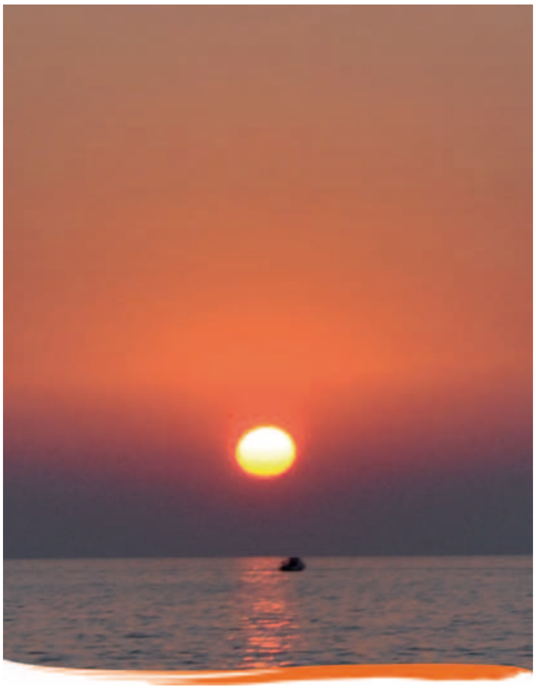

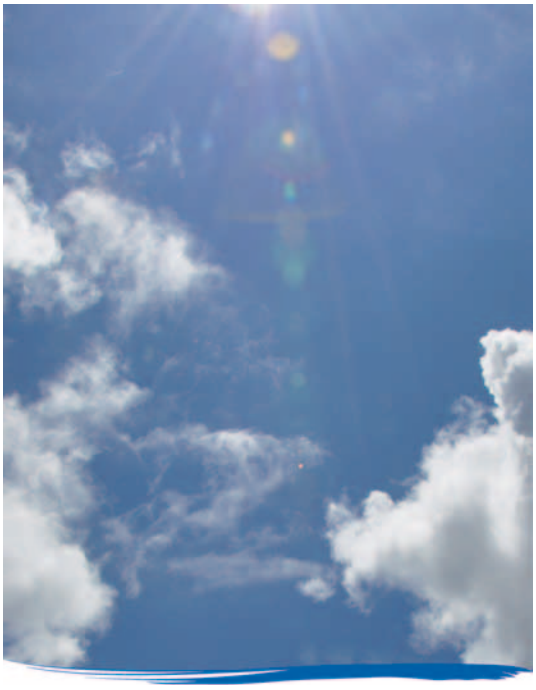


ANNUAL REPORT 2011

BANKA KOPER

Bank of INTESA SANPAOLO

BANKA KOPER

Bank of INTESA SANPAOLO

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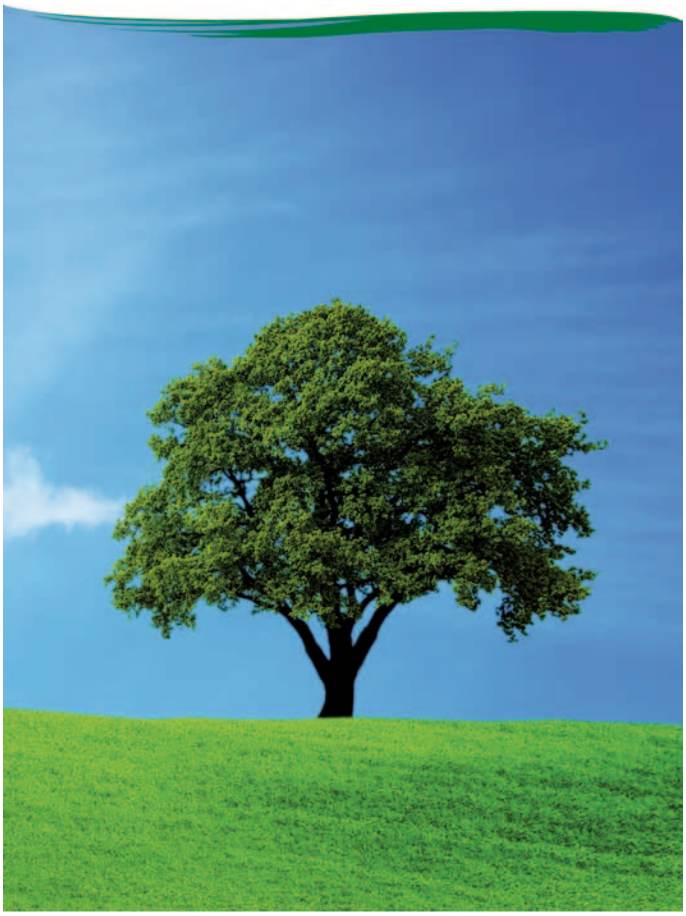


BANKA KOPER AT A GLANCE

Shareholder structure of Banka Koper d.d.

		Equity holding in %	
	SHAREHOLDER	**31. 12. 2011**	**31. 12. 2010**
1.	Intesa Sanpaolo S. P. A.	97.5 %	97.5 %
2.	Elektro Primorska d.d	0.7 %	0.7 %
3.	Kraški vodovod Sežana d.o.o.	0.3 %	0.3 %
4.	Minority shareholders	1.5 %	1.5 %

International ratings

On 11 October 2011 the international rating agency – Fitch Ratings London – downgraded the credit rating for Banka Koper: its long-term credit rating from A+ to A-, its short-term credit rating from F1 to F2, and its individual (stand-alone) credit rating from C to C/D. Fitch Ratings confirmed the Bank's credit rating for external support of 1.

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

International ratings

	Rating 2011	**Rating 2010**
Long-term	A-	A+
Short-term	F2	F1
Individual	C/D	C
Support	1	1

MILESTONES IN THE BANK'S 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.

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.

1996 – The branch network expands to Slovenia's capital, Ljubljana.

1997 – New corporate image and new name – Banka Koper. The Bank sets up a banking group with M banka.

1998 – The branch network expands.

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 – Preparations start for the strategic alliance with the Sanpaolo IMI Group.

2002 – The Bank joins the Sanpaolo IMI Group – its majority shareholder. The sale of Finor is finalised. The Bank's branch offices spread to all Slovenian regions.

2003 – The Bank's shares are delisted from the Ljubljana Stock Exchange organised market.

2004 – Finor d.o.o. is bought back and registered as the Bank's subsidiary for the lease business.

2005 – Consolidation of the Bank's leading position in developing card operations, introduction of the first business debit card in Slovenia and first intercontinental SecureCode transaction with an Activa Maestro card to be carried out in the world.

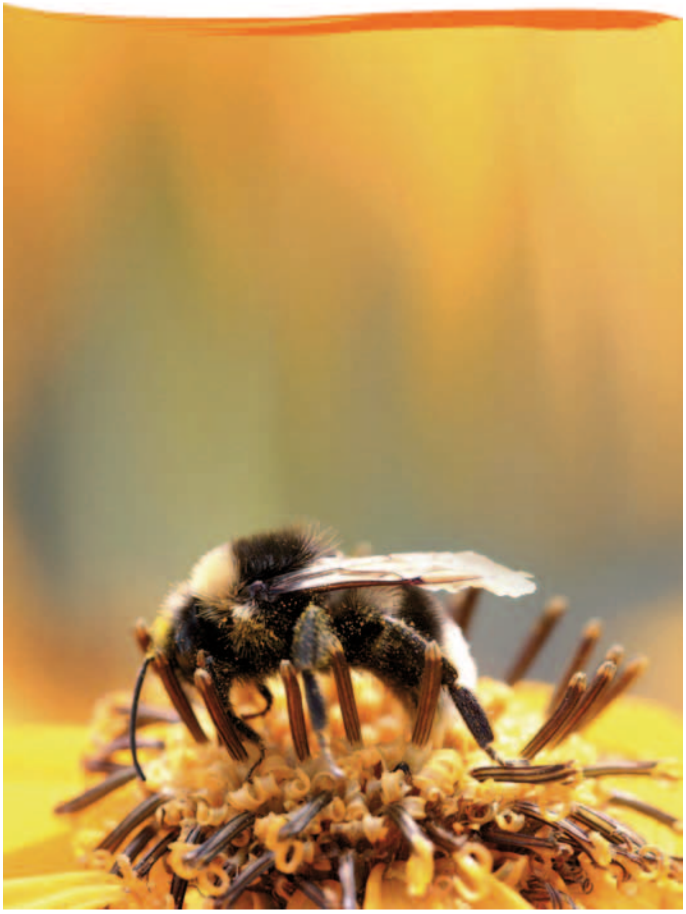
2006 – Sanpaolo IMI acquires additional shares of the Bank, thus obtaining a stake of 66.21 per cent of the Bank. The smart-card family features two more smart cards: Activa Visa and Visa Electron. Banka Koper is the first Slovenian bank to be nominated for the "Financial Sector Technology Awards".

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

2008 – The banking group Intesa Sanpaolo S.p.A increases its equity holding in Banka Koper to 97.22 per cent. The rebranding project is completed at Banka Koper and the Bank's corporate image is changed to transpose the new visual identity shared by the parent bank and its subsidiary banks. The Bank's retail network expands by opening six new branches.

2010 – The focus of Banka Koper is on risk management, deposit gathering, launching new products. Within the framework of the Group-wide EDU Program Listening 100 % - Banka Koper pencilled in an important action plan for improvements in the customer service area that started with training sessions for all employees.

2011 – Banka Koper continued to launch new products, it added new branches to its retail network and at the same time, it paid particular attention to the rationalization of its operations. Banka Koper took over the management of the portfolio containing the holders of American Express card. The project tailored to improve customer service - Listening 100 % – was rolled over to 2011. Banka Koper focused attention to social corporate responsibility.



1. REPORT OF THE MANAGEMENT BOARD

In 2011 Slovenia has been severely affected by the deepening of the global financial crisis. Domestic economic activity experienced a slowdown, and the real growth of gross domestic product was barely in positive territory. Real-economy variables such as private consumption expenditure and unemployment also highlighted a worsening trend and the presence of persistent negative conditions in the business environment.

The Slovenian financial and banking sector suffered from the pressure of several unfavourable factors. Mainly as a result of the shrinking of interbank lending, traditional wholesale sources of bank liquidity and long-term funding became even more volatile. In parallel, following the tensions affecting the sovereign debt market in the eurozone, risk premia charged on interbank borrowings soared, making access to credit difficult both for credit institutions and their clients.

Against this backdrop, the Slovenian banking sector could not remain unscathed and the lacklustre performance of Slovenian banks was primarily reflected in their low profitability as a number of banks had to set up sizeable provisions for impairment losses. Coupled with a restricted access to funding and a sluggish internal demand, this led to an overall stagnation of lending activity across the banking system.

In this context, the European Central Bank played a significant role in mitigating the aforementioned adverse funding conditions, primarily by easing its monetary policy stance and, in the last quarter of the year, introducing some non-standard measures to increase the banking sector's liquidity (namely Long-Term Refinancing Operations – LTROs).

Banka Koper, in spite of the severe problems encountered in dealing with the difficult external business environment, managed to maintain high lending volumes, as well as to close the fiscal year with a considerable net profit. Hence, we have once again demonstrated our financial resilience and we have secured our position among the top banks in Slovenia in terms of profitability, operating performance and capital adequacy.

At the end of 2011, Banka Koper posted total assets in the amount of 2,250 million euros and a 4.7 per cent market share, ranking at the 8th place among Slovenian banks in terms of total assets. The bank generated a pre-tax (gross) profit of 21.8 million euros and a net profit of 17.7 million euros. The pre-tax profit in 2011 was 0.5 million euros higher than a year earlier. The 8.1 per cent pre-tax return on equity and the 1.0 per cent pre-tax return on assets place Banka Koper among the most successful banks in Slovenia.

Banka Koper regulated its capital adequacy by increasing its profit reserves. At the end of 2011, its total capital adequacy ratio stood at 13.15 per cent and the Core Tier 1 ratio (the highest quality capital) at 12.69 per cent, after the bank allocated 70 per cent of its 2011 profit to capital reserves.

Deposit taking and loan disbursement continued to be the core business of Banka Koper in 2011. The bank increased its presence in the loan segment introducing new and innovative loan products such as housing loans with a cap on interest rates, as well as mortgage loans backed by insurance protection in case of losing job, severe injuries or even death. Banka Koper also reaffirmed its commitment to product innovation by launching structured deposits tailored to meet needs and wishes of more demanding customers.

We became partner of American Express (AMEX) credit card for Slovenia, providing the benefit of AMEX brand and products to our retail and corporate clients. Also, Banka Koper offered Banka-IN, an innovative internet solution in the daily business for all our retail clients.

In the course of 2011, we launched new initiatives and a major overhaul of our service model, in an effort to fend off the impact of the adverse external operating conditions and with a view to enhancing the bank's efficiency and customer satisfaction. In the course of the last quarter of the year, the branch network of the bank was reorganised with the purpose to providing a more specialised and more flexible front-end platform in dealing with natural persons, sole proprietors and small and medium-sized enterprises (SMEs).

Furthermore, the Risk Management Division was revised. More specifically, the Work Out Department was strengthened in order to enhance its ability to tackle situations of distress and to assist delinquent customers to identify and to finalise restructuring programs. At the same time, the units in charge of credit control, credit monitoring and debt collection were also strengthened.

Banka Koper continued to orient its investments towards the development of existing infrastructure and towards technological improvements. A significant share of the bank's investments – 36.5 per cent of the 5.2 million euros in total – was earmarked to the renovation of the existing network and the opening of two branches of Banka Koper reflecting the visual identity of the Intesa Sanpaolo banking group. A 39.4 per cent of the total investment money was assigned to the computerisation of business operations, and more particularly, to the development of banking software. We made also investments in green energy production (through the installation of solar panels) and in the upgrading of the physical security of our locations.

Education and training of all employees of Banka Koper will remain in the Bank's mainstream activities with a focus on the project for career development of young, high-calibre staff. Under this project, Banka Koper has put in place a system for timely identification, development and retention of quality people working in the Bank, with the aim to fill in important positions from the pool of the existing talented employees. During 2011, a new round of the project shortlisted the second generation of the candidates to be groomed within the framework of the project.

We regard social responsibility as a set of interconnected responsible actions that take place simultaneously. Inwards, this means a systematic engagement with employees, notably taking care of the development of their competencies and talents and rewarding their merits through advancements in their career paths. Outwards, we are aware of our interdependence with the broader environment, which does not merely comprise our clients but also our suppliers, the local community, the media and ultimately also the planet that we inhabit.

By adopting the Code of Ethics of the Intesa Sanpaolo Group, Banka Koper integrated responsible environmental management into its business strategy. We implement this by introducing innovative business ideas that protect, support or improve our common environment. The 360° Sustainability Project is our commitment to environmental-friendly operations. In 2011, we opened three "green branch" offices in Slovenia, being the first of the Slovenian banks to do so. We are proud to say that we are the greenest bank in Slovenia.

Despite a still persisting unfavourable Slovenian macro-environment and quite unpredictable global trends, the business objectives of Banka Koper for 2012 are ambitious. The business plan for 2012 represent a great challenge for Banka Koper and its employees. Further improvement of economic efficiency, especially of cost-effectiveness, and the achievement of synergies based on stronger ties within the Intesa Sanpaolo Group are just a few out of a set of highly demanding goals that we set for ourselves in 2012. Nevertheless, we are confident that these tasks are achievable if we will pursue them with the same determination which characterised the past performance of our bank.

2. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2011

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 2011,
- 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 2011

In the course of the financial year 2011, the Supervisory Board of Banka Koper d.d. met five times at regular sessions and two times at correspondence sessions and examined the strategic and operating matters in relation to the Bank's development, implementation of the business policy and current results posted by the Bank, annual and other reports of the Management Board, as well as other important issues relevant to the Bank's business. The Supervisory Board voted on proposed business deals where due to being in excess of the limit on exposure determined for a particular customer, the Supervisory Board of Banka Koper has to grant its approval and on other matters of interest. The materials for the sessions were forwarded to the members of the Supervisory Board in compliance with the Rules of Procedures governing the discharging of the functions of the Supervisory Board and those functions were discharged in line with the aforementioned enactment.

The composition of the Supervisory Board of Banka Koper d.d. was changed in 2011. On 31 May 2011, Mr. Ivan Šramko was elected as the member of the Supervisory Board of Banka Koper. Since Mr. Fabrizio Centrone resigned his position of the deputy chairman of the Supervisory Board of Banka Koper, the Supervisory Board of Banka Koper d.d. appointed on 25 July 2011 Mr. Ivan Šramko to the position of the deputy chairman of the Supervisory Board of Banka Koper.

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 2011 and the fulfilment of the goals set out within the policy framework;
- examining the annual report on the carrying out of internal control and the measures that arise from the Money Laundering Prevention Act for the year 2011;

- examining and approving the Annual Report of the Internal Audit Department for 2011;
- verifying the activities and reviewing the findings of the Internal Audit Department during the current year;
- examining the Report on external examinations carried out within the framework of supervision of Banka Koper in the year 2011;
- monitored the Bank's capital adequacy;
- Mr. Ezio Salvai resigned his position as the president of the Management Board effective 30 June 2011 to take up new tasks and responsibilities position in the Group. The Supervisory Board appointed Mr. Giancarlo Miranda to the position of the president of the Management Board of Banka Koper;
- addressing other issues in accordance with powers conferred upon it under law and the Articles of Association.

The Supervisory Board assesses that it had at its disposal timely and adequate data, reports and information, as well as additional clarifications and explanations when required at sessions it held, so as to be able to monitor throughout the financial year the Bank's operations with due attention, as well as the internal audit function and supervise the running of the Bank. In February 2012 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2011, arising from the unaudited accounting statements.

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

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

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

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

P o s i t i o n:

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

3. Approval of the Annual Report for the financial year 2011

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 2011.

4. Approval of the proposal on profit appropriation

The members of the Supervisory Board have analysed the proposal regarding the appropriation of the balance-sheet profit. The final decision on the matter is to be adopted by the General Meeting of Shareholders of Banka Koper. By taking into account the Bank's goals set for the financial year 2012 and beyond, the Bank will have to strengthen its capital base in order to maintain the adequate capital adequacy ratio and sustain the planned volume of its operations. The proposal of the Management Board of Banka Koper regarding the appropriation of the profit aims at strengthening the reserves as well as allocating an appropriate portion of the profit for the payment of dividends. After due examination of the proposal, the Supervisory Board hereby fully

a g r e e s

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

Koper, 8 May 2012

Chairman of the Supervisory Board
Vojko Čok

3. BODIES OF CORPORATE GOVERNANCE

Supervisory Board

The supervisory board of Banka Koper is chaired by the former President of the Bank's management board. Its members are external experts and representatives of the Bank's majority shareholder and its parent undertaking, the Intesa Sanpaolo Group.

Mr. Ivan Šramko was elected by the Annual general meeting of Banka Koper d.d. on 31 May 2011 as a member of the supervisory board. Since the deputy chairman of the supervisory board Mr. Fabrizio Centrone resigned his position as the deputy chairman of the supervisory board, the supervisory board appointed Mr. Ivan Šramko on 25 July 2011 the deputy chairman of the supervisory board.

Supervisory Board as at 31 December 2011:

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

Management Board

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

In order to assume new tasks and duties within the ISP group, Mr. Ezio Salvai resigned as of 30 June 2011 his position as the president of the management board of Banka Koper. The supervisory board appointed Mr. Giancarlo Miranda to take the helm of the management board as its new president.

The composition of the management board as at 31 December 2011:

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

4. GENERAL ECONOMIC AND BANKING ENVIRONMENT

Just like in the rest of the euro zone, also in Slovenia we witnessed throughout 2011 a gradual deterioration of the economic situation and particularly in the financial markets. The economic activity during the last months of the year under review slowed down, and we are to expect the economic gloom to continue also in the course of 2012 with adverse conditions for business and the stormy economic climate.

With the 2011 figure of 2.1 per cent, inflation In Slovenia remained roughly at the same level as three years earlier, even though the increase of consumer prices in Slovenia was not as steep as in the entire euro zone. According to the figures calculated by the Institute for Macroeconomic Analysis and Development (IMAD), it can be largely attributed to the impact of a rather sluggish domestic economic activity during the last quarter of 2011. In the course of 2011, price movements in Slovenia on average for the euro zone were also changed after the methodology for measuring seasonal adjustments was changed.

The lacklustre economic situation was reflected also on the labour market as illustrated by the registered unemployment figure in November 2011 of 11.9 per cent – the record high level since the global financial and economic crisis started. The number of jobless persons in December 2011 reached 112,754 persons, and it is by 2.5 per cent more than in December 2010. Consequently, bonuses traditionally paid out to employees in December as performance-related payments for the current years also decreased. These December payments totalled 76.6 million euros; hence, they were by one tenth below the amount paid out in 2010 and the lowest for the past six years.

At the end of 2011, the conditions in the credit markets also deteriorated. The volume of lending by domestic banks to the non-banking sector in Slovenia dwindled in December as a result of high amounts of net repayments of loans taken by corporate customers and non-financial institutions. Government borrowing, however, increased slightly. The aggregate net repayments in the amount of 560 million euros were the highest during the last six years. The volume of lending by domestic banks to the non-banking sector in Slovenia decreased during the year under review by almost 800 million euros, whereas in 2010, net inflows amounted to 1.1 billion euros.

The supply of sources of funding for credit institutions remains rather limited. True as it is that in December deposits placed by households increased slightly helped by seasonal factors, the volume of government deposits dropped further. Banks continued to make net repayments of obligations maturing abroad. On the other hand, liquidity pressures were eased thanks to the refinancing operations conducted by the European Central Bank (ECB) having three-year maturity. Nevertheless, at the end of the year, as a consequence of the tighter conditions in the international financial markets and the rising uncertainty as to the robustness of economic activities, the situation found in the credit markets across the euro zone deteriorated further. Subsequently, the liabilities on the books of the banks operating in Slovenia to the Eurosystem jumped in December by almost 900 million euros.

The quality of banks' assets continued its downward trend and additional provisions and impairments had to be made. The amount of impairments posted by banks in December 2011 in the amount of more than 300 million euros was at the highest level since 2005. The aggregate amount of additional provisions and impairments made by the banks in Slovenia during the year under review was 1.1 billion euros or 40 per cent more than in 2010.

5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2011

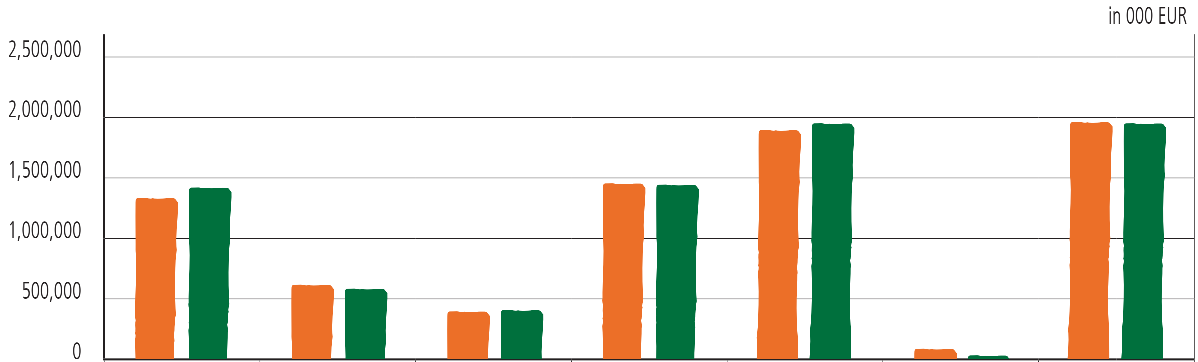
5.1 LENDING OPERATIONS

The lending activity of Slovenian banks remained at a low level also in 2011. Borrowing by households in Slovenia in 2011 was at the lowest level following the previous rock-bottom lending volumes experienced in 2005. Net flows totalled only 171.4 million euros, and this amount is less than a quarter of the 2010 figure. At the end of 2011, net repayments of the loans taken by companies and non-financial institutions increased. The December repayments accounted for nearly 60 per cent of all repayments made in 2011.

In 2011, the Bank's gross lending to the non-banking sector increased by 4.3 million euros, i.e. by 0.2 per cent in comparison with 2010. The Bank's non-banking lending market share was 5.4 per cent at year-end 2011.

In terms of currency, lending in euro still largely prevailed in 2011 with a 97.3 per cent share in total lending activities. As for the maturity structure, the trend of increasing long-term over short-term loans was recorded also in 2011. Short-term loans accounted only for 24.6 per cent of total loans.

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



	Legal entities	Households	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31.12.2011	1,336,840	607,646	477,614	1,466,872	1,891,386	53,100	1,944,486
31.12.2010	1,397,129	543,099	483,597	1,456,631	1,925,040	15,188	1,940,228

Loans to *the corporate sector* amounted to 1,336.8 million euros or 68.8 per cent, representing the largest portion of loans to the non-banking sector. There is a visible growth of loans in foreign currency, but they are still very modest in comparison with those in local currency.

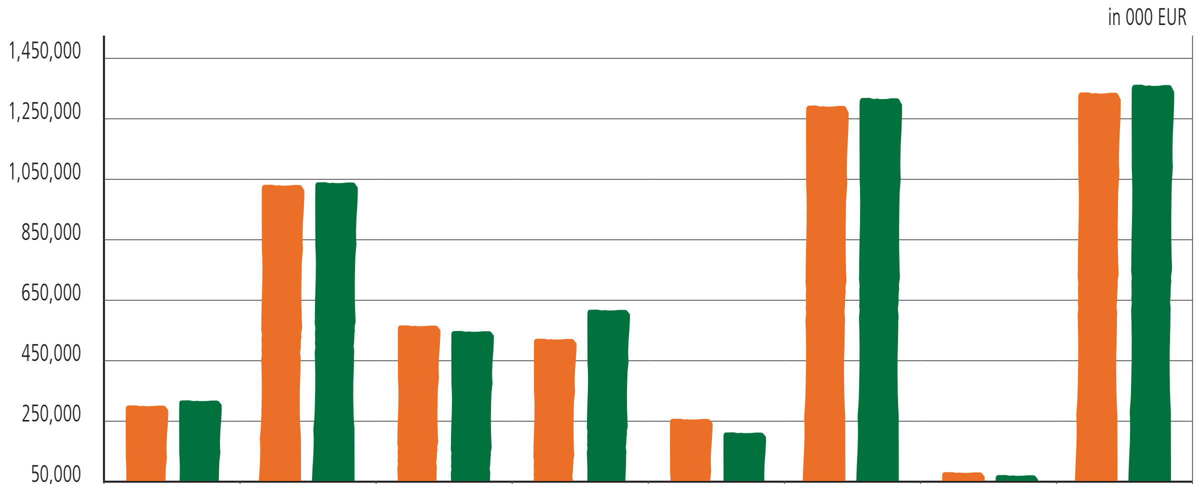
Lending to *households* - private individuals and sole proprietors - reached 607.6 million euros or 31.2 per cent of total lending to the non-banking sector. Compared with 2010, lending to this customer segment increased by 64.5 million euros or 11.9 per cent. As in 2010, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level. Most of long-term loans are mortgage loans.

5.2 DEPOSITS

Customer deposits and received loans decreased by 2.1 per cent or 28.9 million euros in 2010 meaning that the Bank lost 0.3 basis points of its market share in terms of deposits at the end of 2011.

At the end of 2011, Banka Koper achieved a 5.5 per cent market share measured by deposits placed by the non-banking sector, that is, 0.3 basis points below the 2010 figure. Banka Koper increased in 2011 its market share in long-term deposits but lost its market share in the segment of short-term deposits. The share of sight deposits remained unchanged year-on-year. The sight deposits accounted for a 42.4 per cent share of all deposits followed by short-term deposits (38.9 per cent) and long-term deposits trailing at 18.7 per cent. The deposit structure in terms of currency was dominated by deposits denominated in euro with 94.6 per cent.

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



	Legal entities	Households	Sight	Short-term	Long-term	Domestic currency	Foreign currency	TOTAL
31. 12. 2011	311,938	1,029,618	568,513	521,723	251,320	1,269,324	72,232	1,341,556
31. 12. 2010	316,748	1,053,726	550,900	625,764	193,810	1,306,559	63,915	1,370,474

The volume of the deposits placed by legal persons decreased by 1.5 per cent (by 4.8 million euros) comparing with 2010.

Household deposits account for 76.7 per cent of all non-bank deposits and at the end of 2011 totalled 1,029.6 million euros, i.e. 24.1 million euros less year-on-year. Household deposits were mainly denominated in local currency.

5.3 OTHER SERVICES

5.3.1 Card business

Activa payment system

In the financial year 2011, ISP Card d.o.o. successfully completed with the assistance of all banks members of the Activa system the migration to the new, technologically improved IT platform for card processing operations for the management of the card business. In addition, plenty of human resources and a number of activities were directed toward the objective of achieving compliance with the Payment Card Industry Data Security standard (PCI DSS), where the objective is to deliver a manageable and secure access when using data provided for the purpose of the card business.

Among the newly launched card-related products and services, the centre stage place belongs to the expansion of sending SMS messages for payment transactions made using cards and the introduction of the business debit card Activa Maestro at the banks - members of the Activa system. The versatility of the system increased when at the end of 2011, a new regulation was promulgated limiting the amount of cash payments to 50 euros.

The Activa system continued also in 2011 with the promotion of plastic money for all our daily payments: Moja Activa z nakupi dobiva. The idea was to motivate clients to make more payments using cards and to increase their chance for winning interesting and valuable prizes by paying more times with their cards. It should also increase the visibility of the Activa trade mark and raise the popularity of cashless payments.

Banka Koper

The card business in Banka Koper reached a new milestone in 2011 when Banka Koper took over as of 1 May last year the helm of the American Express card operations and consequently expanded the offering of card-related products in its card product portfolio by adding one of the most visible trademarks. To this end, Banka Koper took over the portfolio with the holders of the American Express cards and the network of merchants and other providers of products and services, which accept the American Express cards to pay for goods and services.

In 2011 Banka Koper continued with the project for the contactless technology in the area of payments made by using cards, the expansion of its offer for the provision of payments using cards in e-commerce on the Internet, and it took over the entire management of the ATM network of Banka Koper with the aim to maximise the communication through all direct channels under management.

5.3.2 New products

Banka Koper expanded in 2011 its offer for customers by providing products tailored to meet their needs and expectations, tuned to market conditions and regulatory requirements. The following new products come to the fore:

- Uglašeni potrošniški kredit: here Banka Koper guarantees to prospective borrowers to give them an answer within 3 days;
- Kredit pod streho: here borrowers are protected against rising Euribor rates;
- 1,2,3 kredit: here merchants arrange quickly and simply consumer credits for the purchase of goods and services;
- Credit line approved on accounts reserved for inflows from trade receivables: the Bank's customers can draw funds against invoices issued with deferred payment before such invoices actually fall due;
- Structured deposit with maturity of 2.5 do 4 years: these deposits render higher returns pegged to the movements in 6-month Euribor;
- Receiving e-invoices for users of the Internet bank - Banka IN;
- Provision of SEPA direct debits;
- Mobile e-banking - Mobilna Banka IN.

5.3.3 Electronic banking

Banka IN – it is more than a common website of Banka Koper – it is the first personal bank on the Internet that enables customers of Banka Koper to attend to their banking needs in a fast and easy way without having to pay a visit to the Bank's brick-and-mortar branches. It is an advanced channel for communication between the bank and the customer, all the bank's products and services are at the customer's finger tips and it is a versatile bank, so it does not take long to get used to it With its ground-breaking solutions Banka IN stands out from the crowd of e-banking providers. In the course of 2011, most users of i-Net successfully migrated to Banka IN. The surveys show that users of this advanced internet bank are also very satisfied with the new service. Alongside the communication devices already in broad use such as the Internet and the telephone (Infotel), Banka Koper presented with pride in 2011 also Mobilna Banka IN suited to be used by those with state-of-the-art mobile devices such as smart mobile phones and tablets. Consequently, Banka IN has become even more mobile and it can be accessed at any time and at any place.

5.3.4 Marketing mutual funds

In the financial year 2011, selling funds was hit hard by the overall deterioration in the economic situation around the globe. The values of stock-exchange indices plunged and dragged down investor confidence in yields on securities and also in mutual funds.

Despite the unfavourable climate for selling the mutual funds, Banka Koper did its best to beat the market but the results posted in this segment of its business still fall short of expectations, since Banka Koper experienced more than 2 million euros in net outflows from foreign funds it offers to customers (Eurizon Manager Selection Fund, Eurizon EasyFund and Franklin Templeton Investment Fund) in the course of 2011. Lacklustre results were achieved also in the saving scheme deposits on the basis of contracts concluded for monthly payments in funds.

In the financial year 2011, Banka Koper terminated collaboration in the area of marketing mutual funds of two Slovenian companies for fund management, namely Alta skladi and KD skladi.

5.3.5 Distributing insurance policies

As regards the cooperation with insurance companies, Banka Koper has expanded collaboration with the insurance company Generali. A new insurance product was offered to customers: »Zavarovanje posojilojemalcev« (CPI) purchased by borrowers seeking protection in case of death, disability, unemployment, critical illness and temporary incapacity for work. It is an insurance product rather widespread in other countries but quite new in Slovenia. The insurance coverage became available early in 2011 to the borrowers who took housing loans, and in October, Banka Koper offered to borrowers to take out an insurance policy also for the already existing housing loans. The idea is basically to relieve borrowers or their heirs of excessive financial burden in case any of the events covered by the policy should take place.

5.3.6 Leasing

The Bank's full subsidiary Finor Leasing d.o.o. concluded 797 contracts in the aggregate amount of 41.1 million euros. The majority of contracts were concluded for passenger cars - 290 contracts in the amount of 6.5 million euros, followed by commercial vehicles - 242 contracts in the amount of 7.8 million euros, manufacturing and other equipment - 213 contracts in the amount of 10.2 million euros, real estate, the strongest group in value terms - 44 contracts in the amount of 16.4 million euros, and the smallest group of contracts for the purchase of yachts - 8 contracts in the amount of 0.3 million euros.

5.3.7 Open-ended mutual pension fund managed by Banka Koper (OVPS)

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

As at 31 December 2011, the OVPS posted total assets of 33.7 million euros, which means a 2.1 per cent decrease with regard to year-end 2010. This decrease is mostly a consequence of the aggregate effect of the world economic crisis and the expiry of the 10-year membership of the OVPS supplementary pension scheme. What happened was that many insured persons drew down the saved funds after the 10-year period of membership of the OVPS expired, even though the personal income tax bill is to soar due to the "windfall" income.

At the end of 2011, the OVPS of Banka Koper had 6,223 members or 1.9 per cent less than a year earlier, of which 5,549 persons were collectively insured and 674 were individually insured. The number of companies – sponsors of the collective schemes fell by three companies; hence, at the end of 2011, the OVPS had 105 companies.

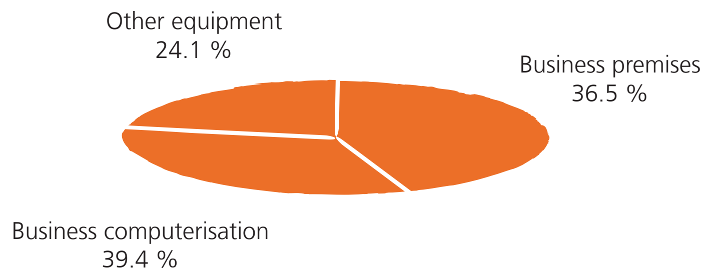
The unit asset value decreased by 2.3 per cent year-on-year and reached 8.2 euros at the end of 2011. It is worth mentioning that the value of asset unit has practically doubled over the long-term horizon, and the return on the funds' assets has surged since it was established to 96.8 per cent by the end of 2011.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

6.1 CAPITAL INVESTMENTS

Also in 2011, Banka Koper continued with the implementation of the long-term development programme and invested 5.2 million euros in the computerisation of its operations, in office space and in other equipment. Bank's capital investments in 2011 were higher by 79.5 per cent or 2.3 million euro compared to 2010.

Structure of capital investments in 2011



The biggest portion of capital investments (gross capital formation) – 2.1 million euros or 39.4 per cent of all investments - was allocated in 2011 to the computerisation of banking operations, of which 1.0 million euros was spent on banking application software development. Investments were mainly made in the development of Banka IN, updates of the existing applications and the development of CRM.

Substantial investments in the area of card operations were inevitable in order to meet ever-stricter security requirements in this area.

In 2011 Banka Koper allocated only 1.9 million euros, that is, 36.5 per cent of total investments to renovation and refurbishment of premises and modern state-of-the-art banking service, as well as the refurbishment of its branches to be in line with the corporate image of the parent banking group. Two new branches were added to the Bank's retail network in Kranj and in Ljubljana.

6.2 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

Banka Koper offered to its customers in 2011 the **mobile version of Banka IN**. This mobile version features practically the full scope of functionalities otherwise available to the users of Banka IN, including the communication with the personal computer.

In addition to the existing distribution channels for selling the Bank's products and render services, as well as the customised approach to customers, Banka Koper started in 2011 with the intensive deployment also of the ATM channel.

In the area of customer service - **CRM** - alongside the customer identification a feature was implemented for sending automatically a message to the account officer or personal banker that for a particular customer there is a special offer available, a marketing campaign or »Best« product.

In December 2011, Banka Koper as the first bank in Slovenia and beyond its borders enabled in the Ljubljana branch the execution of **electronic transactions**. Customers wishing to use their electronic (digital) signatures can use the already existing smart payment cards with a chip and the digital certificate. Such customers can authorise a transaction by punching in their PIN right after they approve the content of a transaction, that is, a contract they check on a monitor in front of them.

As regards the provision of **payment services**, Banka Koper completed successfully the migration of credit transfers in the SEPA credit scheme and implemented mass/batch payments in the latest versions of the XML standards. Another achievement was the successful implementation in the electronic banks of the new universal payment order (UPN) and the provision of the IT support for receiving and sending e-invoices. As far as direct debits are concerned, Banka Koper commenced to perform SEPA direct debits for payers.

Banka Koper completed the overhaul of the application for loans/credit facilities and **implemented a new system for monitoring lending to natural and legal persons** and consequently paved the road for the seamless functioning of the »back office« processes.

In the area of card-related business, Banka Koper acquired in May 2011 the licence for **American Express** cards and consequently broadened its offering of card products and attracted new potential customers.

The data warehouse was supplemented by adding new content and functionalities with the aim to ensure the completeness of data at a daily level for various needs of Banka Koper and external regulators.

Moreover, Banka Koper introduced a new application to offer support at a higher quality level to be tapped by the Bank’s management containing the Bank’s balance sheet, interest rate, liquidity and credit risks.

As regards the **technical infrastructure**, Banka Koper took steps in 2011 to separate the network infrastructure of Banka Koper from that of Intesa Sanpaolo Card (ISPC). It was a joint project executed by Banka Koper and ISPC. The execution of the project was of high importance both for ISPC and for Banka Koper, since alongside the separation of the technical infrastructure and the autonomy of both companies, it was also necessary to meet the highly demanding requirements laid down by the standard PCI DSS and to acquire the certificate (ISPC) in that line of business.

Another important project was the **upgrading of the Microsoft** systems to the latest versions both on the side of the server and on the other end where workstations are. The segment of the project, which refers to the **migration of workstations to Windows 7** and the **office application Office 2010**, will be completed in the second half of 2012.

7. CORPORATE SOCIAL RESPONSIBILITY

Banka Koper understands the corporate social responsibility as a bundle of responsible conduct being carried out art several levels. Within the Bank it means a systematic approach to employee management, concern for the development of their competencies and talents, and investing in the advancement of their career paths. Outside Banka Koper, there is mutual dependence on broader environment not being represented only by customers, but also by suppliers, the local community, the media and the last but not the least – the planet on which we live.

HUMAN RESOURCES

The structure

At Banka Koper, the number of employees has been steadily rising. In the financial year 2011, we hired 62 persons and 48 persons left Banka Koper. At the end of the year under review, Banka Koper had 785-strong staff, of which 185 male and 600 female employees. Two employees come from the Intesa Sanpaolo group.

Number of employees by educational level

Level of education	V or lower	VI	VII or higher	Total
Number of employees	361	89	335	785
Share (in %)	46 %	11 %	43 %	100 %

Education and training

Banka Koper pays a lot of attention to education and training of its people; hence, it made it possible to the employees to attend numerous internal and external forms of education and training. The portion of funds allocated to education and training in 2011 was 2.5 per cent of the total expenditure of Banka Koper. In the course of 2011, 2,428 participants had 26,577 hours of education and/or training. The average number of hours the Bank's employee spent at a seminar or a workshop in 2011 was 33.9 hours.

The training sessions organised within the Bank prevailed in 2011 with as much as 80.5 per cent of training delivered of which the internal lecturers and coaches accounted for a 48.9 per cent share and the external (outsourced) lecturers/coaches delivered 31.6 per cent of training. Most attention paid during the year under review was on the corporate banking segment - legal persons, credit process and foreign languages.

Banka Koper encourages also the use of the system for e-learning E-cho, which enables all employees to learn at work (on-the-job) when it best suits them. A high level of efficiency was achieved when the office tool Office 2010 was introduced.

The development of key personnel

Back in 2008, Banka Koper embarked on the project for the development of young, high calibre personnel in order to put in place a system for timely identification and development of talented people in Banka Koper. The system has helped to create an in-house pool of talented people seen as capable of gradually taking over the key workplaces in Banka Koper. On the other hand, there is attention paid to a systematic development of the Bank's employees as a crucial element in building their satisfaction and loyalty to Banka Koper over a long period of time thanks to the concept that fosters personnel development in the professional and in the personal area.

The first generation of the Bank's employees with a promising career ahead of them attended group training during the past three years together with other employees. In addition, certain individuals were included also in additional training forms organised specifically for the candidates to meet their individual needs for development in a particular direction: management, sales or occupational skills.

After the three-year period, more than a half of the employees covered by the training were already promoted, that is, they took over the duties at higher positions in the Bank based on the actual needs for incumbents in Banka Koper. Other candidates remain an important part of the project, which means that the Bank will continue to invest in these people and will groom them to fill in the key positions.

In the financial year 2011, the management board of Banka Koper endorsed the commencement of the new round of high calibre employee selection process within the Bank and this means that the door was wide opened to the second generation of young employees with a high potential, since the idea is to make it possible to the young and talented people to develop their potential within the framework of the project and to recognise within the Bank the possibilities for developing their careers. Therefore, the project has brought along the reduction of the risk associated with the management of the Bank's employees occupying the key positions in Banka Koper, both the managerial positions and the most demanding professional positions, since at any moment the Bank has at its disposal the employees capable of taking over the key positions.

Measuring the organisational climate within the framework of the Intesa Sanpaolo group

Also in 2011, within the framework of the Intesa Sanpaolo group, the survey for the measurement of the climate prevailing in the institution was undertaken by polling the employees using the questionnaire being uniform for all subsidiaries and it enables – in addition to a comparison with the data compiled within the bank - also a comparison with other banks in the group. On the basis of the obtained results, an action plan was prepared for the improvement of the segments that did not fare well.

Internal communication and events

Being properly informed and receiving information in a timely manner contributes to a better, easier and more efficient work. At the end of the day, it all contributes to customer satisfaction. During the year under review, the number of news disseminated to the Bank's employees increased and such news are in a user-friendly format - the newsletters or they can be read on-line on the intranet under the heading: Kaj je novega na obzorju. In addition, the internal magazine Obzorje was renewed.

When the Bank's intranet got a facelift, the guidelines for the modern technological and graphical intranet image of the group Intesa Sanpaolo were duly observed and the targets to deliver particular contents were considered with the aim to achieve a quality and interactive communication for the employees, to deliver a smooth internal information and the flow of information, and to provide as a one-stop-shop all the necessary and important information for the work of the employees.

The Bank's employees and at times also their family members were included in numerous events taking place within the framework of the domestic bank or our parent bank Intesa Sanpaolo. Among these events, we would like to mention the internal action Mi smo Intesa Sanpaolo – gradimo skupen svet, intended to build the awareness of the Bank's employees of the international nature and the cultural reach of Banka Koper. The children of the Bank's employees met with Santa Clause as every year, and the employees' children attended the tournament of the subsidiaries – members of the Intesa Sanpaolo group in Belgrade.

CUSTOMERS

Listening 100 %

In the financial year 2011, within the framework of the project Listening 100 %, numerous activities were performed and they contributed to the quality of relationships with customers. Therefore, Banka Koper started to monitor complaints through the system for the management of relationships with customers (the CRM system), which largely reduced the time for complaint resolution. Specifically, the bank's branches got the boxes for customers' complaints, as well as for their congratulations, opinions, proposals or grievances. A similar channel has been established also on the Bank's website.

The Bank undertook Dan zadovoljnih strank – satisfied customer day serving to make all the employees of Banka Koper aware of the impact customer satisfaction has on the good work and success of us all. Banka Koper gave Dan zadovoljnih strank awards to stimulate its employees to be proactive in formulating proposals for possible improvements in the customer satisfaction, predominately by means of providing services at a higher quality level.

Within the framework of two education (EDU) programmes, Banka Koper focused attention on the issue of customer satisfaction and examined the results of the last survey of how satisfied the bank's customers are. In line with the respondents' answers, certain improvements were already introduced, among other things also new opening hours of the Bank's branches. The Bank invited other stakeholders to participate as well such as students and the authors of the best proposals for improving customer satisfaction were awarded with the internship lasting six months within the framework of Customer Satisfaction University Award.

Moreover, some internal improvements were made with the aim to raise the quality of the services rendered and, consequently, they produce effects on customer satisfaction. The analytical model was introduced and it enables to handpick a service or a product best suited to the particular customer's needs and wishes. The tool was developed to enable better identification of potential customers. The Teller's Window (bančno okence) was opened where at one place all important information about a particular customer is pooled and by doing that, the sales effects should be higher. At the ATMs of Banka Koper, its customers can read personalised messages and since last year, the Bank's customers may also opt for a personal banker.

In the financial year 2011, Banka Koper started to publish the magazine Dobre novice - good news - where it presents the information about the Bank, as well as all its current offerings.

The natural and business environment

By adopting the code of ethics of the Intesa Sanpaolo group, Banka Koper implemented in its business strategy the responsible behaviour regarding the environment and this commitment is made tangible by means of implementing innovative business ideas that protect, support or improve our common environment. With the project named 360° sustainability, the Bank's commitment to environment-friendly operations is cemented and Banka Koper has become the greenest bank in Slovenia.

The responsible relationship with the environment is materialised at various levels. Education and making the employees aware of sustainability and conservation mean that the employees by subscribing to responsible conduct can help tremendously to reducing the load on the environment and its pollution. In addition to waste management by separating different garbage, also electricity consumption is decreasing slowly.

Banka Koper pays attention to introducing into its operations the products in services, which do not pose additional burden on the environment or are known to affect or pollute the environment. As a result, Mobilna Banka IN is already an example of a modern product enabling the Bank's customers to stay at home or in the office and to cooperate with Banka Koper without driving to one of its branches. It means less CO_2 emissions and considerable less paper used. Banka Koper is phasing in the possibility of using a digital signature so that the quantities of paper to be used should be at a minimum.

During the year under review, we opened already the third “green branch” of Banka Koper. The so-called green branches are equipped in accordance with the environmental standards of the European Union and its parent undertaking Intesa Sanpaolo. These standards prescribe the use of adequate heating and cooling devices and energy saving bulbs, with which the energy consumption is reduced and achieves the A/A energy class. In the Bank’s green branches, the paper used is exclusively recycled paper or FSC paper (Forest Stewardship Council Paper), garbage is classified and no paper is used. The company cars in the fleet of Banka Koper have already been replaced by hybrid vehicles when appropriate.

Banka Koper mounted solar panels for generating power on the roofs of two of its branches. By doing so, Banka Koper is gradually introducing energy into its branches that comes from renewable sources. Since the solar panels started to generate electric power, annual emissions of CO2 generated by Banka Koper have decreased by approximately 37.500 kilograms or by as much as 300 tonnes over the ten-year period. At the same time, Banka Koper provides credit lines under favourable terms and conditions to support investments in the environment undertaken by both individuals and companies.

Local community

Banka Koper works hand-in-hand with its narrow and wider environment. With the art gallery Obalne galerije Piran it prepares exhibitions staged in the gallery of Banka Koper. During the year under review, three exhibitions were staged. With the Faculty for management of University of Primorska, Banka Koper has been developing joint projects in the area of education and research that falls within the scope of the banking industry.

Banka Koper provides constructive support also to culture and sport and socially responsible initiatives. The total amount allocated in 2011 to sponsorships and donations was 0.4 million euros. Banka Koper co-financed events from the field of arts, literature and music.

A high-profile event sponsored by Banka Koper as a diamond sponsor back in 2011 was Ljubljanski maraton, where Banka Koper was present with the slogan *Skupaj z vami do cilja in naprej*.

As a golden sponsor, Banka Koper participated in Literarni festival Vilenica and the exhibition of the works of Andyja Warhol in Piran. It was the general sponsor for Tartini festival, the events of the ABC of entrepreneurship (ABC podjetništva), Gospodarstvenik Primorske and Primorsko-notranjske gazele and Furmanski praznik. As a sponsor, Banka Koper participated in the traditional Festival Lent where it invited also its business partners to a get together. The same role was played by Banka Koper also at the Slovenian Night - Slovenski večer Veronikinih večerov and at Orkesterkamp dedicated to young musicians. Banka Koper participated also in three important trade fairs: AGRI, MOS and Študentska arena.

Within the framework of the formal opening of the Bank’s new branches in Piran and in Kranj, the Bank organised “happy hours” for children and for their parents.

The Slovenian children got a treat from Banka Koper in the form of two very special events. With Intesa Sanpaolo it organised in Slovenia already for the third time the international football school AC Milan Junior Camp, in which more than 100 children from different Slovenian football clubs took part. In BTC in Ljubljana Banka Koper set up in cooperation with the parent bank the fun park AC Milan Park where doors were open for all children and other football fans. In just two days, the park attracted nearly 2,000 visitors.

In the financial year 2011, Banka Koper enabled in more than 350 cases with its donations the staging of a number of traditional events widely perceived as a valuable contribution to certain places and an instrument for preserving the natural and cultural heritage, and it supported a host of charitable initiatives of different societies, non-profitable and humane organisations.

The media

During the year under review, plenty of attention was also paid to the collaboration and communication with the media as it was shown in high-profile press conferences and press releases. Banka Koper started to communicate also through Facebook.

Throughout the year, Banka Koper appears in TV prime time on the first channel of the national television - Televizija Slovenija with the commercial called Minuta Banke Koper with the popular Slovenian host of many shows. The commercial highlighted the Bank's attitude to the environment and responsible exploitation of natural resources. The TV commercial was prepared using a special format, unique for the Slovenian environment, and every day it was viewed by approximately 10 per cent of the Slovenian population.

8. POSITIONING BUSINESS FOR GROWTH IN 2012

By being closely knitted with the banking group Intesa Sanpaolo, Banka Koper can benefit from numerous advantages and synergies both in the area of the transfer of knowledge, technology and the use of the international subsidiary network, as well as in the area of winning new business partners.

Banka Koper will continue to foster the concept of a universal bank and it plans also to continue to expand its business at a steady pace in all lines of business, as well as to continue with the development of its retail network. To achieve these goals, Banka Koper will strive to deliver quality services and it will continue to pursue the principles of safe and prudent business.

Banka Koper will continue also in the future with the organic growth of its operations, without losing sight of performance and profitability of its operations that will remain at the existing level or higher. Banka Koper will focus effort on the maintenance of a high quality of its credit portfolio. Personal attention will be paid to the segment of individuals and small and micro enterprises.

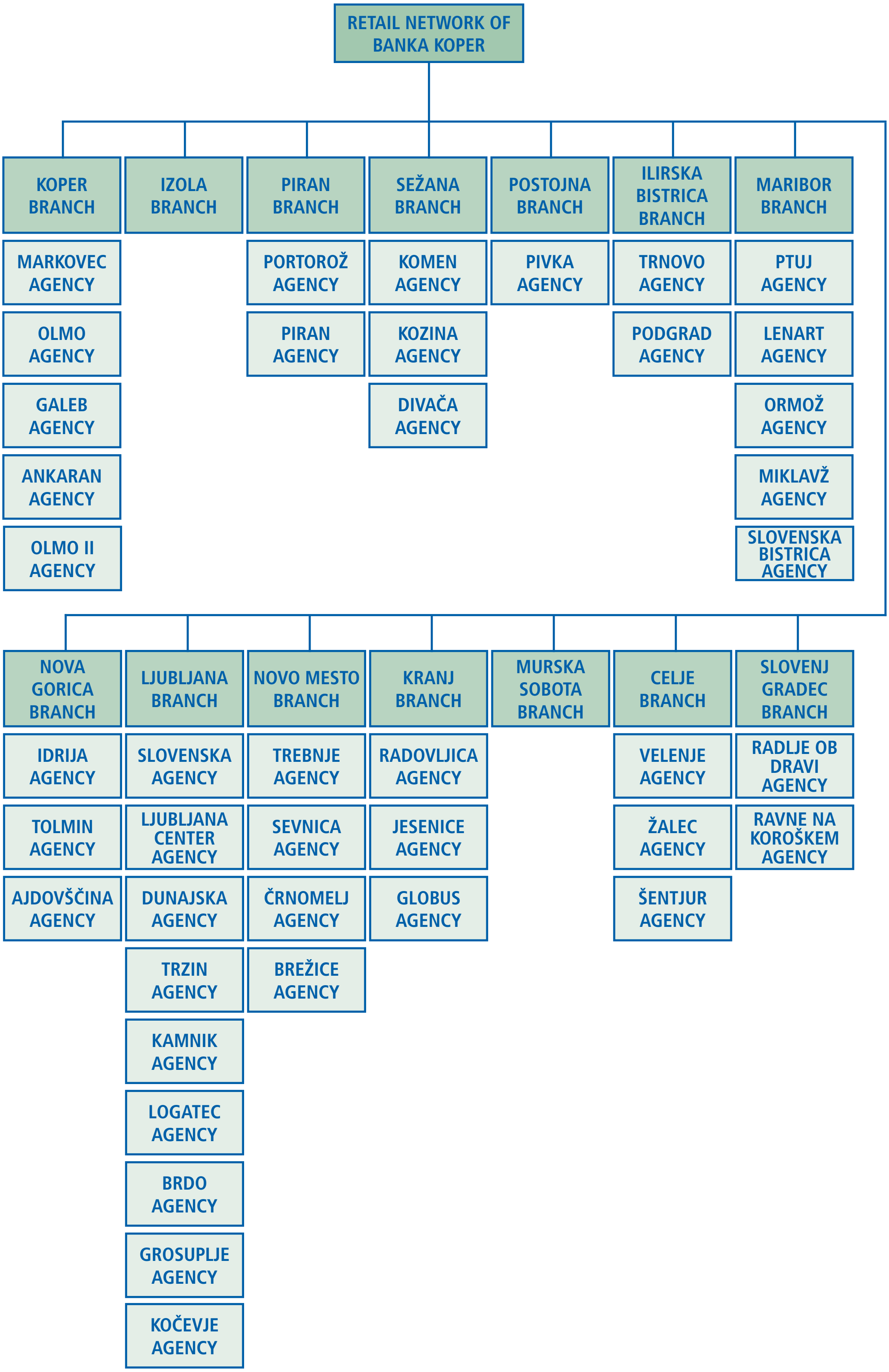
Objectives of Banka Koper in 2012

- **The strengthening of the market share**: Banka Koper is committed to improving its market position and increasing its market share in 2012. To do that, Banka Koper has to preserve its market share already held in its domicile zone and at the same time to strengthen its market share in other regions of Slovenia. The Bank still clinches most business deals in the Coastal and Karst zones, where it is the market leader. Nevertheless, over the past few years, it has built a widespread retail network with 55 branches in effort to win clients also in other parts of Slovenia. For 2012, the Bank has planned opening one new branch in the central Slovenian region. In addition, Banka Koper intends to step up its commercial activities within the framework of the existing network of its branches.

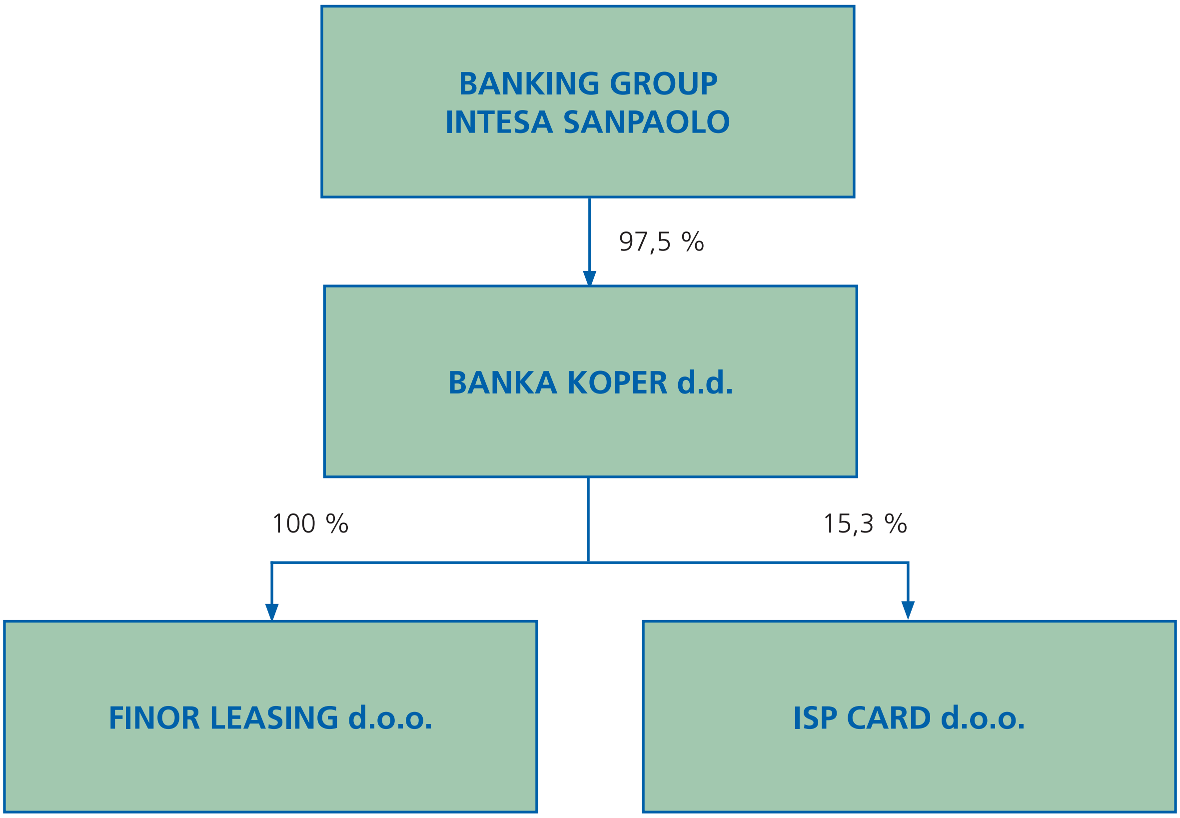
- **Launching new products**: It is the aim of Banka Koper to continue with the launch of new products and services expected to expand its sources of income. During the year under review, the novelties in the card business included the launching of prepaid cards and the issuance of a new debit card Visa Inspire (designed as a common debit card for all subsidiaries in the Intesa Sanpaolo group). As regards the liability side of its balance sheet, Banka Koper has mind set on several issues of investment deposits (naložbeni depoziti) in the aftermath of its 2011 issues that proved to be an attractive alternative to long-term savings. Banka Koper will continue to provide housing loans at a favourable interest rate, as well as housing loans with the capped interest rate (stanovanjski kredit z obrestno kapico) that shelter borrowers against hikes in the ECB key refinancing rate. The idea is to reach out to a wide range of customers in various segments by offering standard products and by diversifying a number of different products with a special emphasis on the products tailored to meet the needs of small and micro enterprises.

- **Monitoring customers and customer relationship management**: Banka Koper has been shifting the focus of its attention to breathing with customers and listening to what they have to say in line with its commitment to give them a centre stage place. The project Listening 100 % means that the Bank listens to its customers in order to learn more about them, their needs, wishes and expectations thus confirming its commitment to on-going improvement of the quality of its services and the development of mutual successful co-operation.

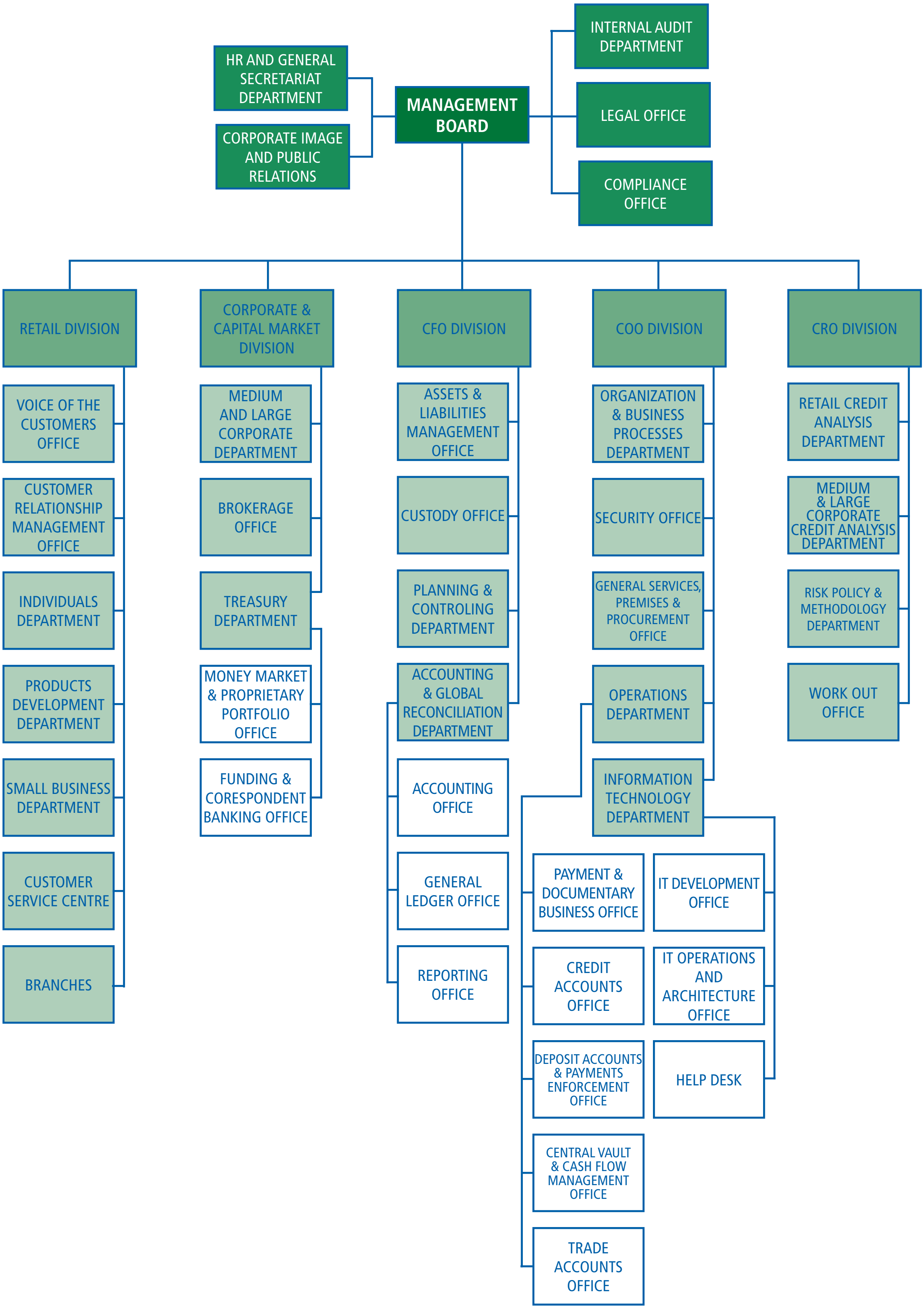
9. ORGANISATIONAL CHART AS AT 31 DECEMBER 2011



ORGANISATIONAL CHART AS AT 31 DECEMBER 2011



ORGANISATIONAL CHART AS AT 31 DECEMBER 2011



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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Banka Koper d.d., which comprise the statement of financial position as at December 31, 2011, and the statement of income, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Banka Koper d.d., as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act and Slovenian Banking Act related to the preparation of the financial statements.

Emphasis of Matter
As required by Directive 15 of the Slovenian institute of auditors, we draw attention to Note 3.10 to the financial statements which describes that the fair value of the investment in Cimos, d.d. was assessed using a valuation model. Our opinion is not qualified in respect of this matter.

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Report on Other Legal and Regulatory Requirements

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

The business report is consistent with the audited financial statements.

Ljubljana, March 12, 2012

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

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Ernst & Young

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Banka Koper d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Banka Koper Group, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Banka Koper Group, as of December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovenian Companies Act and Slovenian Banking Act related to the preparation of the financial statements.

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ERNST & YOUNG

Report on Other Legal and Regulatory Requirements

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

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

Ljubljana, March 12, 2012

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 2011. The management also confirms that the financial statements have been prepared on the going concern basis and in accordance with the applicable laws and International Financial Reporting Standards, as adopted by the EU.

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

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

Koper, 5 March 2012

Member
Aleksander Milostnik

Deputy president
Igor Kragelj

President
Mag. Giancarlo Miranda

Member
Mag. Aleksander Lozej

Member
Rado Grdina

Member
Mag. Mario Henjak

Member
Francesco Del Genio

1. STATEMENT OF INCOME

Statement of income

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2011	2010	2011	2010
Interest income	4	86,273	79,088	89,509	81,534
Interest expense	4	(26,408)	(21,448)	(27,819)	(22,381)
Net interest income		**59,865**	**57,640**	**61,690**	**59,153**
Dividend income	5	1,038	938	638	638
Fee and commission income	6	40,456	35,658	40,888	35,943
Fee and commission expense	6	(13,515)	(10,712)	(13,550)	(10,752)
Net fee and commission income		**26,941**	**24,946**	**27,338**	**25,191**
Gains less losses from financial assets and liabilities not recognised at fair value through profit and loss	7	1,495	3,202	1,495	3,202
Gains less losses from financial assets and liabilities held for trading	8	1,652	2,027	1,652	2,027
Fair value adjustments in hedge accounting	9	29	-	29	-
Gains less losses from foreign exchange transactions		(1,330)	907	(1,324)	860
Gains less losses on derecognition of non-current assets other than held for sale	10	(232)	1,740	(214)	1,716
Other operating gains less losses	11	1,192	1,351	1,868	2,041
Administrative expenses	12	(42,100)	(41,490)	(42,980)	(42,283)
Amortisation and depreciation	13	(5,034)	(5,429)	(5,477)	(5,924)
Provisions:		456	7,823	403	7,825
- provisions	14	701	7,938	655	7,946
- retirement benefit obligations	14	(245)	(115)	(252)	(121)
Impairment losses on loans and advances	15	(22,204)	(32,397)	(22,935)	(32,980)
Operating profit		**21,768**	**21,258**	**22,183**	**21,466**
Income tax expense	16	(4,095)	(3,852)	(4,247)	(3,967)
Net profit for the period		**17,673**	**17,406**	**17,936**	**17,499**
Attributable to:					
Equity holders of the parent		-	-	17,936	17,499
Non-controlling interest		-	-	-	-
		-	-	17,936	17,499
Earnings per share (basic and diluted) (expressed in EUR per share)	17	33.32	32.82	33.82	32.99

The following notes on pages 57 to 146 form an integral part of these financial statements.

2. STATEMENT OF COMPREHENSIVE INCOME

Statement of comprehensive income

(all amounts expressed in thousands of EUR)

	Year ended 31 December			
	Banka Koper		Consolidated	
	Year 2011	Year 2010	Year 2011	Year 2010
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**17,673**	**17,406**	**17,936**	**17,499**
OTHER COMPREHENSIVE INCOME NET OF TAX	**(10,568)**	**(2,218)**	**(10,568)**	**(2,218)**
Available-for-sale financial assets	**(13,211)**	**(2,772)**	**(13,211)**	**(2,772)**
- valuation gains (losses) taken to equity	(15,310)	(152)	(15,310)	(152)
- transferred to profit or loss	2,099	(2,620)	2,099	(2,620)
Income tax relating to components of other comprehensive income	2,643	554	2,643	554
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**7,105**	**15,188**	**7,368**	**15,281**
a) Attributable to owners of the parent			7,368	15,281
b) Attributable to non-controlling interests			-	-

3. STATEMENT OF FINANCIAL POSITION

Statement of financial position

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2011	2010	2011	2010
ASSETS					
Cash and balances with Central Banks	19	35,463	37,871	35,463	37,871
Financial instruments held for trading:		3,318	1,684	3,318	1,684
- trading assets	20	1,292	1,665	1,292	1,665
- derivative financial instruments	21	2,026	19	2,026	19
Investment securities available for sale	22	288,218	312,977	288,218	312,977
Loans and advances:		1,869,452	1,857,791	1,928,251	1,914,386
- to banks	23	44,889	34,057	44,889	34,057
- to customers	24	1,824,563	1,823,734	1,883,362	1,880,329
Investment securities held to maturity	22	-	316	-	316
Goodwill	25	-	-	905	905
Property, plant and equipment	26	27,785	25,727	29,081	26,988
Investment property	27	1,112	940	1,112	940
Intangible assets	28	4,229	5,645	4,230	5,646
Investments in subsidiaries	29	3,688	3,688	-	-
Income tax assets		5,857	2,824	6,292	3,112
- current income tax		-	708	-	708
- deferred income tax	38	5,857	2,116	6,292	2,404
Other assets	30	10,668	10,088	11,874	10,899
Total assets		**2,249,790**	**2,259,551**	**2,308,744**	**2,315,724**
LIABILITIES					
Liabilities to Central Bank	31	150,042	-	150,042	-
Financial instruments held for trading:		1,135	519	1,135	519
- derivative financial instruments	21	1,135	519	1,135	519
Liabilities carried at amortised cost:		1,782,848	1,957,368	1,838,931	2,011,239
- deposits from banks	32	233,741	128,566	233,741	128,566
- due to customers	33	1,332,896	1,360,262	1,332,894	1,358,756
- other borrowed funds from banks	34	207,551	458,328	263,636	513,705
- other borrowed funds from other customers	35	8,660	10,212	8,660	10,212
Derivatives – Hedge accounting	21	992	-	992	-
Provisions:		10,451	11,168	10,485	11,148
- provisions for liabilities and charges	36	7,483	8,170	7,436	8,077
- retirement benefit obligations	37	2,968	2,998	3,049	3,071
Income tax liabilities:		5,078	4,114	5,190	4,119
- current income tax		1,535	-	1,647	5
- deferred income tax	38	3,543	4,114	3,543	4,114
Other liabilities	39	31,153	20,134	32,185	21,021
Total liabilities		**1,981,699**	**1,993,303**	**2,038,960**	**2,048,046**
SHAREHOLDERS´ EQUITY					
Ordinary shares	40	22,173	22,173	22,173	22,173
Share premium	40	7,499	7,499	7,499	7,499
Revaluation reserves	41	2,310	12,878	2,310	12,878
Reserves from profit	42	224,847	212,476	224,847	212,476
Treasury shares	40	(49)	(49)	(49)	(49)
Retained earnings (including income from the current year)	42	11,311	11,271	13,004	12,701
Non-controlling interest		-	-	-	-
Total shareholders´ equity		**268,091**	**266,248**	**269,784**	**267,678**
Total equity and liabilities		**2,249,790**	**2,259,551**	**2,308,744**	**2,315,724**

The following notes on pages 57 to 146 form an integral part of these financial statements.

4. UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

In the year 2011 – Unconsolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**11,271**	**(49)**	**266,248**
Comprehensive income for the financial year after tax	41	-	-	(10,568)	-	17,673	-	7,105
Appropriation of (accounting for) dividends	42	-	-	-	-	(5,262)	-	(5,262)
Transfer of net profit to reserves from profit	42	-	-	-	12,371	(12,371)	-	-
Other-outdated dividends not disbursed to shareholders	42	-	-	-	-	-	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**11,311***	**(49)**	**268,091**
PROFIT AVAILABLE FOR DISTRIBUTION		-	-	-	-	5,302	-	5,302

In the year 2010 – Unconsolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**15,096**	**200,289**	**12,701**	**(49)**	**257,709**
Comprehensive income for the financial year after tax	41	-	-	(2,218)	-	17,406	-	15,188
Appropriation of (accounting for) dividends	42	-	-	-	-	(6,689)	-	(6,689)
Transfer of net profit to reserves from profit	42	-	-	-	12,187	(12,187)	-	-
Other-outdated dividends not disbursed to shareholders	42	-	-	-	-	40	-	40
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**11,271***	**(49)**	**266,248**
PROFIT AVAILABLE FOR DISTRIBUTION		-	-	-	-	5,262	-	-

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

The following notes on pages 57 to 146 form an integral part of these financial statements.

5. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

In the year 2011 – Consolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**12,701**	**(49)**	**267,678**	**-**	**267,678**
Consolidated Comprehensive Income for the financial year after tax	41	-	-	(10,568)	-	17,936	-	7,368	-	7,368
Appropriation of (accounting for) dividends	42	-	-	-	-	(5,262)	-	(5,262)	-	(5,262)
Transfer of net profit to reserves from profit	42	-	-	-	12,371	(12,371)	-	-	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**13,004***	**(49)**	**269,784**	**-**	**269,784**

In the year 2010 – Consolidated

(all amounts expressed in thousands of EUR)

	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**15,096**	**200,289**	**13,768**	**(49)**	**258,776**	**386**	**259,162**
Consolidated Comprehensive Income for the financial year after tax	41	-	-	(2,218)	-	17,499	-	15,281	-	15,281
Appropriation of (accounting for) dividends	42	-	-	-	-	(6,689)	-	(6,689)	-	(6,689)
Transfer of net profit to reserves from profit	42	-	-	-	12,187	(12,187)	-	-	-	-
Other-retained earnings due to change of entities involved in consolidation	42	-	-	-	-	270	-	270	(386)	(116)
Other-outdated dividends not disbursed to shareholders	42	-	-	-	-	40	-	40	-	40
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,878**	**212,476**	**12,701***	**(49)**	**267,678**	**-**	**267,678**

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

The following notes on pages 57 to 146 form an integral part of these financial statements.

6. STATEMENT OF CASH FLOWS

Statement of cash flows

(all amounts expressed in thousands of EUR)

	Notes	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
		As at 31 December			
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		21,768	21,258	22,183	21,466
Depreciation		5,034	5,428	5,477	5,923
Impairments of capital investments in subsidiaries, associates and joint ventures		-	(370)	-	(370)
Net (gains) / losses from exchange differences		2,301	746	2,295	794
Net (gains) / losses from sale of tangible assets and investment properties		232	(89)	214	(65)
Net (gains) / losses from sale of intangible fixed assets		-	(1,651)	-	(1,651)
Net (gains) / losses from investing activities		-	-	-	-
Unrealised (gains) / losses from financial assets measured at fair value		46	11	46	11
Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)		(13,210)	(2,773)	(13,210)	(2,773)
Other adjustments to total profit or loss before tax		(456)	(9,389)	(403)	(9,391)
Cash flow from operating activities before changes in operating assets and liabilities		**15,715**	**13,171**	**16,602**	**13,944**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**9,839**	**147,652**	**7,494**	**142,929**
Net (increase) / decrease in balances with central banks		(1,064)	2,054	(1,064)	2,027
Net (increase) / decrease in financial assets held for trading		(1,878)	32,937	(1,878)	32,937
Net (increase) / decrease in financial assets available for sale		24,758	11,506	24,758	11,506
Net (increase) / decrease in loans and receivables		(11,744)	101,227	(13,697)	96,406
Net (increase) / decrease in other assets		(233)	(72)	(625)	53
Increases / (decreases) in operating liabilities		**(15,936)**	**(167,169)**	**(13,479)**	**(162,835)**
Net increase / (decrease) in financial liabilities to central bank		150,042	(90,292)	150,042	(90,292)
Net increase / (decrease) in financial liabilities held for trading		616	(13,954)	616	(13,954)
Net increase / (decrease) in deposits and loans measured at amortised cost		(174,519)	(63,147)	(172,206)	(58,415)
Net increase / (decrease) in liability – derivatives – hedge accounting		992	-	992	-
Net increase / (decrease) in other liabilities		6,933	224	7,077	(174)
Cash flow from operating activities		**9,618**	**(6,346)**	**10,617**	**(5,962)**
Income taxes (paid) / refunded		(3,503)	(3,248)	(3,690)	(3,430)
Net cash flow from operating activities		**6,115**	**(9,594)**	**6,927**	**(9,392)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**656**	**5,974**	**847**	**6,069**
Receipts from the sale of tangible assets and investment properties		330	17	521	139
Receipts from the disposal of subsidiaries, associates and joint ventures		-	5,261	-	5,234
Receipts from matured financial assets held to maturity		326	696	326	696
Cash payments on investing activities		**(6,277)**	**(1,880)**	**(7,284)**	**(2,202)**
Cash payments to acquire tangible assets and investment properties		(3,198)	(637)	(4,205)	(959)
Cash payments to acquire intangible fixed assets		(3,069)	(1,160)	(3,069)	(1,160)
Cash payments to acquire held to maturity investments		(10)	(83)	(10)	(83)
Net cash flow from investing activities		**(5,621)**	**4,094**	**(6,437)**	**3,867**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash proceeds from financing activities		**-**	**-**	**-**	**-**
Cash payments on financing activities		**(5,259)**	**(6,689)**	**(5,259)**	**(6,689)**
Dividends paid		(5,259)	(6,689)	(5,259)	(6,689)
Net cash flow from financing activities		**(5,259)**	**(6,689)**	**(5,259)**	**(6,689)**
Effects of change in exchange rates on cash and cash equivalents		971	1,653	971	1,653
Net increase in cash and cash equivalents		**(4,765)**	**(12,189)**	**(4,769)**	**(12,214)**
Opening balance of cash and cash equivalents	44	37,079	47,615	37,085	47,646
Closing balance of cash and cash equivalents	44	**33,285**	**37,079**	**33,287**	**37,085**

Operational cash flows of interest and dividends

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	**2010**	**2011**	**2010**
Interest paid	(28,606)	(22,322)	(30,017)	(23,255)
Interest received	85,038	81,496	88,274	83,942
Dividends Received	1,038	938	638	638

As at 31st December 2011, the Bank and Group had undrawn credit lines and loans already committed of EUR 430,000 thousand (2010: EUR 521,587 thousand).

The Bank and the Group have credit lines and other facilities of EUR 430,000 thousand that are available for financing future business operations without any restrictions.

Sale of subsidiary

(all amounts expressed in thousands of EUR)

	2011	**2010**
Cash and cash equivalents	-	27
Loans	-	20,950
Other assets	-	4,722
Borrowed funds	-	(14,402)
Other liabilities	-	(8,057)
Total sale assets	**-**	**3,240**
	-	
Cash received from sale	-	5,261
Less cash and cash equivalents from subsidiary	-	(27)
Net cash inflow from sale	**-**	**5,234**

The following notes on pages 57 to 146 form an integral part of these 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 owned 75 % of Centurion finančne storitve d.o.o. Ljubljana, a financial company operating in the credit card business. Centurion finančne storitve d.o.o. Ljubljana is a limited liability company with share capital of 1,648 thousand EUR and its head office in Slovenčeva 24, Ljubljana. In June 2009, the company Centurion finančne storitve d.o.o. Ljubljana, was renamed to ISP Card d.o.o., Ljubljana. From 1st August 2009 Banka Koper d.d., on the initiative of the parent bank, spun off its credit card processing activity. As a result, the credit card business, that is tangible and intangible fixed assets, contract obligations and employees, was transferred to ISP Card d.o.o., Ljubljana. The fair value of the transferred intangible and tangible fixed assets represented an additional stake of Banka Koper in ISP Card d.o.o., which on 31st December 2009 amounted to 92,67 %. According to the initiative of the parent Bank, Banka Koper sold the investment in ISP Card d.o.o. Ljubljana to ISP Card d.o.o. Zagreb in March 2010.

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

Banka Koper has the status of a significant subsidiary bank, and therefore is required to disclose information related to the 3rd and 4th item of article 207 of the Banking act and articles 12 and 13 of the Decree of necessary disclosures of financial institution, which is about capital and internal capital on a consolidated basis. According to article 23. c and d of the Changes in Decree of necessary disclosures of financial institution, Banka Koper is required to make disclosures about information of significant business contacts and other rules and politics for avoiding conflicts of interest of members of the Management Board and Supervisory bodies of subsidiary financial entities with headquarters outside the Republic of Slovenia.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

Presentation of financial statements

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

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

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

The most significant uses of accounting estimates and assumptions are the following:

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

b) Fair values of financial instruments

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

c) Equity instruments available for sale

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

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

Changes in accounting policy and disclosures

The accounting policies used to prepare the separate and consolidated financial statements are consistent with those of the previous financial year, except for new and amended standards and interpretations as of 1 January 2011, as presented below.

IAS 24 – *Related Party Disclosures.*

The amendments to IAS 24 define in more detail and simplify the definition of a related party. Furthermore, the amended standard reduces the scope of disclosures of transactions of a government owned entity with the government and other government owned entities. The amendments are applicable for periods beginning on or after 1 January 2011 and require retrospective application. The adoption of this amendment has no effect on the Bank's or Group's financial statements.

IAS 32 – *Financial Instruments: Classification of Rights Issues (Amendment).*

This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendments are applicable for periods beginning on or after 1 February 2010 and require retrospective application. The adoption of this amendment has no effect on the Bank's or Group's financial statements.

IFRIC 14 – *Prepayments of a Minimum Funding Requirement (Amendment).*
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The adoption of this amendment has no effect on the Bank's or Group's financial statements.

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

Improvements to IFRSs

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. These amendments became effective for periods beginning on 1 July 2010 or 1 January 2011.

IFRS 3 – *Business Combinations.*
The measurement options for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments are effective for periods beginning on or after 1 July 2010.

The second amendment refers to a clarification that contingent considerations arising from business combination prior to the adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).

The final amendment refers to unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination. The Bank and Group incorporated the amendment in its accounting policies. The adoption of this amendment has no effect on the Bank's or Group's financial statements.

IFRS 7 – *Financial Instruments: Disclosures.*
The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information to context. The amendments are effective for periods beginning on or after 1 January 2011. The Bank and Group applied the amendment in the preparation of credit risk disclosures in Note 3. Risk management organization.

IAS 1 – *Presentation of Financial Statements.*
The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The amendment applies for periods beginning on or after 1 January 2011. The amendment has no effect on the Bank's or Group's financial statements.

IAS 27 – *Consolidated and Separate Financial Statements.*
The improvement states that the transitional requirements of IAS 27 (as revised in 2008) should be applied to consequentially amended standards. The improvements are effective for periods beginning on or after 1 July 2010. The adoption of this improvement has no effect on the Bank's or Group's financial statements.

IAS 34 – *Interim Financial Statements.*
The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The adoption of this amendment has no effect on the Bank's or Group's financial statements.

IFRIC 13 – *Customer Loyalty Programs.*
In determining the fair value of award credits an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty program. The amendment is effective for periods beginning on or after 1 January 2011. The adoption of this amendment has no effect on the Bank's or Group's financial statements.

Standards issued but not yet effective and not early adopted

The following new and amended standards will be applied in future periods as required by IFRSs and the EU:

IFRS 7 – *Financial Instruments: Disclosures – Transfers of Financial Assets.*
The amendments are effective for periods beginning on or after 1 July 2011 and were issued to improve the disclosure requirements relating to the transfer of financial assets. Amendments require disclosures for transfers of financial assets that are derecognized in their entirety as well as those that are not. The amendment requires retrospective application. The amendment affects disclosure only and has no impact on the Bank's or Group's financial position or performance.

In compliance with the requirements of IFRSs and subject to the endorsement by the European Union, the Bank or Group will have to apply in future periods the following amended and revised standards and interpretations:

IFRS 7 – *Financial Instruments: Disclosures (amended): Offsetting Financial Assets and Financial Liabilities.*
The amendment is effective for annual periods beginning on or after 1 January 2013.The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU.

IFRS 9 – *Financial Instruments.*
The Standard replaces IAS 39 and is applicable for periods beginning on or after 1 January 2015. The first part of the standard introduces new requirements for classifying and measuring financial assets. This standard had not yet been endorsed by the EU.

IFRS 10 – *Consolidated Financial Statements.*
This standard replaces the part of IAS 27 Consolidated and separate financial statements which refers to consolidated financial statements. The standard is applicable for periods beginning on or after 1 January 2013. IFRS 10 establishes a single control model that applies to all entities. This will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent. The standard also changes the definition of control. This standard had not yet been endorsed by the EU.

IFRS 11 – *Joint Arrangements.*
This standard replaces IAS 31 Interest in joint ventures and SIC 13 Jointly-controlled entities – non-monetary contributions by venturers. The new standard addresses only two forms of joint arrangements (joint operations and joint ventures), where there is joint control. IFRS 11 uses the principle of control in IFRS 10. In addition, IFRS 11 removes the option to account for jointly-controlled entities using proportionate consolidation, leaving only the option to use the equity method. The standard is effective for periods beginning on or after 1 January 2013. This standard had not yet been endorsed by the EU.

IFRS 12 – *Disclosure of Interests in Other Entities.*
This standard is effective for periods beginning on or after 1 January 2013 and includes disclosure requirements that were previously in IAS 27 Consolidated and separate financial statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 Investments in associates and IAS 31 Interest in joint ventures. A number of new disclosures are also required, especially regarding judgments made to determine whether an entity controls another entity. This standard had not yet been endorsed by the EU.

IFRS 13 – *Fair Value Measurement.*
The new standard is applicable for periods beginning on or after 1 January 2013. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. This standard had not yet been endorsed by the EU.

IAS 1 – *Presentation of Financial Statements: Presentation of Items in Other Comprehensive Income.*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be present separately from items which will never be reclassified. The amendments are effective for periods beginning on or after 1 July 2012. The amendments have not yet been endorsed by the EU.

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

IAS 19 – *Employee Benefits (amended).*
In June 2011, the IASB issued numerous amendments to IAS 19. The key amendment refers to the removal of the corridor mechanism for recognizing changes in the value of defined benefit plans. This means all changes in the value of defined benefit plans will be recognized as they occur depending on the type of change either in profit or loss or in other comprehensive income. The amendments are effective for periods beginning on or after 1 January 2013 and they have not yet been endorsed by the EU.

IAS 27 – *(Revised) Separate Financial Statements.*
This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The standard is effective for periods beginning on or after 1 January 2013. This revised standard has not yet been endorsed by the EU.

IAS 28 – *(Revised) Investments in Associates and Joint Ventures.*
This revised standard was issued in May 2011 as a result of the new standards IFRS 10, IFRS 11 and IFRS 12. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This revised standard is effective for periods beginning on or after 1 January 2013. This standard had not yet been endorsed by the EU.

IAS 32 – *Financial Instruments: Presentation (amended): Offsetting Financial Assets and Financial Liabilities.*

The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU.

IFRIC 20 – *Stripping costs in the Production Phase of a Surface Mine.*

The interpretation applies to waste removal (stripping) costs incurred in surface mining activities, during the production phase of the mine. It represents a change from the current life of mine average strip ratio approach used by many mining and metals entities reporting under IFRS. The Interpretation is effective for annual periods beginning on or after 1 January 2013. This standard had not yet been endorsed by the EU. This interpretation will have no impact on the financial position or performance of the Bank or Group.

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

2.2 CONSOLIDATION

Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2011.

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

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

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

Basis of consolidation prior to 1 January 2010

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

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

2.3 REPORTING ON OPERATING SEGMENTS

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

2.4 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. Financial statements are presented in Euro, which has been the Group's functional and presentation currency since 1 January 2007. Before 1 January 2007, the Group's functional and presentation currency was the Tolar, which has been translated into euro at exchange rate 239.64.

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

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

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

2.5 INVESTMENTS IN SUBSIDIARIES AND GOODWILL

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

Business combinations from 1 January 2010
In the consolidated financial statements business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

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

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

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

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

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

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

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

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

2.6 ASSOCIATED UNDERTAKINGS

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

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

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

2.7 RELATED PARTIES

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

2.8 FINANCIAL ASSETS

Classification

a) Financial assets at fair value through profit or loss
This category has two sub-categories: financial instruments held for trading and financial instruments designated at fair value through profit or loss at inception. Financial instruments are classified in this group if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

b) Loans and receivables
Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. In general the loans are collateralised with one or more type of collateral. The decision on the adequateness of the type and value of the collateral depends on the creditworthiness of the customer and the type, value and maturity of the credit transaction. The customer manager monitors the efficiency of the collateral in relation to the possible increase in the risk or decrease of the value of the collateral and, if necessary, request that the customer provide extra collateral (of another type or of more value).
The revaluation of the collateral shall be carried out with respect to the type of collateral:

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

c) Held-to-maturity
Held to maturity assets are non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Bank or 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 or Group immediately recognise the difference between the transaction price and fair value (a "Day 1" profit) in the statement of income in "Net trading income". In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

c) Value of recognition and subsequent measurement
Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss.

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

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

Renegotiated loans

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

Derecognition of financial instruments

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

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

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

When the Bank or Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

Fair value measurement principles

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

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

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

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

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

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

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

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

2.9 OFFSETTING

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

2.10 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

2.11 HEDGE ACCOUNTING

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

For the purpose of hedge accounting, hedges are classified as:

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

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

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

a) Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the income statement in "Fair value adjustments in hedge accounting". Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the income statement in "Fair value adjustments in hedge accounting".

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying amount of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

b) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in other comprehensive income in the "cash flow hedge reserve". The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in "Fair value adjustments in hedge accounting".

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement. The Bank and Group do not have such hedges.

c) Hedge of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. The Bank and the Group do not have such hedges.

2.12 INTEREST INCOME AND EXPENSE

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

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

2.13 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.

2.14 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.

2.15 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.

2.16 IMPAIRMENT OF FINANCIAL ASSETS

a) Assets carried at amortised cost

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

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

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

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

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

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

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

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

b) Assets carried at fair value

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

2.17 INTANGIBLE ASSETS

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

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

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

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

Intangible assets

	Estimated useful lives (in years)
Licences	3–5
Investments in research and development	3
Software	3

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

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

2.18 INVESTMENT PROPERTY

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

Investment property is initially recognised at its historical cost plus transaction costs. After initial recognition, investment property of the Bank or Group is carried at cost less accumulated depreciation and accumulated impairment losses, if any.

The recognition and derecognition policies and methods of accounting for depreciation are defined under property, plant and equipment (Note 2.19).

2.19 PROPERTY, PLANT AND EQUIPMENT

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

The purchase price of property, plant and equipment, swapped with another asset, is measured at fair value.

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

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

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

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

Property, plant and equipment

	Estimated useful lives (in years)
Buildings	16,6–33,3
Other investment in intangibles	16,6-33,3
Equipment	5
Motor vehicles	5-8
Computers and software	3

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

2.20 ACCOUNTING FOR LEASES

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

• The Bank or a Group company is the lessee

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

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

• The Bank or a Group company is the lessor

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

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

2.21 CASH AND CASH EQUIVALENTS

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

2.22 BORROWINGS

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

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

2.23 PROVISIONS

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

2.24 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.

2.25 FINANCIAL GUARANTEE CONTRACTS

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

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

2.26 TAXATION

Income tax is calculated by each Group member according to local legislation. For 2011 the income tax rate was 20 % (2010: 20 %).

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 2011 deferred tax was calculated using a 20 % tax rate. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary difference can be utilised.

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

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

2.27 EMPLOYEE BENEFITS

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

- Discount rate of 5.2 % (2010: 5.7 %) and
- Future salary increases of 3.5 % (2010: 3.9 %) p.a..

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

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

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

2.28 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.

2.29 FIDUCIARY ACTIVITIES

The Bank or Group manage assets on behalf of legal entities and citizens. A fee is charged for this service. These assets are not shown in the consolidated statement of financial position.

2.30 COMPARATIVES

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

3. RISK MANAGEMENT ORGANISATION

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

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

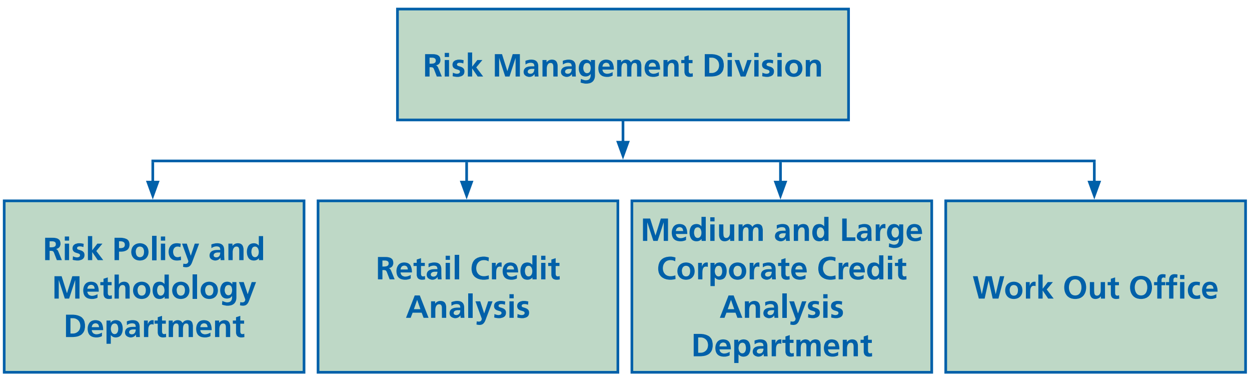
The objective of risk management is to control risk according to the risk appetite and derived willingness of the Group managing and ownership structures to assume risk. Since the Group is part of the larger Banking Group Intesa Sanpaolo, the methodologies and risk management processes are gradually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

3.1 RISK MANAGEMENT STRUCTURE

Risk management process

The adequateness of the risk management activity of the Group is the responsibility of Risk management division. The person responsible for the division is a member of the Management Board.

The organisation scheme of the Risk Management Division:



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

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

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

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

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

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

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

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

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

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

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

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

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

3.2.1 Fulfillment of regulatory capital requirements

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

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

Capital adequacy as at 31 December 2011 – unconsolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2011	2010	2011	2010
Exposures to banking book				
Exposures to state and central bank	345,454	332,892	9	17
Exposures to local municipalities	43,741	37,805	8,476	18,122
Exposures to public sector	4,392	9,007	1,946	2,466
Exposures to development banks	718	1,115	-	-
Exposures to institutions	169,905	165,486	67,677	62,755
Exposures to enterprises	954,904	1,056,818	842,569	930,302
Exposures to retail banking	927,088	821,932	573,718	533,201
Past due exposures	105,192	83,390	136,653	103,096
Exposures to highly risk exposures	67,187	34,795	85,551	40,564
Exposures to investments funds	33,832	32,303	33,832	32,303
Exposures to other assets	92,484	99,102	77,558	86,045
Total	**2,744,897**	**2,674,645**	**1,827,989**	**1,808,871**
Credit risk weighted assets			1,827,989	1,808,871
Market risk weighted assets			3,088	625
Operational risk weighted assets			163,588	165,775
Total risk weighted assets			**1,994,665**	**1,975,271**
Regulatory capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			12,839	11,955
Statutory reserves			211,959	200,472
Treasury shares fund reserves			49	49
Retained earnings			6,009	6,009
Revaluation reserve (100% of negative revaluation of AFS shares)			(1,221)	(1,305)
Less intangible assets			(4,228)	(5,644)
Total qualifying Tier 1 capital			**255,030**	**241,159**
Revaluation reserve (80% of positive revaluation of AFS shares)			10,990	12,580
Total qualifying Tier 2 capital			**10,990**	**12,580**
Diminution of capital:				
- less investment in subsidiaries			(3,688)	(3,688)
Total diminution of capital			**(3,688)**	**(3,688)**
Total regulatory capital			**262,332**	**250,051**
Capital Adequacy ratio			**13.15**	**12.66**

Capital adequacy as at 31 December 2011 – consolidated

(all amounts expressed in thousands of EUR)

	Balance sheet/ Nominal amount		Risk weighted amount	
	2011	**2010**	**2011**	**2010**
Exposures to banking book				
Exposures to state and central bank	345,930	333,183	9	17
Exposures to local municipalities	47,128	37,805	9,153	18,122
Exposures to public sector	4,421	9,045	1,961	2,484
Exposures to development banks	718	1,115	-	-
Exposures to institutions	169,905	165,486	67,877	62,755
Exposures to enterprises	952,001	1,049,272	842,146	931,076
Exposures to retail banking	963,923	854,722	601,344	557,794
Past due exposures	118,951	98,307	156,578	124,910
Exposures to highly risk exposures	68,273	35,762	87,164	41,951
Exposures to investments funds	33,832	32,303	33,832	32,303
Exposures to other assets	96,595	102,850	81,668	89,793
Total	**2,801,677**	**2,719,850**	**1,881,732**	**1,861,205**
Credit risk weighted assets			1,881,732	1,861,205
Market risk weighted assets			3,088	625
Operational risk weighted assets			166,538	170,200
Total risk weighted assets			**2,051,358**	**2,032,030**
Regulatory capital				
Ordinary shares			22,173	22,173
Share premium			7,499	7,499
Treasury shares			(49)	(49)
Legal reserves			12,839	11,955
Statutory reserves			211,959	200,472
Treasury shares fund reserves			49	49
Retained earnings			6,009	6,009
Revaluation reserve (100 % of negative revaluation of AFS shares)			(1,221)	(1,305)
Less intangible assets			(4,230)	(5,646)
Less goodwill			(905)	(905)
Minority interest			-	-
Total qualifying Tier 1 capital			**254,123**	**240,252**
Revaluation reserve (80 % of positive revaluation of AFS shares)			10,990	12,580
Total qualifying Tier 2 capital			**10,990**	**12,580**
Diminution of capital:				
- less investment in subsidiaries			-	-
- less non liquid assets			-	-
Total diminution of capital			**-**	**-**
Total regulatory capital			**265,113**	**252,832**
Capital Adequacy ratio			**12.92**	**12.44**

3.2.2 Internal capital adequacy assessment (ICAAP)

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

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

The Parent company defines the methodology and makes the assessment of internal capital. The capital needs are assessed by pursuing the risk coverage with a confidence level of 99.9 % over 1 year time-horizon.

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

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

Credit risk is the risk that at maturity the counterparty will default on settling financial commitments. Internal capital equals the amount of regulatory capital requirements, reduced by capital requirements on assets subject to detached assessment within other risk typology (equity risk).

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

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

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

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

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

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

Internal capital on stress-test

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

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

- In terms of credit risk, the Group assesses the impact of a 3 percentage points lower GDP growth than the one planned.
- In terms of operational risk, the Group selects a scenario among 5 largest assessed with the self-diagnosis analysis. The scenario selected is the one believed most likely.
- For the banking book interest rate risk the Group estimates the impact of a 200 b.p. parallel yield curve shift and other selected scenarios on the capital needs. Next to this, the Group evaluates the impact of an unfavourable interest rate shift on internally assessed available capital.
- For equity risk, the impact on capital needs is evaluated with the simulation of portfolio equity price changes observed over last 5 years. Likewise, the Group evaluates the impact of unfavourable market indices movements on investments valuation and on available capital.
- In terms of strategic risk, the effects of stress scenarios are identified which are based on movements in several macroeconomic indices over last two decades (like GDP, interest rate, inflation), considering the statistical relationship with income & cost components.

Internally assessed capital requirements as of 30. 9. 2011 on consolidated level

	(all amounts expressed in millions of EUR)
Risk	**Economic (Internal) Capital**
• Credit Risk	148.40
• Market Risk	0.11
• Operational Risk	13.32
• Banking Book Risk	40.32
- Interest Rate Risk	23.40
- Equity Risks	16.92
• Strategic Risk	5.10
Stress test scenario	**9.10**
Total capital requirements	**216.35**
Available financial resources	**262.81**

3.3 CREDIT RISK

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

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

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

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

The total Group's credit exposure on the 31st of December 2011 equalled to EUR 3,018 million, which is 9 % more than on 31st of December 2010. In the Group's credit portfolio of 31st of December 2011, 91 % of all credit exposures are classified as performing. Banka Koper's credit portfolio at the end December 2011 amounted to EUR 2,965 million of which 91 % is classified as performing.

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

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	262,901	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,830,454	1,711,470	69 %	1,503,772	66 %	207,698	93 %	20,825	1 %	94,071	45 %
Banks	183,112	103,962	4 %	103,962	5 %	-	0 %	-	0 %	-	0 %
Private individuals	688,224	687,593	27 %	671,533	29 %	16,060	7 %	2,027	0 %	9,509	59 %
Total	**2,964,691**	**2,503,056**	**100 %**	**2,279,298**	**100 %**	**223,758**	**100 %**	**22,852**	**1 %**	**103,580**	**46 %**

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

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	72,089	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,937,328	1,799,028	75 %	1,589,983	73 %	209,045	90 %	26,853	2 %	85,162	41 %
Banks	175,846	56,683	2 %	56,683	3 %	-	0 %	-	0 %	-	0 %
Private individuals	554,522	553,811	23 %	529,365	24 %	24,446	10 %	1,019	0 %	10,755	44 %
Total	**2,739,785**	**2,409,553**	**100 %**	**2,176,062**	**100 %**	**233,491**	**100 %**	**27,872**	**1 %**	**95,917**	**41 %**

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

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	262,901	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,873,592	1,758,296	69 %	1,543,389	66 %	214,907	92 %	20,699	1 %	95,600	44 %
Banks	183,112	103,962	4 %	103,962	5 %	-	0 %	-	0 %	-	0 %
Private individuals	698,595	697,964	27 %	680,460	29 %	17,504	8 %	2,061	0 %	9,785	56 %
Total	**3,018,200**	**2,560,253**	**100 %**	**2,327,842**	**100 %**	**232,411**	**100 %**	**22,760**	**1 %**	**105,385**	**45 %**

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

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	72,089	31	0 %	31	0 %	-	0 %	-	0 %	-	0 %
Corporate entities	1,968,006	1,833,394	75 %	1,619,048	73 %	214,346	89 %	26,775	2 %	86,133	40 %
Banks	175,846	56,683	2 %	56,683	3 %	-	0 %	-	0 %	-	0 %
Private individuals	565,263	564,552	23 %	538,499	24 %	26,053	11 %	1,053	0 %	10,992	42 %
Total	**2,781,204**	**2,454,660**	**100 %**	**2,214,261**	**100 %**	**240,399**	**100 %**	**27,828**	**1 %**	**97,125**	**40 %**

Credit Risk Measurement

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

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

Maximum exposure

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	**2010**	**2011**	**2010**
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	44,889	34,057	44,889	34,057
Loans and advances to customers:	1,824,563	1,823,734	1,883,362	1,880,329
Loans to individuals:	524,161	449,830	534,197	460,274
- overdrafts	40,642	40,407	40,642	40,407
- credit cards	22,910	7,928	22,910	7,928
- term loans	125,186	118,521	125,186	118,521
- mortgages	335,423	282,974	335,423	282,974
- finance leases	-	-	10,036	10,444
Loans to sole proprietors	61,711	71,806	70,599	79,338
Loans to corporate entities	1,238,691	1,302,098	1,278,566	1,340,717
Investment securities available for sale	288,218	312,977	288,218	312,977
- debt securities	243,024	256,903	243,024	256,903
- equity securities	45,194	56,074	45,194	56,074
Investment securities held to maturities	-	316	-	316
- debt securities	-	316	-	316
Other assets	53,339	48,912	53,494	48,490
Credit risk exposures relating to off-balance sheet items are as follows:				
Guarantees	171,899	141,787	171,899	141,787
Credit commitments and other credit related liabilities	334,447	284,332	329,491	270,580
At 31 December	**2,717,355**	**2,646,115**	**2,771,353**	**2,688,536**

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Group at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Credit Classification

The classification of debtors is carried out in line with internal procedure for analysing debtors' creditworthiness, which is harmonized with regulatory requirements. Investments in the credit portfolio are classified into five prudential groups, established by the Bank of Slovenia. Within those 5 credit groups there are 12 internally defined credit classes. Claims on debtors awarded the maximum credit worthiness or having an adequate state guarantee are classified in the category A, claims on debtors with a lowest rating (credit standing) are classified in group E.

The A to E classification is based on the debtor's ability to repay debt on schedule. The evaluation takes into account the debtor financial position, cash-flow capacity for repayment of debt, collateral pledged and the debt repayment record in the past periods. The Bank and Group consider as performing loans exposures towards clients classified A and B, and, starting from 2011, also the exposures towards individuals classified into C cluster.

Banka Koper's rating

	2011		2010	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
A	70	0.5	64	0.4
B	21	2.6	26	3.5
C	2	18.5	4	31.0
D	3	34.9	5	41.0
E	4	65.0	1	73.9
	100	**5.0**	**100**	**5.1**

Group's rating

	2011		2010	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
A	70	0.5	64	0.3
B	20	2.6	26	3.5
C	2	18.5	4	31.0
D	4	33.6	5	39.6
E	4	65.0	1	73.9
	100	**5.0**	**100**	**5.1**

Impairments and Provisions

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

Collectively assessed impairments and provisions are evaluated for individuals and legal persons separately. Legal persons' evaluation is based on the underlying collateral, while the exposures toward individuals are split into the following groups:

- Housing loans,
- Long-term consumer loans,
- Short-term consumer loans,
- Approved overdrafts on transactions accounts
- Credit card claims

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

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

Large Exposures

In order to limit the risk against single borrowers that may account for a significant percentage of the total exposure, the Bank or Group controls and manages the single-name credit concentration risk. The maximum exposure against a single borrower and connected entities is limited by law and should not exceed 25 per cent of the Bank's or Group's capital (own funds). In addition, with the aim to control credit concentration, the Bank or Group calculates the indices of industry and single-name credit concentration. Indices are measured with the methodology established by the Bank of Slovenia.

3.4 ANALYSIS OF PAST DUE LOANS

Loans and advances are summarised as follows:

Loans and advances by maturity (past due) – unconsolidated

(all amounts expressed in thousands of EUR)

Unconsolidated	31 December 2011		31 December 2010	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,712,997	44,889	1,688,039	34,057
Past due but not impaired	12,700	-	26,304	-
Impaired	218,789	-	225,885	-
Gross	**1,944,486**	**44,889**	**1,940,228**	**34,057**
Impairment losses on loans and advances	(119,923)	-	(116,494)	-
Net	**1,824,563**	**44,889**	**1,823,734**	**34,057**

Loans and advances by maturity (past due) – consolidated

(all amounts expressed in thousands of EUR)

Consolidated	31 December 2011		31 December 2010	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,763,156	44,889	1,738,017	34,057
Past due but not impaired	14,447	-	27,397	-
Impaired	227,442	-	232,539	-
Gross	**2,005,045**	**44,889**	**1,997,953**	**34,057**
Impairment losses on loans and advances	(121,683)	-	(117,624)	-
Net	**1,883,362**	**44,889**	**1,880,329**	**34,057**

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

(all amounts expressed in thousands of EUR)

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

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

(all amounts expressed in thousands of EUR)

31 December 2011 - Consolidated	Individuals					Sole	Corporate	Total loans
	Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	proprietors	entities	and advances to customers
Neither past due nor impaired A	39,941	20,399	115,456	308,935	8,766	43,153	792,360	1,329,010
Neither past due nor impaired B	172	680	4,971	16,086	-	19,932	382,718	424,559
Neither past due nor impaired C	69	442	2,788	6,288	-	-	-	9,587
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Total neither past due nor impaired	**40,182**	**21,521**	**123,215**	**331,309**	**8,766**	**63,085**	**1,175,078**	**1,763,156**
Not past due but impaired	**55**	**8**	**1,940**	**5,174**	**568**	**5,514**	**61,797**	**75,056**
Past due or impaired	2,469	2,226	3,823	2,738	1,012	13,700	140,865	166,833
Gross	**42,706**	**23,755**	**128,978**	**339,221**	**10,346**	**82,299**	**1,377,740**	**2,005,045**
Impairment losses on loans and advances	(2,064)	(845)	(3,792)	(3,798)	(310)	(11,700)	(99,174)	(121,683)
Net	**40,642**	**22,910**	**125,186**	**335,423**	**10,036**	**70,559**	**1,278,566**	**1,883,362**

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

(all amounts expressed in thousands of EUR)

31 December 2010 - Unconsolidated	Individuals				Sole	Corporate	Total loans
	Overdrafts	Credit Cards	Term loans	Mortgages	proprietors	entities	and advances to customers
Neither past due nor impaired A	40,456	7,957	110,031	260,275	42,127	724,311	1,185,157
Neither past due nor impaired B	-	-	4,470	13,158	20,811	464,443	502,882
Neither past due nor impaired C	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-
Total neither past due nor impaired	**40,456**	**7,957**	**114,501**	**273,433**	**62,938**	**1,188,754**	**1,688,039**
Not past due but impaired	**-**	**-**	**4,186**	**10,571**	**6,836**	**74,844**	**96,437**
Past due or impaired	2,974	-	4,432	2,812	12,003	133,531	155,752
Gross	**43,430**	**7,957**	**123,119**	**286,816**	**81,777**	**1,397,129**	**1,940,228**
Impairment losses on loans and advances	(3,023)	(29)	(4,598)	(3,842)	(9,971)	(95,031)	(116,494)
Net	**40,407**	**7,928**	**118,521**	**282,974**	**71,806**	**1,302,098**	**1,823,734**

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

(all amounts expressed in thousands of EUR)

31 December 2010 - Consolidated	Individuals: Overdrafts	Individuals: Credit Cards	Individuals: Term loans	Individuals: Mortgages	Individuals: Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	40,456	7,957	110,031	260,275	9,005	48,979	758,432	1,235,135
Neither past due nor impaired B	-	-	4,470	13,158	-	20,811	464,443	502,882
Neither past due nor impaired C	-	-	-	-	-	-	-	-
Neither past due nor impaired D	-	-	-	-	-	-	-	-
Neither past due nor impaired E	-	-	-	-	-	-	-	-
Total neither past due nor impaired	**40,456**	**7,957**	**114,501**	**273,433**	**9,005**	**69,790**	**1,222,875**	**1,738,017**
Not past due but impaired	**-**	**-**	**4,186**	**10,571**	**547**	**7,093**	**77,544**	**99,941**
Past due or impaired	2,974	-	4,432	2,812	1,162	12,671	135,944	159,995
Gross	**43,430**	**7,957**	**123,119**	**286,816**	**10,714**	**89,554**	**1,436,363**	**1,997,953**
Impairment losses on loans and advances	(3,023)	(29)	(4,598)	(3,842)	(271)	(10,186)	(95,675)	(117,624)
Net	**40,407**	**7,928**	**118,521**	**282,974**	**10,443**	**79,368**	**1,340,688**	**1,880,329**

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

(all amounts expressed in thousands of EUR)

31 December 2011 - Unconsolidated	Individuals: Overdrafts Not impaired	Overdrafts Impaired	Credit cards Not impaired	Credit cards Impaired	Term loans Not impaired	Term loans Impaired	Mortgages Not impaired	Mortgages Impaired	Total individuals
Past due up to 30 days	283	-	1,304	66	4	11	-	4	1,672
Past due 30 - 60 days	109	-	135	48	431	91	215	55	1,084
Past due 60 - 90 days	53	1	48	45	71	68	33	37	356
Past due over 90 days	27	1,996	1	579	14	3,133	4	2,390	8,144
Total	**472**	**1,997**	**1,488**	**738**	**520**	**3,303**	**252**	**2,486**	**11,256**

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

Renegotiated loans in 2011 amounted to EUR 27,743 thousands (2010: EUR 2,914 thousands).

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

(all amounts expressed in thousands of EUR)

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

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

In 2011 renegotiated loans in the Group amounted to EUR 27,743 thousands (2010: EUR 2,914 thousands).

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

(all amounts expressed in thousands of EUR)

31 December 2010 - Unconsolidated	Individuals: Overdrafts		Individuals: Credit cards		Individuals: Term loans		Individuals: Mortgages		Total individuals
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	-	254	-	-	102	20	102	6	484
Past due 30 - 60 days	-	58	-	-	168	211	87	129	653
Past due 60 - 90 days	-	69	-	-	28	164	11	55	327
Past due over 90 days	-	2,593	-	-	28	3,711	3	2,419	8,754
Total	**-**	**2,974**	**-**	**-**	**326**	**4,106**	**203**	**2,609**	**10,218**

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

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

(all amounts expressed in thousands of EUR)

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

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

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

Loans and advances individually impaired

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated			
31 December 2011	**Individuals**	**Sole proprietors**	**Corporate entities**	**Total**
Individually impaired loans	-	10,919	177,761	188,680
Fair value of collateral	-	25,037	267,083	292,120
31 December 2010	**Individuals**	**Sole proprietors**	**Corporate entities**	**Total**
Individually impaired loans	-	11,462	180,026	191,488
Fair value of collateral	-	27,872	271,390	299,262

In 2011, the Bank received EUR 600 thousands from the sale of pledged mortgages.

3.5 LIQUIDITY RISK

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

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

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

The Risk Policy and Methodology Department monitors the short-term liquidity and structural liquidity position under normal and stressed conditions, applying appropriate assumptions for assets and liabilities of uncertain maturity. The Risk Policy and Methodology Department at least on a monthly basis, measures and reports the liquidity ratios to ALCO Committee and monitors the compliance with minimum established ratio levels. The Group established two key internal measures:

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

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

Maturities of assets and liabilities - unconsolidated

(all amounts expressed in thousands of EUR)

Non-derivative cash flows by expected maturities As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	Expected maturity Total to 1 year	1 - 5 years	Over 5 years	Total over 1 year	Total
ASSETS								
Cash and balances with central banks	8,601	-	-	8,601	-	26,862	26,862	35,463
Financial instruments held for trading:	-	1	-	1	1,076	215	1,291	1,292
- trading assets	-	1	-	1	1,076	215	1,291	1,292
Investment securities available for sale	1,122	16,620	33,507	51,249	192,003	44,966	236,969	288,218
Loans and advances:	273,194	102,854	486,938	862,986	616,452	390,014	1,006,466	1,869,452
- to banks	23,467	-	11,667	35,134	9,755	-	9,755	44,889
- to customers	249,727	102,854	475,271	827,852	606,697	390,014	996,711	1,824,563
Investment securities held to maturity	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	3,122	24,663	27,785	27,785
Investment property	-	-	-	-	1,112	-	1,112	1,112
Intangible assets	-	-	-	-	4,229	-	4,229	4,229
Investment in subsidiaries	-	-	-	-	-	3,688	3,688	3,688
Income tax assets:	12	182	464	658	4,371	828	5,199	5,857
- current income tax	-	-	-	-	-	-	-	-
- deferred income tax	12	182	464	658	4,371	828	5,199	5,857
Other assets	2,638	7,428	211	10,277	391	-	391	10,668
Total assets	**285,567**	**127,085**	**521,120**	**933,772**	**822,756**	**491,236**	**1,313,992**	**2,247,764**
LIABILITIES								
Liabilities to Central Bank	-	-	-	-	150,042	-	150,042	150,042
Liabilities carried at amortised cost:	865,343	425,027	272,278	1,562,648	104,870	115,330	220,200	1,782,848
- deposits from banks	21,049	180,351	11,342	212,742	9,332	11,667	20,999	233,741
- due to customers	841,968	241,600	210,089	1,293,657	36,908	2,331	39,239	1,332,896
- other borrowed funds from banks	1,836	3,072	48,827	53,735	52,514	101,302	153,816	207,551
- other borrowed funds from other customers	490	4	2,020	2,514	6,116	30	6,146	8,660
Provisions:	-	-	439	439	7,044	2,968	10,012	10,451
- provisions for liabilities and charges	-	-	439	439	7,044	-	7,044	7,483
- retirement benefit obligations	-	-	-	-	-	2,968	2,968	2,968
Income tax liabilities:	3,435	7	1,550	4,992	67	19	86	5,078
- current income tax	-	-	1,535	1,535	-	-	-	1,535
- deferred income tax	3,435	7	15	3,457	67	19	86	3,543
Other liabilities	23,874	7,279	-	31,153	-	-	-	31,153
Total liabilities	**892,652**	**432,313**	**274,267**	**1,599,232**	**262,023**	**118,317**	**380,340**	**1,979,572**
Net liquidity gap	**(607,085)**	**(305,228)**	**246,853**	**(665,460)**	**560,733**	**372,919**	**933,652**	**268,192**
As at 31 December 2010								
Total assets	249,111	161,891	551,923	962,925	880,553	416,054	1,296,607	2,259,532
Total liabilities	1,008,307	475,751	353,241	1,837,299	110,991	44,494	155,485	1,992,784
Net liquidity gap	**(759,196)**	**(313,860)**	**198,682**	**(874,374)**	**769,562**	**371,560**	**1,141,122**	**266,748**

Maturities of assets and liabilities - unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

Derivative cash flows by expected maturity – derivatives settled on a net basis As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	Expected maturity Total to 1 year	1 - 5 years	Over 5 years	Total over 1 year	Total
DERIVATIVE ASSETS								
Derivatives held for trading:								
- currency swaps	786	-	-	786	-	-	-	786
- interest rate cap	-	-	-	-	-	129	129	129
- interest option (CALL)	-	-	-	-	1,111	-	1,111	1,111
Total	**786**	**-**	**-**	**786**	**1,111**	**129**	**1,240**	**2,026**
DERIVATIVE LIABILITIES								
Derivatives held for trading:								
- currency swaps	1	-	-	1	-	-	-	1
- interest rate cap	-	-	-	-	-	32	32	32
- interest option (PUT)	-	-	-	-	1,102	-	1,102	1,102
Total	**1**	**-**	**-**	**1**	**1,102**	**32**	**1,134**	**1,135**
Net liquidity gap	**785**	**-**	**-**	**785**	**9**	**97**	**106**	**891**
As at 31 December 2010								
Total derivative assets	10	1	-	11	8	-	8	19
Total derivative liabilities	510	1	-	511	8	-	8	519
Net liquidity gap	**(500)**	**-**	**-**	**(500)**	**-**	**-**	**-**	**(500)**

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

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

(all amounts expressed in thousands of EUR)

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	Expected maturity Total to 1 year	1 - 5 years	Total over 1 year	Total
Derivatives held for trading:							
- Currency swaps							
- outflow	13,924	-	-	13,924	-	-	13,924
- inflow	68,323	-	-	68,323	-	-	68,323
Total outflow	**13,924**	**-**	**-**	**13,924**	**-**	**-**	**13,924**
Total inflow	**68,323**	**-**	**-**	**68,323**	**-**	**-**	**68,323**

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

(all amounts expressed in thousands of EUR)

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	Expected maturity Total to 1 year	1 - 5 years	Total over 1 year	Total
Derivatives held for trading:							
- Currency swaps							
- outflow	21,065	-	-	21,065	-	-	21,065
- inflow	71,273	-	-	71,273	-	-	71,273
Total outflow	**21,065**	**-**	**-**	**21,065**	**-**	**-**	**21,065**
Total inflow	**71,273**	**-**	**-**	**71,273**	**-**	**-**	**71,273**

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

Maturities of assets and liabilities - consolidated

(all amounts expressed in thousands of EUR)

Non-derivative cash flows by expected maturities As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	Expected maturity Total to 1 year	1 - 5 years	Over 5 years	Total over 1 year	Total
ASSETS								
Cash and balances with central banks	8,601	-	-	8,601	-	26,862	26,862	35,463
Financial instruments held for trading:	-	1	-	1	1,076	215	1,291	1,292
- trading assets	-	1	-	1	1,076	215	1,291	1,292
Investment securities available for sale	1,122	16,620	33,507	51,249	192,003	44,966	236,969	288,218
Loans and advances:	273,041	105,630	494,145	872,816	637,214	418,221	1,055,435	1,928,251
- to banks	23,467	-	11,667	35,134	9,755	-	9,755	44,889
- to customers	249,574	105,630	482,478	837,682	627,459	418,221	1,045,680	1,883,362
Investment securities held to maturity	-	-	-	-	-	-	-	-
Goodwill	-	-	-	-	-	905	905	905
Property, plant and equipment	-	-	-	-	4,418	24,663	29,081	29,081
Investment property	-	-	-	-	1,112	-	1,112	1,112
Intangible assets	-	-	-	-	4,230	-	4,230	4,230
Income tax assets:	447	182	464	1,093	4,371	828	5,199	6,292
- current income tax	-	-	-	-	-	-	-	-
- deferred income tax	447	182	464	1,093	4,371	828	5,199	6,292
Other assets	3,844	7,428	211	11,483	391	-	391	11,874
Total assets	**287,055**	**129,861**	**528,327**	**945,243**	**844,815**	**516,660**	**1,361,475**	**2,306,718**
LIABILITIES								
Liabilities to Central Bank	-	-	-	-	150,042	-	150,042	150,042
Liabilities carried at amortised cost:	865,426	425,027	272,278	1,562,731	153,870	122,330	276,200	1,838,931
- deposits from banks	21,049	180,351	11,342	212,742	9,332	11,667	20,999	233,741
- due to customers	841,966	241,600	210,089	1,293,655	36,908	2,331	39,239	1,332,894
- other borrowed funds from banks	1,921	3,072	48,827	53,820	101,514	108,302	209,816	263,636
- other borrowed funds from other customers	490	4	2,020	2,514	6,116	30	6,146	8,660
Provisions:	-	-	439	439	6,997	3,049	10,046	10,485
- provisions for liabilities and charges	-	-	439	439	6,997	-	6,997	7,436
- retirement benefit obligations	-	-	-	-	-	3,049	3,049	3,049
Income tax liabilities:	3,547	7	1,550	5,104	67	19	86	5,190
- current income tax	112	-	1,535	1,647	-		-	1,647
- deferred income tax	3,435	7	15	3,457	67	19	86	3,543
Other liabilities	24,906	7,279	-	32,185	-	-	-	32,185
Total liabilities	**893,879**	**432,313**	**274,267**	**1,600,459**	**310,976**	**125,398**	**436,374**	**2,036,833**
Net liquidity gap	**(606,824)**	**(302,452)**	**254,060**	**(655,216)**	**533,839**	**391,262**	**925,101**	**269,885**
As at 31 December 2010								
Total assets	251,645	164,194	559,739	975,578	900,853	439,274	1,340,127	2,315,705
Total liabilities	1,005,537	476,024	356,694	1,838,255	157,955	51,317	209,272	2,047,527
Net liquidity gap	**(753,892)**	**(311,830)**	**203,045**	**(862,677)**	**742,898**	**387,957**	**1,130,855**	**268,178**

Expected maturities of off-balance sheet items - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2011	No later than 1 year	1-5 years	Over 5 years	Total
		Expected maturity		
Documentary and commercial letters of credit	-	-	-	-
Guarantees	75,796	77,170	18,933	171,899
Derivative financial instruments	4,710	4,825	420	9,955
Credit commitments	314,709	9,783	-	324,492
Total	**395,215**	**91,778**	**19,353**	**506,346**
As at 31 December 2010				
Total	**323,326**	**85,067**	**17,728**	**426,121**

Expected maturities of off-balance sheet items - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2011	No later than 1 year	1-5 years	Over 5 years	Total
		Expected maturity		
Documentary and commercial letters of credit	-	-	-	-
Guarantees	75,796	77,170	18,933	171,899
Derivative financial instruments	4,710	4,825	420	9,955
Credit commitments	314,705	4,831	-	319,536
Total	**395,211**	**86,826**	**19,353**	**501,390**
As at 31 December 2010				
Total	**318,480**	**76,066**	**17,728**	**412,274**

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

(all amounts expressed in thousands of EUR)

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

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

(all amounts expressed in thousands of EUR)

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

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

(all amounts expressed in thousands of EUR)

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

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

(all amounts expressed in thousands of EUR)

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

3.6 INTEREST RATE RISK OF BANKING BOOK

The Bank and Group regularly measure the following sources of interest rate risk:

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

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

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

- Sensitivity of net interest income on 100 b.p. parallel shift of yield curve over 1 year time horizon;
- Sensitivity of economic value, that is difference between the present value of interest-sensitive assets and liabilities in the conditions of 100 b.p. and 200 b.p. yield curve parallel shift;

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

Sensitivity of net interest income of the Group on 100 b.p. parallel shift of yield curve as of 31. 12. 2011

(all amounts expressed in thousands of EUR)

			+100 b.p.			-100 bp		
			Sight	Term	**Total**	Sight	Term	**Total**
Total			900	3,800	**4,700**	(1,200)	(3,900)	**(5,100)**
Asssets			1,800	12,800	**14,600**	(1,800)	(12,800)	**(14,600)**
	Sight Loans		1,800		1,800	(1,800)		(1,800)
	Securities	FX*		100	100		(100)	(100)
		FL*		400	400		(400)	(400)
	Loans	FX		400	400		(400)	(400)
		FL		11,900	11,900		(11,900)	(11,900)
	Other Financial Asset	FX			0,0			0,0
		FL			0,0			0,0
Liabilities			(900)	(9,000)	**(9,900)**	600	8,900	**9,500**
	Sight Deposits		(900)		(900)	600		600
	Securities issued	FX			0,0			0,0
		FL			0,0			0,0
	Deposits	FX		(5,500)	(5,500)		5,500	5,500
		FL		(3,500)	(3,500)		3,400	3,400
	Other Financial Liabilities	FX			0,0			0,0
		FL			0,0			0,0
Derivatives				(200)	**(200)**		200	**200**

*FX-fixed rate; FL-floating rate

The sensitivity of net interest income on a 100 b.p. interest rate increase/decrease as at 31.12.2011 equalled:

- 100 b.p. increase: 4,700 thousand EUR;
- 100 b.p. decrease: - 5,100 thousand EUR.

The sensitivity of net interest income on 100 b.p. interest rate increase/decrease as at 31.12.2010 equalled:

- 100 b.p. increase: 3,694 thousand EUR;
- 100 b.p. decrease: - 3,694 thousand EUR.

The impact of a 100 b.p. interest rate shift on the net present value of the Group, as of 31. 12. 2011

(all amounts expressed in thousands of EUR)

Currency	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y	Total
EUR	(1,990)	(680)	(2,970)	(3,670)	(2,290)	(940)	**(12,540)**
USD	50	(10)	(20)	(30)	-	-	**(10)**
CHF	(30)	-	-	(30)	(20)	(20)	**(100)**
Other	-	-	-	-	-	-	**-**
Total Shift	**(1,970)**	**(690)**	**(2,990)**	**(3,730)**	**(2,310)**	**(960)**	**(12,650)**
Limit							**8,800**
Limit utilization							**144%**

The impact of a 100 b.p. interest rate shift on the net present value of the Group, as of 31. 12. 2010

(all amounts expressed in thousands of EUR)

Currency	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y	Total
EUR	392	(516)	(2,852)	(3,084)	(340)	(44)	**(6,444)**
USD	60	-	-	-	-	-	**60**
CHF	(4)	-	-	-	-	-	**(4)**
Other	-	-	-	-	-	-	**-**
Total Shift	**448**	**(516)**	**(2,852)**	**(3,084)**	**(340)**	**(44)**	**(6,388)**
Limit							**8.800**
Limit utilization							**73%**

The impact of a 200 b.p. interest rate shift on the net present value of the Group as of 31. 12. 2011 – Group's capital (year average)

(all amounts expressed in thousands of EUR)

Currency	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y	Total
EUR	(3,980)	(1,360)	(5,930)	(7,340)	(4,570)	(1,870)	**(25,050)**
USD	100	(20)	(40)	(60)	-	-	**(20)**
CHF	(60)	(10)	(10)	(50)	(40)	(40)	**(210)**
Other	10	-	-	-	-	-	**10**
Total	**(3,930)**	**(1,390)**	**(5,980)**	**(7,450)**	**(4,610)**	**(1,910)**	**(25,270)**
Limit							**251,200**
Limit utilization							**10%**

The impact of a 200 b.p. interest rate shift on the net present value of the Group as of 31. 12. 2010 – Group's capital (year average)

(all amounts expressed in thousands of EUR)

Currency	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y	Total
EUR	780	(1,028)	(5,705)	(6,173)	(678)	(87)	**(12,891)**
USD	118	-	-	-	-	-	**118**
CHF	(8)	-	-	-	-	-	**(8)**
Other	3	-	-	-	-	-	**3**
Total	**893**	**(1,028)**	**(5,705)**	**(6,173)**	**(678)**	**(87)**	**(12,778)**
Limit							**252,200**
Limit utilization							**5%**

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

Banka Koper d. d. has a limit framework, which is aligned with the limit framework of the Parent company. The limit for the interest rate sensitivity measured on 100 b.p. parallel shift is set up at EUR 8,800 thousand over all time tenors. As of 31.12.2011 the exposure stood at EUR (12,650) thousand EUR. Limits by single interest rate buckets based on 100 b.p. shift are determined as follows (thousand EUR):

Time bucket	Limit
• 0 – 18 months	+/- 2,800
• from 18 m – 3 years	+/- 2,000
• from 3 – 5 years	+/- 3,400
• from 5 – 10 years	+/- 5,000
• >10 years	+/- 2,200

The principal limit as well as limits by time buckets prior to their adoption by the Management Board are approved by the Risk committee of the Parent Company.

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

Interest rate risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2011	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	8,601	-	-	-	26,862	-	35,463
Financial instruments held for trading:	-	1,127	1,115	-	215	861	3,318
- trading assets	-	998	4	-	215	75	1,292
- derivative financial instruments	-	129	1,111	-	-	786	2,026
Investment securities available for sale	16,666	40,264	16,308	130,125	39,662	45,193	288,218
Loans and advances:	1,507,048	212,135	84,145	17,647	23,906	24,571	1,869,452
- to banks	26,011	-	12,495	-	-	6,383	44,889
- to customers	1,481,037	212,135	71,650	17,647	23,906	18,188	1,824,563
Investment securities held to maturity	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	27,785	27,785
Investment property	-	-	-	-	-	1,112	1,112
Intangible assets	-	-	-	-	-	4,229	4,229
Investment in subsidiaries	-	-	-	-	-	3,688	3,688
Income tax assets:	-	-	-	-	-	5,857	5,857
- current income tax	-	-	-	-	-	-	-
- deferred income tax	-	-	-	-	-	5,857	5,857
Other assets	-	-	-	-	-	10,668	10,668
Total assets	**1,532,315**	**253,526**	**101,568**	**147,772**	**90,645**	**123,964**	**2,249,790**
LIABILITIES							
Liabilities to Central Bank	150,042	-	-	-	-	-	150,042
Financial instruments held for trading:	-	32	1,102	-	-	1	1,135
- derivative financial instruments	-	32	1,102	-	-	1	1,135
Liabilities carried at amortised cost:	985,666	524,325	264,973	7,347	62	475	1,782,848
- deposits from banks	30,055	180,350	23,336	-	-	-	233,741
- due to customers	910,751	229,469	185,414	7,230	32	-	1,332,896
- other borrowed funds from banks	44,859	114,502	48,190	-	-	-	207,551
- other borrowed funds from other customers	1	4	8,033	117	30	475	8,660
Derivatives – Hedge accounting	-	992	-	-	-	-	992
Provisions:	-	-	-	-	-	10,451	10,451
- provisions for liabilities and charges	-	-	-	-	-	7,483	7,483
- retirement benefit obligations	-	-	-	-	-	2,968	2,968
Income tax liabilities:	-	-	-	-	-	5,078	5,078
- current income tax	-	-	-	-	-	1,535	1,535
- deferred income tax	-	-	-	-	-	3,543	3,543
Other liabilities	-	-	-	-	-	31,153	31,153
Total liabilities	**1,135,708**	**525,349**	**266,075**	**7,347**	**62**	**47,158**	**1,981,699**
Total interest repricing gap	**396,607**	**(271,823)**	**(164,507)**	**140,425**	**90,583**		

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	Total
Total assets	1,470,981	327,013	145,996	119,236	80,369	115,956	2,259,551
Total liabilities	1,326,537	360,327	261,024	8,822	183	36,410	1,993,303
Total interest repricing gap	**144,444**	**(33,314)**	**(115,028)**	**110,414**	**80,186**		

Interest rate risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2011	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	8,601	-	-	-	26,862	-	35,463
Financial instruments held for trading:	-	1,127	1,115	-	215	861	3,318
- trading assets	-	998	4	-	215	75	1,292
- derivative financial instruments	-	129	1,111	-	-	786	2,026
Investment securities available for sale	16,666	40,264	16,308	130,125	39,662	45,193	288,218
Loans and advances:	1,493,384	275,417	90,158	18,610	26,111	24,571	1,928,251
- to banks	26,011	-	12,495	-	-	6,383	44,889
- to customers	1,467,373	275,417	77,663	18,610	26,111	18,188	1,883,362
Investment securities held to maturity	-	-	-	-	-	-	-
Good will	-	-	-	-	-	905	905
Property, plant and equipment	-	-	-	-	-	29,081	29,081
Investment property	-	-	-	-	-	1,112	1,112
Intangible assets	-	-	-	-	-	4,230	4,230
Income tax assets:	-	-	-	-	-	6,292	6,292
- current income tax	-	-	-	-	-	-	-
- deferred income tax	-	-	-	-	-	6,292	6,292
Other assets	-	-	-	-	-	11,874	11,874
Total assets	1,518,651	316,808	107,581	148,735	92,850	124,119	2,308,744
LIABILITIES							
Liabilities to Central Bank	150,042	-	-	-	-	-	150,042
Financial instruments held for trading:	-	32	1,102	-	-	1	1,135
- derivative financial instruments	-	32	1,102	-	-	1	1,135
Liabilities carried at amortised cost:	1,041,749	524,325	264,973	7,347	62	475	1,838,931
- deposits from banks	30,055	180,350	23,336	-	-	-	233,741
- due to customers	910,749	229,469	185,414	7,230	32	-	1,332,894
- other borrowed funds from banks	100,944	114,502	48,190	-	-	-	263,636
- other borrowed funds from other customers	1	4	8,033	117	30	475	8,660
Derivatives-Hedge accounting	-	992	-	-	-	-	992
Provisions:	-	-	-	-	-	10,485	10,485
- provisions for liabilities and charges	-	-	-	-	-	7,436	7,436
- retirement benefit obligations	-	-	-	-	-	3,049	3,049
Income tax liabilities:	-	-	-	-	-	5,190	5,190
- current income tax	-	-	-	-	-	1,647	1,647
- deferred income tax	-	-	-	-	-	3,543	3,543
Other liabilities	-	-	-	-	-	32,185	32,185
Total liabilities	1,191,791	525,349	266,075	7,347	62	48,336	2,038,960
Total interest repricing gap	326,860	(208,541)	(158,494)	141,388	92,788		

As at 31 December 2010	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	Total
Total assets	1,486,235	361,205	153,072	119,309	80,369	115,534	2,315,724
Total liabilities	1,333,058	407,676	261,024	8,822	184	37,282	2,048,046
Total interest repricing gap	153,177	(46,471)	(107,952)	110,487	80,185		

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

The effective annual interest rate of individual financial instruments - Banka Koper

Banka Koper	2011			2010		
	EUR	USD	Other	EUR	USD	Other
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	2.48	-	0.91	1.98	0.18	0.81
Loans and advances to customers	4.01	3.22	2.04	3.53	4.38	1.98
Trading assets	1.73	-	-	1.54	-	-
Investment securities available for sale	3.23	-	-	2.43	-	-
Investment securities held to maturity	-	-	-	6.10	-	-
Liabilities						
Deposits from banks	2.09	0.24	0.47	0.99	0.27	0.50
Due to customers	1.36	0.83	0.13	1.15	0.36	0.18
Other borrowed funds	2.03	2.12	-	1.10	-	0.26

The effective annual interest rate of individual financial instruments - Consolidated

Consolidated	2011			2010		
	EUR	USD	Other	EUR	USD	Other
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	2.48	-	0.91	1.98	0.18	0.81
Loans and advances to customers	4.05	3.22	2.08	3.54	4.38	1.97
Trading assets	1.73	-	-	1.54	-	-
Investment securities available for sale	3.23	-	-	2.43	-	-
Investment securities held to maturity	-	-	-	6.10	-	-
Liabilities						
Deposits from banks	2.09	0.24	0.47	0.99	0.27	0.50
Due to customers	1.36	0.83	0.13	1.15	0.36	0.18
Other borrowed funds	2.10	2.12	-	1.10	-	0.26

3.7 EQUITY RISKS OF BANKING BOOK

The risk is defined as the risk of unexpected losses of available-for sale equity investments (shares or participations), not consolidated into financial statements of the Group. The exposure to listed shares is measured with the Value-at-Risk (VaR) calculation. The VaR of equity portfolio is measured with a historical simulation, applying 99 % statistical confidence and one day holding period.

The VaR limit on banking book equity risk amounts to EUR 600,000. Despite a considerable amount of disposal of shares the limit is in breach from the outset of the year due to the price volatility and some changes in VAR limit methodology (β – factor). The Equity Var as at 31. 12. 2011 equalled EUR 902,420 (31. 12. 2010: EUR 605,293).

3.8 MARKET RISK

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

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

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

3.8.1 Equity Instruments

Equity instruments' position risk is measured and monitored daily. The position risk is limited by the VaR and stop-loss limits. The exposure is measured with the VaR indicator, which as of 31. 12. 2011 equalled EUR 4,043 (31.12. 2010: EUR 3,396). The VaR is calculated for a 1-day holding period, 99 % confidence level and 1 year historical data series. The Var limit amount is EUR 50,000.

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

To determine the reliability of the VaR model, back-testing is regularly performed by comparing the theoretical losses with the VaR estimates. Back-testing for 2011 showed no excessive number of daily losses exceeding VaR.

3.8.2 Debt Instruments

The market value of the trading debt instrument portfolio as of 31. 12. 2011 equalled EUR 1.2 million (31. 12. 2010: EUR 1.5 million). The portfolio risk is measured with a shift sensitivity of portfolio market value against a 1 b.p. parallel shift of a yield curve. As at 31. 12. 2011 the interest rate sensitivity amounted to EUR 223 (31. 12. 2010: EUR 289), while the corresponding limit established was EUR 2,000 (same as 31. 12. 2010).

3.8.3 Derivative instruments

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

3.8.4 Currency Risk

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

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

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

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

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

Group VAR by risk type

(all amounts expressed in thousands of EUR)

	12 months to 31 December 2011			12 months to 31 December 2010		
	Average	High	Low	Average	High	Low
Foreign exchange risk (trading and non-trading portfolio)	5	23	1	4	19	1
Equities risk	866	1,054	616	529	732	407
Equities risk (banking book)	862	1,048	615	524	725	404
Equities risk (trading portfolio)	4	6	1	5	7	3
Total VAR	**871**	**1,077**	**617**	**533**	**751**	**408**

Currency risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2011	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	34,679	273	511	35,463
Financial instruments held for trading:	3,318	-	-	3,318
- trading assets	1,292	-	-	1,292
- derivative financial instruments	2,026	-	-	2,026
Investment securities available for sale	228,218	-	-	288,218
Loans and advances:	1,808,022	40,796	20,634	1,869,452
- to banks	35,741	516	8,632	44,889
- to customers	1,772,281	40,280	12,002	1,824,563
Investment securities held to maturity	-	-	-	-
Property, plant and equipment	27,785	-	-	27,785
Investment property	1,112	-	-	1,112
Intangible assets	4,229	-	-	4,229
Investment in subsidiaries	3,688	-	-	3,688
Income tax assets:	5,857	-	-	5,857
- current income tax	-	-	-	-
- deferred income tax	5,857	-	-	5,857
Other assets	10,615	51	2	10,668
Total assets	**2,187,523**	**41,120**	**21,147**	**2,249,790**
LIABILITIES				
Liabilities to Central Bank	150,042	-	-	150,042
Financial instruments held for trading:	1,135	-	-	1,135
- derivative financial instruments	1,135	-	-	1,135
Liabilities carried at amortised cost:	1,664,854	96,376	21,618	1,782,848
- deposits from banks	288,525	3,184	2,032	233,741
- due to customers	1,260,662	52,648	19,586	1,332,896
- other borrowed funds from banks	167,007	40,544	-	207,551
- other borrowed funds from other customers	8,660	-	-	8,660
Derivatives – hedge accounting	992	-	-	992
Provisions:	10,451	-	-	10,451
- provisions for liabilities and charges	7,483	-	-	7,483
- retirement benefit obligations	2,968	-	-	2,968
Income tax liabilities:	5,078	-	-	5,078
- current income tax	1,535	-	-	1,535
- deferred income tax	3,543	-	-	3,543
Other liabilities	31,137	14	2	31,153
Total liabilities	**1,863,689**	**96,390**	**21,620**	**1,981,699**
Net balance sheet position	**323,834**	**(55,270)**	**(473)**	**268,091**
Credit commitments	**328,319**	**148**	**-**	**328,467**

As at 31 December 2010	EUR	USD	Other	Total
Total assets	2,236,255	1,883	21,413	2,259,551
Total liabilities	1,919,026	52,856	21,421	1,993,303
Net balance sheet position	**317,229**	**(50,973)**	**(8)**	**266,248**
Credit commitments	**287,599**	**230**	**-**	**287,829**

Currency risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2011	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	34,679	273	511	35,463
Financial instruments held for trading:	3,318	-	-	3,318
- trading assets	1,292	-	-	1,292
- derivative financial instruments	2,026	-	-	2,026
Investment securities available for sale	288,218	-	-	288,218
Loans and advances:	1,866,721	40,796	20,734	1,928,251
- to banks	35,741	516	8,632	44,889
- to customers	1,830,980	40,280	12,102	1,883,362
Investment securities held to maturity	-	-	-	-
Goodwill	905	-	-	905
Property, plant and equipment	29,081	-	-	29,081
Investment property	1,112	-	-	1,112
Intangible assets	4,230	-	-	4,230
Income tax assets:	6,292	-	-	6,292
- current income tax	-	-	-	-
- deferred income tax	6,292	-	-	6,292
Other assets	11,821	51	2	11,874
Total assets	**2,246,377**	**41,120**	**21,247**	**2,308,744**
LIABILITIES				
Liabilities to Central Bank	150,042	-	-	150,042
Financial instruments held for trading:	1,135	-	-	1,135
- derivative financial instruments	1,135	-	-	1,135
Liabilities carried at amortised cost:	1,720,937	96,376	21,618	1,838,931
- deposits from banks	228,525	3,184	2,032	233,741
- due to customers	1,260,660	52,648	19,586	1,332,894
- other borrowed funds from banks	223,092	40,544	-	263,636
- other borrowed funds from other customers	8,660	-	-	8,660
Derivatives – hedge accounting	992	-	-	992
Provisions:	10,485	-	-	10,485
- provisions for liabilities and charges	7,436	-	-	7,436
- retirement benefit obligations	3,049	-	-	3,049
Income tax liabilities:	5,190	-	-	5,190
- current income tax	1,647	-	-	1,647
- deferred income tax	3,543	-	-	3,543
Other liabilities	32,169	14	2	32,185
Total liabilities	**1,920,950**	**96,390**	**21,620**	**2,038,960**
Net balance sheet position	**325,427**	**(55,270)**	**(373)**	**269,784**
Credit commitments	**323,316**	**148**	**-**	**323,464**

As at 31 December 2010	EUR	USD	Other	Total
Total assets	2,292,353	1,883	21,488	2,315,724
Total liabilities	1,973,769	52,856	21,421	2,048,046
Net balance sheet position	**318,584**	**(50,973)**	**67**	**267,678**
Credit commitments	**287,829**	**230**	**-**	**288,059**

3.9 OPERATIONAL RISK

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

The objective of operational risk management is to:

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

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

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

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

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

The Risk, Policy and Methodology Department assisted by the Operational risk group, reports on a quarterly basis to the Management Board and proposes remedial measures. In 2011, the Group carried out a company-wide self-assessment, focusing on the most important processes. The assessment was prepared according to the methodology developed by the Parent company.

3.10 FAIR VALUE OF ASSETS AND LIABILITIES

Since the credit portfolio with long-term maturity and invariable interest rate over 5 years accounts for merely 1.3 % of the total, we assess that there are no significant differences between the fair value of loans and their balance-sheet value.

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

Fair value of assets and liabilities – unconsolidated

(all amounts expressed in thousands of EUR)

	Banka Koper					
	2011			2010		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	35,463	35,463	-	37,871	37,871	-
Financial instruments held for trading:	3,318	3,318	-	1,684	1,684	-
- trading assets	1,292	1,292	-	1,665	1,665	-
- derivative financial instruments	2,026	2,026	-	19	19	-
Investment securities available for sale	288,218	288,218	-	312,977	312,977	-
Loans and advances:	1,869,452	1,869,452	-	1,857,791	1,857,791	-
- to banks	44,889	44,889	-	34,057	34,057	-
- to customers	1,824,563	1,824,563	-	1,823,734	1,823,734	-
Investment securities held to maturity	-	-	-	316	313	(3)
Property, plant and equipment	27,785	35,174	7,389	25,727	34,812	9,085
Investment property	1,112	1,789	677	940	1,600	660
Intangible assets	4,229	4,229	-	5,645	5,645	-
Investment in subsidiaries	3,688	3,688	-	3,688	3,688	-
Income tax assets	5,857	5,857	-	2,824	2,824	-
Other assets	10,668	10,668	-	10,088	10,088	-
Total assets	**2,249,790**	**2,257,856**	**8,066**	**2,259,551**	**2,269,293**	**9,742**
LIABILITIES						
Liabilities to Central Bank	150,042	150,042	-	-	-	-
Financial instruments held for trading:	1,135	1,135	-	519	519	-
- derivative financial instruments	1,135	1,135	-	519	519	-
Liabilities carried at amortised cost:	1,782,848	1,782,848	-	1,957,368	1,957,368	-
- deposits from banks	233,741	233,741	-	128,566	128,566	-
- due to customers	1,332,896	1,332,896	-	1,360,262	1,360,262	-
- other borrowed funds from banks	207,551	207,551	-	458,328	458,328	-
- other borrowed funds from other customers	8,660	8,660		10,212	10,212	-
Derivaitves- hedge accounting	992	992	-	-	-	-
Provisions:	10,451	10,451	-	11,168	11,168	-
- provisions for liabilities and charges	7,483	7,483	-	8,170	8,170	-
- retirement benefit obligations	2,968	2,968	-	2,998	2,998	-
Income tax liabilities	5,078	5,078	-	4,114	4,114	-
Other liabilities	31,153	31,153	-	20,134	20,134	-
Total liabilities	**1,981,699**	**1,981,699**	**-**	**1,993,303**	**1,993,303**	**-**

Fair value of assets and liabilities – consolidated

(all amounts expressed in thousands of EUR)

	Banka Koper					
	2011			2010		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash and balances with central banks	35,463	35,463	-	37,871	37,871	-
Financial instruments held for trading:	3,318	3,318	-	1,684	1,684	-
- trading assets	1,292	1,292	-	1,665	1,665	-
- derivative financial instruments	2,026	2,026	-	19	19	-
Investment securities available for sale	288,218	288,218	-	312,977	312,977	-
Loans and advances:	1,928,251	1,928,251	-	1,914,386	1,914,386	-
- to banks	44,889	44,889	-	34,057	34,057	-
- to customers	1,883,362	1,883,362	-	1,880,329	1,880,329	-
Investment securities held to maturity	-	-	-	316	313	(3)
Goodwill	905	905	-	905	905	-
Property, plant and equipment	29,081	36,470	7,389	26,988	36,073	9,085
Investment property	1,112	1,789	677	940	1,600	660
Intangible assets	4,230	4,230	-	5,646	5,646	-
Income tax assets	6,292	6,292	-	3,112	3,112	-
Other assets	11,874	11,874	-	10,899	10,899	-
Total assets	**2,308,744**	**2,316,810**	**8,066**	**2,315,724**	**2,325,466**	**9,742**
LIABILITIES						
Liabilities to Central Bank	150,042	150,042	-	-	-	-
Financial instruments held for trading:	1,135	1,135	-	519	519	-
- derivative financial instruments	1,135	1,135	-	519	519	-
Liabilities carried at amortised cost:	1,838,931	1,838,931	-	2,011,239	2,011,239	-
- deposits from banks	233,741	233,741	-	128,566	128,566	-
- due to customers	1,332,894	1,332,894	-	1,358,756	1,358,756	-
- other borrowed funds from banks	263,636	263,636	-	513,705	513,705	-
- other borrowed funds from other customers	8,660	8,660	-	10,212	10,212	-
Derivatives-hedge accounting	992	992	-	-	-	-
Provisions:	10,485	10,485	-	11,148	11,148	-
- provisions for liabilities and charges	7,436	7,436	-	8,077	8,077	-
- retirement benefit obligations	3,049	3,049	-	3,071	3,071	-
Income tax liabilities	5,190	5,190	-	4,119	4,119	-
Other liabilities	32,185	32,185	-	21,021	21,021	-
Total liabilities	**2,038,960**	**2,038,960**	**-**	**2,048,046**	**2,048,046**	**-**

Fair value of financial instruments

Derivatives

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

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

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

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

Held for trading and available for sale financial instruments

Available for sale instruments are carried at fair value, whereby for equities which are not listed the fair value is determined according to the document of Measurement of Equity investment. Pivovarna Laško d.d. shares, which are quoted on the Ljubljana Stock Exchange, but do not meet the total market liquidity criteria (total market liquidity, calculated according to CGT) have been according to the liquidity criteria for shares classified into auction trading valued in accordance with the Comparable stock-exchange pricing model. The effect of the valuation as at 31.12 2011, between the model and market price has been positive in the amount of EUR 1,268 thousand.

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

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

Merkur's shares are valued at cost less impairment. An impairment test carried out in 2011 for Merkur shares indicated the need for additional impairments in the amount of EUR 5,086 thousands. At year end 2011, their carrying value of Merkur shares is EUR 0.

Whenever it is possible the valuation is done by qualified external evaluators and due to that in some cases the sensitivity test is difficult to implement. The fair value for Cimos shares was determined by using the valuation of qualified external evaluator.

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

(all amounts expressed in thousands of EUR)

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset								
Derivatives	-	2,026	-	2,026	-	19	-	19
HFT:	1,249	43	-	1,292	1,665	-	-	1,665
- debt	1,218	-	-	1,218	1,462	-	-	1,462
- equities	31	43	-	74	203	-	-	203
AFS:	255,209	3,956	23,553	282,718	274,138	6,244	23,553	303,935
- debt	243,024	-	-	243,024	256,904	-	-	256,904
- equities	12,185	3,956	23,553	39,694	17,234	6,244	23,553	47,031
Liabilities								
Derivatives	-	1,135	-	1,135	-	519	-	519

In 2011 there were no transfers between levels.

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

(all amounts expressed in thousands of EUR)

	At 1 January 2011	Purchase/Sales	Unrealized gains/loses recorded in P&L	Unrealized gains/loses recorded in revaluation reserve	Realized gains/loses recorded in P&L	At 31 December 2011
Asset						
HFT derivatives	-	-	-	-	-	-
- forward agreement on sale of non marketable shares	-	-	-	-	-	-
HFT equities						
AFS equities	23,553	-	-	-	-	23,553
Liabilities						
HFT derivatives	-	-	-	-	-	-
- forward agreement on sale of non marketable shares	-	-	-	-	-	-

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

(all amounts expressed in thousands of EUR)

	At 1 January 2010	Purchase/Sales	Unrealized gains/loses recorded in P&L	Unrealized gains/loses recorded in revaluation reserve	Realized gains/loses recorded in P&L	At 31 December 2010
Asset						
HFT derivatives	548	(548)	-	-	-	-
- forward agreement on sale of non marketable shares	548	(548)	-	-	-	-
HFT equities	29,621	(29,621)	-	-	-	-
AFS equities	15,638	6,494	-	1,421	-	23,553
Liabilities						
HFT derivatives	14,253	(14,232)	-	-	(21)	-
- forward agreement on sale of non marketable shares	14,253	(14,232)	-	-	(21)	-

The valuation of Cimos d.d. was done by a qualified external evaluator in 2010. The Management Board believes the data used and assumptions made by the qualified external evaluator are still appropriate as at 31.12.2011. In evaluating the estimated value of the company's equity two methods were used:

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

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

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

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

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

1 share in EUR

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

4. NET INTEREST INCOME

Net interest income

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	**2010**	**2011**	**2010**
Interest income				
Central bank deposits	342	275	342	275
Loans and advances (including finance leases):	78,335	71,243	81,571	73,689
- to banks	276	251	276	251
- to other customers*	78,059	70,992	81,295	73,438
Investment securities (AFS and HTM)	7,237	7,348	7,237	7,348
Investment securities HFT	38	209	38	209
Derivatives – hedge accounting	295	-	295	-
Other	26	13	26	13
	86,273	79,088	89,509	81,534
Interest expense				
Bank deposits and loans	4,685	831	4.685	831
Other customers	17,327	15,959	17,327	15,959
Other borrowed funds	4,394	4,604	5,805	5,537
Derivatives	-	54	-	54
Other	2	-	2	-
	26,408	21,448	27,819	22,381
	59,865	57,640	61,690	59,153

At the end of 2011, the Bank and Group accrued interest income on impaired financial assets of EUR 17,062 thousands (2010: EUR 13,634 thousands). This interest income is not recognised in the statement of income until payment.

*In 2011, the Bank realized EUR 4,601 thousands of interest income from impaired assets (2010: EUR 8,852 thousands). The Group figures are EUR 4,868 thousands (2010: EUR 9,110 thousands).

5. DIVIDEND INCOME

Dividend income

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Trading securities	2	10	2	10
Investment securities	1,036	928	636	628
	1,038	**938**	**638**	**638**

6. NET FEE AND COMMISSION INCOME

Net fee and commission income

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Fee and commission income				
Guarantees	1,343	1,214	1,343	1,214
Debit/credit card money transaction	17,829	14,623	17,829	14,623
Payment transaction	8,743	8,867	8,743	8,867
Brokers' intermediation and management of securities portfolio	353	396	353	396
Current account	4,587	4,484	4,587	4,484
Custody	313	442	313	442
Loans activities (non recognised in effective interest rate)	4,900	3,312	4,900	3,312
Other	2,388	2,320	2,820	2,605
	40,456	**35,658**	**40,888**	**35,943**
Fee and commission expense				
Bank services	12,292	9,390	12,292	9,390
Money transfer	855	868	855	868
Intermediation and management	282	325	282	325
Other	86	129	121	169
	13,515	**10,712**	**13,550**	**10,752**
	26,941	**24,946**	**27,338**	**25,191**

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

Gains less losses from financial assets and liabilities not recognised at fair value through profit and loss

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Loss/income due to sale of investment securities*	1,750	3,460	1,750	3,460
Write offs of loans and other assets	(447)	(397)	(447)	(397)
Recoveries from write offs of loans and other assets	192	139	192	139
	1,495	**3,202**	**1,495**	**3,202**

*As realized revaluation reserve EUR 1,649 thousands (2010: EUR 2,620 thousands).

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

Gains less losses from financial assets and liabilities held for trading

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Trading of derivatives	1,076	12,945	1,076	12,945
Currency trading	635	652	635	652
Trading of debt securities	(46)	21	(46)	21
Trading of equity securities	(13)	(11,591)	(13)	(11,591)
	1,652	**2,027**	**1,652**	**2,027**

9. FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING

Fair value adjustments in hedge accounting

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Net results on derivatives used as hedging instruments	512	-	512	-
Net results on hedged items	(483)	-	(483)	-
	29	**-**	**29**	**-**

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

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Profit on sale of property and equipment	(232)	89	(214)	115
Profit on sale of subsidiary	-	1,651	-	1,601
Other	-	-	-	-
	(232)	**1,740**	**(214)**	**1,716**

11. OTHER OPERATING GAINS LESS LOSSES

Other operating gains less losses

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Rent	710	728	1,301	1,293
Taxes	(198)	(86)	(198)	(86)
Membership fees	(105)	(151)	(105)	(151)
Other	785	860	870	985
	1,192	**1,351**	**1,868**	**2,041**

From rent contracts, future rent revenues amount to EUR 5,842 thousands, as follows:

(all amounts expressed in thousands of EUR)

Banka Koper and consolidated 2011		
Up to 1 year	**1 to 5 years**	**Over 5 years**
655	2,407	2,780

12. ADMINISTRATIVE EXPENSES

Administrative expenses

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Staff cost	**27,937**	**28,781**	**28,494**	**29,283**
Salaries	18,953	19,759	19,364	20,101
Social security cost	3,017	3,204	3,088	3,270
Pension costs	1,682	1,788	1,696	1,799
Other	4,285	4,030	4,346	4,113
General and administrative expenses	**14,163**	**12,709**	**14,486**	**13,000**
Material costs	1,523	1,552	1,544	1,568
Maintenance costs	2,135	1,803	2,180	1,840
Rent	1,192	853	1,199	859
Professional services	4,750	4,924	4,941	5,102
Advertising and marketing	2,536	1,701	2,561	1,728
Other services*	2,027	1,876	2,061	1,903
	42,100	**41,490**	**42,980**	**42,283**

*In this auditor services

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Auditor services:				
- financial statements audit	90	90	90	90
- other non-audit services	7	31	7	31
	97	**121**	**97**	**121**

13. AMORTISATION AND DEPRECIATION

Amortisation and depreciation

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Amortisation	1,589	1,990	1,590	1,993
Depreciation	3,445	3,439	3,887	3,931
	5,034	5,429	5,477	5,924

14. PROVISIONS

Provisions

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Provisions for off-balance sheet exposures	801	8,080	755	8,088
Provisions for National Housing Saving Scheme	-	162	-	162
Provisions for legal proceedings	(100)	(304)	(100)	(304)
Retirement and long service bonus	(245)	(115)	(252)	(121)
Short service bonus	-	-	-	-
	456	7,823	403	7,825

15. IMPAIRMENT LOSSES

Impairment losses

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Available for sale equity securities	8,833	3,017	8,833	3,017
Loans and advances to customers	13,371	29,750	14,102	30,286
Investment in subsidiaries (sale)	-	(370)	-	(370)
Other assets	-	-	-	47
	22,204	32,397	22,935	32,980

Impairment losses on AFS securities relate to Merkur, Pivovarna Laško, Luka Koper's shares and collective investment undertaking units of NFDDE.

16. INCOME TAX EXPENSE

Income tax expense

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Current tax	5,767	4,205	6,066	4,392
Deferred tax (note 38)	(1,672)	(353)	(1,819)	(425)
	4,095	**3,852**	**4,247**	**3,967**

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

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Profit before tax	21,768	21,258	22,183	21,466
Prima facie tax calculated at a tax rate of 20%	4,354	4,252	4,505	4,366
Income from already taxed released provisions	(61)	(32)	(61)	(32)
Income form already taxed dividends	(208)	(188)	(208)	(188)
Income from disposal of equity securities	-	(184)	-	(184)
Expenses not deductible for tax purposes:				
- negative valuation of securities and derivatives HFT	1,767	603	1,914	674
- staff costs not assessable for tax	185	181	188	183
- other non tax deductible expenses	101	164	103	166
- abolished tax reliefs considered in previous tax return	-	-	-	-
- release of deferred tax assets due to disposal of investments and liabilities	(59)	(306)	(59)	(306)
- Tax reliefs	(312)	(285)	(316)	(287)
Current tax on profit	**5,767**	**4,205**	**6,066**	**4,392**
Deferred tax	(1,672)	(353)	(1,819)	(425)
Total income tax	**4,095**	**3,852**	**4,247**	**3,967**

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

17. EARNINGS PER SHARE

Earnings per share

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Net profit for the year	17,673	17,406	17,936	17,499
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)	33.32	32.82	33.82	32.99

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

18. INCOMES AND EXPENSES ACHIEVED ON FOREIGN MARKETS

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

In 2011 and 2010, the Bank or Group realised a significant part of expenses, with regards to funding granted by Intesa Sanpaolo Group banks, in foreign markets (note 46).

19. CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Cash in hand	14,925	13,056	14,925	13,056
Balances with central banks	20,538	24,815	20,538	24,815
	35,463	**37,871**	**35,463**	**37,871**
From this: mandatory reserve liability to central banks	26,862	25,798	26,862	25,798

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.

20. TRADING ASSETS

Trading assets

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Debt securities	1,217	1,462	1,217	1,462
Equity securities:				
- listed	32	203	32	203
- unlisted	43	-	43	-
	1,292	**1,665**	**1,292**	**1,665**

As at 31 December 2011 and 31 December 2010 there were no trading assets pledged.

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

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

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

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

If one of the above mentioned equity indices' value at the beginning of each observed year falls below or equal 95 % of their value at the end of each observed year, then the customer structural deposit will bear interest of 1.5 %. On the other hand, if all equity indices stay above 95 % in the observed period, then their structural deposit will bear interest of 6.5 %.

The bank has broken down the above mentioned instrument into two parts. The first part consists of the deposit valued at its repayment value bearing a fixed interest rate, whereas the second part consists of the sold option to depositors, which is linked to the above mentioned equity indices. To avoid interest rate exposure the Bank has bought an equal option from Intesa Sanpaolo. The described type of structured deposits matured on 19 December 2010.

In 2011, Banka Koper offered 3 issues of structured deposit in the amount of 22 million EUR, all of them with an original maturity of 4 years. Interest paid on these deposits is a combination of fixed (5 % in the first year) and variable interest rate applied in the following 3 years. Consequently, the return in the last 3 years depends on the movement of the reference interest rate EURIBOR 6M:

- as for the first and second issue: if the EURIBOR 6M ranges from 1.28 % to 5 %, the interest rate is 4.25 % per year;
- as for the third issue: if the EURIBOR 6M ranges from 1.5 % to 5 %, the interest rate is 5.1 % per year;
- however, during the period the EURIBOR 6M does not comply with these conditions the deposit yields 0 %.

The bank has broken down the above mentioned instrument into two parts. The first part consists of the deposit valued at its repayment value bearing a fixed interest rate, whereas the second part consists of the sold option to depositors, which is linked to the above mentioned movement of Euribor 6M interest rate.

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market price, market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table:

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

(all amounts expressed in thousands of EUR)

As at 31 December 2011	Contract/notional amount	Fair values		Provisions
		Assets	Liabilities	
HFT derivatives				
Foreign exchange derivatives				
Currency swaps	82,788	786	1	-
Currency forwards	-	-	-	-
Interest rate derivatives				
Interest rate cap	34,930	129	32	-
Interest option (CALL)	25,745	1.111	-	-
Interest option (PUT)	22,067	-	1.102	-
Total derivative assets/(liabilities) held for trading		2,026	1,135	-
Derivatives for hedge				
Interest rate swap (IRS)	25,745	-	992	-
Total derivative assets/(liabilities) for hedge accounting		-	992	-

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

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

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Government securities:				
- listed	165,711	135,041	165,711	135,041
Other debt securities:				
- listed	77,313	121,862	77,313	121,862
Equity securities:				
- listed	15,989	23,457	15,989	23,457
- unlisted	29,205	32,617	29,205	32,617
Total securities available for sale	**288,218**	**312,977**	**288,218**	**312,977**

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Debt securities:				
- listed	-	316	-	316
Total securities held to maturity	**-**	**316**	**-**	**316**

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

At the end of 2011 pledged securities amounted to EUR 150,033 thousands (2010: nil).

Movement

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated			
	2011		2010	
	AFS	HTM	AFS	HTM
At beginning of the year	**312,977**	**316**	**324,483**	**929**
Additions	67,081	-	137,791	-
Impairment	(8,833)	-	(3,301)	-
Interest accrual	7,542	-	7,933	-
Expired coupons	(7,366)	-	(9,396)	-
Disposals (sale and redemption)	(69,972)	(316)	(141,761)	(613)
Gains/losses from changes in fair value	(13,211)	-	(2,772)	-
At end of year	**288,218**	**-**	**312,977**	**316**

23. LOANS AND ADVANCES TO BANKS

Loans and advances to banks

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Items in course of collection from other banks	6,383	3,408	6,383	3,408
Placements with other banks	38,506	30,649	38,506	30,649
	44,889	**34,057**	**44,889**	**34,057**

As at 31 December 2011 no placements with other banks are shown under Pledged assets (2010: nil).

24. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Loans to individuals:	534,660	461,322	545,006	472,036
Overdrafts	42,706	43,430	42,706	43,430
Credit cards	23,755	7,957	23,755	7,957
Term loans	128,978	123,119	128,978	123,119
Mortgages	339,221	286,816	339,221	286,816
Finance leases	-	-	10,346	10,714
Loans to sole proprietors	72,986	81,777	82,299	89,554
Loans to corporate entities	1,336,840	1,397,129	1,377,740	1,436,363
Gross loans and advances	**1,944,486**	**1,940,228**	**2,005,045**	**1,997,953**
Less provision for impairment	(119,923)	(116,494)	(121,683)	(117,624)
Net loans and advances	**1,824,563**	**1,823,734**	**1,883,362**	**1,880,329**

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

(all amounts expressed in thousands of EUR)

	Loans to individuals – Banka Koper				Total loans to individuals Banka Koper
	Overdrafts	Credit cards	Term loans	Mortgages	
As at 31 December 2009	**4,292**	**282**	**5,226**	**3,710**	**13,510**
Provision for loan impairment	4,094	29	6,550	7,605	18,278
Amounts recovered during the year	(3,979)	(282)	(7,154)	(7,473)	(18,888)
Included in statement of income	115	(253)	(604)	132	(610)
Write off provisions already made	(1,384)	-	(24)	-	(1,408)
As at 31 December 2010	**3,023**	**29**	**4,598**	**3,842**	**11,492**
Provision for loan impairment	2,368	1,125	5,377	7,326	16,196
Amounts recovered during the year	(2,530)	(309)	(5,269)	(6,660)	(14,768)
Included in statement of income	(162)	816	108	666	1,428
Write off provisions already made	(797)	-	(914)	(710)	(2,421)
As at 31 December 2011	**2,064**	**845**	**3,792**	**3,798**	**10,499**

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

(all amounts expressed in thousands of EUR)

	Loans to individuals – Consolidated					Total loans to individuals - Consolidated
	Overdrafts	Credit cards	Term loans	Mortgages	Finance leases	
As at 31 December 2009	**4,292**	**3,688**	**5,226**	**3,710**	**177**	**17,093**
Provision for loan impairment	4,094	29	6,550	7,605	158	18,436
Amounts recovered during the year	(3,979)	(282)	(7,154)	(7,473)	(33)	(18,921)
Included in statement of income	115	(253)	(604)	132	125	(485)
Write off provisions already made	(1,384)	-	(24)	-	(31)	(1,439)
Released provisions for loan impairment due to sale of subsidiary	-	(3,406)	-	-	-	(3,406)
As at 31 December 2010	**3,023**	**29**	**4,598**	**3,842**	**271**	**11,763**
Provision for loan impairment	2,368	1,125	5,377	7,326	164	16,360
Amounts recovered during the year	(2,530)	(309)	(5,269)	(6,660)	(71)	(14,839)
Included in statement of income	(162)	816	108	666	93	1,521
Write off provisions already made	(797)	-	(914)	(710)	(54)	(2,475)
As at 31 December 2011	**2,064**	**845**	**3,792**	**3,798**	**310**	**10,809**

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	Sole proprietors	Corporate entities	Sole proprietors	Corporate entities
As at 31 December 2009	**6,146**	**71,446**	**6,382**	**71,636**
Provision for loan impairment	9,936	163,214	10,012	163,348
Amounts recovered during the year	(6,055)	(136,735)	(6,083)	(136,506)
Included in statement of income	3,881	26,479	3,929	26,842
Write off provisions already made	(56)	(2,962)	(125)	(3,007)
Impairment on interest	-	68	-	68
Additional provisions for loan impairment realised due to change of entities belonging to consolidation group	-	-	-	136
As at 31 December 2010	**9,971**	**95,031**	**10,186**	**95,675**
Provision for loan impairment	9,750	98,191	10,002	98,825
Amounts recovered during the year	(7,937)	(88,061)	(7,979)	(88,267)
Included in statement of income	1,813	10,130	2,023	10,558
Write off provisions already made	(509)	(7,012)	(509)	(7,059)
Impairment on interest	-	-	-	-
As at 31 December 2011	**11,275**	**98,149**	**11,700**	**99,174**

Customer loan portfolio by economic sector

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Government	1	-	1	-
Trade	260,740	260,903	260,740	260,903
Services	604,213	598,747	641,191	637,362
Construction	75,618	75,455	75,618	75,455
Manufacturing	298,190	361,740	298,190	361,740
Agriculture	11,850	19,155	11,850	19,155
Individuals	534,660	461,322	545,006	472,036
Sole proprietors	72,986	81,777	82,299	89,554
Other	86,228	81,129	90,150	81,748
Gross loans and advances to customers	**1,944,486**	**1,940,228**	**2,005,045**	**1,997,953**
Less provision for impairment	(119,923)	(116,494)	(121,683)	(117,624)
Net loans and advances to customers	**1,824,563**	**1,823,734**	**1,883,362**	**1,880,329**

Slovenian customers and customers from other European countries (Serbia, Croatia, Liberia, Romania, Italy) accounted for 95 % and 5 % of geographic sector risk concentration within the customer loan portfolio, respectively.

Analysis of finance leases by residual maturity

	(all amounts expressed in thousands of EUR) Banka Koper and consolidated	
	2011	2010
Gross investment in finance leases:		
Not later than 1 year	24,668	20,748
Later than 1 year and not later than 5 years	44,481	39,960
Later than 5 years	37,180	31,963
	106,329	**92,671**
Unearned future interest income on finance leases	(19,659)	(14,376)
Net investment in finance leases:		
Not later than 1 year	20,846	17,856
Later than 1 year and not later than 5 years	35,015	33,016
Later than 5 years	30,809	27,423
	86,670	**78,295**

Loans and advances are further analysed as a part of the statement of financial position in the following notes: Analysis of past due loans 3.4, Currency Risk Note 3.8.4., Interest Rate Risk Note 3.6., Liquidity Risk Note 3.5., Fair value Note 3.10, and Related Party Transactions Note 46.

Analyses by type of collateral

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2011		2010		2011		2010	
	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	358,773	1,125,715	506,658	1,443,997	411,871	1,178,813	554,148	1,491,487
Bank guarantees	35,147	37,305	87,051	90,080	35,147	37,305	87,051	90,080
Personal guarantees	129,967	359,012	230,556	566,209	129,967	359,012	230,556	566,209
Debt securities	32,471	94,448	47,287	126,033	32,471	94,448	47,287	126,033
Government guarantees	93,913	98,269	97,930	102,760	93,913	98,269	97,930	102,760
Other collateral	42,075	144,962	112,321	230,626	73,643	176,530	141,857	260,162
Deposits	23,341	25,411	24,865	27,548	23,341	25,411	24,865	27,548
Insurance company guarantees	120,448	132,615	191,692	203,301	120,448	132,615	191,692	203,301
Shares	16,951	28,548	25,012	43,473	16,951	28,548	25,012	43,473
Total collateralised net loans	**853,086**	**2,046,285**	**1,323,372**	**2,834,027**	**937,752**	**2,130,951**	**1,400,398**	**2,911,053**
Unsecured	971,477		500,362		945,610		479,931	
Total net loans	**1,824,563**		**1,823,734**		**1,883,362**		**1,880,329**	

25. GOODWILL

Goodwill

	(all amounts expressed in thousands of EUR) Consolidated	
	2011	2010
Opening net book amount	905	905
Acquisition of a subsidiary	-	-
Impairment	-	-
Closing net book amount	**905**	**905**

26. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2011		2010		2011		2010	
	Land and buildings	Hardware equipment	Other equipment	Total Banka Koper	Land and buildings	Hardware equipment	Other equipment	Total consolidated
Movement in year 2010								
Opening net book amount	24,120	1,520	2,545	28,185	24,120	1,736	5,082	30,938
Transfer to investment property	(41)	-	-	(41)	(41)	-	-	(41)
Additions	468	373	579	1,420	468	388	894	1,750
Disposals	-	(94)	(356)	(450)	-	(308)	(1,493)	(1,801)
Depreciation charge	(1,937)	(775)	(675)	(3,387)	(1,937)	(780)	(1,141)	(3,858)
Closing net book amount	22,610	1,024	2,093	25,727	22,610	1,036	3,342	26,988
As at 31 December 2010								
Cost	44,669	7,806	10,724	63,199	44,669	7,826	13,183	65,678
Accumulated depreciation	(22,059)	(6,782)	(8,631)	(37,472)	(22,059)	(6,790)	(9,841)	(38,690)
Net book amount as at 31 December 2010	**22,610**	**1,024**	**2,093**	**25,727**	**22,610**	**1,036**	**3,342**	**26,988**
Movement in year 2011								
Opening net book amount	22,610	1,024	2,093	25,727	22,610	1,036	3,342	26,988
Transfer to investment property	(71)	-	-	(71)	(71)	-	-	(71)
Transfer from intangible assets	2,895	-	-	2,895	2,895	-	-	2,895
Additions	1,472	443	928	2,843	1,472	446	1,932	3,850
Disposals	(176)	(1)	(63)	(240)	(176)	(1)	(593)	(770)
Depreciation charge	(2,066)	(621)	(682)	(3,369)	(2,066)	(629)	(1,116)	(3,811)
Closing net book amount	24,664	845	2,276	27,785	24,664	852	3,565	29,081
As at 31 December 2011								
Cost	49,726	8,063	11,170	68,959	49,726	8,086	14,633	72,445
Accumulated depreciation	(25,062)	(7,218)	(8,894)	(41,174)	(25,062)	(7,234)	(11,068)	(43,364)
Net book amount as at 31 December 2011	**24,664**	**845**	**2,276**	**27,785**	**24,664**	**852**	**3,565**	**29,081**

In 2011 there was no property, plant and equipment pledged (2010; nil).

About 70 % of property, plant and equipment is completely written off, but the items are still in use.

In addition to its own premises, the Bank or Group hired premises at 32 locations. Future minimum lease payments under lease contracts amount to EUR 5,590 thousand, of this:

(all amounts expressed in thousands of EUR)

Banka Koper and consolidated					
2011			2010		
Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
559	2,236	2,795	465	1,862	2,273

27. INVESTMENT PROPERTY

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

On 31st December 2011 no stipulated contracts for the acquisition or construction of Investment Property are in place in Banka Koper or Group. No substantial investments in the repair, maintenance or expansion of these investments are planned in 2012.

Movement of investment property

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
At beginning of the year	**940**	**403**	**940**	**403**
Depreciation	(76)	(52)	(76)	(73)
Transfer to fixed assets	71	41	71	41
Additions	464	548	464	569
Disposals	(287)	-	(287)	-
At end of year	**1,112**	**940**	**1,112**	**940**

In the item other operating gains and losses (see note 10) income from property investments carries rents of EUR 90 thousand (2010: EUR 81 thousand), Group of EUR 90 thousand (2010: 81 EUR thousand). In 2011, maintenance costs for from property investments amounted to EUR 3 thousands incurred for property investments (2010: nil).

28. INTANGIBLE ASSETS

Intangible assets

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Development	Licenses	Software and other	Total Banka Koper	Development	Licenses	Software and other	Total consolidated
Movement in year 2010								
Opening net book amount	2,167	709	3,201	6,077	2,167	710	4,036	6,913
Additions	1,042	349	567	1,958	1,042	349	568	1,959
Disposals	(95)	(277)	(28)	(400)	(95)	(277)	(861)	(1,233)
Amortisation	(1,101)	(324)	(565)	(1,990)	(1,101)	(325)	(567)	(1,993)
Closing net book amount	2,013	457	3,175	5,645	2,013	457	3,176	5,646
As at 31 December 2010								
Cost	7,227	2,148	7,214	16,589	7,227	2,154	7,220	16,601
Accumulated amortisation	(5,214)	(1,691)	(4,039)	(10,944)	(5,214)	(1,697)	(4,044)	(10,955)
Net book amount as at 31 December 2010	**2,013**	**457**	**3,175**	**5,645**	**2,013**	**457**	**3,176**	**5,646**

Intangible assets (continued)

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Development	Licenses	Software and other	Total Banka Koper	Development	Licenses	Software and other	Total consolidated
Movement in year 2011								
Opening net book amount	2,013	457	3,175	5,645	2,013	457	3,176	5,646
Transfer to tangible assets	-	-	(2,895)	(2,895)	-	-	(2,895)	(2,895)
Additions	1,329	691	1,048	3,068	1,329	691	1,049	3,069
Disposals	-	-	-	-	-	-	-	-
Amortisation	(1,025)	(265)	(299)	(1,589)	(1,025)	(265)	(300)	(1,590)
Closing net book amount	2,317	883	1,029	4,229	2,317	883	1,030	4,230
As at 31 December 2011								
Cost	8,556	2,839	3,754	15,149	8,556	2,845	3,761	15,162
Accumulated amortisation	(6,239)	(1,956)	(2,725)	(10,920)	(6,239)	(1,962)	(2,731)	(10,932)
Net book amount as at 31 December 2011	**2,317**	**883**	**1,029**	**4,229**	**2,317**	**883**	**1,030**	**4,230**

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

The Bank or Group has evidence of future contractual obligations for the acquisition of intangible long term assets of EUR 475 thousand for the acquisition of the AMEX licence.

68 % of intangible long term assets are completely amortized, but they are still in use. The amortized equipment relates to software and licences.

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

In 2011, the Bank or Group has not recognized any expenditure related to research and development in the statement of income. All development expenditure in 2011 was capitalized as intangible fixed assets, out of which staff expenses amounted to EUR 671 thousand.

29. INVESTMENT IN SUBSIDIARIES

Investment in subsidiaries

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2011	2010
At beginning of the year	**3,688**	**6,928**
Additional investment	-	-
Disposal of a subsidiary	-	(5,261)
Disposal surplus	-	1,651
Release of impairment	-	370
At end of year	**3,688**	**3,688**

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

30. OTHER ASSETS

Other assets

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Commission receivables	332	439	336	530
Accruals	798	341	800	342
Advances	7	118	844	481
Transition accounts receivables	477	1,070	477	1,070
Cheques	5	13	5	13
Claims to citizens	631	711	631	711
Claims to Europay	7,147	5,931	7,147	5,931
Other	1,271	1,465	1,756	1,948
Less provision for impairment	-	-	(122)	(127)
	10,668	10,088	11,874	10,899

On 31 December 2011 the Bank had fixed assets from repossessed collateral EUR 391 thousand (2010: EUR 391 thousand), the Group EUR 583 thousand respectively (2010: EUR 627 thousand). The assets are meant to be sold.

Movement in provisions for impairment on other assets

(all amounts expressed in thousands of EUR)

	Banka Koper	Consolidated
As at 31 December 2009	-	91
Additional provision for impairment	-	61
Amounts recovered during the year	-	(14)
Included in income statement	-	46
Write off of impairment	-	(11)
As at 31 December 2010	-	127
Additional provision for impairment	-	31
Amounts recovered during the year	-	(33)
Included in income statement	-	(2)
Write off of impairment	-	(3)
As at 31 December 2011	-	122

31. LIABILITIES TO CENTRAL BANK

Liabilities to Central Bank

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Loans granted	150,042	-	150,042	-
	150,042	-	150,042	-

32. DEPOSITS FROM BANKS

Deposits from banks

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Demand deposits	156	291	156	291
Term deposits	233,585	128,275	233,585	128,275
	233,741	**128,566**	**233,741**	**128,566**

33. DUE TO CUSTOMERS

Due to customers

(all amounts expressed in thousands of EUR)

	Banka Koper 2011	Banka Koper 2010	Consolidated 2011	Consolidated 2010
Individuals				
- demand deposits	438,622	418,897	438,622	418,897
- term deposits	580,687	598,582	580,687	598,582
Sole proprietors				
- demand deposits	31,032	28,944	31,032	28,944
- term deposits	6,074	7,303	6,074	7,303
Corporate customers				
- demand deposits	98,859	103,059	98,857	103,053
- term deposits	177,622	203,477	177,622	201,977
	1,332,896	**1,360,262**	**1,332,894**	**1,358,756**

As at 31 December 2011, deposits of EUR 19,735 thousand have been pledged for covering potential credit risk on assets (2010: EUR 27,548 thousand). The same applies for the Group.

34. OTHER BORROWED FUNDS FROM BANKS

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

Other borrowed funds from banks

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2011		2010		2011		2010	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
In local currency	10,002	157,005	255,310	196,605	10,002	213,090	255,310	251,982
In foreign currency	-	40,544	6,413	-	-	40,544	6,413	-
	10,002	**197,549**	**261,723**	**196,605**	**10,002**	**253,634**	**261,723**	**251,982**
	207,551		**458,328**		**263,636**		**513,705**	

35. OTHER BORROWED FUNDS FROM OTHER CUSTOMERS

Other borrowed funds from other customers

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011 Long term	2010 Long term	2011 Long term	2010 Long term
Building bought on financial lease	173	199	173	199
Other loans	8,012	10,013	8,012	10,013
Liabilities from bought licences	475	-	475	-
	8,660	10,212	8,660	10,212

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

36. 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. 2011 amount to EUR 443 thousand. The amount is based on the estimation that 80 % of all saved funds will be used unpurposely.

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

Provisions for liabilities and charges

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Provisions for off-balance sheet liabilities	6,492	7,295	6,445	7,202
Provisions for National Saving Housing Scheme	439	442	439	442
Provisions for infrastructure arrangements for the disabled	52	33	52	33
Legal proceedings due to employees	500	400	500	400
Total	7,483	8,170	7,436	8,077

Movement in provisions

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
At beginning of year	**8,170**	**16,508**	**8,077**	**16,411**
Additional provision	15,305	25,252	15,305	25,244
Amounts recovered during the year	(15,987)	(33,165)	(15,941)	(33,165)
Included in statement of income under provisions	(701)	(7,938)	(655)	(7,946)
Included in statement of income under staff costs	19	25	19	25
Additional provisions not included in income statement due to change of entities included in consolidation	-	-	-	12
Repayment of the premiums for National Saving Housing Scheme	(4)	(385)	(4)	(385)
Investment in facilities for disable people	(1)	(40)	(1)	(40)
At end of year	**7,483**	**8,170**	**7,436**	**8,077**

37. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Retirement severance pay and long service bonuses	2,845	2,872	2,926	2,945
Provision for redundancies	123	126	123	126
	2,968	2,998	3,049	3,071

Movements

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
At beginning of year	**2,998**	**3,492**	**3,071**	**3,691**
Additional provisions	245	349	252	355
Amounts recovered during the year	-	(234)	-	(234)
Charged to statement of income	245	115	252	121
Utilised provisions	(275)	(769)	(274)	(901)
Transfer of liabilities of untaken leave to short term accruals	-	160	-	160
At end of year	**2,968**	**2,998**	**3,049**	**3,071**

38. DEFERRED INCOME TAXES

Deferred income taxes

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011 Long term	2010 Long term	2011 Long term	2010 Long term
Deferred income tax liabilities				
Non-current assets held for sale	2	2	2	2
Available-for-sale securities	3,541	4,112	3,541	4,112
	3,543	**4,114**	**3,543**	**4,114**

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Deferred income tax assets				
Retirement and other employee benefits	394	425	404	434
Provision for loan losses	-	-	425	279
Available-for-sale securities	5,336	1,500	5,336	1,500
Trading securities and derivative financial instruments	10	13	10	13
Provisions for National Saving Housing Scheme	88	88	88	88
Provision for legal proceedings	19	80	19	80
Other - depreciation above tax prescribed rate	10	10	10	10
	5,857	**2,116**	**6,292**	**2,404**
Movement of deferred income taxes (offsetting of assets and liabilities)				
At beginning of year	1,998	2,908	1,710	2,136
Statement of income charge	(1,672)	(353)	(1,819)	(425)
Investment securities (fair value remeasurement)	(2,640)	(557)	(2,640)	(557)
Release of deferred taxes on impairment of loans due to sale of subsidiary	-	-	-	556
At end of year	**(2,314)**	**1,998**	**(2,749)**	**1,710**
Deferred income taxes charged in statement of income				
Retirement and other employee benefits	(30)	(126)	(29)	(125)
Provision for loan losses	-	-	146	71
Trading securities and derivative financial instruments	(3)	(74)	(3)	(74)
Provisions for National Saving Housing Scheme	(1)	(110)	(1)	(110)
Provision for legal proceedings	(61)	61	(61)	61
Impairment of AFS securities	1,767	603	1,767	603
Other	-	(1)	-	(1)
	1,672	**353**	**1,819**	**425**

39. OTHER LIABILITIES

Other liabilities

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Amount awaiting transfer to deposit accounts	7,536	7,253	7,536	7,253
Deferred income	5,457	5,730	5,510	5,839
Creditors	2,662	2,062	3,489	2,696
Salaries	2,036	1,953	2,081	1,982
Liabilities for unpaid dividend	115	112	115	112
Not yet processed payments	6,646	1,326	6,646	1,326
Liabilities to Amex sale points	3,153	-	3,153	-
Other	3,548	1,698	3,655	1,813
	31,153	**20,134**	**32,185**	**21,021**

40. SHARE CAPITAL

Share capital

(all amounts expressed in thousands of EUR)

Banka Koper and consolidated	**Number of shares**	**Ordinary shares**	**Share premium**	**Treasury shares**
As at 31 December 2009	531,359	22,173	7,499	(49)
As at 31 December 2010	531,359	22,173	7,499	(49)
As at 31 December 2011	531,359	22,173	7,499	(49)

The share capital of the Bank is divided into 531,359 no-par shares. Each share has an equal proportion in the share capital of the Bank and its participating value in the share capital as well. The proportion of each share in the share capital of the Bank is determined on the basis of the number of the issued shares.

41. REVALUATION RESERVES

Revaluation reserves

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Revaluation reserves	2,310	12,878	2,310	12,878
- Equity securities	12,523	14,427	12,523	14,427
- Debt securities	(10,213)	(1,549)	(10,213)	(1,549)
Total	**2,310**	**12,878**	**2,310**	**12,878**

Movement – Banka Koper and consolidated

(all amounts expressed in thousands of EUR)

	Revaluation reserves
As at 31 December 2009	**15,096**
Valuation of available-for-sale securities	**(2,218)**
Equity securities	**1.107**
- Valuation	1,017
- Disposals	-
- Impairment	90
Debt securities	**(3.325)**
- Valuation	(1,229)
- Disposals	(2,096)
- Impairment	-
As at 31 December 2010	**12,878**
Valuation of available-for-sale securities	**(10,568)**
Equity securities	**(1.904)**
- Valuation	(3,363)
- Disposals	(1,539)
- Impairment	2,998
Debt securities	**(8,664)**
- Valuation	(8,884)
- Disposals	220
- Impairment	-
As at 31 December 2011	**2,310**

42. RESERVES FROM PROFIT AND RETAINED EARNINGS

Reserves from profit and retained earnings

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	**2010**	**2011**	**2010**
Legal reserves	12,839	11,955	12,839	11,955
Statutory reserves	211,959	200,472	211,959	200,472
Retained earnings	11,311	11,271	13,004	12,701
Other	49	49	49	49
Total	**236,158**	**223,747**	**237,851**	**225,177**

RESERVES FROM PROFIT AND RETAINED EARNINGS

Movement – Banka Koper

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Other reserves	Total reserves
As at 31 December 2009	**11,085**	**189,155**	**12,701**	**49**	**212,990**
Transfer from net profit for the period	870	11,314	5,222	-	17,406
Dividends	-	-	(6,689)	-	(6,689)
Outdated dividends not disbursed to shareholders	-	-	40	-	40
Transfer to statutory reserves	-	3	(3)	-	-
As at 31 December 2010	**11,955**	**200,472**	**11,271**	**49**	**223,747**
Transfer from net profit for the period	884	11,487	5,302	-	17,673
Dividends	-	-	(5,262)	-	(5,262)
Outdated dividends not disbursed to shareholders	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	-
As at 31 December 2011	**12,839**	**211,959**	**11,311**	**49**	**236,158**

Movement – consolidated

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Other reserves	Total reserves
As at 31 December 2009	**11,085**	**189,155**	**13,768**	**49**	**214,057**
Transfer from net profit for the period	870	11,314	5,585	-	17,769
Dividends	-	-	(6,689)	-	(6,689)
Outdated dividends not disbursed to shareholders	-	-	40	-	40
Transfer to statutory reserves	-	3	(3)	-	-
As at 31 December 2010	**11,955**	**200,472**	**12,701**	**49**	**225,177**
Transfer from net profit for the period	884	11,487	5,565	-	17,936
Dividends	-	-	(5,262)	-	(5,262)
Outdated dividends not disbursed to shareholders	-	-	-	-	-
Transfer to statutory reserves	-	-	-	-	-
As at 31 December 2011	**12,839**	**211,959**	**13,004**	**49**	**237,851**

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

43. DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. By the date the financial statements were authorised by the Management Board no dividends were proposed or declared. For 2010, the Bank disbursed for dividends EUR 5,262 thousand i.e. EUR 9.92 per share.

Distribution of the profit of the year

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2011	2010
Net profit for the period	17,673	17,406
Allocation of the profit to the legal reserves (5 %)	(884)	(870)
Residual net profit available for other reserves or distribution	16,789	16,536
Allocation of the profit to the statutory reserves	(11,487)	(11,314)
Outdated dividends not disbursed to shareholders	-	40
Residual net profit available for distribution at the AGM	**5,302**	**5,262**

44. CASH AND CASH EQUIVALENTS

Cash and cash equivalents

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	2010	2011	2010
Cash and balances with central bank	8,601	12,073	8,603	12,079
Trading assets	1,217	1,462	1,217	1,462
Loans and advances to banks	23,467	23,544	23,467	23,544
Total	**33,285**	**37,079**	**33,287**	**37,085**

45. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As at 31 December 2011, the Bank and Group were involved in several legal proceedings against it. Contingent liabilities in this respect are estimated at EUR 723 thousand. To this end, the Bank established provisions of EUR 500 thousand.

Capital commitments. At 31 December 2011, the Bank and Group had no capital commitments (2010: nil).

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

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

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

Contingent liabilities and commitments

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2011	**2010**	**2011**	**2010**
Documentary and commercial letters of credit	-	627	-	627
Guarantees	174,416	144,136	174,416	144,136
Derivative financial instruments	9,955	822	9,955	822
Credit commitments:				
- original maturity up to 1 year	305,297	238,816	305,297	238,816
- original maturity over 1 year	23,170	49,013	18,167	35,168
	512,838	**433,414**	**507,835**	**419,569**
Provisions for off-balance sheet liabilities:				
Documentary and commercial letters of credit	-	(5)	-	(5)
Guarantees	(2,517)	(2,349)	(2,517)	(2,349)
Derivative financial instruments	-	-	-	-
Credit commitments	(3,975)	(4,941)	(3,928)	(4,848)
Total	**506,346**	**426,119**	**501,390**	**412,367**

46. RELATED PARTY TRANSACTIONS

Related party transactions

(all amounts expressed in thousands of EUR)

	Directors and advisers		Management board and their direct family members		Supervisory board members and their direct family members		Major shareholders		Subsidiaries	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Loans										
At beginning of the year	215	237	-	43	-	-	31,563	13,339	20,570	36,500
Loans issued during the year	50	39	-	-	-	-	538,925	415,747	22,866	48,229
Loan repayments during the year	(31)	(61)	-	(43)	-	-	(546,009)	(397,523)	(17,325)	(64,159)
At end of year	234	215	-	-	-	-	24,479	31,563	26,111	20,570
Impairment as at 31 December	-	-	-	-	-	-	-	-	244	139
Collateral received as at 31 December	517	466	-	-	-	-	-	-	-	-
Deposits										
At beginning of the year	1,249	1,149	2,760	2,025	781	785	479,985	514,449	1,506	29
Deposits received during the year	1,976	2,508	9,736	6,344	1,680	1,450	803,445	1,596,206	69,181	71,293
Deposits repaid during the year	(1,844)	(2,408)	(9,505)	(5,609)	(1,618)	(1,454)	(919,721)	(1,630,670)	(70,685)	(69,816)
At end of year	1,381	1,249	2,991	2,760	843	781	363,709	479,985	2	1,506
Interest expense on deposits	35	36	91	75	24	24	5,533	4,293	-	-
Interest income earned	9	6	-	-	-	-	687	660	623	432
Other revenue – fee income	1	1	1	1	-	-	461	1,840	25	35
Guarantees issued by the bank and commitments	-	-	-	-	-	-	20,270	20,795	-	-
Remuneration	1,315	1,430	1,943*	2,327	123*	124				

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

* Management board

(all amounts expressed in thousands of EUR)

Management board	Gross salary	Bonuses	Other	Payments under pension plan	Other	Total
Ezio Salvai (until 30. 6. 2011)	133	84	6	5	-	**228**
Igor Kragelj	262	22	9	3	42	**338**
Aleksander Lozej	188	33	9	3	27	**260**
Aleksander Milostnik	184	33	8	3	24	**252**
Rado Grdina	188	33	8	3	27	**259**
Francesco Del Genio	116	25	17	2	-	**160**
Mario Henjak	247	43	20	3	-	**313**
Giancarlo Miranda (member from 2. 8. 2011)	125	-	3	5	-	**133**
Total	1,443	273	80	27	120	1,943

*** Supervisory board members**

	Attendance fee	Bonuses	Total
			(all amounts expressed in thousands of EUR)
Vojko Čok	2	64	**66**
Fabrizio Centrone	1	-	**1**
Borut Bratina	3	20	**23**
Elena Breno	2	-	**2**
Roberto Civalleri	10	20	**30**
Ivan Šramko (member from 31. 5. 2011)	1	-	**1**
Total	**19**	**104**	**123**

47. EVENTS AFTER THE REPORTING PERIOD

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

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Publisher: **Banka Koper d.d.**
Created by: **Banka Koper d.d., Edi Zadnik**
Design and DTP: **Edi Zadnik**
Translation: **Vesna Mršić and Jana Maršič**