Banka Koper d.d. Koper

ANNUAL REPORT 2008

Koper, March 2009

TABLE OF CONTENTS

OVERVIEW OF BANKA KOPER

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

Banka Koper became member of the banking group Sanpaolo IMI, one of leading banking groups in Italy in 2002. As of 1 January 2007, the majority shareholder of Banka Koper is Intesa Sanpaolo. The financial group Intesa Sanpaolo holds the 2nd place by market capitalisation in the euro zone and the 3rd place by absolute classification. The fact that Banka Koper belongs to the Group became visible in 2008 with the re-branding project when Banka Koper kept its name and added to it the essential characteristics of the Intesa Sanpaolo brand. Banka Koper went on to replace its old brand with the new one on all branch offices and the headquarters, its business and promotional printed materials, payment cards and logos on automated teller machines (ATMs), it adjusted its internet applications and all other important elements of its operations. The Group's symbol was added to the name »Banka Koper« to emphasise the Bank's link with one of the biggest banking groups in Europe and to raise its profile also at the international scale. Today, alongside the visual identity, the synergy with Intesa Sanpaolo also facilitates the transfer of knowledge, experience and development of innovative financial products and services, which place Banka Koper shoulder-to-shoulder with the best-performing Slovenian credit institutions.

International ratings

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

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

The ratings awarded by FitchRatings are based upon standard rating principles. The long-term and short-term issuer default and support ratings are based on extremely high potential support from the Bank’s majority owner - Intesa Sanpaolo (long-term IDR: AA-), should Banka Koper find itself in a dire position.

MILESTONES IN THE BANKS CORPORATE HISTORY

1955 – Foundation of Istrska komunalna banka.
1961 – Komunalna banka Koper is established to serve banking needs of several coastal municipalities.
1965 – Venturing into new lines of business results in establishing Kreditna banka Koper – a commercial bank with growing branch network
1971 – Expansion of the business beyond regional borders and strengthening interbank business cooperation.
1978 – LB Splošna banka Koper is created by the amalgamation of Kreditna banka Koper and the branch office of Ljubljanska banka in Koper; the new bank is part of Ljubljanska banka – Associated Bank
1989 – The Bank is transformed into a public limited company and establishes a subsidiary – Finor.
1992 – The Bank leaves the bank group parented by Ljubljanska banka and develops the first Slovenian payment card – Activa.
1994 – Splošna banka Koper is a fully-licensed bank authorised to provide all banking services at home and abroad.
1996 – The branch network expands to Slovenia’s capital, Ljubljana. The Bank modernises its internal organisation.
1997 – New corporate image and new name – Banka Koper. The Bank sets up a banking group with M banka.
1998 – The branch network expands and high-profile projects are launched – electronic banking. The i-Net Banka, client information system, migration of payments for legal entities to the Bank and information system overhaul.
1999 – Banka Koper takes over M banka.
2000 – The Bank is run by a two-man management board. The Bank’s shares are listed on the Ljubljana Stock Exchange.
2001 – The Open-ended Mutual Pension Fund is established. Preparations start for the strategic alliance with the Sanpaolo IMI Group.
2002 – The Bank joins the Sanpaolo IMI Group – its majority shareholder. The sale of Finor is finalised. The Bank’s branch offices spread to all Slovenian regions.
2003 – The Bank’s shares are delisted from the Ljubljana Stock Exchange organised market. The Bank is authorised to provide custody services for management companies, i.e. mutual funds managed by them. The Activa system continues to gain ground.
2004 – New lines of business: cash management, marketing units of the Slovenian mutual funds and introduction of smart cards. Refurbishment of the Bank’s premises. Finor d.o.o. is bought back for leasing operations.
2005 – Consolidation of the Bank's leading position in developing card operations, introduction of the first business debit card in Slovenia and first intercontinental SecureCode transaction with an Activa Maestro card to be carried out in the world.
The Bank takes up the marketing of Sanpaolo International Fund foreign mutual funds.
Leasing services are sold also through the Bank's branches across Slovenia.
2006 – Sanpaolo IMI acquires additional shares of the Bank, thus obtaining a stake of 66.21 per cent of the Bank. The smart-card family features two more smart cards: Activa Visa and Visa Electron. Banka Koper is the first Slovenian bank to be nominated for the “Financial Sector Technology Awards”.

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

2008 – The banking group Intesa Sanpaolo S.p.A increases its equity holding in Banka Koper to 97.22 per cent following the acquisition of 26,570 shares held by Intereuropa, d.d. Istrabenz,d.d. and Luka Koper - a combined 5 per cent holding. The rebranding project is completed at Banka Koper and the Bank’s corporate image is changed to transpose the new visual identity shared by the parent bank and its subsidiary banks. Banka Koper launches a service – a new distribution channel Banka IN. It is the first personal bank on the Internet in Slovenia designed to enable through various forms of communication a simple, safe and comfortable transacting of nearly all types of banking services. The Bank’s retail network expands by opening six new branches and at the end of the year under review, Banka Koper boasts the network composed of 52 branches.

BUSINESS REPORT

1. REPORT OF THE MANAGEMENT BOARD

2. REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2008

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 2008,
- The Auditor's Report drawn up by the independent auditor Ernst & Young d.o.o. Ljubljana, and
- The proposal for the appropriation of profit.

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

R E P O R T

1. The way and scope of verification of the management of Banka Koper during the financial year 2006.

In the course of the financial year 2008, the Supervisory Board of Banka Koper d.d. met five times at regular 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 at two correspondence sessions to approve the proposal made by the Management Board and decided to approve the proposed business deal 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. In addition, the Supervisory Board took note of the notices resigning their respective positions received from the president of the Management Board of Banka Koper d.d. and the members of the Supervisory Board. The materials for the sessions were forwarded to the members of the Supervisory Board in compliance with the Rules of Procedures governing the discharging of the functions of the Supervisory Board and those functions were discharged in line with the aforementioned enactment.

The composition of the Supervisory Board of Banka Koper d.d. was changed in 2008 when Mr. Andrej Lovšin, M.Sc., Mr. Janko Kosmina and Mr. Marjan Babič, M.Sc. resigned their membership of the Supervisory Board on 18 December 2008.

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 2008 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 2007,
- examining and approving the Annual Report of the Internal Audit Department for 2007,
- 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 2007,
- examining and approving the business plan/budget of Banka Koper for the year 2009,
- accepted the resignation with effect on 31 December 2008 of the president of the Management Board, Mr. Vojko Čok, and
- effective 1 January 2009 appointed Mr. Ezio Salvai to the position of the president of the Management Board of Banka Koper, and
- 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.

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

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

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

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

P o s i t i o n:

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

3. Approval of the Annual Report for the financial year 2008

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 2008.

4. Profit appropriation

By taking into account the Bank's goals set for the financial year 2009 and beyond, the Bank will have to strengthen its capital base in order to maintain the adequate capital adequacy ratio and sustain the planned volume of its operations. Therefore, Banka Koper has allocated the total amount of net profit for the financial year 2008 of 27,776,161.91 euro in accordance with the Article of Association to legal and statutory reserves. Since there is no unappropriated profit brought forward from previous years, the balance-sheet profit is 0 euro.

Koper, 24 March 2009

Chairman of the Supervisory Board in 2008
Giuseppe Cuccurese

Chairman of the Supervisory Board in 2009
Vojko Čok

3. CORPORATE GOVERNANCE BODIES

Supervisory Board

The supervisory board of Banka Koper is composed of the representatives of the Bank's strategic partner and the majority shareholder of Banka Koper – the banking group Intesa SanPaolo. The banking group INTESA SANPAOLO had a 97.2 per cent stake in Banka Koper as at 19 December 2008 after it purchased 26,570 shares from Intereuropa, Istrabenz and Luka Koper. On that day, Mr. Marjan Babič, M.Sc., Mr. Janko Kosmina and Mr. Andrej Lovšin, M.Sc. each resigned his position of member of the supervisory board of Banka Koper.

Supervisory Board on 31 December 2008:

Giuseppe Cuccurese	Chairman
Massimo Pierdicchi	Member
Michele Raris	Member
dr. Gyorgy Suranyi	Member

As of 16 January 2009 the supervisory board elected Mr. Vojko Čok to act as Chairman of supervisory board, following the resignation given by Mr. Giuseppe Cuccurese; the later was elected Vice Chairman.

Management Board on 31 December 2008:

Vojko Čok	President,
Ezio Salvai	Vice President
Igor Kragelj	Member

As of 1 January 2009, the Bank's management board has two members:

Ezio Salvai	President
Igor Kragelj	Member

The Management Board had two advisers:

Aleksander Lozej, M.Sc.	Adviser
Viljem Semolič	Adviser

Management – Directors of Divisions and Heads of Departments

Boris Bjelica	Back Office
Marko Filipčič, M.Sc	Treasury
Rado Grdina	Organisation and HR
Aleksander Milostnik	Accounting and Controlling
Mojca Plahuta	Information Technology
Dario Radešič	Retail Banking
Helena Blažič	Corporate Banking
Igor Bahčič, M.Sc.	Investment Banking
Evelina Viler Brec	Internal Audit
Bojan Knez	Custody Banking
Franc Ohnjec	Marketing
Maja Soban	Legal Affairs
Ladi Škrinjar, M.Sc.	Risk Management
Luciano Vierin	Credit Management

4. GENERAL ECONOMIC AND BANKING ENVIRONMENT

Macroeconomic figures across the Eurozone reveal slack economic growth with GDP growth from 0.8 to 1.1 per cent. The main reasons for such poor economic performance are the feeble economic activity around the globe that has strongly affected exports from the Eurozone and meagre domestic demand as a consequence of the rising level of uncertainty and prudential purse-string tying. The world economy grew at the rate of 2.4 per cent in 2008, as opposed to 0.4 per cent growth predicted for the year 2009.

The meltdown of economic growth is predominately a consequence of sluggish exports and investment activities. As economic growth loses momentum, exports of goods follow suit around the globe, and businesses axe investments in fixed assets. All segments of gross fixed capital formation were hit hard by the global crisis and the housing construction segment was no exception. The growth of domestic spending, however, seems to be rather resilient to fallout of the crisis. A closer look at the performance of the real sector reveals a fall (-0.5 per cent) in the growth in value-added in manufacturing experiencing the fist negative growth since the first quarter of 1999. Construction and financial intermediation remain the activities boasting the highest value-added as opposed to other marketable services where the growth in value-added has been slowing down gradually.

As the economic activity shrinks, the figures that indicate how healthy the labour market have been deteriorating. The number of unemployed soared during the last two months of 2008. History teaches us that laying off employees in the face of a crisis takes some time; hence the real scale of the reflection of the crisis on the labour market will take some time to develop. Alongside the rising number of jobless people, the slowdown in Slovenia's economy is accompanied by the credit crunch and plunging exports of goods and consequently industrial output. The activities of the credit institutions came close to a standstill. Lending to the government was upbeat, while corporate borrowers pencilled a modest positive net credit flow.

The average inflation rate was 5.7 per cent in 2008. Prices fluctuated largely in tune with falling fuel prices as a result of falling oil prices in the world markets. In addition to falling oil prices, the task of curbing inflation became easier also by cooling off economic activities and expectations in 2008.

5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2008

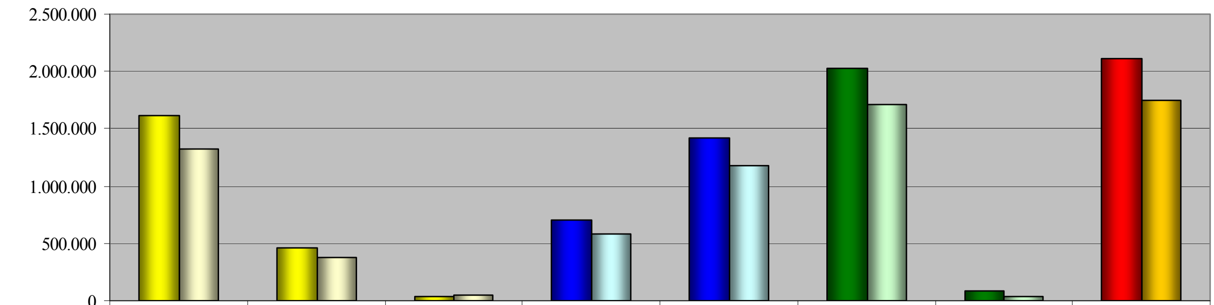
5.1 LENDING OPERATIONS

In 2008, the banks operating in Slovenia started to tread more prudently when approached for financing. As a result, there was the ebb in the volume of loans with the flow becoming a trickle as the looming crisis in the global interbank markets developed to the "perfect storm". Lending to the institutional borrowers even enjoyed a slight rise. Corporate borrowers managed a modest positive net credit flow, and individuals duly honoured their obligations under retail loans. As the interbank markets dried out, the credit institutions focused on tapping deposits placed by domestic customers when savers-turned-investors-turned-savers got burnt in the capital markets that plunged in red figures.

In 2008, the Bank's gross lending to the non-bank sector increased to reach 370.6 million euros, i.e. by 21.3 per cent in comparison to 2007. The Bank's non-bank lending market share increased from 6.0 per cent at end-2007 to 6.1 per cent at end-2008.

In terms of currency, lending in euro still largely prevailed in 2008 with 95.8 per cent. As for the maturity structure, the trend of increasing long-term over short-term loans was recorded also in 2008. Short-term loans accounted only for 33.1 per cent of the total.

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



	Corporate	Households	Government	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2008	1.613.377	458.133	42.222	698.672	1.415.060	2.025.662	88.070	2.113.732
31.12.2007	1.326.284	377.886	47.893	577.627	1.174.436	1.715.181	36.882	1.752.063

Loans to the corporate sector amounted to 1,613.4 million euros or 76.3 per cent, representing the largest portion of loans to the non-bank sector.

Lending to households, private individuals and sole proprietors, reached 458 million euros or 21.7 per cent of all loans to the non-bank sector. Compared to 2007 loans to this sector increased by 82.2 million euros or 21.9 per cent. As in 2007, households mostly borrowed on a long-term basis and, while borrowing in foreign currency remained on a low level. Booming housing lending largely contributed to the growth in household loans.

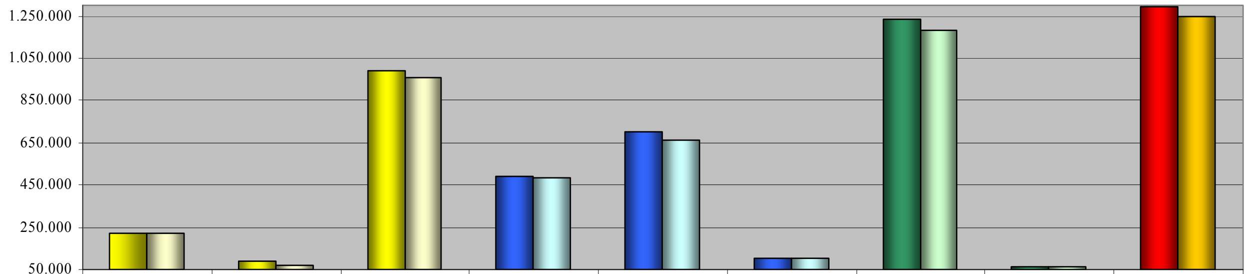
In 2008, the Bank somewhat scaled down from financing provided to the government/public sector. Loans to government institutions thus decreased by 5.4 million euros or 11.4 per cent year-on-year. The government mostly borrowed by raising euro-denominated long-term loans.

5.2 DEPOSITS

Customer deposits increased by 4.3 per cent or 52.9 million euros in 2008, which can be attributed mainly to the policy of interest rates.

The market share of customer deposits, recorded at end-2008, was 6.3 per cent, 0.1 per cent lower comparing to the previous year. In 2008, the Bank gained ground in terms of sight deposits while the opposite trend was recorded for short and long-term deposits.
Short-term deposits prevailed with 54.1 per cent over sight deposits (37.8 per cent) and long-term deposits (8.1 per cent). The deposit structure in terms of currency was dominated by euro-denominated deposits with 85.4 per cent.

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



	Corporate	Government	Households	Sight	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2008	218.514	87.675	990.084	489.958	701.579	104.736	1.236.308	59.965	1.296.273
31.12.2007	222.430	70.002	955.572	487.059	660.702	100.242	1.183.463	64.540	1.248.003

The volume of the deposits placed by legal persons dropped by 1.4 per cent (3.1 million euros). The Bank's market share in this segment thus decreased from 3.9 per cent to 4.0 per cent..

Deposits from households account for 76.4 per cent of all non-bank deposits and at end-2008 totalled 990.1 million euros, i.e. 4 per cent more year-on-year.

Compared to 2007, deposits placed by the government increased by 17.91 million euros in 2008. At end-December 2008 the share of such deposits in the deposit portfolio was 6.8 per cent, mainly short-term and euro-denominated deposits.

5.3 CARD OPERATIONS IN THE ACTIVA SYSTEM

Activa payment system

The year 2008 was very important for the Bank as effort focused on the development of new card-related products scheduled to hit the market in 2009. These new products include the revolving card, prepaid gift card and last but not least sending SMSs to advise cardholders that a transaction with the payment card has been made.

The number of issued cards rose by 3 per cent year-on-year to 1.13 million in 2008. The volume of transactions carried out with payment cards in the Activa system topped 2.2 billion euros in 2008, increasing by 17.5 per cent in comparison with 2007.

The number of points of sale accepting Activa cards has been growing from year to year; in 2008 a 7 per cent growth compared to 2007 was recorded. At the end of 2008, 31,000 points of sale were included in the system.

Card business

Banka Koper continued in 2008 to work closely with the Chamber of Small Business and Crafts of Slovenia in the area of issuing cards for their members: the business cards VBE and the prepaid card Obrtnik. The number of issued pre-paid card totalled 4,839 and the number of all cards issued was 39,821.
Banka Koper continued to collaborate with Centurion finančne storitve d.o.o. It is a subsidiary of Banka Koper and it markets American Express cards and concludes contracts with merchants for points of sale.

The number of cards issued in 2008 exceeds 284,000. In comparison with January 2008, the card business grew by 4 per cent. The turnover generated by using cards increased in 2008 to total approximately 680 million euros, which accounts for a 30 per cent share of the aggregate turnover generated by all banks in the Activa payment system and 28 per cent growth year-on-year.

During the year under review, Banka Koper expanded the number of points of sale to 13,350, which translates into 8.6 per cent growth, even though the number of concluded contracts was approximately 450 lower than the previous year. The reason for dwindling interest on the part of merchants to work with Banka Koper is in lower fees charged by rival banks. The number of POS terminals increased in 2008 by 9.8 per cent bringing the total figure to 5,180 POS terminals.

5.4 BANKA IN

Banka IN opened its virtual doors to the general public on 1 October 2008 after serving its test users, the employees of Banka Koper, for almost nine months. Since then Banka IN has attracted customers who have opened 855 transaction accounts, concluded contracts to place deposits, to enter a savings scheme, as well as issue payment cards and sign contracts for consumer credits.

Banka Koper continued in 2008 with electronic banking operations for natural and legal persons through its electronic channel: i-Net Banka. It remains popular due to the convenience of conducting banking transactions at a time that suits customers, it is simple and secure, and it has earned customer trust over the years.

The number of users of i-Net Banka – private individuals – increased in 2008 to 32,643 users, which translates into 9.4 per cent growth in comparison with 2007. During the year under review, the users of i-Net Banka conducted 1.8 million transactions. The number of corporate and institutional customers - users of i-Net Banka – rose in 2008 by 25 per cent i.e. to approximately 11,000 users. During that period the users of i-Net Banka conducted 4.3 million transactions, which is approximately 50 per cent more than a year earlier.

ATM business

Banka Koper continued also in 2008 to expand its network of automated teller machines (ATMs). The newly open Bank's outlets – agencies (the agencies in Radlje ob Dravi, Jesenice, Črnomelj, Brežice, Žalec, Grosuplje and Ravne na Koroškem) were equipped with seven new automated teller machines (ATMs). At the end of 2008, the ATM network consisted of 89 automated teller machines, of which 29 ATMs were a part of the ATM network of Banka Koper.

During the year under review, the network of the automated teller machines (ATMs) served customers to conduct approximately 3,9 million transactions, while a year earlier, this number was 4.1 million transactions. In conclusion, the decline in the number of transactions conducted at ATMs at the level of Banka Koper was 5 per cent. True as it is that customers withdraw cash from ATMs less often, the amounts drawn down were higher as the figure clearly shows: 221.4 million euros in 2008 (2007: 202.6 million euros).

Although the falling number of ATM transactions affected Banka Koper in 2008, there was a rise in the number of transactions in which VISA cards and MasterCard cards were used, as well as in the number of transactions in which the cards issued by Banka Koper were used on ATMs of other banks. The number of transactions made using Visa cards was 72 thousand transactions in 2008 or by 34.3 per cent transactions more than in the previous year. The number of transactions made using MasterCard cards was 89 thousand transactions in 2008 or by 6.5 per cent more than in 2007.

5.5 MARKETING MUTUAL FUNDS

The trend enjoyed in 2007 was reversed during the year under review as world stock indices plunged and hit hard the results achieved in the area of mutual funds marketing. Consequently, both the Eurizon EasyFund (EEF) and the funds of the Slovenian management companies failed to attract any serious inflows.

The payments made in all funds fell short of expectations – the original plan was to rake 20 million euros in inflows into the EEF and to gather 15 million euros in inflows into the Slovenian funds. The cold winds of the global financial crisis froze the cash stream resulting in the payments credited to the EEF funds topping somewhat less than 2.8 million euros gross (in net terms outflows totalled nearly 3.9 million euros), and in the payments made into the Slovenian funds amounted to almost 4.9 million euros gross. The bulk of the payments into the Slovenian funds (almost 3.9 million euros) was made in November in response to the expected increase in the unit value of certain mutual funds.

5.6 NATIONAL HOUSING SAVINGS SCHEME

In 2008, the interest of potential home buyers to conclude a contract under the new invitation of the National Housing Savings Scheme (NSVS) dropped further. The 7^{th} invitation to join the scheme and save to buy or renovate a home was launched in 2007 and the only 205 contracts were signed. This means that 400 lots were written and 600 lots remained unsubscribed.

The Housing Fund of the Republic of Slovenia in October 2008 published a new invitation to banks to participate in the latest round of the housing savings scheme launched by the National Housing Savings Scheme (NSVS), but due to lack of interest, Banka Koper decided not to apply.

5.7 DISTRIBUTING INSURANCE POLICIES

Banka Koper sells non-life insurance for the account of the Slovenian insurer, Adriatic Slovenica. Most insurance contracts are concluded as a part of the so-called packaged services or bundles: car insurance and home insurance. The bulk of the insurance coverage concluded in 2008 refers to the policies for insuring property (Superstan). The novelty is the possibility to arrange offers for taking out insurance to be sent through the virtual bank - Banka IN.

Banka Koper has a contract with Generali to market the policies for unit-linked life assurance »Banka Koper naložbeno zavarovanje«. The issued life assurance with profit policies provide policyholders with life assurance coverage and soothe investment in the funds Eurizon EasyFund. Banka Koper signed the contract with Generali in March and until the end of December 2008, 91 policies were sold , which falls short of expectations. The reason can be found primarily in the decline of the global stock indices during the year under review.

5.8 LEASING

The commercial approach to finance lease for property through the branch offices of Banka Koper was also in 2008 carried out within the framework of the regular array of lease products offered by Finor Leasing d. o. o. (hereinafter: Finor Leasing) by launching special offers prepared by Finor Leasing, as well as within the framework of various marketing campaigns of Banka Koper prepared for the particular groups of business entities; these campaigns included also the benefits provided under the leasing business (the marketing campaign tailored to attract newly established businesses, farmers, offers made as a part of the project to supply the card Obrtnik to the members of the Chamber of Small Businesses and Crafts of Slovenia, special offers at the time of the international small businesses trade fair - MOS Celje, individual agreements clinched by particular branch offices, etc.).

In 2008, the Bank's branches signed 219 lease contracts (37 more than a year earlier). The total amount of the new lease business contracted through the Bank's branch network is approximately 5.96 million euros. A breakdown of the lease business reveals that the best-sellers were cars, followed by commercial vehicles and manufacturing and other equipment .

5.9 OPEN-ENDED MUTUAL PENSION FUND OF BANKA KOPER (OVPS)

The value of the asset unit decreased in 2008 by 6.37 per cent.

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

As at 31 December 2008, the OVPS posted total assets of 24.1 million euros, which means a 12.6 per cent growth with regard to year-end 2007. At the end of 2008, the OVPS had 5,862 members or 6.7 per cent more than a year earlier, of which 5.223 were collectively insured and 639 were individually insured. The number of companies participating in the scheme increased from 101 to 107 companies.

5.10 CUSTODY BANKING

Since 2003, Banka Koper d.d. has been providing custodian services for investment funds as the first bank in Slovenia to qualify for the authorisation for taking up and the pursuit of the business of a custodian. The volume of assets of the investment funds kept in the custody accounts opened with Banka Koper was the highest at the end of 2007 and the beginning of 2008. The global financial crisis has hit the capital markets hard in 2008 and the Bank's custodian business segment has shared the common destiny of the fund management industry.

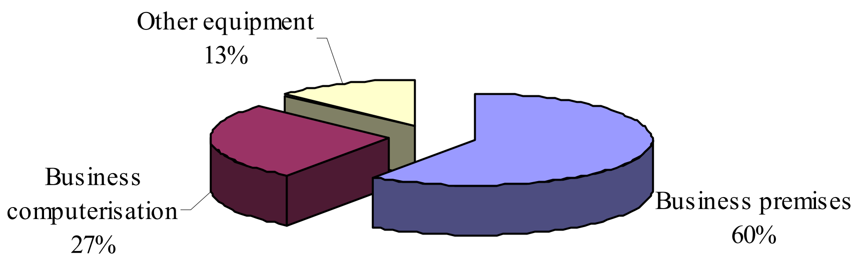
In 2008, Banka Koper d.d. expanded its business to the provision of administration services for investment funds. By doing so, the Bank has added value to the roster of its products and services for the fund management industry and has boosted cooperation with its customers.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

Capital investments

In line with the endorsed strategy, Banka Koper continued also in 2008 with the implementation of the long-term development programme and invested 6.8 million euros in the computerisation of its operations, in office space and in other equipment.

Structure of capital investments in 2008



The lion's share of capital investments (gross capital formation) – 4.1 million euros or 59.8 per cent of all investments - Banka Koper allocated in 2008 to its retail network and the renovation of the premises in order to make them meet the needs of a modern banking service. The price tag for the expansion of the Bank's network of branch offices by opening new agencies (in Jesenice, Brežice, Žalec, Ravne na Koroškem, Grosuplje and in Črnomelj) is 2.5 million euros. Further 1.6 million euros has been spent on the refurbishment of the existing premises and on adding extra office space.

Banka Koper allocated 1.8 million euros in 2008 to the computerisation of the banking operations, of which 0.9 million euros was spent on the development of the computer software and 0.8 million euros was paid to purchase hardware such as POS terminals and ATMs. Buying new automated teller machines and POS terminals, as well as additional licences and new software tools was considered as a priority task. As security requirements and standards in the area of the card business are becoming tougher, the amounts to be allocated to investments in the card business.

As regards the item "other equipment", Banka Koper allocated in 2008 the amount of 0.9 million euros, i.e. 12.9 per cent of all investments. The bulk of the item refers to the costs incurred under the re-branding project of Banka Koper and the modernisation of the Bank's car fleet.

Information and technological development

The first day in October 2008 was the kick-start of yet another new product developed by Banka Koper: BANKA IN. The Slovenian market got a completely new, virtual, personal web bank. Banka IN is the ecological bank since no paper is needed to do business Banka IN. It has no brick-and-mortar branches, it enables transacting all banking services through the Internet, the personal bank officer advises customers how to invest their money in a safe and profitable way, customers can communicate with the personal bank officer through the Internet or VoIP. It is the innovative bank built on a platform that uses state-of-the-art technology and places the customer at the forefront and rewards his or her loyalty.

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

In BANKA IN the XML signature is used. Clients can sign by means of PKI or CAP/DPA One Time Password (OTP). By deploying the OTP mechanism, Banka Koper ensures the highest level of data transmission and independence from the system and application environment for its customers.

As regards the payment systems, Banka Koper was very busy in 2008 with the SEPA project and the platform for cross-border SEPA payments, as well as B2B interface with customers.

For the purpose of delivering compliance with regulatory requirements in the area of the provision of payment services with the aim to prevent money laundering and financing of terrorism, Banka Koper completed in 2008 the implementation of the adequate information technology support.

The data warehouse was enlarged by adding new content and functionalities for the purpose of meeting the requirements laid down under Basel II and risk management . in addition, an analytical tools was put in place for the purpose of fast and efficient preparation and analysis of final reports and data supplied for the needs of the Bank's management board, the commercial departments and other organisational units of Banka Koper.

in the area of the card business, Banka Koper focused effort on the overhaul of the card management system (Exact) and the projects conceived for the purpose of providing card-related services not only to Slovenia-based credit institutions, but also to the banks that belong to the Intesa Sanpaolo Group.

7. ORGANIC GROWTH

Headcount and the educational structure of employees

At year-end, the Bank employed 839 employees. The average age of its employees was 41.5 years. The aggregate years of service averaged 19.7 years, the number of years spent working for the Bank was 15.5 years.

The rate of staff turnover in 2008 was 5.73 per cent.

Number of employees by educational level

Level of education	V or lower	VI	VII or higher	Total
Number of employees	454	96	289	839
Share (in %)	54.1	11.4	34.4	100.0

Education and training of employees

In 2008, various types of educational events attracted 1,781 participants that attended 17,837 educational hours. The average number of educational hours per employee of Banka Koper was 21.3.

Banka Koper increased in 2008 the scope of the internal professional education and training system (1,446 participants).

The Bank also acknowledges the importance of formal education and fully supports its employees in their efforts. In 2008 the Bank granted financial contributions for education purposes to 25 employees.

Indicators of processes and education – education and training of employees	Banka Koper d.d.
Number of employees	839
Annual number of employees included in education and training	621
Share of employees included in education and training (in %)	74.0
Annual number of hours in education and training	17,837
Annual number of hours in education and training per employee	21.3

Whether a business entity functions successfully or not depends also on its organisational structure and all components of the corporate structure. For Banka Koper to function successfully, human capital is of essence. Managing human resources has become one of the key areas for delivering good results and consequently be a competitive market player . The banking group Intesa Sanpaolo is well aware that people are a valuable asset and HR management a tool to be skilfully handled. The HR policy adopted by Banka Koper reads that »human resources constitute one of the fundamental building blocks on the road to achieving the business goals set by Banka Koper«. The document also contains a description of all HR-related activities designed to support the HR policy.

In accordance with the endorsed principles, at Banka Koper d.d. we embarked in 2008 on a systematic HR development mission and we worked out the road map that will take us where we want to be. The activities will cover four areas, i.e. projects to be systematically implemented over the next two years:

Development of key staff and human capital potentials:

- timely recognition, development and retention of young perspective staff,
- an important activity for Banka Koper d.d. is to prepare a “pool”, i.e. ensure a sufficient number of potential candidates for key positions a (the system of “grooming” successors”),
- an important activity for an individual: systematic care for the development of talented young staff – career development is generally perceived as one of the most important motivation factors.

Putting in place the competence model:

- the development and establishment of common values and conduct at Banka Koper,
- the integration of competencies in all HR-development tools for provide management support,
- the achievement of business excellence (best practice).

Executive training:

- systematic education of managers through a system for acquiring adequate management knowledge and skills built on a common platform,
- assisting managers in improving their management skills, i.e. managerial characteristics.

Organisation climate survey:

- systematic monitoring of the corporate climate at Banka Koper and employee satisfaction by organisational units in order to obtain relevant feedback regarding management and other factors deemed important in the process of “making or breaking” the corporate climate and job satisfaction,
- working on the elements identified as sub-standard or where there is simply room for improvement; tailoring courses for managers where various skills of essence for a leader are taught , so as to make them more qualified to improve the climate in their respective organisational unit,
- benchmarking the perception of the corporate climate and job satisfaction against the average score for the Slovenian companies and the banking sector in Slovenia and preparing an action plan of activities aimed at improving the areas where low scores indicate flawed corporate policy and low job satisfaction levels.

Corporate Social Responsibility

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

Banka Koper engages with Obalne galerije (Coastal Art Galleries) to organise theme exhibitions at regular time intervals and buys a certain number of the displayed works of art for its own art collection. The social responsibility in the area of culture is also manifested by providing funding for fine art exhibitions and theatre, musical and other artistic events. In 2008, Banka Koper once again was a sponsor of a host of events staged in the Auditorium of Portorož, the International Summer Festival Lent in Maribor, and the Summer Festival of the Coastal Region (Primorski poletni festival) widely acknowledged as the most important cultural event of the Slovenian coast.

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

The role of Banka Koper in the business area is very important. In 2008, the Bank backed financially for the 7th time the project called Gazele. The idea is to identify the fastest growing businesses (corporate entities and sole proprietors in Slovenia), score their performance and proclaim the regional and then the overall winner. Banka Koper is the main sponsor of the regional leg of the competition: Primorsko-notranjske gazele. Banka Koper finances the development of business activities through the project Najpodjetniška ideja (the best entrepreneurial idea). The project classifies new business ideas in several groups ranging from business ideas of entrepreneurs who have still not set up their own business to the important and well-known Slovenian companies.

2008 was the fourth year in a row for Banka Koper to play the role of the main sponsor of a high-profile sports event – the international female WTA tennis tournament Banka Koper - Slovenia Open. Ski fans could compete once more for the cup of Banka Koper organised for members of ski clubs from the coastal region and the hinterland. Also in the area of sponsoring sports clubs and competitions, Banka Koper follows the principle of trying to cover the entire territory of Slovenia both by spreading its retail network, but also by being an active member of the local community.

Humanitarian activities funded by Banka Koper have become a tradition with the Bank being largely perceived as a generous donor for worthy causes. For a number of years Banka Koper has been allocating to the humanitarian organisations a part of the money it would have spent on giving gifts to its business partners for Christmas and New Year. In 2008, the recipients were the Red Cross and Karitas and the funds were distributed by the Bank's branches that cover a particular area. Banka Koper participated in campaigns of numerous humanitarian organisations working together with the organisers of such philanthropic campaigns. Its role in raising money to for early breast cancer detection was most appreciated - Mammograph for the General Hospital in Izola .

8. POSITIONING BUSINESS FOR GROWTH IN 2009

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

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

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

Objectives of Banka Koper in 2008

Banka Koper is committed to strengthening its position in 2009 and increasing its market share by opening new branches and by launching new services.

- ⇨ *The strengthening of the market share:* the Bank is committed to improving its market position and increasing its market share. The Bank does most of its business in its domicile region where it has a majority share and its principal task will be to maintain the already acquired market share in this region, while increasing its market share in other Slovenian regions. For this purpose, the opening of 3 new branches is planned for 2009, which will add-up to the already well-distributed branch network.

- ⇨ *Launching new products:* the Bank will continue to expand its range of products and services also in 2009. By offering standard products and products derived from them, the Bank aims at satisfying the needs of all customer segments, especially small and medium-sized enterprises. Complementary products, such as Franklin Templeton mutual funds and blends of investment and insurance products in cooperation with Generali, will be offered.

- ⇨ *Information support development:* In 2009, the Bank is planning to continue with the development of the data warehouse project, as well as to upgrade and modernise some of the IT applications and thus be in a position to deliver quality and responsive services.

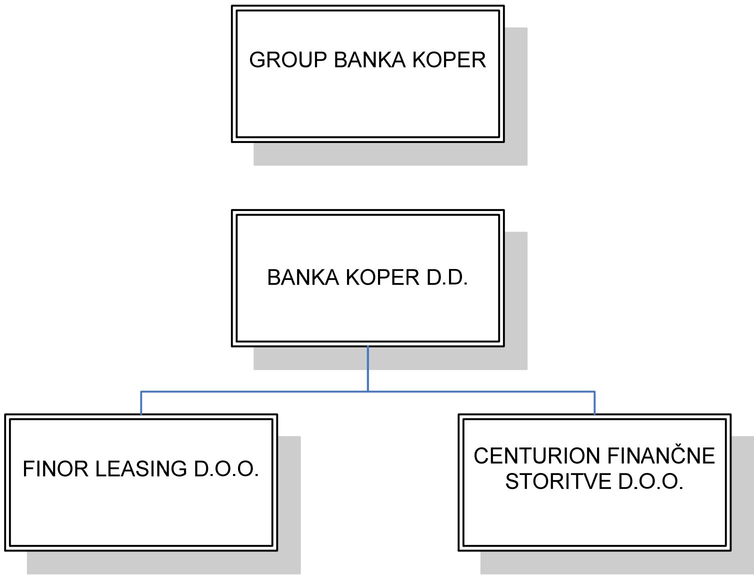
9. SHAREHOLDERS

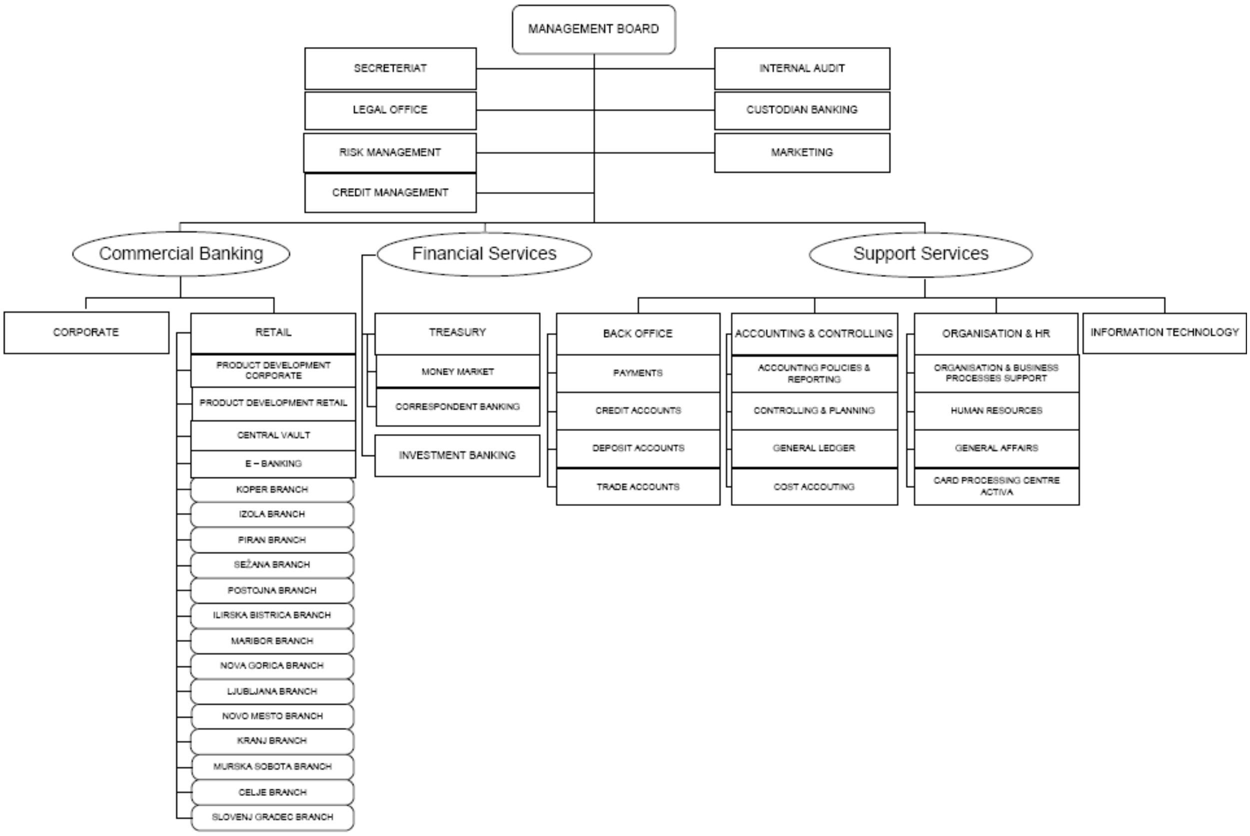
The share capital of Banka Koper is divided into 531,359 shares and amounts to 22.173.220 euros. The no-par value shares do not have a nominal amount. The shares are no-par value shares. Every no-par value share has the same participation and amount in the share capital. The participation of an individual no-par value share in the share capital is determined with on the basis of the number of issued no-par value shares. The shares in Banka Koper are held by 674 shareholders.

Shareholder structure of Banka Koper d.d.:

		% of capital	
	SHAREHOLDER	**31 Dec 2007**	**31 Dec 2008**
1.	Intesa SanPaolo S. P. A.	91.21	97.22
2.	Istrabenz d. d.	1.67	0.00
3.	Luka Koper d. d.	1.67	0.00
4.	Intereuropa d. d.	1.67	0.00
5.	Minority interest	3.78	2.78

10. ORGANISATIONAL CHART




MANAGEMENT BOARD
SECRETERIAT
LEGAL OFFICE
RISK MANAGEMENT
CREDIT MANAGEMENT
INTERNAL AUDIT
CUSTODIAN BANKING
MARKETING
Commercial Banking
Financial Services
Support Services
CORPORATE
RETAIL
PRODUCT DEVELOPMENT CORPORATE
PRODUCT DEVELOPMENT RETAIL
CENTRAL VAULT
E – BANKING
KOPER BRANCH
IZOLA BRANCH
PIRAN BRANCH
SEŽANA BRANCH
POSTOJNA BRANCH
ILIRSKA BISTRICA BRANCH
MARIBOR BRANCH
NOVA GORICA BRANCH
LJUBLJANA BRANCH
NOVO MESTO BRANCH
KRANJ BRANCH
MURSKA SOBOTA BRANCH
CELJE BRANCH
SLOVENJ GRADEC BRANCH
TREASURY
MONEY MARKET
CORRESPONDENT BANKING
INVESTMENT BANKING
BACK OFFICE
PAYMENTS
CREDIT ACCOUNTS
DEPOSIT ACCOUNTS
TRADE ACCOUNTS
ACCOUNTING & CONTROLLING
ACCOUNTING POLICIES & REPORTING
CONTROLLING & PLANNING
GENERAL LEDGER
COST ACCOUTING
ORGANISATION & HR
ORGANISATION & BUSINESS PROCESSES SUPPORT
HUMAN RESOURCES
GENERAL AFFAIRS
CARD PROCESSING CENTRE ACTIVA
INFORMATION TECHNOLOGY

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT

To the shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Banka Koper d.d., which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Banka Koper d.d., as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

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

The business report is consistent with the audited financial statements.

Ljubljana, 16. March 2009

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

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

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT

To the shareholders of Banka Koper d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banka Koper Group, which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Banka Koper Group as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act related to the preparation of the financial statements.

Report on Other Legal and Regulatory Requirements

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

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

Ljubljana, 16. March 2009

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

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

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 2007. The management also confirms that applicable International Accounting Standards have been followed and that the financial statements have been prepared on the going concern basis.

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

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, 13 March 2009

Member	President
Igor Kragelj	Ezio Salvai

FINANCIAL STATEMENTS

1. INCOME STATEMENT

(all amounts expressed in thousands of EUR)	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2008	2007	2008	2007
Interest income	4	134,052	99,882	136,387	102,030
Interest expense	4	(72,676)	(46,260)	(73,627)	(47,178)
Net interest income		**61,376**	**53,622**	**62,760**	**54,852**
Dividend income	5	995	508	995	508
Fee and commission income	6	36,506	34,989	40,532	38,261
Fee and commission expense	6	(6,538)	(4,543)	(7,980)	(5,870)
Net fee and commission income		**29,968**	**30,446**	**32,552**	**32,391**
Gains less losses from financial assets and liabilities not recognised at fair value through profit and loss	7	3,356	1,141	3,356	1,141
Gains less losses from financial assets and liabilities held for trading	8	7,602	670	7,602	670
Gains less losses from foreign exchange transactions		(5,101)	392	(5,207)	393
Gains less losses on derecognition of non-current assets other than held for sale	9	(40)	1,189	(94)	1,137
Other operating gains less losses	10	1,098	906	1,936	1,435
Administrative expenses	11	(47,342)	(43,312)	(50,291)	(45,927)
Amortisation and depreciation	12	(6,366)	(5,711)	(7,165)	(6,234)
Provisions:		74	(4,209)	109	(4,236)
- provisions	13	574	(3,306)	609	(3,285)
- retirement benefit obligations	13	(500)	(903)	(500)	(951)
Impairment losses on loans and advances	14	(10,235)	(4,350)	(10,810)	(5,222)
Operating profit		**35,385**	**31,292**	**35,743**	**30,908**
Income tax expense	15	(7,608)	(7,114)	(7,675)	(6,999)
Net profit for the period		**27,777**	**24,178**	**28,068**	**23,909**
Attributable to:					
Equity holders of the parent		27,777	24,178	28,064	24,090
Minority interest		-	-	4	(181)
		27,777	24,178	28,068	23,909
Earnings per share (basic and diluted)					
(expressed in EUR per share)	16	52.37	45.58	52.91	45.42

The following notes on pages 32 to 93 form an integral part of these consolidated financial statements.

2. BALANCE SHEET

(all amounts expressed in thousands of EUR)	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2008	2007	2008	2007
ASSETS					
Cash and balances with Central Banks	18	38,440	31,062	38,450	31,113
Financial instruments held for trading:		49,905	52,227	49,905	52,227
- trading assets	19	48,736	50,047	48,736	50,047
- derivative financial instruments	20	1,169	2,180	1,169	2,180
Investment securities available for sale	21	298,328	319,407	298,328	319,407
Loans and advances:		2,051,263	1,768,323	2,087,426	1,792,458
- to banks	22	11,276	81,452	11,276	81,452
- to customers	23	2,039,987	1,686,871	2,076,150	1,711,006
Investment securities held to maturity	21	1,528	2,013	1,528	2,013
Goodwill	24	-	-	905	905
Property, plant and equipment	25	29,513	30,747	31,925	34,357
Investment property	26	457	518	457	518
Intangible assets	27	7,321	4,945	7,455	4,990
Investment in subsidiaries	28	5,214	5,214	-	-
Income tax assets		2,221	8,513	2,829	9,057
- current income tax		-	6,399	18	6,476
- deferred income tax	37	2,221	2,114	2,811	2,581
Other assets	29	17,674	16,242	20.694	17,201
Total assets		**2,501,864**	**2,239,211**	**2,539,902**	**2,264,246**
LIABILITIES					
Liabilities to Central Bank	30	158,654	30,046	158,654	30,046
Financial instruments held for trading:		14,832	17,262	14,832	17,262
- derivative financial instruments	20	14,832	17,262	14,832	17,262
Liabilities carried at amortised cost:		2,044,235	1,923,463	2,073,610	1,940,010
- deposits from banks	31	170,114	116,250	170,114	116,250
- due to customers	32	1,296,027	1,248,003	1,295,996	1,247,973
- other borrowed funds from banks	33	577,848	558,942	607,254	575,519
- other borrowed funds from other customers	34	246	268	246	268
Provisions:		22,837	23,732	22,854	23,784
- provisions for liabilities and charges	35	19,412	20,183	19,348	20,154
- retirement benefit obligations	36	3,425	3,549	3,506	3,630
Income tax liabilities:		8,059	9,051	8,130	9,140
- current income tax		3,360	343	3,431	432
- deferred income tax	37	4,699	8,708	4,699	8,708
Other liabilities	38	19,271	16,543	26,506	23,840
Total liabilities		**2,267,888**	**2,020,097**	**2,304,586**	**2,044,082**
SHAREHOLDERS´ EQUITY					
Ordinary shares	39	22,173	22,173	22,173	22,173
Share premium	39	7,499	7,499	7,499	7,499
Revaluation reserves	40	13,668	26,583	13,668	26,583
Reserves from profit (retained earning included)	41	190,685	149,126	191,405	149,934
Treasury shares	39	(49)	(49)	(49)	(49)
Net profit for the period		-	13,782	287	13,694
Minority interest		-	-	333	330
Total shareholders´ equity		**233,976**	**219,114**	**235,316**	**220,164**
Total equity and liabilities		**2,501,864**	**2,239,211**	**2,539,902**	**2,264,246**

The following notes on pages 32 to 93 form an integral part of these consolidated financial statements.

3. UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

(all amounts expressed in thousands of EUR)	Notes	Attributable to equity holders of the parent							
		Ordinary share	**Share premium**	**Treasury shares**	**Revaluat ion**	**Reserves from profit**	**Retained earnings**	**Net profit for the period**	**Total**
Balance at 31 December 2006		**22,173**	**7,499**	**(49)**	**21,453**	**126,444**	**6,620**	**18,926**	**203,066**
Net profit for the year		-	-	-	-	-	-	24,178	24,178
Dividend	41	-	-	-	-	-	(611)	(12,649)	(13,260)
Net fair value gains, net of tax on available-for-sale investments	40	-	-	-	5,130	-	-	-	5,130
Transfer to legal reserves	41	-	-	-	-	1,209	-	(1,209)	-
Transfer to statutory reserves	41	-	-	-	-	15,464	-	(15,464)	-
Balance at 31 December 2007		**22,173**	**7,499**	**(49)**	**26,583**	**143,117**	**6,009**	**13,782**	**219,114**
Net profit for the year		-	-	-	-	-	-	27,777	27,777
Net fair value gains, net of tax on available-for-sale investments	40	-	-	-	(12,915)	-	-	-	(12,915)
Transfer of the 2008 profit to reserves	41	-	-	-	-	27,777	-	(27,777)	-
Transfer of the 2007 profit to statutory reserves	41	-	-	-	-	13,782	-	(13,782)	-
Balance at 31 December 2008		**22,173**	**7,499**	**(49)**	**13,668**	**184,676**	**6,009**	**-**	**233,976**

The following notes on pages 32 to 93 form an integral part of these consolidated financial statements.

4. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

(all amounts expressed in thousands of EUR)	Notes	Attributable to equity holders of the parent							Minority interest	Total
		Ordinary share	**Share premium**	**Treasury shares**	**Revaluation reserves**	**Reserves from profit**	**Retained earnings**	**Net profit for the period**		
Balance at 31 December 2006		**22,173**	**7,499**	**(49)**	**21,453**	**126,444**	**7,267**	**19,087**	**-**	**203,874**
Net profit for the year		-	-	-	-	-	-	24,090	-	24,090
Dividend	41	-	-	-	-	-	(611)	(12,649)	-	(13,260)
Net fair value gains, net of tax on available-for-sale investments	40	-	-	-	5,130	-	-	-	-	5,130
Transfer to legal reserves	41	-	-	-	-	1,209	-	(1,209)	-	-
Transfer to statutory reserves	41	-	-	-	-	15,464	-	(15,464)	-	-
Transfer to retained earnings	41	-	-	-	-	-	161	(161)		
Other		-	-	-	-	-	-	-	330	330
Balance at 31 December 2007		**22,173**	**7,499**	**(49)**	**26,583**	**143,117**	**6,817**	**13,694**	**330**	**220,164**
Net profit for the year		-	-	-	-	-	-	28,064	3	28,067
Net fair value gains, net of tax on available-for-sale investments	40	-	-	-	(12,915)	-	-	-	-	(12,915)
Transfer of the 2008 profit to reserves	41	-	-	-	-	27,777		(27,777)	-	-
Transfer of the 2007 profit to statutory reserves	41	-	-	-	-	13,782	-	(13,782)	-	-
Transfer of the 2007 profit to retained earnings	41	-	-	-	-	-	(88)	88		-
Balance at 31 December 2008		**22,173**	**7,499**	**(49)**	**13,668**	**184,676**	**6,729**	**287**	**333**	**235,316**

The following notes on pages 32 to 93 form an integral part of these consolidated financial statements.

5. CASH FLOW STATEMENT

(all amounts expressed in thousands of EUR)	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2008	**2007**	**2008**	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		35,387	31,293	35,607	30,682
Depreciation		6,366	5,711	7,165	6,234
Impairments of capital investments in subsidiaries, associates and joint ventures		-	370	-	370
Net (gains) / losses from exchange differences		4,660	6,190	4,763	6,189
Net (gains) / losses from sale of tangible assets and investment properties		40	(1,203)	94	(1,151)
Net (gains) / losses from sale of intangible fixed assets		-	14	-	14
Unrealised (gains) / losses from financial assets measured at fair value		(36)	(1)	(36)	(1)
Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)		(17,202)	6,989	(17,202)	6,989
Other adjustments to total profit or loss before tax		(238)	4,209	(238)	4,256
Cash flow from operating activities before changes in operating assets and liabilities		**28,977**	**53,572**	**30,153**	**53,582**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**(353,261)**	**(483,397)**	**(366,852)**	**(478,760)**
Net (increase) / decrease in balances with central banks		(6,735)	1,667	(6,735)	1,667
Net (increase) / decrease in financial assets held for trading		2,355	(24,463)	2,355	(24,463)
Net (increase) / decrease in financial assets available for sale		14,580	(58,491)	14,580	(58,491)
Net (increase) / decrease in loans and receivables		(362,032)	(384,287)	(373,362)	(378,698)
Net (increase) / decrease in other assets		(1,429)	(17,823)	(3,690)	18,775
(Increases) / decreases in operating liabilities		**249,694**	**369,208**	**262,198**	**364241**
Net increase / (decrease) in financial liabilities to central bank		128,608	30,000	128,608	30,000
Net increase / (decrease) in financial liabilities held for trading		(2,129)	14,041	(2,129)	14,041
Net increase / (decrease) in deposits, loans and receivables measured at amortised cost		120,425	305,757	133,170	300,583
Net increase / (decrease) in other liabilities		2,790	19,410	2,549	19,617
Cash flow from operating activities		**(74,590)**	**(60,617)**	**(74,501)**	**(60,937)**
Income taxes (paid) refunded		1,590	(13,225)	1,418	(13,307)
Net cash flow from operating activities		**(73,000)**	**(73,842)**	**(73,083)**	**(74,244)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**605**	**70,245**	**608**	**70,246**
Receipts from the sale of tangible assets and investment properties		35	1,823	38	1,824
Receipts from the sale of financial assets held to maturity		570	68,422	570	68,422
Cash payments on investing activities		**(6,417)**	**(8,780)**	**(6,377)**	**(8,867)**
Cash payments to acquire tangible assets and investment properties		(3,606)	(5,243)	(3,648)	(5,286)
Cash payments to acquire intangible fixed assets		(2,811)	(1,570)	(2,729)	(1,614)
Cash payment for the investment in subsidiaries, associates and joint ventures		-	(1,896)	-	(1,896)
Cash payments to acquire held to maturity investments		-	(71)	-	(71)
Net cash flow from investing activities		**(5,812)**	**61,465**	**(5,769)**	**61,379**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash proceeds from financing activities		-	-	-	-
Cash proceeds from subordinated liabilities issued		-	-	-	-
Cash proceeds from issuing shares and other equity instruments		-	-	-	-
Cash proceeds from the sale of treasury shares		-	-	-	-
Other cash proceeds related to financial activities		-	-	-	-
Cash payments on financing activities		-	**(13,262)**	-	**(13,262)**
Dividends paid		-	(13,262)	-	(13,262)
Net cash flow from financing activities		-	**(13,262)**	-	**(13,262)**
Effects of change in exchange rates on cash and cash equivalents		(439)	(6,582)	(439)	(6,582)
Net increase in cash and cash equivalents		**(78,812)**	**(25,639)**	**(78,852)**	**(26,127)**
Opening balance of cash and cash equivalents	43	103,796	136,017	103,877	136,587

	Note				
Closing balance of cash and cash equivalents	43	**24,545**	**103,796**	**24,586**	**103,878**

Operational cash flows of interest and dividends

	Banka Koper		Consolidated	
	2008	**2007**	**2008**	**2007**
Interest paid	(72,474)	(41,282)	(73,425)	(41,679)
Interest received	127,408	95,817	129,743	90,343
Dividends Received	995	508	995	508

As at 31st December 2008 the Bank's has had undrawn credit lines and loans already committed of EUR 528,268 thousand (2007: EUR 331,823 thousand).

The Bank has credit lines and other facilities in amount of EUR 518,268 thousand that is available for financing future business operations without any restrictions.

The following notes on pages 32 to 93 form an integral part of these consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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 was 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 submitted to disclose information about capital and internal capital on a consolidated basis.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

Presentation of financial statements

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

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

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

Accounting estimates and assumptions are used for valuating financial assets as follows:

a) Impairment of loans and advances

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

b) Fair values of financial instruments

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

c) Equity instruments available for sale

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

d) Financial assets held to maturity

The Group classifies in the financial assets carried as a group of assets held to maturity those financial assets with determined or determinable payments and determined maturity. Prior to the classification, the Group checks the purpose and the ability to hold such assets until their maturity. In the event that the Group would not be able to hold the assets to maturity, the consequence would be that the entire group of such financial assets would have to be classified as financial assets available for sale. Should that be the case, such assets would have to be measured at fair value, and that would result in the increase in the value of assets, and would consequently push equity up by EUR 83 thousands.

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

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

Amendments to published standards and interpretations effective 1 January, 2008

- **IAS 39 and IFRS 7 – Credit crisis reclassification:** Changes in IAS 39 and IFRS 7 allow the reclassification of financial instruments from the held-for-trading category into other categories provided certain conditions are met. The Bank has not made any reclassification of its financial assets held for trading into other categories.

- **IFRIC 11 – IFRS 2 - Group and Treasury Share Transactions:** This interpretation addresses the accounting treatment of share-based payments. There were no share-based payments made.

- **IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction:** The interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 – Employee benefits. The amendment of that standard and interpretation has not been relevant for the Group.

Early adoption of IFRS, and IFRS and IFRIC Interpretations not yet effective

The Bank has not early adopted any standards or interpretations issued and not yet effective.

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

- **IFRIC 13** – **Customer Loyalty Programmes** – effective for periods beginning on 1 July 2008, this interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted.

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

- **IFRIC 12** – **Service Concession Agreement**: This interpretation outlines the approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for infrastructure as property, plant and equipment, but rather recognize a financial asset and/or intangible asset, (not yet endorsed by EU).

- **IFRIC 15** – **Agreement for the Construction of Real Estate:** IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognized if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18.

- **IFRIC 16** – **Hedges of a Net Investment in a Foreign Operation:** IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

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

- **IFRS 8 - Operating segments** – effective from 1 January 2009: This standard replaces IAS 14 Segment reporting - and adopts a management approach to segment reporting, and in case the numbers used by management for internal performance measurement of operating segments are different to the numbers reported in the financial statements, requires a reconciliation of numbers used by management to the financial statements.

- **IAS 23 – Borrowing costs** - effective for periods beginning 1 January 2009: The revised IAS 23 requires capitalization of borrowing costs that relate to the qualifying asset. The transitional requirements of the standard require it to be adopted as a prospective change from the effective date. This standard has not been endorsed by EU as at 31 December 2008.

- **IAS 1 Revised Presentation of Financial Statements:** The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Bank is still evaluating whether it will have one or two statements.

- **IFRS 2 Share-Based Payment (Amendments):** The IASB issued an amendment to IFRS 2 in January 2008 that clarifies the definition of a vesting condition and prescribes the treatment for an award that is cancelled. This amendment will be effective for financial years beginning on or after 1 January 2009.

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

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

- **Amendments to IAS 32 and IAS 1 Puttable Financial Instruments:** Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Bank does not expect these amendments to impact its financial statements.

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

Improvements to IFRS (not yet endorsed by the EU)

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Bank has not early adopted any of the amendments.

- **IAS 1 Presentation of Financial Statements:** Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet.

- **IAS 16 Property, Plant and Equipment:** Replace the term “net selling price” with “fair value less costs to sell”.

- **IAS 23 Borrowing Costs:** The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one - the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

- **IAS 28 Investment in Associates:** If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- **IAS 31 Interest in Joint ventures:** If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- **IAS 36 Impairment of Assets:** When discounted cash flows are used to estimate ‘fair value less cost to sell’, additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’.

- **IAS 38 Intangible Assets:** Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

- **IFRS 7 Financial Instruments – Disclosures:** Removal of the reference to ‘total interest income’ as a component of finance costs.

- **IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:** Clarification, that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

- **IAS 10 Events after the Reporting Period:** Clarification, that dividends declared after the end of the reporting period are not obligations.

- **IAS 16 Property, Plant and Equipment:** Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

- **IAS 18 Revenue:** Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

- **IAS 19 Employee Benefits:** Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. The reference to the recognition of contingent liabilities is deleted to ensure consistency with IAS 37.

- **IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:** Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant. Also, revised various terms used to be consistent with other IFRS.

- **IAS 27 Consolidated and Separate Financial Statements:** When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- **IAS 29 Financial Reporting in Hyperinflationary Economies:** Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.

- **IAS 34 Interim Financial Reporting:** Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33.

- **IAS 39 Financial Instruments: Recognition and Measurement:** Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. The reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge is removed. Require the use of the revised effective interest rate when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- **IAS 40 Investment Property:** Revision of the scope, such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revision of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarification that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.

- **IAS 41 Agriculture:** The reference to the use of a pre-tax discount rate to determine fair value is removed. Also, the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value is removed. Also, the term 'point-of-sale costs' is replaced with 'costs to sell'.

The Bank is reviewing the standards and interpretations which are not yet effective and at this stage cannot reasonably assess the impact of the new requirements. The Bank will comply with new standards and interpretations as and when effective.

2.2 CONSOLIDATION

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

Segmental reporting

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

2.3 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. Financial statements are presented in Euro, which has been the Group's functional and presentation currency since 01 January 2007. Before 01 January 2007, the Group's functional and presentation currency was the Tolar, which has been translated into euro at exchange rate 239,64.

Transactions and balances

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

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

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

2.4 INVESTMENT IN SUBSIDIARIES

The acquisition of subsidiaries in stand-alone financial statements is measured and accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In the consolidated financial statements, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7.). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2.5 ASSOCIATED UNDERTAKINGS

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

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

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

2.6 GOODWILL AND EXCESS OF ACQUIRER'S INTEREST

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

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

2.7 FINANCIAL ASSETS

Classification

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

c) Held-to-maturity

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

d) Available-for-sale

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

Recognition and measurement

a) Date of recognition

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

b) "Day 1" profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a "Day 1" profit) in the income statement 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 income statement 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 income statement in the period in which they arise. Gains and losses from changes in the fair value of available for sale financial assets are recognised in equity, until the financial asset is derecognised or impaired, at which time the effect previously included in equity is recognised in the income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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

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 qualifies for derecognition. A financial liability is derecognised only when it is extinguished – that means when the obligation specified in the contract is discharged or cancelled or expires.

Fair value measurement principles

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

Where discounted cash flow techniques are used, estimated future cash flows are based on the management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

2.8 OFFSETTING

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

2.9 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

2.10 INTEREST INCOME AND EXPENSE

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

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

2.11 FEES AND COMMISSION INCOME

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

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

2.12 NON - CURRENT ASSETS HELD FOR SALE

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

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

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

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

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

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

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. In the case that the provision for loan impairment does not exist the write off is recognised directly in income statement 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 decrease the amount of the provision for loan impairment in the income statement.

b) Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. In line with Group accounting policies a significant decrease is when financial instrument's fair value decreases by more than 40% below average cost. Prolonged decline in the fair value is generally when the fair value of financial instrument is below its average cost for at least 9 months. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.15 INTANGIBLE ASSETS

Intangible assets, which 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.

Estimated useful lives (in years):

Licences	3 - 10
Other intangible assets	5 - 10

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 closing balance sheet 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 Group is carried at cost less accumulated depreciation and accumulated impairment losses, if any. Valuation of investment property is done every five years.

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

2.17 PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are initially recorded at cost/purchase price. Costs which can be attributed to the acquisition of property, plant and equipment increase the purchase price (imports and unrefundable charges/levies, commissions for property, plant and equipment, employee benefits, …). Interest expenses from the acquisition of fixed assets are not included in the cost value of the assets, but they are treated as expenses of the period in which they arise. 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.

Estimated useful lives (in years):

Buildings	16,6 – 33,3
Computers and software	2 – 3
Equipment	4 - 5
Motor vehicles	4 - 8

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

2.18 ACCOUNTING FOR LEASES

• A Group company is the lessee

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

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

• A Group company is the lessor

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

When assets are leased out under 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 cash flow statement, 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 BORROWINGS

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

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

2.21 PROVISIONS

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

2.22 INVENTORIES

Inventories are stated at cost plus all corresponding direct 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 income statement the fee income earned on a straight line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

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

2.24 TAXATION

Income tax is calculated by each Group member according to local legislation. For 2008 the income tax rate was 22% (2007: 23%),

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 2008 deferred tax was calculated using a 21% tax rate that is in line with the change of corresponding legislation earmarking a gradual decrease of the tax rate from 25% to 20% till the year 2010 (for the year 2007, a 22% rate was used).

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

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

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

2.25 EMPLOYEE BENEFITS

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long - 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 5.4% and
- Future salary increases of 3.5% p.a., promotions and increases in salaries according to past years of service,

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

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

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

2.26 SHARE CAPITAL

Dividends on ordinary shares

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

Treasury shares

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

2.28 COMPARATIVES

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

3. RISK MANAGEMENT ORGANISATION

Risk management processes include identification, measurement, reporting and control of risk. The strategic orientation and characteristics of business segments the Group operates in affects the risk profile of the Group and the risk on which the Group must exert comprehensive control. 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 less prominent risks that the Group manages in order to preserve the economic value of the Group are: business risk, reputational risk, market risk and banking book equity risk.

The objective of risk management is to control risk in accordance with the risk appetite and relative willingness to assume risk. Since the Group is part of the larger Banking Group Intesa SanPaolo, the methodologies and risk management processes are harmonized with the Parent Group’s approaches.

The assumption of risks is common for a bank institution and the role of risk management activity is to define the maximum amount of risk assumed and efficiently manage the relation between risk and earnings.

3.1 RISK MANAGEMENT STRUCTURE

Risk Management

Risk management activity of the Group is organised in the Risk Management and Credit Management Departments. The Risk Management Department is responsible for monitoring and controlling financial, market and operational risk and risk associated with the structure and quality of the Group’s credit portfolio. The Risk Management Department is also responsible for maintaining an adequate level of the bank’s capital. The Credit Management Department evaluates credit soundness of the Group’s borrowers and supports the Senior Management on evaluating the credit risk of single investments. Both departments are directly accountable to the Management Board in accordance with the guidelines and requirements for independent management of risk in a banking organization.

In accordance with the statute and policies of risk management, the following organizational units and corporate bodies are involved in the risk management process.

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

Management Board is responsible for the putting in place of Risk management structures and the approval of risk management policies and internal controls.

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

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

Bank Treasury manages the overall Group’s assets and liabilities, the adherence to limits imposed on banking book financial risks and for the control of short-term liquidity.

Internal Audit carries out the auditing of a Group’s risk management processes and verifies the adequacy of the procedures, compliance with regulatory requirements and compliance with established procedures. Internal audit reports its findings and recommendations to the management Board and Audit committee.

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

Own funds include all elements of the Bank’s liabilities that are designed to absorb Group’s losses and safeguard ordinary creditors. It plays an important role as a buffer against potential losses.

The adequacy of capital against the risk assumed by the Group is governed by two connected measures: Regulatory capital adequacy and internally assessed capital adequacy.

Regulatory capital adequacy is the ratio between the Group's own funds and risk-weighted assets. The calculation method is in all details defined by the supervisor. The risks are measured as risk-weighted assets for credit risk, market risk and operational risk. The regulatory minimum capital adequacy ratio between own funds and risk-weighted assets is 8 per cent. The capital adequacy plan is part of the Group's strategic planning in support of a due coverage of risk-weighted assets growing due to the increased business activity.

The increased risk-weighted assets have been sustained with the proper distribution of profits into the Group's reserves, which are an important part of Own Funds. Capital adequacy is monitored by the Risk Management Department on a quarterly basis and regularly reported to the ALCO Committee.

3.2.1 Fulfilment of capital adequacy requirements

Capital adequacy is measured by the ratio between the Group's capital and risk-weighted assets in accordance with the law and regulations of the Bank of Slovenia. In 2008 in Slovenia, capital adequacy requirements are calculated according to the new capital adequacy accord – BASEL 2. The Group uses the standardized approach. The figures for 2007 are calculated using the same approach.

Capital adequacy as at 31 December 2008 unconsolidated	**Balance sheet/ Nominal amount**		**Risk weighted amount**	
	2008	**2007**	**2008**	**2007**
Exposures to banking book				
Exposures to state and central bank	317,890	338,656	161	267
Exposures to local municipalities	10,711	2,706	4,131	1,339
Exposures to public sector	11,733	27,493	5,170	7,245
Exposures to development banks	2,389	2,467	-	-
Exposures to institutions	268,230	211,804	122,702	74,117
Exposures to enterprises	1,370,261	1,206,615	1,203,961	1,038,980
Exposures to retail banking	776,028	622,155	492,795	388,513
Past due exposures	17,680	12,347	22,860	15,239
Exposures to highly risk exposures	50,158	27,884	72,553	36,494
Exposures to investments funds	23,203	18,610	23,203	18,610
Exposures to other assets	74,536	68,343	59,108	53,458
Total	**2,922,819**	**2,539,080**	**2,006,644**	**1,634,262**
Credit risk weighted assets			2,006,644	1,634,262
Market risk weighted assets			36,163	66,825
Operational risk weighted assets			157,038	140,500
Total risk weighted assets			**2,199,845**	**1,841,587**
Regulatory capital				
Ordinary share			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			9,970	8,581
Statutory reserves			174,657	134,487
Treasury shares fund reserves			49	49
Retained earning			6,009	6,009
Less specific country risk items			-	(17,725)
Less intangible assets			(7,321)	(4,945)
Total qualifying Tier 1 capital			**212,987**	**156,079**
Revaluation reserve (80% of positive revaluation of AFS			13,065	11,599
Revaluation reserve (100% of negative revaluation of AFS			(65)	-
Total qualifying Tier 2 capital			**13,000**	**11,599**
Diminution of capital				
- less investment in subsidiaries			(5,214)	(5,214)
- less non liquid assets			-	-
Total diminution of capital			**(5,214)**	**(5,214)**
Total regulatory capital			**220,773**	**162,464**
Capital Adequacy ratio			**10.04**	**8.82**

Capital adequacy as at 31 December 2008 consolidated	Balance sheet/ Nominal amount		Risk weighted amount	
	2008	2007	2008	2007
Exposures to banking book				
Exposures to state and central bank	318,715	339,205	161	267
Exposures to local municipalities	10,716	2,719	4,134	1,345
Exposures to public sector	11,734	27,499	5,170	7,247
Exposures to development banks	2,389	2,467	-	-
Exposures to institutions	263,215	211,804	120,798	74,117
Exposures to enterprises	1,346,918	1,178,806	1,184,738	1,012,979
Exposures to retail banking	806,548	643,614	515,684	404,607
Past due exposures	23,330	15,868	31,119	20,521
Exposures to highly risk exposures	74,624	54,440	105,873	74,360
Exposures to investments funds	23,203	18,610	23,203	18,610
Exposures to other assets	79,726	72,945	64,289	58,009
Total	**2,961,118**	**2,567,977**	**2,055,169**	**1,672,062**
Credit risk weighted assets			2,055,169	1,672,062
Market risk weighted assets			36,163	66,825
Operational risk weighted assets			160,200	141,250
Total risk weighted assets			**2,251,532**	**1,880,137**
Regulatory capital				
Ordinary share			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			9,970	8,581
Statutory reserves			174,657	134,487
Treasury shares fund reserves			49	49
Retained earning			6,729	6,817
Less specific country risk items			-	(17,705)
Less intangible assets			(7,455)	(4,990)
Less good will			(905)	(905)
Minority interest			333	330
Total qualifying Tier 1 capital			**213,001**	**156,287**
Revaluation reserve (80% of positive revaluation of AFS shares)			13,065	11,599
Revaluation reserve (100% of negative revaluation of AFS shares)			(65)	-
Total qualifying Tier 2 capital			**13,000**	**11,599**
Diminution of capital				
- less investment in subsidiaries			-	-
- less non liquid assets			-	-
Total diminution of capital			**-**	**-**
Total regulatory capital			**226,001**	**167,886**
Capital Adequacy ratio			**10.04**	**8.93**

3.2.2 Internal capital adequacy assessment (ICAAP)

ICAAP is a complex organizational process completed by the institution and requested by the Industry regulator in order to complement the regulatory capital requirements and to ensure a more consistent consideration of risks in capital management. The ICAAP process for the Group is carried out on a consolidated basis by the Parent company, meaning that the identification, risk assessment and determination of adequate internal capital is performed by the Parent company and delivered to all subsidiaries. The confidence level used to calculate internal capital is 99,9% (the degree of risk coverage)

The internally assessed own funds needed to meet internal capital requirements (referred to as Available financial resources) include regulatory own funds, provision differences between percentages defined by Bank of Slovenia regulations and IFRS, current profits net of dividends and the undistributed profits expected over a 1 year period.

The first simplified ICAAP figures have been prepared in 2008 for the situation as of 30.6.2008. The first complete ICAAP will be prepared by the end of April 2009. The Group has to also comply with the local regulation and at the local level conform to the specific requirements required by the Bank of Slovenia.

For the Group the following material risks, that require the allocation of internal capital, have been identified (situation as of 30.6.2008):

(all amounts expressed in millions of EUR)

Risk	Economic (Internal) Capital
• Credit Risk	130,18
• Banking Book Risk	32,76
Equity Risks	*13,37*
Interest Rate Risk	*12,69*
Real Estate Proprietary Risk	*6,70*
• Market Risk	0,23
• Operational Risk	4,71
• Strategic Risk	9,94
Total	**177,82**
Available financial resources	**223,64**

Credit risk is calculated for the counterparty default risk separately for performing loans, including country risk, and non-performing loans. For the performing loans, the simulation model is used, while for non-performing loans, a simplified approach, by applying a ratio to Basel II risk weighted assets, is used. The approach covers counterparty and credit concentration risk.

BB equity risk covers the risk of not consolidated equity investments, classified as available for sale. The approach is based on historical simulation, for each stock measured by its specific return time series, and for unlisted equities the appropriate equity sector index is used, corrected by liquidity factor.

BB interest rate risk calculation is based on a parametric VaR approach and an appropriate model to describe the interest rate risk.

BB real estate proprietary risk is measured with a historical simulation mapped on an EPRA index.

Market risk internal capital is equal to the regulatory capital requirements as a proxy.

Operational risk is based on AMA model.

Strategic risk computation is based on variable margin volatility approach and measured with parametric VaR.

The calculation of internal capital considers the effects of the diversification between risks and the diversification of risks between Intesa Sanpaolo group companies.

3.3 CREDIT RISK

Credit risk is the risk that the borrower will not settle its obligation. The credit risk can be toward a counterparty receiving a bank loan or toward the receiver of a bank's contingent liability (undrawn loan commitment, guarantee). Credit risk is, by scope and business strategic orientation, the most important risk for the Group.

The main part of Group credit risk arises from the financial assets measured at amortized cost (loans and other claims) and off-balance sheet commitments and contingencies. For those assets, credit risk is evaluated by means of credit classification.

For financial instruments measured at fair value, credit risk is not measured directly but by observing market values, which incorporate also possible credit deterioration of the issuer.

Derivative transactions: The credit exposure is calculated based on the replacement cost. The replacement cost combines the positive value, that is when the receiving value exceeds the delivery value and the regulatory add-on that reflects the future volatility of values exchanged.

The total bank's credit exposure on the 31st of December 2008 equalled 3.227 million €, which is 15 percent more than on the 31st of December 2007. In the Group's credit portfolio on 31st of December 2008, 98% of all credits are classified as performing (A and B rating).

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

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Provisions for impairment on performing portfolio	Rate of coverage performing portfolio	Provisions for impairment on non performing portfolio	Rate of coverage non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	309,159	25,121	1%	25,121	1%	-	0%	-	0%	-	0%
Corporate entities	2,259,439	2,112,364	79%	2,069,567	79%	41,286	68%	62,785	3%	14,884	36%
Banks	148,960	19,040	1%	17,619	1%	1,421	2%	-	0%	1,421	100%
Private individuals	509,594	509,350	19%	487,773	19%	17,768	30%	5,941	1%	12,073	68%
Total	3,227,152	2,665,875	100%	2,600,080	100%	60,475	100%	68,726	3%	28,378	47%

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

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Provisions for impairment on performing portfolio	Rate of coverage performing portfolio	Provisions for impairment on non performing portfolio	Rate of coverage non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	218,069	37,868	2%	37,868	1%	-	0%	-	0%	-	0%
Corporate entities	2,003,146	1,812,716	77%	1,764,898	78%	47,818	71%	55,040	3%	17,279	36%
Banks	184,191	85,696	4%	84,275	4%	1,421	2%	-	0%	1,421	100%
Private individuals	401,490	401,387	17%	383,355	17%	18,032	27%	4,512	1%	7,679	43%
Total	2,806,896	2,337,667	100%	2,270,396	100%	67,271	100%	59,552	3%	26,379	39%

Credit Risk Measurement

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

The Group has established a sound and well defined credit granting process in order to ensure a safe and efficient assessment of counterpart credit soundness. The credit assessment system sets out the eligibility and the extent to which a counterpart is able to contract obligations, as well as the terms and conditions necessary to safeguard the Group's exposure.

Maximum exposure	Banka Koper 2008	Banka Koper 2007	Consolidated 2008	Consolidated 2007
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	11,276	81,452	11,276	81,452
Loans and advances to customers:	2,039,987	1,686,871	2,076,150	1,711,006
Loans to individuals:	367,667	305,848	396,041	335,241
- Overdrafts	33,906	29,614	33,906	29,614
- Credit cards	7,891	7,455	28,961	26,769
- Term loans	116,569	116,263	116,569	126,342
- Mortgages	209,301	152,516	209,301	152,516
-Finance leases	-	-	7,304	-
Loans to sole proprietors	77,179	59,003	85,344	64,527
Loans to corporate entities	1,595,141	1,322,020	1,594,765	1,311,238
Investment securities available for sale	298,328	217,650	298,328	217,650
- Debt securities	273,241	198,486	273,241	198,486
- Equity securities	25,087	19,164	25,087	19,164
Investment securities held to maturities	1,528	2,013	1,528	2,013
- Debt securities	1,528	2,013	1,528	2,013
Other assets	62,400	66,179	64,265	67,028
Credit risk exposures relating to off-balance sheet items are as follows:				
Guarantees	92,318	72,731	92,318	72,731
Credit commitments and other credit related liabilities	368,043	391,262	364,111	388,244
At 31 December	**2,873,880**	**2,518,158**	**2,907,976**	**2,540,124**

The maximum exposure to credit risk represents a worse case scenario of credit risk exposure to the Group at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Credit Classification

The classification of debtors is carried out in accordance with the regulatory criteria for the classification of claims on debtors and internal procedures for analysing debtors' creditworthiness. Investments in the credit portfolio are divided into five prudential groups, where 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 lower rating (credit standing) are classified in group E. Debtors of the Group are classified in individual categories with regard to the assessed ability for the repayment of claims.

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

Group's internal ratings scale and mapping of external ratings

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

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

Group's rating	2008		2007	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
A	65	0,9	70	0,8
B	32	6,3	27	7,5
C	1	18,4	2	19,6
D	1	34,5	-	39,1
E	1	85,5	1	85,4
	100	3,6	100	3,7

Provisions

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

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

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

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

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

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

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

Large Exposures

In order to limit the risk against single borrowers that may account for a significant percentage of the total exposure, the Group controls and manages the single-name credit concentration risk. The maximum exposure against a single borrower and to its connected entities is limited by law and should not exceed 25 per cent of the Group's capital (own funds). The sum of the single-name large exposures on the 31st of December 2008 equalled 230 percent of the bank's capital. The Group also assesses and controls other types of concentration risks, especially concentration by industries in order to limit the exposure toward riskier (more cyclical) activities.

3.4 ANALYSIS OF PAST DUE LOANS

Loans and advances are summarised as follows:

Loans and advances by maturity (past due) – unconsolidated

Unconsolidated	31 December 2008		31 December 2007	
	Loans and advances to customers	Loans and advances to bank	Loans and advances to customers	Loans and advances to bank
Neither past due nor impaired	2,030,578	11,276	1,689,125	81,452
Past due but not impaired	24,577	-	2,725	-
Impaired	58,577	1,421	60,213	1,421
Gross	**2,113,732**	**12,697**	**1,752,063**	**82,873**
Impairment losses on loans and advances	(73,745)	(1,421)	(65,192)	(1,421)
Net	**2,039,987**	**11,276**	**1,686,871**	**81,452**

Loans and advances by maturity (past due) – consolidated

Consolidated	31 December 2008		31 December 2007	
	Loans and advances to customers	Loans and advances to bank	Loans and advances to customers	Loans and advances to bank
Neither past due nor impaired	2,060,487	11,276	1,698,397	81,452
Past due but not impaired	29,631	-	2,725	-
Impaired	62,781	1,421	77,567	1,421
Gross	**2,152,899**	**12,697**	**1,778,689**	**82,873**
Impairment losses on loans and advances	(76,749)	(1,421)	(67.683)	(1,421)
Net	**2,076,150**	**11,276**	**1,711,006**	**81,452**

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

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

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

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

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

31 December 2007 - Unconsolidated	**Individuals**						**Total loans and advances to customers**
	Overdrafts	**Credit Cards**	**Term loans**	**Mortgages**	**Sole proprietors**	**Corporate entities**	
Neither past due nor impaired A	29,879	7,725	109,912	140,465	41,279	893,130	1,222,390
Neither past due nor impaired B	-	-	2,294	6,896	15,225	442,320	466,735
Neither past due nor impaired C	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-
Not past due but impaired	70	-	4,661	6,301	2,486	22,376	35,894
Past due or impaired	3,389	-	2,803	920	3,656	16,276	27,044
Gross	**33,338**	**7,725**	**119,670**	**154,582**	**62,646**	**1,374,102**	**1,752,063**
Impairment losses on loans and advances	(3,724)	(270)	(3,407)	(2,066)	(3,643)	(52,082)	(65,192)
Net	**29,614**	**7,455**	**116,263**	**152,516**	**59,003**	**1,322,020**	**1,686,871**

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

31 December 2007 - Consolidated	**Individuals**							**Total loans and advances to customers**
	Overdrafts	**Credit Cards**	**Term loans**	**Mortgages**	**Finance leases**	**Sole proprietors**	**Corporate entities**	
Neither past due nor impaired A	29,879	13,387	114,193	140,465	5,668	46,818	881,252	1,231,662
Neither past due nor impaired B	-	1	2,294	6,896	-	15,225	442,320	466,736
Neither past due nor impaired C	-	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Not past due but impaired	70	-	4,661	6,301	-	2,486	22,376	35,894
Past due or impaired	3,389	15,875	3,115	920	-	3,656	17,442	44,397
Gross	**33,338**	**29,263**	**124,263**	**154,582**	**5,668**	**68,185**	**1,363,390**	**1,778,689**
Impairment losses on loans and advances	(3,724)	(2,775)	(3,407)	(2,066)	(74)	(3,665)	(51,972)	(67,683)
Net	**29,614**	**26,488**	**120,856**	**152,516**	**5,594**	**64,520**	**1,311,418**	**1,711,006**

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

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

	Sole proprietors		Corporate entities		TOTAL
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	1,355	128	15.368	2,284	19,135
Past due 30 - 60 days	230	22	526	2,583	3,361
Past due 60 - 90 days	184	46	1.240	194	1,664
Past due over 90 days	356	2,787	4,956	16,232	24,331
Total	**2,125**	**2,983**	**22,090**	**21,293**	**48,491**

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

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

	Sole proprietors		Corporate entities		TOTAL
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	1355	128	15,368	2,284	19,135
Past due 30 - 60 days	230	22	526	2,583	3,361
Past due 60 - 90 days	184	46	1,240	194	1,664
Past due over 90 days	356	2,787	4,956	16,232	24,331
Total	**2,125**	**2,983**	**22,090**	**21,293**	**48,491**

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

31 December 2007 - Unconsolidated	Individuals								TOTAL individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	-	3,158	-	-	95	314	17	110	3,694
Past due 30 - 60 days	-	26	-	-	-	245	-	85	356
Past due 60 - 90 days	-	47	-	-	-	108	-	32	187
Past due over 90 days	-	158	-	-	-	2,041	-	676	2,875
Total	**-**	**3,389**	**-**	**-**	**95**	**2,708**	**17**	**903**	**7,112**

	Sole proprietors		Corporate entities		TOTAL
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	258	197	1,210	1,078	2,743
Past due 30 - 60 days	434	126	155	186	901
Past due 60 - 90 days	18	35	135	433	621
Past due over 90 days	141	2,447	262	12,817	15,667
Total	**851**	**2,805**	**1,762**	**14,514**	**19,932**

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

31 December 2007 - Consolidated	Individuals								TOTAL individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	-	3,158	-	9,725	95	314	17	110	13,419
Past due 30 - 60 days	-	26	-	460	-	245	-	85	816
Past due 60 - 90 days	-	47	-	193	-	420	-	32	692
Past due over 90 days	-	158	-	5,497	-	2,041	-	676	8,372
Total	**-**	**3,389**	**-**	**15,875**	**95**	**3,020**	**17**	**903**	**23,299**

	Sole proprietors		Corporate entities		TOTAL
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	258	197	1,210	1,409	3,074
Past due 30 - 60 days	434	126	155	284	999
Past due 60 - 90 days	18	35	135	503	691
Past due over 90 days	141	2,447	262	13,484	16,334
Total	**851**	**2,805**	**1,762**	**15,680**	**21,098**

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

Loans and advances individually impaired

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

31 December 2007	Individuals	Sole proprietors	Corporate entities	TOTAL
Individually impaired loans	-	1,188	11,344	12,532
Fair value of collateral	-	995	10,009	11,004

3.5 LIQUIDITY RISK

Liquidity risk is the ability of a bank to provide adequate funding for new operations and meet payment obligations as they fall due, avoiding excessive costs for obtaining new liquidity by raising new debt and disposing of marketable assets.

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

In order to manage liquidity risk, the Group monitors the liquidity ratio on a daily basis and reports the position to the Bank of Slovenia. The mandatory reserves are monitored on a daily basis as well in order to fulfil the required average monthly balance. Short-term daily cash-flows are actively monitored by the Treasury Division, anticipating in advance all planned wholesale outflows and providing adequate funding. The Treasury Division keeps an adequate amount of eligible assets as collateral for obtaining funds from the Euro system and other money market participants.

The Risk Management 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. Liquidity positions are monitored under the standard scenario and market-related crisis scenario (market-related crisis scenario presumes restrictions on the availability of new funds and increased loan demand; these events create additional demand for liquidity and make it harder to generate new funds).

The Risk Management Department, at least on a monthly basis, measures and reports all the liquidity indicators to the ALCO Committee and monitors the compliance with minimum established levels for the indicators. Liquidity risk is managed by preventing excessive imbalances in financing medium/long-term operations, adequate coverage of expected short-term outflows and active monitoring of the funding concentration by counterparts. The eventual liquidity crisis is addressed by the Contingency Liquidity Plan, establishing early warning indicators, 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

	Residual maturity					
As at 31 December 2008	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**TOTAL**
ASSETS						
Cash and balances with central banks	12,213	-	-	-	26,227	38,440
Financial instruments held for trading:	47,681	1	25	1,029	-	48,736
- trading assets	47,681	1	25	1,029	-	48,736
Investment securities available for sale	7,405	14,480	23,809	218,355	34,279	298,328
Loans and advances:	248,958	197,577	613,994	690,048	300,686	2,051,263
- to banks	11,276	-	-	-	-	11,276
- to customers	237,682	197,577	613,994	690,048	300,686	2,039,987
Investment securities held to maturity	43	-	-	1,485	-	1,528
Property, plant and equipment	-	-	-	6,008	23,505	29,513
Investment property	-	-	-	457	-	457
Intangible assets	-	-	-	7,321	-	7,321
Investment in subsidiaries	-	-	1,526	-	3,688	5,214
Income tax assets	-	-	-	2,221	-	2,221
- deferred income tax	-	-	-	2,221	-	2,221
Other assets	3,146	14,180	-	348	-	17,674
Total assets	319,446	226,238	639,354	927,272	388,385	2,500,695
LIABILITIES						
Liabilities to Central Bank	158,654	-	-	-	-	158,654
Liabilities carried at amortised cost:	855,040	336,483	583,481	232,597	36,634	2,044,235
- deposits from banks	32,630	50,009	27,958	40,854	18,663	170,114
- due to customers	818,059	281,981	167,620	25,527	2,840	1,296,027
- other borrowed funds from banks	4,348	4,487	387,877	166,080	15,056	577,848
- other borrowed funds from other customers	3	6	26	136	75	246
Provisions:	-	-	270	1,032	21,535	22,837
- provisions for liabilities and charges	-	-	-	-	19,412	19,412
- retirement benefit obligations	-	-	270	1,032	2,123	3,425
Income tax liabilities:	-	-	3,360	4,699	-	8,059
- current income tax	-	-	3,360	-	-	3,360
- deferred income tax	-	-	-	4,699	-	4,699
Other liabilities	14,387	4,884	-	-	-	19,271
Total liabilities	1,028,081	341,367	587,111	238,328	58,169	2,253,056
Net liquidity gap	(708,635)	(115,129)	52,243	688,944	330,216	247,639
As at 31 December 2007						
Total assets	338,499	172,800	556,980	822,808	345,944	2,237,031
Total liabilities	877,405	273,202	577,108	215,268	59,852	2,002,835
Net liquidity gap	(538,906)	(100,402)	(20,128)	607,540	286,092	234,196

Maturities of assets and liabilities - unconsolidated and consolidated
Derivative cash flows by expected maturity – derivatives settled on a net basis

As at 31 December 2008	Residual maturity Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	TOTAL
DERIVATIVE ASSETS						
Derivatives held for trading:						
- Currency swaps	298	-	-	-	-	298
- Interest rate swaps	-	1	253	96	-	350
- Options	-		80	-	-	80
- Forward agreement on marketable shares	-	429	12	-	-	441
Total	298	430	345	96	-	1,169
DERIVATIVE LIABILITIES						
Derivatives held for trading:						
- Currency swaps	44	-	-	-	-	44
- Interest rate swaps	-	1	106	253	-	360
- Options	-	-	-	80	-	80
- Forward agreement on marketable shares		14,337	-	-	-	14,337
- Forward currency agreement	-	-	11	-	-	11
Total	44	14,338	117	333	-	14,832
Net liquidity gap	**254**	**(13,908)**	**228**	**(237)**	**-**	**(13,663)**
As at 31 December 2007						
Total derivative assets	8	771	8	1,393	-	2,180
Total derivative liabilities	671	14,425	57	2,109	-	17,262
Net liquidity gap	**(663)**	**(13,654)**	**(49)**	**(716)**	**-**	**(15,082)**

Maturities of assets and liabilities - unconsolidated and consolidated
Derivative cash flows by expected maturities – derivatives settled on a gross basis

As at 31 December 2008	Residual maturity Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	TOTAL
Derivatives held for trading:					
- Currency swa					
- Outflow	33,338	-	-	-	33,338
- Inflow	33,451	-	-	-	33,451
- Interest rate swaps					
- Outflow	-	143	21,455	13,716	35,314
- Inflow	-	143	21,443	13,716	35,302
- Options					
- Outflow	-	-	-	9,886	9,886
- Inflow	-	-	-	9,823	9,823
- Forward agreement on marketable shares					
- Outflow	-	-	-	-	-
- Inflow	-	22,463	-	-	22,463
- Forward currency agreement					
- Outflow	-	-	709	-	709
- Inflow	-	-	709	-	709
Total outflow	**33,338**	**143**	**22,164**	**23,602**	**79,247**
Total inflow	**33,451**	**22,606**	**22,152**	**23,539**	**101,478**

Maturities of assets and liabilities - unconsolidated and consolidated
Derivative cash flows expected maturities – derivatives settled on a gross basis

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

Maturities of assets and liabilities - consolidated
Non derivative cash flows by expected maturities

As at 31 December 2008	Residual maturity Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	TOTAL
ASSETS						
Cash and balances with central banks	12,223	-	-	-	26,227	38,450
Financial instruments held for trading:	47,681	1	25	1,029	-	48,736
- trading assets	47,681	1	25	1,029	-	48,736
Investment securities available for sale	7,405	14,480	23,809	218,355	34,279	298,328
Loans and advances:	1,510,283	308,928	180,890	59,782	27,543	2,087,426
- to banks	11,276	-	-	-	-	11,276
- to customers	1,499,007	308,928	180,890	59,782	27,543	2,076,150
Investment securities held to maturity	43	-	-	1,485	-	1,528
Goodwill	-	-	-	-	-	-
Property, plant and equipment	-	-	-	6,011	25,914	31,925
Investment property	-	-	-	457	-	457
Intangible assets	-	-	-	8,360	-	8,360
Income tax assets	-	-	18	2,811	-	2,829
- current income tax	-	-	18	-	-	18
- deferred income tax	-	-	-	2,811	-	2,811
Other assets	3,146	17,200	-	348	-	20,694
Total assets	1,580,781	340,609	204,742	298,638	113,963	2,538,733
LIABILITIES						
Liabilities to Central Bank	158,654	-	-	-	-	158,654
Liabilities carried at amortised cost:	857,115	336,758	585,106	257,997	36,634	2,073,610
- deposits from banks	32,630	50,009	27,958	40,854	18,663	170,114
- due to customers	818,028	281,981	167,620	25,527	2,840	1,295,996
- other borrowed funds from banks	6,454	4,762	389,502	191,480	15,056	607,254
- other borrowed funds from other	3	6	26	136	75	246
Provisions:	-	-	270	1,032	21,552	22,854
- provisions for liabilities and charges	-	-	-	-	19,348	19,348
- retirement benefit obligations	-	-	270	1,032	2,204	3,506
Income tax liabilities:	-	-	3,431	4,699	-	8,130
- current income tax	-	-	3,431	-	-	3,431
- deferred income tax	-	-	-	4,699	-	4,699
Other liabilities	14,387	12,183	-	-	-	26,570
Total liabilities	1,030,156	348,941	588,807	263,728	58,186	2,289,818
Net liquidity gap	**550,625**	**(8,332)**	**(384,065)**	**34,910**	**55,777**	**248,915**
As at 31 December 2007						
Total assets	360,632	170,912	562,990	817,965	349,567	2,262,066
Total liabilities	879,045	277,841	586,662	223,368	59,904	2,026,820
Net liquidity gap	(518,413)	(106,929)	(23,672)	594,597	289,663	235,246

Expected maturities of off-balance sheet items - unconsolidated

As at 31 December 2008	Residual maturity No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	4,067	2370	-	6,437
Guarantees	49,325	28859	14,133	92,318
Derivative financial instruments	22,176	1031	-	23207
Credit commitments	329,524	8771	23,147	361442
Total	**405,092**	**41,031**	**37,280**	**483,404**

As at 31 December 2007	No later than 1 year	1-5 years	Over 5 years	Total
Total	**418,779**	**40,134**	**5,080**	**463,993**

Expected maturities of off-balance sheet items - consolidated

As at 31 December 2008	Residual maturity No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	4,067	2,370	-	6,437
Guarantees	49,325	28,859	14,133	92,318
Derivative financial instruments	22,176	1,031	-	23,207
Credit commitments	327010	7374	23,147	357,531
Total	**402,578**	**39,634**	**37,280**	**479,493**

As at 31 December 2007	No later than 1 year	1-5 years	Over 5 years	Total
Total	**415,761**	**40,134**	**5,080**	**460,975**

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

As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Liabilities to Central Bank	158,654	-	-	-	-	158,654
Liabilities carried at amortized cost:	884,526	347,975	603,586	240,522	37,848	2,114,457
- deposits from banks	33,661	51,589	28,841	42,145	19,254	175,490
- due to customers	846,364	291,738	173,420	26,410	2,939	1,340,871
- other borrowed funds from banks	4,498	4,642	401,298	171,826	15,577	597,841
- other borrowed funds from other customers	3	6	27	141	78	255

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

As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Liabilities to Central Bank	158.654	-	-	-	-	158.654
Liabilities carried at amortised cost:	886.673	348.260	605.267	266.801	37.847	2.144.848
- deposits from banks	33.661	51.589	28.841	42.145	19.254	175.490
- due to customers	846.332	291.738	173.420	26.410	2.938	1.340.838
- other borrowed funds from banks	6.677	4.927	402.979	198.105	15.577	628.265
- other borrowed funds from other customers	3	6	27	141	78	255

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

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Liabilities to Central Bank	30.046	-	-	-	-	30.046
Liabilities carried at amortized cost:	862.958	279.467	596.440	213.496	37.307	1.989.668
- deposits from banks	11.365	-	13.925	72.961	21.673	119.924
- due to customers	850.723	275.693	142.359	19.127	3.283	1.291.185
- other borrowed funds from banks	867	3.768	440.130	121.267	12.250	578.282
- other borrowed funds from other customers	3	6	26	141	101	277

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

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Liabilities to Central Bank	30.046	-	-	-	-	30.046
Liabilities carried at amortized cost:	864.654	276.718	606.233	221.876	37.307	2.006.788
- deposits from banks	11.365	-	13.925	72.961	21.673	119.924
- due to customers	850.692	275.693	142.359	19.127	3.283	1.291.154
- other borrowed funds from banks	2.594	1.019	449.923	129.647	12.250	595.433
- other borrowed funds from other customers	3	6	26	141	101	277

3.6 INTEREST RATE RISK OF BANKING BOOK

With the volatile interest rate environment, the Group's economic performance is exposed to adverse movements in interest rates. Changes in interest rates affect the present value of future cash-flows and the amount of net interest earned on all interest-bearing items as well as on assets whose fair value fluctuates along with changes in interest rates.

The Group measures interest rate risk of banking book assets and liabilities by taking into consideration the sensitivity of net interest income and sensitivity of economic value. Periodically a report containing the following sensitivities is prepared and presented to the ALCO Committee:

- Sensitivity of net interest income on 75 b.p. parallel shift of yield curve in a 1 year time span.
- Sensitivity of economic value, that is difference between the present value of interest-sensitive assets and liabilities in the conditions of 200 b.p. parallel shift of yield curve.

The first measure takes into consideration a short-term impact of rate shock on the Group's earnings, while the second measure allows for the long-term assessment of sensitivity to interest rate fluctuations. The sensitivity of funds with no contractually defined maturity (demand deposits) are restated by using models in order to present the fund's sensitivity to rate shocks.

On 31.12.2008 the sensitivity of net interest income on 75 b.p. parallel shift of yield curve for a 1 year time horizon amounted to 2,5 million EUR. Based on a hypothetical assumption that rates would increase, the net interest income would be higher by the stated amount and the other way around if rates would decrease.

Sensitivity of net interest income on 75 b.p. parallel shift of yield curve

Currency	On Dem.	1-7 days	7-15 days	16-31 days	2M	3M	4M	5M	6M	9M	1Y	**Total**
EUR	(862)	(1,213)	(515)	5,354	(241)	(221)	(15)	(75)	168	51	1	**2,430**
USD	(1)	105	59	(89)	34	(54)	(15)	(5)	(16)	(1)	-	**17**
CHF	(8)	6	3	(3)	(2)	17	(1)	(1)	(1)	-	-	**11**
OST	(3)	7	4	4	-	-	-	-	-	-	-	**12**
Total												**2,471**

The sensitivity of the net present value of interest-sensitive assets and liabilities to a 200 b.p. interest rate shock is 12 million EUR. On an upward movement, the economic value would be negatively affected and positively affected in case of a downward rate evolvement.

The impact of 200 b.p. interest rate shift on net present value – Bank's capital (year average)

Currency	0-1Y	1Y-3Y	3Y-5Y	5Y-10Y	> 10Y	**Total**
EUR	999	(4,675)	(1,956)	(4,613)	(1,513)	**(11,759)**
USD	97	-	-	-	-	**97**
CHF	10	-	-	-	-	**10**
Other	16	-	-	-	-	**16**
Total						**(11,635)**

In the year 2008 the Group has introduced reprising limits to the banking book, replacing the previous limitation of the interest rate sensitivity of the Treasury Division's fixed income portfolio. The interest net earning sensitivity limit is 5 million EUR. While the sensitivity is measured separately for all the significant currencies presented in the table, the aggregate sensitivity that is compared to the established limit is the sum of individual sensitivities summing them up without cancelling out the opposite positions in different currencies. As at 31.12.2008 the banking book debt instruments portfolio amounted to 285 million EUR, while interest rate sensitivity of 1 basis point equaled 46,545 EUR.

The economic (present value) sensitivity is 20% of own funds (as at 31.12.2008 equaled 36 million EUR), compared with a 12 million EUR exposure. The sensitivity is estimated jointly for all currencies by allowing for offsetting of the effects of long and short positions in different currencies.

Interest rate risk is managed by balancing the interest rate characteristics of assets and liabilities and restricting the interest rate exposure within limits established for reprising risk. The Group also actively monitors and restricts the basis risk, that is the risk of imperfect correlation of rate movements on different instruments and basic rates.

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

Interest rate risk - unconsolidated

As at 31 December 2008	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**Non-interest bearing**	**TOTAL**
ASSETS							
Cash and balances with central banks	12.213	-	-	-	26,227	-	38,440
Financial instruments held for trading:	830	-	225	-	-	48,850	49,905
- trading assets	830	-	225	-	-	47,681	48,736
- derivative financial instruments	-	-	-	-	-	1,169	1,169
Investment securities available for sale	47.842	147,117	78,282	-	-	25,087	298,328
Loans and advances:	1,497,965	317,980	173,548	35,352	9,922	16,496	2,051,263
- to banks	3,374	-	-	-	-	7,902	11,276
- to customers	1,494,591	317,980	173,548	35,352	9,922	8,594	2,039,987
Investment securities held to maturity	1,528	-	-	-	-	-	1,528
Property, plant and equipment	-	-	-	-	-	29,513	29,513
Investment property	-	-	-	-	-	457	457
Intangible assets	-	-	-	-	-	7,321	7,321
Investment in subsidiaries	-	-	-	-	-	5,214	5,214
Income tax assets	-	-	-	-	-	2,221	2,221
- deferred income tax	-	-	-	-	-	2,221	2,221
Other assets	-	-	-	-	-	17,674	17,674
Total assets	1,560,378	465,097	252,055	35,352	36,149	152,833	2,501,864
LIABILITIES							
Liabilities to Central Bank	158,654	-	-	-	-	-	158,654
Financial instruments held for trading:	-	-	-	-	-	14,832	14,832
- derivative financial instruments	-	-	-	-	-	14,832	14,832
Liabilities carried at amortised cost:	1,373,825	456,313	206,277	5,319	85	2,416	2,044,235
- deposits from banks	68,652	50,009	51,453	-	-	-	170,114
- due to customers	864,084	280,559	143,775	5,183	10	2,416	1,296,027
- other borrowed funds from banks	441,086	125,739	11,023	-	-	-	577,848
- other borrowed funds from other customers	3	6	26	136	75	-	246
Provisions:	-	-	-	-	-	22,837	22,837
- provisions for liabilities and charges	-	-	-	-	-	19,412	19,412
- retirement benefit obligations	-	-	-	-	-	3,425	3,425
Income tax liabilities:	-	-	-	-	-	8,059	8,059
- current income tax	-	-	-	-	-	3,360	3,360
- deferred income tax	-	-	-	-	-	4,699	4,699
Other liabilities	-	-	-	-	-	19,271	19,271
Total liabilities	1,532,479	456,313	206,277	5,319	85	67,415	2,267,888
Total interest repricing gap	**27,899**	**8,784**	**45,778**	**30,033**	**36,064**		

As at 31 December 2007	**Up to 1 month**	**1-3 months**	**3-12 months**	**1- 5 years**	**Over 5 years**	**Non-interest bearing**	**TOTAL**
Total assets	930,325	504,679	399,160	169,353	63,796	171,898	2,239,211
Total liabilities	955,709	534,666	409,408	31,949	21,110	67,255	2,020,097
Total interest repricing gap	**(25,384)**	**(29,987)**	**(10,248)**	**137,404**	**42,686**		

Interest rate risk - consolidated

As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	TOTAL
ASSETS							
Cash and balances with central banks	12,223	-	-	-	26,227	-	38,450
Financial instruments held for trading:	830	-	225	-	-	47,681	48,736
- trading assets	830	-	225	-	-	47,681	48,736
- derivative financial instruments	-	-	-	-	-	1,169	1,169
Investment securities available for sale	47,842	147,117	78,282			25,087	298,328
Loans and advances:	1,493,787	308,928	180,890	59,782	27,543	16,496	2,087,426
- to banks	3,374	-	-	-	-	7,902	11,276
- to customers	1,490,413	308,928	180,890	59,782	27,543	8,594	2,076,150
Investment securities held to maturity	1,528	-	-	-	-	-	1,528
Property, plant and equipment	-	-	-	-	-	31,925	31,925
Investment property	-	-	-	-	-	457	457
Intangible assets	-	-	-	-	-	8,360	8,360
Income tax assets	-	-	-	-	-	2,829	2,829
- current income tax	-	-	-	-	-	18	18
- deferred income tax	-	-	-	-	-	2,811	2,811
Other assets	-	-	-	-	-	20,694	20,694
Total assets	1,556,210	456,045	259,397	59,782	53,770	154,698	2,539,902
LIABILITIES							
Liabilities to Central Bank	158,654	-	-	-	-	-	158,654
Financial instruments held for trading:	-	-	-	-	-	14,832	14,832
- derivative financial instruments	-	-	-	-	-	14,832	14,832
Liabilities carried at amortised cost:	1,378,594	480,919	206,277	5,319	85	2,416	2,073,610
- deposits from banks	68,652	50,009	51,453	-	-	-	170,114
- due to customers	864,053	280,559	143,775	5,183	10	2,416	1,295,996
- other borrowed funds from banks	445,886	150,345	11,023	-	-	-	607,254
- other borrowed funds from other customers	3	6	26	136	75	-	246
Provisions:	-	-	-	-	-	22,854	22,854
- provisions for liabilities and charges	-	-	-	-	-	19,348	19,348
- retirement benefit obligations	-	-	-	-	-	3,506	3,506
Income tax liabilities:	-	-	-	-	-	8,130	8,130
- current income tax	-	-	-	-	-	3,431	3,431
- deferred income tax	-	-	-	-	-	4,699	4,699
Other liabilities	-	-	-	-	-	26,506	26,506
Total liabilities	1,537,248	480,919	206,277	5,319	85	74,738	2,304,586
Total interest repricing gap	18,962	(24,874)	53,120	54,463	53,685		

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	TOTAL
Total assets	944,065	494,087	400,697	169,371	63,796	192,230	2,264,246
Total liabilities	962,948	528,634	417,248	39,449	21,110	74,693	2,044,082
Total interest repricing gap	**(18,883)**	**(34,547)**	**(16,551)**	**129,922**	**42,686**		

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:

	2008			2007		
	EUR	**USD**	**other**	**EUR**	**USD**	**other**
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	-	-	0.82	3.90	4.70	3.82
Loans and advances to customers	6.32	4.83	3.2	5.73	6.31	3.56
Trading assets	3.24	-	-	3.59	-	-
Investment securities available for sale	5.02	-	-	4.29	-	-
Investment securities held to maturity	9.92	-	-	12.52	-	-
Liabilities						
Deposits from banks	3.71	2.43	-	4.42	-	-
Due to customers	2.81	1.44	0.93	2.43	2.71	1.03
Other borrowed funds	3.05	1.61	0.48	4.84	-	2.98

3.7 EQUITY RISKS OF BANKING BOOK

The risk is defined as the risk of unexpected losses in the available-for sale equity instruments (shares or participations). The exposure to traded shares is measured with the Value-at-Risk (VaR) calculation, separately for ordinary equities and investments in open-ended investment funds with a predominantly equity investment-structure. The VaR is calculated for a 1-day holding period and 99% confidence level. Volatility is estimated over a 1 year historical price series.

The VaR limit for exposure to traded equity is 600.000 EUR. The limit has been exceeded in the first half of 2008 due to a sharp increase in market prices particularly evidenced in 2007. Since some of the positions have been sold, the position has been re-established within the limit.

3.8 MARKET RISK

The market risk is defined by the Group as the position (price) risk, currency risk and counterparty credit risk arising from trading book activities. Trading activity is generally defined as buying or selling financial instruments on the Bank's own behalf (for short-term resale or with the intention to realize gains from the actual or expected price movements) or for current or future transactions with customers.

The main Group's trading activities are proprietary equity and debt instruments trading, and foreign currency exchange and derivative instruments sold to customers. Market risk is considered a risk with an elevated volatility pattern and therefore closely monitored by the Group. The long-term goal of the Group is to further reduce the exposure to market risk in proprietary trading.

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

3.8.1 Equity Instruments

Equity instruments' position risk is measured and monitored daily. The position risk is limited by the VaR and stop-loss limits. The exposure is measured with the Value-at-Risk (VaR) calculation (as at 31.12.2008, this equalled 13.162 EUR). The VaR is calculated for 1-day holding period and 99% confidence level. Volatility is estimated over a 1 year historical price series. The stop-loss limit is established in order to limit the losses generated by adverse price movements in the days following the breach of the limit.

The VaR limit is set to 50.000 EUR and was reduced from 150.000 EUR at the beginning of January 2009, while the stop-loss limit is set to 1-day VaR and the monthly stop-loss limit is set to monthly VaR (currently 229.000 EUR).

To determine the reliability of the VaR model, back testing is regularly performed, while stress-tests are performed in order to evaluate the impact of worst-case scenarios.

3.8.2 Debt Instruments

The debt instrument trading portfolio has been resized downwards in the last quarter of 2008, with the current market value reduced to 1mn EUR. The core Group's debt instruments are banking book investments, employed for collateral management and other asset/liability management purposes.

3.8.3 Derivative instruments

The Group opens derivative positions in order to serve customers' needs. In every single transaction with the customer, the Group hedges the position risk (risk of decrease in fair value due to price changes of the underlying instrument) and keeps only the credit risk exposure toward the transaction counterparty. The position risk stemming from traded derivatives is cancelled out on a deal by deal basis by reversing it on the financial market. Credit risk is managed on a replacement cost (positive value as a difference between the receiving and payment side of future values) principle with a strict credit examination of counterparts and setting of credit limits. On the inter-bank market, derivative transactions are entered into only with first-rate participants.

3.8.4 Currency Risk

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

The Group identifies and measures currency risk on a daily basis as follows:
- as a notional open position in individual currencies
- as Value at Risk (VAR) for the aggregate exposure for all currencies.

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

Group VAR by risk type

	***12 months to 31 December 2008**			**12 months to 31 December 2007**		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk (trading and non-trading portfolio)	10	34	3	8	39	1
Equities risk	592	753	347	1,653	2,045	1,049
Equities risk (banking book)	367	397	335			
Equities risk (trading portfolio)	14	15	13			
Total VAR	**602**	**787**	**350**	**1,661**	**2,084**	**1,050**

* In 2007 the VAR calculation was based on a 10 day holding period, whereas in 2008 VAR was calculated for a one day holding period.

The Group manages exposure to currency risk by setting:
- limits for the maximum allowed open position in individual currencies;
- limits for the maximum allowed Value at Risk.

Currency risk is measured and managed jointly for the banking and trading book activities. The positions in every single currency are monitored daily by the Risk Management Department and managed by the Treasury Division, to which every transaction above an established threshold has to be communicated in order to keep the positions within established limits.

The aim of the Group is to keep the currency risk within narrow boundaries, and to this end a nominal position limit for every single currency is set. The amount of risk assumed in terms of allowed open positions is very limited compared to the Group's own funds.

Currency risk - unconsolidated

As at 31 December 2008

	EUR	USD	Other	TOTAL
ASSETS				
Cash and balances with central banks	37,582	264	594	38,440
Financial instruments held for trading:	49,905	-	-	49,905
- trading assets	48,736	-	-	48,736
- derivative financial instruments	1,169	-	-	1,169
Investment securities available for sale	295,922	2,406	-	298,328
Loans and advances:	1,956,751	57,099	37,413	2,051,263
- to banks	3,887	3,328	4,061	11,276
- to customers	1,952,864	53,771	33,352	2,039,987
Investment securities held to maturity	1,528	-	-	1,528
Property, plant and equipment	29,513	-	-	29,513
Investment property	457	-	-	457
Intangible assets	7,321	-	-	7,321
Investment in subsidiaries	5,214	-	-	5,214
Income tax assets	2,221	-	-	2,221
- current income tax	-	-	-	-
- deferred income tax	2,221	-	-	2,221
Other assets	17,617	48	9	17,674
Total assets	2,404,031	59,817	38,016	2,501,864
LIABILITIES				
Liabilities to Central Bank	130,211	28,443	-	158,654
Financial instruments held for trading:	14,832	-	-	14,832
- derivative financial instruments	14,832	-	-	14,832
Liabilities carried at amortised cost:	1,949,726	56,390	38,119	2,044,235
- deposits from banks	170,114	-	-	170,114
- due to customers	1,228,252	56,390	11,385	1,296,027
- other borrowed funds from banks	551,114	-	26,734	577,848
- other borrowed funds from other customers	246	-	-	246
Provisions:	22,837	-	-	22,837
- provisions for liabilities and charges	19,412	-	-	19,412
- retirement benefit obligations	3,425	-	-	3,425
Income tax liabilities:	7,581	478	-	8,059
- current income tax	3,360	-	-	3,360
- deferred income tax	4,221	478	-	4,699
Other liabilities	19,112	110	49	19,271
Total liabilities	2,144,299	85,421	38,168	2,267,888
Net balance sheet position	259,732	(25,604)	(152)	233,976
Credit commitments	395,430	251	352	396,033

As at 31 December 2007	**EUR**	**USD**	**Other**	**TOTAL**
Total assets	2,166,145	26,163	46,903	2,239,211
Total liabilities	1,918,551	53,844	47,702	2,020,097
Net balance sheet position	247,594	(27,681)	(799)	219,114
Credit commitments	479,309	1,276	1,705	482,290

Currency risk- consolidated

As at 31 December 2008

	EUR	USD	Other	TOTAL
ASSETS				
Cash and balances with central banks	37,592	264	594	38,450
Financial instruments held for trading:	49,905	-	-	49,905
- trading assets	48,736	-	-	48,736
- derivative financial instruments	1,169	-	-	1,169
Investment securities available for sale	295,922	2,406	-	298,328
Loans and advances:	1,990,841	57,099	39,486	2,087,426
- to banks	3,887	3,328	4,061	11,276
- to customers	1,986,954	53,771	35,425	2,076,150
Investment securities held to maturity	1,528	-	-	1,528
Goodwill	-	-	-	-
Property, plant and equipment	31,925	-	-	31,925
Investment property	457	-	-	457
Intangible assets	8,360	-	-	8,360
Income tax assets	2,829	-	-	2,829
- current income tax	18	-	-	18
- deferred income tax	2,811	-	-	2,811
Other assets	20,637	48	9	20,694
Total assets	2,439,996	59,817	40,089	2,539,902
LIABILITIES				
Liabilities to Central Bank	130,211	28,443	-	158,654
Financial instruments held for trading:	14,832	-	-	14,832
- derivative financial instruments	14,832	-	-	14,832
Liabilities carried at amortised cost:	1,976,494	56,390	40,726	2,073,610
- deposits from banks	170,114	-	-	170,114
- due to customers	1,228,221	56,390	11,385	1,295,996
- other borrowed funds from banks	577,913	-	29,341	607,254
- other borrowed funds from other customers	246	-	-	246
Provisions:	22,854	-	-	22,854
- provisions for liabilities and charges	19,348	-	-	19,348
- retirement benefit obligations	3,506	-	-	3,506
Income tax liabilities:	7,652	478	-	8,130
- current income tax	3,431	-	-	3,431
- deferred income tax	4,221	478	-	4,699
Other liabilities	26,347	110	49	26,506
Total liabilities	2,178,390	85,421	40,775	2,304,586
Net balance sheet position	261,542	(25,604)	(686)	235,252
Credit commitments	391,454	251	352	392,057

As at 31 December 2007	**EUR**	**USD**	**Other**	**TOTAL**
Total assets	2,192,307	26,163	45,776	2,264,246
Total liabilities	1,942,536	53,844	47,702	2,044,082
Net balance sheet position	**249,771**	**(27,681)**	**(1,926)**	**220,164**
Credit commitments	476,687	1,276	1,280	479,243

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

3.9 OPERATIONAL RISK

Operational risk is the risk of incurring losses in the event of inadequate, improper or inefficient implementation of internal processes, conduct of people, functioning of systems or external factors. Similar to the regulatory definition, strategic risk and reputational risk are not included in this framework and are managed separately.

The objective of the operational risk management is to:
- Protect assets, preserve and safeguard material and the intellectual component of the Group's assets.
- Control and proactive monitoring of processes in a way that significant risks are identified without delay.
- Observance and compliance of processes and conformity with internal and external rules.

The process of operational risk management is performed through 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.

The management of operational risk starts at the level of a single operational unit as a direct responsibility of the head of each unit. The process is supplemented with the management of risk at a centralised level by the Risk Management Department, which is in charge of organizing operational risk loss collection and carrying out self-assessment. The Risk Management Department, assisted by the Operational risk group, on a quarterly basis reports to the Management Board and proposes remedial measures. In 2008 for the first time the Group has carried out a self-assessment, focusing on the most important processes and following the methodology developed by the Parent company.

3.10 FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

(all amounts expressed in thousands of EUR)

	Banka Koper					
	2008			**2007**		
	Carrying value	**Fair value**	**Unrecognised gain/loss**	**Carrying value**	**Fair value**	**Unrecognised gain/loss**
ASSETS						
Cash and balances with central banks	38,440	38,440	-	31,062	31,062	-
Financial instruments held for trading:	49,905	49,905	-	52,227	52,227	-
- trading assets	48,736	48,736	-	50,047	50,047	-
- derivative financial instruments	1,169	1,169	-	2,180	2,180	-
Investment securities available for sale	298,328	298,328	-	319,407	319,407	-
Loans and advances:	2,051,263	2,051,263	-	1,768,323	1,768,323	-
- to banks	11,276	11,276	-	81,452	81,452	-
- to customers	2,039,987	2,039,987	-	1,686,871	1,686,871	-
Investment securities held to maturity	1,528	1,611	83	2,013	2,039	26
Property, plant and equipment	29,513	36,033	6,520	30,747	35,842	5,095
Investment property	457	1,021	564	518	1,023	505
Intangible assets	7,321	7,321	-	4,945	4,945	-
Investment in subsidiaries	5,214	4,309	(905)	5,214	5,214	-
Income tax assets	2,221	2,221	-	8,513	8,513	-
Other assets	17,674	17,674	-	16,242	16,242	-
Total assets	2,501,864	2,508,126	6,262	2,239,211	2,244,837	5,626
LIABILITIES						
Liabilities to Central Bank	158,654	158,654	-	30,046	30,046	-
Financial instruments held for trading:	14,832	14,832	-	17,262	17,262	-
- derivative financial instruments	14,832	14,832	-	17,262	17,262	-
Liabilities carried at amortised cost:	2,044,235	2,044,235	-	1,923,463	1,923,463	-
- deposits from banks	170,114	170,114	-	116,250	116,250	-
- due to customers	1,296,027	1,296,027	-	1,248,003	1,248,003	-
- other borrowed funds from banks	577,848	577,848	-	558,942	558,942	-
- other borrowed funds from other customers	246	246	-	268	268	-
Provisions:	22,837	22,837	-	23,732	23,732	-
- provisions for liabilities and charges	19,412	19,412	-	20,183	20,183	-
- retirement benefit obligations	3,425	3,425	-	3,549	3,549	-
Income tax liabilities:	8,059	8,059	-	9,051	9,051	-
Other liabilities	19,271	19,271	-	16,543	16,543	-
Total liabilities	2,267,888	2,267,888	-	2,020,097	2,020,097	-

(all amounts expressed in thousands of EUR)	Consolidated					
	2008			2007		
	Carrying value	**Fair value**	**Unrecognised gain/loss**	**Carrying value**	**Fair value**	**Unrecognised gain/loss**
ASSETS						
Cash and balances with central banks	38,450	38,450	-	31,113	31,113	-
Financial instruments held for trading:	49,905	49,905	-	52,227	52,227	-
- trading assets	48,736	48,736	-	50,047	50,047	-
- derivative financial instruments	1,169	1,169	-	2,180	2,180	-
Investment securities available for sale	298,328	298,328	-	300,196	300,196	-
Loans and advances:	2,087,426	2,087,426	-	1,792,458	1,792,458	-
- to banks	11,276	11,276	-	81,452	81,452	-
- to customers	2,076,150	2,076,150	-	1,711,006	1,711,006	-
Investment securities held to maturity	1,528	1,611	83	2,013	2,039	26
Property, plant and equipment	31,925	38,445	6,520	34,357	39,452	5,095
Investment property	457	1,021	564	518	1,023	505
Intangible assets	8,360	8,360	-	4,990	4,990	-
Income tax assets	2,829	2,829	-	9,057	9,057	-
Other assets	20,694	20,694	-	17,201	17,201	-
Total assets	2,539,902	2,547,069	7,167	2,244,130	2,249,756	5,626
LIABILITIES						
Liabilities to Central Bank	158,654	158,654	-	30,046	30,046	-
Financial instruments held for trading:	14,832	14,832	-	17,262	17,262	-
- derivative financial instruments	14,832	14,832	-	17,262	17,262	-
Liabilities carried at amortised cost:	2,073,610	2,073,610	-	1,940,010	1,940,010	-
- deposits from banks	170,114	170,114	-	116,250	116,250	-
- due to customers	1,295,996	1,295,996	-	1,247,973	1,247,973	-
- other borrowed funds from banks	607,254	607,254	-	575,519	575,519	-
- other borrowed funds from other customers	246	246	-	268	268	-
Provisions:	22,854	22,854	-	23,784	23,784	-
- provisions for liabilities and charges	19,348	19,348	-	20,154	20,154	-
- retirement benefit obligations	3,506	3,506	-	3,630	3,630	-
Income tax liabilities	8,130	8,130	-	9,140	9,140	-
Other liabilities	26,506	26,506	-	23,840	23,840	-
Total liabilities	2,304,586	2,304,586	-	2,044,082	2,044,082	-

(all amounts expressed in thousands of EUR)	Banka Koper and consolidated							
	2008				2007			
FAIR VALUE OF FINANCIAL INSTRUMENTS	Quoted market price	Valuation techniques - market observable inputs	Valuation techniques - non-market observable inputs	Total	Quoted market price	Valuation techniques - market observable inputs	Valuation techniques - non-market observable inputs	Total
Financial assets								
Derivative financial instruments	-	1,169	-	1,169	-	2,180	-	2,180
Financial assets held for trading	1.320	-	48,585	49,905	49,889	-	2,338	52,227
Financial investments - available-for-sale	279,612	-	18,716	298,328	300,104	18,817	486	319,407
Financial liabilites								
Derivative financial instruments	-	14,832	-	14,832	-	17,262	-	17,262

4. Net interest income

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Interest income				
Central bank deposits	1,038	847	1,038	847
Loans and advances (including finance leases):	120,672	87,475	123,007	89,623
From banks	*1,533*	*4,269*	*1,533*	*4,269*
From other customers	*119,139*	*83,206*	*121,474*	*85,354*
Investment securities (AFS and HTM)	11,275	10,203	11,275	10,203
Investment securities HFT	1,048	1,332	1,048	1,332
Other	19	25	19	25
	134,052	99,882	136,387	102,030
Interest expense				
Bank deposits and loans	6,159	3,976	6,159	3,976
Other customers	34,908	23,346	34,908	24,264
Other borrowed funds	29,954	17,246	30,905	17,246
Derivatives	1,655	1,689	1,655	1,689
Other	-	3	-	3
	72,676	46,260	73,627	47,178
	61,376	53,622	62,760	54,852

At the end of 2008, the Group accrued for interest income on impaired financial assets of EUR 9,151 thousand (2007: EUR 6,548 thousand). This interest income is not recognised in the income statement until payment.

5. Dividend income

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Trading securities	436	207	436	207
Investment securities	559	301	559	301
	995	508	995	508

6. Net fee and commission income

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Fee and commission income				
Guarantees	990	872	990	872
Debit/credit card money transaction	20,020	19,842	23,916	22,992
Payment transaction	8,467	7,544	8,404	7,544
Brokers' intermediation and management of securities portfolio	478	1,277	478	1,277
Current account	2,951	2,495	2,951	2,495
Custody	801	1,020	801	1,020
Other	2,799	1,939	2,992	2,061
	36,506	34,989	40,532	38,261
Fee and commission expense				
Bank services	5,022	3,534	4,987	4,648
Money transfer	866	802	771	923
Intermediation and management	583	174	583	174
Other	67	33	1,639	125
	6,538	4,543	7,980	5,870
	29,968	30,446	32,552	32,391

7. 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	
	2008	2007	2008	2007
Loss/income due to sale of investment securities	3,503	1,291	3,503	1,291
Write offs of loans and other assets	(333)	(179)	(333)	(179)
Recoveries from write offs of loans and other assets	186	29	186	29
	3,356	1,141	3,356	1,141

8. Gains less losses from financial assets and liabilities held for trading

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	2007	2008	2007
Trading of derivatives	7,873	(11,986)	7,873	(11,986)
Currency trading	618	518	618	518
Trading of debt securities	40	8	40	8
Trading of equity securities	(929)	12,130	(929)	12,130
	7,602	670	7,602	670

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

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	2007	2008	2007
Profit on sale of property and equipment	(40)	1,203	21	1,258
Other	-	(14)	(115)	(121)
	(40)	1,189	(94)	1,137

10. Other operating gains less losses

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	2007	2008	2007
Rent	470	461	975	985
Taxes	(79)	(78)	(79)	(78)
Membership fees	(146)	(132)	(146)	(132)
Other	853	655	1,186	660
	1,098	906	1,936	1,435

11. Administrative expenses

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Staff cost:	*31,673*	*28,624*	*32,639*	*29,430*
Salaries	20,923	19,557	21,583	20,155
Social security cost	3,290	3,030	3,416	3,132
Pension costs	1,915	1,751	1,927	1,759
Other	5,545	4,286	5,713	4,384
	15,669	*14,688*	*17,652*	*16,497*
Material costs	1,865	1,931	1,995	2,030
Maintenance costs	2,847	2,337	2,934	2,340
Rent	1,001	976	1,111	1,043
Professional services	6,302	5,947	7,249	6,931
Advertising and marketing	2,007	2,018	2,300	2,412
Other services	1,647	1,479	2,063	1,741
	47,342	43,312	50,291	45,927

12. Amortisation and depreciation

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Amortisation	1,814	886	2,009	918
Depreciation	4,552	4,825	5,156	5,316
	6,366	5,711	7,165	6,234

13. Provisions

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Provisions for off-balance sheet exposures	574	(3,306)	609	(3,285)
Retirement and long service bonus	(500)	(710)	(500)	(758)
Short service bonus	-	(193)	-	(193)
	74	(4,209)	109	(4,236)

14. Impairment losses

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Available for sale equity securities	378	-	378	-
Loans and advances to customers	9,857	3,980	10,432	4,857
Other assets	-	-	-	(2)
Goodwill	-	-	-	367
Investment in subsidiaries	-	370	-	-
	10,235	4,350	10,810	5,222

15. Income tax expense

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Current tax	7,516	4,808	7,706	4,944
Deferred tax (note 37)	92	2,306	(31)	2,055
	7,608	7,114	7,675	6,999

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

Profit before tax	35,385	31,292	35,743	30,908
Prima facie tax calculated at a tax rate of 22% [2007: 23%]	7,785	7,197	7,864	7,109
Income not assessable for tax	(158)	(539)	(158)	(561)
Income assessable for tax (not recognized in income statement)	1	-	1	-
Expenses not deductible for tax purposes:				
– Negative valuation of securities and derivatives HFT	83	85	195	326
– Expenses related to employees benefits	-	-	-	-
– Staff costs not assessable for tax	193	179	193	181
– Other non deductible expenses	204	233	204	239
Redemption of income tax due to deductible expenses	(173)	(2,013)	(173)	(2,013)
Additional income tax due to changes in tax legislation	-	-	-	-
Redemption of income tax due to changes in tax legislation	(113)	(37)	(113)	(37)
Tax relief	(306)	(297)	(307)	(300)
Tax on profit	7,516	4,808	7,706	7,944

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

The last tax inspection was in 2008, when the tax authorities inspected the Bank's books and records for 2007.

16. Earnings per share

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Net profit for the year	27,777	24,178	28,068	24,090
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)	52.37	45.58	52.91	45.42

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

17. Incomes and expenses achieved on foreign markets

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

In 2008 and 2007 the Group realised a significant part of expenses, with regards to funding granted by Intesa Sanpaolo Group banks, in foreign markets (note 45).

18. Cash and balances with central banks

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Cash in hand	15,418	14,888	15,418	14,969
Balances with central banks	23,022	16,174	23,032	16,144
	38,440	31,062	38,450	31,113
From this mandatory reserve liability to central banks	26,227	19,492	26,196	19,462

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

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

19. Trading assets

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Debt securities	1,055	1,021	1,055	1,021
Equity securities:				
– Listed	265	48,867	265	48,867
– Unlisted	47,416	159	47,416	159
	48,736	50,047	48,736	50,047

As at 31 December 2008 and 31December 2007 there are no trading assets pledged.

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

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

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

In 2007 the Banking group issued a structural deposit which amounted to 10 mil EUR (1 lot equals 1,000 EUR) and whose profitability is guaranteed to be at least 1,5% and can be as high as 6.5%, depending on the movement of three equity indices, more precisely the Standard & Poor's 500, Dow Jones EURO STOXX 50 and Nikkei 225.
If one of the above mentioned equity indices' value at the beginning of each observed year falls below or equal 95% of their value at the end of each observed year, then the customer structural deposit will bear interest of 1.5%. On

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

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

(all amounts expressed in thousands of EUR)

As at 31 December 2008	**Contract/notional amount**	**Fair values Assets**	**Fair values Liabilities**	**Reservations**
Foreign exchange derivatives				
Currency swaps	633	298	44	-
Currency forwards	1,411	12	11	-
Interest rate derivatives				
Interest rate swap	36,036	350	360	1
Other derivatives				
Forward agreement on sale of non marketable shares	22,462	429	14,337	1,042
Equity options	19,709	80	80	-
Total derivative assets/(liabilities) held for trading		1,169	14,832	1,043

As at 31 December 2007	**Contract/notional amount**	**Fair values Assets**	**Fair values Liabilities**	**Reservations**
Foreign exchange derivatives				
Currency swaps	29,949	8	621	-
Interest rate derivatives				
Interest rate swap	51,972	754	922	-
Other derivatives				
Forward agreement on sale of marketable shares	33,756	771	15,072	139
Equity options	19,772	647	647	-
Total derivative assets/(liabilities) held for trading		2,180	17,262	139

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

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	2007	2008	2007
Government securities:				
– Listed	140,916	153,791	140,916	153,791
– Unlisted	-	5	-	5
Other debt securities:				
– Listed	132,325	123,117	132,325	123,117
– Unlisted	-	50	-	50
Equity securities:				
– Listed	6,458	23,198	6,458	23,198
– Unlisted	18,629	19,246	18,629	19,246
Total securities available for sale	**298,328**	**319,407**	**298,328**	**319,407**

	Banka Koper		Consolidated	
	2008	2007	2008	2007
Debt securities:				
– Listed	1,528	2,013	1,528	2,013
Total securities held to maturity	**1,528**	**2,013**	**1,528**	**2,013**

The Bank adopted its own valuation model in cases where investments are not listed. In 2007 the Bank made a valuation for one of its investments of EUR 2,185 thousand.

The Group has pledged securities of EUR 208,961 thousand. They refer to government and first grade Bank bonds. These securities are pledged to cover the borrowings received from the European central bank.

Movement	Banka Koper and consolidated			
	2008		2007	
	AFS	HTM	AFS	HTM
At beginning of the year	319,407	2,013	239,470	70,604
Additions	78,867	-	122,769	72
Exchange differences on monetary assets	263	-	(60)	-
Interest accrual	(1,076)	85	5,970	57
Disposals (sale and redemption)	(81,698)	(570)	(55,022)	(68,720)
Gains/losses from changes in fair value	(17,435)	-	6,280	-
At end of year	298,328	1,528	**319,407**	2,013

22. Loans and advances to banks

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	2007	2008	2007
Items in course of collection from other banks	7,902	5,129	7,902	5,129
Placements with other banks	4,795	77,744	4,795	77,744
Cash and cash equivalents (note 44)	12,697	82,873	12,697	82,873
Impairment losses on loans and advances to banks	(1,421)	(1,421)	(1,421)	(1,421)
	11,276	81,452	11,276	81,452

As at 31 December 2008 no placements with other banks are shown under Pledged assets (2007: nil).

(all amounts expressed in thousands of EUR)

Movement in provisions for impairment losses on loans and advances to banks as follows:	**Banka Koper and consolidated**
As at 31 December 2006	1,421
Provision for loan impairment	-
Amounts recovered during the year	-
Included in income statement	-
As at 31 December 2007	1,421
Provision for loan impairment	-
Amounts recovered during the year	-
Included in income statement	-
As at 31 December 2008	1,421

23. Loans and advances to customers

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Loans to individuals:	*378,769*	*315,315*	*410,202*	*347,114*
Overdrafts	37,901	33,338	37,901	33,338
Credit cards	8,177	7,725	32,159	29,263
Term loans	120,555	119,670	120,555	124,263
Mortgages	212,136	154,582	212,136	154,582
Finance leases	-	-	7,451	5,668
Loans to sole proprietors	*81,513*	*62,646*	*89,727*	*68,185*
Loans to corporate entities	*1,653,450*	*1,374,102*	*1,652,970*	*1,363,390*
Gross loans and advances	2,113,732	1,752,063	2,152,899	1,778,689
Less provision for impairment	(73,745)	(65,192)	(76,749)	(67,683)
	2,039,987	1,686,871	2,076,150	1,711,006

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

	Loans to individuals – Banka Koper				**Total loans to individuals - Banka Koper**
	Overdrafts	**Credit cards**	**Term loans**	**Mortgages**	
As at 31 December 2006	4,323	220	2,825	1,767	9,135
Provision for loan impairment	456	134	1,075	1,739	3,404
Amounts recovered during the year	(1,055)	(84)	(493)	(1,440)	(3,072)
Included in income statement	(599)	50	582	299	332
As at 31 December 2007	3,724	270	3,407	2,066	9,467
Provision for loan impairment	786	132	1.770	1,929	4,617
Amounts recovered during the year	(542)	(116)	(869)	(1,170)	(2,697)
Included in income statement	244	16	901	759	1,920
Write off provisions already made	-	-	(285)	-	(285)
As at 31 December 2008	3,968	286	4,023	2,825	11,102

	Overdrafts	Credit cards	Term loans	Mortgages	Finance leases	Total loans to individuals - Consolidated
	Loans to individuals – Consolidated					
As at 31 December 2006	4,323	220	2,825	1,767	61	9,196
Provision for loan impairment	456	987	1,075	1,739	42	4,299
Amounts recovered during the year	(1,055)	(194)	(493)	(1,440)	(29)	(3,211)
Included in income statement	(599)	793	582	299	13	1,088
Impairment on loans from acquired subsidiary	-	1,762	-	-	-	1,762
As at 31 December 2007	3,724	2,775	3,407	2,066	74	12,046
Provision for loan impairment	786	622	1,770	1,929	73	5,180
Amounts recovered during the year	(542)	(199)	(869)	(1,170)	-	(2,780)
Included in income statement	244	423	901	759	73	2,400
Write off provisions already made	-	-	(285)	-	-	(285)
As at 31 December 2008	3,968	3,198	4,023	2,825	147	14,161

	Banka Koper		Consolidated	
	Sole proprietors	Corporate entities	Sole proprietors	Corporate entities
As at 31 December 2006	2,694	45,960	2,713	46,010
Provision for loan impairment	2,304	46,959	2,316	46,873
Amounts recovered during the year	(1,347)	(44,268)	(1,356)	(44,342)
Included in income statement	957	2,691	960	2,531
Bed debts written off against specific provisions for impairment	(8)	(384)	(8)	(384)
Reversal of impairment for not recognised (excluded) interest income	-	3,815	-	3,815
As at 31 December 2007	3,643	52,082	3,665	51,972
Provision for loan impairment	2,568	55,655	2,595	55,723
Amounts recovered during the year	(1,857)	(48,429)	(1,857)	(48,429)
Included in income statement	711	7,226	738	7,294
Write off provisions already made	(20)	(999)	(20)	(1,061)
As at 31 December 2008	4,334	58,309	4,383	58,205

Customer loan portfolio by economic sector	Banka Koper		Consolidated	
	2008	2007	2008	2007
Government	25,099	37,860	25,099	37,860
Trade	314,493	194,579	314,493	194,579
Services	659,507	682,417	658,958	671,609
Construction	94,827	34,795	94,827	34,795
Manufacturing	451,750	341,635	451,750	341,635
Agriculture	45,761	32,576	45,761	32,576
Individuals	378,769	315,315	410,202	347,114
Sole proprietors	81,513	62,646	89,727	68,185
Other	62,013	50,240	62,082	50,336
Gross loans and advances to customers	2,113,732	1,752,063	2,152,899	1,778,689
Less provision for impairment	(73,745)	(65,192)	(76,749)	(67,683)
Net loans and advances to customers	2,039,987	1,686,871	2,076,150	1,711,006

Slovenian customers and customers from other European countries accounted for 91% and 9% of geographic sector risk concentration within the customer loan portfolio, respectively.

Analysis of finance leases by residual maturity:	**Banka Koper and consolidated**	
	2008	**2007**
Gross investment in finance leases:		
Not later than 1 year	14,839	8,924
Later than 1 year and not later than 5 years	32,712	20,261
Later than 5 years	23,586	10,547
	71,137	39,732
Unearned future interest income on finance leases	(15,459)	(8,274)
Net investment in finance leases:	55,678	31,458
Not later than 1 year	11,795	6,975
Later than 1 year and not later than 5 years	25,435	16,114
Later than 5 years	18,448	8,369
	55,678	31,458

Loans and advances are further analysed as a part of the balance sheet in the following notes: Currency Risk Note 3.7.4., Interest Rate Risk Note 3.6., Liquidity Risk Note 3.5., Fair value Note 3.9, and Related Party Transactions Note 45.

Analyses by type of collateral

(all amounts expressed in thousands of EUR)	**Banka Koper**				**Consolidated**			
	2008		**2007**		**2008**		**2007**	
	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	308.790	689.166	236.290	515.222	336.464	716.840	251.071	530.003
Bank guarantees	226.712	236.851	43.618	50.561	221.697	231.836	43.618	50.561
Personal guarantees	172.507	354.878	115.295	222.882	172.507	354.878	115.295	222.882
Debt securities	110.630	967.877	47.240	785.529	110.630	967.877	47.240	785.529
Government guarantees	79.402	79.403	83.077	83.185	79.402	79.403	83.077	83.185
Other collateral	46.954	84.534	14.074	27.457	72.801	110.381	31.572	44.955
Deposits	42.937	44.509	38.744	40.210	42.937	44.509	38.744	40.210
Insurance company guarantees	35.968	38.398	124.880	130.862	35.968	38.398	124.880	130.862
Shares	8.884	14.452	3.789	5.822	8.884	14.452	3.789	5.822
TOTAL collaterised net loans	**1.032.784**	**2.510.068**	**707.007**	**1.861.730**	**1.081.290**	**2.558.574**	**739.286**	**1.894.009**
Unsecured	1.007.203		979.864		994.860		971.720	
TOTAL net loans	**2.039.987**		**1.686.871**		**2.076.150**		**1.711.006**	

24. Goodwill

(all amounts expressed in thousands of EUR)	Consolidated	
	2008	2007
Opening net book amount	905	905
Acquisition of a subsidiary	-	367
Impairment	-	(367)
Closing net book amount	905	905

In 2007 the bank's subsidiary Centurion recognized a loss of EUR 724 thousand. Due to that the Bank recognized impairment of EUR 370 thousand (refer to note 28), and therefore in the consolidated financial statements released the amount of goodwill recognized on the date of acquisition.

25. Property, plant and equipment

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Land buildings	Hardware equipment	Other equipment	Total Banka Koper	Land and buildings	Hardware equipment	Other equipment	Total consolidated
Movement in year 2007								
Opening net book amount	25,611	1,939	3,430	30,980	25,611	1,939	5,274	32,824
Additions	1,334	2,011	1,827	5,172	2,809	2,578	3,387	8,774
Disposals	(628)	-	(12)	(640)	(1,104)	(103)	(778)	(1,985)
Depreciation charge	(1,920)	(1,441)	(1,404)	(4,765)	(1,920)	(1,538)	(1,798)	(5,256)
Closing net book amount	24,397	2,509	3,841	30,747	25,396	2,876	6,085	34,357
As at 31 December 2007								
Cost	41,986	15,125	14,650	71,761	42,985	15,692	18,256	76,933
Accumulated depreciation	(17,589)	(12,616)	(10,809)	(41,014)	(17,589)	(12,816)	(12,171)	(42,576)
Net book amount as at 31 December 2007	**24,397**	**2,509**	**3,841**	**30,747**	**25,396**	**2,876**	**6,085**	**34,357**
Movement in year 2008								
Opening net book amount	24,397	2,509	3,841	30,747	25,396	2,876	6,085	34,357
Transfer to other equipment	-	-	-	-	-	(367)	367	-
Additions	1,084	874	1,579	3,537	1,084	881	3,336	5,301
Disposals	-	(208)	(72)	(280)	(999)	(210)	(1,429)	(2,638)
Depreciation charge	(1,976)	(1,095)	(1,420)	(4,491)	(1,976)	(1,097)	(2,022)	(5,095)
Closing net book amount	23,505	2,080	3,928	29,513	23,505	2,083	6,337	31,925
As at 31 December 2008								
Cost	43,072	12,172	12,776	68,020	43,072	12,209	16,269	71,550
Accumulated depreciation	(19,567)	(10,092)	(8,848)	(38,507)	(19,567)	(10,126)	(9,932)	(39,625)
Net book amount as at 31 December 2008	23,505	2,080	3,928	29,513	23,505	2,083	6,337	31,925

In 2008 there was no property, plant and equipment pledged (2007; nil).

About 22% of property, plant and equipment is completely written off, but the items are still in use.

26. Investment property

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

On 31st December 2008 no stipulated contracts for the acquisition or construction of Investment Property are in place in Banka Koper. No substantial investments in the repair, maintenance or expansion of these investments are planned in 2009.

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
At beginning of the year	518	559	518	559
Depreciation	(61)	(60)	(61)	(60)
Transfer to fixed assets	-	-	-	-
Additions	-	19	-	19
Disposals	-	-	-	-
At end of year	457	518	457	518

In the item other operating gains and losses (see note 10) income from property investments carries rents of EUR 341 thousand (2007: EUR 77 thousand). In 2008 there were no maintenance costs incurred for property investments (2007: nil).

27. Intangible assets

(all amounts expressed in thousands of EUR)

	Banka Koper				**Consolidated**			
	Development	Licenses	Software and other	Total Banka Koper	Development	Licenses	Software and other	Total consolidated
Movement in year 2007								
Opening net book amount	1,084	1,797	558	3,439	1,084	1,799	558	3,441
Additions	861	712	955	2,528	861	844	955	2,660
Disposals	-	-	(136)	(136)	-	(57)	(136)	(193)
Amortisation	(242)	(483)	(161)	(886)	(242)	(515)	(161)	(918)
Closing net book amount	1,703	2,026	1,216	4,945	1,703	2,071	1,216	4,990
As at 31 December 2007								
Cost	4,556	5,686	1,926	12,168	4,556	5,823	1,926	12,305
Accumulated amortisation	(2,853)	(3,660)	(710)	(7,223)	(2,853)	(3,752)	(710)	(7,315)
Net book amount as at 31 December 2007	1,703	2,026	1,216	4,945	1,703	2,071	1,216	4,990
Movement in year 2008								
Opening net book amount	1,703	2,026	1,216	4,945	1,703	2,071	1,216	4,990
Transfer from tangible assets	-	-	208	208	-	1	449	450
Additions	1,257	380	2,345	3,982	1,257	382	2,430	4,069
Disposals	-	-	-	-	-	(45)	-	(45)
Amortisation	(628)	(832)	(354)	(1,814)	(628)	(833)	(548)	(2,009)
Closing net book amount	2,332	1,574	3,415	7,321	2,332	1,576	3,547	7,455
As at 31 December 2008								
Cost	5,812	6,066	7,184	19,062	5,812	6,072	7,540	19,424
Accumulated amortisation	(3,480)	(4,492)	(3,769)	(11,741)	(3,480)	(4,496)	(3,993)	(11,969)
Net book amount as at 31 December 2008	2,332	1,574	3,415	7,321	2,332	1,576	3,547	7,455

The Group has not pledged any intangible fixed assets.

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

About 60% of intangible long term assets are completely amortized, but they are still in use. The amortized equipment relates mostly to software.

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

In 2008 the Group has not recognized any expenditure related to research and development in the income statement. All expenditure has been capitalized as intangible fixed assets, even staff expenses of EUR 540 thousands.

28. Investment in subsidiaries

(all amounts expressed in thousands of EUR)	**Banka Koper**	
	2008	**2007**
At beginning of the year	5,214	3,688
Additional investment	-	-
Acquisition of a subsidiary	-	1,896
Provision for impairment	-	(370)
At end of year	5,214	5,214

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

29. Other assets

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Commission receivables	537	465	538	465
Accruals	324	343	327	343
Advances	87	101	2,383	101
Transition accounts receivables	1,371	1,775	1,526	1,775
Cheques	11	25	11	25
Claims to citizens	244	90	244	90
Claims to Europay	13,077	11,085	13,077	11,085
Other	2,023	2,358	2,664	3,375
Less provision for impairment	-	-	(76)	(58)
	17,674	16,242	20,694	17,201

On 31 December 2008 the Group had fixed assets of EUR 348 thousand from repossessed collateral, which are meant to be sold (2007: EUR 348 thousand).

Movement in provisions for impairment on other assets:

	Banka Koper	**Consolidated**
As at 31 December 2006	-	60
Additional provision for impairment	-	38
Amounts recovered during the year	-	(40)
Included in income statement	-	(2)
As at 31 December 2007	-	58
Additional provision for impairment	-	21
Amounts recovered during the year	-	(3)
Included in income statement	-	18
As at 31 December 2008	-	76

30. Liabilities to Central Bank

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Loans from ECB	158,654	30,046	158,654	30,046
	158,654	30,046	158,654	30,046

31. Deposits from banks

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Demand deposits	92	376	92	376
Term deposits	170,022	115,874	170,022	115,874
	170,114	116,250	170,114	116,250

32. Due to customers

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Individuals				
– demand deposits	375,477	366,781	375,477	366,781
– term deposits	612,558	559,369	612,558	559,369
Sole proprietors				
– demand deposits	24,952	22,004	24,952	22,004
– term deposits	4,881	7,249	4,881	7,249
Corporate customers				
– demand deposits	89,530	96,468	89,499	96,438
– term deposits	188,629	196,132	188,629	196,132
	1,296,027	1,248,003	1,295,996	1,247,973

As at 31 December 2008, deposits of EUR 42,863 thousand have been pledged for covering potential credit risk on assets (2007: EUR 47,395 thousand).

33. Other borrowed funds from banks

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

(all amounts expressed in thousands of EUR)	**Banka Koper**				**Consolidated**			
	2008		**2007**		**2008**		**2007**	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
- in local currency	330,229	220,885	253,491	269,194	331,417	249,103	262,548	276,714
- in foreign currency	26,734	-	36,257	-	26,734	-	36,257	-
	356,963	220,885	289,748	269,194	358,151	249,103	298,805	276,714
	577,848		558,942		607,254		575,519	

34. Other borrowed funds from other customers

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	**2007**	**2008**	**2007**
	Long term	Long term	Long term	Long term
Building bought on financial lease	246	268	246	268
	246	268	246	268

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

35. Provisions for liabilities and charges

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

The amount of premiums the bank is obliged to pay back to the Housing Fund is estimated considering the suggestion of the Bank of Slovenia, the historical pay-back patterns and expected future conditions in the housing loan segment. The obligation to pay back premiums in case that savings are not used under eligible purposes, applies to the 2nd, 3rd, 4th and 5th tender. The amount of provisions required as at 31.12.2008 amount to EUR 1,528 thousand. The amount is based on the estimation that 80% of all saved funds will be used unpurposely.

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

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	**2007**	**2008**	**2007**
Provisions for off-balance sheet liabilities	17,720	18,297	17,656	18,268
Provisions for National Saving Housing Scheme	1,557	1,790	1,557	1,790
Provisions for infrastructure arrangements for the disabled	39	-	39	-
Legal proceedings due to employees	96	96	96	96
Total	19,412	20,183	19,348	20,154

Movement in provisions:	Banka Koper		Consolidated	
	2008	**2007**	**2008**	**2007**
At beginning of year	20,183	18,045	20,154	18,037
Additional provision	35,983	31,903	35,948	31,882
Amounts recovered during the year	(36,517)	(28,597)	(36,517)	(28,597)
Included in income statement	(534)	3,306	(569)	3,285
Repayment of the premiums for National Saving Housing Scheme	(237)	(768)	(237)	(768)
Utilised provisions	-	(400)	-	(400)
At end of year	19,412	20,183	19,348	20,154

36. Retirement benefit obligations

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	**2007**	**2008**	**2007**
Retirement severance pay and long service bonuses	3,093	2,774	3,174	2,855
Provision for redundancies	332	444	332	444
Holiday not used	-	331	-	331
	3,425	3,549	3,506	3,630

	Banka Koper		Consolidated	
Movements:	**2008**	**2007**	**2008**	**2007**
At beginning of year	3,549	3,035	3,630	3,061
Additional provisions	500	903	500	951
Charged to income statement	500	903	500	951
Additional provisions not recognised in income statement	-	-	-	14
Utilised provisions	(293)	(389)	(293)	(396)
Transfer of liabilities of untaken leave to short term accruals	(331)	-	(331)	-
At end of year	3,425	3,549	3,506	3,630

37. Deferred income taxes

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2008	**2007**	**2008**	**2007**
Deferred income tax liabilities				
Other	2	345	2	345
Available-for-sale securities	4,697	8,363	4,697	8,363
	4,699	8,708	4,699	8,708

	Banka Koper		Consolidated	
	2008	**2007**	**2008**	**2007**
Deferred income tax assets				
Retirement and other employee benefits	569	653	576	660
Provision for loan losses	-	-	583	460
Available-for-sale securities	1,145	867	1,145	867
Trading securities and derivative financial instruments	147	165	147	165
Provisions for National Saving Housing Scheme	327	394	327	394
Provision for legal proceedings	20	21	20	21
Other	13	14	13	14
	2,221	2,114	2,811	2,581
Movement of deferred income taxes (offsetting of assets and liabilities)				
At beginning of year	6,594	3,114	6,127	3,049
Income statement charge	92	2,306	(31)	2,055
Deferred taxes from loan losses from acquired subsidiary	-	-	-	(151)
Investment securities (fair value remeasurement)	(3,865)	1,090	(3,865)	1,090
Payment of deferred taxes liabilities made applying IFRS	(343)	84	(343)	84
At end of year	2,478	6,594	1,888	6,127
Deferred income taxes charged in income statement				
Retirement and other employee benefits	(83)	24	(83)	25
Provision for loan losses	-	-	99	250
Trading securities and derivative financial instruments	(13)	(1,990)	(13)	(1,990)
Provisions for National Saving Housing Scheme	(51)	(176)	(51)	(176)
Deferred income	-	(58)	-	(58)
Provision for legal proceedings	-	(93)	-	(93)
Impairment of AFS securities	83	-	83	-
Other	(1)	14	(1)	14
Reduction due to diminution of tax rate from 25 % to 23 %:				
- Trading securities and derivative financial instruments	(1)	(7)	(1)	(7)
- Retirement and other employee benefits	(1)	-	(1)	-
- Provisions for National Saving Housing Scheme	(16)	(18)	(16)	(18)
- Provision for legal proceedings	(1)	(2)	(1)	(2)
- Impairment of AFS securities	(4)	-	(4)	-
- Impairment of Investment in subsidiary	(4)	-	(4)	-
- Impairment of loans	-	-	24	-
	(92)	(2,306)	31	(2,055)

38. Other liabilities

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Amount awaiting transfer to deposit accounts	7,774	7,794	7,774	7,794
Deferred income	4,756	2,820	4,756	2,841
Creditors	2,382	2,980	8,855	9,313
Salaries	2,341	1,692	2,364	1,716
Liabilities for unpaid dividend	149	148	149	148
Other	1,869	1,109	2,608	2,028
	19,271	16,543	26,506	23,840

39. 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 2006	531,359	22,173	7,499	(49)
As at 31 December 2007	531,359	22,173	7,499	(49)
As at 31 December 2008	531,359	22,173	7,499	(49)

The total authorised number of ordinary shares at year end was 531,359 (2007: 531,359) with a par value of EUR 41,73 per share (2007: EUR 41,73 per share). All issued shares are fully paid.

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

40. Revaluation reserves

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Revaluation reserves	13,668	26,583	13,668	26,583
Total	13,668	26,583	13,668	26,583

Movement – Banka Koper and consolidated:

	Revaluation reserves
As at 31 December 2006	21,453
Valuation of available-for-sale securities	5,130
As at 31 December 2007	26,583
Valuation of available-for-sale securities	(12,915)
As at 31 December 2008	13,668

41. Reserves from profit and retained earnings

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Legal reserves	9,970	8,581	9,970	8,581
Statutory reserves	174,657	134,487	174,657	134,487
Retained earnings	6,009	6,009	6,729	6,817
Other	49	49	49	49
Total	190,685	149,126	191,405	149,934

Movement – Banka Koper

	Legal reserves	**Statutory reserves**	**Retained earnings**	**Other reserves**	**TOTAL RESERVES**
As at 31 December 2006	7,372	119,023	6,620	49	133,064
Transfer from net profit for the period	1,209	15,464	-	-	16,673
Dividend	-	-	(611)	-	(611)
As at 31 December 2007	8,581	134,487	6,009	49	149,126
Transfer from net profit for the period	1,389	26,388	-	-	27,777
Transfer from net profit for the year 2007	-	13,782	-	-	13,782
As at 31 December 2008	9,970	174,657	6,009	49	190,685

Movement – consolidated

	Legal reserves	**Statutory reserves**	**Retained earnings**	**Other reserves**	**TOTAL RESERVES**
As at 31 December 2006	7,372	119,023	7,267	49	133,711
Transfer from net profit for the period	1,209	15,464	161	-	16,834
Dividend	-	-	(611)	-	(611)
As at 31 December 2007	8,581	134,487	6,817	49	149,934
Transfer from net profit for the period	1,389	26,388	-	-	27,777
Transfer from net profit for the year 2007	-	13,782	(88)	-	13,694
As at 31 December 2008	9,970	174,657	6,729	49	191,405

Legal reserves

The Bank creates legal reserves to a level such that the sum of legal reserves and those capital reserves that are added to the legal reserves when the required amount of legal reserves is ascertained equals the double of the share capital of the Bank.

Statutory reserves

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

42. Dividends per share

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. For 2008 the Group’s current profit was transferred to the legal and statutory reserves. The same happened for 2007.

(all amounts expressed in thousands of EUR)	**Banka Koper**	
	2008	**2007**
Allocation of the profit for distribution		
Net profit for the period	27,777	24,178
Allocation of the profit to the legal reserves (5%)	(1.389)	(1,209)
	26.388	22,969
Allocation of the profit to the statutory reserves (40%)	(26.388)	(9,187)
Net profit for distribution	**-**	**13,782**
Sale of treasury shares		-
PROFIT, distributed at the AGM:		**13,782**
- for dividends		
- to the statutory reserves		13,782

43. Cash and cash equivalents

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Cash and balances with central bank	12,213	14,882	12,254	14,964
Investment securities available for sale	-	6,496	-	6,496
Trading assets	1,056	1,020	1,056	1,020
Loans and advances to banks	11,276	81,398	11,276	81,398
Total	24,545	103,796	24,586	103,878

44. Contingent liabilities and commitments

Legal proceedings. As at 31 December 2008 there were no significant legal proceedings outstanding against the Group.

Capital commitments. At 31 December 2008 the Group had no capital commitments (2007: nil).

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

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

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

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Documentary and commercial letters of credit	7,246	11,033	7,246	11,033
Guarantees	95,318	76,181	95,318	76,181
Derivative financial instruments	24,250	5,018	24,250	5,018
Credit commitments:				
- original maturity up to 1 year	305,024	304,941	302,446	302,894
- original maturity over 1 year	69,286	85,117	67,889	84,117
	501,124	482,290	497,149	479,243
Provisions for off-balance sheet liabilities:				
documentary and commercial letters of credit	(809)	(736)	(809)	(736)
guarantees	(3,000)	(3,450)	(3,000)	(3,450)
derivative financial instruments	(1,043)	(141)	(1,043)	(141)
credit commitments	(12,868)	(13,970)	(12,804)	(13,941)
Total	483,404	463,993	479,493	460,975

45. Related party transactions

(all amounts expressed in thousands of EUR)

	Directors and advisers		**Management board**		**Supervisory board members**		**Major shareholders**		**Subsidiaries**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Loans										
At beginning of the year	147	194	-	-	13	-	81,486	159,686	31,999	10,732
Loans issued during the year	-	11	-	-	-	21	640,203	412,500	63,377	33,888
Loan repayments during the year	(29)	(58)	-	-	(13)	(8)	(716,947)	(490,700)	(54,881)	(12,621)
At end of year	118	147	-	-	-	13	4,742	81,486	40,495	31,999
Impairment as at 31 December	2	2	-	-	-	-	-	436	338	302
Collateral received as at 31 December	230	121	-	-	-	-	-	-	5,017	-
Deposits										
At beginning of the year	1,839	1,244	617	459	-	313	101,570	327,496	15	30
Deposits received during the year	5,255	5,870	3,778	3,663	50	1,364	3,918,966	1,105,766	171,916	38
Deposits repaid during the year	(5,739)	(5,275)	(3.812)	(3,505)	50	(1,677)	(3,367,891)	(1,331,692)	(171,900)	(53)
At end of year	1,355	1,839	583	617	-	-	652,645	101,570	31	15
Interest expense on deposits	66	60	35	16	1	17	27,567	2,710	-	2
Interest income earned	8	11	-	-	1	-	7,139	4,544	2,158	956
Other revenue − fee income	-	-	-	-	-	-	1,584	6	87	58
Guarantees issued by the bank and commitments	-	-	-	-	-	-	-	13,989	-	-
Remuneration	3,233	2,192	1,476	680	57	62				

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

46. Acquisitions and disposals

(a) Acquisition

On 28 February 2007, the Group acquired 75% of the capital of a small finance company operating in the credit cards business in Slovenia. The acquired company contributed an operating loss of EUR 905 thousand to the Group for the period from 28 February to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group profit before allocations would have been EUR 24,190 thousand.

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

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

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

No acquisition provisions were created.

(b) Disposals

In the 2008 there are no disposals of subsidiaries (2007: nil).

OTHER INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

Auditor's report to the shareholders of Banka Koper d.d. on disclosures included in the annual report and risk management procedures

We have audited the compliance of Banka Koper d.d., Koper with the provisions of ZBan-1 and the implementation regulations – the Resolution on Disclosures of Banks and Savings Banks (Official Gazette RS, No. 135/2006; hereinafter the Resolution on Disclosures), the Resolution on Risk Management and Implementation of the Process of Assessment of Adequate Internal Capital of Banks and Savings Banks (Official Gazette RS, No. 135/2006, 28/2007 and 104/2007; hereinafter the Resolution on Risk Management), the Resolution on Assessment of Losses from Credit Risk of Banks and Savings Banks (Official Gazette RS, No. 28/2007, 102/2008; hereinafter the Resolution on Loss Assessment) and the Resolution on the Calculation of Capital of Banks and Savings Banks (Official Gazette RS, No. 135/2006 and 104/2007; hereinafter the Resolution on Capital Calculation), for the year ended 31 December 2008.

The management of the Bank is responsible for the disclosures in the annual report and compliance with risk management rules in accordance with the regulations identified above. Our responsibility is to issue a report based on our audit.

We conducted our audit in accordance with International Standards on Auditing applicable to compliance auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether Banka Koper d.d., Koper has complied with the relevant sections in ZBan-1 and the implementation regulations. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the disclosures in the annual report of Banka Koper d.d. were, in all material respects, in compliance with the relevant sections in ZBan-1 and the implementation regulations referred to in the preceding paragraphs for the year ended 31 December 2008.

In addition, in our opinion, Banka Koper d.d. was, in all material respects, in compliance with the relevant sections in ZBan-1 and the implementation regulations referred to in the preceding paragraphs for the year ended 31 December 2008 with respect to:

- the general standards of managing credit risk, market risk, interest rate risk, operational risk and liquidity risk;
- capital, capital requirements and capital adequacy;
- the internal audit function activities.

Without qualifying our opinion, we draw attention to the fact that during our review of the Bank's risk management systems, we made recommendations regarding the assessment of credit risk. We also made certain recommendations regarding operational risk management. All our recommendations have either already been implemented, or are in the process of being considered by the management of the Bank.

Ljubljana, 16. March 2009

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

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

ERNST & YOUNG

Review report to the shareholders of Banka Koper d.d. on the information system of Banka Koper d.d.

We have reviewed the compliance of the information system of Banka Koper d.d. Koper with the provisions of the Slovenian Banking Act (hereinafter ZBan-1) and the related implementation resolution, for the year ended 31 December 2008. The management of the Bank is responsible for ensuring the information system operates in accordance with the regulations stated above. Our responsibility is to issue a report on compliance with these regulations, based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the information system complies, in all material respects, with the Slovenian Banking Act and the related implementation resolution. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the information obtained, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that:

- the information system support for the risk management function does not, in all material respects, comply with the relevant provisions of the Slovenian Banking Act;
- the information security policy does not, in all material respects, comply with the documented development strategy of the Bank's information systems, and that the Bank did not comply with the recommendations of Slovenian standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003.

Ljubljana, 16. March 2009

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

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

ERNST & YOUNG

Auditor's report to the shareholders of Banka Koper d.d. on disclosures included in the annual report and risk management procedures

We have audited the compliance of Banka Koper d.d., Koper with the provisions of ZTFI (Official Gazette RS, No. 67/07, 100/07 and 69/08; hereinafter ZTFI) and the implementation regulations – the Resolution on Disclosures of brokerage houses (Official Gazette RS, No. 106/07; hereinafter the Resolution on Disclosures), the Resolution on Risk Management and Implementation of the Process of Assessment of Adequate Internal Capital of brokerage houses (Official Gazette RS, No. 106/07; hereinafter the Resolution on Risk Management) and the Resolution on the Calculation of Capital of brokerage houses (Official Gazette RS, No. 106/07; hereinafter the Resolution on Capital Calculation), for the year ended 31 December 2008.

The management of the Bank is responsible for the disclosures in the annual report and compliance with risk management rules in accordance with the regulations identified above. Our responsibility is to issue a report based on our audit.

Auditor's Responsibility
We conducted our audit in accordance with International Standards on Auditing applicable to compliance auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether Banka Koper d.d., Koper has complied with the relevant sections in ZTFI and the implementation regulations. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

Opinion on disclosures
In our opinion, the disclosures in the annual report of Banka Koper d.d. were, in all material respects, in compliance with the relevant sections in ZTFI and the implementation regulations referred to in the preceding paragraphs for the year ended 31 December 2008.

Opinion on risk management procedures
In addition, in our opinion, Banka Koper d.d. was, in all material respects, in compliance with the relevant sections in ZTFI and the implementation regulations referred to in the preceding paragraphs for the year ended 31 December 2008 with respect to:

- the general standards of managing credit risk, market risk, interest rate risk, operational risk and liquidity risk, as described in appendices I-V of Resolution on Risk Management;
- designed, developed and documented strategies and policies for the implementation of the process of evaluating the appropriate capital and for the calculation of capital and capital requirements;
- internal control activities
- notifications and reports that Banka Koper sends to the Securities Market Agency, the public and customers, are consistent with the audited financial statements;.

Ljubljana, 16. March 2009

Janez Uranič
Direktor
Pooblaščeni revizor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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

ERNST & YOUNG

Review report to the shareholders of Banka Koper d.d. on the information system of Banka Koper d.d.

We have reviewed the compliance of the information system of Banka Koper d.d. Koper with the provisions of the ZTFI (Official Gazette RS, No. 67/07, 100/07 and 69/08; hereinafter ZTFI) and the related implementation resolution, for the year ended 31 December 2008.

The management of the Bank is responsible for ensuring the information system operates in accordance with the regulations stated above. Our responsibility is to issue a report on compliance with these regulations, based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the information system complies, in all material respects, with the Slovenian Banking Act and the related implementation resolution. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the information obtained, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that:

- the integrity of information system supporting the risk management is, in all material respects in compliance with the written internal rules of the Banka Koper, and is thereby inefficient;
- Banka Koper has not prepared and adopted policies of information system security, that security policy of information system is not, in all material respects, consistent with the Banka Koper's information system development strategy, and that internal control activities of information system is, in one or more important respects, inconsistent with the written rules.

Ljubljana, 16. March 2009

Janez Uranič
Direktor
Pooblaščeni revizor
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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