BANKA KOPER

Annual Report 2015

BANK OF INTESA SANPAOLO GROUP INTESA SANPAOLO

Annual Report 2015

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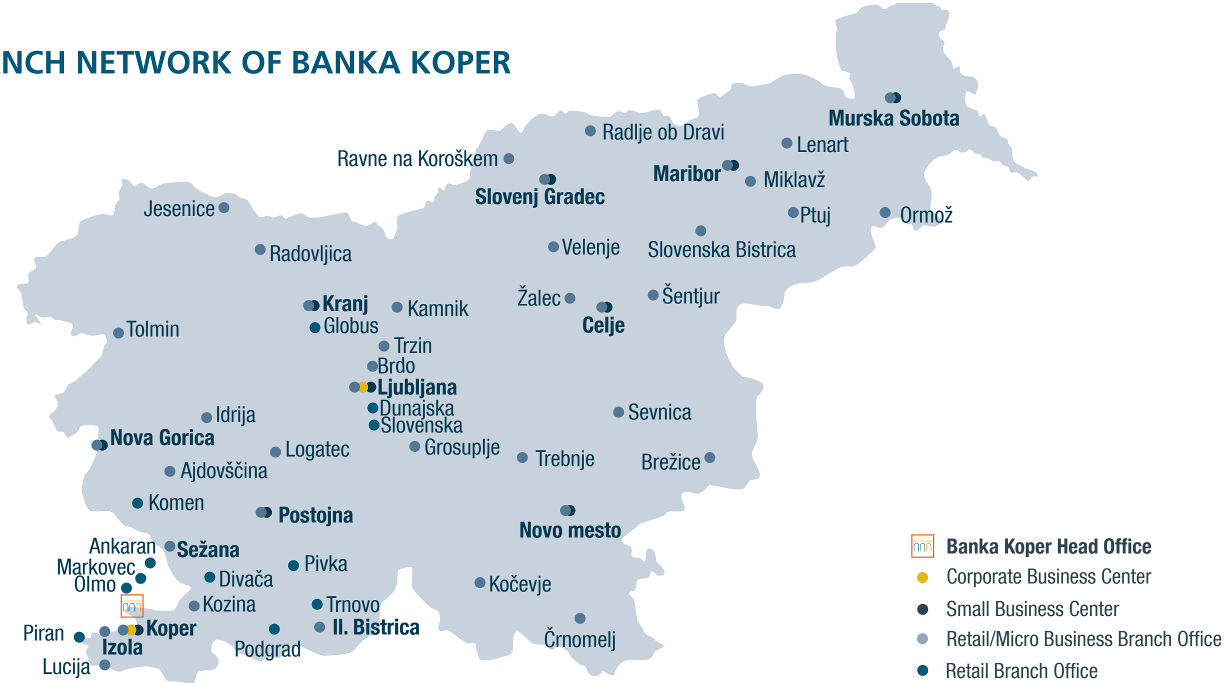
Business Report 2015

Banka Koper at a glance

BRANCH NETWORK OF BANKA KOPER



Banka Koper is a universal bank and among the seven largest Slovenian banks. It was founded almost sixty years ago, but its rapid growth began in the late 1990s when it developed from a local into a pan-Slovenian bank. Today, it has 52 branches in all the major Slovenian towns. Known as an innovative bank in the rapidly changing competitive landscape at home and abroad, Banka Koper provides designed to respond to changes in consumer needs and behaviour with regard to the delivery of bank services in key segments at the international level. Banka Koper is a member of Intesa Sanpaolo, the banking group formed by the merger of Banca Intesa and Sanpaolo IMI on 1 January 2007.

Shareholder structure of Banka Koper d. d.

	Equity holding in per cent	
Shareholder	**31. 12. 2015**	**31. 12. 2014**
Intesa Sanpaolo S. p. A.	98,4 %	97,7 %
Kraški vodovod Sežana d.o.o.	0,3 %	0,3 %
Minority shareholders	1,3 %	1,7 %

Intesa Sanpaolo is one of the leading banking groups in the euro area and the leader in Italy in all business areas (retail, corporate, and wealth management). Thanks to its wide branch network in Italy – there are around 4,500 branches – the Group offers a broad range of services to around 11.1 million customers. Its international operations cover Central and Eastern Europe, and Middle Eastern and North African countries. It has subsidiaries in 12 countries where approximately 1,400 branches offer products and services to 8.4 million customers. The international network offers support to companies across 29 countries.

International credit ratings

	2015	2014
Long-term rating	BBB	BBB
Short-term rating	F2	F2
Viability	bb	bb
Support	2	2

On 19 May 2015, FitchRatings London affirmed all ratings assigned to Banka Koper d. d. in 2014. The Long-term Issuer Default Rating (IDR) was affirmed at ' BBB', Short-term Issuer Default Rating was affirmed at ' F2', Viability Rating was affirmed at ' bb' and Support Rating at ' 2'.

According to FitchRatings, the ratings assigned to Banka Koper "are the strongest of Slovenian commercial banks in 2015 and reflect its asset quality and performance through the cycle, stable capital and funding profiles and strong risk controls and underwriting standards, benefiting from close integration with Intesa Sanpaolo S.p.A. (ISP)".

Milestones in the bank's corporate history

2015

The merger by absorption of the subsidiary Finor Leasing into the Bank's organisational structure.

As the first bank in Slovenia, Banka Koper has created a brand-new cashless payment service using smartphones and QR code technology.

2014

Launch of the mobile and internet banking – Banka IN for Businesses.

2013

Launch of the mobile banking - Banka IN for Individuals.

Beginning of the Inspire debit card issuing.

2012

Establishing of entrepreneurship centers for small businesses.

2011

The first green branch and introduction of electronic signing of bank transactions.

The exclusive issue of the American Express cards.

2008

The Bank launches a new online banking solution - Banka IN.

2007

Banka Koper became a member of Intesa Sanpaolo Group.

2005

Introduction of the first smart payment card.

2002

The bank joins the Sanpaolo IMI Group - its majority shareholder.

2001

Preparations for strategic alliance with the Sanpaolo IMI, S.p.A banking group, establishment of the Open-ended Mutual Pension Fund.

1998

The developement of the i-Net Banka internet banking solution.

1997

New name and a new corporate identity for Banka Koper.

1996

The branch network expands to other Slovenian regions.

1992

Withdrawal from the LB bank system and launch of the first Slovenian payment card - Activa.

1955

Foundation of Istrska komunalna the bank.

Management overview

1. REPORT OF THE MANAGEMENT BOARD

In 2015, GDP growth made a more conspicuous reappearance in the Slovenian economy. A general stabilisation of the macroeconomic scenario ensued, gradually improving consumers and business sentiment, as well as the overall operating conditions of the banking and financial system.

In this context, Banka Koper finished 2015 posting a positive economic result, showing an appreciable improvement in comparison with the previous year. With this result, which occurred after a protracted period of deterioration of the external conditions in which the Banka Koper was operating, we have demonstrated once more the Bank's consistency and resiliency in delivering economic performance. The management of Banka Koper key features such as consistency, resiliency and proper conduct form the essential basis to build an ever more solid and deeper trust our customers, our shareholders and our stakeholders at large.

In essence, the Bank's positive economic results in 2015 originate from the substantial contribution of a solid operating margin coupled with a careful control of the operating expenses and a constant improvement of the quality of the Bank's financial assets and loans portfolio. It is mainly through the progressive enhancement of the quality of the latter, in particular, that a visible decrease in the overall impairment charges level was made possible in 2015.

In the past year, the Bank continued to pursue its objective of adopting best practices in terms of processes and technical solutions for the benefit of its overall efficiency and of a shorter time-to-response to the need of our customers.

In this regard, a number of new operational platforms have been set up with a view to enabling the introduction of important business tools whose effects are expected to be fully felt in the near future.
Particularly noteworthy, in this view, is the achievement of the final stage of the introduction a Basel II-compliant internal credit rating model for large corporates, which is currently being validated by the supervisory authorities.

When it comes to the Bank's business organisational set-up, it is also worth mentioning that we have carried out a comprehensive review of the segmentation of our customer segmentation model. Client' portfolios in the corporate, SME and retail areas have been thus extensively reorganised aiming at improving the proximity and frequency of contacts between our relationship managers and our business partners. By reorganising customer portfolios, in adherence with the commercial and risk guidelines of our parent group, the Bank's management deems that better conditions have been created for our employees to devote more time to commercial activities linked to contacting customer and understanding and assessing their needs, as well as to explore new business opportunities appearing on the market.

Banka Koper reached another important organisational milestone in 2015: the merger by absorption of its subsidiary Finor Leasing into the Bank's organisational structure. Accordingly, the new Finor Leasing Department was set up and started to work within the Bank's mainstream operations, thereby enabling it to work in a closer coordination with the other organizational units of the Bank. Alongside with a more simplified governance structure, the merger also aims to provide to the existing and future clients of the Bank a one-stop-shop access to a widest possible range of financial products and solutions and, in addition to it, a faster decision-making timeline for their leasing or credit needs.

Also in the sphere of new financial solutions, with the support of our parent banking group, we have developed and tested a new tool geared towards export-oriented companies. Through the pre-assessment of the risk of non-payment of export receivables, the Bank intends to provide qualified support to the companies which are actively tapping into the international markets and are in need of an internationally-present financial partner in their endeavours. Banka Koper places great confidence in Slovenia's export potential, which represents one of the country's best assets for the future. For this reason, for the management of Banka Koper, it is of the outmost importance to put in place an innovative banking platform enabling us to support the export sector.

When it comes to technology and innovation, Banka Koper has enjoyed a reputation as being one of the best players in the domestic market. Along this line, we have brought together our many years of experience and knowledge in card business and e-banking to create a brand-new cashless payment service using smartphones and QR code technology. Dubbed QL, the new service takes advantage of the capabilities and advantages offered by the advanced technology implemented by Mobilna Banka IN, allowing our customers to make payments at points of sale and transfer funds between their personal accounts.

The quality of the Bank's loan portfolio has been one of the key business focuses addressed by the management in course of the year. Thus, the Bank's credit departments have been overhauled so as to enhance our restructuring, workout and proactive credit management abilities. Concurrently, continuing efforts to reduce the level of non-performing exposures (NPEs) have brought positive results, as the total volume of the Bank's non-performing loans has declined significantly compared to a year earlier. At the same time, by disposing of most of the repossessed equity holdings booked in the Bank's portfolio containing financial assets available for sale, we have reduced to a minimum the Bank's exposure to equity risk, making our future profitability less vulnerable to exogenous shocks deriving from external financial trends.

Finally, by accurately scrutinising overhead expenses and by carefully implementing procurement policies, the management continued in 2015 to resolutely pursue the goal of cost effectiveness.

Looking forward, the adoption of the revised regulatory and prudential requirements is expected to absorb significant managerial capacity in the foreseeable future. In this framework, mention should be made that in December 2015 the Bank has been designated as Other Systemically Important Institution (O-SII) by the Bank of Slovenia. As an O-SII, by January 1 2019 Banka Koper is subject to the fulfilment of a specific capital buffer, through Common Equity Tier 1 capital, set by the Bank of Slovenia. The management considers that the Bank's current surplus of regulatory capital will enable it to adequately comply with the recently prescribed additional requirement from the moment it comes into effect.

Lastly, the work expertise and dedication of our staff have been undoubtedly essential ingredients to achieve our positive 2015 results. Needless to say, the management recognises this crucially significant contribution, as well as the very constructive and prompt cooperation of our parent group and of all the public and private institutions with which the Bank had a fruitful interaction in the course of 2015.

2. REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2015

In accordance with the third paragraph of Article 272 and Article 546. a of the Companies Act (ZGD-1), 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 2015,
- The Auditor's Report drawn up by the independent auditor KPMG Slovenija, Limited Liability Company,
- The proposal for the appropriation of profit and
- The report on the relations of Banka Koper d.d. with controlling company and its affiliates including the Auditor's Report drawn up by the independent auditor KPMG Slovenija, Limited Liability Company.

Pursuant to the provisions laid down in Article 282 and Article 546. a of the Companies Act, the Supervisory Board has examined the received documents and hereby presents its findings to the Annual General Meeting of Shareholders of Banka Koper d.d. as follows

REPORT

1. The way and scope of verification of the management of Banka Koper during the financial year 2015

In the course of the financial year 2015, the Supervisory Board of Banka Koper d.d. met four times at regular meetings and seven times at correspondence (extraordinary) meetings in which it examined:

- 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;

and 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 prior approval and
- on other matters of interest.

The materials for the meetings 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.

In 2015, there was a change in the composition of the Supervisory Board. Since Mr Walter Chiaradonna was assigned other tasks and duties within the framework of the Intesa Sanpaolo

Group, he resigned as the member of the Bank's Supervisory Board effective 30 June 2015. Consequently, the 33rd Annual General Meeting of Shareholders of Banka Koper (hereinafter referred to as: the General Meeting) held on 30 June 2015 elected a new member of the Supervisory Board Mr Emanuele Collini. Later on, Mr Luca Finazzi resigned as the member of the Bank's Supervisory Board from the same reason as Mr Chiaradonna did and the 34th General Meeting held on 18 December 2015 elected a new member of the Supervisory Board Ms Elena Breno.

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, in particular:

- gave prior approval to the budget for the financial year 2015;
- monitored and assessed on a regular basis the compliance with the Bank's business policy for 2015 and the fulfilment of the goals set out within the policy framework;
- took note of the Validation and Internal Audit evaluations, indicating the general compliance of the FIRB Corporate system with regulatory requirements and gave prior approval to submit the application for the regulatory use of FIRB approach for the Corporate risk segment of Banka Koper to the Consolidating Supervisor (ECB – Joint Supervision Team);
- gave prior approval to the merger by absorption of Finor leasing d.o.o. into Banka Koper d.d.;
- monitored on a regular basis carrying out of the activities linked to important financial customer restructuring;
- approved the modifications to the operational rules which are an integral part of the rules of procedure for the Audit Committee;
- discussed the annual plan of the Internal Audit Assignments for the year 2015;
- examining the annual report on the carrying out of internal control and the measures that arise from the regulations from the field of the fight against money laundering and terrorist financing, and the implementation of restrictive measures for 2014 and the semi-annual for the first half of 2015;
- examined the semi-annual report on the Internal Audit Assignments for the second half of 2014 and for the first half of 2015, examined and approved the Annual Report of the Internal Audit Department for 2014;
- verified the activities and reviewed the findings of the Internal Audit Department during the current year;
- adopted the annex to the Intesa Sanpaolo Group Remuneration Policy;
- proposed to the Bank's General Meeting the election of new members of the Supervisory Board on the basis of the resignation notices of the members of the Supervisory Board
- appointed a new member of the Audit Committee;
- examined the ICAAP Book;
- monitored the Bank's capital adequacy;
- appointed a Risk Committee of the Supervisory Board of Banka Koper d.d. (hereinafter referred to as: Risk Committee);
- appointed a Nomination Committee of the Supervisory Board of Banka Koper d.d. (hereinafter referred to as: Nomination Committee);
- adopted the Charter of the Risk Committee of the Supervisory Board of Banka Koper d.d.;
- adopted the Charter of the Nomination Committee of the Supervisory Board of Banka Koper d.d.;
- gave consent to the write-offs of overdue and unrecoverable Bank's receivables;
- gave prior approval to the appointment of the director of the internal audit department;

- approved the Intesa Sanpaolo Group Remuneration and Incentive Guidelines as of 4 September 2015, the Intesa Sanpaolo Group Remuneration policies as at 4 September 2015, the Intesa Sanpaolo Group Risk Takers Identification Rules as of 4 September 2015.
- addressed other issues in accordance with powers conferred upon it under law and the Articles of Association.

The Audit Committee provided the Supervisory Board with substantive support in 2015.

In 2015, the Supervisory Board appointed the Risk Committee and the Nomination Committee. The Risk Committee monitors and advises the Supervisory Board on all risk areas. The Risk Committee met once in 2015. The Nomination Committee monitors core strategic issues relating to the appointment of members of the management board and Supervisory Board defining and recommending to the Supervisory Board candidates for the management board, and to the general meeting candidates for the Supervisory Board. The Nomination Committee will meet for the first time in 2016.

The members of the committees of the Supervisory Board referred to in the preceding paragraph are the members of the Supervisory Board.

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 2016 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2015, arising from the audited accounting statements.

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

Furthermore, the Supervisory Board also assessed that the work of the Internal Audit Department was well planned and effective, and supported the activities of the Management Board, Audit Committee and assisted the Supervisory Board when forming opinions and making assessments.

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

The Supervisory Board hereby concludes that the external auditor has expressed in the Auditor's Report an opinion in relation to the financial statements prepared by Banka Koper d.d. On this basis, 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 KPMG Slovenija, limited liability company.

3. Approval of the Annual Report for the financial year 2015

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 2015.

4. Approval of the proposal on profit appropriation

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

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

5. Confirmation of the Report on the relations of Banka Koper d.d. with the controlling company and its affiliates for 2015

5.a. Position with regard to the Auditor's Report

The Supervisory Board hereby establishes that the external auditor in its report has given the following opinion regarding the Report on the relations of Banka Koper d.d. with the controlling company and its affiliates:

»Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the statements in the report on relations with affiliated companies for the financial year that ended 31 December 2015, are not accurate in all material respects, that the Company's execution of legal transactions stated in the report was disproportionally high in view of circumstances that were known at the time when these transactions were performed, ant that circumstances exist that would in view of other actions mentioned in the Report indicate a significantly different assessment of the disadvantage from the one given by the management. «

The Supervisory Board hereby adopts the following

p o s i t i o n:

The Supervisory Board does not have any objection with regard to the Report of the audit firm KPMG Slovenija.

5.b. Statement of the Management of Banka Koper d.d. with regard to the Report on the relations of Banka Koper d.d. with the controlling company and its affiliates

The Management of Banka Koper d.d. with regard to the Report on the relations of Banka Koper d.d. with the controlling company and its affiliates has stated that Banka Koper d.d. in the circumstances known to it at the time when a legal transaction was carried out or abandoned, Banka Koper d.d. received adequate compensation and by the act of abandonment, it was not to its detriment. The Supervisory Board has no objection with regard to the Statement.

Based on the disclosures and information regarding the Bank's operations during the year under review and in-depth examination of the Report on the relations of Banka Koper d.d. with the controlling company and its affiliates and the unqualified opinion of the independent auditor, the Supervisory Board hereby

c o n f i r m s and a p p r o v e s

The Report on the relations of Banka Koper d.d. with the controlling company and its affiliates.

Koper, 9 February 2016

Chairman of the Supervisory Board

Vojko Čok

3. BODIES OF CORPORATE GOVERNANCE

Supervisory Board

The Supervisory Board of Banka Koper d.d is composed of the former President of the Management Board of Banka Koper d.d., two independent experts and the representatives of the strategic partner and the principal shareholder of Banka Koper d.d. – Intesa Sanpaolo banking group.

In the course 2015, there were changes in the composition of the Supervisory Board. Mr Walter Chiaradonna resigned as member of the Supervisory Board effective 30 June 2015 to take up new duties in the Intesa Sanpaolo Group. Mr Emanuele Collini was elected by the 33rd General Meeting of Banka Koper d.d. held on 30 June 2015 as new member of the Bank's Supervisory Board. Following the resignation of Mr Luca Finazzi from the Bank's Supervisory Board in order to dedicate himself to the new position in the Intesa Sanpaolo Group, Ms Elena Breno was elected to the Bank's Supervisory Board by the 34th General Meeting of Banka Koper d.d. held on 18 December 2015 replacing Mr Finazzi.

Members of the Supervisory Board as at 31 December 2015:	
Vojko Čok	*Chairman*
Roberto Civalleri	*Deputy Chairman*
Dr. Borut Bratina	*Member*
Elena Breno	*Member*
Emanuelle Collini	*Member*

Management Board

The Management Board of Banka Koper d.d. has seven members and is headed by President of the Management Board, Mr Giancarlo Miranda.

The composition of the Bank's Management Board remained unchanged in 2015.

Members of the Bank's Management Board as at 31 December 2015:	
Giancarlo Miranda, M.Sc.	*President*
Igor Kragelj	*Deputy President*
Irena Džaković	*Member*
Rado Grdina	*Member*
Aleksander Lozej, M.Sc.	*Member*
Maurizio Marson	*Member*
Aleksander Milostnik	*Member*

4. ECONOMIC AND BANKING ENVIRONMENT

4.1 ECONOMIC AND BANKING ENVIRONMENT

The recovery of the Slovenian economy, which began in 2014, continued the first three quarters of 2015. Economic growth was mainly driven by net exports largely related to improvement in competitiveness of Slovenian exporters. The share of private consumption in GDP growth also increased as household spending mostly on durable goods rose. Government consumption expenditure slightly increased and gross fixed capital formation followed suit as investment in machinery and equipment rose. On the other hand, growth in construction investment moderated.

With the rebounding of economic activity, the situation in the labour market gradually improved. At the end of November 2015, 107,412 persons were registered as unemployed, down 10.1 per cent in comparison with the end of 2014. Thus, the unemployment rate declined from to 13 per cent in December 2014 to 12.1 per cent in November 2015, but precarious employment still prevailed.

After the low inflation in 2014 (0.2 per cent), with -0.5 per cent consumer price growth Slovenia's inflation was in the negative territory in 2015. Lower prices of petroleum product had the greatest impact on the annual deflation.

The country's fiscal position improved in 2015 in comparison with a year earlier. The general government deficit shrank as a result of of stronger economic activity and improving labour market conditions. Furthermore, the effect of government measures became visible, with general government revenue increasing and growth in general government expenditure remaining flat.

In 2015, the first steps were taken toward consolidation and privatisation of the Slovenian banking sector. In addition, the Bank of Slovenia established in March a special fund for bank resolution and the European Central Bank started purchases under the public sector purchase programme (PSPP) of marketable debt instruments.

Although the growth of the Slovenian economy outpaced the growth in the euro area, it did not spill over to loans to domestic non-banking sectors. The protracted credit crunch was also apparent in corporate lending, as opposed to household borrowing that enjoyed a slight rise in 2015 as a result of rising housing finance and a revived demand for consumer credits. The Bank's asset quality remained stable in 2015.

On the liability side, all segments of a customer deposits continued to rise (household, government and corporate deposits) in comparison with December 2014. However, there was a general trend in favour of shorter deposit maturity. As a result of sluggish lending activity and rising deposits, the loan-to-deposit ratio decreased to less than 80 per cent (in 2014 88 per cent). The declining interest rate trend both on deposits and loans continued in 2015 affecting interest rates for loans even more than a year earlier. The falling lending volume and the decrease in credit rates have seriously dented the banks interest income. On the other hand, significantly lower allowances and provisions for loan losses in 2015 year-on-year have significantly contributed to the Bank's good performance.

5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2015

5.1 LENDING OPERATIONS

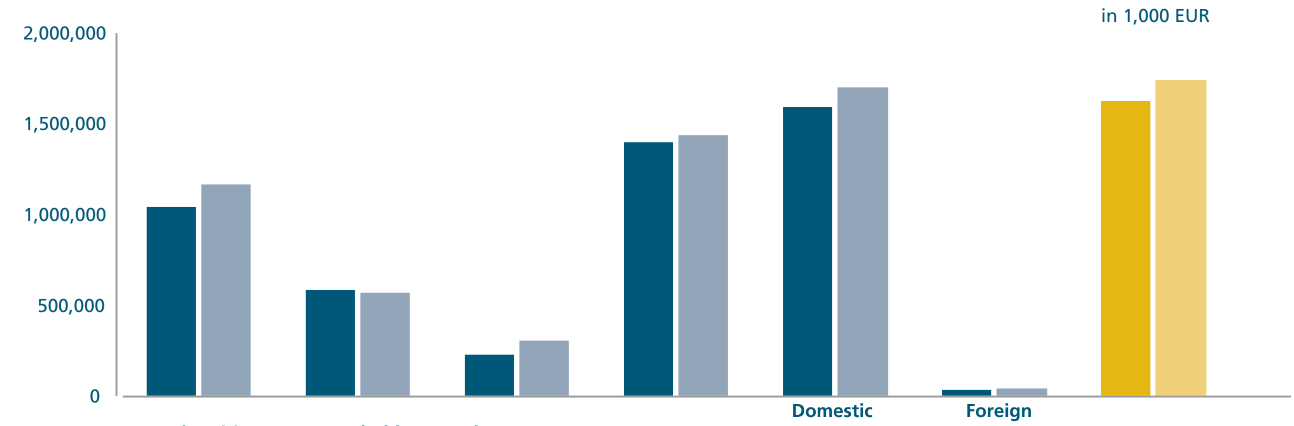
The recovery of economic activity and the fact that there were no new bad asset transfers to the Bank Asset Management Company did not contribute to halting the decline of the volume of loans that we have witnessed since 2011.

In 2015, the Bank's gross lending to the non-banking sector decreased by 115.8 million euros, i.e. by 6.7 per cent in comparison with 2014. The Bank's non-banking lending market share increased by 3 b.p. and reached 6.9 per cent at year-end 2015.

In terms of currency, lending in euro still largely prevailed in 2015 with a 98.0 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 2015. Short-term loans accounted only for 13.3 per cent of total loans.

Loans to the corporate sector amounted to 1,041.9 million euros or 64.2 per cent, representing the largest portion of loans to the non-banking sector.

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

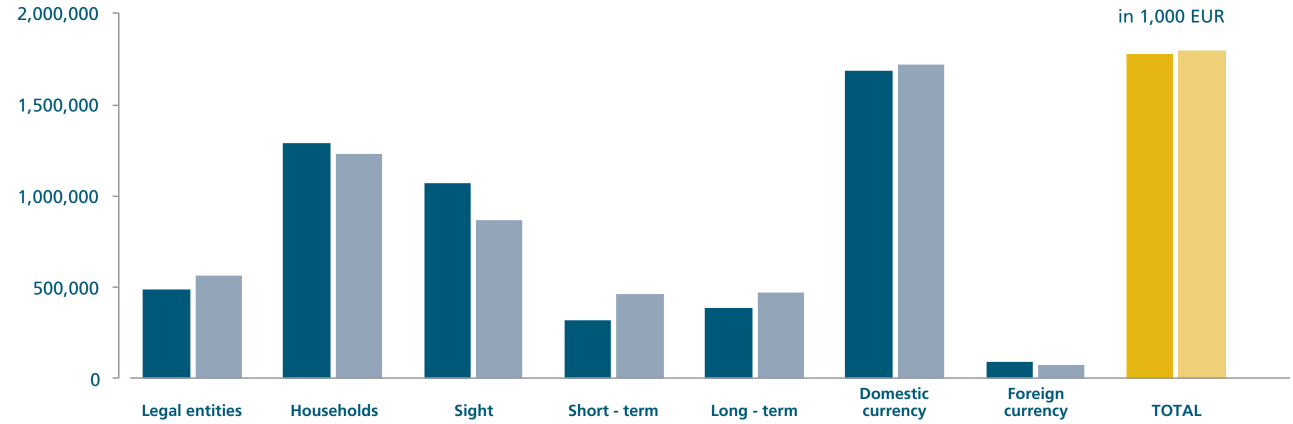


	Legal entities	Households	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
31. 12. 2015	1,041,900	581,664	222,210	1,401,354	1,590,668	32,897	**1,623,564**
31. 12. 2014	1,169,128	570,251	301,102	1,438,277	1,703,506	35,873	**1,739,379**

Lending to households (private individuals and sole proprietors) reached 582.0 million euros or 35.8 per cent of total lending to the non-banking sector. Compared to 2014, lending to this customer segment increased by 11.4 million euros or 2.0 per cent. As in 2015, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level. Most of long-term loans are mortgage loans. Market share of loans to private individuals and sole proprietors increased by 7 b.p. and amounts 6.6 per cent, whereas the market shate to corporate sector rose by 4 b.p. and totalled 7.1 per cent.

5.2 DEPOSITS

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. 2015	484,206	1,292,539	1,069,311	318,491	388,943	1,689,560	87,185	**1,776,745**
31. 12. 2014	566,432	1,232,437	870,815	459,808	468,246	1,722,540	76,329	**1,798,869**

Customer deposits and received loans decreased by 1.2 per cent or 22.1 million euros in 2015, consequently the Banks' deposits market share decreased. At the end of 2015 Banka Koper achieved a 7.1 per cent market share measured by deposits placed by the non-banking sector.

The sight deposits accounted for a 60.2 per cent share of all deposits followed by long-term deposits (21.9 per cent) and short-term deposits trailing at 17.9 per cent. The deposit structure in terms of currency was dominated by deposits denominated in euro with 95.1 per cent. The sight deposits increased by 22.8 per cent, while short-term deposits decreased by 30.7 per cent and long-term by 16.9 per cent, compared to the previous year.

The volume of the deposits placed by legal persons decreased by 14.5 per cent (by 82.2 million euros) comparing with 2014. Also in 2015, the deposit structure in terms of currency was dominated by deposits denominated in euro.

Household deposits accounted for 72.7 per cent of all non-bank deposits and at the end of 2015 totalled 1,292.5 million euros, i.e. 60.1 million euros more year-on-year. Household deposits were mainly denominated in local currency.

5.3 OTHER SERVICES

5.3.1 Card operations

The Activa System

The Activa System has shown once again its innovativeness as it has already done many times in all the past. In 2015, business and prepaid cards issued by Activa MasterCard became contactless to allow their holders to make contactless payments for goods or services, and the POS terminal network was expanded to the points of sale with contactless technology.

The use of mobile devices with payment and authentication functionality is setting today's trends in the card-based segment. The banks in the Activa system also follow these trends by providing their mobile wallet solutions which will be available next year.

In the area of market communication, the Activa system continued in 2015 the promotional prize-giving competition "Active with Activa". The goal of the promotional prize competition was to encourage the use of payment cards when paying for goods and services, emphasize the advantages of card payment, increase the activation of the use of cards, and present the possibilities of contactless payment. The campaign was organised in all big Slovenian shopping centres.

In terms of regulatory requirements and modifications, particular emphasis has to be put on two segments in 2015:
- The implementation of the Regulation on interchange fees for card-based payments with caps on interchange fees, because of which card issuers will face a great challenge in the future of how to compensate for the loss of revenue while maintaining the same level of products, services, functionality, and safety of the payment instrument.
- The adaptation to the requirements of the PCI DSS standards from the point of view of the protection and safety of card-based transactions and payment instruments.

Banka Koper
In 2015, Banka Koper refocused on the use of Activa MasterCard card-based products, the Activa Visa Inspire card-based product, the exclusive American Express card, and the increasingly popular and useful prepaid card Moja. Banka Koper offered and enabled the cardholders and users of these cards to obtain several benefits at the selected points of sale.

Banka Koper acquired a licence to issue debit and credit cards in Great Britain in 2015, which will enable it to offer in 2016 the issuance service of payment cards to the customers of Intesa Sanpaolo Private Banking, London branch office.

In 2015, the area of mobile payment took a fresh look at the use of payment instruments enabling users to use their funds efficiently and simply with their mobile devices. Banka Koper offered two innovative solutions in this market segment:

1. QL payments:

Banka Koper is the first bank in Slovenia to develop its own mobile payments solution based on the QR code technology. It has named it QL payments and integrated it into the offer of the mobile Banka IN.

The new mobile payment service replaces cash transactions, does not require any additional investments in infrastructure and becomes, at the same time, an attraction for potentially new customers:
- Users can pay immediately using their smartphone upon downloading the mobile application. In addition, funds may be transferred from the users account to another, payment transactions can be monitored and the network of sales outlets can be reviewed.
- Merchants can use their own smartphone as well, so there is no need for any special investments. Due to easy handling of services and the speed and ease of implementing payments the service is of interest to all sales points.
- The bank attracts new clients, as they can immediately open a prepaid account, obtain a simpler version of the mobile banking service and begin paying by phone.

QL is an attractive payment method for all the participants:
- For the customer, the new payment method is comfortable, convenient, mobile, immediately available, ecological and, most importantly, it does not result in any additional costs for the payer. The user experience is not different from contactless card payments – instead of using the card they use their phone, and the payment is carried out.
- Another advantage for the customer is how simple it is to register and start using the service without visiting their branch.
- For the traders, the most important factor is the availability of funds (in the case of QL payments, the funds are available in real time, 24/7), the control and review of QL payments, and location-based marketing.
- For the bank, introducing innovative, convenient and useful products on the market is a unique opportunity to achieve competitive advantage. The mobile wallet, where the Mobile Banka IN service, QL payments and virtual cards are, is a unique ecosystem that offers great opportunities and possibilities.

2. Mobile wallet

The mobile wallet, which includes integrated mobile payments based on HCE technology and card-based product management service, was offered to some employees by Banka Koper at the end of 2015; in 2016, the commercial implementation of this product will take place.

The mobile application of the mobile wallet enables the integration of standard, physical and virtual payment cards for the MasterCard, Visa and American Express schemes for executing mobile payments through the cloud, managing payment cards, reviewing the geolocation of the executed payments, notifying, and using mobile authentication.

It is an innovative product of the sister company ISP Card which is already available at some sister banks of the ISP Group.

New products and services

In 2015, Banka Koper expanded its range of products and services based on expectations of its customers', the market situation and legal requirements. The following can be singled out:

- The benefits scheme Moj Paket (My Package);
- The scheme "Zaupaj mi, jaz ji zaupam"("Trust me, I trust it") in which Banka Koper rewards its loyal customers who recommend the Bank to new customers;
- The collection of bonus points by the users of Banka IN and their use for banking services;
- A range of insurance products, linked to accident insurance, complementary health insurance, travel insurance, motor insurance, property insurance, and life insurance;
- A combination of investment fund savings and long-term deposit;
- Pre-approved consumer loans; consumer credits
- The upgrade of internet and mobile banking in line with the recommendations of the ECB for safe online payments;
- Mobile QL payments for cardholders and traders in real time;
- Mobile QL transfers for funds transfers among friends in real time;
- Finance lease for private and commercial vehicles, machinery and equipment, vessels, and real estate (commercial property, residential property, etc.);
- Iz(i)voz (Easy Export) – insurance and financing of exporters;
- Benefits for start-ups and societies.

5.3.2 Marketing and sale of mutual investment funds

In 2015, the positive trend of investments in collective investment undertakings continued in Slovenia bringing net investments in Slovenian funds to over 136 million euros. Just like a year earlier, interest rates paid on deposits declined further in 2015 and favoured strong sales of mutual investment funds. Good results were also attributable to the strong performance of capital markets, especially deeper markets, which induced investor optimism.

The range of foreign investment funds marketed by Banka Koper did not change in 2015 and investors could choose any of the following funds:
- **Eurizon Capital SA** (21 mutual investment funds Eurizon EasyFund and 4 mutual investment funds Eurizon Manager Selection Fund);
- **Franklin Templeton Investments SA** (10 mutual investment funds Franklin Templeton Investment Funds).

Banka Koper uses its network to sell mutual fund units of three Slovenian investment funds:
- **ALTA Skladi** – 20 mutual funds
- **KBM Infond** – 25 mutual funds
- **Primorski skladi** – 4 mutual funds

With net payments to the foreign mutual investment funds of 3 million euros, 2015 was yet another good year for Banka Koper mutual investment funds.

Contributing to this good result were the marketing campaigns the Bank used to lower entry charges for investors. Four awards for the three best funds in individual categories given by the magazine ***Moje finance*** in 2015 have undoubtedly added to the popularity of the funds sold by Banka Koper.

The Bank updated the questionnaire for the assessment of investor suitability and appropriateness in the second half of 2015, to receive the best possible information from the clients regarding their knowledge, experience, investment objectives and risk appetite, in order to help them choose the most suitable funds.

The Bank began the activities for registering two umbrella funds of the asset management company Eurizon Capital SA with the Financial Administration of the Republic of Slovenia (FURS) in 2015.

In 2015, Banka Koper terminated collaboration in the area of mutual fund marketing of the Slovenian management company Alpen Invest.

5.3.3 Leasing

The company Finor leasing d.o.o., specialised in the sale of all types of leases throughout Slovenia, for natural persons as well as legal entities, was merged with Banka Koper on 1 October 2015. On this date, the company was erased from the Court Register. After the merger, the lease activity was organised at Banka Koper within the Finor Leasing Department.

During the year under review, Finor Leasing d.o.o. had 11 employees working in its business units in Koper, Ljubljana and Maribor. 1,765 lease contracts were concluded amounting to a total of 50.3 million euros. As many as 689 lease contracts amounting to 11.7 million euros were concluded for private vehicles, followed by commercial vehicles with 643 leases amounting to 21.8 million euros, production and other equipment with 123 leases amounting to 6.1 million euros, vessels with 7 leases amounting to 0.6 million euros, and real estate with 3 leases worth 1.15 million euros.

The company earned 1.7 million euros of net interest income from 1 January to 30 September 2015, 3.2 million euros in net operating income, 1.9 million euros in net operating profit, and 1.2 million euros in net profit.

5.3.4 Open-ended mutual pension funds (OVPS) of Banka Koper

Banka Koper d.d. has been participating actively in the voluntary supplementary pension scheme system of the Slovenian pension scheme as, already in 2001, it established and began managing the Banka Koper d.d. Open-Ended Mutual Pension Fund (hereinafter: the Pension Fund). The Pension Fund is intended for collective as well as individual voluntary supplementary pension insurance.

As at 31 December 2015, the Pension Fund posted total assets of 36,872.25 million euros, which is a 16.4 per cent increase in comparison with the year-end 2014. The increase is mainly the result of merging the Delta Pension Fund with the Pension Fund and policyholders considerably reduced pressure for settling their savings in a single payment. Although the tax treatment of an extraordinary exit from the second pillar provides a disincentive compared to a regular exit, it is worth noting that in terms of payments, extraordinary exits from the second pillar (single payment) still exceed regular exits (supplementary pension). Nevertheless, 2015 saw a significant positive development in using the savings in the form of a supplementary pension – an annuity.

There were 7,310 insured people included in the Pension Fund at the end of 2015 or 41.1 per cent more than the year before, which is a result of merging the Delta pension fund with the Pension Fund. 6,710 of those policy holders were included in the collective voluntary supplementary pension insurance, while 600 were individual policyholders. The number of companies that co-finance collective pension funds increased in comparison with the previous year, also due to the merger of the Delta pension fund with the Pension Fund, resulting in 144 companies being included in the Pension Fund at the end of 2015.

The net asset value per unit (NAVPU) of the Pension Fund was 9.4341 euros on 31 December 2015, a 2.3 per cent increase in a year, which is above the guaranteed return that amounted to 1.9 per cent in 2015. The five-year return of the Pension Fund was 12.2 per cent on 31 December 2015, while the growth of the NAVPU since the founding of the Pension Fund to 31 December 2015 amounted to 126.1 per cent.

Banka Koper d.d. decided in 2015 to continue offering its policyholders the mutual pension fund with guaranteed paid net premium and guaranteed minimum return. Moreover, in 2015 Banka Koper d.d. harmonised the fund rules and the pension plan for collective and individual voluntary supplementary pension insurance with the new legislation on supplementary pension insurance which entered into force on 1 January 2013.

Banka Koper d.d. plans to set up in 2016 an umbrella pension fund with three sub-funds. Designed as a life-cycle fund, its investment policy changes as the fund members grow older in order to deliver optimum returns on invested assets.

5.3.5 Depositary banking

Banka Koper d.d. was the first Slovenian bank to provide depositary services for investment funds back in 2004. Since then, it has acquired extensive knowledge and experience in this area. As a depositary bank, Banka Koper holds in custody and administers the funds' assets, and calculates the net asset value and net asset value per unit, reviews the conversion of contributions and payment claims, as well as the conformity of the investments with the provisions of the investment policy. The depositary is also the custodian of the assets of each investment fund since they are kept in the accounts opened by the depositary in the name and on behalf of individual investment funds – owners. The depositary supervises the correct operation of the investment fund as well as its assets.

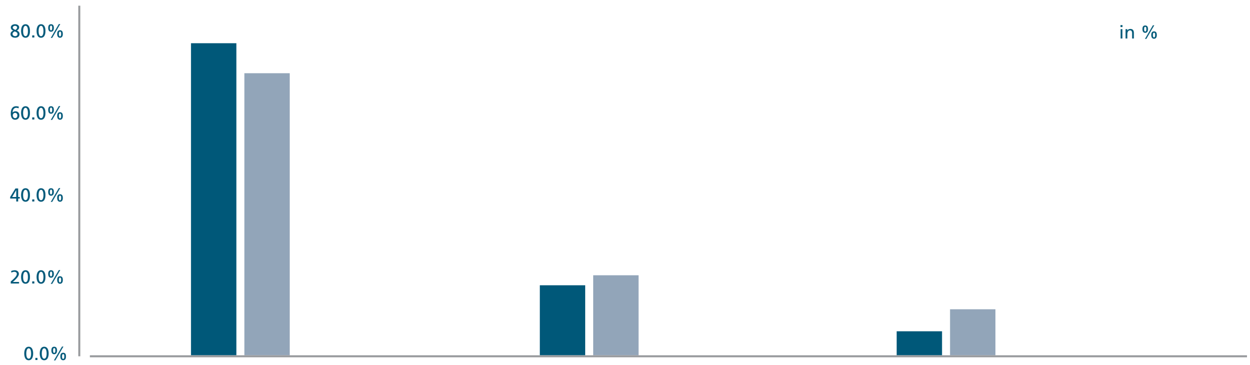
Banka Koper d.d. provided depositary services to 45 mutual investment funds and 5 pension funds at the end of 2015. The volume of the assets held in deposit exceeded 1 billion euros.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

6.1 CAPITAL INVESTMENTS

Banka Koper continued in 2015 its long-term development programme and invested 2.1 million euros in the computerisation of business, commercial premises, and other equipment. However, the Bank allocated 5.6 per cent or 0.1 million euros less to investments than in the previous year.

Structure of capital investments in 2015



	Business computerisation	Business premises	Other equipment
2015	76.7%	17.4%	5.9%
2014	69.1%	19.5%	11.4%

The majority of investments, 1.7 million euros or 80.9 per cent were allocated to the computerisation of business, mostly to update the software and hardware and the key bank applications. Increasingly stricter requirements regarding banking safety demand yearly investments in ensuring the safety of services.

In 2015, the Bank assigned a total of 0.3 million euros or 14.2 per cent of all investments to the conversion of its commercial premises into a modern banking service and to the design of its branches according to the corporate identity of the banking group.

6.2 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

The Bank implemented the **QL mobile payments** solution in 2015. It is a "mobile wallet" on Banka IN, an innovative solution on the Slovenian market. The solution complements the existing payment mechanisms, is replacing cash payments, and enables the service provider and the user to carry out domestic payment transactions simply and transparently in real time. It ensures a simple upgrade also in terms of loyalty.

In the field of **card-based transactions,** the Bank enabled the issuance of cards for the customers of the **Intesa Sanpaolo London Branch,** thus increasing Banka Koper's recognisability and ensuring business growth in this area in the future.

The Bank offered its exporting customers a new product, **"Iz(I)voz" (Easy Export),** intended for trade receivables from foreign partners. For the purpose of the product, the Bank upgraded the functionality of the existing technological solutions Bančno okence (Teller Window), CRM and the online Banka IN, and introduced new business processes to this end.

In accordance with the policies of its parent bank, the Bank began introducing a new technological solution, **Finevare, to calculate provisions** and support the processes necessary for the calculation of the customers' classifications for reporting and risk management purposes. The project is expected to be completed in 2016.

The ALMPro application was upgraded with new functionality in order to comply with the regulatory requirements made by the central bank and the parent bank regarding **liquidity reporting.** The implementation included upgrading the liquidity reporting module with the liquidity coverage ratio (LCR) according to the requirements of a delegated act, introducing new functionality reporting on additional liquidity monitoring metrics (ITS on ALMM), and completing the existing reporting system (NSFR).

In accordance with **CRS regulations** and the Tax Procedure Act, the Bank, in collaboration with its parent bank, introduced new processes in doing business with its customers to identify the customers' tax domicile and ensure reporting complies with the regulations.

The Bank upgraded the technological solutions and business processes in accordance with the regulations on the **prevention of money laundering and terrorist financing** (KYC2 project).

In accordance with **the regulations on consumer protection** (GECO), the Bank prepared a technological solution to create a new document, "Key information about the product", which will be available to customers on all distribution channels. In addition, it introduced new processes in order to ensure the conformity, transparency and manageability of the information available to the customers.

The processes and **technological solutions in the area of documentation archiving** were upgraded with new functionality in order to optimise the processes, achieve transparent documentation and fast accessibility, introduce checks in the business processes, and achieve a paperless environment.

The Bank continues the **in-house checks** project aiming to manage banking processes. New business processes and technological solutions were introduced to manage checks in credit processes.

Within the **IRB (FIRB) project**, the Bank continued performing activities to optimise the credit processes, upgraded the technological support for the calculation of **the internal credit rating**, and continued carrying out activities for the calculation of ratings for large customers. The Bank placed special emphasis on activities linked to the development of LGD models and activities aimed **at increasing the quality of insurance** for the purposes of decreasing the bank's capital requirements.

New functionality in technological support was introduced to manage the credit processes (Credit process and ECA application).

The Bank began issuing and receiving **e-invoices for its own purposes.** In terms of payment transactions and e-invoices, the Bank proceeded with **B2B integration** with larger companies and institutions, thus ensuring a direct and standard method of data exchange, which enables the Bank as well as the companies and institutions to carry out business processes in an optimal and rational way.

In the field of **technical infrastructure,** the Bank successfully completed a strategic project of the parent company ISP – the Co-operation project, which envisages the migration of the technical implementation of most banking services to Italy, within the data centre of the parent bank ISP. By implementing this project, the Bank additionally **increased the availability and reliability of its information system.**

The Bank carried out the segmentation of the server network in 2015, further **increasing the safety** of transactions in this area.

With all the above activities, the Bank achieved greater operating efficiency, optimised its business processes, raised the quality of business, decreased different types of risks, and complied with operating adequacy requirements, regulatory requirements and the requirements of the parent bank.

7. ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT OF BANKA KOPER IN 2015

Operating with a sense of responsibility means, above all, being loyal to your principles and values, and building relationships with different stakeholders. In 2015, the Bank, in collaboration with one of the largest service providers in the field of certification, testing and control, Bureau Veritas Slovenia, carried out its part of the internationally harmonised assessment on fulfilling the principles of the Code of Conduct of the Intesa Sanpaolo banking group which Banka Koper follows in its day-to-day operations. The assessment was based on the principles of the ISO 26.000 standard that provides guidance on how companies and other organisations can operate in an ethical and transparent way in their social and natural environment, which is eventually reflected in the welfare of society. Based on the results of the assessment, in the coming years the Bank and its parent banking group will design a plan of improvements for all the areas considered in the assessment, i.e. service accessibility to all customers, financial accessibility and approval of credit claims in accordance with the ESG principles of responsible investment, use of natural resources and ecology, responding to the customers' needs, relationship with the social community, staff development, respect for the principles of equal treatment, ensuring balance between work and free time, responsible introduction of organisational changes, and work-related stress management. Meanwhile, the Bank carried out several regular activities in the field of social responsibility in the course of the year.

7.1 RESPONSIBILITY TOWARDS EMPLOYEES

7.1.1 Training programmes

Systematic training is the basis of professional development of the Bank’s employees. The funds allocated to education and training in 2015 was 1.2 per cent of the Bank's administrative expenses (excluding staff costs). As many as 15,234 hours of specialist training and coaching were carried out or 20.2 hours per employee. As much as 49 per cent of the training programmes were performed by internal lecturers, and together with outsourced personnel the proportion of internal training accounted for even 90 per cent of all the lectures.

During the year under review, the Bank’s focus attached the highest attention was on information security training, selling insurance products and units in mutual investment funds, and mandatory health and safety at workplace course. Just like in the past, the Bank provided for raising awareness among all employees of the importance of the prevention of money laundering and terrorist financing, and the compliance of the overall business of the Bank, especially in terms of personal data protection and FATCA legislation.

The Bank placed special emphasis on the training of personal bankers and the practical training of relationship officers from the Small and Medium-Sized Enterprises Department.

7.1.2 Development of key personnel

In terms of development of key personnel, training activities continued within two programmes: the programme for the development of promising personnel, aimed at young promising staff, and the programme for the development of leaders, comprising the development of managers. Under the first programme, young prospective employees participated in workshops on change management, having conversations with demanding interlocutors, and business presentations. We also carried out a workshop for all the managers of the Bank on how to motivate and encourage colleagues because we know that, in order to introduce changes in interpersonal work and thus create an organisation climate, it is important to include all the managers in the education process and enable them to acquire uniform knowledge and skills.

7.1.3 Concern for and dialogue with employees

Based on the findings of the organisation climate survey carried out at the end of 2014, management has adopted an action plan aiming at a general improvement of the climate. Traditional team building activities were organised in 2015, for example the annual gathering of employees on a picnic, encouraging them to work in teams. At the same time, several starting points and practical action plans were prepared to stimulate communication flow and better understanding among individual business functions.

7.2 RESPONSIBILITY TOWARDS CUSTOMERS

In 2015, the Bank continued implementing the European Progress Microfinance Facility programme in collaboration with the European Investment Fund, aiming to stimulate the development of micro-enterprises that need start-up resources to execute their vision and business plan. A total of 58 loans amounting to 0.9 million euros were granted.

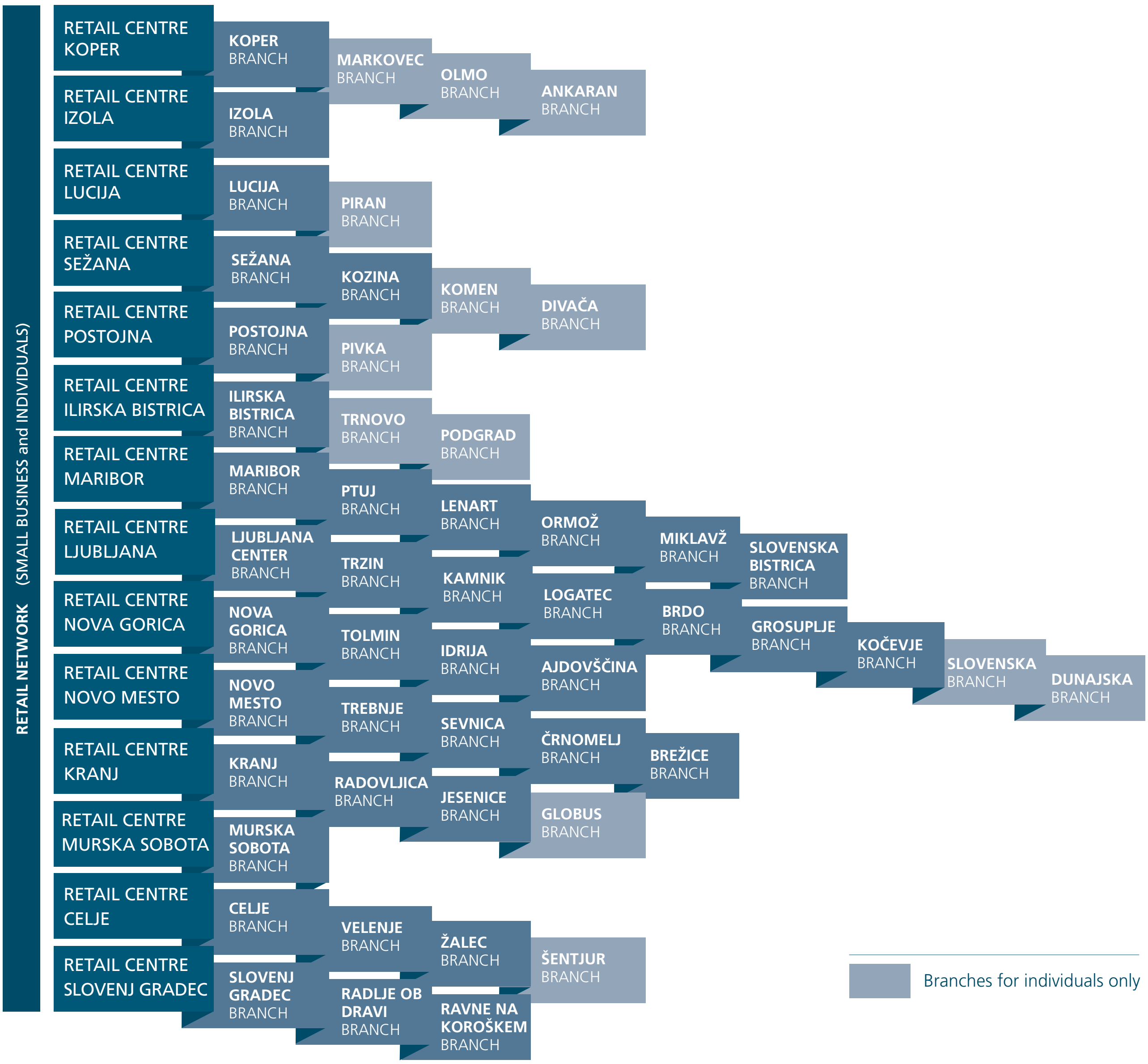
The Bank continued organising business breakfasts in 2015 to promote dialogue and strengthen the relationships among existing customers, and open its doors to new ones. The breakfasts, in which almost 200 companies from all Slovenian regions participated, were organised in Divača, Ljubljana and Maribor.

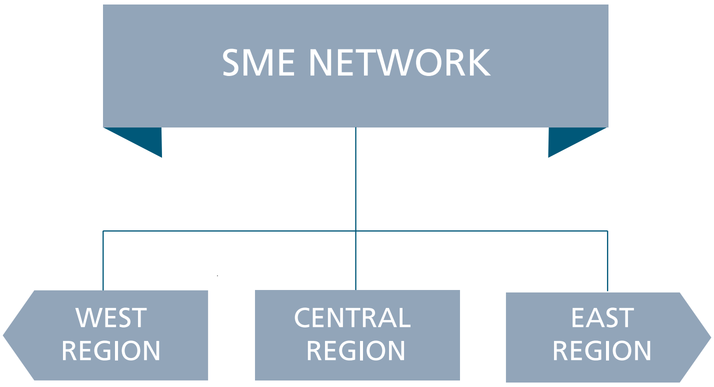
7.3 CORPORATE SOCIAL RESPONSIBILITY

Despite a significant decrease of the sponsorship and donations budget, the Bank decided to support the projects and initiatives in which it believes and whose nature corresponds to its business values. For the second time in a row, the Bank was the main sponsor of the popular and already generally recognisable Istrian Marathon in which almost 10 per cent of the Bank's employees and a large number of employees from the Intesa Sanpaolo Group subsidiary banks participated. The recognition of recreational running as a sport in full swing that unites an increasing number of Slovenians has inspired the Bank to be the main sponsor of the Slovenia Business Run in Bled, where the proceeds resulting from applications were donated to charity.

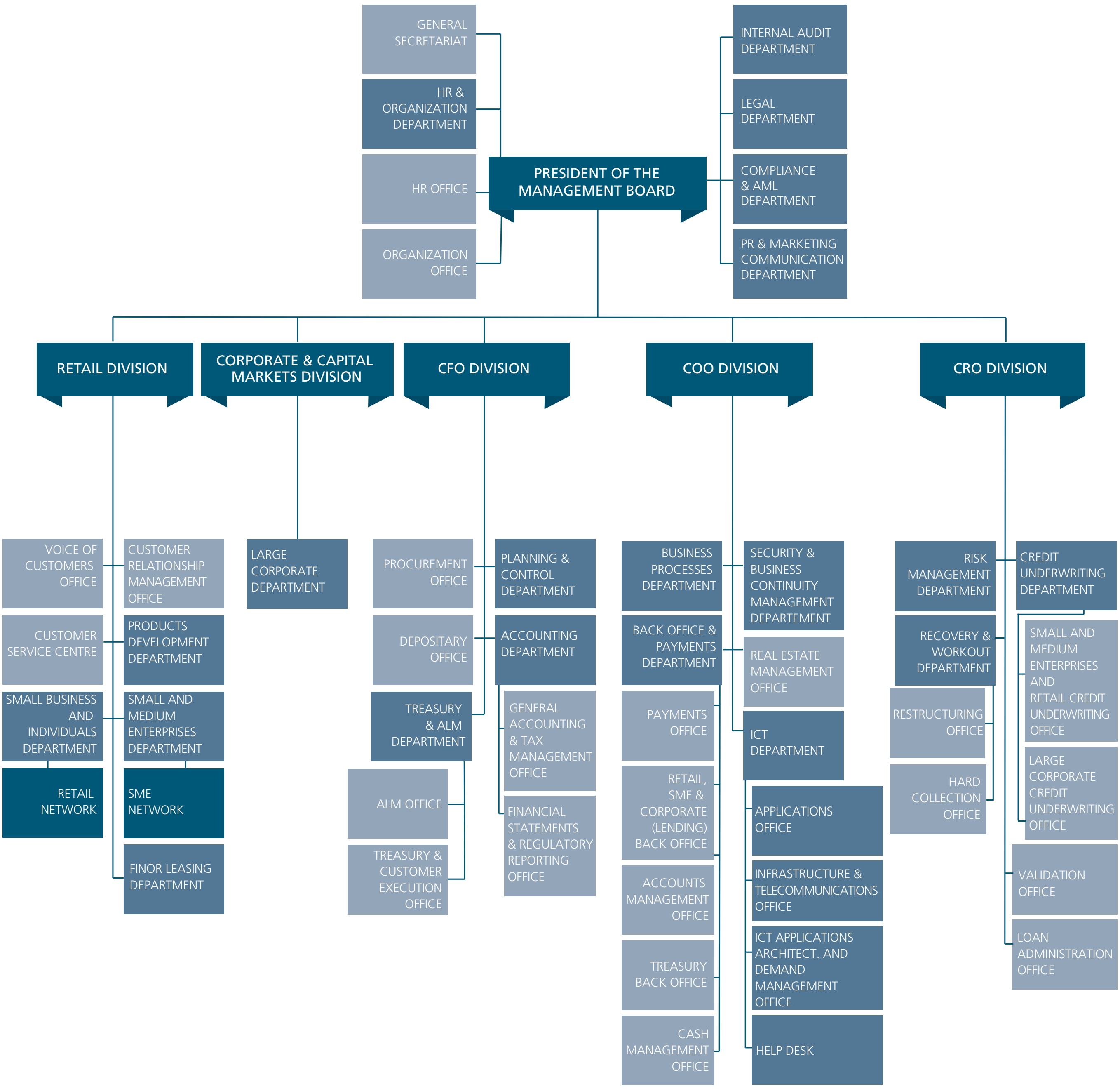
Both running events constitute the Bank's largest sponsorship contribution in terms of funds as well as lateral promotional activities. Nevertheless, the Bank supported, albeit to a considerably lesser extent, several other sports, cultural and charity projects that give the local environment its identity and enable the development of numerous young athletes and artists. The most popular projects include: Personality of Primorska 2015, We Do Sports in Istria, Too, a campaign that started in collaboration with Radio Capris to promote and support local sports associations, the 5th tennis tournament Banka Koper Junior Slovenia Open, the international young handball players festival Eurofest, the Coachmen Festival in Postojna, the Tartini Festival, collaboration with Avditorij Portorož, and many others. The Bank donated almost 40 per cent of the entire sponsorship and donations budget to various associations and institutes.

8. TERITORIAL CHART OF COMMERCIAL UNITS OF BANKA KOPER D.D.





9. INTERNAL ORGANISATION CHART



Financial Report 2015

Independent auditors' report on financial statements

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Independent Auditor's Report

To the Shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Banka Koper d.d., which comprise the statement of financial position as at 31 December 2015, the income statement and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Banka Koper d.d. as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

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

KPMG Slovenija, podjetje za revidiranje, d.o.o., slovenska družba z omejeno odgovornostjo in članica KPMG mreže neodvisnih družb članic, ki so povezane s švicarskim združenjem KPMG International Cooperative ("KPMG International").

TRR: SI 56 2900 0000 1851 102
vpis v sodni register: Okrožno sodišče v Ljubljani
št. reg. vl.: 061/12062100
osnovni kapital: 54.892,00 EUR
ID za DDV: SI20437145
matična št.: 5648556

KPMG

Report on Other Legal and Regulatory Requirements

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

On behalf of the audit firm

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

Dejan Kurat	Mag. Simona Korošec Lavrič
Certified Auditor	*Director*

Ljubljana, 9 February 2016

KPMG Slovenija, d.o.o.
1

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

Statement Of Management's Responsibilities

The management is responsible for preparing financial statements for each financial year that present fairly the state of affairs of the Bank 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 2015. 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, 9 February 2016

President
Giancarlo Miranda

Deputy President
Igor Kragelj

Member
Aleksander Milostnik

Member
Aleksander Lozej

Member
Rado Grdina

Member
Irena Džaković

Member
Maurizio Marson

Financial Statements

1. INCOME STATEMENT

(in thousands of euros)

	Notes	As at 31 December	
		2015	2014
Interest income	4	56,399	66,332
Interest expenses	4	(12,293)	(20,982)
Net interest income		**44,106**	**45,350**
Dividend income	5	545	1,114
Fee and commission income	6	40,278	40,196
Fee and commission expenses	6	(13,815)	(14,374)
Net fee and commission income		**26,463**	**25,822**
Realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss	7	2,598	2,623
Gains or losses on financial assets and liabilities held for trading	8	1,041	273
Gains or losses on financial assets and liabilities designated at fair value through profit or loss		71	131
Fair value adjustments in hedge accounting	9	(92)	215
Exchange differences		(100)	(129)
Gains or losses on derecognition of assets	10	47	21
Other operating net income	11	1,561	69
Administrative expenses	12	(40,550)	(39,029)
Depreciation and amortisation	13	(5,422)	(4,571)
Provisions and post-employment benefit obligations:		(243)	(1,343)
- provisions for liabilities and charges	14	172	(993)
- provisions for post-employment benefit obligations and similar obligations	14	(415)	(350)
Impairment	15	(15,827)	(22,933)
Total profit or loss before tax from continuing operations		**14,198**	**7,613**
Tax expense (income) related to profit or loss from continuing operations	16	(2,355)	(986)
Total profit or loss after tax from continuing operations		11,843	6,627
Net profit or loss for the financial year		**11,843**	**6,627**
Basic earnings per share (basic and diluted) (in EUR per share)	17	22.33	12.49

The accompanying notes on pages 38 to 93 are an integral part of the financial statements.

2. STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euros)

	As at 31 December	
	2015	2014
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**11,843**	**6,627**
OTHER COMPREHENSIVE INCOME AFTER TAX	**(1,880)**	**8,855**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS	**(638)**	**-**
Actuarial gains (losses) on defined benefit pensions plans	(697)	-
Income tax relating to items that will not be reclassified	59	-
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS	**(1,242)**	**8,855**
Available-for-sale financial assets	**(1,496)**	**10,669**
- revaluation gains (losses) taken to equity	2,660	6,145
- transferred to profit or loss	(4,156)	4,524
Income tax relating to items that may be reclassified to profit or (-) loss	254	(1,814)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**9,963**	**15,482**
a) Attributable to owners of the Bank	9,963	15,482
b) Attributable to non-controlling interests	-	-

3. STATEMENT OF FINANCIAL POSITION

(in thousands of euros)

	Notes	As at 31 December	
		2015	2014
ASSETS			
Cash, cash balances at central banks and other demand deposits at banks	19	234,240	107,468
Financial assets held for trading:		91	110
- derivative financial instruments	20	91	110
Financial assets designated at fair value through profit or loss		222	267
Available-for-sale financial assets	21	330,088	297,357
Derivatives – hedge accounting	20	21	-
Loans and receivables:		1,654,741	1,849,746
- loans to banks	22	160,140	233,857
- loans to non-bank customers	23	1,482,682	1,595,841
- advances	24	11,919	20,048
Property, plant and equipment	25	21,523	22,263
Investment property	26	14,127	1,261
Intangible assets	27	4,471	4,365
Investments in subsidiaries, associates and joint ventures	28	-	3,688
Tax assets		1,246	1,312
- current tax assets		984	-
- deferred tax assets	37	262	1,312
Other assets	29	11,712	869
Total assets		**2,272,482**	**2,288,706**
LIABILITIES			
Financial liabilities held for trading:		1	148
- derivative financial instruments	20	1	148
Derivatives – hedge accounting	20	66	38
Financial liabilities measured at amortised cost:		1,971,643	1,994,009
- deposits from banks and central banks	30	22,821	22,531
- deposits from non-bank customers	31	1,776,685	1,796,653
- loans from banks and central banks	32	149,481	152,728
- loans from non-bank customers	33	60	2,216
- other financial liabilities	34	22,596	19,881
Provisions:		11,354	12,125
- provisions for liabilities and charges	35	6,754	8,458
- retirement benefit obligations	36	4,600	3,667
Tax liabilities:		-	419
- current tax liabilities		-	419
Other liabilities	38	3,734	1,639
Total liabilities		**1,986,798**	**2,008,378**
EQUITY			
Share capital	39	22,173	22,173
Share premium	39	7,499	7,499
Accumulated other comprehensive income	40	10,451	12,331
Reserves from profit	41	227,654	226,069
Treasury shares	39	(49)	(49)
Retained earnings (including income for the current year)	41	17,956	12,305
Total equity		**285,684**	**280,328**
Total liabilities and equity		**2,272,482**	**2,288,706**

The accompanying notes on pages 38 to 93 are an integral part of the financial statements.

4. STATEMENT OF CHANGES IN EQUITY

(in thousands of euros)

In the year 2015	Notes	Share capital	Share premium	Accumulated other comprehensive income	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**	**12,331**	**226,069**	**12,305***	**(49)**	**280,328**
Total comprehensive income for the year after tax		-	-	(1,880)	-	11,843	-	**9,963**
Dividends paid	41	-	-	-	-	(5,304)	-	**(5,304)**
Transfer of net profit to reserves from profit	41	-	-	-	1,585	(1,585)	-	**-**
Effect due to merger of Finor Leasing		-	-	-	-	697	-	**697**
CLOSING BALANCE		**22,173**	**7,499**	**10,451**	**227,654**	**17,956**	**(49)**	**285,684**
DISTRIBUTABLE PROFIT		**-**	**-**	**-**	**-**	**11,947**	**-**	**11,947**

(in thousands of euros)

In the year 2014	Notes	Share capital	Share premium	Accumulated other comprehensive income	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**	**3,476**	**225,341**	**8,423***	**(49)**	**266,863**
Total comprehensive income for the year after tax		-	-	**8,855**	-	6,627	-	**15,482**
Dividends paid	41	-	-	-	-	(2,017)	-	**(2,017)**
Transfer of net profit to reserves from profit	41	-	-	-	728	(728)	-	**-**
CLOSING BALANCE		**22,173**	**7,499**	**12,331**	**226,069**	**12,305**	**(49)**	**280,328**
DISTRIBUTABLE PROFIT		**-**	**-**	**-**	**-**	**6,296**	**-**	**6,296**

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

The accompanying notes on pages 38 to 93 are an integral part of the financial statements.

5. STATEMENT OF CASH FLOWS

(in thousands of euros)

	Notes	As at 31 December	
		2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Total profit or loss before tax		14,198	7,613
Depreciation	13	5,422	4,571
Impairments / (reversal of impairments) of financial assets available-for-sale	15	-	8,537
Impairments / (reversal of impairments) of loans and receivables		14,892	14,395
Impairments of tangible assets, investment property, intangible assets and other assets	15	935	-
Net (gains) / losses from exchange differences		7,298	6,736
Net (gains) / losses from sale of tangible assets and investment properties		(47)	(21)
Other adjustments to total profit or loss before tax		(3,553)	1,343
Cash flow from operating activities before changes in operating assets and liabilities		**39,145**	**43,174**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**(7,684)**	**50,514**
Net (increase) / decrease in financial assets held for trading		19	253
Net (increase) / decrease in financial assets designated at fair value through profit or loss		45	122
Net (increase) / decrease in financial assets available-for-sale		(33,804)	(4,437)
Net (increase) / decrease in loans and receivables		40,269	54,221
Net (increase) / decrease in assets-derivatives - hedge accounting		(21)	-
Net (increase) / decrease in other assets		(14,192)	355
Increases / (decreases) in operating liabilities		**(29,391)**	**(26,595)**
Net increase / (decrease) in financial liabilities held for trading		(147)	(465)
Net increase / (decrease) in deposits and loans measured at amortised cost		(31,367)	(24,829)
Net increase / (decrease) in liability – derivatives – hedge accounting		28	(290)
Net increase / (decrease) in other liabilities		2,095	(1,011)
Cash flow from operating activities		**2,070**	**67,093**
Income taxes (paid) / refunded		(1,502)	597
Net cash flow from operating activities		**568**	**67,690**
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipts from investing activities		**14**	**25**
Receipts from the sale of property and equipment and investment properties		14	25
Cash payments on investing activities		**(3,906)**	**(1,136)**
Cash payments to acquire tangible assets and investment properties		(1,293)	(1,136)
Cash payments to acquire intangible assets		(2,613)	-
Net cash flow from investing activities		**(3,892)**	**(1,111)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from financing activities		**-**	**-**
Cash payments on financing activities		**(5,304)**	**(2,017)**
Dividends paid		(5,304)	(2,017)
Net cash flow from financing activities		**(5,304)**	**(2,017)**
Effects of change in exchange rates on cash and cash equivalents		7,169	6,605
Net increase in cash and cash equivalents		**(8,628)**	**64,562**
Opening balance of cash and cash equivalents	**43**	**265,912**	**194,745**
Closing balance of cash and cash equivalents	43	**264,453**	**265,912**

(in thousands of euros)

Operational cash flows of interest and dividends	As at 31 December	
	2015	2014
Interest paid	(15,850)	(22,853)
Interest received	58,562	66,960
Dividends received	545	1,114

As at 31 December 2015, the Bank does not have any undrawn credit lines and loans (2014: nil).
The accompanying notes on pages 38 to 93 are an integral part of the financial statements.

Notes To Financial Statements

1. GENERAL INFORMATION

Banka Koper d.d. is a public limited company with the head office at 14 Pristaniška Street, Koper/Capodistria (hereinafter referred to as Banka Koper d.d. or the Bank). Since 2002, Banka Koper d.d. is member of the Intesa Sanpaolo Group (originally SanpaoloIMI), one of the leading banking groups in Italy. As of January 1st 2007, the Sanpaolo IMI Group merged with Banca Intesa. Banka Koper d.d. is owned directly by the bank Intesa Sanpaolo. It has a head office in Piazza San Carlo 166, Turin, Italy and a secondary office in Via Monte di Pietá8, Milan, Italy.

In accordance with the third paragraph of article 3 and the first paragraph of article 4 of the Regulation on the criteria for determining whether a bank is considered significant (Official Gazette of the Republic of Slovenia, No. 14/15; hereinafter referred to as the Regulation on the criteria), Banka Koper d.d. is a significant bank in the Republic of Slovenia. As a significant bank, Banka Koper d.d. shall comply with all the requirements specified as mandatory in the relevant provisions laid down in the Banking Act (Official Gazette of the Republic of Slovenia, No. 25/2015; hereinafter referred to as at Banking Act (ZBan-2), i.e. and the Regulation (EU) No. 575/2013 and in the first paragraph of article 1 of the Regulation on the criteria. The Bank shall comply with the following requirements:

- The conditions for the members of the governing body of a significant bank that hold several directorships at the same time (the third paragraph of article 36 of the Banking Act (ZBan-2);
- Establishing a compliance department (the first paragraph of Article 146 of the Banking Act (ZBan-2);
- The quantitative information shall be made available to the public at the level of the bank's members of the management body (the second paragraph of article 450 of the Regulation (EU) No. 575/2013);
- Significant subsidiaries of EU parent financial holding companies or EU parent mixed holding companies and those subsidiaries which are of material significance for their local market shall disclose the information on an individual or sub-consolidated basis (article 13 of the Regulation (EU) No. 575/2013), and namely regarding the bank's own funds (article 437), capital requirements (article 438), capital buffers (article 440), credit risk adjustments (article 442), remuneration policy (article 450), leverage (article 451), and the use of credit risk mitigation techniques (article 453).

The above requirements to make disclosures are disclosed in a separate report named Additional information for the financial year 2015.

The Bank prepares its financial statements as at the last day of the calendar year.

The date of the Management Board statement shall be considered as the date on which the financial statements were approved.

Until 30 September 2015, Banka Koper d.d. was the parent undertaking of a banking group that included Finor Leasing d.o.o., a limited liability company in a 100% ownership of Banka Koper d.d. On 1 October 2015, Banka Koper d.d. carried out the merger by absorption of Finor Leasing d.o.o. effective 1 January 2015 and organised the lease operations as a department within the framework of the Retail Division. The effects of the merger by absorption are disclosed in the opening balance of the Statement of Financial Position as at 1 January 2015.Banka Koper is a public limited company with its head office in Pristaniška 14, Koper.

Opening statement of financial position of Banka Koper following the merger as at 1 January 2015

(in thousands of euros)

	As at 1 January				
	Banka Koper	Internal relations	Finor Leasing	Banka Koper after merger	Consolidated as at 31 December 2014
ASSETS					
Cash, cash balances at central banks and other demand deposits at banks	107,468	(7)	7	107,468	107,468
Financial assets held for trading:	110	-	-	110	110
- derivative financial instruments	110	-	-	110	110
Financial assets designated at fair value through profit or loss	267	-	-	267	267
Available-for-sale financial assets	297,357	-	-	297,357	297,357
Loans and receivables:	1,849,746	(110,757)	100,592	1,839,581	1,839,581
- loans to banks	233,857	-	-	233,857	233,857
- loans to non-bank customers	1,595,841	(104,184)	100,464	1,592,121	1,592,121
- advances	20,048	(6,573)	128	13,603	13,603
Goodwill	-	-	-	-	904
Property plant and equipment	22,263	-	2,392	24,655	24,655
Investment property	1,261	-	12,552	13,813	13,813
Intangible assets	4,365	-	82	4,447	4,447
Investments in subsidiaries, associates and joint ventures	3,688	(3,688)	-	-	-
Tax assets	1,312	-	992	2,304	2,304
- deferred tax assets	1,312	-	992	2,304	2,304
Other assets	869	-	13,383	14,252	14,252
Total assets	**2,288,706**	**(114,452)**	**130,000**	**2,304,254**	**2,305,158**
LIABILITIES					
Financial liabilities held for trading:	148	-	-	148	148
- derivative financial instruments	148	-	-	148	148
Derivatives – hedge accounting	38	-	-	38	38
Financial liabilities measured amortised cost:	1,994,009	(111,870)	125,139	2,007,278	2,007,278
- deposits from banks and central banks	22,531	-	-	22,531	22,531
- deposit from non-bank customers	1,796,653	(7)	-	1,796,646	1,796,646
- loans from banks and central banks	152,728	(105,290)	118,294	165,732	165,732
- loans from non-bank customers	2,216	-	-	2,216	2,216
- other financial liabilities	19,881	(6,573)	6,845	20,153	20,153
Provisions:	12,125	(22)	55	12,158	12,158
Tax liabilities:	419	-	41	460	460
- current tax liabilities	419	-	41	460	460
Other liabilities	1,639	-	380	2,019	2,019
Total liabilities	**2,008,378**	**(111,892)**	**125,615**	**2,022,101**	**2,022,101**
EQUITY					
Share capital	22,173	(2,045)	2,045	22,173	22,173
Share premium	7,499	(17)	17	7,499	7,499
Accumulated other comprehensive income	12,331	-	-	12,331	12,331
Reserves from profit	226,069	(529)	529	226,069	226,598
Treasury shares	(49)	-	-	(49)	(49)
Retained earnings (including income for the current year)	12,305	31	1,794	14,130	14,505
Total equity	**280,328**	**(2,560)**	**4,385**	**282,153**	**283,057**
Total liabilities and equity	**2,288,706**	**(114,452)**	**130,000**	**2,304,254**	**2,305,158**

Effect of merger by absorption of Finor Leasing

Effect from merger, defined as the difference between Bank's investment and Finor Leasing's capital, was recognised as increase of retained profit.

Effect of merger by absorption of Finor Leasing

	As at 1 January
Finor Leasing's capital	4,385
Bank's investment	3,688
Effect from merger	**697**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance
The financial statements for 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Basis of measurement
The financial statements have been 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, and derivative contracts at fair value.

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

Use of estimates and judgements are applied for:
- Impairment of loans and advances
- Fair value of financial instruments
- Impairment of instruments available-for-sale
- Impairment of real estate inventory obtained for the repayment of loans collateralised by pledging real estate.

A more detailed disclosures is shown under chapter 2.11 Impairment of financial assets and 3.3 Credit risk.

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

Current list of new EU IFRS Standards, Interpretations and amendments to published Standards (as at 14 January 2016) that are not yet effective, for disclosure in financial statements prepared in accordance with IFRS as adopted by the European Union (EU) for the annual financial reporting period ended 31 December 2015.

The following new Standards and Interpretations are not yet effective for the annual financial reporting period ended 31 December 2015 and have not been applied in preparing these financial statements: [IAS 8.30 (a)]:

Standard/Interpretation [IAS 8.31 (a), 8.31 (c)]	**Nature of impending change in accounting policy** [IAS 8.31 (b)]	**Impact on financial statements** [IAS 8.31 (e)]
Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations *(Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)*	These Amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.	The entity does not expect the Amendment to have any impact on the financial statements since it does not have any joint operation.
Amendments to IAS 1 *(Effective for annual periods beginning on or after 1 January 2016. Early application is permitted.)*	The Amendments to IAS 1 include the following five, narrow-focus improvements to the disclosure requirements contained in the standard. The guidance on materiality in IAS 1 has been amended to clarify that: - Immaterial information can detract from useful information. - Materiality applies to the whole of the financial statements. - Materiality applies to each disclosure requirement in an IFRS. The guidance on the order of the notes (including the accounting policies) have been amended, to: - Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements. - Clarify that entities have flexibility about where they disclose accounting policies in the financial statements.	The Entity expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Entity.
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation *(Effective for annual periods beginning on or after 1 January 2016; to be applied prospectively. Early application is permitted.)*	**Revenue-based depreciation banned for property, plant and equipment** The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. **New restrictive test for intangible assets** The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are ' highly correlated', or when the intangible asset is expressed as a measure of revenue.	It is expected that the Amendments, when initially applied, will not have any impact on the Entity's financial statements as the Entity does not apply revenue-based methods of amortisation/ depreciation.
Amendments to IAS 16: Property Plant and Equipment and IAS 41: Agriculture *(Effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.)*	These amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.	The Entity does not expect that the amendments, when initially applied, will have any impact on the financial statements as the Entity has no bearer plants.
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions *(Effective for annual periods beginning on or after 1 February 2015. The amendments apply retrospectively. Earlier application is permitted.)*	The amendments are relevant only to defined benefit plans[1] that involve contributions from employees or third parties meeting certain criteria. Namely that they are: - set out in the formal terms of the plan; - linked to service; and - independent of the number of years of service. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.	The entity does not expect the Amendment to have any impact on the financial statements since it does have any defined benefit plans that involve contributions from employees or third parties.
Amendments to IAS 27 : Equity method in the separate financial statements* *(Effective for annual periods beginning on or after 1 January 2016 and apply retrospectively. Early application is permitted.)*	The amendments to IAS 27 allow an entity to use the equity method in its separate financial statements to account for investments in subsidiaries, associates and joint ventures.	The Entity does not expect that the amendments, when initially applied, will have any impact on the financial statements since the Entity does not have any investments in subsidiaries, associates or joint ventures.

*The IAS 27 amendments only apply to separate financial statements; therefore, we would not expect reference to these amendments in consolidated financial statements.
[1]Post-employment defined benefit plans or other long-term employee defined benefit plans.

Annual Improvements to IFRSs
The improvements introduce ten amendments to ten standards and consequential amendments to other standards and interpretations. These amendments are applicable to annual periods beginning on or after either 1 February 2015 or 1 January 2016, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Entity.

The Bank reviews 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, has not assessed the impact of new pronouncements on its financial statements. The Bank will apply new standards and interpretations in accordance with their requirements, if endorsed by the EU.

2.2 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (' the functional currency'). The financial statements are presented in euros, which is the Bank's functional and presentation currency.

Recording foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of transactions. Exchange rate differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale, are included in the fair value reserve in equity.
Income and expenses arising on foreign currencies are translated at the exchange rate at the date of the transaction.
Gains and losses resulting from buying and selling foreign currencies for trading purposes are reported in profit or loss as net gains or losses from trading of foreign currencies.

2.3 RELATED PARTIES

For the purposes of the financial statements, related parties include all entities, that directly or indirectly, through one or more intermediaries, control or are controlled by, or are under common control with, the reporting enterprise. Related parties include parents, subsidiaries, fellow subsidiaries, associates of the reporting entity, members of the key management personnel and directors of the Banks and enterprises over which the key management personnel and directors of the reporting entity are able to exercise significant influence (participation in making financial and operating policy decisions of an enterprise).

2.4 FINANCIAL ASSETS

Classification
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 category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are classified as held for trading unless they are designated as hedges.

b) Loans and receivables
Loans and receivables are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, other than:
(a) those that the entity intends to sell immediately or within the short term, which are classified as held for trading and those that the entity designates at fair value through profit or loss upon initial recognition;
(b) those that the entity, upon initial recognition, designates as available for sale ; or
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

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

Recognition and measurement

a) Date of recognition

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

b) Value of recognition and subsequent measurement

Financial assets are initially recognised at cost, if not categorised as fair value through profit or loss, plus transaction costs.

Financial assets at fair value through profit or loss and available-for-sale financial assets are measured subsequently at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is disposed of, derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. 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 profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

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

Restructured loans

Due to inability of the client to repay the debt under the originally agreed terms, where possible, the Bank seeks to restructure performing loans or non-performing loans (substandard, doubtful or past due by more than 90 days) rather than start recovery of collateral due to long-lasting procedures, high court costs and in view of the possibility of restoring the credit worthiness of the borrower. Bank restructuring includes one or more activities: extending the payment arrangements and/or reduction of interest rate and/or partial write-off and/or (exceptionally) debt to equity swap. Once the terms have been renegotiated and annexes are concluded, the loan is no longer considered past due. However, the client remains classified in non-performing category for at least 1 year and only after that period it can be transferred to performing category. Subsequently it will remain in a probation status for at least 2 years. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

De-recognition 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 de-recognition.

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

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

When the Bank has transferred its rights to receive cash flows from an asset or has entered into an assignment 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

Fair value measurement principles

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

Where discounted cash flow techniques are used, estimated future cash flows are based on the 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, the best information available is used.

Since the application of IFRS 13 – Fair value measurement, the inputs used to measure fair value, should be presented when classifying financial instruments in the three levels of fair value hierarchy:

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

More detailed disclosure is shown under chapter 3.9 Fair value of assets and liabilities.

2.5 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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 offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.6 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments fall into the following categories: forward-based, swap-based and option-based., are measured initially at fair value. Subsequent to initial recognition all derivatives are measured considering changes in fair value. To determine their fair value, derivative financial assets and financial liabilities are measured using quoted 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 that provide effective economic hedges and are not qualified for hedge accounting under the specific accounting rules, are therefore accounted for as derivative financial instruments held for trading purposes.

The best evidence of the fair value of a derivative financial instrument 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 of 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 recognises profits/losses on Day 1; if not, profits/losses are not recognised on Day 1, but if and when such evidence becomes available or when the derivative is derecognised.

De-recognition of the derivatives occurs only when through a legal transaction that transfers ownership of a financial instrument to the buyer, the seller has also transferred substantially all the risks and future rewards of ownership of the financial instrument.

2.7 HEDGE ACCOUNTING

The Bank uses derivative financial instruments to manage its exposures to interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which they are entered to and are subsequently re-measured 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 could refer to:
- **Fair value hedge** – a hedge of exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment;
- **Cash flow hedge** – a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- **Hedge of a net investment in a foreign currency.**

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank 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 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 tested regularly throughout their life to determine that they actually have been highly effective throughout the financial reporting periods for which they are designated.

The Bank uses fair value hedge to cover exposure to changes in the fair value attributable to the different risk categories of assets and liabilities in the statement of financial position, or a portion of these or to cover portfolios of financial assets and liabilities.

2.8 INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts and premium on securities. Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the expected estimated future cash payments and receipts 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 lifetime of financial instrument. 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 Bank estimates cash flows considering all contractual terms of the financial instrument (e. e.g., prepayment options, call options and similar options) but does not consider future credit losses. The calculation includes all fees and margins paid or received between parties to the contract that are an integral part of the effective interest rate, such as transaction costs and all other premiums or discounts.

2.9 FEE AND COMMISSION INCOME

Fees and commissions are generally recognised as the services are provided. Fees and commissions consist mainly of fees charged on payment services, credit cards, services and fund management on behalf of legal entities and citizens, together with commissions from guarantees. For loan commitments the bank charged the client for small administrative expenses for loan elaboration, which cover just the process costs. Subsequently the loan management fee is collected promptly (each month for loan, each trimester for guaranties). These fees cover process costs as well. Fees receivable that represent a return for services provided are in income statement netted of tax on financial services.

2.10 SALE AND REPURCHASE AGREEMENTS

Securities sold subject to sale and repurchase agreements ("repos") continue to be recognised in the financial statements of the temporary seller, 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 re-pledge 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 sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.11 IMPAIRMENT OF FINANCIAL ASSETS

a) Loans and other assets carried at amortised cost

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

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

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

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

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

Future cash flows for the group of individually significant financial assets that are 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 the adjustment account 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 income statement under gains less losses from financial assets and liabilities not recognised at fair value through profit or 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 income statement.

b) Assets carried at fair value

At each reporting date the Bank assesses 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 is considered when the investment is below its cost value. In line with Intesa Sanpaolo Group accounting policies, a significant decrease is when the financial instrument's fair value decreases by more than 30% below its average initial carrying amount. A prolonged decline in the asset's fair value generally occurs when the fair value of a financial instrument has been below its average initial carrying amount for at least 24 months. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the initial carrying amount 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 income statement. Impairment losses on equity instruments recognised in the income statement are not reversed through the income statement but always recognised as increase in other comprehensive 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 income statement.

2.12 INTANGIBLE ASSETS

Intangible assets encompass licences for computer software, patents, copyrights and other industrial property rights acquired, and development expenditures, are carried in the statement of financial position at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on research and development and maintaining computer software is recognised in profit or loss as the expense is incurred. In circumstances when expenditure is directly associated with the development of computer software that will probably generate expected future economic benefits exceeding costs, expenditures are recognised as intangible assets. Directly attributable costs include administrative expenses related to software development, as well as part of relevant overhead costs.

The amortisation method used to allocate the depreciable amount of an asset on a systematic basis over its useful life is the straight-line method. Amortisation begins when the asset is available for use.

The Bank reviews the amortisation period and the amortisation method for an intangible asset with a finite useful life at each financial year-end.

Intangible assets	Estimated useful lives in 2015	Estimated useful lives in 2014
Licence fees	4	4
Research and development expenditure	4	4
Computer software	4	4

Gains and losses arising on de-recognition should be calculated as the difference between the asset's net disposal proceeds and its carrying amount and should be recognised in the income statement. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The assessment for impairment is carried out at least on yearly bases.

2.13 INVESTMENT PROPERTY

Investment property is property (land or a building) held to earn rentals or for capital appreciation or both, rather than for use in the supply of services in the ordinary course of business.

An investment property is measured initially at its cost. The costs included in the initial measurement, comprises its purchase price and any directly attributable expenditure.
After initial recognition, the Bank carries investment at cost less accumulated depreciation and accumulated impairment losses, if any.
Investment property items are depreciated over their useful lives and are submitted to valuation by an independent appraiser. The Bank applies the same depreciation method and depreciation rates as for the buildings it uses in the ordinary course of business (note 2.14).

2.14 PROPERTY, PLANT AND EQUIPMENT

Tangible fixed assets are land, buildings, manufacturing plant and equipment. An item of property, plant and equipment that qualifies for recognition as an asset shall be initially measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price after deducting trade discounts, including import duties and non-refundable purchase taxes, directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating (cost of transport, installation ..) and the cost of its dismantlement, removal and restoration. The cost of interest related to the acquisition of an item of property, plant and equipment is included in the cost of acquiring that item and capitalised.
The Bank measures a property, plant and equipment item acquired in exchange for a non-monetary asset or a combination of monetary and non-monetary assets at fair value.

The Bank assesses annually whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount exceeds the carrying amount, it is an indication that the asset is not impaired.
The Bank recognises subsequent costs in the carrying amount of an item of property, plant and equipment when it is probable that future economic benefits associated with the item will flow to the Bank. The costs of day-to-day servicing (repairs and maintenance) are recognised in profit or loss as incurred.

Depreciation charges are calculated by using the straight-line method. The depreciation rates are determined to allocate the value of items of property, plant and equipment over their estimated useful lives to expenses.
Assets in the course of transfer or construction are not depreciated until they are brought into use.
The residual value and the useful life of an asset is reviewed on a regular basis and, if expectations differ from previous estimates, the change(s) is accounted for as a change in an accounting estimate.

Property, plant and equipment	Estimated useful lives in 2015	Estimated useful lives in 2014
Buildings	16.6-40	16.6-40
Other investment in intangibles	10	10
Equipment	5	5
Motor vehicles	5	5
Computers and software	4	4

Any gain or loss on disposal of an item of property, plant and equipment determined as the difference between the proceeds and the carrying amount are recognised in profit or loss, determining operating profit.

2.15 ACCOUNTING FOR LEASES

Determining whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment 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 as lessee
Leases which do not transfer to the Bank substantially all the risks and rewards incidental to ownership of the leased items are operating leases. Lease payments under operating lease are recognised as an expense in profit or loss on a straight line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership to the lessee. An item of property, plant and equipment acquired by way of finance lease is recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the commencement of the lease term, less accumulated depreciation and any impairment losses. An item of property, plant and equipment acquired under a finance lease is depreciated over the useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership of the leased asset by the end of the lease term, the leased assets shall be fully depreciated over the shorter of the lease term and its useful life.

The Bank as lessor
When assets are leased under an operating lease, the Bank recognises rental income in the income statement on a straight-line basis over the period of the lease.

The lessor records an asset leased under a finance lease at the present value of the lease payments as a receivable from finance lease. Income from Finance lease is recognised based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment outstanding.

2.16 CASH AND CASH EQUIVALENTS

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

2.17 FINANCIAL LIABILITIES

Loans received deposits repayable and debt securities issued are recognised in the statement of financial position in the amount of the funds received less direct transaction costs. The loans received, deposits repayable and debt securities issued are measured at amortised cost and the difference between the initial amount and the end amount is transferred to the income statement using the effective interest method.

2.18 PROVISIONS

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources embodying past economic benefits will be required to settle the obligation; and they can be reliably estimated.

2.19 FINANCIAL GUARANTEES

Financial guarantees are contracts that require the Bank 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. Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

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

2.20 INCOME TAX

Current income tax has been calculated in accordance with the local tax law and using the tax rate of 17%.

Deferred income tax is calculated for all taxable temporary differences. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. The tax rates (and tax laws) that have been enacted by the end of the reporting date are used to determine deferred income tax. The principal temporary differences arise from the valuation of financial instruments including derivatives and provisions for retirement benefit obligations. A deferred tax asset shall be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits 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, when the financial asset is sold or de-recognised, recognised in the income statement together with the gain or loss from disposal.

An entity shall recognise a deferred tax liability or asset for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that both of the following conditions are satisfied: the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

2.21 EMPLOYEE BENEFITS

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long-service benefits. According to Slovenian legislation, employees retire after 40 years of services, when, if fulfilling certain conditions, they are entitled to a termination benefit paid out as a lump sum. Valuations of these obligations are carried out by independent qualified actuaries, by using the book reserve method.

The Bank's obligation for the current service cost of providing pension benefits and the increment in the present value of the defined benefit obligation due to the approaching beginning of the defined benefit liability (interest cost) was assessed. The increase in the benefit scheme liabilities in excess of the above two assessments shall be recognised as the actuarial gain or loss.

The defined benefit scheme liabilities are measured on an actuarial basis using the projected unit credit method, which measures actuarial liabilities in accordance with the expected wage/salary increase from the valuation date until the foreseen retirement of the employed person. The wage/salary increase comprises promotion and inflation-related rise.

Under IAS19, the calculated current scheme liabilities are discounted using the rates equivalent to the market yields at the balance-sheet date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid by the employer. Since there is no deep market in such bonds in the Republic of Slovenia, the discount rate is determined by reference to market yields on government bonds.

For the calculation of actuarial gains and losses, the following assumptions have been used:

- The discount rate of 1.9% (2014: 4.35%), and
- Future salary increases of 0% p.a. for 2016 and 2.2% p.a. from 2017 onwards (2014: nil).

2.22 SHARE CAPITAL

Dividends on ordinary shares
Dividends payable to the holders of ordinary shares lower the equity in the period in which the declaration of the dividend is approved by Bank's owners.

Treasury shares
If the Bank repurchases its own equity instruments (treasury shares), the cost of the shares it has reacquired is deducted from equity. In case that the Bank subsequently sells its treasury shares, the consideration received is recognised directly in equity.

2.23 FIDUCIARY ACTIVITIES

The Bank acts as an intermediary on behalf and for account of customers who want to underwrite units of investment funds. A fee is charged for this service. These assets are not shown in the statement of financial position.

2.24 COMPARATIVE INFORMATION

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

3. RISK MANAGEMENT ORGANISATION

The risk management policies and their implementation in the Bank's operational processes are of high importance for a sound business activity. The Bank has harmonised its risk management process with the risk management framework of the parent Group Intesa Sanpaolo. Therefore, risk management is governed in accordance with the Group best practices, which require a strong institution-wide risk culture involving Bank's management at all levels, and an independent risk management function.

The risk management process is divided in several stages, starting with the risk identification and measurement, which allows the Bank to understand the different types of risk, to measure its potential impact and to recognise in advance possible trends that can significantly change its business environment. The second step is the management of risk, whereby the Bank has to undertake strategic decisions on the type and the level of risk to be assumed, to establish whether to mitigate, diversify or reduce risk exposure and to establish risk limits in line with the Bank's risk capacity and risk appetite. Once risk has been assumed, it shall be properly overseen, which means monitoring risk tolerance limits and reporting to the Bank's governing bodies.

The most important risks in terms of Bank's total exposure are credit risk, interest rate risk, liquidity risk and operational risk. In the course of 2015, the Bank strengthened the risk management processes with further alignment with the developments of policies and procedures of the Intesa Sanpaolo Group, with the improvements in the internal risk management and control environment and with the implementation of new external regulations.

3.1 CORPORATE RISK MANAGEMENT AND ORGANIZATIONAL STRUCTURE

3.1.1 Corporate risk management

The following structures take part in the risk governance process:

The **Supervisory Board** approves the strategic directions and risk management policies and reviews the efficiency and adequacy of the overall risk management process within the Bank.

The **Risk Committee** is an advisory body to the Supervisory Board, which provides advice regarding the Bank's current and future propensity to assume risk and provides assistance in the supervision of senior management with respect to the implementation of the risk management strategy.

The **Audit Committee** is an advisory body to the Supervisory Board with responsibility to give recommendations and advice to the Board in particular on matters relating to evaluation of the adequacy and efficiency of the Bank's entire system of internal controls over financial reporting including oversight of exposure to risk.

The **Management Board** is responsible for the implementation of risk management policies and internal controls; it establishes organisational and other conditions for the execution of risk policies and controls.

The **Asset and Liability Committee (ALCO)** evaluates the exposure to financial risks and give guidance about measures necessary to manage financial exposures.

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

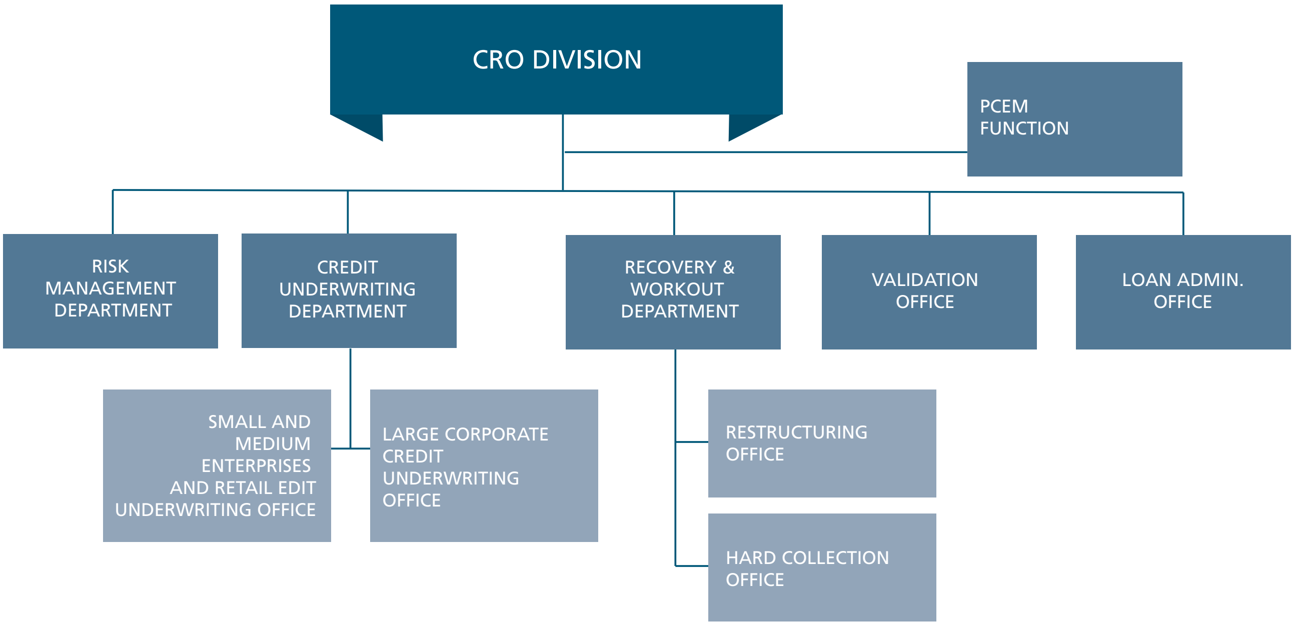
The **Internal Audit Department** evaluates and reviews processes, procedures, guidelines, policies and all operating activities performed by the Bank with the aim to evaluate the efficiency and effectiveness of the internal controls system and risk management system.

The **Compliance and AML Department** assesses and manages compliance risk in relation to domestic and international rules and internal acts in order to prevent legal sanctions, financial losses and reputational risk.

3.1.2. The organisational structure of Risk Division

The Risk Division (CRO area) is responsible for the risk management processes of the Bank. The person in charge of the Risk Division is a Member of the Management Board.

A reorganisation of the Division was implemented in 2015 in order to enhance the operating efficiency of the Division and to achieve further alignment with best practice principles.
- A new Proactive Credit Exposure Management Function (PCEM) was established to timely detect borrowers showing a potentially increased level of risk (but still classified as performing). This function is in charge of taking the necessary actions in order to actively manage the position, reduce the probability of default and lower eventual losses for the Bank.
- The management of non performing clients was organised within the newly established Recovery and Workout Department, incorporating the previous Credit Control Department and Credit Collection Office. A part of the tasks and responsibilities of the Credit Control Department is performed by the PCEM Function.



The roles of organisational units within the Risk Division

Proactive credit exposure management contributes to the implementation of an early warning system, designed to activate the necessary measures against the identified clients by defining and agreeing with business functions the most proper action plans.

The **Risk Management Department** is responsible for risk policies, risk methodologies and reporting on risk exposures. In addition the Department monitors internal risk limits and external regulatory constraints, including the minimum capital adequacy ratios.

The **Credit Underwriting Department** analyses and approves loans and credit facilities to individual borrowers. There are two offices that operate within the framework of the Department: Small, Medium Enterprises and Retail Credit Underwriting Office and the Large Corporate Credit Underwriting Office.

The **Recovery and Workout Department** analyses and approves credit proposals for non performing clients, participates in loan restructuring and in designing other measures in relation to borrowers with positive recovery perspective (going concern business) as much as in relation to obligors in legal enforcement status (gone concern business), seeking for the loss reduction and efficient recovery.

The **Validation Office** is in charge of evaluating the compliance of the internal systems of risk measurement and management with the regulatory requirements and their alignment with ISP Group guidelines. The Validation Office is responsible for the evaluation of the internal systems of all risk profiles (to be used for both regulatory and internal management purposes) in all the phases of the internal systems lifecycle, also supporting the Supervisory Authorities in their review activities.
With specific regard to the credit risk, the role of Validation Office is to evaluate the adequacy and suitability of the internal rating systems, from both a design point of view (analysis of the methodological choices with regard to the regulatory requirements and internal and external best practices) and a performance point of view (back-testing analysis and periodical model monitoring). The validation analysis consists also of independent re-performance of the rating and development of alternative methodologies to be used as a benchmark.

The **Loan Administration Office** performs administrative controls in the credit process in order to verify the loan documentation completeness before disbursement.

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

The Bank's capital includes own funds and eligible liabilities, which have similar loss absorption characteristics as the capital. The function of the capital is the absorption of potential losses and as such protects depositors' savings.

The Bank meets the minimum capital requirement, as requested by the EU Regulation on prudential requirements for credit institutions (Capital Requirements Regulation or CRR). The CRR prescribes the minimum capital requirement, which is calculated according to the binding rules for the determination of risk- weighted assets. In addition, the CRR defines the general guidelines on the self-directed internal assessment of risk and capital requirement (Internal capital adequacy assessment process or ICAAP).

3.2.1 Compliance with the regulatory capital requirement

The regulatory capital requirement is calculated in line with CRR Regulation and is determined as a ratio between the Bank's capital and risk-weighted assets. Capital requirements have to be set aside for credit, market and operational risk. Banks have to meet the CET1 minimum capital requirement of 4.5% or higher, and the minimum total capital ratio requirement of 8%. The Bank's capital is entirely composed of the Common Equity Tier 1 capital category, which as at 31 December amounted to 258.97 million euros, whereas the CET1 ratio was 17.64%. The ratio was above the minimum capital requirement, as well as above the minimum ratio as defined by the supervisory review process (SREP) evaluation of Pillar II, which is based on a wider assessment of capital requirement of the Bank (ICAAP).

The Bank maintains the minimum capital adequacy and the minimum amount of capital by regularly reporting the capital position to the highest governance bodies and by providing annual and strategic capital planning. A capital growth corresponding to the increase of risk capital activities was provided with proper retention of profits within the capital reserves.

(in thousands of euros)

Capital adequacy as at 31 December	Balance sheet/ Nominal amount		Risk weighted amount		Capital	
	2015	2014	2015	2014	2015	2014
Credit risk exposures of banking book						
Exposures to state and central bank	648,004	559,643	12,761	3,280	1,021	262
Exposures to local municipalities	60,873	54,583	12,134	10,890	971	871
Exposures to public sector	7,767	8,328	5,026	4,551	402	364
Exposures to development banks	1,415	798	-	-	-	-
Exposures to institutions	333,537	303,391	69,715	76,241	5,577	6,099
Exposures to enterprises	557,819	660,673	473,332	574,201	37,867	45,936
Exposures to equity	11,566	17,541	11,566	23,073	925	1,846
Exposures to retail banking	882,822	843,336	525,190	499,822	42,015	39,986
Past due exposures	130,893	163,168	149,517	204,128	11,961	16,330
Exposures to highly risk exposures	2	996	1	1,491	-	119
Exposures to investments funds	45,779	29,894	35,801	29,892	2,864	2,391
Exposures to other assets	64,904	43,637	49,284	27,647	3,943	2,212
Total	**2,745,381**	**2,685,988**	**1,344,327**	**1,455,216**	**107,546**	**116,416**
Credit risk weighted assets			1,344,327	1,455,216	107,546	116,416
Market risk weighted assets			1,315	1,513	105	121
Operational risk weighted assets			122,743	125,176	9,367	10,014
Total risk weighted assets			**1,468,385**	**1,581,905**	**117,018**	**126,551**
Regulatory capital						
Share capital			22,173	22,173		
Share premium			7,499	7,499		
Treasury shares			(49)	(49)		
Legal reserves			14,248	13,655		
Statutory reserves			213,357	212,365		
Treasury shares fund reserves			49	49		
Retained earnings due to transition to IFRS			6,009	6,009		
Accumulated other comprehensive income			10,452	12,331		
Less intangible assets			(4,471)	(4,365)		
Unrealised gains/losses on government bonds			(7,725)	(9,007)		
Unrealised gains/losses on other shares			(2,018)	(3,333)		
Deferred tax assets that rely on future profitability and do not arise from temporary differences			(552)	-		
Total qualifying Tier 1 capital			**258,972**	**257,327**		
Total qualifying Tier 2 capital			**-**	**-**		
Total regulatory capital			**258,972**	**257,327**		
Capital Adequacy ratio (%)			**17.64**	**16.27**		

3.2.2 Internal capital adequacy assessment (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) is governed by the Bank of Slovenia regulation on internal governance, governance bodies and bank ICAAP. The Bank performs the process also in line with the guidelines issued by the parent company, since the Bank ICAAP is included in the consolidated process at the parent group level. The purpose of ICAAP is to complement the regulatory minimum capital requirements with a comprehensive handling of all risks to which the Bank is exposed.
The ICAAP results are evaluated by the Bank supervision (the supervision is performed by the joint team of the ECB and the Bank of Slovenia) as part of the SREP activity and serving as a basis for the assessment of the capital requirements for the Bank.

The ICAAP process for the Bank is based on the uniform methodology of the parent company, taking into account specific peculiarities of the Bank and local regulation. The capital requirements methodology shows the results of a 99.9% confidence level and 1 year investment horizon.
The internally assessed capital sources (available financial resources), which defines the capacity to assume risk, comprises the regulatory capital and current profit, which will be distributed to Bank's capital reserves. During 2015, the Bank maintained an adequate amount of Available financial resources in terms of internally defined target capital ratio, as well as the requirements of the banking supervisor, as a result of the SREP assessment.

Internally established target level of the available financial resources is established at 109% of capital requirements without stress scenarios. As at 31 December 2015, the available financial resources in relation to capital requirements without stress scenarios stood at 186.21%.

Internal assessment of capital requirement was carried out for all risks, which the Bank according to internal criteria classified as important risks:

Credit risk is the risk that the counterparty will not be able to repay financial obligations. Internally assessed capital requirement equals the amount of the regulatory capital requirement less the capital requirements for equity investments, which are assessed as a distinct risk category.

Market risk is the risk of loss on trading activities due to change of market value. Internal capital is equal to the regulatory capital requirement.

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 regulatory capital requirement for operational risk.

Banking book financial risks includes equity risk and interest rate risk, and liquidity risk.

Banking book equity risk covers the risk of equity investments, which are not for strategic purpose and the Bank acquired through the repossession of credit collateral. Capital requirement is calculated according to IRB method with simple weighting.

Interest rate risk in the banking book is defined as the risk of interest rate change having adverse impact on net interest income from non-trading activities. Capital requirement is calculated with a historical simulation on 5-year interest rate historical data. A simulation of yields curves represents interest rates shock, based on which is obtained a combined impact on net interest income and cash-flow net present value at given statistical confidence level.

Strategic risk is the risk of decline in profit margin due to change in the business environment, wrong business decisions and insufficient reaction to changes in the business environment. The internal capital is set in relation to the risk of disadvantageous evolvement of every major component of the business margin on the operating revenues and cost, estimate with a parametric VaR.

Credit concentration risk pays regards to single-name concentration in the credit portfolio and concentration risk by industries. The Bank applies the simplified methodology suggested by Bank of Slovenia.

Internal capital on stress-test

The internal assessment of capital requirements in addition to assessment according to baseline scenario is assessed also under stress conditions. Stress-test takes into consideration a prospective evolution of position over one year and stressing conditions.

The relevance and necessity to compute capital requirements according to stress scenarios is verified for each of the identified material risk under baseline scenario. The stress test shock are evaluated for their impact on the amount of required capital and on the reduction of Available financial resources:

- Shock on credit risk takes in the consideration a reduction of GDP by 2,5 percentage points from the planned UMAR figure.
- As for the operational risk, the Bank has selected one of 5 largest operational loss scenarios identified during operational risk self-assessment. The scenario selected is usually the most likely one.
- Additional capital requirement for the Banking book interest rate risk is estimated applying a 200 bps parallel shift. In addition is evaluated the impact of adverse interest rate change on Available financial resources.
- For the equity risk is estimated the impact of 25% drop of domestic Stock-exchange index on Available financial resources
- The strategic risk analysis takes in the consideration the impact of GDP and interest rate adverse scenarios on the Available financial resources.

Internally assessed capital requirements as at December 2014 and as at 31 December 2015

(in millions of euros)

Risk	31. 12. 2015	31. 12. 2014
Credit Risk	107.06	114.11
Market Risk	0.11	0.12
Operational Risk	9.82	10.41
Banking Book Risk	10.86	10.13
- Interest Rate Risk	9.19	4.73
- Equity Risk	1.67	5.4
Strategic Risk	9.46	9.32
Concentration of credit risk	2.14	2.28
Profitability risk	-	-
Stress test scenario	11.28	7.70
Total capital charges	**150.73**	**154.07**
Available financial resources	**259.67**	**258.26**

3.2.3 Risk Appetite Framework Limits

With the Risk Appetite Framework (RAF) Limits have been established a system of risk metrics that represents risk amounts the Bank is willing to assume. The RAF limits represent the highest level of aggregate risk representation with break down to capital adequacy, liquidity and credit concentration limits. Alongside the limits the Risk Appetite Framework establishes also controls and procedures in case of limit breach and the roles regarding the definition and approval of RAF limits. The RAF limits define also the target amount of Available financial resources (internally assessed available capital sources) through the target AFR/ECAP ratio.

3.3 CREDIT RISK

Credit risk is the risk of financial loss arising from a debtor's failure to repay its financial obligations. Credit risk is, by scope and business strategic orientation, the most important risk for the Bank.

The credit risk is associated with financial assets measured at amortised cost (loans and other claims). For such assets the credit risk is evaluated with accurate credit risk analysis and corresponding credit classification of the borrower. Credit risk of derivative contracts is measured at replacement cost.

The replacement cost is made up of the positive value of the deal, which represents a positive difference between the settlement price and the contractual price of the instrument, increased for the add-on, accommodating for a potential increase of positive value. The replacement cost is made up of the positive value of the deal, which represents a positive difference between the settlement price and the contractual price of the instrument, increased for the add-on, accommodating for a potential increase of positive value.

Banka Koper's credit risk related portfolio as at 31 December 2015

(in thousands of euros)

Counterparties	Total risk 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	436,348	148,019	6%	148,019	7%	-	0%	-	0%	-	0%
Corporate entities	1,409,583	1,381,106	55%	1,201,997	52%	179,109	92%	18,215	2%	121,931	68%
Banks	357,069	326,983	13%	326,983	14%	-	0%	-	0%	-	0%
Private individuals	642,073	642,073	26%	626,631	27%	15,442	8%	1,947	0%	6,645	43%
Total	**2,845,073**	**2,498,181**	**100%**	**2,303,630**	**100%**	**194,551**	**100%**	**20,162**	**1%**	**128,576**	**66%**

Banka Koper's credit risk related portfolio at the end December 2015 amounted to EUR 2.498 million of which 92% is classified as performing.

Banka Koper's credit risk related portfolio as at 31 December 2014

(in thousands of euros)

Counterparties	Total risk 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	414,001	158,974	6%	158,974	7%	-	0%	-	0%	-	0%
Corporate entities	1,434,669	1,414,955	57%	1,224,263	54%	190,692	93%	21,557	2%	121,795	64%
Banks	308,769	279,177	11%	277,616	12%	1,561	1%	-	0%	3	0%
Private individuals	640,983	640,983	26%	628,437	27%	12,546	6%	1,348	0%	6,133	49%
Total	**2,798,422**	**2,494,089**	**100%**	**2,289,290**	**100%**	**204,799**	**100%**	**22,905**	**1%**	**127,931**	**62%**

Analyses by type of collateral

(in thousands of euros)

	2015		2014	
	Net loans	Fair value of collateral	Net loans	Fair value of collateral
Real estate	472,878	1,515,032	472,264	1,069,341
Bank guarantees	19,997	21,791	21,803	22,704
Personal guarantees	226,226	648,780	237,081	612,113
Debt securities	22,255	47,658	24,419	36,482
Government guarantees	151,174	151,229	133,560	140,883
Other collateral	111,923	425,843	108,558	245,653
Deposits	2,247	4,655	5,533	6,669
Insurance company guarantees	109,184	128,458	115,819	132,581
Total collateralised net loans	**1,115,884**	**2,943,446**	**1,119,037**	**2,266,426**
Unsecured	366,798		476,804	
Total net loans to customers	**1,482,682**		**1,595,841**	

2015 figures include loans pertaining to the merged Finor Leasing operations.

In general loans can be secured with one or more types of collateral. The Bank's decision when collateral is acceptable depends on the obligor's credit worthiness and the type, amount and maturity of lending facilities. The value of collateral is monitored and periodically revalued as its fair value changes. Securities and collective investment units are revalued weekly, whereas real estate is revalued yearly.

Credit risk measurement

The Bank`s credit portfolio includes cash exposures, commitments to lend and off-balance sheet commitments. The credit exposures arising from derivative contracts are reported at replacement cost.

(in thousands of euros)

Maximum exposure to credit risk	2015	2014
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans to banks	160,140	233,857
Loans to non-bank customers:	1,482,682	1,595,841
- Loans to individuals:	510,393	507,095
- overdrafts	28,723	32,725
- credit cards	18,224	20,171
- term loans	98,630	104,817
- mortgages	355,143	349,382
- finance leases	9,673	-
- Loans to sole proprietors	56,920	48,912
- Loans to corporate entities	915,369	1,039,834
Derivatives – hedge accounting	21	-
Advances	11,919	20,048
Available for sale financial assets:	307,908	283,505
- debt securities	307,908	283,505
Other assets	271,699	125,236
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	176,757	149,578
Credit commitments and other credit related liabilities	305,840	259,155
At 31 December	**2,716,966**	**2,667,220**

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Bank at 31 December 2015 and 2014, without taking into account any collateral held or other attached credit enhancements. 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 Bank`s credit portfolio is classified in 5 basic credit risk categories in accordance with the classification rules of the Bank of Slovenia. Exposures to obligors with the highest credit worthiness or exposures guaranteed by the state are classified in the A category, whereas the exposures to obligors with the lowest credit worthiness are classified in the E category. The credit ranking is supported by the probability that the obligor will not be able to repay the obligations. The credit assessment takes into account the financial standing of the obligor, the cash-flow availability to service the debt and payment regularity record. The performing obligors are classified A, B or C.

Obligors with internal rating calculated by statistical model are in parallel classified in 13 credit categories.

The bank has been developing internal ratings for all major obligor segments. The internal rating system is based on a statistical analysis of the default probability assigned to each obligor rating grade. Currently, internal ratings are assigned to Corporate obligors, while for the other segments the internal rating models is in the developing stage. The statistical model for corporate obligors is designed to contain the debtor's financial data, behavioural data and qualitative information, which jointly contributes to the final obligor's credit classification. The classification attribution process is supported by the system, which has required controls that are driving the logical process of the classification attribution.

The obligor's classification is compliant with the European Banking Authority requirements, which has established rules for the classification of exposures to performing or non-performing categories. The non-performing obligors are further broken-down into the following categories: past due, unlikely to pay and doubtful. The work-out strategy for non-performing obligors depends on whether the Bank evaluates the borrower as going concern or gone concern, with the later expecting that the financial difficulties cannot be resolved.

Banka Koper's classification	2015		2014	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
Performing	85	0.7	82	0.6
Watch list	4	7.6	5	8.1
Substandard	5	31.3	7	22.5
Doubtful	6	65.9	6	66.8
	100	**6.5**	**100**	**6.2**

Impairment provisions for credit risk

The amount of impairment provisions for credit risk is commensurate with the credit standing of the borrower and collateral received in pledge. Provisions are calculated using collective or individual approach. Credit risk losses are calculated individually for legal entities and sole proprietors, whose total exposure exceeds 75,000 euros and are classified as non-performing. Credit risk losses are computed with the appraisal of the expected amount of cash-flow collected from collateral and other disposable assets, discounted with contractual interest rate.

Under the collective provisioning methodology, provisions are calculated by expected default rates using loss rates (LGD). Default rates for collective impairment provision assessment are updated annually.

For the Corporate segment the probability of default is determined using the internal rating, whereas for other obligor segments the expected loss is estimated with calculation of annual migration rates between classification categories (Annual Default Rate). The estimation is made using the average of 5-year historical series.

Loss Given Default rates are estimated by groups of exposures of different obligors segments secured with the same type of collateral. The recovery rate is estimated using the ratio between the net present values of recoveries, less costs, and credit exposures at default (the work-out method). The estimation is made based on 6-year historical series of recovery data.

Loans that are considered genuinely unrecoverable are written off after all available legal actions have been taken. In cases where the amount of impairment is excessive due to improvement in the economic position of the obligor, the previously recognised impairment is reversed by debiting the loan losses adjustment account and crediting the income statement.

Large exposures

In order to limit the risk of large exposure, the Bank monitors the single-name credit concentration risk. The largest allowed exposure to a single borrower and connected entities is limited by law and should not exceed 25 per cent of the Bank's regulatory capital.

Country risk

(in thousands of euros)

As at 31 December 2015	Slovenia	EU	*Of which Italy*	Other Europe	Rest of world	Total
Cash, cash balances at Central Banks and other demand deposits at banks	93,244	138,184	*122,174*	573	2,239	**234,240**
Financial assets held for trading:	-	91	*91*	-	-	**91**
- derivative financial instruments	-	91	*91*	-	-	**91**
Financial assets designated at fair value through profit or loss	-	222	*222*	-	-	**222**
Available for sale financial assets	237,646	92,442	*81,632*	-	-	**330,088**
Loans and receivables:	1,426,529	163,584	*144,993*	36,447	28,181	**1,654,741**
- loans to banks	3,394	156,746	*141,746*	-	-	**160,140**
- loans to non-bank customers	1,414,626	5,880	*3,204*	36,441	25,735	**1,482,682**
- advances	8,509	958	*43*	6	2,446	**11,919**
Derivatives – hedge accounting	-	21	-	-	-	**21**
Contingent liabilities and commitments	**451,108**	**23,463**	***18,647***	**1,282**	**19**	**475,872**
Total exposures	**2,208,527**	**418,007**	***367,759***	**38,302**	**30,439**	**2,695,275**

Country risk

(in thousands of euros)

As at 31 December 2014	Slovenia	EU	*Of which Italy*	Other Europe	Rest of world	Total
Cash, cash balances at Central Banks and other demand deposits at banks	82,199	21,092	*16,379*	50	4,127	107,468
Financial assets held for trading:	-	110	*110*	-	-	110
- derivative financial instruments	-	110	*110*	-	-	110
Financial assets designated at fair value through profit or loss	-	267	*267*	-	-	267
Available for sale financial assets	208,785	88,572	*74,930*	-	-	297,357
Loans and receivables:	1,546,916	237,212	*179,719*	34,334	31,284	1,849,746
- loans to banks	3	229,742	*177,153*	4,112	-	233,857
- loans to non-bank customers	1,530,978	6,453	*2,548*	30,216	28,194	1,595,841
- advances	15,935	1,017	*18*	6	3,090	20,048
Derivatives – hedge accounting						
Contingent liabilities and commitments	**385,805**	**14,812**	***703***	**1,050**	**23**	**401,690**
Total exposures	**2,223,705**	**362,065**	***272,108***	**35,434**	**35,434**	**2,656,638**

On 31.12.2015 Banka Koper was exposed towards selected EU countries (Portugal, Ireland, Greece, Italy and Spain) only to Italy in the amount of EUR 367,759 thousand (31 December 2014: EUR 272,108 thousand). Out of this amount exposure to the parent company amounted to EUR 280,062 thousand (31 December 2014: EUR 190,695 thousand).

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

Loans and advances are summarised as follows:

Loans and advances by maturity (past due)

(in thousands of euros)

	31 December 2015		31 December 2014	
	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	1,363,305	160,140	1,425,431	232,782
Past due but not impaired	5,866	-	30,936	-
Impaired	254,393	-	283,012	1,075
Gross	**1,623,564**	**160,140**	**1,739,379**	**233,857**
Impairment losses on loans and advances	(140,882)	-	(143,538)	-
Net	**1,482,682**	**160,140**	**1,595,841**	**233,857**

(in thousands of euros)

31 December 2015	Individuals				Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages				
Neither past due nor impaired A	28,008	17,112	96,491	350,492	8,168	32,755	572,726	1,105,752
Neither past due nor impaired B	3	34	23	-	1	15,779	164,572	180,412
Neither past due nor impaired C	17	153	138	82	306	3,802	72,643	77,141
Total neither past due nor impaired	**28,028**	**17,299**	**96,652**	**350,574**	**8,475**	**52,336**	**809,941**	**1,363,305**
Not past due but impaired	71	8	868	2,895	860	2,332	74,277	81,311
Past due but not impaired	312	734	198	195	73	268	4,086	5,866
Past due and impaired	1,266	952	2,469	5,052	695	9,052	153,596	173,082
Gross	**29,677**	**18,993**	**100,187**	**358,716**	**10,103**	**63,988**	**1,041,900**	**1,623,564**
Impairment losses on loans and advances	(954)	(769)	(1,557)	(3,573)	(430)	(7,068)	(126,531)	(140,882)
Net	**28,723**	**18,224**	**98,630**	**355,143**	**9,673**	**56,920**	**915,369**	**1,482,682**

Loans under "not past due but impaired" relate mainly to restructured loans.

(in thousands of euros)

31 December 2014	Individuals				Sole proprietors	Corporate entities	Total loans and advances to customers
	Overdrafts	Credit Cards	Term loans	Mortgages			
Neither past due nor impaired A	31,819	18,485	102,622	345,299	23,688	523,695	1,045,608
Neither past due nor impaired B	2	45	2	-	20,472	358,146	378,667
Neither past due nor impaired C	93	537	279	247	-	-	1,156
Total neither past due nor impaired	**31,914**	**19,067**	**102,903**	**345,546**	**44,160**	**881,841**	**1,425,431**
Not past due but impaired	89	17	1,051	1,917	1,739	86,731	91,544
Past due but not impaired	316	904	282	291	152	28,991	30,936
Past due and impaired	1,577	1,027	2,200	4,458	10,559	171,647	191,468
Gross	**33,896**	**21,015**	**106,436**	**352,212**	**56,610**	**1,169,210**	**1,739,379**
Impairment losses on loans and advances	(1,171)	(844)	(1,619)	(2,830)	(7,698)	(129,376)	(143,538)
Net	**32,725**	**20,171**	**104,817**	**349,382**	**48,912**	**1,039,834**	**1,595,841**

Ageing of past due loans and advances to customers by type of customer, product and portfolio quality

(in thousands of euros)

31 December 2015	Individuals										Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	157	7	617	17	174	41	162	169	57	16	1,417
Past due 30 - 60 days	75	2	92	10	20	36	21	113	14	15	398
Past due 60 - 90 days	79	17	24	12	4	15	8	106	2	16	283
Past due over 90 days	1	1,240	1	913	-	2,377	4	4,664	-	648	9,848
Total	**312**	**1,266**	**734**	**952**	**198**	**2,469**	**195**	**5,052**	**73**	**695**	**11,946**

31 December 2015	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	177	42	3,444	1,135	4,798
Past due 30 - 60 days	76	135	448	858	1,517
Past due 60 - 90 days	12	48	181	159	400
Past due over 90 days	3	8,827	13	151,444	160,287
Total	**268**	**9,052**	**4,086**	**153,596**	**167,002**

Ageing of past due loans and advances to customers by type of customer, product and portfolio quality

(in thousands of euros)

31 December 2014	Individuals								Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	192	16	750	9	214	25	219	24	1,449
Past due 30 - 60 days	76	40	112	23	35	30	34	223	573
Past due 60 - 90 days	46	3	38	15	20	52	18	9	201
Past due over 90 days	2	1,518	4	980	13	2,093	20	4,202	8,832
Total	**316**	**1,577**	**904**	**1,027**	**282**	**2,200**	**291**	**4,458**	**11,055**

31 December 2014	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	64	180	27,099	10,608	37,951
Past due 30 - 60 days	54	173	725	24,621	25,573
Past due 60 - 90 days	31	34	22	6,986	7,073
Past due over 90 days	3	10,172	1,145	129,432	140,752
Total	**152**	**10,559**	**28,991**	**171,647**	**211,349**

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 Bank as security, is as follows:

(in thousands of euros)

31 December 2015	Individuals	Sole proprietors	Corporate entities	Total
Individually impaired loans	-	7,185	220,171	227,356
Fair value of collateral	-	14,453	303,803	318,256

(in thousands of euros)

31 December 2014	Individuals	Sole proprietors	Corporate entities	Total
Individually impaired loans	-	7,925	250,992	258,917
Fair value of collateral	-	11,257	245,721	256,978

In 2015, the Bank received EUR 8,441 thousand from the sale of pledged collateral.

3.5 LIQUIDITY RISK

Liquidity risk is defined as the risk of not being able to meet payment obligations as they fall due, due to difficulties to finance liquidity needs, or convert marketable assets into cash, including potential losses incurred due to forced trades. In order to manage liquidity risk, the Bank monitors liquidity ratio levels and mandatory reserves on a daily basis in order to maintain adequate liquidity position.

The minimum liquidity to be maintained by banks is defined by the Bank of Slovenia Regulation on the minimum requirements for ensuring an adequate liquidity position (Ur. l. RS, št. 50/15), establishing a minimum liquidity ratio for assets and liabilities with maturity up to one month.

The liquidity position of the Bank is monitored with two additional ratios, the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio). The ratios have been introduced globally as principal liquidity measures necessary to ensure a minimum short-term liquidity as well long-term balanced funding of banks. Beside the mentioned indicators, the Bank as well calculates the so-called 'Stress LCR', which is meant for monitoring the Bank's liquidity position in uncertain (stress) situation. All indicators are calculated in accordance with the Capital Requirements Regulation (575/2013) (CRR). LCR and NSFR indicators are regularly reported to ALCO and Audit Committee.

The Treasury and ALM Department manages at the operating level the liquidity with daily cash-flow planning and maintains an adequate amount of eligible assets as collateral necessary for refinancing with the ECB.

The measures aimed at managing a liquidity crisis are defined with the Contingent Liquidity Plan, establishing early warning indicators and roles and actions to be considered in adverse financial circumstances.

(in thousands of euros)

As at 31 December 2015	Carrying amount	Gross nominal Inflow/(outflow)	Expected maturity				
			Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
ASSETS							
Cash, cash balances at Central Banks and other demand deposits at banks	234,240	234,240	218,046	-	-	-	16,194
Financial assets designated at fair value through profit or loss	222	222	-	-	-	222	-
Available for sale financial assets	330,088	330,090	914	28,205	56,128	209,130	35,713
Loans and receivables:	1,654,741	1,670,173	176,233	144,525	287,889	641,312	420,214
- loans to banks	160,140	160,140	65,640	84,500	10,000	-	-
- loans to non-bank customers	1,482,682	1,498,114	106,373	52,326	277,889	641,312	420,214
- advances	11,919	11,919	4,220	7,699	-	-	-
Total assets	**2,219,291**	**2,234,725**	**395,193**	**172,730**	**344,017**	**850,664**	**472,121**

(in thousands of euros)

As at 31 December 2015			Expected maturity				
	Carrying amount	Gross nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
Financial liabilities measured at amortised cost:	1,971,643	(1,971,643)	(1,314,742)	(179,930)	(299,491)	(129,656)	(47,824)
- deposits from banks and central banks	22,821	(22,820)	(8,821)	-	(2,333)	(9,333)	(2,333)
- deposits from non-bank customers	1,776,685	(1,776,686)	(1,285,832)	(172,435)	(285,563)	(29,527)	(3,329)
- loans from banks and central banks	149,481	(149,481)	(1,905)	(3,075)	(11,571)	(90,768)	(42,162)
- loans from non-bank customers	60	(60)	(3)	(5)	(24)	(28)	-
- other financial liabilities	22,596	(22,596)	(18,181)	(4,415)	-	-	-
Total liabilities	**1,971,643**	**(1,971,643)**	**(1,314,742)**	**(179,930)**	**(299,491)**	**(129,656)**	**(47,824)**
Net liquidity gap	**247,648**	**263,082**	**(919,549)**	**(7,200)**	**44,526**	**721,008**	**424,297**

As at 31 December 2014			Expected maturity				
	Carrying amount	Gross nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
Total assets	2,254,838	2,273,714	438,298	224,127	406,962	733,540	470,787
Total liabilities	1,994,009	(1,994,009)	(1,122,426)	(218,063)	(414,418)	(181,593)	(57,509)
Net liquidity gap	**260,829**	**279,705**	**(684,128)**	**6,064**	**(7,456)**	**551,947**	**413,278**

The negative value of the net liquidity gap in the 1 month bucket is mostly generated by the sight deposits volumes. Although sight deposits have O/N or sight formal contractual maturity, they are usually treated (for liquidity indicators calculation) according to a behavioural model or fixed percentage representing the stable part of the item. The stable part usually represent from 40 to 60% of sight deposits. Also, on the assets side, available for sale financial assets include ECB eligible bonds and that are usually automatically treated as reserve liquidity (up to 1 month maturity). Considering both adjustments (stable part of sight deposits and ECB eligible bonds) the 1 month net liquidity gap moves to positive value, the LCR liquidity indicator is strongly positive.

(in thousands of euros)

As at 31 December 2015			Expected maturity				
	Carrying amount	Nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
DERIVATIVE ASSETS							
Derivatives held for trading:							
Forward currency	**-**	**76**	**76**	**-**	**-**	**-**	**-**
Inflow		76	76	-	-	-	-
Interest rate cap	**91**	**(140)**	**-**	**-**	**11**	**657**	**(808)**
Inflow		100,655	-	-	38	18,965	81,652
Outflow		(100,795)	-	-	(27)	(18,308)	(82,460)
Total	**91**	**(64)**	**76**	**-**	**11**	**657**	**(808)**
DERIVATIVE LIABILITIES							
Derivatives held for trading:							
Forward currency	**-**	**(76)**	**(76)**	**-**	**-**	**-**	**-**
Outflow		(76)	(76)	-	-	-	-
Interest rate cap	**1**	**4**	**-**	**-**	**(1)**	**(33)**	**38**
Inflow		2,053	-	-	5	1,675	373
Outflow		(2,049)	-	-	(6)	(1,708)	(335)
Total	**1**	**(72)**	**(76)**	**-**	**(1)**	**(33)**	**38**
Net liquidity gap		**(136)**	**-**	**-**	**10**	**624**	**(770)**

As at 31 December 2014			Expected maturity				
	Carrying amount	Nominal Inflow/(outflow)	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
Total derivative held for trading assets	110	21,999	110	9,617	12,718	1,409	(1,855)
Total derivative held for trading liabilities	148	(22,392)	(110)	(22,296)	(18)	(101)	133
Net liquidity gap		**(393)**	**-**	**(12,679)**	**12,700**	**1,308**	**(1,722)**

(in thousands of euros)

As at 31 December 2015	Carrying amount	Nominal Inflow/(outflow)	Expected maturity Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
DERIVATIVE ASSETS							
Derivatives held for hedge accounting:							
IRS	**21**	**22**	**-**	**91**	**(126)**	**57**	**-**
Inflow		1,091	-	91	306	694	-
Outflow		(1,069)	-	-	(432)	(637)	-
Total	**21**	**22**	**-**	**91**	**(126)**	**57**	**-**
DERIVATIVE LIABILITIES							
Derivatives held for hedge accounting:							
IRS	**66**	**(67)**	**-**	**(116)**	**63**	**(14)**	**-**
Inflow		1,228	-	73	251	904	-
Outflow		(1,295)	-	(189)	(188)	(918)	-
Total	**66**	**(67)**	**-**	**(116)**	**63**	**(14)**	**-**
Net liquidity gap		**(45)**	**-**	**(25)**	**(63)**	**43**	**-**

As at 31 December 2014	Carrying amount	Nominal Inflow/(outflow)	Expected maturity Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years
Total derivative held for hedge accounting assets	-	-	-	-	-	-	-
Total derivative held for hedge accounting liabilities	38	(38)	-	(38)	-	-	-
Net liquidity gap	**-**	**(38)**	**-**	**(38)**	**-**	**-**	**-**

Cash flows of interest rate caps, interest options and interest rate swaps represent just the difference between contractual price and market price of the derivative.

(in thousands of euros)

As at 31 December 2015	Expected maturity No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	160	-	-	160
Guarantees	114,395	39,349	21,025	174,769
Credit commitments	287,252	18,098	-	305,350
Total	**401,807**	**57,447**	**21,025**	**480,279**

As at 31 December 2014	Expected maturity No later than 1 year	1-5 years	Over 5 years	Total
Total	**345,438**	**33,169**	**26,943**	**405,550**

3.6 BANKING BOOK EQUITY RISK

Equity risk is defined as the risk of unexpected losses arising from positions in available-for sale equity investments (shares or equity participations).
The Bank acquired these equity investments mainly with the repossession of financial collaterals arising from lending activity. These investments are managed pursuing the target of disposal in order to recover the relative credit exposures.

3.7 MARKET RISK

Market risk mainly arises from trading activities. The Bank only performs trading activities with the aim to respond to the demand of its customers and these activities mostly consist of buying and selling currency and derivative contracts.

The operational risk arising from trading activities are managed on the basis of a clear division between the front and back-office operations, which assures adequate controls and segregation of functions.

3.7.1 Derivative instruments

The Bank takes on derivative transactions only for the purpose of serving customers requests. Since the Bank is not willing to assume any financial risk embedded in derivative contracts (position risk or change in the fair value of a derivative due to change in the value of the underlying asset), each single transaction is fully hedged back-to-back by immediately executing an offsetting transaction with another bank. The Bank assumes only the counterparty risk in these transactions, i.e. risk of substituting the original contract with another counterparty. Counterparty risk is assessed by measuring the replacement cost of the contract.

3.7.2 Currency Risk

When there is an open position in a particular currency, the Bank is exposed to currency risk. The open currency position in a particular foreign currency is the difference between assets and liabilities denominated in that currency. For the purpose of measuring currency risk, the Bank takes into account the overall position composed of assets and liabilities denominated in that currency, FX spot transactions and currency derivatives.

The Bank measures and monitors currency risk on a daily basis:
- as a notional open position for a particular currency, and
- as Value-at-Risk (VAR) for the global currency position.

The Value-at-Risk is a statistical estimation of a maximum loss at the 99 per cent confidence level over a 1-day period. The Value-at-Risk measure is proportional to the currencies open position and to the exchange rate volatility.

(in million of euros)

	12 months to 31 December 2015			12 months to 31 December 2014		
	Average	High[1]	Low[1]	Average	High[1]	Low[1]
Foreign exchange risk (trading and non-trading portfolio)	2	7	-	1	3	-
Bond risk (banking book)	582	885	400	760	1,087	510
Total VAR	**584**	**892**	**400**	**761**	**1,090**	**510**

[1] Highest and lowest 99% VaR calculated for one-day observation period for the 12-month period as indicated in the table.

Currency risk

(in thousands of euros)

As at 31 December 2015	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks and other demand deposits at banks	208,629	10,194	15,417	234,240
Financial assets held for trading:	91	-	-	91
- derivative financial instruments	91	-	-	91
Financial assets designated at fair value through profit or loss	222	-	-	222
Available for sale financial assets	310,495	19,593	-	330,088
Loans and receivables:	1,580,095	64,066	10,580	1,654,741
- loans to banks	117,176	38,446	4,518	160,140
- loans to non-bank customers	1,451,017	25,612	6,053	1,482,682
- advances	11,902	8	9	11,919
Derivatives – hedge accounting	-	21	-	21
Total assets	**2,099,532**	**93,874**	**25,997**	**2,219,403**
LIABILITIES				
Financial liabilities held for trading:	1	-	-	1
- derivative financial instruments	1	-	-	1
Financial liabilities measured at amortised cost:	1,848,886	96,579	26,178	1,971,643
- deposits from banks and central banks	18,232	4,576	13	22,821
- deposits from non-bank customers	1,689,499	61,037	26,149	1,776,685
- loans from banks and central banks	121,374	28,107	-	149,481
- loans from non-bank customers	60	-	-	60
- other financial liabilities	19,721	2,859	16	22,596
Derivatives – hedge accounting	-	66	-	66
Total liabilities	**1,848,887**	**96,645**	**26,178**	**1,971,710**
Net balance sheet position	**250,645**	**(2,771)**	**(181)**	**247,693**
Part of contingent liabilities and commitments sensitive to currency risk	**289,612**	**14,395**	**1,384**	**305,391**

(in thousands of euros)

As at 31 December 2014	EUR	USD	Other	Total
Total assets	2,150,661	82,335	21,952	2,254,948
Total liabilities	1,889,630	82,565	22,000	1,994,195
Net balance sheet position	**261,031**	**(230)**	**(48)**	**260,753**
Credit commitments	**248,400**	**11,677**	**-**	**260,077**

3.7.3 Interest rate risk

Interest rate risk

(in thousands of euros)

As at 31 December 2015	Carrying amount	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non- interest bearing
ASSETS							
Cash and balances with central banks and other demand deposits at banks	234,240	83,742	-	-	-	16,194	134,304
Financial assets held for trading:	91	-	91	-	-	-	-
- derivative financial instruments	91	-	91	-	-	-	-
Financial assets measured at fair value through profit or loss	222	-	-	-	-	-	222
Derivatives – Hedge accounting	21	-	21	-	-	-	-
Available for sale financial assets	330,088	913	28,205	97,460	154,344	26,985	22,181
Loans and receivables:	1,654,741	244,601	301,272	1,016,726	31,189	33,084	27,869
- loans to banks	160,140	65,640	84,500	10,000	-	-	-
- loans to non-bank customers	1,482,682	178,961	216,772	1,006,726	31,189	33,084	15,950
- advances	11,919	-	-	-	-	-	11,919
Total assets	**2,219,403**	**329,256**	**329,589**	**1,114,186**	**185,533**	**76,263**	**184,576**

(in thousands of euros)

As at 31 December 2015	Carrying amount	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non- interest bearing
LIABILITIES							
Financial liabilities held for trading:	1	-	1	-	-	-	-
- derivative financial instruments	1	-	1	-	-	-	-
Financial liabilities measured at amortised cost:	1,971,643	1,332,597	273,132	310,497	29,492	3,329	22,596
- deposits from banks and central banks	22,821	8,821	-	14,000	-	-	-
- deposits from non-bank customers	1,776,685	1,285,914	172,435	285,543	29,464	3,329	-
- loans from banks and central banks	149,481	37,859	100,692	10,930	-	-	-
- loans from non-bank costumers	60	3	5	24	28	-	-
- other financial liabilities	22,596	-	-	-	-	-	22,596
Derivatives – Hedge accounting	66	-	66	-	-	-	-
Total liabilities	**1,971,710**	**1,332,597**	**273,199**	**310,497**	**29,492**	**3,329**	**22,596**
Total interest repricing gap		**(1,003,341)**	**56,390**	**803,689**	**156,041**	**72,934**	

As at 31 December 2014	Carrying amount	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non- interest bearing
Total assets	2,254,948	475,430	364,200	1,124,985	145,163	67,250	77,920
Total liabilities	1,994,195	1,154,303	299,732	432,212	84,037	3,903	20,008
Total interest repricing gap	**260,753**	**(678,873)**	**64,468**	**692,773**	**61,126**	**63,347**	

The tables above summarises the Bank's exposure to interest rate risk. The assets and liabilities are recorded at their carrying amounts, while the residual maturity is presented by contractual maturity for fixed-rate positions and by next contractual re-pricing date for floating rate positions.

The Bank measures the following sources of interest rate risk:
- Repricing risk, stemming from a different interest rate adjustment of assets and liabilities to market interest rate changes. For fixed rate contracts the interest rate can be adjusted to market rate only at maturity, while floating rate contracts are adjusted according to contract revision of the interest rate and adjustment to market reference rate;
- Basis risk arises from imperfect correlation between different types of interest rates, which are relevant market rate reference for floating rate contracts;
  Interest rate risk is measured from two perspectives: it is analysed through the impact of market rate change on net present value of future cash flows and, on the other hand, it is viewed through the impact of market rate changes on net interest income and therefore on the Bank's annual financial results.

Accordingly, the following data are reported to the ALCO :
- Sensitivity of net interest income to a yield curve parallel shift of 100 bps over a 1-year time horizon;
- Sensitivity of economic value or net present value of future cash flows to a yield curve parallel shift of +/- 100 bps and +/- 200 bps;

The measurement of Interest rate risk is further improved by using the following models:
- Sight model: Assets without contractual maturities are classified into specific time buckets based on their estimated sensitivity on changes in interest rates.
- Prepayment model based on the probability that some of the loans outstanding will be paid off earlier than originally scheduled. Consequently, the planned cash flows of the outstanding loans are modified for the level of prepayment rate.
- Excepted loss model: cash flows of outstanding loans are modified for the probability of default rate originating from credit risk.
- Fund Transfer Pricing model: the entire spread on loans above the reference rate is divided into cost of funding and commercial spread. For interest-sensitive cash flows only the spread representing cost of funding is taken.

(min EUR)		+100 b.p.			-100 b.p.		
		Sight	Term	Total	Sight	Term	Total
Total		**(5.4)**	**5.4**	**(0.0)**	**0.4**	**(0.4)**	**(0.0)**
Asset		**2.1**	**9.4**	**11.5**	**(0.0)**	**(0.7)**	**(0.7)**
Sight Loans		2.1		2.1	(0.0)		(0.0)
Securities	FX		0.4	0.4		-	-
	FL		0.2	0.2		-	-
Loans	FX		1.5	1.5		(0.4)	(0.4)
	FL		7.3	7.3		(0.3)	(0.3)
Other Financial Assets	FX		-	-		-	-
	FL		-	-		-	-
Liabilities		**(7.5)**	**(4.2)**	**(11.7)**	**0.4**	**0.4**	**0.8**
Sight Deposits		(7.5)		(7.5)	0.4		0.4
Securities Issued	FX		-	-		-	-
	FL		-	-		-	-
Debts	FX		(3.1)	(3.1)		0.2	0.2
	FL		(1.1)	(1.1)		0.2	0.2
Other Financial Liabilities	FX		-	-		-	-
	FL		-	-		-	-
Derivatives			**0.2**	**0.2**		**(0.1)**	**(0.1)**

(min EUR)		+100 b.p.			-100 b.p.		
		Sight	Term	Total	Sight	Term	Total
Total		**(4.9)**	**6.7**	**1.8**	**1.0**	**(1.5)**	**(0.5)**
Asset		**1.9**	**13.1**	**15.0**	**(0.4)**	**(3.0)**	**(3.4)**
Sight Loans		1.9	-	1.9	(0.4)	-	(0.4)
Securities	FX	-	0.7	0.7	-	(0.1)	(0.1)
	FL	-	0.1	0.1	-	-	-
Loans	FX	-	2.3	2.3	-	(0.6)	(0.6)
	FL	-	10.0	10.0	-	(2.3)	(2.3)
Other Financial Assets	FX	-	-	-	-	-	-
	FL	-	-	-	-	-	-
Liabilities		**(6.8)**	**(6.4)**	**(13.2)**	**1.4**	**1.5**	**2.9**
Sight Deposits		(6.8)		(6.8)	1.4	-	1.4
Securities Issued	FX	-	-	-	-	-	-
	FL	-	-	-	-	-	-
Debts	FX		(5.0)	(5.0)		1.1	1.1
	FL		(1.4)	(1.4)		0.4	0.4
Other Financial Liabilities	FX	-	-	-	-	-	-
	FL	-	-	-	-	-	-
Derivatives		-	**-**	**-**	**-**	**-**	**-**

The sensitivity of net interest income on +/-100 bps interest rate equalled in increase/decrease of profit 2015 as follows:
- 100 bps increase: (0.2) million euros;
- 100 bps decrease: (0.2) million euros.

min (EUR)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(6.44)**	(3.39)	0.84	2.02	(2.84)	(2.17)	(0.90)
USD	**(0.19)**	(0.17)	(0.13)	0.11	-	-	-
CHF	**(0.03)**	(0.05)	-	0.04	(0.01)	(0.01)	-
Other	**0.03**	-	0.01	0.02	-	-	-
Total Shift	**(6.63)**	(3.61)	0.72	2.19	(2.85)	(2.18)	(0.90)
Limit	**9.0**						
Utilization %	**73.55%**						

In the table is presented the interest rate risk exposure of the Bank in terms of shift sensitivity, which measures the change of net present value of future cash-flows, as a result of parallel shift of market yield curve by 100 b.p. Each time-bucket shows the impact of interest rate change on net present value of cash-flows, distributed by time tenors according to residual time to next repricing The most significant exposure is in EUR currency, while the risk for other currencies is less material. The global exposure limit for 100 bps shift sensitivity amounts to 9.0 million EUR, while the actual exposure at reference date is 6.5 million EUR.

Time bucket	Limit	Exposure
0–18 months	+/- 6.0	(3.61)
from 19 months–5 years	+/- 8.0	2.92
>5 years	+/- 8.0	(6.00)

min (EUR)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(1.95)**	(0.88)	1.44	2.88	(2.62)	(1.99)	(0.78)
USD	**0.26**	0.04	0.09	0.13	-	-	-
CHF	**-**	-	-	-	-	-	-
Total Shift	**(1.69)**	(0.84)	1.53	3.01	(2.62)	(1.99)	(0.78)
Limit	**9.0**						
Utilization %	**18.4%**						

min (EUR)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(11.12)**	(5.52)	1.66	3.95	(5.47)	(4.10)	(1.64)
USD	**(0.37)**	(0.34)	(0.24)	0.21	-	-	-
CHF	**0.00**	(0.07)	0.03	0.09	(0.02)	(0.02)	(0.01)
Other	**0.08**	0.01	0.03	0.04	-	-	-
Total Shift	**(11.41)**	(5.92)	1.48	4.29	(5.49)	(4.12)	(1.65)
Reg,Capital (Sept 15)	**259.9**						
20% of Reg. Capital	**4.4%**						

min (EUR)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(3.48)**	(1.75)	2.85	5.63	(5.05)	(3.74)	(1.42)
USD	**0.51**	0.09	0.17	0.25	-	-	-
CHF	**-**	(0.07)	0.04	0.06	(0.01)	(0.01)	(0.01)
Other	**0.08**	0.01	0.03	0.04	-	-	-
Total Shift	**(2.89)**	(1.72)	3.09	5.98	(5.06)	(3.75)	(1.43)
Reg,Capital (Sept 12)	**256.9**						
20% of Reg. Capital	**1.1%**						

According to this "economic"measure, the Bank would be negatively affected by a rate increase, whereas a rate decrease would have a positive impact.

The effective annual interest rate of individual financial instruments

	2015			2014		
	EUR	USD	Other	EUR	USD	Other
Assets						
Cash and balances at central banks and other demand deposits at banks	1.00	0.40	1.00	1.00	-	-
Loans and advances to banks	0.11	1.45	1.06	0.29	0.15	0.29
Loans and advances to non-bank customers	2.74	3.20	0.94	2.98	3.01	1.81
Available for sale financial assets	2.49	4.19	-	3.21	-	-
Liabilities						
Deposits from banks and central banks	0.12	-	0.60	0.24	-	-
Deposits from non-bank customers	0.32	0.11	0.01	0.76	0.15	0.07
Other borrowed funds	1.48	2.09	-	1.57	1.89	-

The table above summarises the effective annual interest rate for monetary financial instruments not carried at fair value through profit or loss by major currency:

3.8 OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, systems, human behaviour or mistakes or from external events. The definition also includes legal risk, representing the risk of ineffective legal execution or defective legal documentation, as well as compliance risk, which is the risk of failure to comply with laws, rules, regulations, agreements and practices. However, the definition excludes strategic and reputational risk.
The objectives of operational risk management are to:
- Protect assets, preserve and safeguard material and intellectual Bank's assets.
- Control and proactively monitor processes to ensure that significant risks are swiftly identified.
- Comply with requirements and processes established with internal rules and external regulations.

The process of operational risk management comprises the identification, measurement or evaluation, control and monitoring of operational risk. The process of operational risk measurement and management is assisted by the risk mitigation tool developed by the parent company designed to support the carrying out of the following activities:
- Loss data collection,
- Business environment evaluation,
- Scenario analysis,
- Mitigation actions management, and
- Monitoring and reporting.

The systematic loss data collection makes it possible to perform immediate analysis of loss event causes and to adopt corrective actions. This procedure supports the compliance with general operational risk management standards.

First level operational risk management is carried out by the person directly responsible for operations in each organisational unit. The Risk Management Department, which is responsible for the operational loss data collection and the self-assessments activity with the involvement of the Level 1 organisational units, is in charge of second level operational risk management processes. The self-assessment activity is necessary to explore the level of the Bank's exposure to operational risk and to evaluate the risk appetite measure.

The Risk Management Department assisted by the Operational Risk Group (composed of the persons responsible from the most important first-level organisational units), reports on a quarterly basis to the Management Board and proposes remedial actions.

3.9 FAIR VALUE OF ASSETS AND LIABILITIES

Fair value of assets and liabilities

(in thousands of euros)

	2015			2014		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks	234,240	234,240	-	107,468	107,468	-
Financial assets held for trading:	91	91	-	110	110	-
- derivative financial instruments	91	91	-	110	110	-
Financial assets designated at fair value through profit or loss	222	222	-	267	267	-
Available for sale financial assets	330,088	330,088	-	297,357	297,357	-
Derivatives-hedge accounting	21	21	-			
Loans and receivables:	1,654,741	1,653,599	(1,142)	1,849,746	1,845,201	(4,545)
- loans to banks	160,140	160,140	-	233,857	233,857	-
- loans to non-bank customers	1,482,682	1,481,540	(1,142)	1,595,841	1,591,296	(4,545)
- advances	11,919	11,919	-	20,048	20,048	-
Investment in subsidiaries	-	-	-	3,688	3,688	-
Other assets	11,712	11,712	-	869	869	-
Total assets	**2,231,115**	**2,229,973**	**(1,142)**	**2,259,505**	**2,254,960**	**(4,545)**
LIABILITIES						
Financial liabilities held for trading:	1	1	-	148	148	
- derivative financial instruments	1	1	-	148	148	-
Financial liabilities measured at amortised cost:	1,971,643	1,970,961	(682)	1,994,009	1,994,744	735
- deposits from banks and central banks	22,821	22,952	131	22,531	22,767	236
- deposits from non-bank customers	1,776,685	1,776,271	(414)	1,796,653	1,797,094	441
- loans from banks and central banks	149,481	149,083	(398)	152,728	152,757	29
- loans from non-bank customers	60	59	(1)	2,216	2,245	29
- other financial liabilities	22,596	22,596	-	19,881	19,881	-
Derivatives-hedge accounting	66	66	-	38	38	-
Other liabilities	3,734	3,734	-	1,639	1,639	
Total liabilities	**1,975,444**	**1,974,762**	**(682)**	**1,995,834**	**1,996,569**	**735**

Fair value of financial instruments

Derivatives

Accounting for derivatives at fair value is performed on the basis of observable market inputs. Derivative financial instruments subject to valuation are: interest rate swaps, interest rate caps, foreign exchange swaps, forward foreign exchange contracts. The fair value of derivatives is determined with the support of Murex, a system developed by the parent company. The system takes input data from the money market official quotations and from Reuters system. The fair value of interest rate swaps is the net present value of future cash flows, based upon spot and forward money market interest rates. The fair value of more complex derivatives such as caps is calculated by the parent company and is measured using the Black's Model with SABR volatility.

Hedge accounting

The Bank hedges its long-term fixed income financial instruments with fixed interest rate in accordance with the hedge accounting rules. Hedging is undertaken using interest rate swap derivative contracts, allowing the transformation of fixed rate to floating rate associated to referential interbank rate. The risk is hedged using the fair value method and the effectiveness of the hedging relationship is regularly measured by calculating the prospective and retrospective efficiency tests. For the prospective test the Bank is measuring the relationship between the interest rate sensitivity of the derivative and the sensitivity of the hedged item, whereas for the retrospective test the 'Dollar offset method"is used.

Financial instruments available for sale

Currently, the Bank's portfolio containing available-for-sale financial assets (AFS) is composed of bonds and shares. Both instruments are measured at fair value.

The fair value of bonds is derived from their quoted market prices.

The fair value of shares listed on the active stock market is their market value, whereas for the non-listed shares or illiquid shares, the fair value is determined using the internal valuation model. The internal valuation is carried out by applying the price multiples method. The difference between the model and market valuation (when shares are quoted but market is not active), for all positions, as at 31 December 2015 amounted to 354 thousand euros.

The basis for the calculation under the above method are the available market valuations of comparable enterprises, in connection with financial ratios and multiples of their traded shares in the valuation of non-traded or illiquid shares. A condition for the application of the method is the availability of at least two comparable enterprises with listed shares. The latter shall be comparable by industry, market capitalisation, size and geographical location.

Information on financial ratios (price multiples) for comparable enterprises shall be obtained from independent sources, such as the Ljubljana Stock Exchange, Reuters, etc.

The share value is based on the following price multiples of comparable enterprises:
- EV/S (enterprise value / sales);
- EV/EBITDA (enterprise value / EBIT + depreciation);
- P/E (price-to-earnings);
- P/BV (price / book value);

The basis for the estimation are the financial statements of the comparable enterprises:
- balance sheet (for the preceding 3 financial years);
- income statement (for the preceding 3 financial years).

The final value is computed as the average of the multiples, whereby multiples considered as inadequate, are omitted.

(in thousands of euros)

	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset								
Derivatives	-	91	-	**91**	-	110	-	**110**
AFS:	691	320,452	8,945	**330,088**	9,079	282,756	5,522	**297,357**
- debt	-	307,907	-	**307,907**	2,678	280,827	-	**283,505**
- equities	691	12,545	8,945	**22,181**	6,401	1,929	5,522	**13,852**
FVTPL – equities	222	-	-	**222**	267	-	-	**267**
Loans and receivables	-	276,755	1,377,986	**1,654,741**	-	417,096	1,432,650	**1,849,746**
Liabilities								
Derivatives	-	1	-	**1**	-	148	-	**148**
Financial liabilities, measured at amortised cost	-	1,421,904	549,739	**1,971,643**	-	1,358,721	635,288	**1,994,009**

In the year 2014 the Bank changed its methods of valuation from model to market prices (transfer from level 2 to level 1) for two equity positions (Cinkarna Celje and Pivovarna Laško).

Movement of financial instrument included in level 3

(in thousands of euros)

	At January 2015	Purchase/ Sales	Unrealized gains/losses recorded in P&L	Unrealized gains/ losses recorded in revaluation reserve	Realized gains/ losses recorded in P&L	Transfers out of level 3	Transfers into level 3	At 31 December 2015
Asset								
AFS equities	5,522	-	-	3,423	-	-	-	8,945

(in thousands of euros)

	At January 2014	Purchase/ Sales	Unrealized gains/losses recorded in P&L	Unrealized gains/ losses recorded in revaluation reserve	Realized gains/ losses recorded in P&L	Transfers out of level 3	Transfers into level 3	At 31 December 2014
Asset								
AFS equities	14,745	(89)	(7,434)	1,170	43	(2,913)	-	5,522

4. NET INTEREST INCOME

(in thousands of euros)

	2015	2014
Interest income		
Central bank deposits	8	8
Loans and advances (including finance leases):	49,948	58,527
- to banks	400	599
- to other customers	49,548	57,928
Investment securities (AFS and HTM)	5,993	7,797
Derivatives – hedge accounting	448	-
Other	2	-
Total	**56,399**	**66,332**
Interest expense		
Financial liabilities measured at amortised cost		
- Deposits from central banks	-	50
- Bank deposits and borrowings	43	92
- Other customers	8,775	17,482
- Other borrowed funds	2,545	2,735
Derivatives - hedge accounting	585	251
Derivatives - HFT	111	362
Other	234	10
Total	**12,293**	**20,982**
Total	**44,106**	**45,350**

5. DIVIDEND INCOME

(in thousands of euros)

	2015	2014
Investment securities	541	1,103
Dividends from FVPL shares	4	11
Total	**545**	**1,114**

6. NET FEE AND COMMISSION INCOME

(in thousands of euros)

	2015	2014
Fee and commission income		
From current bank account management	3,898	3,901
From payment services	10,365	10,467
From credit card business	8,326	8,640
From interbanking operations	8,330	8,369
From loans granted	4,232	3,849
From guarantees given	1,527	1,519
From safe renting	74	76
From pension fund management	547	511
Depositary services	1,097	910
From payment systems management	1,697	1,765
From brokering of loans and insurance contract on behalf of others	185	189
Total	**40,278**	**40,196**
Fee and commission expense		
For security trading	54	56
For loan brokerage on behalf of others	145	107
For custody services	415	354
For credit card processing	10,413	10,106
For payment transactions	2,615	2,799
Commitment fee for unused credit lines	173	952
Total	**13,815**	**14,374**
Total	**26,463**	**25,822**

7. REALISED GAINS AND LOSSES OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)

	2015	2014
Loss/income due to sale of investment securities*	4,909	3,742
Write offs of loans and other assets	(2,311)	(1,290)
Recoveries from write offs of loans and other assets	-	171
Total	**2,598**	**2,623**

*From released revaluation reserve EUR 4,235 thousand (2014: EUR 1,990 thousand).

8. GAINS AND LOSSES OF FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

(in thousands of euros)

	2015	2014
Trading of derivatives	51	(378)
Currency trading	990	651
Total	**1,041**	**273**

9. FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING

(in thousands of euros)

	2015	2014
Net effect on derivatives used as hedging instruments	92	256
Net effect on hedged items	(184)	(41)
Total	**(92)**	**215**

Derivatives used as hedge instruments and the nature of hedged items are additionally explained in note 20 and in note 3.9. Fair value of assets and liabilities (in paragraph hedge accounting).

10. GAINS AND LOSSES ON DERECOGNITION OF ASSETS

(in thousands of euros)

	2015	2014
Profit on sale of property and equipment	47	21
	47	**21**

11. OTHER OPERATING NET INCOME

(in thousands of euros)

	2015	2014
Rents	3,241	1,735
Proceeds from the sale of repossessed leased assets	23	-
Taxes*	(421)	(1,559)
Membership fees	(82)	(77)
Contribution to European Banking Resolution Fund	(733)	-
Expenses related to operating and financial leasing	(227)	-
Expenses from investment property under the operating lease	(260)	-
Other	20	(30)
Total	**1,561**	**69**

**In 2014 under taxes the amount of EUR 1,318 thousand relates to tax on balance sheet. For year 2015 this tax is not any more in force.*

From rent contracts arises that the future rent revenues will amount to EUR 17,700 thousand (2014: EUR 6,086 thousand), as follows:

(in thousands of euros)

2015			2014		
Up to 1 year	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
1,770	7,080	8,850	682	2,503	2,901

The increase in revenues from future rentals arises from assumption of Finor Leasing's operating leasing business.

12. ADMINISTRATIVE EXPENSES

(in thousands of euros)

	2015	2014
Staff cost	**28,469**	**27,417**
Salaries	18,956	18,612
Social security	3,066	2,988
Contributions to the pension scheme	1,679	1,643
Other	4,768	4,174
Other administrative expenses	**12,081**	**11,612**
Material costs	2,087	2,199
IT costs	2,065	1,805
Rents	1,455	1,341
Professional services	1,842	98
Advertising and marketing	618	822
Consulting, auditing, legal and notarial fees*	443	317
Maintenance, governance and security of tangible fixed assets	1,176	2,728
Postal services and rent of communication lines	1,644	1,643
Insurance	378	375
Travel costs	55	53
Education, scholarships and tuition fees	148	161
Bank's supervision	170	70
Total administrative expenses	**40,550**	**39,029**

**Of which audit of the Bank's financial statements EUR 100 thousand (2014: EUR 83 thousand)*

13. DEPRECIATION AND AMORTISATION

(in thousands of euros)

	2015	2014
Amortisation	1,695	1,630
Depreciation	3,727	2,941
Total	**5,422**	**4,571**

14. PROVISIONS AND POST-EMPLOYMENT BENEFIT OBLIGATIONS

(in thousands of euros)

	2015	2014
Provisions for off-balance sheet exposures	190	(933)
Provisions for National Housing Saving Scheme	-	112
Provisions for legal proceedings and future contract obligations	(18)	(172)
Retirement and long service bonuses	(415)	(350)
Total	**(243)**	**(1,343)**

The movement of provisions and post-employment benefit obligations is shown in note 35 and 36.

15. IMPAIRMENT

(in thousands of euros)

	2015	2014
Impairments on assets measurement at amortised cost:		
- loans to other customers	14,395	14,132
- impairments of other assets	497	264
Impairments on AFS securities (shares)	-	8,537
Impairments on land seized for repayment of loans	935	-
Total	**15,827**	**22,933**

16. TAX EXPENSE (INCOME) RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS

(in thousands of euros)

	2015	2014
Current tax	-	1,086
Deferred tax (note 37)	2,335	(100)
Total	**2,335**	**986**
Profit before tax	**14,198**	**7,613**

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

(in thousands of euros)

	2015	2014
Prima facie tax calculated at a tax rate of 17%	2,414	1,294
Income from already taxed released provisions	(2)	-
Income form already taxed dividends	(93)	(189)
Expenses not deductible for tax purposes:		
- staff costs not assessable for tax	157	155
- other non-tax deductible expenses	72	51
Tax abatement related to actuarial losses recognised trough other comprehensive income	(59)	-
Tax reliefs, that can be carried forward	(134)	(325)
Total income tax	**2,355**	**986**

For 2015 the income tax rate was 17% (2014: 17%) as prescribed by law.
In 2015, due to realised tax loss, current tax is nil. Tax loss is the result of cancellation of impairments of AFS financial assets due to the sale of financial assets and expropriation.

In accordance with local regulations, the Financial Administration may at any time inspect the Bank's books and records within the 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

(in thousands of euros)

	2015	2014
Net profit for the year	11,843	6,627
Weighted average number of ordinary shares in issue	530,398	530,398
Basic and diluted profit per share (in EUR per share)	**22.33**	**12.49**

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 held as treasury shares (961 lots). There are no dilutive potential ordinary shares, there are no share options schemes.

18. INCOMES AND EXPENSES ACHIEVED ON FOREIGN MARKETS

(in thousands of euros)

	2015	2014
Interest income	4,540	4,259
Interest expenses	(4,670)	(6,322)
Net Interest income	**(130)**	**(2,063)**
Fee and commission income	646	534
Fee and commission expenses	(994)	(1,523)
Net fee and commission income	**(348)**	**(989)**
Gains or losses on financial assets and liabilities held for trading	114	367
Fair value adjustments in hedge accounting	22	256
Realised gains or losses on financial assets and liabilities not measured at fair value through profit or loss	4	159
Gains or losses on financial assets and liabilities designated at fair value through profit or loss	71	(9)
Other operating net income	(655)	(147)
Total profit or loss before tax from continuing operations	**(922)**	**(2,426)**

Income and expenses realised on a foreign markets mostly related to clients from EU state members.

19. CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS AT BANKS

(in thousands of euros)

	2015	2014
Cash in hand	15,620	15,990
Balances with central banks	75,346	65,134
Other sight deposits	143,274	26,344
	234,240	**107,468**
From this: mandatory reserve liability to central banks	16,194	16,234

The Bank is required to maintain a mandatory reserve with the central bank (Bank of Slovenia), relative to the volume and structure of its customer deposits. The current requirement of the Bank of Slovenia regarding the calculation of the amount to be held as mandatory reserve is 1% of time deposits and issued debt securities with maturities up to two years.

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

20. DERIVATIVE FINANCIAL INSTRUMENTS

The majority of derivative contracts is entered into for the purpose of interest-rate risk management. A derivative instrument is entered into as an economic hedge where its terms and conditions are a mirror image of the terms and conditions of the hedged financial instruments. In addition, the Bank also uses hedge interest-rate swaps. It hedges its purchased long-term bonds denominated in US dollars with fixed interest rate.

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 these 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 the reference rate or index relative to their terms. The aggregate contractual or notional amount of derivative financial instruments, 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 notional amount and fair values of derivative instruments held for trading and designated as hedges are set out in the following tables:

Derivative financial instruments

(in thousands of euros)

As at 31 December 2015	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate		**-**	**-**
Forwards-purchase	76	-	-
Forwards-sale	76		
Interest rate			
Interest rate cap (CALL)	6,418	91	-
Interest rate cap (PUT)	950	-	1
Total held for trading derivatives		**91**	**1**
Hedging derivatives			
Interest rate swaps (IRS)	18,305	21	66
Total derivative for hedge accounting		**21**	**66**

(in thousands of euros)

As at 31 December 2014	Notional amount	Fair value	
		Assets	Liabilities
HFT derivatives			
Foreign exchange rate			
Forwards-purchase	110	-	2
Forwards-sale	110	2	-
Interest rate			
Interest rate cap (CALL)	6,793	108	-
Interest rate cap (PUT)	1,100	-	1
Interest option (CALL)	22,245	-	-
Interest option (PUT)	18,813	-	-
Interest rate swap (IRS)	12,628	-	145
Total held for trading derivatives		**110**	**148**
Hedging derivatives			
Interest rate swap (IRS)	9,617	-	38
Total derivative for hedge accounting		**-**	**38**

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(in thousands of euros)

	2015	2014
Government securities:		
- listed	275,873	253,709
Other debt securities:		
- listed	32,035	29,796
Equity securities:		
- listed	1,444	7,155
- unlisted	10,122	6,697
Investment in National Bank Resolution Fund fundvanje bank	10,614	-
Total securities available-for-sale	**330,088**	**297,357**

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

In order to comply with the requirements of the national Deposit Guaranty Scheme and of the National Bank Resolution Fund, Slovenian government bonds in the amount of EUR 40.7 million are encumbered.

Movement

	2015 AFS	2014 AFS
At beginning of the year	**297,357**	**305,578**
Additions	176,385	57,505
Impairment	-	(8,537)
Interest accrual	10,037	9,051
Expired coupons	(11,452)	(9,370)
Disposals (sale and redemption)	(138,471)	(66,592)
Gains/losses from changes in fair value	(3,768)	9,722
At end of year	**330,088**	**297,357**

22. LOANS TO BANKS

(in thousands of euros)

	2015	2014
Placements with other banks	160,140	233,857
Total loans to banks	**160,140**	**233,857**

As at 31 December 2015 no placements with other banks are shown under Pledged assets (2014: nil).

23. LOANS TO NON-BANK CUSTOMERS

(in thousands of euros)

	2015	2014
Loans to individuals:	**517,676**	**513,559**
- Overdrafts	29,677	33,896
- Credit cards	18,993	21,015
- Term loans	100,187	106,436
- Mortgages	358,716	352,212
- Financial leases	10,103	-
Loans to sole proprietors	**63,988**	**56,610**
Financial leases	13,555	-
Other loans	50,433	56,610
Loans to corporate entities	**1,041,900**	**1,169,210**
Financial leases	80,416	-
Other loans	961,484	1,169,210
Gross loans and advances	**1,623,564**	**1,739,379**
Less provision for impairment	(140,882)	(143,538)
Net loans and advances	**1,482,682**	**1,595,841**

(in thousands of euros)

	Loans to individuals					
	Overdrafts	Credit cards	Term loans	Mortgages	Finance leases	Total loans to individuals
As at 31 December 2013	**1,626**	**1,245**	**2,738**	**2,841**	**-**	**8,450**
Provision for loan impairment	1,062	1,101	1,113	1,983	-	5,259
Amounts recovered during the year	(1,482)	(1,502)	(1,957)	(1,994)	-	(6,935)
Included in income statement	(420)	(401)	(844)	(11)	-	(1,676)
Write off	(35)	-	(275)	-	-	(310)
As at 31 December 2014	**1,171**	**844**	**1,619**	**2,830**	**-**	**6,464**
Provision for loan impairment	720	813	823	2,447	148	4,951
Amounts recovered during the year	(713)	(888)	(832)	(1,649)	(162)	(4,244)
Included in income statement	7	(75)	(9)	798	(14)	707
Increase of impairments due to Finor Leasing's merger	-	-	-	-	444	444
Write off	(224)		(53)	(55)	-	(332)
As at 31 December 2015	**954**	**769**	**1,557**	**3,573**	**430**	**7,283**

(in thousands of euros)

	Sole proprietors	Corporate entities
As at 31 December 2013	**8,438**	**125,602**
Provision for loan impairment	3,306	55,046
Amounts recovered during the year	(3,469)	(39,075)
Included in income statement	(163)	15,971
Write off	(577)	(12,274)
Impairment on capitalised suspended interest	-	77
As at 31 December 2014	**7,698**	**129,376**
Provision for loan impairment	2,157	41,809
Amounts recovered during the year	(1,974)	(28,304)
Included in income statement	183	13,505
Increase of impairments due to Finor Leasing's merger	656	4,477
Write off	(1,469)	(20,805)
Impairment on capitalised suspended interest	-	(22)
As at 31 December 2015	**7,068**	**126,531**

Customer loan portfolio by economic sector

(in thousands of euros)

	2015	2014
Government	65,642	89,240
Trade	159,358	162,022
Services	354,520	532,762
Construction	66,042	68,104
Manufacturing	201,208	196,356
Agriculture	6,007	4,846
Individuals	517,676	513,559
Sole proprietors	63,988	56,610
Other	189,123	115,880
Gross loans and advances to customers	**1,623,564**	**1,739,379**
Less provision for impairment	(140,882)	(143,538)
Net loans and advances to customers	**1,482,682**	**1,595,841**

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

Analysis of financial leases by residual maturity:

(in thousands of euros)

	2015	2014
Future minimum lease payments (financial leases):		
Not later than 1 year	32,444	36,512
Later than 1 year and not later than 5 years	50,387	58,590
Later than 5 years	20,537	29,642
	103,368	**124,744**
Present value of future minimum lease payments:		
Not later than 1 year	28,704	31,960
Later than 1 year and not later than 5 years	47,842	49,332
Later than 5 years	19,753	24,749
	96,299	**106,041**

(in thousands of euros)

	General governments	Non-financial corporations	Households	Total
Performing exposures	198	77,514	2,393	80,105
Instruments with modifications in their terms and conditions	3,827	43,220	1,424	48,471
Refinancing	-	5,810	2	5,812
Total gross carrying amount	**4,025**	**126,544**	**3,819**	**134,388**
Performing	(5)	(5,265)	(34)	(5,304)
Instruments with modifications in their terms and conditions	(841)	(12,817)	(655)	(14,313)
Refinancing	-	(2,437)	(1)	(2,438)
Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	**(846)**	**(20,519)**	**(690)**	**(22,055)**
Performing exposures	193	72,249	2,359	74,801
Instruments with modifications in their terms and conditions	2,986	30,403	769	34,158
Refinancing	-	3,373	1	3,374
Net carrying amount	**3,179**	**106,025**	**3,129**	**112,333**

In 2015 the Bank restructured loans in the amount of 47,305 thousands EUR (2014: EUR 87,581 thousands).

(in thousands of euros)

	General governments	Non-financial corporations	Households	Total
Performing exposures	217	78,014	1,472	79,703
Instruments with modifications in their terms and conditions	251	50,212	1,109	51,572
Refinancing	-	7,590	9	7,599
Total gross carrying amount	**468**	**135,816**	**2,590**	**138,874**
Performing	(4)	(5,345)	(23)	(5,372)
Instruments with modifications in their terms and conditions	(57)	(7,335)	(482)	(7,874)
Refinancing	-	(1,486)	(6)	(1,492)
Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	**(61)**	**(14,166)**	**(511)**	**(14,738)**
Performing exposures	213	72,669	1,449	74,331
Instruments with modifications in their terms and conditions	194	42,877	627	43,698
Refinancing	-	6,104	3	6,107
Net carrying amount	**407**	**121,650**	**2,079**	**124,136**

Forbearance measures are concessions made to a borrower facing or about to face financial difficulties by agreeing to change agreed contractual terms and conditions, so as to make them for the borrower more favourable than those that would be granted under normal conditions. Forbearance measures are conceded in order to maximize collection and minimize the risk of default. A forborne exposure can be performing or non-performing and related to retail or corporate customers.

According to the Bank regulations, individual loan contracts are flagged as exposures with forbearance measures for the purpose of evidencing the portfolio of forborne exposures, i.e., exposures which meet the above described definition. The forborne flag is therefore an additional element for classification of credit exposures for the purpose of credit portfolio monitoring and reporting. Taking into account the internal rules for the performing and non-performing exposures classification, rules governing the forborne exposures did not have a significant impact on the Bank's income statement.

Loans and advances are further analysed as a part of the statement of financial position in the accompanying notes: Analysis of past due financial instruments 3.4, Currency Risk Note 3.7.2., Interest Rate Risk Note 3.7,3., Liquidity Risk Note 3.5., Fair value Note 3.9., and Related Party Transactions Note 45.

24. ADVANCES

(in thousands of euros)

	2015	2014
Commissions receivables	337	340
Cheques	13	4
Receivables	898	863
Claims to Europay	6,832	8,517
Claims to citizens	898	777
Other	4,174	10,124
Gross advances	**13,152**	**20,625**
Impairments	(1,233)	(577)
Net advances	**11,919**	**20,048**

Movement in provisions for impairment on other assets:

(in thousands of euros)

As at 31 December 2013	**321**
Additional provision for impairment	297
Amounts recovered during the year	(33)
Included in income statement	264
Write off of impairment	(8)
As at 31 December 2014	**577**
Additional provision for impairment	900
Amounts recovered during the year	(403)
Included in income statement	497
Write off of impairment	(46)
Increase of impairments due to Finor Leasing's merger	205
As at 31 December 2015	**1,233**

25. PROPERTY, PLANT AND EQUIPMENT

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Total
Movement in year 2014				
Opening net book amount	21,137	1,074	1,534	23,745
Additions	597	352	440	1,389
Disposals	-	-	(10)	(10)
Depreciation charge	(1,908)	(456)	(497)	(2,861)
Closing net book amount	**19,826**	**970**	**1,467**	**22,263**
As at 31 December 2014				
Cost	50,259	6,160	11,402	67,821
Accumulated depreciation	(30,433)	(5,190)	(9,935)	(45,558)
Net book amount as at 31 December 2014	**19,826**	**970**	**1,467**	**22,263**

(in thousands of euros)

	Land and buildings	Hardware equipment	Other equipment	Total
Movement in year 2015				
Opening net book amount	19,826	970	1,467	22,263
Transfer to investment property	(332)	-	-	(332)
Transfer from investment property	281	-	-	281
Additions	476	254	1,998	2,728
Disposals	-		(16)	(16)
Depreciation charge	(1,907)	(443)	(1,051)	(3,401)
Closing net book amount	**18,344**	**781**	**2,398**	**21,523**
As at 31 December 2015				
Cost	51,359	6,010	13,392	70,761
Accumulated depreciation	(33,015)	(5,229)	(10,994)	(49,238)
Net book amount as at 31 December 2015	**18,344**	**781**	**2,398**	**21,523**

In 2015 there was no property, plant and equipment pledged (2014; nil).

In addition to its own premises, the Bank hired premises at 32 locations. Future minimum lease payments under lease contracts amount to EUR 5,520 thousand, of this:

(in thousands of euros)

2015			2014		
Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
552	2,208	2,760	545	2,180	2,725

26. INVESTMENT PROPERTY

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

On 31 December 2015 no stipulated contracts for the acquisition or construction of Investment Property are in place in Banka Koper. Except of current maintenance, no substantial investments in the repair, maintenance or expansion of these investments are planned in 2016.

Movement in investment property

(in thousands of euros)

	2015	2014
At beginning of the year	**1,261**	**1,283**
Depreciation	(326)	(80)
Transfer from property in use	332	-
Transfer to property in use	(281)	-
Additions	13,141	58
At end of year	**14,127**	**1,261**

Increase of investment property relates to integration of Finor Leasing's business within the Bank.

In the item other operating gains and losses (see note 11) income from property investments carries rents of EUR 760 thousand (2014: EUR 55 thousand). In 2015, Bank`s maintenance costs for property investments amounted to 283 EUR thousand (2014: EUR 8 thousand).

The Bank owns 22 investment properties. They were obtained by closure of its activities in some branches or from seized collateral for the repayment of loans. For the largest of them, the Bank has obtained the valuation by an independent appraisal. The fair value of its investment property is estimated at EUR 15,604 thousand.

27. INTANGIBLE ASSETS

(in thousands of euros)

	Development	Licenses	Software and other	Total
Movement in year 2014				
Opening net book amount	2,654	632	1,299	4,585
Additions	1,065	554	-	1,619
Disposals	-	-	(209)	(209)
Amortisation	(1,014)	(259)	(357)	(1,630)
Closing net book amount	**2,705**	**927**	**733**	**4,365**
As at 31 December 2014				
Cost	11,885	3,634	4,420	19,939
Accumulated amortisation	(9,180)	(2,707)	(3,687)	(15,574)
Net book amount as at 31 December 2014	**2,705**	**927**	**733**	**4,365**
Movement in year 2015				
Opening net book amount	2,705	927	733	4,365
Additions	1,399	235	167	1,801
Amortisation	(1,046)	(387)	(262)	(1,695)
Closing net book amount	**3,058**	**775**	**638**	**4,471**
As at 31 December 2015				
Cost	13,284	3,940	4,594	21,818
Accumulated amortisation	(10,226)	(3,165)	(3,956)	(17,347)
Net book amount as at 31 December 2015	**3,058**	**775**	**638**	**4,471**

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

In 2015, the Bank has not recognized any expenditure related to research and development in the income statement. All development expenditure in 2015 was capitalized as intangible fixed assets, out of which staff expenses amounted to EUR 427 thousand.

28. INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(in thousands of euros)

	2015	2014
At beginning of the year	**-**	**3,688**
Additional investment	-	-
Disposal of a subsidiary	-	-
Disposal surplus	-	-
Release of impairment	-	-
At end of year	**-**	**3,688**

29. OTHER ASSETS

(in thousands of euros)

	2015	2014
Accruals	514	446
Inventory	19	19
Taxes and contributions	595	5
Fixed assets from seized collateral	10,362	391
Prepayments and bails	222	8
Total	**11,712**	**869**

Fixed assets from seized collateral related mainly to assets subject of leasing contracts.

30. DEPOSITS FROM BANKS AND CENTRAL BANKS

(in thousands of euros)

	2015	2014
Demand deposits	4,245	6,195
Term deposits	18,576	16,336
Total	**22,821**	**22,531**

31. DEPOSITS FROM NON-BANK CUSTOMERS

(in thousands of euros)

	2015	2014
Individuals		
- demand deposits	648,671	529,477
- term deposits	578,247	651,650
Sole proprietors		
- demand deposits	62,343	45,946
- term deposits	3,277	5,364
Corporate customers		
- demand deposits	358,297	295,392
- term deposits	125,850	268,824
Total	**1,776,685**	**1,796,653**

As at 31 December 2015, deposits in the amount of EUR 12,191 thousand have been pledged for covering potential credit risk on assets (2014: EUR 12,197 thousand).

32. LOANS FROM BANKS AND CENTRAL BANKS

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

(in thousands of euros)

	2015		2014	
	Short term	Long term	Short term	Long term
In local currency	-	123,767	-	124,621
In foreign currency	-	25,714	-	28,107
Total	**-**	**149,481**	**-**	**152,728**
	149,481		**152,728**	

33. LOANS FROM NON-BANK COSTUMER

(in thousands of euros)

	2015	2014
	Long term	Long term
Financial leases	60	90
Other loans	-	2,001
Liabilities from licences	-	125
Total	**60**	**2,216**

In connection with the acquisition of AMEX cards licence, the Bank has evidence of future contractual obligations for the acquisition of intangible long term assets in the amount of EUR 125 thousand for the acquisition.

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

34. OTHER FINANCIAL LIABILITIES

(in thousands of euros)

	2015	2014
Unpaid commissions	161	395
Liabilities form credit card business	6,037	5,590
Not yet process payments	6,979	4,909
Unpaid dividend	110	107
Creditors	2,431	2,355
Salaries	2,047	1,973
Deferred income	4,349	4,502
Other	482	50
Total	**22,596**	**19,881**

35. PROVISIONS FOR LIABILITIES AND CHARGES

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

(in thousands of euros)

	2015	2014
Provisions for off-balance sheet liabilities	6,514	6,705
Provisions for National Saving Housing Scheme	-	52
Legal proceedings due to employees	240	223
Provision from specific contract obligation	-	1,478
Total	**6,754**	**8,458**

As at 31 December 2015, the Bank was involved in several legal proceedings against it. Contingent liabilities in this respect are estimated in the amount of EUR 414 thousand. To this end, on the basis of its best estimation on the outcome of the legal proceedings, the Bank established provisions in the amount of EUR 240 thousand.

Movement in provisions:

(in thousands of euros)

	2015	2014
At beginning of year	**8,458**	**7,564**
Additional provision	10,401	12,579
Amounts recovered during the year	(10,573)	(11,586)
Included in income statement under provisions	(172)	993
Repayment of the premiums for National Saving Housing Scheme	(53)	(39)
Indemnities paid	(1)	(60)
Conversion of provisions to impairment on seized land for repayment of loans	(1,478)	-
At end of year	**6,754**	**8,458**

36. RETIREMENT BENEFIT OBLIGATIONS

(in thousands of euros)

	2015	2014
Retirement severance pay and long service bonuses	4,020	3,156
Provision for redundancies	580	511
	4,600	**3,667**

(in thousands of euros)

Movements:	**2015**	**2014**
At beginning of year	**3,667**	**3,441**
Additional provisions	415	350
Charged to income statement	415	350
Actuarial losses	697	-
Utilised provisions	(232)	(124)
Provisions from Finor Leasing	53	-
At end of year	**4,600**	**3,667**

37. DEFERRED INCOME TAXES

(in thousands of euros)

Deferred tax liabilities	**2015**	**2014**
Non-current assets held for sale	2	2
Available-for-sale financial assets	2,302	2,533
Total	**2,304**	**2,535**

(in thousands of euros)

Deferred tax assets	**2015**	**2014**
Retirement and other employee benefits	372	321
Loan impairments on financial and operating leasing	473	-
Available-for-sale financial assets	202	3,508
Trading securities and derivative financial instruments	-	4
Provisions for National Saving Housing Scheme	-	9
Tax reliefs, that can be carried forward	134	-
Tax loss	1,380	-
Other - depreciation above tax prescribed rate	5	5
Total	**2,566**	**3,847**
Net deferred taxes	**262**	**1,312**

(in thousands of euros)

Movement in deferred taxes (offsetting of assets and liabilities)	**2015**	**2014**
At beginning of year	(1,312)	3,026
Deferred taxes charged in income statement	2,355	100
AFS financial assets (fair value measurement)	(254)	(1,814)
Actuarial losses	(59)	-
Retirement and other employee benefits	(5)	-
Loan impairments on financial and operating leasing	(987)	-
At end of year	**(262)**	**1,312**

(in thousands of euros)

Deferred taxes charged in income statement	2015	2014
Retirement and other employee benefits	(13)	(3)
Trading securities and derivative financial instruments	(4)	(4)
Provisions for National Saving Housing Scheme	(9)	(25)
Impairment on AFS financial assets	(3,329)	133
Other	-	(1)
Loan impairments on financial and operating leasing	(514)	-
Tax reliefs, that can be carried forward	134	-
Tax loss	1,380	-
	(2,355)	**100**

38. OTHER LIABILITIES

(in thousands of euros)

	2015	2014
Accruals	1,086	185
Prepayments received	1,181	707
Taxes and contributions	1,467	747
Total	**3,734**	**1,639**

39. SHARE CAPITAL

(in thousands of euros)

	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2013	531,359	22,173	7,499	(49)
As at 31 December 2014	531,359	22,173	7,499	(49)
As at 31 December 2015	**531,359**	**22,173**	**7,499**	**(49)**

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

40. ACCUMULATED OTHER COMPREHENSIVE INCOME

(in thousands of euros)

	2015	2014
Revaluation reserves:		
- Debt securities	8,268	9,108
- Equity securities	2,821	3,223
Actuarial losses	(638)	-
Total	**10,451**	**12,331**

(in thousands of euros)

Movement	Revaluation reserves
As at 31 December 2013	**3,476**
Valuation of available-for-sale securities	
Equity securities	**2,721**
- Valuation	(1,415)
- Disposals	(1,270)
- Impairment	5,406
Debt securities	**6,134**
- Valuation	6,515
- Disposals	(381)
As at 31 December 2014	**12,331**

(in thousands of euros)

Movement	Revaluation reserves
Valuation of available-for-sale securities	
As at 31 December 2014	**12,331**
Equity securities	**(402)**
- Valuation	2,512
- Disposals	(2,914)
Debt securities	**(839)**
- Valuation	(304)
- Disposals	(600)
- Valuation of hedge items transferred to profit or loss	65
Actuarial loss	**(638)**
As at 31 December 2015	**10,451**

41. RESERVES FROM PROFIT AND RETAINED EARNINGS

(in thousands of euros)

	2015	2014
Legal reserves	14,248	13,655
Statutory reserves	213,357	212,365
Retained earnings	17,956	12,305
Treasury share`s reserves	49	49
Total	**245,610**	**238,374**

(in thousands of euros)

Movement	Legal reserves	Statutory reserves	Retained earnings	Treasury share`s reserves	Total reserves
As at 31 December 2013	**13,324**	**211,968**	**8,423**	**49**	**233,764**
Net profit for the financial year	-	-	6,627	-	6,627
Dividends	-	-	(2,017)	-	(2,017)
Transfer to statutory reserves	-	397	(397)	-	-
Transfer to legal reserves	331	-	(331)	-	-
As at 31 December 2014	**13,655**	**212,365**	**12,305**	**49**	**238,374**
Net profit for the financial year	-	-	11,843	-	11,843
Dividends	-	-	(5,304)	-	(5,304)
Transfer to statutory reserves	-	992	(992)	-	-
Transfer to legal reserves	593	-	(593)	-	-
Net result from merger by absorption of Finor Leasing	-	-	697	-	697
As at 31 December 2015	**14,248**	**213,357**	**17,956**	**49**	**245,610**

Legal reserves

In accordance with the Articles of Association of Banka Koper d.d., the Bank forms legal reserves in the amount adequate to ensure that the sum of its legal reserves and those capital reserves that shall be added to the legal reserves pursuant to the law governing the required amount of legal reserves equals twice the amount of the Bank's share capital.

Statutory reserves

The Bank, according to its Statute, creates statutory reserves until they achieve an amount which is fifteen times 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.

42. DIVIDENDS PER SHARE

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. By the date the financial statements were authorised by the Management Board no dividends were proposed or declared. For 2014, the Bank disbursed for dividends EUR 5,304 thousand i.e. EUR 10 per share.

(in thousands of euros)

Distribution of the profit of the year	2015	2014
Net profit for the period	11,843	6,627
Allocation of the profit to the legal reserves (5%)	(593)	(331)
Net profit of the period available for distribution	**11,250**	**6,296**
Retained profit from Finor Leasing's merger	697	-
Total net profit available for distribution at the AGM	**11,947**	**6,296**

43. CASH AND CASH EQUIVALENTS

(in thousands of euros)

	2015	2014
Cash and balances with central bank	218,046	91,234
Loans and advances to banks	46,407	174,678
Total	**264,453**	**265,912**

44. CONTINGENT LIABILITIES AND COMMITMENTS

Capital commitments, At 31 December 2015, the Bank had no capital commitments (2014: nil).

Credit related commitments, Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, are exposed to credit risk, as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party draw funds from the Bank up to a stipulated amount under specific terms and conditions, are secured by the underlying shipments of goods to which they relate and therefore have significantly less risk, also because the Bank do not generally expect the third party to draw funds under such agreements.

With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to losses in an amount equal to the total unused commitments. However, the likely amount of losses is not easy to quantify and is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers fulfilment of specific credit standards which need to be met before the carrying out of the drawing. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The following table indicates the contractual amounts of the Bank's off-balance sheet position by type of instrument.

(in thousands of euros)

	2015	2014
Documentary and commercial letters of credit	160	160
Guarantees	176,597	149,418
Credit commitments:	305,629	258,817
- original maturity up to 1 year	222,186	209,880
- original maturity over 1 year	83,443	48,937
	482,386	**408,395**
Provisions for off-balance sheet liabilities:		
Documentary and commercial letters of credit	-	-
Guarantees	(3,892)	(4,211)
Credit commitments	(2,622)	(2,494)
Total	**475,872**	**401,690**

45. RELATED PARTY TRANSACTIONS

(in thousands of euros)

	Directors and employees with managerial contract		Management board and their direct family members		Supervisory board members and their direct family members		Intesa SanPaolo group		Subsidiaries	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Loans										
At beginning of the year	228	261	80	-	-	-	174,218	148,782	-	76,801
Loans issued during the year	12	7	80	80	-	-	1,185,330	3,722,913	-	64,072
Loan repayments during the year	(66)	(40)	(88)	-	-	-	(1,217,792)	(3,697,477)		(35,583)
At end of year	**174**	**228**	**72**	**80**	**-**	**-**	**141,756**	**174,218**	**-**	**105,290**
Impairment as at 31 December	-	-	-	-	-	-	-	-	-	228
Collateral received as at 31 December	548	545	285	286	-	-	-	-	-	-
Deposits										
At beginning of the year	818	894	2,512	2,329	243	592	80,906	84,007	-	19
Deposits received during the year	2,374	2,387	9,380	10,003	421	1,584	62,293	50,104		-
Deposits repaid during the year	(2,455)	(2,463)	(9,440)	(9,820)	(523)	(1,933)	(63,431)	(53,205)	-	-
At end of year	**737**	**818**	**2,452**	**2,512**	**141**	**243**	**79,768**	**80,906**	**-**	**19**
Interest expense on deposits	33	21	88	59	16	13	1,549	1,670	-	-
Interest income earned	11	7	2	-	-	-	298	516	-	-
Other revenue – fee income	1	1	2	1	1	-	269	518	-	-
Guarantees issued by the bank and commitments	-	-	-	-	-	-	4,902	3,024	-	-
Remuneration	**911**	**837**	**2,133***	**1,648**	**76***	**77**				

There were no transactions made with companies in which the Management board, Supervisory board members and their closer family members or employees with managerial contract had significant influence.

* Listed by names:

(in thousands of euros)

Management board	Gross salary	Bonuses	Other	Payments under pension plan	Total
Giancarlo Miranda	375	146	19	-	540
Igor Kragelj	285	91	4	3	383
Aleksander Lozej	197	32	4	3	236
Aleksander Milostnik	196	32	5	3	236
Rado Grdina	203	33	7	3	246
Irena Džaković	202	23	14	3	242
Maurizio Marson	219	-	31	-	250
Total	**1,677**	**357**	**84**	**15**	**2,133**

(in thousands of euros)

Supervisory board members	Attendance fee	Bonuses	Total
Vojko Čok	3	27	30
Roberto Civalleri	4	20	24
Borut Bratina	2	20	22
Total	**9**	**67**	**76**

SILVESTER KOMEL

Academy-trained painter Silvester Komel remains known as an exceptional colourist and as one of the founders of the school of Abstract Illusionism and its foremost member. His artistic legacy is undoubtedly one of the finest and most authentic contributions made by painters from Primorska to the overall landscape of contemporary fine arts in Slovenia. His painting oeuvre as a whole is determined by the littoral landscape, its lightness and warmth of the sun, but most of all by autonomy of visual expression. Throughout his career, Komel has only ever believed in his own direction in painting, which he formulated in an investigative dialogue between Mediterranean artistic lore and contemporary European movements.

Komel's colourism is an indispensable contribution to 20th century painting: always presenting us with that which is special and noble both in the past and the present of Primorska and its people. As an artist of exceptional sensibility, Komel masterfully depicted this nobility in many of his paintings. Untitled, a monumental painting from 1972, i.e. from the time when Komel created his most original and finest works, is one such example, washed over by sensuous, lively colour and light, these subtle visual elements that are here realized in their very essence, using their entity and ur-energy to draw the viewer into a unique world of infinites and elusiveness. The viewer automatically becomes an agent who opens up new spaces, illusions and dimensions of content as well as powerful, dynamic eruptions. Masses of colour perceived as volumes play the part of the core of the composition and are the main sources of light and energy; of light that scatters or refracts or shines in diagonal rays to overwhelm and illuminate from the inside an expansive field of blues of every conceivable shade. A unique activity is created, which is dynamic as well as dramatic, pushed by gravitational forces through unfathomable expanses and mysterious depths. The worldly, the mundane, the quotidian and the known is being constantly interwoven with the otherworldly, the extraterrestrial, the sublime and the mysteriously alluring. The composition is thus a singular ode to nature, to the environment in which the author was born and in which he lived, as well as a representation of his conscious and subconscious states, in which emotional and rational experience manifests in an attractive, colourful and sensual interpretation that is incomparable and irreplaceable and whose layered meaning remains modern, fresh and universal.
Nives Marvin

Silvester Komel
Born on September 5, 1931, in Rožna Dolina near Nova Gorica. Graduated at the Department of Painting of the Ljubljana Academy of Fine Arts, mentored by Prof. Gabrijel Stupica. He gained broad recognition with an exhibition at the Ljubljana City Gallery in 1971, which also marked a turning point in his art. This was followed by numerous individual and joint exhibition at Slovenian and Yugoslav venues as well as internationally: in the United Kingdom, in Italy, Switzerland, Germany, Austria, Romania. In 1975, he received the Bevk Award, and then in 1981 the Prešeren Fund Award. His works are scattered through numerous public and private collections both in Slovenia and abroad. He died suddenly, on December 24, 1983, at his home in Rožna Dolina. He was the subject of a monograph published in 1985 with an introduction by Stane Bernik.

Untitled, 1972,
acrylic on canvas, 200 x 300 cm

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