financial instruments	184	184	-	1,135	1,135	-
Liabilities carried at amortised cost:	1,823,723	1,823,723	-	1,811,794	1,811,794	-
- deposits from banks	75,359	75,359	-	233,741	233,741	-
- due to customers	1,507,316	1,507,316	-	1,332,896	1,332,896	-
- other borrowed funds from banks	214,170	214,170	-	207,551	207,551	-
- other borrowed funds from other customers	6,527	6,527	-	8,660	8,660	-
- other financial liabilities	20,351	20,351	-	28,946	28,946	-
Derivaitves- hedge accounting	1,573	1,573	-	992	992	-
Other liabilities	1,415	1,415	-	2,207	2,207	-
Total liabilities	**2,028,645**	**2,028,645**	**-**	**1,966,170**	**1,966,170**	**-**

Fair value of assets and liabilities – consolidated
(all amounts expressed in thousands of EUR)

	Consolidated					
	2012			2011		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	29,388	29,388	-	35,463	35,463	-
Financial instruments held for trading:	290	290	-	3,318	3,318	-
- trading assets	-	-	-	1,292	1,292	-
- derivative financial instruments	290	290	-	2,026	2,026	-
Financial assets designated at fair value through profit or loss	282	282	-	-	-	-
Investment securities available for sale	304,090	304,090	-	288,218	288,218	-
Loans and advances:	1,986,394	1,986,394	-	1,938,636	1,938,636	-
- to banks	58,308	58,308	-	44,889	44,889	-
- to customers	1,913,776	1,913,776	-	1,883,362	1,883,362	-
- advances	14,310	14,310	-	10,385	10,385	-
Goodwill	905	905	-	905	905	-
Other assets	10,491	10,491	-	1,489	1,489	-
Total assets	**2,331,840**	**2,331,840**	**-**	**2,268,029**	**2,268,029**	**-**
LIABILITIES						
Liabilities to Central Bank	201,750	201,750	-	150,042	150,042	-
Financial instruments held for trading:	184	184	-	1,135	1,135	-
- derivative financial instruments	184	184	-	1,135	1,135	-
Liabilities carried at amortised cost:	1,880,275	1,880,275	-	1,868,606	1,868,606	-
- deposits from banks	75,359	75,359	-	233,741	233,741	-
- due to customers	1,507,301	1,507,301	-	1,332,894	1,332,894	-
- other borrowed funds from banks	270,211	270,211	-	263,636	263,636	-
- other borrowed funds from other customers	6,527	6,527	-	8,660	8,660	-
- other financial liabilities	20,877	20,877	-	29,675	29,675	-
Derivatives-hedge accounting	1,573	1,573	-	992	992	-
Other liabilities	1,567	1,567	-	2,510	2,510	-
Total liabilities	**2,085,349**	**2,085,349**	**-**	**2,023,285**	**2,023,285**	**-**

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, forward foreign exchange contracts and interest rate swaps. 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.

Hedge accounting

The market value of derivatives is valued at fair value. In a specific case concerning the issuance of structured deposits the Group wanted to protect against interest rate risk, by swapping the fixed rate payment with a variable rate. Consequently the value of the hedged item is adjusted for gains and losses arising from risk.

Available for sale financial instruments

The bank evaluates the financial instruments at fair value. Shares that are listed on an active market are valued based on their market price, whereby for equities which are not listed, the fair value is determined according to internal valuation model. Fair value of shares which are not listed on an active market, are determined in accordance with Comparable stock-exchange pricing model. Shares, which are actually quoted on the Ljubljana Stock Exchange, but do not meet the liquidity criteria for shares classified into auction trading are valuated in accordance with Comparable stock-exchange pricing model or book value model. The effect of the valuations for the above mentioned shares as at 31.12.2012 amounted to 3,535.

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.

Information of financial ratios for comparable companies has to be obtained from independent sources such as the Ljubljana Stock Exchange, Reuters, etc.

The Value of comparable companies are based on the following financial ratios and market multiples:

- EV/S (enterprise value / sales);
- EV/EBITDA (enterprise value / EBIT + depreciation);
- P/E (price to earnings);
- P/BV (price / book value);

The bases for making estimates are the financial statements:

- Balance Sheet (last 3 financial years);
- Income Statement (last 3 financial years).

The final evaluation value of a company is calculated as the average of the values obtained from the individual multiples.

If one of the multiples is inadequate for the assessment of a specific share, it is not included in the calculation.

Split of financial instrument measured at fair value to fair value hierarchy levels – unconsolidated and consolidated
(all amounts expressed in thousands of EUR)

	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSET								
Derivatives	-	290	-	**290**	-	2,026	-	**2,026**
HFT:	-	-	-	**-**	1,249	43	-	**1,292**
- debt	-	-	-	**-**	1,218	-	-	**1,218**
- equities	-	-	-	**-**	31	43	-	**74**
AFS:	274,174	21,568	2,835	**298,577**	255,209	3,956	23,553	**282,718**
- debt	264,793	-	-	**264,793**	243,024	-	-	**243,024**
- equities	9,381	21,568	2,835	**33,784**	12,185	3,956	23,553	**39,694**
LIABILITIES								
Derivatives	-	184	-	**184**	-	1,135	-	**1,135**

In 2012 the Bank changed the method of valuation of the capital investment in Pivovarna Laško due to that, a transfer from level 2 to level 3 was done. In previous years the model based on comparable market prices in 2012 the valuation changed to model based on book value. According to the method used the sensitivity analysis is not relevant. In 2012 the Bank changed the valuation method of capital investment in Cimos. The valuation based on official appraiser was changed to internal model based on market multiplies, therefore transfer from level 3 to level 2 was done. There were no transfers from level 2 to level 1 in 2012.

Movement of financial instrument included in level 3 – unconsolidated and consolidated
(all amounts expressed in thousands of EUR)

	At 1 January 2012	Purchase/ Sales	Unrealized gains/loses recorded in P&L	Unrealized gains/loses recorded in revaluation reserve	Realized gains/loses recorded in P&L	Transfers out of level 3	Transfers into level 3	At 31 December 2012
ASSET								
AFS equities	23,553	-	-	-	-	(23,553)	2,835	2,835

Movement of financial instrument included in level 3 – unconsolidated and consolidated
(all amounts expressed in thousands of EUR)

	At 1January 2011	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 2011
ASSET						
AFS equities	23,553	-	-	-	-	23,553

04. NET INTEREST INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
INTEREST INCOME				
Central bank deposits	125	341	125	341
Loans and advances (including finance leases):	72,082	78,336	75,562	81,572
- to banks	805	749	805	749
- to other custumers	71,277	77,587	74,757	80,823
Investment securities (AFS and HTM)	7,382	7,237	7,382	7,237
Investment securities HFT	22	38	22	38
Derivatives – hedge accounting	344	295	344	295
Other	-	26	-	26
	79,955	**86,273**	**83,435**	**89,509**
INTEREST EXPENSE				
Financial liabilities measured at amortised cost	1,708	156	1,708	156
- Deposits from central banks	3,166	4,685	3,166	4,685
Bank deposits and loans	19,660	17,319	19,660	17,319
Other customers	4,595	4,238	5,702	5,649
Other borrowed funds	384	-	384	-
Derivatives - hedge accounting	12	10	12	10
Other	**29,525**	**26,408**	**30,632**	**27,819**
	50,430	**59,865**	**52,803**	**61,690**

05. DIVIDEND INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Trading securities	4	2	4	2
Investment securities	1,568	1,036	968	636
	1,572	**1,038**	**972**	**638**

06. NET FEE AND COMMISSION INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
FEE AND COMMISSION INCOME				
From security trading on behalf of customers	79	107	79	107
From current account management	3,384	3,401	3,384	3,401
From payment services	10,725	10,817	10,725	10,817
From credit card business	8,430	8,168	8,430	8,168
From interbanking operations	8,122	8,763	8,122	8,763
From loans granted	4,844	4,906	4,844	4,906
From guaranties given	1,815	1,299	1,815	1,299
From safes renting	22	20	22	20
From pension fund management	618	623	618	623
Custody services	538	530	538	530
From payment systems management	1,792	1,802	1,792	1,802
From brokering of loans and insurance contract on behalf of others	77	20	767	452
	40,446	**40,456**	**41,136**	**40,888**
FEE AND COMMISSION EXPENSE				
From security trading	132	123	132	123
From loan brokerage on behalf of others	212	114	212	114
From custody services	161	160	161	160
From credit card processing	9,591	9,042	9,591	9,042
From payment transactions	3,356	2,864	3,356	2,864
Commitment fee for unused credit lines	2,359	1,212	2,396	1,247
	15,811	**13,515**	**15,848**	**13,550**
	24,635	**26,941**	**25,288**	**27,338**

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Loss/income due to sale of investment securities*	291	1,750	291	1,750
Write offs of loans and other assets	(1,408)	(447)	(1,408)	(447)
Recoveries from write offs of loans and other assets	410	192	410	192
Losses from financial liabilities measured at amortised cost	(189)	-	(189)	-
	(896)	**1,495**	**(896)**	**1,495**

* As realized revaluation reserve EUR 268 thousands (2011: EUR 1,649 thousands).

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Trading of derivatives	(403)	1,076	(403)	1,076
Currency trading	652	635	652	635
Trading of debt securities	(2)	(46)	(2)	(46)
Trading of equity securities	-	(13)	-	(13)
	247	**1,652**	**247**	**1,652**

09. FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Net effect on derivatives used as hedging instruments	771	512	771	512
Net effect on hedged items	(537)	(483)	(537)	(483)
	234	**29**	**234**	**29**

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Profit on sale of property and equipment	87	(232)	133	(214)
	87	**(232)**	**133**	**(214)**

11. OTHER OPERATING GAINS LESS LOSSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Rent	1,625	710	2,087	1,301
Taxes	(496)	(198)	(496)	(198)
Membership fees	(87)	(105)	(87)	(105)
Other operating expenses	1	785	176	870
	1,043	**1,192**	**1,680**	**1,868**

From rent contracts arises that the future rent revenues amounted to EUR 5,986 thousands (Group EUR 7,253 thousands), as follows:

(all amounts expressed in thousands of EUR) **Banka Koper**

2012			2011		
Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
670	2,466	2,850	655	2,407	2,780

(all amounts expressed in thousands of EUR) **Consolidated**

2012			2011		
Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
1,162	3,160	2,850	1,287	3,186	2,780

12. ADMINISTRATIVE EXPENSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Staff cost	**26,918**	**27,937**	**27,516**	**28,494**
Salaries	18,959	18,953	19,400	19,364
Social security cost	3,019	3,017	3,054	3,088
Pension costs	1,692	1,682	1,750	1,696
Other	3,248	4,285	3,312	4,346
General and administrative expenses	**12,475**	**14,163**	**12,826**	**14,486**
Material costs	1,646	1,524	1,681	1,545
IT costs	2,296	1,977	2,347	2,022
Rents	1,041	1,192	1,044	1,199
Professional services	5,821	6,240	5,890	6,431
Advertising and marketing	1,099	2,536	1,130	2,561
Cost of consulting, auditing, law and notarial services*	572	694	734	728
	39,393	**42,100**	**40,342**	**42,980**

**In this auditor services*
(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
AUDITOR SERVICES				
- financial statements audit	80	90	80	90
- other non-audit services	-	7	-	7
	80	**97**	**80**	**97**

13. AMORTISATION AND DEPRECIATION

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Amortisation	1,775	1,589	1,789	1,590
Depreciation	3,368	3,445	3,829	3,887
	5,143	**5,034**	**5,618**	**5,477**

14. PROVISIONS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Provisions for off-balance sheet exposures	(658)	801	(687)	755
Provisions for National Housing Saving Scheme	(252)	-	(252)	-
Provisions for legal proceedings	45	(100)	45	(100)
Retirement and long service bonus	(420)	(245)	(425)	(252)
	(1,285)	**456**	**(1,319)**	**403**

15. IMPAIRMENT LOSSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Impairments on of assets measurement at amortised cost:				
- loans to other customers	17,614	13,371	18,525	14,102
Impairments on AFS securities (shares)	5,144	8,833	5,144	8,833
	-	-	83	-
Impairments of other assets	**22,758**	**22,204**	**23,752**	**22,935**

Impairment losses on AFS securities relate to Pivovarna Laško, Mercator and Abanka.

16. INCOME TAX EXPENSE

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Current tax	1,987	5,767	2,351	6,066
Deferred tax (note 40)	(360)	(1,672)	(488)	(1,819)
	1,627	**4,095**	**1,863**	**4,247**
Profit before tax	**8,812**	**21,768**	**9,466**	**22,183**

Further information about deferred income tax is presented in note 40. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Banka Koper 2012	Banka Koper 2011	Consolidated 2012	Consolidated 2011
Prima facie tax calculated at a tax rate of 18%	1,586	4,354	1,781	4,505
Income from already taxed released provisions	(26)	(61)	(26)	(61)
Income form already taxed dividends	(283)	(208)	(283)	(208)
Expenses not deductible for tax purposes:				
- negative valuation of securities and derivatives HFT	926	1,767	1,099	1,914
- staff costs not assessable for tax	171	185	171	188
- other non tax deductible expenses	78	101	85	103
- release of deferred tax assets due to disposal of investments and liabilities	(57)	(59)	(57)	(59)
-Tax reliefs	(408)	(312)	(419)	(316)
Current tax on profit	**1,987**	**5,767**	**2,351**	**6,066**
Deferred tax	(360)	(1,672)	(488)	(1,819)
Total income tax	**1,627**	**4,095**	**1,863**	**4,247**

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.

17. EARNINGS PER SHARE

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Net profit for the year	7,185	17,673	7,603	17,936
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)	13.55	33.32	14.33	33.82

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 Bank and Group and held as treasury shares (961 lots). There are no diluted potential ordinary shares, there are no share options schemes.

18. INCOMES AND EXPENSES ACHIEVED ON FOREIGN MARKETS

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

In 2012 and 2011, the Bank or Group realised a significant part of expenses, with regards to funding granted by Intesa Sanpaolo Group banks, in foreign markets (note 48).

19. CASH AND BALANCES WITH CENTRAL BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash in hand	17,543	14,925	17,543	14,925
Balances with central banks	11,845	20,538	11,845	20,538
	29,388	**35,463**	**29,388**	**35,463**
From this: mandatory reserve liability to central banks	14,027	26,862	14,027	26,862

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 1 % 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.

20. TRADING ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Debt securities	-	1,217	-	1,217
Equity securities:				
- listed	-	32	-	32
- unlisted	-	43	-	43
	-	**1,292**	**-**	**1,292**

As at 31 December 2012 and 31 December 2011 there were no trading assets pledged.

21. 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 2011 and 2012, Banka Koper offered 5 issues of structured deposit in the amount of 32.7 million EUR, with the original maturity of 4 years and 2 and a half. Interest paid on these deposits is a combination of fixed interest rate of:

- 5 % in the first year (valid for 1-3 issue) and,
- 6 % in the first 6 months (valid for 4 and 5 issue), and
- variable interest rate applied in the following 3 or 2 years. Consequently, the return in the last 3 or 2 years depends on the movement of the reference interest rate EURIBOR 6M:
- as for the first and second issue: if the EURIBOR 6M ranges from 1.28% to 5%, the interest rate is 4.25% per year
- as for the third issue: if the EURIBOR 6M ranges from 1.5 % to 5 %, the interest rate is 5.1 % per year
- as for the fourth issue: if the EURIBOR 6M ranges from 1 % to 3.5%, the interest rate is 5 % per year
- as for the fifth issue: if the EURIBOR 6M ranges from 1 % to 3.5 %, the interest rate is 5.2 % per year

However, during the period the EURIBOR 6M does not comply with these conditions the deposit yields 0 %.

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 movement of Euribor 6M interest rate.

In order to avoid interest rate risk, Banka Koper protected these positions by acquiring an interest rate option at same conditions as the issued one and by making an interest rate swap agreement (IRS) in the amount of structured deposits to hedge the fair value of underlying deposits. Due to the effectiveness test of changes in the hedging instrument's fair value and changes in the hedged item's fair value hedge accounting is used.

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:

Derivates financial investments and trading liabilities (Banka Koper and Consolidated)
(all amounts expressed in thousands of EUR)

As at 31 December 2012	Contract/notional amount	Fair values		Provisions
		Assets	Liabilities	
HFT DERIVATIVES				
Foreign exchange derivatives				
Currency swaps	24,183	-	12	-
Currency forwards	160	2	2	-
Interest rate derivatives				
Interest rate cap	6,365	112	9	-
Interest option (CALL)	33,638	176	-	-
Interest option (PUT)	32,760	-	161	-
Total derivative assets/(liabilities) held for trading		**290**	**184**	**-**
DERIVATIVES FOR HEDGE				
Interest rate swap (IRS)	33,638	-	1,573	-
Total derivative assets/(liabilities) for hedge accounting		**-**	**1,573**	**-**

As at 31 December 2011	Contract/notional amount	Fair values		Provisions
		Assets	Liabilities	
HFT DERIVATIVES				
Foreign exchange derivatives				
Currency swaps	82,788	786	1	-
Interest rate derivatives				
Interest rate cap	34,930	129	32	-
Interest option (CALL)	25,745	1,111	-	-
Interest option (PUT)	22,067	-	1,102	-
Total derivative assets/(liabilities) held for trading		**2,026**	**1,135**	**-**
DERIVATIVES FOR HEDGE				
Interest rate swap (IRS)	25,745	-	992	-
Total derivative assets/(liabilities) for hedge accounting		**-**	**992**	**-**

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
GOVERNMENT SECURITIES:				
- listed	216,879	165,711	216,879	165,711
OTHER DEBT SECURITIES:				
- listed	47,914	77,313	47,914	77,313
EQUITY SECURITIES:				
- listed	17,465	15,989	17,465	15,989
- unlisted	21,832	29,205	21,832	29,205
Total securities available for sale	**304,090**	**288,218**	**304,090**	**288,218**

The Bank and Group adopted its own valuation model in cases where investments are not listed or measures such investments at cost less impairments.

At the end of 2012 pledged securities amounted to EUR 201,746 thousands (2011: EUR 150,033 thousands).

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated			
	2012		2011	
	AFS	**HTM**	**AFS**	**HTM**
At beginning of the year	**288,218**	**-**	**312,977**	**316**
Additions	59,660	-	67,081	-
Impairment	(5,144)	-	(8,833)	-
Interest accrual	8,074	-	7,542	-
Expired coupons	(6,456)	-	(7,366)	-
Disposals (sale and redemption)	(47,931)	-	(69,972)	(316)
Gains/losses from changes in fair value	7,669	-	(13,211)	-
At end of year	**304,090**	**-**	**288,218**	**-**

23. LOANS AND ADVANCES TO BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Items in course of collection from other banks	2,953	6,383	2,953	6,383
Placements with other banks	55,355	38,506	55,355	38,506
	58,308	**44,889**	**58,308**	**44,889**

As at 31 December 2012 no placements with other banks are shown under Pledged assets (2011: nil).

24. LOANS AND ADVANCES TO CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Loans to individuals:	563,096	534,660	574,103	545,006
- Overdrafts	42,864	42,706	42,864	42,706
- Credit cards	22,072	23,755	22,072	23,755
- Term loans	127,838	128,978	127,838	128,978
- Mortgages	370,322	339,221	370,322	339,221
- Finance leases	-	-	11,007	10,346
Loans to sole proprietors	70,735	72,986	81,792	82,299
Loans to corporate entities	1,357,332	1,336,840	1,387,653	1,377,740
Gross loans and advances	**1,991,163**	**1,944,486**	**2,043,548**	**2,005,045**
Less provision for impairment	(127,324)	(119,923)	(129,772)	(121,683)
Net loans and advances	**1,863,839**	**1,824,563**	**1,913,776**	**1,883,362**

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 2010	**3,023**	**29**	**4,598**	**3,842**	**11,492**
Provision for loan impairment	2,368	1,125	5,377	7,326	16,196
Amounts recovered during the year	(2,530)	(309)	(5,269)	(6,660)	(14,768)
Included in statement of income	(162)	816	108	666	1,428
Write off provisions already made	(797)	-	(914)	(710)	(2,421)
As at 31 December 2011	**2,064**	**845**	**3,792**	**3,798**	**10,499**
Provision for loan impairment	976	1,354	5,525	8,341	16,196
Amounts recovered during the year	(571)	(918)	(5,784)	(8,857)	(16,130)
Included in statement of income	405	436	(259)	(516)	66
Write off provisions already made	(260)	-	(141)	-	(401)
As at 31 December 2012	**2,209**	**1,281**	**3,392**	**3,282**	**10,164**

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					
	Overdrafts	Credit cards	Term loans	Mortgages	Finance leases	Total loans to individuals - Consolidated
As at 31 December 2010	**3,023**	**29**	**4,598**	**3,842**	**271**	**11,763**
Provision for loan impairment	2,368	1,125	5,377	7,326	164	16,360
Amounts recovered during the year	(2,530)	(309)	(5,269)	(6,660)	(71)	(14,839)
Included in statement of income	(162)	816	108	666	93	1,521
Write off provisions already made	(797)	-	(914)	(710)	(54)	(2,475)
As at 31 December 2011	**2,064**	**845**	**3,792**	**3,798**	**310**	**10,809**
Provision for loan impairment	976	1,354	5,525	8,341	198	16,394
Amounts recovered during the year	(571)	(918)	(5,784)	(8,857)	(73)	(16,203)
Included in statement of income	405	436	(259)	(516)	125	191
Write off provisions already made	(260)	-	(141)	-	(56)	(457)
As at 31 December 2012	**2,209**	**1,281**	**3,392**	**3,282**	**379**	**10,543**

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 2010	**9,971**	**95,031**	**10,186**	**95,675**
Provision for loan impairment	9,750	98,191	10,002	98,825
Amounts recovered during the year	(7,937)	(88,061)	(7,979)	(88,267)
Included in statement of income	1,813	10,130	2,023	10,558
Write off provisions already made	(509)	(7,012)	(509)	(7,059)
As at 31 December 2011	**11,275**	**98,149**	**11,700**	**99,174**
Provision for loan impairment	6,409	77,781	6,551	79,000
Amounts recovered during the year	(7,033)	(59,609)	(7,100)	(60,117)
Included in statement of income	(624)	18,172	(549)	18,883
Write off provisions already made	(1,465)	(8,347)	(1,465)	(8,514)
As at 31 December 2012	**9,186**	**107,974**	**9,686**	**109,543**

Customer loan portfolio by economic sector
(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Government	80,554	1	80,554	1
Trade	234,692	260,740	234,692	260,740
Services	593,574	604,213	620,020	641,191
Construction	75,631	75,618	75,631	75,618
Manufacturing	258,499	298,190	258,499	298,190
Agriculture	9,875	11,850	9,875	11,850
Individuals	563,095	534,660	574,102	545,006
Sole proprietors	70,735	72,986	81,792	82,299
Other	104,508	86,228	108,383	90,150
Gross loans and advances to customers	**1,991,163**	**1,944,486**	**2,043,548**	**2,005,045**
Less provision for impairment	(127,324)	(119,923)	(129,772)	(121,683)
Net loans and advances to customers	**1,863,839**	**1,824,563**	**1,913,776**	**1,883,362**

Slovenian customers and customers from other European countries (Serbia, Croatia, Liberia, Romania, Italy) accounted for 95 % and 5 % 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 andConsolidated	
	2012	**2011**
GROSS INVESTMENT IN FINANCE LEASES:		
Not later than 1 year	30,351	24,668
Later than 1 year and not later than 5 years	47,106	44,481
Later than 5 years	35,839	37,180
	113,296	**106,329**
Unearned future interest income on finance leases	(17,775)	(19,659)
NET INVESTMENT IN FINANCE LEASES:		
Not later than 1 year	26,706	20,846
Later than 1 year and not later than 5 years	38,522	35,015
Later than 5 years	30,293	30,809
	95,521	**86,670**

Loans and advances are further analysed as a part of the statement of financial position in the following notes: Analysis of past due financial instruments 3.4, Currency Risk Note 3.7.2., Interest Rate Risk Note 3.7.3., Liquidity Risk Note 3.5., Fair value Note 3.9, and Related Party Transactions Note 48.

25. ADVANCES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Commissions receivables	304	333	304	333
Cheques	5	5	5	5
Receivables	6,905	492	1,975	1,580
Claims to Europay	8,536	7,147	8,536	7,147
Claims to citizens	868	631	868	631
Other	2,817	811	2,817	811
Gross advances	**19,435**	**9,419**	**14,505**	**10,507**
Impairments	-	-	(195)	(122)
Net advances	**19,435**	**9,419**	**14,310**	**10,385**

Movement in provisions for impairment on other assets:
(all amounts expressed in thousands of EUR)

	Banka Koper	Consolidated
As at 31 December 2010	**-**	**127**
Additional provision for impairment	-	31
Amounts recovered during the year	-	(33)
Included in income statement	-	(2)
Write off of impairment	-	(3)
As at 31 December 2011	**-**	**122**
Additional provision for impairment	-	111
Amounts recovered during the year	-	(27)
Included in income statement	-	84
Write off of impairment	-	(11)
As at 31 December 2012	**-**	**195**

26. GOODWILL

(all amounts expressed in thousands of EUR)

	Consolidated	
	2012	2011
Opening net book amount	**905**	**905**
Acquisition of a subsidiary	-	-
Impairment	-	-
Closing net book amount	**905**	**905**

27. PROPERTY, PLANT AND EQUIPMENT

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Land and buildings	Hardware equipment	Other equipment	Total Banka Koper	Land and buildings	Hardware equipment	Other equipment	Total consolidated
MOVEMENT IN YEAR 2011								
Opening net book amount	22,610	1,024	2,093	25,727	22,610	1,036	3,342	26,988
Transfer to investment property	(71)	-	-	(71)	(71)	-	-	(71)
Transfer from intangible assets	2,895	-	-	2,895	2,895	-	-	2,895
Additions	1,472	443	928	2,843	1,472	446	1,932	3,850
Disposals	(176)	(1)	(63)	(240)	(176)	(1)	(593)	(770)
Depreciation charge	(2,066)	(621)	(682)	(3,369)	(2,066)	(629)	(1,116)	(3,811)
Closing net book amount	24,664	845	2,276	27,785	24,664	852	3,565	29,081
As at 31 December 2011								
Cost	49,726	8,063	11,170	68,959	49,726	8,086	14,633	72,445
Accumulated depreciation	(25,062)	(7,218)	(8,894)	(41,174)	(25,062)	(7,234)	(11,068)	(43,364)
Net book amount as at 31 December 2011	**24,664**	**845**	**2,276**	**27,785**	**24,664**	**852**	**3,565**	**29,081**
MOVEMENT IN YEAR 2012								
Opening net book amount	24,664	845	2,276	27,785	24,664	852	3,565	29,081
Additions	605	827	419	1,851	605	832	1,076	2,513
Disposals	-	(1)	(7)	(8)	-	(1)	(309)	(310)
Depreciation charge	(2,088)	(467)	(740)	(3,295)	(2,088)	(474)	(1,155)	(3,717)
Closing net book amount	23,181	1,204	1,948	26,333	23,181	1,209	3,177	27,567
As at 31 December 2012								
Cost	50,331	7,165	11,343	68,839	50,331	7,193	13,349	70,873
Accumulated depreciation	(27,150)	(5,961)	(9,395)	(42,506)	(27,150)	(5,984)	(10,172)	(43,306)
Net book amount as at 31 December 2012	**23,181**	**1,204**	**1,948**	**26,333**	**23,181**	**1,209**	**3,177**	**27,567**

In 2012 there was no property, plant and equipment pledged (2011; nil).

In addition to its own premises, the Bank or Group hired premises at 35 locations. Future minimum lease payments under lease contracts amount to EUR 5,570 thousand, of this:

(all amounts expressed in thousands of EUR)

Banka Koper and Consolidated					
2012			2011		
Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
557	2,228	2,785	559	2,236	2,795

28. INVESTMENT PROPERTY

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

On 31st December 2012 no stipulated contracts for the acquisition or construction of Investment Property are in place in Banka Koper or Group. No substantial investments in the repair, maintenance or expansion of these investments are planned in 2013.

Movement of investment property
(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
At beginning of the year	**1,112**	**940**	**1,112**	**940**
Depreciation	(73)	(76)	(112)	(76)
Transfer to fixed assets	-	71	-	71
Additions	102	464	5,558	464
Disposals	(113)	(287)	(113)	(287)
At end of year	**1,028**	**1,112**	**6,445**	**1,112**

In the item other operating gains and losses (see note 10) income from property investments carries rents of EUR 80 thousand (2011: EUR 90 thousand), Group of EUR 312 thousand (2011: 90 EUR thousand). In 2012, Bank`s maintenance costs for from property investments amounted to EUR 1 thousands, the respective amounted on Group level amounted to EUR 46 thousands (2011: EUR 3 thousands).

Fair value of investment property is disclosed under chapter 3.9. Fair value of assets and liabilities.

29. INTANGIBLE ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Develop-ment	Licenses	Software and other	Total Banka Koper	De-velop-ment	Licenses	Software and other	Total consoli-dated
MOVEMENT IN YEAR 2011								
Opening net book amount	2,013	457	3,175	5,645	2,013	457	3,176	5,646
Transfer to tangible assets	-	-	(2,895)	(2,895)	-	-	(2,895)	(2,895)
Additions	1,329	691	1,048	3,068	1,329	691	1,049	3,069
Disposals	-	-	-	-	-	-	-	-
Amortisation	(1,025)	(265)	(299)	(1,589)	(1,025)	(265)	(300)	(1,590)
Closing net book amount	2,317	883	1,029	4,229	2,317	883	1,030	4,230
As at 31 December 2011								
Cost	8,556	2,839	3,754	15,149	8,556	2,845	3,761	15,162
Accumulated amortisation	(6,239)	(1,956)	(2,725)	(10,920)	(6,239)	(1,962)	(2,731)	(10,932)
Net book amount as at 31 December 2011	**2,317**	**883**	**1,029**	**4,229**	**2,317**	**883**	**1,030**	**4,230**
MOVEMENT IN YEAR 2012								
Opening net book amount	2,317	883	1,029	4,229	2,317	883	1,030	4,230
Additions	1,444	214	124	1,782	1,444	326	126	1,896
Disposals	-	-	-	-	-	-	-	-
Amortisation	(1,077)	(279)	(419)	(1,775)	(1,077)	(292)	(420)	(1,789)
Closing net book amount	2,684	818	734	4,236	2,684	917	736	4,337
As at 31 December 2012								
Cost	10,000	3,022	3,770	16,792	10,000	3,140	3,777	16,917
Accumulated amortisation	(7,316)	(2,204)	(3,036)	(12,556)	(7,316)	(2,223)	(3,041)	(12,580)
Net book amount as at 31 December 2012	**2,684**	**818**	**734**	**4,236**	**2,684**	**917**	**736**	**4,337**

The Bank and Group have not pledged any intangible fixed assets.

The Bank or Group has evidence of future contractual obligations for the acquisition of intangible long term assets of EUR 375 thousand for the acquisition of the AMEX licence.

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

In 2012, the Bank or Group has not recognized any expenditure related to research and development in the statement of income. All development expenditure in 2012 was capitalized as intangible fixed assets, out of which staff expenses amounted to EUR 528 thousand.

30. INVESTMENT IN SUBSIDIARIES

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2012	2011
At beginning of the year	**3,688**	**3,688**
Additional investment	-	-
Disposal of a subsidiary	-	-
Disposal surplus	-	-
Release of impairment	-	-
At end of year	**3,688**	**3,688**

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.

31. OTHER ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Accruals	451	799	456	801
Inventory	19	41	19	41
Taxes and contributions	17	10	533	51
Fixed assets from seized collateral	391	392	9,459	584
Other	10	7	24	12
	888	**1,249**	**10,491**	**1,489**

32. LIABILITIES TO CENTRAL BANK

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Loans granted	201,750	150,042	201,750	150,042
	201,750	**150,042**	**201,750**	**150,042**

33. DUE TO CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Demand deposits	881	156	881	156
Term deposits	74,478	233,585	74,478	233,585
	75,359	**233,741**	**75,359**	**233,741**

34. DUE TO CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
INDIVIDUALS				
- demand deposits	449,313	438,622	449,313	438,622
- term deposits	604,020	580,687	604,020	580,687
SOLE PROPRIETORS				
- demand deposits	31,971	31,032	31,971	31,032
- term deposits	5,663	6,074	5,663	6,074
CORPORATE CUSTOMERS				
- demand deposits	162,867	98,859	162,852	98,857
- term deposits	253,482	177,622	253,482	177,622
	1,507,316	**1,332,896**	**1,507,301**	**1,332,894**

As at 31 December 2012, deposits of EUR 5,785 thousand have been pledged for covering potential credit risk on assets (2011: EUR 19,735 thousand). The same applies for the Group.

35. 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.

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2012		2011		2012		2011	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
In local currency	56,707	122,295	10,002	157,005	56,707	178,336	10,002	213,090
In foreign currency	-	35,168	-	40,544	-	35,168	-	40,544
	56,707	**157,463**	**10,002**	**197,549**	**56,707**	**213,504**	**10,002**	**253,634**
	214,170		**207,551**		**270,211**		**263,636**	

36. OTHER BOROWED FUNDS FROM OTHER CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
	Long term	Long term	Long term	Long term
Building bought on financial lease	147	173	147	173
Other loans	6,005	8,012	6,005	8,012
Liabilities from bought licences	375	475	375	475
	6,527	**8,660**	**6,527**	**8,660**

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

37. OTHER FINANCIAL LIABILITIES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Unpaid commissions	184	193	184	754
Liabilities form credit card business	5,374	9,790	5,374	9,843
Not yet process payments	4,770	8,348	4,770	8,393
Unpaid dividend	118	115	118	185
Creditors	3,659	2,662	4,013	2,662
Salaries	1,998	2,031	2,035	2,031
Deferred income	3,739	5,185	3,786	5,185
Other	509	622	597	622
	20,351	**28,946**	**20,877**	**29,675**

38. 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. 2012 amount to EUR 324 thousand. The amount is based on the estimation that 80 % of all saved funds will be used unpurposely.

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Provisions for off-balance sheet liabilities	7,143	6,492	7,125	6,445
Provisions for National Saving Housing Scheme	324	439	324	439
Provisions for infrastructure arrangements for the disabled	-	52	-	52
Legal proceedings due to employees	753	500	753	500
Total	**8,220**	**7,483**	**8,202**	**7,436**

Movement in provisions:
(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
At beginning of year	**7,483**	**8,170**	**7,436**	**8,077**
Additional provision	19,940	15,305	19,940	15,305
Amounts recovered during the year	(19,126)	(15,987)	(19,046)	(15,941)
Included in statement of income under provisions	865	(701)	894	(655)
Included in statement of income under staff costs	(51)	19	(51)	19
Repayment of the premiums for National Saving Housing Scheme	(77)	(4)	(77)	(4)
Investment in facilities for disable people	-	(1)	-	(1)
At end of year	**8,220**	**7,483**	**8,202**	**7,436**

39. RETIREMENT BENEFIT OBLIGATIONS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Retirement severance pay and long service bonuses	2,918	2,845	3,004	2,926
Provision for redundancies	248	123	248	123
	3,166	**2,968**	**3,252**	**3,049**

Movements
(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
At beginning of year	**2,968**	**2,998**	**3,049**	**3,071**
Additional provisions	420	245	425	252
Charged to statement of income	420	245	425	252
Utilised provisions	(222)	(275)	(222)	(274)
At end of year	**3,166**	**2,968**	**3,252**	**3,049**

40. DEFERRED INCOME TAXES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
DEFERRED INCOME TAX LIABILITIES				
Non-current assets held for sale	2	2	2	2
Available-for-sale securities	2,245	3,541	2,245	3,541
	2,247	**3,543**	**2,247**	**3,543**
DEFERRED INCOME TAX ASSETS				
Retirement and other employee benefits	295	394	305	404
Provision for loan losses	-	-	553	425
Available-for-sale securities	3,336	5,336	3,336	5,336
Trading securities and derivative financial instruments	7	10	7	10
Provisions for National Saving Housing Scheme	55	88	55	88
Provision for legal proceedings	-	19	-	19
Other - depreciation above tax prescribed rate	6	10	6	10
	3,699	**5,857**	**4,262**	**6,292**
Net deferred taxes	**1,452**	**2,314**	**2,015**	**2,749**
MOVEMENT OF DEFERRED INCOME TAXES (OFFSETTING OF ASSETS AND LIABILITIES)				
At beginning of year	(2,314)	1,998	(2,749)	1,710
Statement of income charge	(360)	(1,672)	(488)	(1,819)
Investment securities (fair value measurement)	1,222	(2,640)	1,222	(2,640)
At end of year	**(1,452)**	**(2,314)**	**(2,015)**	**(2,749)**

Deferred income taxes charged in statement of income

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Retirement and other employee benefits	(15)	(30)	(14)	(29)
Provision for loan losses	-	-	127	146
Trading securities and derivative financial instruments	(1)	(3)	(1)	(3)
Provisions for National Saving Housing Scheme	(21)	(1)	(21)	(1)
Provision for legal proceedings	(17)	(61)	(17)	(61)
Impairment of AFS securities	926	1,767	926	1,767
Other	(4)	-	(4)	-
REDUCTION DUE TO DIMINUTION OF TAX RATE FROM 20 % TO 18 %				
- trading securities and derivative financial instruments	(1)	-	(1)	-
- retirement and other employee benefits	(85)	-	(85)	-
- provisions for National Saving Housing Scheme	(12)	-	(12)	-
- provision for legal proceedings	(2)	-	(2)	-
- impairment of AFS securities	(407)	-	(407)	-
- other	(1)	-	(1)	-
	360	**1,672**	**488**	**1,819**

41. OTHER LIABILITIES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Accruals	260	272	307	397
Prepayments received	406	1,334	406	1,334
Taxes and contributions	749	601	828	692
Other	-	-	26	87
	1,415	**2,207**	**1,567**	**2,510**

42. 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 2010	531,359	22,173	7,499	(49)
As at 31 December 2011	531,359	22,173	7,499	(49)
As at 31 December 2012	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.

43. REVALUATION RESERVES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
REVALUATION RESERVES				
Equity securities	9,308	12,523	9,308	12,523
Debt securities	(520)	(10,213)	(520)	(10,213)
Total	**8,788**	**2,310**	**8,788**	**2,310**

Movement – Banka Koper and consolidated

(all amounts expressed in thousands of EUR)

	Revaluation reserves
As at 31 December 2010	**12,878**
VALUATION OF AVAILABLE-FOR-SALE SECURITIES	
Equity securities	**(1,904)**
Valuation	(3,363)
Disposals	(1,539)
Impairment	2,998
Debt securities	**(8,664)**
Valuation	(8,884)
Disposals	220
Impairment	-
As at 31 December 2011	**2,310**
VALUATION OF AVAILABLE-FOR-SALE SECURITIES	
Equity securities	**(3,216)**
Valuation	(7,054)
Disposals	(97)
Impairment	3,466
Tax rate changes	469
Debt securities	**9,694**
Valuation	10,203
Disposals	(126)
Tax rate changes	(383)
As at 31 December 2012	**8,788**

44. RESERVES FROM PROFIT AND RETAINED EARNINGS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	2011	2012	2011
Legal reserves	13,198	12,839	13,198	12,839
Statutory reserves	211,962	211,959	211,962	211,959
Retained earnings	12,835	11,311	14,946	13,004
Treasury share`s reserves	49	49	49	49
Total	**238,044**	**236,158**	**240,155**	**237,851**

Movement – Banka Koper

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Treasury share`s reserves	Total reserves
As at 31 December 2010	**11,955**	**200,472**	**11,271**	**49**	**223,747**
Transfer from net profit for the period	884	11,487	5,302	-	17,673
Dividends	-	-	(5,262)	-	(5,262)
As at 31 December 2011	**12,839**	**211,959**	**11,311**	**49**	**236,158**
Net profit for the financial year	-	-	7,185	-	7,185
Dividends	-	-	(5,299)	-	(5,299)
Transfer to statutory reserves	-	3	(3)	-	-
Transfer to legal reserves	359	-	(359)	-	-
As at 31 December 2012	**13,198**	**211,962**	**12,835**	**49**	**238,044**

Movement – consolidated

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Treasury share`s reserves	Total reserves
As at 31 December 2010	**11,955**	**200,472**	**12,701**	**49**	**225,177**
Transfer from net profit for the period	884	11,487	5,565	-	17,936
Dividends	-	-	(5,262)	-	(5,262)
As at 31 December 2011	**12,839**	**211,959**	**13,004**	**49**	**237,851**
Net profit for the financial year	-	-	7,603	-	7,603
Dividends	-	-	(5,299)	-	(5,299)
Transfer to statutory reserves	-	3	(3)	-	-
Transfer to legal reserves	359	-	(359)	-	-
As at 31 December 2012	**13,198**	**211,962**	**14,946**	**49**	**240,155**

Legal reserves

The Bank, according to its Statute, 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, according to its Statute, creates statutory reserves until they achieve an amount which is fifteen-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, can be allocated to statutory reserves.

45. 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 2011, the Bank disbursed for dividends EUR 5,299 thousand i.e. EUR 9.99 per share.

Distribution of the profit of the year
(all amounts expressed in thousands of EUR)

	Banka Koper	
	2012	**2011**
Net profit for the period	7,185	17,673
Allocation of the profit to the legal reserves (5 %)	(359)	(884)
Residual net profit available for other reserves or distribution	6,826	16,789
Allocation of the profit to the statutory reserves	-	(11,487)
Residual net profit available for distribution at the AGM	**6,826**	**5,302**

46. CASH AND CASH EQUIVALENTS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash and balances with central bank	15,361	8,601	15,376	8,603
Trading assets	-	1,217	-	1,217
Loans and advances to banks	42,462	23,467	42,462	23,467
Total	**57,823**	**33,285**	**57,383**	**33,287**

47. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As at 31 December 2012, the Bank and Group were involved in several legal proceedings against it. Contingent liabilities in this respect are estimated at EUR 2,557 thousand. To this end, the Bank established provisions of EUR 455 thousand.

Capital commitments. At 31 December 2012, the Bank and Group had no capital commitments (2011: 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 Bank or 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 Bank or 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 Bank or Group do 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 Bank or Group are 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 Bank or Group monitor 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 Bank's or Group's off-balance sheet financial instruments that commit it to extend credit to customers.

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2012	**2011**	**2012**	**2011**
Documentary and commercial letters of credit	73	-	73	-
Guarantees	219,052	174,416	219,052	174,416
Credit commitments				
- original maturity up to 1 year	340,224	305,297	340,224	305,297
- original maturity over 1 year	32,157	23,170	30,406	18,167
	591,506	**502,883**	**589,755**	**497,880**
PROVISIONS FOR OFF-BALANCE SHEET LIABILITIES				
Guarantees	(2,582)	(2,517)	(2,582)	(2,517)
Credit commitments	(4,561)	(3,975)	(4,543)	(3,928)
Total	**584,363**	**496,391**	**582,630**	**491,435**

48. RELATED PARTY TRANSACTIONS

(all amounts expressed in thousands of EUR)

Loans	Directors and advisers		Management board and their direct family members		Supervisory board members and their direct family members		Major shareholders		Subsidiaries	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
LOANS										
At beginning of the year	234	215	-	-	-	-	24,479	31,563	26,111	20,570
Loans issued during the year	100	50	13	-	-	-	1,007,060	538,925	53,290	22,866
Loan repayments during the year	(47)	(31)	(13)	-	-	-	(987,844)	(546,009)	(36,265)	(17,325)
At end of year	**287**	**234**	**-**	**-**	**-**	**-**	**43,695**	**24,479**	**43,136**	**26,111**
Impairment as at 31 December		-	-	-	-	-	-	-	443	244
Collateral received as at 31 December	679	517	-	-	-	-	-	-	-	-
DEPOSITS										
At beginning of the year	1,381	1,249	2,991	2,760	843	781	363,709	479,985	2	1,506
Deposits received during the year	1,639	1,976	5,726	9,736	1,520	1,680	363,870	803,445	87,901	69,181
Deposits repaid during the year	(2,469)	(1,844)	(6,636)	(9,505)	(1,828)	(1,618)	(588,672)	(919,721)	(87,888)	(70,685)
At end of year	**551**	**1,381**	**2,081**	**2,991**	**535**	**843**	**138,907**	**363,709**	**15**	**2**
Interest expense on deposits	35	35	92	91	24	24	6,295	5,533	-	-
Interest income earned	9	9	-	-	-	-	437	687	881	623
Other revenue – fee income	1	1	1	1	-	-	333	461	114	25
Guarantees issued by the bank and commitments	-	-	-	-	-	-	20,366	20,270	-	-
Remuneration	**1,041**	**1,315**	**2,021***	**1,943**	**117***	**123**				

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

** Listed by names:*

(all amounts expressed in thousands of EUR)

Management board	Gross salary	Bonuses	Other	Payments under pension plan	Other	Total
Giancarlo Miranda	226	54	70	9	16	375
Igor Kragelj	263	60	7	3	-	333
Aleksander Lozej	188	48	7	3	-	246
Aleksander Milostnik	187	48	7	3	-	245
Rado Grdina	187	48	9	3	-	247
Francesco Del Genio	133	41	70	-	9	253
Mario Henjak	242	61	16	3	-	322
Total	**1,427**	**360**	**186**	**23**	**25**	**2,021**

(all amounts expressed in thousands of EUR)

Supervisory board members	Attendance fee	Bonuses	Total
Vojko Čok	3	65	68
Ivan Šramko	-	-	-
Roberto Civalleri	3	20	23
Borut Bratina	3	20	23
Elena Breno	2	-	2
Fabrizio Centrone	1	-	1
Total	**12**	**105**	**117**

49. EVENTS AFTER THE REPORTING PERIOD

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

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