BANKA KOPER

Bank of INTESA SANPAOLO

Annual Report 2013

Annual Report 2013

TABLE OF CONTENTS

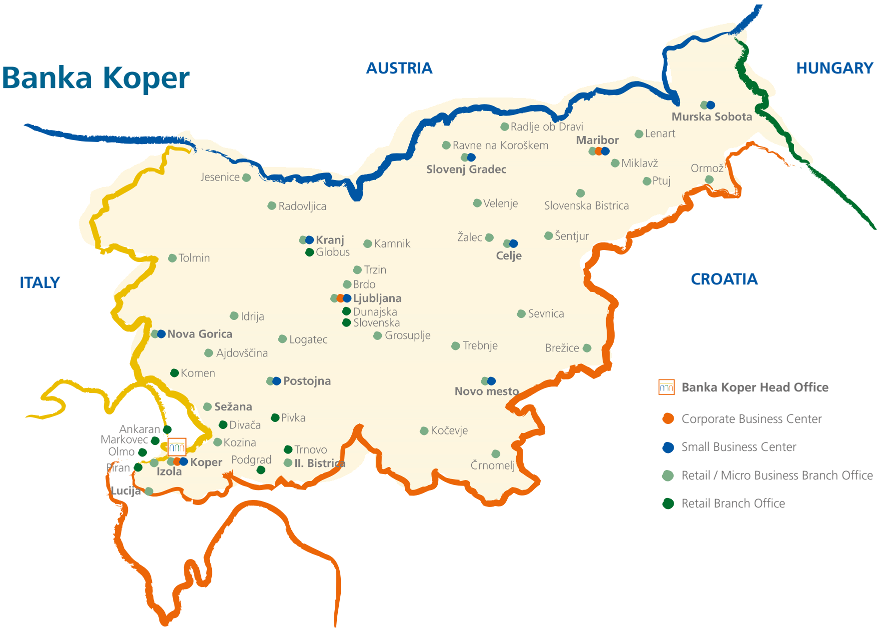
Business Report 2013

Financial Statements 2013

Business Report 2013

Banka Koper at a glance

Branch network of Banka Koper



Banka Koper, established back in 1955, is the eight largest banking institution in Slovenia in terms of total assets and it operates through a network of 52 branch offices throughout the country with more branches concentrated in Primorska – the coastal region. Banka Koper is a universal bank offering a comprehensive roster of banking services including commercial and custodian banking, retail banking, international banking operations, as well as financial and operating leasing, mutual funds marketing and selling insurance products. Banka Koper has been increasing its visibility in the Slovenian market of bespoke services for small and medium-sized enterprises and sole proprietors, and it has safeguarded its market share of corporate banking. It boasts over 160 thousand customers and it is a leading Slovenian financial institution in the area of modern electronic banking operations.

SHAREHOLDER STRUCTURE OF BANKA KOPER D.D.

		Equity holding in per cent	
	Shareholder	**31. 12. 2013**	**31. 12. 2012**
1.	Intesa Sanpaolo S. P. A.	97.6%	97.6%
2.	Elektro Primorska d. d.	0.7%	0.7%
3.	Kraški vodovod Sežana d.o.o.	0.3%	0.3%
4.	Minority shareholders	1.4%	1.4%

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

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

INTERNATIONAL RATINGS

	Rating 2013	**Rating 2012**
Long-term	BBB	BBB+
Short-term	F3	F2
Viability	bb	bb
Support	2	2

On 20th March 2013 Fitch Ratings has downgraded Banka Koper's Long-term rating from 'BBB+' to 'BBB' and Short-term rating from 'F2' to 'F3'. Agency affirmed the Support rating at '2' and Viability Rating at 'bb'. The Agency has confirmed the Ratings of Banka Koper on 5th April 2013 at the Review of the Slovenian banking sector.

Despite the downgrade, in 2013 Banka Koper keeps the highest credit rating among the Slovenian banks as it stands out from Slovenian banks in terms of bank performance, capital base and benefits of having the Italian Bank Intesa Sanpaolo among its shareholders.

The downgrade of BK's support-driven IDR reflects the recent downgrade of Intesa Sanpaolo's Long-term IDR to 'BBB+' from 'A-' (on 18 March 2013).

The affirmation of Support Rating at '2' reflects Fitch's opinion that Intesa will continue to have a strong propensity to support its subsidiary.

Milestones in the bank's corporate history

BANKA KOPER
Thinking ahead with you.

1955 Foundation of Istrska komunalna the bank

1992 Withdrawal from the LB bank system and the launch of the first Slovenian payment card – Activa.

1996 The branch network expands to other Slovenian regions.

1997 New name and a new corporate identity for Banka Koper.

1998 The development of the i-Net Banka internet banking solution.

2001 Preparations for strategic alliance with the Sanpaolo IMI, S.p.A banking group, establishment of the Open-ended Mutual Pension Fund.

2002 The Bank joins the Sanpaolo IMI Group – its majority shareholder.

2005 Introduction of the first smart payment card.

INTESA SANPAOLO

2007 Banka Koper became a member of Intesa Sanpaolo Group.

banka in

2008 The Bank launches a new online banking solution - Banka IN.

AMERICAN EXPRESS

2011 The first green branch and introduction of electonic signing of bank transactions. The exclusive issue of the American Express cards.

2012 Establishing of entrepreneurship centers for small businesses.

Our values are our strenght.

INTEGRITY

EXCELLENCE

TRANSPARENCY

RESPECT FOR SPECIFIC QUALITIES

EQUALITY

VALUES OF THE INDIVIDUAL

RESPONSIBILITY IN THE USE OF RESOURCES

Management overview

1. REPORT OF THE MANAGEMENT BOARD

The year behind us was marked by the sign of unprecedented challenges for Slovenia. Economic conditions for both the companies and the banking system proved extremely hash. Despite efforts by all participants to the economic and social life in the country aiming at offsetting the negative trends emerging in the domestic and international environment, it became clear in the middle of the year that the crisis situation experienced over the last few years was still far from its end. High unemployment, excessive indebtedness of companies, negative economic growth, the heavy burden of bad loans weighting of a large number of banks and their conspicuous shortage of capital are the themes which mostly characterize year 2013. However, there is also a bright side of the story that we at Banka Koper experienced and that we can tell often this eventful year.

We can proudly say that we lived successfully through the demanding test dictated by the adverse business conditions and, once again, proved our stability, resilience and relentlessness in our principles. The result of our endeavours is not only that we the generated net profit in the amount of 2.5 million euros. A special pride in the last year we took from the fact that our bank was chosen for the first time by 10,000 Slovenians, while at the same time the volume of deposits increased, namely by 25.6 per cent for legal persons and, by nearly 45 million euros for households. With this we increased to 7.5% our market share of deposits of the non-banking sector. The latter figure places us among the top Slovenian banks and today grants us the possibilities to be largely independent from foreign sources of financing. Thanks to the increased volume of deposits from our customers, the ratio between loans and deposits reached a very favourable level 1.03, which is considerably lower than the average experienced in the Slovenian banking system. We consider all this as a concrete proof of trust on us and on our parent group Intesa Sanpaolo Group by a larger number of both by citizens and companies of this country.

The lending activity decreased in Banka Koper, although in the entire banking system a fall was even larger, which enabled us to increase our market share from 5.7 to 6.4 per cent. We recorded a slightly bigger fall in the volume of loans to legal persons that in loans to households, which was mostly mirroring the situation that is prevailing in the real economy.

Stable operations have permitted us to focus on our own development and to offer to the market several new products and business solutions. In addition to upgrading the technological support to help business processes, we offered to economic entities some new incentives for the expansion of their operations. Thus, at the end of the year we signed an agreement with the European Investment Bank for borrowing of 10 million euros, with the purpose to provide more favourable financing of projects of small and medium-sized enterprises. Furthermore, we signed with the European Investment Fund a guarantee contract that will enable Banka Koper financing of micro enterprises, particularly young entrepreneurs who usually encounter big difficulties when applying for credit facilities from the traditional banking sources.

Also throughout the year we continued to strengthen our relations with other economic entities across Slovenia. We organised several business gatherings and workshops, where we shared experiences and opinions with companies of various sizes, especially with a view to the possibility for expanding their operations and our cooperation.

Furthermore, we continued to dedicate much effort to raising the quality of our operations and the satisfaction of our customers. Under the project Listening 100% now going on for several years and recently revitalized numerous customer satisfaction surveys, we seized the opportunity to focus on our loyal and long-time customers in order to engage them as our supporters and so to invite to our bank all those who care for quality banking services and a professional banking advice. In this context, the campaign of trusting each other started: Zaupaj mi. Jaz ji zaupam!, and its success was confirmed soon after its launch.

In our efforts for successful and efficient operations we remained loyal to our commitment to sustainable development, which we embraced soon after we joined the group Intesa Sanpaolo. The commitment to ethical behaviour, professional training for the employees, care for transparent operations and responsible management of natural resources still remain our core principles. In 2012, we were nominated for the first prize within the framework of the competition of the European Commission »Europe sustainable energy 2012«, where we enrolled with the sustainable development project of green branch offices with a view of 360 degrees. With our green branch offices and ever-increasing use of Banka IN as the channel our customers use for their daily banking transactions we started to use less and less paper. In 2013, we added to those achievements also another one. At the competition for the ecological company car fleet in Slovenia we were ranked second in the category of large company car fleet.

Thus, by implementing the core principles of socially responsible behaviour, as the modern corporate world understands it, and by constantly pursuing the target of sustainable profitability, Banka Koper ended the financial year 2013 with a positive operating result which contributed significantly to expanding its reputation and trust both among companies and citizens all over Slovenia.

2. REPORT OF THE SUPERVISORY BOARD

3. BODIES OF CORPORATE GOVERNANCE

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

In 2013 there was a change in the composition of the Supervisory Board. The 31st Annual General Meeting of Shareholders of Banka Koper held on 18 June 2013 was informed that the terms of office to the members of the supervisory board : Vojko Čok, Ivan Šramko, Fabrizio Centrone, Elena Breno, Borut Bratina, Ph.D. and Roberto Civalleri expired on 27 June 2013. On the same day the members listed below were elected.

Supervisory Board as at 31 December 2013:

Vojko Čok . . . . Chairman
Roberto Civalleri . . . . Deputy Chairman
Elena Breno . . . . Member
Borut Bratina, Ph.D. . . . . Member
Luca Finazzi . . . . Member

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

Due to other responsibilities assumed outside the Republic of Slovenia, Mr. Mario Henjak resigned from his position as a member of the Management Board on 1 January 2013.

The composition of the management board as at 31 December 2013:

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

4. ECONOMIC AND BANKING ENVIRONMENT

4.1 ECONOMIC ENVIRONMENT

In the last quarter of 2013 the modest recovery of the economy in the euro area was shown. Gradual recovery of the domestic and foreign demand contributed to the improvement while economic growth was held back mainly by deleveraging in the private sector, fiscal consolidation in the public sector and still high unemployment rate.

Despite the positive result in last quarter Slovenia realized a negative economic growth in 2013. The main reason for decline in economic activity lies in insufficient demand, which can be partially attributed to smaller household consumption due to lower consumer confidence, high unemployment and fall in purchase power, and partially to smaller government consumption due to fiscal consolidation. Investment spending is also decreasing, mainly as a result of high indebtedness of the companies and problems in acquiring new sources of financing. The export sector remains the most flexible in the crisis.

Conditions on the labour market continue to remain difficult. At the end of December a total of 124,015 persons were unemployed, which is 5 per cent more than in year before. The unemployment rate increased in comparison to the previous year, reaching 13.5 per cent.

At the end of the year inflation in Slovenia stood at 0.7 per cent, being substantially lower than in 2012 when it amounted to 2.7 per cent. Price growth was marked primarily by higher food and energy prices as well as tax measures. The modest price growth reflects further contraction of economic activity.

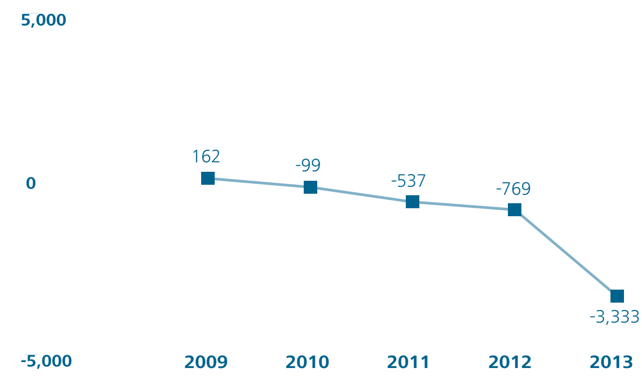
Indicator	2009	2010	2011	2012	2013 Forecast
Real GDP y/y (in %)	-8.0	1.3	0.7	-2.5	-1.1
Nominal GDP (in € bn)	35.4	35.5	36.1	35.3	35.3
GDP per head (in €)	17,612.70	17,671.60	18,020.90	17,632.90	17,671.00
Rate of registrated unemployment (in %)	9.1	10.7	11.8	12.0	13.5
CPI a/a (average) (in %)	0.9	1.8	1.8	2.6	1.8
CPI a/a (end of year) (in %)	1.8	1.9	2.0	2.7	0.7
Private consumption (real growth rates) (in %)	-0.1	1.5	0.8	-4.8	-2.7
Government consumption (real growth rates) (in %)	2.5	1.3	-1.6	-1.3	-2.0
Government debt (as a % of GDP)	35.2	38.7	47.1	54.3	71.9

Source: European Commission, IMF, Intesa Sanpaolo Res. Dpt, IMAD.

4.2 BANKING ENVIRONMENT

2013 was marked by further contraction of banks' total assets and beginning of the stabilisation of some banks. A decline in volume of loans in Slovenian banking system in October and November is a result of the beginning of supervised winding down of two smaller banks. Due to the transfer of a part of bad claims to Bank Asset Management Company the volume of loans decreased even more in December. The largest decline was recorded by corporate loans, while the decline in loans to individuals was lower. Total deposits dropped as well, mainly as a result of decreased state deposits in December due to the recapitalisation of banking system. The contribution of household deposits to the decline of total deposits was smaller. The loss before taxes amounted to EUR 3.3 bn, which is considerably more than in 2012, when loss before taxes totalled EUR 769 mln. The loss is mainly the result of high costs of impairments and provisions.

Total profit or loss before tax (in EUR mln)



5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2013

5.1 LENDING OPERATIONS

In 2013, the fall in the volume of lending of the Slovenian banking system to the non-banking sectors was even more pronounced than in the previous year. The bigger portion of these decreases was a consequence of supervised winding down of two banks and stabilisation of most exposed Slovenian banks. During the year under review, the volume of lending decreased by 5.2 billion euros, which is approximately four times more than in 2012.

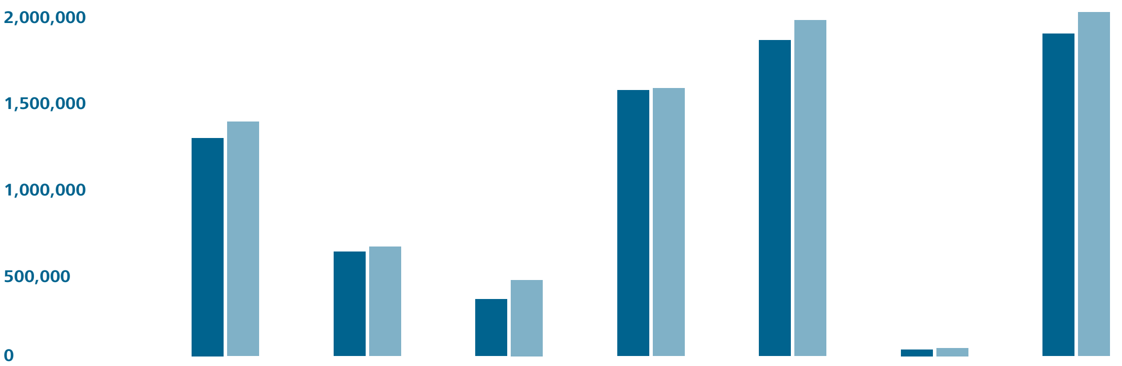
In 2013, the Bank's gross lending to the non-banking sector decreased by 124.6 million euros, i.e. by 6.3 per cent in comparison with 2012. The Bank's non-banking lending market share also increased from 5.7 per cent at the end of 2012 to 6.4 per cent at year-end 2013.

In terms of currency, lending in euro still largely prevailed in 2013 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 2013. Short-term loans accounted only for 17.6 per cent of total loans.

Loans to the corporate sector amounted to 1,262.9 million euros or 67.7 per cent, representing the largest portion of loans to the non-banking sector.

Lending to households - private individuals and sole proprietors - reached 603.6 million euros or 32.3 per cent of total lending to the non-banking sector. Compared to 2012, lending to this customer segment decreased by 30.2 million euros or 4.8 per cent. As in 2012, households mostly borrowed on a long-term basis, while borrowing in foreign currency remained on a low level. Most of long-term loans are mortgage loans. Market share of loans to private individuals and sole proprietors amounts to 6.8 per cent, and to corporate sector 6.3 per cent.

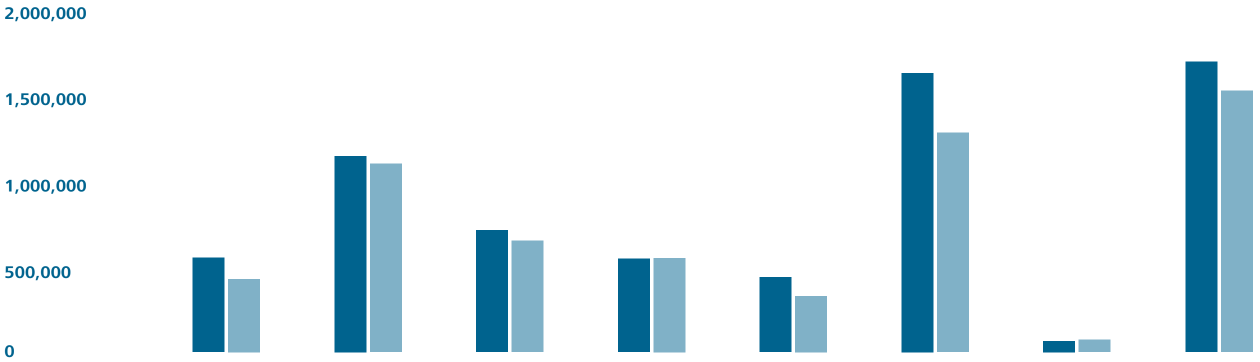
An overview of gross lending to the non-banking sector in thousands of euros



	Legal entities	Households	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
31. 12. 2013	1,262,905	603,640	328,436	1,538,109	1,828,363	38,182	1,866,545
31. 12. 2012	1,357,357	633,811	440,304	1,550,864	1,943,996	47,172	1,991,168

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. 2013	546,063	1,134,813	705,832	540,899	434,145	1,615,950	64,926	1,680,876
31. 12. 2012	422,876	1,090,967	644,151	544,553	325,139	1,269,324	72,232	1,513,843

Customer deposits and received loans increased by 11.0 per cent or 167.0 million euros in 2013 meaning that the Bank gained 1.2 basis points of its market share. At the end of 2013 Banka Koper achieved a 7.5 per cent market share measured by deposits placed by the non-banking sector.

The sight deposits accounted for a 42.0 per cent share of all deposits followed by short-term deposits (32.2 per cent) and long-term deposits trailing at 25.8 per cent. The deposit structure in terms of currency was dominated by deposits denominated in euro with 96.1 per cent. The sight deposits increased by 9.6 per cent, long-term deposits by 33.5 per cent, while short-term deposits decreased by 0.7 per cent compared to the previous year.

The volume of the deposits placed by legal persons increased by 29.1 per cent (by 123.2 million euros) comparing with 2012. Also in 2013, the deposit structure in terms of currency was dominated by deposits denominated in euro.

Household deposits account for 67.5 per cent of all non-bank deposits and at the end of 2013 totalled 1,134.8 million euros, i.e. 43.8 million euros more year-on-year. Household deposits were mainly denominated in local currency.

5.3 OTHER SERVICES

5.3.1 Card business

Activa payment system

In 2013, the Activa System entered its third decade of operating in the Slovenian market, which places it among the oldest Slovenian operating card systems.

Activities in 2013 were mainly oriented toward adjustment to demanding PCI standards, as well as toward security and safety of card payment instrument. The existing portfolio of card products has already achieved a high rate of development and thus offer, further steps will be mainly oriented toward contactless payments.

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

Banka Koper

During the year under review, Banka Koper issued the joint debit payment card Activa Visa Debit named »Inspire«. The card is the product of the banking group Intesa Sanpaolo and combines benefits and advantages of the group with the joint card design, joint functionality and broad use of ATMs of ISP Group without payment of the fee.

Beside the »Inspire« card, the majority of the activities were aimed at the promotion of increasingly popular prepayment card »Moja« (my) as well as card products American Express. In 2013, American Express card holders were enabled the use of cards by cash withdrawals on Banka Koper ATMs as well as online points of sale in Slovenia.

5.3.2 New products

In 2013, Banka Koper offered to its customers more products in its offer designed by taking into account customers' expectations, market conditions and regulatory requirements. The products that proved to be the most interesting were the following:

- Benefit scheme "Moj Paket",
- Collecting bonus points for users of Banka Koper IN and paying for selected bank services with these points,
- Consumer credit for pensioners,
- Green credits for green future (home buying, consumer, cars),
- Life insurance for key staff in companies - borrowers,
- Micro credits for micro businesses and sole traders,
- Agro credits for farmers,
- Debit card Activa Visa Inspire.

5.3.3 Electronic banking

Banka IN is one of the more advanced online banks that enables its users to attend to their banking needs in a fast and easy way without having to pay a visit to the Bank's brick-and-mortar branches. The modern communication channel between customers and the bank, all banking services available at a click of the computer mouse, comfort and wide use are only some of the advantages of Banka IN. With its ground-breaking solutions Banka Koper IN stands out from the crowd of e-banking providers. At the end of the year under review the number of users of the electronic bank on the internet - Banka Koper IN almost reached 50.000. In the same year the number of users increased by more than 7 per cent.

In addition, also the mobile Banka Koper IN developed for the modern mobile devices attracted many customers. At the end of 2013, the mobile version of Banka Koper IN was used by 4.500 users, which is by 57 per cent more than in 2012.

The combined number of transactions performed on the electronic and the mobile Banka IN in the course of 2013 was over 2.6 million orders, which confirms the rising trend in the use of the more modern channels of communication with the bank. In the last part of the year, a solution for mobile and electronic bank Banka IN for business entities was successfully developed, which in the course of 2014 will gradually replace the existent i-Net for business entities.

5.3.4 Marketing mutual funds

In 2013, the negative trend experienced in the previous years in the area of mutual funds marketing continued. The values of the stock exchanges indices in most Western markets increased, but it failed to convince Slovenian investors to keep their assets in funds. The net outflow from the Slovenian mutual funds was lower than in the year earlier but still relatively high as it amounted to a little bit more than 37 million euros. This disappointing result was also attributable to the continued poor economic conditions, forcing savers to withdraw their nest eggs despite good results posted by the mutual funds.

Banka Koper experienced slightly less than 0.6 million euros in net outflows from foreign funds it offers to customers (Eurizon Manager Selection Fund, Eurizon Easy-Fund and Franklin Templeton Investment Fund) as a result of unfavourable climate for selling the mutual funds.

5.3.5 Leasing operations

The company Finor leasing specialised in selling all types of leasig in the area of the entire Slovenia, both for natural persons and for legal persons. In its branch offices in Koper, Ljubljana and Maribor, Finor leasing has 12 employees. In 2013, Finor Leasing d.o.o. concluded 1,179 contracts in the aggregate amount of 47.4 million euros. The majority of contracts were concluded for commercial vehicles – 530 contracts in the amount of 17.5 million euros, followed by passenger cars - 477 contracts in the amount of 8.4 million euros, manufacturing and other equipment - 142 contracts in the amount of 10.3 million euros, and real estate - 26 contracts in the amount of 11.9 million euros. With 8 contracts in the amount of 0.2 million euro purchase of yachts was the smallest group.

In 2013, the company realized net interest income in the amount of 2.4 million euros, net operating margin in the amount of 3.5 million euros, profit before provisions in the amount of 2.1 million euros, and net profit in the amount of 0.6 million euros.

During the year under review, Finor leasing d.o.o. achieved in the segment of newly concluded leasing contracts a 4,8 per cent market share and among 16 leasing companies, it climbed to the 8th place. In terms of total assets, which total 123,8 million euros, its market share stands at 3.6 per cent.

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

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

As at 31 December 2013, the OVPS posted total assets of 28.39 million euros, which means a 9.40 per cent decrease with regard to year-end 2012. This decrease is mostly a consequence of the expiry of the 10-year membership of the OVPS supplementary pension scheme. The impact of the overall crisis in Slovenia can still be strongly perceived as many of the members decide to withdraw saved funds due to financial problems, even if a one-off withdrawal is unfavourable from the tax perspective. However, it has to be emphasised that an interest in annuity payments has somewhat increased in 2013, that is in form of additional retirement pension. Members with higher saved funds decide for the annuity payment mainly due to tax aspect.

At the end of 2013, the OVPS of Banka Koper had 5,305 members or 11.03 per cent less than a year earlier, of which 4,710 persons were collectively insured and 595 were individually insured. The number of companies – sponsors of the collective schemes fell by four companies; hence, at the end of 2013, the OVPS had 100 companies. The unit asset value increased by 0.72 per cent year-on-year and reached 8.6 euros at the end of 2013.

6. THE BANK'S ORGANIC GROWTH AND DEVELOPMENT

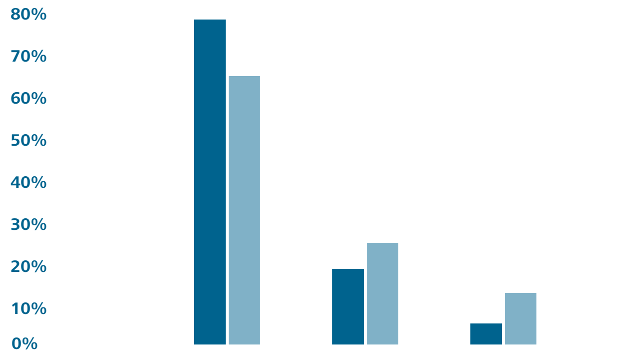
6.1 CAPITAL INVESTMENTS

Also in 2013, Banka Koper continued with the implementation of the long-term development programme and invested 2.4 million euros in the computerisation of its operations, in office space and in other equipment. Bank's capital investments in 2013 were lower by 24.7 per cent or 0.8 million euro compared to 2012.

The biggest portion of capital investments (gross capital formation) – 1.9 million euros or 77.2 per cent of all investments - was allocated in 2013 to the computerisation of banking operations, of which the biggest portion for the development of e-branches and so called "Green branch offices", application for the prevention of money laundering, and development of Banka Koper IN. Substantial investments in the area of card operations were inevitable in order to meet ever-stricter security requirements in this area.

In 2013 Banka Koper allocated only 0.4 million euros, that is, 17.9 per cent of total investments to renovation and refurbishment of premises and modern state-of-the-art banking service, as well as the refurbishment of its branches to be in line with the corporate image of the parent banking group.

Structure of capital investments in 2013



	Business computerisation	Business premises	Other equipment
2013	77.2%	17.9%	4.9%
2012	63.7%	24.1%	12.2%

6.2 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

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

During the year under review, the development of the electronic and mobile bank **Banka IN** for business entities was completed. Pilot users have already started with its use, while in January 2014 an intensive migration of i-Net users into Banka Koper IN is planned. It provides its users with new functionalities and advanced approaches in the direction of paperless banking transactions. With the completion of the project, the overhaul of the bank's internet operations will be completed both for legal persons and for natural persons. The comprehensive solution has value added also in mobility, since with practically all its functionalities it can be reached also on the phone sets with iOS, Android, Windows and Java operating systems.

During the year under review, the bank concluded "Loyalty" project for its loyal customers. In this way it is offering more favourable conditions for doing business to all those customers, which have a bank account (TRR) opened with Banka Koper, a card and at least one form of long-term savings. Customers can use collected points for payment of a whole range of other banking services.

In the area of the provision of **payment services**, Banka Koper completed successfully the migration of direct debits to the SEPA DD scheme. It discontinued executing direct debits and direct credits on the basis of bilateral contracts and by doing so, directed customers to use more the electronic bank. The development was made also in the field of adjustments to the legislative requirements among which the requirements laid down in Regulation (EU) No. 260/2012. Furthermore, in the area of payment transactions and e-invoices the bank continued with the B2B linking of major enterprises; hence, the bank was able to provide a larger volume of mass transactions and a direct connection to the ERP environment of the enterprises, which enables a more optimal and more rational provision of business processes for the bank and for the enterprises.

In 2013, Banka Koper implemented technological support for the process of so-called **soft debt collection and early detection of high-risk exposures for all client categories** and thus automated and optimised the business process from commercial units to the risk management. Support for the process is implemented with the use of BPM technology, which serves as the basis for support and optimisation of other business processes as well.

For support of credit approval process for the segment of small as well as medium and large enterprises, in 2013 the bank implemented the technological support **(ECA)**, which enables the automation and paperless credit approval.

Banka Koper developed in the course of 2013 the technological support for managing documentation arising from **Credit and general customer folder** in the electronic format. The execution is in line with the legislative requirements for the area and in the field of storing material. In addition, it enables quick insight into all documentation of a customer to various offices that need such data.

During the year under review, the bank continued with the activities related to establishment of **FIRB** (advanced) approach to capital calculation, which introduction is planned in 2014. To that end, the bank developed for the segment of large enterprise a model for determining the internal credit standing (rating). The bank carried out test implementation in the business processes and in the course of 2014, the model is expected to be in place. For the needs of managing the internal credit ratings, Banka Koper established the necessary business processes and technological support.

For the needs of quality management of customer exposure security, the internal technological solution for security/collateral management was upgraded and a module was developed for determining collateral quality (Credit Risk Mitigation) for the needs of the calculation of capital under the FIRB (advanced) approach.

For the purpose of liquidity risk management in accordance with Basel III requirements, the Bank upgraded the existent support and provided information for the purpose of reporting to supervisory bodies and to the parent company.

In accordance with the guidelines of the parent group, Banka Koper in the course of 2013 implemented application support for determining customer risk arising from the prevention of money laundering and as a result ensured alignment with the rules of the parent bank and the regulator.

7. ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT OF BANKA KOPER IN THE COURSE OF 2013

In the course of 2013, in the field of corporate social responsibilities Banka Koper transposed the guidelines and standards for monitoring and reporting used for reporting by the parent banking group Intesa Sanpaolo (Global Reporting Initiative, Equator Principles, London Benchmarking Group), since they enable to develop and monitor sustainable development of the bank in a wider context of its integration with the environment.

7.1 HUMAN RESOURCES

7.1.1 The structure

As at 31 December 2013 Banka Koper had 755-strong staff, of which 178 male and 577 female employees. Three employees come from the Intesa Sanpaolo group. 18 persons were hired and 33 persons left Banka Koper.

NUMBER OF EMPLOYEES BY EDUCATIONAL LEVEL

Level of education	V. or lower	VI.	VII. or higher	Total
Number of employees	314	93	348	755
Share (in per cent)	41.6%	12.3%	46.1%	100%

7.1.2 Education and training

Despite the cost cutting measures performed at all levels, also during the year under review the Bank continued with adequate training of the employees.

The portion of funds allocated to education and training in 2013 was 1.30 per cent of the total expenditure of Banka Koper (without labour costs). In the course of 2013, 2,917 participants had 18,542 hours of education and/or training. The average number of hours the Bank's employee spent at a seminar or a workshop in 2013 was 26.6 hours.

In the majority of training sessions organised within the Bank in 2013 the training was delivered by internal lecturers and coaches - 63.4 per cent, while external (outsourced) lecturers/coaches accounted for 36.6 per cent of training. The emphasis was placed on obtaining sales skills in the field of corporate banking and making employees aware of the prevention of money laundering and terrorist financing.

7.1.3 The development of key personnel

Potencial of young staff

Staff with a high potential is being developed in accordance with the competence model, prescribed by the ISP group. The model comprises a set of systematic training and on-the-job development. In the past year the chosen candidates attended two general workshops and two workshops tailored to meet the needs of their development course.

In the programme for the development of perspective employees also direct managers were included for which a workshop was organised about coaching, with the aim to obtain knowledge and skills for following the development of high calibre staff as well as other employees of Banka Koper.

Managers

In the programme for the development of managers, all employees at the managerial positions, including coordinators and project leaders, since for the purpose of introducing changes in the area of interpersonal relations it is of paramount importance that all heads/managers are included in the training process. In 2013, all managerial staff attended a workshop about Situational leadership.

7.2 CUSTOMERS

7.2.1 Strenghtening relationship

Modernisation of the CRM system

Traceability of information about customers and their business activities enable Banka Koper to recognise better their needs and respond more quickly, particularly in those cases when several employees are in contact with one customer. Banka Koper listens to its customers in more than one way: their direct questions, phone and web surveys, opinions, proposals and complaints customers can make in every branch at designated places. Upgrading the CRM system is part of the project Listening 100% the bank has been conducting since 2008.

Increasing customer satisfaction

The results of customer satisfaction surveys conducted at Banka Koper clearly demonstrate that the bank has increased its reputation in the eyes of its customers as a trustworthy bank. Its customers show loyalty and trust in the bank also by recommending it to other people who do not bank with Banka Koper yet. In the course of 2013, the bank organised a promotional campaign to attract new customers: »Zaupaj mi. Jaz ji zaupam.« in which existing customers were rewarded for their loyalty to Banka Koper when they brought a new customer to the bank, as well as the new customers. The campaign was a great success and it will continue also in the course of 2014.

Care for new customers

Within the framework of the programme 'Onboarding' those customers who open accounts at Banka Koper get a personal banker/account officer who takes care of the customer and is available to assist him with all his transactions. Ongoing contacts through the first year of being a customer of Banka Koper may lead to long-term successful co-operation and longer relation with customers; hence, the bank considers this programme as very important.

Strengthening relations with loyal customers

In 2013, Banka Koper started to organise gatherings for loyal customers designed to strengthen relations between the bank and its customers. These events had both business and social character and they were organised on different occasions several times a year.

Strengthening relations with small businesses

Around the country Banka Koper invited ten times micro and small companies, as well as sole proprietors to business breakfast with the aim to strengthen relations and cement the bank's position in that segment.

By including the bank's employees we get more satisified customers

In 2013, Banka Koper organised for the third time the Customer satisfaction day dedicated to looking for new ideas for improving business with customers. On that day the employees learn about various aspects of customer satisfaction and in the internal competition they can submit their proposals for improving banking services or customer relations. Every year these competitions have a different theme and the best proposals are implemented later on in practice.

Digital literacy for senior citizens

In collaboration with Ljudska univerza Koper, Banka Koper continued the project for teaching senior citizens to use the electronic bank on the Internet so that they do not have to go to a branch.

7.2.2 Banking products that raise living standard

Since age is a decisive factor when senior citizens apply for a loan, Banka Koper offered at the beginning of 2013 a new personal loan at a favourable interest rate for pensioners in the amount of up to 3,000 euros.

7.2.3 Support for the economic development of the region

Farmers and agro-tourism

It is a segment in which Banka Koper recognises a strong development potential, so in August it prepared a special line of loans to suit the needs of activities in agriculture. During the year, 166 loans were granted to this customer segment in the amount of 2.3 million euros.

Development of small businesses: subsidised interest rate

Banka Koper work co-operated intensely with municipalities, chambers of commerce and chambers of small businesses and crafts, development agencies, etc. to create a supportive environment for the development of small businesses in which the bank positioned itself with the offer of loans with the subsidised interest rate and simplified approval procedure.

Co-operation with the European Investment Fund

In December, Banka Koper joined the programme of the European Investment Fund - EPMF (European Progress Microfinance Facility for employment and social inclusion), serving to increase access to financing for micro businesses and sole proprietors with the emphasis on the segments of female entrepreneurs, young entrepreneurs etc. The first loans will be offered to these segments in the first quarter of 2014.

7.3 ENVIRONMENT

7.3.1 Environment policy principles

Into the operations of Banka Koper the rules were implemented in the course of 2013 for environmental and energy policy of the parent banking Group Intesa Sanpaolo and the Equator Principles in the field of environmental and social risks.

7.3.2 Indirect effects

Financing green investments

In the second half of 2013, three types of loans were launched for environment-friendly investments and namely to purchase a hybrid vehicle or electric vehicle, environment-friendly heating systems, cleaning devices, energy-efficient devices etc. And for the construction or renewal of passive or energy-efficient houses.

Collaboration with the fund Eko sklad
Banka Koper continued in the course of 2013 to collaborate with the Slovenian public fund for the protection of the environment in the field of granting loans with subsidised interest rate for investments in reduced energy consumption in residential buildings.

Financing solar power plants
After the year 2012 when the range of loans for investments in green energy was much wider, Banka Koper kept in its portfolio for 2013 only the loan granted for the purpose of the construction of solar power plants.

7.3.3 Direct effects

Energy
The two solar power plants installed on the roofs of the bank's branches generated 49,083 kilowatt hours of power enables the bank to reduce CO_2 emissions by 33.7 tonnes.

In addition, Banka Koper agreed with the power suppliers to supply starting with 2014 only electricity generated by renewable energy sources.

Paper and separating waste
One of the conditions stipulated in invitation to tenderers to supply paper is to provide paper free of mechanical pulp and made from sustainable resources defined in the standard FSC.

In all branches containers for different types of material were placed: separately for paper, plastics and other litter.

Awareness building
Banka Koper in the course of 2013 kept telling customers and employees how important environment stewardship is, what the reasons are to have »green branches« and what are the effects of paperless transactions, as well as other green measures serving to protect our whole environment.

Much attention was paid to making customers aware of the advantages of electronic monthly statements of their accounts.

Mobility
The paper Finance selects environment-friendly company fleets and the fleet of Banka Koper where the cars have average CO_2 emission of 134.8 grams was ranked second among large Slovenian companies.

A simple and efficient system was established to monitor business trips and the numbers of transfers that enables the bank to calculate precisely CO_2 emissions.

7.4 SUPPLIERS

In the area of co-operation with suppliers, the bank directed its activities in regulating payment policy, in the development and establishment of a list of suppliers, and in strengthening a dialogue and consequently the relations with suppliers. Precise rules were drafted for the participants in the purchase process. These rules are based on the ethical standards of the Code of Ethics and the internal acts of Banka Koper.

Suppliers and supplies were aligned with the bank's environmental orientation. Banka Koper purchases only FCS (Forest Stewardship Council) paper and energy-saving electric bulbs. All new company cars are hybrids; multipurpose devices have to feature a label with energy efficiency.

7.5 LOCAL COMMUNITY

Donations
In the course of 2013, Banka Koper allocated nearly 33 per cent of funds for sponsorships and donations to good causes with the aim to stimulate local activities with the emphasis on the places in which it operates and particularly in the Coastal and Karst area.

Priority was given to the project for the young and to various initiatives in the area of culture, arts, education, sports and charities.

Raising funds
In the second half of 2013, the local community was shaken by the news of the tragic accident that left young Nick a tretraplegic overnight. Nick's relatives and friends organised fund raising for Nick's medical treatment supported by the larger community.

Banka Koper joined the initiative with its own contribution and a dedicated account where funds are gathered without charging any fees on transactions. The bank supported the action with the promotion on its channels and attracted customers and employees to participate.

Sponsorships
Nearly 70 per cent of funding as a sponsor and for donations in 2013 Banka Koper channelled to the projects that have a positive effect on common good and with their support, it also enhances its reputation in the region and across Slovenia.

Most funds went to recreational sports activities and the rest to culture and few music events. Also in that area the bank followed the policy to select the projects that arise from the local communities. The bank did not use sponsored events for additional promotional campaigns but only used the promotional possibilities offered by the sponsorship.

7.6 MEDIA

In line with the commitment to transparency as an important value for Banka Koper comprised also in the Code of Ethics, the bank in the course of 2013 communicated intensely and openly with the general public through the media.

We prepared one press conference and on two occasions invited journalists to a business breakfast, there were 25 releases for the public, some 120 answers were provided to journalists' questions and the president of the management board gave two interviews.

8. ORGANISATIONAL CHART AS AT 31 DECEMBER 2013

RETAIL NETWORK

RETAIL CENTER KOPER

Branch Koper
Branch Markovec
Branch Olmo
Branch Ankaran

RETAIL CENTER LUCIJA

Branch Lucija
Branch Piran

RETAIL CENTER POSTOJNA

Branch Postojna
Branch Pivka

RETAIL CENTER MARIBOR

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

RETAIL CENTER IZOLA

Branch Izola

RETAIL CENTER SEŽANA

Branch Sežana
Branch Kozina
Branch Komen
Branch Divača

RETAIL CENTER ILIRSKA BISTRICA

Branch Ilirska Bistrica
Branch Trnovo
Branch Podgrad

RETAIL CENTER NOVA GORICA

Branch Nova Gorica
Branch Idrija
Branch Tolmin
Branch Ajdovščina

RETAIL CENTER NOVO MESTO

Branch Novo Mesto
Branch Trebnje
Branch Sevnica
Branch Črnomelj
Branch Brežice

RETAIL CENTER MURSKA SOBOTA

Branch Murska Sobota

RETAIL CENTER SLOVENJ GRADEC

Branch Slovenj Gradec
Branch Radlje ob Dravi
Branch Ravne na Koroškem

RETAIL CENTER LJUBLJANA

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

RETAIL CENTER KRANJ

Branch Kranj
Branch Radovljica
Branch Jesenice
Branch Globus

RETAIL CENTER CELJE

Branch Celje
Branch Velenje
Branch Žalec
Branch Šentjur

SMALL BUSINESS (RETAIL) NETWORK

WEST REGIJA

- Business center Koper
- Business center Postojna
- Business center Nova Gorica

CENTRAL REGIJA

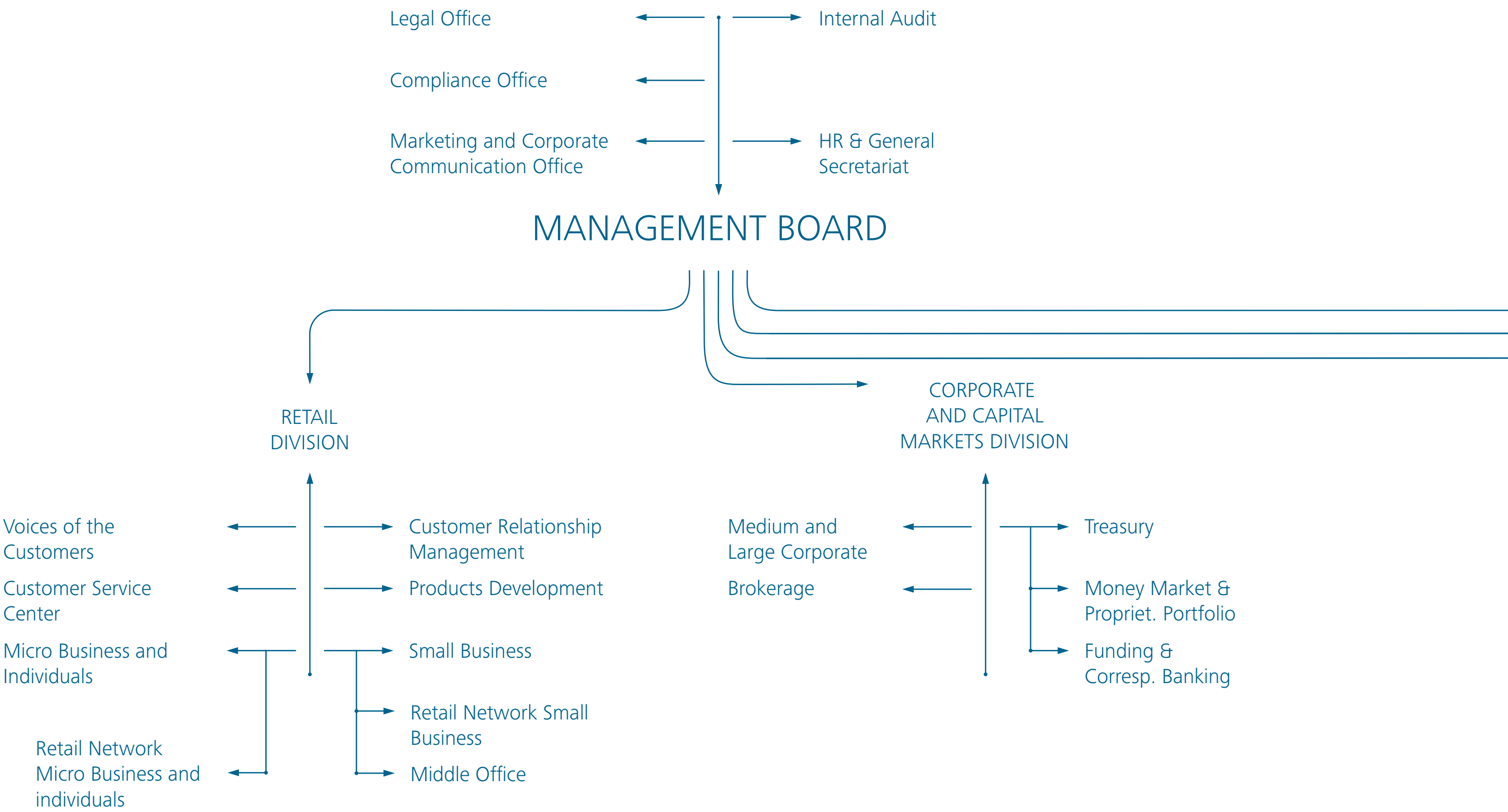
- Business center Ljubljana
- Business center Kranj
- Business center Novo Mesto

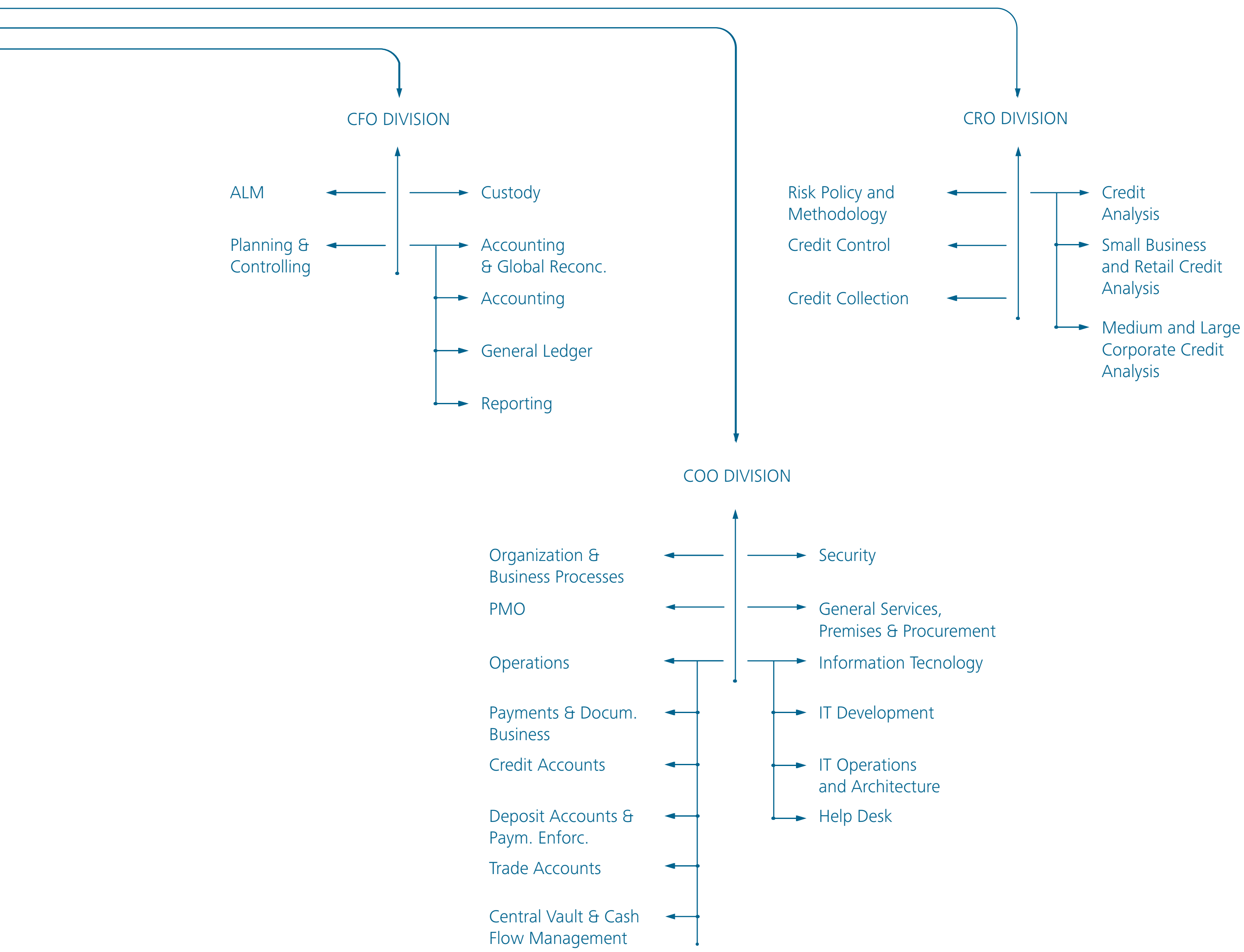
EAST REGIJA

- Business center Maribor
- Business center Celje
- Business center Slovenj Gradec
- Business center Murska Sobota

Banking group Intesa Sanpaolo → Banka Koper d. d. → Finor Leasing d. o. o.

9. INTERNAL ORGANISATION CHART




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

Financial Statements 2013

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

KPMG

Independent Auditor's Report

To the Shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of Banka Koper d.d., which comprise the statement of financial position as at 31 December 2013, 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 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

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

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

mag. Simona Korošec Lavrič
Certified Auditor

Boris Drobnič
Partner

KPMG Slovenija, d.o.o.

Ljubljana, 4 April 2014

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.

Independent Auditor's Report

To the Shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the group Banka Koper, which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group Banka Koper as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

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

KPMG SLOVENIJA,
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mag. Simona Korošec Lavrič
Certified Auditor

Boris Drobnič
Partner

KPMG Slovenija, d.o.o.

Ljubljana, 4 April 2014

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management is responsible for preparing financial statements for each financial year that present fairly the state of affairs of the Bank and its subsidiaries as at the end of the financial year and of the profit or loss for that period.

The management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2013. 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, 09 April 2014

Member
Aleksander Milostnik

Deputy president
Igor Kragelj

President
Giancarlo Miranda, M.Sc.

Member
Aleksander Lozej, M.Sc.

Member
Rado Grdina

Member
Francesco Del Genio

FINANCIAL STATEMENTS

1. STATEMENT OF INCOME

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2013	**2012**	**2013**	**2012**
Interest income	4	71,718	79,955	74,832	83,435
Interest expense	4	(27,520)	(29,525)	(28,272)	(30,632)
Net interest income		**44,198**	**50,430**	**46,560**	**52,803**
Dividend income	5	1,079	1,572	232	972
Fee and commission income	6	39,229	40,446	39,572	41,136
Fee and commission expense	6	(15,103)	(15,811)	(15,151)	(15,848)
Net fee and commission income		**24,126**	**24,635**	**24,421**	**25,288**
Net loss on financial assets and liabilities not recognised at fair value through profit and loss	7	(501)	(896)	(501)	(896)
Net gain on financial assets and liabilities held for trading	8	2,289	247	2,289	247
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		107	70	107	70
Fair value adjustments in hedge accounting	9	(192)	234	(192)	234
Gains less losses from foreign exchange transactions		(1,566)	(31)	(1,581)	(34)
Gains less losses on derecognition of non-current assets other than held for sale	10	20	87	51	133
Other operating gains less losses	11	105	1,043	1,221	1,680
Administrative expenses	12	(38,658)	(39,393)	(39,844)	(40,342)
Amortisation and depreciation	13	(4,503)	(5,143)	(5,014)	(5,618)
Provisions:		165	(1,285)	155	(1,319)
- provisions	14	545	(865)	542	(894)
- retirement benefit obligations	14	(380)	(420)	(387)	(425)
Impairment losses	15	(24,031)	(22,758)	(24,930)	(23,752)
Operating profit		**2,638**	**8,812**	**2,974**	**9,466**
Income tax expense	16	(115)	(1,627)	(276)	(1,863)
Net profit for the period		**2,523**	**7,185**	**2,698**	**7,603**
Attributable to:					
Equity holders of the parent		2,523	7,185	2,698	7,603
Non-controlling interest		-	-	-	-
		2,523	7,185	2,698	7,603
Earnings per share (basic and diluted) (expressed in EUR per share)	**17**	4.76	13.55	5.09	14.33

The following notes on pages 38 to 101 form an integral part of these financial statements.

2. STATEMENT OF COMPREHENSIVE INCOME

(all amounts expressed in thousands of EUR)

	Year ended 31 December			
	Banka Koper		Consolidated	
	2013	2012	2013	2012
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**2,523**	**7,185**	**2,698**	**7,603**
OTHER COMPREHENSIVE INCOME AFTER TAX	**(5,312)**	**6,478**	**(5,312)**	**6,478**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**(5,312)**	**6,478**	**(5,312)**	**6,478**
Available-for-sale financial assets	**(6,400)**	**7,701**	**(6,400)**	**7,701**
- valuation gains (losses) taken to equity	(8,690)	3,793	(8,690)	3,793
- transferred to profit or loss	2,290	3,908	2,290	3,908
Income tax relating to components of other comprehensive income	1,088	(1,223)	1,088	(1,223)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**2,789**	**13,663**	**(2,614)**	**14,081**
a) Attributable to owners of the parent	2,789	13,663	(2,614)	14,081
b) Attributable to non-controlling interests	-	-	-	-

3. STATEMENT OF FINANCIAL POSITION

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2013	2012	2013	2012
ASSETS					
Cash and balances with Central Banks	19	32,144	29,388	32,144	29,388
Financial instruments held for trading:		363	290	363	290
- derivative financial instruments	20	363	290	363	290
Financial assets designated at fair value through profit or loss		389	282	389	282
Investment securities available for sale	21	305,578	304,090	305,578	304,090
Loans and advances:		1,922,519	1,941,582	1,941,974	1,986,394
- to banks	22	177,699	58,308	177,699	58,308
- to customers	23	1,724,055	1,863,839	1,749,235	1,913,776
- advances	24	20,765	19,435	15,040	14,310
Goodwill	25	-	-	905	905
Property and equipment	26	23,745	26,333	25,420	27,567
Investment property	27	1,283	1,028	8,074	6,445
Intangible assets	28	4,585	4,236	4,661	4,337
Investments in subsidiaries	29	3,688	3,688	-	-
Income tax assets		4,357	4,681	5,110	5,244
- current income tax		1,331	3,229	1,331	3,229
- deferred income tax	39	3,026	1,452	3,779	2,015
Other assets	30	1,225	888	14,358	10,491
Total assets		**2,299,876**	**2,316,486**	**2,338,976**	**2,375,433**
LIABILITIES					
Liabilities to Central Bank	31	131,833	201,750	131,833	201,750
Financial instruments held for trading:		613	184	613	184
- derivative financial instruments	20	613	184	613	184
Liabilities carried at amortised cost:		1,887,005	1,823,723	1,923,486	1,880,275
- deposits from banks	32	20,252	75,359	20,252	75,359
- due to customers	33	1,676,504	1,507,316	1,676,485	1,507,301
- other borrowed funds from banks	34	161,971	214,170	197,986	270,211
- other borrowed funds from other customers	35	4,372	6,527	4,372	6,527
- other financial liabilities	36	23,906	20,351	24,391	20,877
Derivatives – Hedge accounting	20	328	1,573	328	1,573
Provisions:		11,005	11,386	11,084	11,454
- provisions for liabilities and charges	37	7,564	8,220	7,549	8,202
- retirement benefit obligations	38	3,441	3,166	3,535	3,252
Income tax liabilities:		-	-	8	64
- current income tax		-	-	8	64
Other liabilities	40	2,229	1,415	2,475	1,567
Total liabilities		**2,033,013**	**2,040,031**	**2,069,827**	**2,096,867**

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2013	2012	2013	2012
SHAREHOLDERS´ EQUITY					
Ordinary shares	41	22,173	22,173	22,173	22,173
Share premium	41	7,499	7,499	7,499	7,499
Revaluation reserves	42	3,476	8,788	3,476	8,788
Reserves from profit	43	225,341	225,209	225,341	225,209
Treasury shares	41	(49)	(49)	(49)	(49)
Retained earnings (including income from the current year)	43	8,423	12,835	10,709	14,946
Total shareholders´ equity		**266,863**	**276,455**	**269,149**	**278,566**
Total equity and liabilities		**2,299,876**	**2,316,486**	**2,338,976**	**2,375,433**

The following notes on pages 38 to 101 form an integral part of these financial statements.

4. UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

(all amounts expressed in thousands of EUR)

In the year 2013 – Unconsolidated	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**8,788**	**225,209**	**12,835**	**(49)**	**276,455**
Comprehensive income for the financial ear after tax	**42**	**-**	**-**	**(5,312)**	**-**	**2,523**	**-**	**(2,789)**
Appropriation of (accounting for) dividends	43	-	-	-	-	(6,821)	-	**(6,821)**
Transfer of net profit to reserves from profit	43	-	-	-	132	(132)	-	**-**
Other - transfer of expired dividends to retained earnings		-	-	-	-	18	-	**18**
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**3,476**	**225,341**	**8,423**	**(49)**	**266,863**
PROFIT AVAILABLE FOR DISTRIBUTION		**-**	**-**	**-**	**-**	**2,397**	**-**	**2,397**

(all amounts expressed in thousands of EUR)

In the year 2012 – Unconsolidated	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**11,311**	**(49)**	**268,091**
Comprehensive income for the financial year after tax	**42**	**-**	**-**	**6,478**	**-**	**7,185**	**-**	**13,663**
Appropriation of (accounting for) dividends	43	-	-	-	-	(5,299)	-	**(5,299)**
Transfer of net profit to reserves from profit	43	-	-	-	362	(362)	-	**-**
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**8,788**	**225,209**	**12,835**	**(49)**	**276,455**
PROFIT AVAILABLE FOR DISTRIBUTION		**-**	**-**	**-**	**-**	**6,826**	**-**	**6,826**

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

The following notes on pages 38 to 101 form an integral part of these financial statements.

5. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

(all amounts expressed in thousands of EUR)

In the year 2013 – Consolidated	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**8,788**	**225,209**	**14,946**	**(49)**	**278,566**	**278,566**
Consolidated Comprehensive Income for the financial year after tax	**42**	**-**	**-**	**(5,312)**	**-**	**2,698**	**-**	**(2,614)**	**(2,614)**
Appropriation of (accounting for) dividends	43	-	-	-	-	(6,821)	-	(6,821)	**(6,821)**
Transfer of net profit to reserves from profit	43	-	-	-	132	(132)	-	-	-
Other - transfer of expired dividends to retained earnings		-	-	-	-	18	-	18	18
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**3,476**	**225,341**	**10,709**	**(49)**	**269,149**	**269,149**

(all amounts expressed in thousands of EUR)

In the year 2012 – Consolidated	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**2,310**	**224,847**	**13,004**	**(49)**	**269,784**	**269,784**
Consolidated Comprehensive Income for the financial year after tax	**42**	**-**	**-**	**6,478**	**-**	**7,603**	**-**	**14,081**	**14,081**
Appropriation of (accounting for) dividends	43	-	-	-	-	(5,299)	-	(5,299)	(5,299)
Transfer of net profit to reserves from profit	43	-	-	-	362	(362)	-	-	-
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**8,788**	**225,209**	**14,946**	**(49)**	**278,566**	**278,566**

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

The following notes on pages 38 to 101 form an integral part of these financial statements.

6. STATEMENT OF CASH FLOWS

(all amounts expressed in thousands of EUR)

	Notes	Year ended 31 December			
		Banka Koper		Consolidated	
		2013	**2012**	**2013**	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		2,638	8,812	2,974	9,466
Depreciation		4,502	5,143	5,012	5,618
Impairments / (reversal of impairments) of financial assets available for sale		3,279	5,144	3,279	5,144
Impairments / (reversal of impairments) of loans and receivables		20,752	17,613	20,331	17,414
Net (gains) / losses from exchange differences		(2,526)	(725)	(2,511)	(722)
Net (gains) / losses from sale of tangible assets and investment properties		(20)	(87)	(51)	(133)
Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents		-	(2)	-	(2)
Other adjustments to total profit or loss before tax		906	(30)	909	4
Cash flow from operating activities before changes in operating assets and liabilities		**29,531**	**35,868**	**29,943**	**36,789**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**124,155**	**(60,319)**	**145,057**	**(59,841)**
Net (increase) / decrease in balances with central banks		(1,068)	12,835	(1,068)	12,835
Net (increase) / decrease in financial assets held for trading		(653)	1,810	(653)	1,810
Net (increase) / decrease in financial assets designated at fair value through profit or loss		(107)	(282)	(107)	(282)
Net (increase) / decrease in financial assets available for sale		(7,889)	(13,384)	(7,889)	(13,384)
Net (increase) / decrease in loans and receivables		135,199	(51,294)	156,173	(41,517)
Net (increase) / decrease in other assets		(1,327)	(10,004)	(1,399)	(19,303)
Increases / (decreases) in operating liabilities		**(6,024)**	**63,877**	**(26,045)**	**63,477**
Net increase / (decrease) in financial liabilities to central bank		(69,917)	51,708	(69,917)	51,708
Net increase / (decrease) in financial liabilities held for trading		429	(951)	429	(951)
Net increase / (decrease) in deposits and loans measured at amortised cost		61,190	20,974	41,093	14,954
Net increase / (decrease) in liability – derivatives – hedge accounting		(1,245)	581	(1,245)	581
Net increase / (decrease) in other liabilities		3,519	(8,435)	3,595	(2,815)
Cash flow from operating activities		**147,662**	**39,426**	**148,955**	**40,425**
Income taxes (paid) / refunded		1,350	(6,708)	1,007	(7,007)
Net cash flow from operating activities		**149,012**	**32,718**	**149,962**	**33,418**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**22**	**103**	**217**	**313**
Receipts from the sale of property and equipment and investment properties		22	103	217	313
Cash payments on investing activities		**(1,186)**	**(2,228)**	**(2,327)**	**(3,125)**
Cash payments to acquire tangible assets and investment properties		(1,178)	(1,162)	(2,319)	(2,059)
Cash payments to acquire intangible fixed assets		(8)	(1,066)	(8)	(1,066)
Net cash flow from investing activities		**(1,164)**	**(2,125)**	**(2,110)**	**(2,812)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash proceeds from financing activities		**-**	**-**	**-**	**-**
Cash payments on financing activities		**(6,834)**	**(5,299)**	**(6,834)**	**(5,299)**
Dividends paid		(6,834)	(5,299)	(6,834)	(5,299)
Net cash flow from financing activities		**(6,834)**	**(5,299)**	**(6,834)**	**(5,299)**
Effects of change in exchange rates on cash and cash equivalents		(4,092)	(756)	(4,092)	(756)
Net increase in cash and cash equivalents		**141,014**	**25,294**	**141,018**	**25,307**
Opening balance of cash and cash equivalents	45	57,823	33,285	57,838	33,287
Closing balance of cash and cash equivalents	**45**	**194,745**	**57,823**	**194,764**	**57,838**

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
Operational cash flows of interest and dividends	**2013**	**2012**	**2013**	**2012**
Interest paid	(26,367)	(13,156)	(27,119)	(14,263)
Interest received	72,221	79,980	75,335	83,460
Dividends Received	1,079	1,572	232	972

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

As at 31st December 2013, the Bank and Group had undrawn credit lines and loans already committed of EUR 200,000 thousand (2012: EUR 370,000 thousand).
The Bank and the Group have credit lines and other facilities of EUR 200,000 thousand that are available for financing future business operations without any restrictions.

The following notes on pages 38 to 101 form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

Banka Koper is a public limited company with its head office in Pristaniška 14, Koper. Finor Leasing is a limited liability company, 100% owned by the Bank, with share capital of 2,045 thousand EUR and its head office in Pristaniška 14, Koper. Since the end of February 2007, the Bank owned 75% of Centurion finančne storitve d.o.o. Ljubljana, a financial company operating in the credit card business. Centurion finančne storitve d.o.o. Ljubljana is a limited liability company with share capital of 1,648 thousand EUR and its head office in Slovenčeva 24, Ljubljana. In June 2009, the company Centurion finančne storitve d.o.o. Ljubljana, was renamed to ISP Card d.o.o., Ljubljana. From 1st August 2009 Banka Koper d.d., on the initiative of the parent bank, spun off its credit card processing activity. As a result, the credit card business, that is tangible and intangible fixed assets, contract obligations and employees, was transferred to ISP Card d.o.o., Ljubljana. The fair value of the transferred intangible and tangible fixed assets represented an additional stake of Banka Koper in ISP Card d.o.o., which on 31 December 2009 amounted to 92,67%. According to the initiative of the parent Bank, Banka Koper sold the investment in ISP Card d.o.o. Ljubljana to ISP Card d.o.o. Zagreb in March 2010.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

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

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

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

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

Standards issued but not yet effective and not early adopted

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2013 and have not been applied in preparing these financial statements:

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)]*
IFRS 10 Consolidated Financial Statements and IAS 27 (2011) *Separate Financial Statements*[1] (Effective for annual periods beginning on or after 1 January 2014; Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.) This Standard is to be applied retrospectively when there is a change in control conclusion.	IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when: (1) it is exposed or has rights to variable returns from its involvements with the investee; (2) it has the ability to affect those returns through its power over that investee; and (3) there is a link between power and returns. The new Standard also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).	The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.
IFRS 11 Joint Arrangements (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively subject to transitional provisions. Earlier application is permitted if IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)	*IFRS 11, Joint Arrangements*, supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows: • a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement. • A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement. IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements.	The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.
IFRS 12 Disclosure of Interests in Other Entities[2] (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively, except not required to present comparative information for unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied. Earlier application is permitted.	IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.	The entity does not expect the new Standard will have a material impact on the financial statements.

1 **Investment Entities** (Amendments to IFRS 10, IFRS 12 and IAS 27) issued on 31 October 2012 by the IASB has **NOT been endorsed by the EU** as at 21 August 2013. This amendment provides consolidation relief for qualifying investment entities.
2 Providing some of the disclosures required by IFRS 12 before the effective date does not compel the entity to comply with all the requirements of IFRS 12 or to apply IFRS 10, IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) early.)

Standard/Interpretation *[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)]*
IAS 27 (2011) *Separate Financial Statements* (Effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011) are also applied early.)	IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. As well, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.	[In separate financial statements] The Company does not expect IAS 27 (2011) to have material impact on the financial statements, since it does not results in a change in the entity's accounting policy. [In consolidated financial statements there is no need to separately disclose the change in IAS 27 since the remaining portion of IAS 27 relates only to separate financial statements and the portion of IAS 27 that relates to the consolidated financial statements should be addressed as part of the IFRS 10 discussion.]
IAS 28 (2011) *Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.)	There are limited amendments made to IAS 28 (2008): • *Associates and joint ventures held for sale.* IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture. • *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.	The entity does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.
Amendments to IAS 32 – *Offsetting Financial Assets and Financial Liabilities* (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted, however the additional disclosures required by Amendments to IFRS 7 Disclosures - *Offsetting Financial Assets and Financial Liabilities must also be made.*)	The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is: • not contingent on a future event; and • enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.	The entity does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
Amendments to IFRS 10, IFRS 12 *and* IAS 27 – *Investment Entities* (Effective for annual periods beginning on or after 1 January 2014; early adoption is permitted; to be applied retrospectively subject to transitional provisions)	The Amendments provide an exception to the consolidation requirements in IFRS 10 and requires qualifying investment entities to measure their investments in controlled entities – as well as investments in associates and joint ventures – at fair value through profit or loss, rather than consolidating them. The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated. An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity. According to these essential elements an investment entity: (1) obtains funds from investors to provide those investors with investment management services; (2) commits to its investors that its business purpose is to invest for returns solely from appreciation and/or investment income; and (3) measures and evaluates the performance of substantially all of its investments on a fair value basis. The amendments also set out disclosure requirements for investment entities.	The Group does not expect the new standard to have any impact on the financial statements, since [Parent Co] does not qualify as an investment entity.

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 IAS 36 *– Recoverable Amount Disclosures for Non-Financial Assets* *(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively[3]. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13)*	The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs to disposal: • the level of IFRS 13 'Fair value hierarchy' within which the fair value measurement of the asset or cash-generating unit is categorised; • for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making it; • for fair value measurements categorised within Level 2 and Level 3, each key assumption (i.e. assumptions to which recoverable amount is most sensitive) used in determining fair value less costs of disposal. If fair value less costs of disposal is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.	The Entity does not expect the new Standard will have a material impact on the financial statements.
Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting *(Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively3. Earlier application is permitted, however an entity shall not apply the amendments in periods (including comparative periods) in which it does not also apply IFRS 13)*	The Amendments allows hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws and regulations, when the following criteria are met: • The novation is made as a consequence of laws or regulations • A clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument • Changes to the terms of the derivative are limited to those necessary to replace the counterparty	The entity does not expect the new standard to have any impact on the financial statements, since it does not novate derivatives designated as hedging instruments to central counterparties as a consequence of laws and regulations.

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

2.2 CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2013.

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

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

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

3 Although the amendments are applied retrospectively, if an entity had previously discontinued hedge accounting, as a result of a novation, then the previous hedge accounting (pre-novation) for that relationship cannot be reinstated. This is because doing so would be inconsistent with the requirements for hedge accounting – i.e. hedge accounting cannot be applied retrospectively.

2.3 REPORTING ON OPERATING SEGMENTS

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

2.4 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. All entities included in consolidation use Euro as functional currency. Financial statements are presented in Euro, which has been the Group's presentation currency since 1 January 2007.

Transactions and balances

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

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

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

2.5 INVESTMENTS IN SUBSIDIARIES AND GOODWILL

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

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

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

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

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

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

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

2.6 RELATED PARTIES

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

2.7 FINANCIAL ASSETS

Classification

a) Financial assets at fair value through profit or loss

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

b) Loans and receivables

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

(a) those that the entity intends to sell immediately or in the short term, which are classified as held-for-trading and those that the entity designates at fair value through profit or loss upon initial recognition;

(b) those that the entity designates as available for sale upon initial recognition; or

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

c) Held-to-maturity

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

d) Available-for-sale

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

Recognition and measurement

a) Date of recognition

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

b) "Day 1" profit or loss

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank or Group immediately recognise the difference between the transaction price and fair value (a "Day 1" profit or loss) in the statement of income in "Net trading income". In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of income when the inputs become observable, or when the instrument is derecognised.

c) Value of recognition and subsequent measurement

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss.

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

Restructured loans

Due to inability of the client to repay the debt under the originally agreed terms, where possible, the Bank and Group seek to restructure performing loans or past due loans (substandard or past due) by more than 90 days rather than start recovery of collateral due to long-lasting procedures and high court costs. Bank restructuring include one or more activities: extending the payment arrangements and/or reduction of interest rate and/or partial write-off and/or D/E swap and/or the restructuring concerns performing loans and was done by a pool of banks and the agreement of new loan conditions with an annex. Once the terms have been renegotiated and annexes are concluded, the loan is no longer considered past due, however, the client is classified in non-performing category and will remain in such category for at least 2 years. The loans are subject of an individual impairment assessment, utilizing the loan's original effective interest rate. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Derecognition of financial instruments

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

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

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

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

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

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

Fair value measurement principles

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

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

Since IFRS 13 is in force, a disclosure of inputs, when determine fair value, should be presented when classifying financial instruments in three levels of fair value:

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

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

2.8 OFFSETTING

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

2.9 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

2.10 HEDGE ACCOUNTING

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

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

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

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

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

a) Fair value hedges

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

The following types of hedging transactions are used:

fair value hedge, which has the objective of covering exposure to changes in the fair value (attributable to the different risk categories) of assets and liabilities in the balance sheet, or on a portion of these, of groups of assets/liabilities and portfolios of financial assets and liabilities.

2.11 INTEREST INCOME AND EXPENSE

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

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

2.12 FEES AND COMMISSION INCOME

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

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

2.13 SALE AND REPURCHASE AGREEMENTS

Securities sold under sale and repurchase agreements (repos) are retained in the financial statements, with the counterparty liability included in deposits from banks or customers as appropriate. Securities sold, subject to sale and repurchase agreements are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective interest rate method.

2.14 IMPAIRMENT OF FINANCIAL ASSETS

a) Assets carried at amortised cost

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

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

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

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

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

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

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

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

b) Assets carried at fair value

The Bank or Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. In line with Bank or Group accounting policies, a significant decrease is when financial instrument's fair value decreases by more than 30% below average cost. Prolonged decline in the fair value is generally when the fair value of a financial instrument is below its average cost for at least 24 months. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of income.

2.15 INTANGIBLE ASSETS

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

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

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

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

Intangible assets	Estimated useful lives in 2013	Estimated useful lives in 2012
Licences	4–5	3–5
Investments in research and development	4	3
Software	4	4

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

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

2.16 INVESTMENT PROPERTY

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

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

The recognition and derecognition policies and methods of accounting for depreciation are defined under property, plant and equipment (Note 2.17).

2.17 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

Property, plant and equipment	Estimated useful lives in 2013	Estimated useful lives in 2012
Buildings	16.6-40	16.3-33.3
Other investment in intangibles	10	16.6-33.3
Equipment	5	5
Motor vehicles	5	5-8
Computers and software	4	3

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

2.18 ACCOUNTING FOR LEASES

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

The Bank or a Group company is the lessee

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

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

The Bank or a Group company is the lessor

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

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

2.19 CASH AND CASH EQUIVALENTS

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

2.20 FINANCIAL LIABILITIES

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

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

2.21 PROVISIONS

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

2.22 INVENTORIES

Inventories are stated at cost plus all corresponding direct costs of purchase, or at lower of cost and net realizable value. Cost is determined using the weighted average cost formula. Inventories are carried at "first in first out" (FIFO) method.

2.23 FINANCIAL GUARANTEE CONTRACTS

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

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

2.24 TAXATION

Income tax is calculated by each Group member according to local legislation.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantially enacted at the reporting date are used to determine deferred income tax. The principal temporary differences arise from the valuation of financial assets and liabilities including derivatives and provisions for employees. For the year 2013 deferred tax was calculated using a 17%.

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

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

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

2.25 EMPLOYEE BENEFITS

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long – service benefits. Valuations of these obligations are carried out by independent qualified actuaries, by using book reserve method approach. The main actuarial assumptions included in the calculation of the obligation for other long – term employee benefits are:
- Discount rate of 4.35% (2012: 5.2%) and
- Future salary increases of 3.5% (2012: 3.5%) p.a..

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

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

These obligations are measured at the present value of the future cash outflows and booked through the statement of income.

2.26 SHARE CAPITAL

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

Treasury shares
Where the Bank or other members of the consolidated Group purchases the Bank's shares, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

2.27 FIDUCIARY ACTIVITIES

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

2.28 COMPARATIVES

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

3. RISK MANAGEMENT ORGANISATION

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

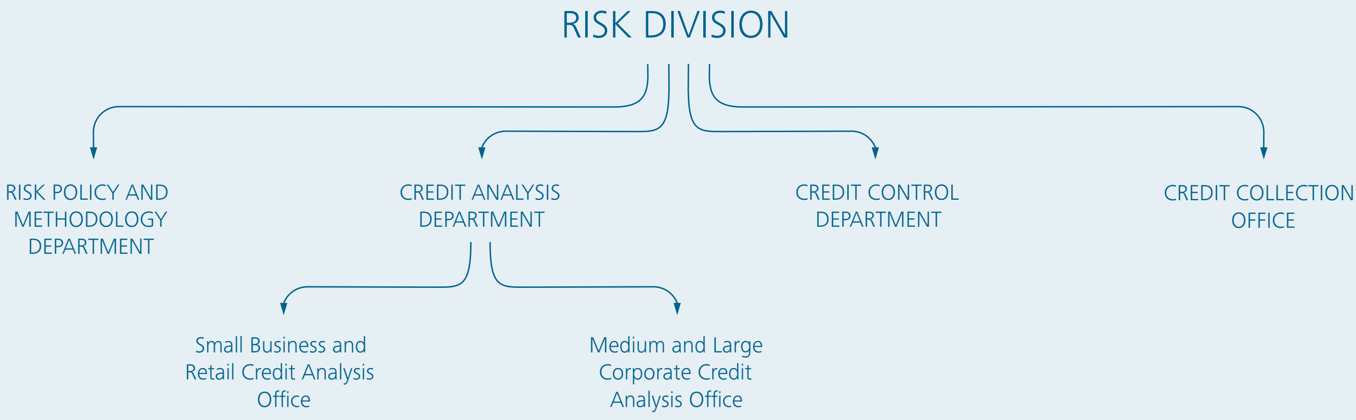
The most important risks in terms of exposure are credit risk, banking book financial risks and operational risk. The two most important banking book financial risks are interest rate and liquidity risk. Other important risks for the Group are strategic risk, reputational risk, market risk, credit concentration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

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

3.1 RISK MANAGEMENT STRUCTURE

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

The organisation scheme of the Risk Management Division:



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

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

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

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

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

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

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

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

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

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

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

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

3.2 CAPITAL ADEQUACY AND OWN FUNDS (CAPITAL) MANAGEMENT

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

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

3.2.1 Fulfilment of regulatory capital requirements

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

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

(all amounts expressed in thousands of EUR)

Capital adequacy as at 31 December 2013 – unconsolidated	Balance sheet/ Nominal amount 2013	Balance sheet/ Nominal amount 2012	Risk weighted amount 2013	Risk weighted amount 2012	Capital Requirements 2013	Capital Requirements 2012
Credit risk exposures of banking book						
Exposures to state and central bank	498,927	449,136	6	8	-	1
Exposures to local municipalities	58,026	65,340	11,579	12,938	926	1,035
Exposures to public sector	10,815	11,555	4,098	4,074	328	326
Exposures to development banks	400	503	-	-	-	-
Exposures to institutions	222,255	130,961	54,787	43,536	4,383	3,483
Exposures to enterprises	870,215	1,032,079	783,151	891,015	62,652	71,281
Exposures to retail banking	897,903	973,536	562,379	603,743	44,990	48,299
Past due exposures	23,186	22,487	27,720	25,826	2,218	2,066
Exposures to highly risk exposures	71,495	87,540	73,417	101,240	5,873	8,099
Exposures to investments funds	28,363	31,454	28,363	31,454	2,269	2,516
Exposures to other assets	78,193	92,166	63,867	80,156	5,109	6,412
Total	**2,759,778**	**2,896,757**	**1,609,367**	**1,793,990**	**128,748**	**143,518**
Credit risk weighted assets			1,609,367	1,793,990	128,748	143,518
Market risk weighted assets			1,750	913	140	73
Operational risk weighted assets			141,788	154,625	11,343	12,370
Total risk weighted assets			**1,752,905**	**1,949,528**	**140,231**	**155,961**
Regulatory capital						
Ordinary shares			22,173	22,173		
Share premium			7,499	7,499		
Treasury shares			(49)	(49)		
Legal reserves			13,324	13,198		
Statutory reserves			211,968	211,962		
Treasury shares fund reserves			49	49		
Retained earnings			6,009	6,009		
Revaluation reserve (100% of negative revaluation of AFS shares)			(971)	-		
Less intangible assets			(4,585)	(4,236)		
Total qualifying Tier 1 capital			**255,417**	**256,605**		
Revaluation reserve (80% of positive revaluation of AFS shares)			1,173	7,440		
Total qualifying Tier 2 capital			**1,173**	**7,440**		
Diminution of capital:						
- less investment in subsidiaries			-	-		
Total diminution of capital			**-**	**-**		
Total regulatory capital			**256,590**	**264,045**		
Capital Adequacy ratio (%)			**14.64**	**13.54**		

(all amounts expressed in thousands of EUR)

Capital adequacy as at 31 December 2013 – consolidated	Balance sheet/ Nominal amount 2013	Balance sheet/ Nominal amount 2012	Risk weighted amount 2013	Risk weighted amount 2012	Capital Requirements 2013	Capital Requirements 2012
Credit risk exposures of banking book						
Exposures to state and central bank	499,787	450,224	6	8	-	1
Exposures to local municipalities	61,023	68,540	12,178	13,578	974	1,086
Exposures to public sector	10,934	11,714	4,157	4,153	333	332
Exposures to development banks	400	503	-	-	-	-
Exposures to institutions	222,255	130,961	54,787	43,536	4,383	3,483
Exposures to enterprises	812,928	1,008,585	726,912	868,907	58,153	69,513
Exposures to retail banking	947,449	1,015,651	599,539	635,330	47,963	50,826
Past due exposures	40,130	38,645	52,455	49,494	4,196	3,960
Exposures to highly risk exposures	77,311	91,707	82,091	107,443	6,567	8,595
Exposures to investments funds	28,363	31,454	28,363	31,454	2,269	2,516
Exposures to other assets	94,689	104,680	74,830	87,138	5,986	6,971
Total credit risk exposures	**2,795,269**	**2,952,664**	**1,635,318**	**1,841,041**	**130,824**	**147,283**
Credit risk weighted assets			1,635,318	1,841,041	130,824	147,283
Market risk weighted assets			1,750	913	140	73
Operational risk weighted assets			146,188	158,238	11,695	12,659
Total risk weighted assets			**1,783,256**	**2,000,192**	**142,659**	**160,015**
Regulatory capital						
Ordinary shares			22,173	22,173		
Share premium			7,499	7,499		
Treasury shares			(49)	(49)		
Legal reserves			13,324	13,198		
Statutory reserves			211,968	211,962		
Treasury shares fund reserves			49	49		
Retained earnings			6,009	6,009		
Revaluation reserve (100% of negative revaluation of AFS shares)			(971)	-		
Less intangible assets			(4,662)	(4,337)		
Less goodwill			(905)	(905)		
Minority interest			-	-		
Total qualifying Tier 1 capital			**254,435**	**255,599**		
Revaluation reserve (80% of positive revaluation of AFS shares)			1,173	7,440		
Total qualifying Tier 2 capital			**1,173**	**7,440**		
Total regulatory capital			**255,608**	**263,039**		
Capital Adequacy ratio			**14.33**	**13.15**		

3.2.2 Internal capital adequacy assessment (ICAAP)

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

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

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

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

In year 2013 the Bank maintained the available financial resources at levels that fulfill internally established capital position ratios, relative to size and structure of the capital. The Bank provides as well the amount of available financial resources that meets all the thresholds, established by the central bank on annual basis, upon the assessment of the Bank's risk profile and communicated to the Bank in the SREP dialogue.

In the table are reported internally established target (minimum) core ratios for the Bank's capital position.

	Internal target ratio	Ratio 2013
Core capital ratio (regulatory capital/RWA)	>10.3%	14.3%
AFR on capital ratio (available fin. resources/capital charges excluding stress-test)	>115%	138.1%

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

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

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

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

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

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

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

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

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

Internal capital on stress-test

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

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

- In terms of credit risk, the Group assesses the impact of a 2.5 percentage points lower GDP growth than the one planned.
- In terms of operational risk, the Group selects a scenario among 5 largest assessed with the self-diagnosis analysis. The scenario selected is the one believed most likely.
- For the banking book interest rate risk is estimated the impact of a 200 b.p. parallel yield curve shift and other selected scenarios on the capital needs. Next to this is evaluated the impact of unfavourable interest rate shift on internally assessed available capital.
- For equity risk the impact on capital needs is evaluated with the simulation of portfolio equity price changes observed over last 5 years. Likewise is evaluated the impact of unfavourable market indices movements on investments valuation and on available capital.
- In terms of strategic risk, the effects of stress scenarios are identified which are based on movements in several macroeconomic indices over last two decades (like GDP, interest rate, inflation), considering the statistical relationship with income & cost components.

Internally assessed capital requirements as of 31. 12. 2013:

(all amounts expressed in thousands of EUR)

Risk	31.12.2013	31.12.2012
Credit Risk	128.66	144.56
Market Risk	0.14	0.07
Operational Risk	11.69	12.66
Banking Book Risk	35.81	46.71
- Interest Rate Risk	*21.15*	*31.34*
- Equity Risk	*14.66*	*15.37*
Strategic Risk	11.47	9.54
Concentration of credit risk	2.57	2.89
Profitability risk	3.28	5.84
Stress test scenario	8.61	11.59
Total capital charges	**202.23**	**233.86**
Available financial resources	**252.55**	**259.61**

3.3 CREDIT RISK

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

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

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

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

The total Group's credit exposure on 31 December 2013 equalled EUR 3.023 million, which is 7% less than on 31 December 2012. In the Group's credit portfolio of 31 December 2013, 92% of all credit exposures are classified as performing. Banka Koper's credit portfolio at the end December 2013 amounted to EUR 2.997 million of which 93% is classified as performing.

Banka Koper's credit risk related portfolio as at 31 December 2013

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	473,348	98,651	4%	98,651	4%	-	0%	-	0%	-	0%
Corporate entities	1,601,632	1,570,026	62%	1,394,394	59%	175,632	93%	18,082	1%	121,114	69%
Banks	244,003	202,206	8%	201,100	9%	1,106	1%	-	0%	9	1%
Private individuals	677,596	677,596	26%	665,565	28%	12,031	6%	1,776	0%	7,622	63%
Total	**2,996,579**	**2,548,479**	**100%**	**2,359,710**	**100%**	**188,769**	**100%**	**19,858**	**1%**	**128,745**	**68%**

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

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	518,432	95,113	4%	95,113	4%	-	0%	-	0%	-	0%
Corporate entities	1,794,807	1,748,936	65%	1,528,975	63%	219,961	94%	20,203	1%	102,583	47%
Banks	150,955	103,861	4%	103,834	4%	27	0%	-	0%	25	93%
Private individuals	725,094	725,094	27%	711,013	29%	14,081	6%	2,388	0%	9,299	66%
Total	**3,189,288**	**2,673,004**	**100%**	**2,438,935**	**100%**	**234,069**	**100%**	**22,591**	**1%**	**111,907**	**48%**

Group's credit risk related portfolio as at 31 December 2013

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	474,101	98,651	4%	98,651	4%	-	0%	-	0%	-	0%
Corporate entities	1,615,546	1,579,624	61%	1,386,796	59%	192,828	93%	17,451	1%	124,736	65%
Banks	244,003	202,206	8%	201,100	8%	1,106	1%	-	0%	9	1%
Private individuals	689,502	689,502	27%	675,994	29%	13,508	6%	1,821	0%	7,949	59%
Total	**3,023,152**	**2,569,983**	**100%**	**2,362,541**	**100%**	**207,442**	**100%**	**19,272**	**1%**	**132,694**	**64%**

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

(all amounts expressed in thousands of EUR)

Counterparties	Total portfolio	Total credit risk related portfolio	Share in %	Performing	Share in %	Non performing	Share in %	Impairment losses on performing portfolio	Coverage rate of performing portfolio	Impairment losses on non performing portfolio	Coverage rate of non performing portfolio
1	2	3	4	5	6	7	8	9	10=9/5	11	12=11/7
Central bank and government bodies	518,432	95,113	3%	95,113	4%	-	0%	-	0%	-	0%
Corporate entities	1,832,126	1,789,943	66%	1,557,491	63%	232,452	94%	19,941	1%	104,896	45%
Banks	150,955	103,861	4%	103,834	4%	27	0%	-	0%	25	93%
Private individuals	736,111	736,111	27%	720,431	29%	15,680	6%	2,427	0%	9,639	61%
Total	**3,237,624**	**2,725,028**	**100%**	**2,476,869**	**100%**	**248,159**	**100%**	**22,368**	**1%**	**114,560**	**46%**

Analyses by type of collateral

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2013		2012		2013		2012	
	Net loans	Fair value of collateral	Net loans	Fair value of collateral	Net loans	Fair value of collateral	Net loans	Fair value of collateral
Real estate	501,827	1,207,121	483,629	1,486,820	557,407	1,262,701	539,334	1,542,525
Bank guarantees	24,643	26,100	32,808	34,748	24,643	26,100	32,808	34,748
Personal guarantees	242,657	594,918	201,527	555,481	242,657	594,918	201,527	555,481
Debt securities	13,185	28,413	20,185	68,635	13,185	28,413	20,185	68,635
Government guarantees	111,344	112,129	87,158	88,374	111,344	112,129	87,158	88,374
Other collateral	110,903	204,008	102,636	286,564	156,440	249,545	139,561	323,489
Deposits	2,195	3,078	1,166	11,937	2,195	3,078	1,166	11,937
Insurance company guarantees	125,009	143,823	123,209	139,606	125,009	143,823	123,209	139,606
Shares	26,915	46,451	32,107	53,298	26,915	46,451	32,107	53,298
Total collateralised net loans	**1,158,678**	**2,366,041**	**1,084,425**	**2,725,463**	**1,259,795**	**2,467,158**	**1,177,055**	**2,818,093**
Unsecured	565,377		779,414		489,440		736,721	
Total net loans to customers	**1,724,055**		**1,863,839**		**1,749,235**		**1,913,776**	

In general the loans are collateralised with one or more type of collateral. The decision on the adequateness of the type and value of the collateral depends on the creditworthiness of the customer and the type, value and maturity of the credit transaction. The customer manager monitors the efficiency of the collateral in relation to the possible increase in the risk or decrease of the value of the collateral and, if necessary, request that the customer provide extra collateral (of another type or of more value).

The revaluation of the collateral shall be carried out with respect to the type of collateral:

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

Unsecured portions of loans relates to loans without collateral.

Credit Risk Measurement

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

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

Maximum exposure to credit risk

(all amounts expressed in thousands of EUR)

	Maximum exposure			
	Banka Koper		Consolidated	
	2013	2012	2013	2012
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	177,699	58,308	177,699	58,308
Loans and advances to customers:	1,724,055	1,863,839	1,749,235	1,913,776
Loans to individuals:	533,339	552,932	544,862	563,561
- overdrafts	38,693	40,655	38,693	40,655
- credit cards	21,037	20,791	21,037	20,791
- term loans	114,282	124,446	114,282	124,446
- mortgages	359,327	367,040	359,327	367,040
- finance leases	-	-	11,523	10,629
Loans to sole proprietors	53,415	61,549	65,427	72,106
Loans to corporate entities	1,137,301	1,249,358	1,138,946	1,278,109
Advances	20,765	19,435	15,040	14,310
Investment securities available for sale:	305,578	304,090	305,578	304,090
- debt securities	278,767	264,793	278,767	264,793
- equity securities	26,811	39,297	26,811	39,297
Other assets	38,883	40,854	58,528	54,989
Credit risk exposures relating to off-balance sheet items are as follows:				
Guarantees	171,946	216,470	171,946	216,470
Credit commitments and other credit related liabilities	293,134	368,608	291,820	366,839
At 31 December	**2,732,060**	**2,871,604**	**2,769,846**	**2,928,782**

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Group at 31 December 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Credit Classification

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

The A to E classification (in grade A are classified clients with no problem, in grade E are classified clients in bankruptcy) is based on the debtor's ability to repay debt on schedule. The evaluation takes into account the debtor financial position, cash-flow capacity for repayment of debt, collateral pledged and the debt repayment record in the past periods. The Bank and Group consider as performing loans exposures towards clients classified A and B, and, starting from 2011, also the exposures towards individuals classified into C cluster.

	2013		2012	
Banka Koper's rating	**Loans and advances (%)**	**Impairment loss (%)**	**Loans and advances (%)**	**Impairment loss (%)**
A	71	0.5	71	0.5
B	19	2.4	19	2.3
C	3	15.8	2	12.9
D	3	41.9	4	38.5
E	4	71.4	4	63.2
	100	**5.9**	**100**	**5.0**

	2013		2012	
Group's rating	**Loans and advances (%)**	**Impairment loss (%)**	**Loans and advances (%)**	**Impairment loss (%)**
A	70	0.4	71	0.5
B	18	2.4	19	2.3
C	3	15.8	2	12.9
D	4	38.5	4	36.2
E	5	70.7	4	62.6
	100	**6.0**	**100**	**5.0**

Impairments

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

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

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

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

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

Large Exposures

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

Financial instrument`s breakdown by country risk

Country risk – unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2013	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	32,144	-	-	-	-	32,144
Financial instruments held for trading:	-	363	363	-	-	363
- derivative financial instruments	-	363	363	-	-	363
Financial assets designated at fair value through profit or loss	-	389	389	-	-	389
Investment securities available for sale	199,577	106,001	83,904	-	-	305,578
Loans and advances:	1,673,194	184,720	142,287	32,014	32,591	1,922,519
- to banks	858	176,084	139,575	146	611	177,699
- to customers	1,656,077	7,189	2,668	31,862	28,927	1,724,055
- advances	16,259	1,447	44	6	3,053	20,765
Investments in subsidiaries	3,688	-	-	-	-	3,688
Other assets	1,111	114	43	-	-	1,225
Contingent liabilities and commitments	**443,108**	**21,466**	**11,170**	**-**	**167**	**464,741**
TOTAL EXPOSURES	**2,352,822**	**313,053**	**238,156**	**32,014**	**32,758**	**2,730,647**

Country risk – unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	29,388	-	-	-	-	29,388
Financial instruments held for trading:	2	288	288	-	-	290
- derivative financial instruments	2	288	288	-	-	290
Financial assets designated at fair value through profit or loss	-	282	282	-	-	282
Investment securities available for sale	194,027	104,758	87,473	5,305	-	304,090
Loans and advances:	1,799,706	51,414	46,017	49,654	40,808	1,941,582
- to banks	10,629	46,620	43,275	381	678	58,308
- to customers	1,775,680	4,119	2,741	49,262	34,778	1,863,839
- advances	13,397	675	1	11	5,352	19,435
Investments in subsidiaries	3,688	-	-	-	-	3,688
Other assets	710	148	43	26	4	888
Contingent liabilities and commitments	**542,002**	**41,253**	**41,253**	**1,045**	**63**	**584,363**
TOTAL EXPOSURES	**2,569,523**	**198,143**	**175,356**	**56,030**	**40,875**	**2,864,571**

Country risk – consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2013	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	32,144	-	-	-	-	32,144
Financial instruments held for trading:	-	363	363	-	-	363
- derivative financial instruments	-	363	363	-	-	363
Financial assets designated at fair value through profit or loss	-	389	389	-	-	389
Investment securities available for sale	199,577	106,001	83,904	-	-	305,578
Loans and advances:	1,692,649	184,720	142,287	32,014	32,591	1,941,974
- to banks	858	176,084	139,575	146	611	177,699
- to customers	1,681,257	7,189	2,668	31,862	28,927	1,749,235
- advances	10,534	1,447	44	6	3,053	15,040
Other assets	14,244	114	43	-	-	14,358
Contingent liabilities and commitments	**441,794**	**21,466**	**11,170**	**-**	**167**	**463,427**
TOTAL EXPOSURES	**2,380,408**	**313,053**	**238,156**	**32,014**	**32,758**	**2,758,233**

Country risk – consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Slovenia	EU	Of this in Italy	Other Europe	Rest of world	Total
Cash and balances with Central Banks	29,388	-	-	-	-	29,388
Financial instruments held for trading:	2	288	288	-	-	290
- derivative financial instruments	2	288	288	-	-	290
Financial assets designated at fair value through profit or loss	-	282	282	-	-	282
Investment securities available for sale	194,027	104,758	87,473	5,305	-	304,090
Loans and advances:	1,844,518	51,414	46,017	49,654	40,808	1,986,394
- to banks	10,629	46,620	43,275	381	678	58,308
- to customers	1,825,617	4,119	2,741	49,262	34,778	1,913,776
- advances	8,272	675	1	11	5,352	14,310
Other assets	10,313	148	43	26	4	10,491
Contingent liabilities and commitments	**540,269**	**41,253**	**41,253**	**1,045**	**63**	**582,630**
TOTAL EXPOSURES	**2,618,517**	**198,143**	**175,356**	**56,030**	**40,875**	**2,913,565**

On 31.12.2013 the group of Banka Koper was exposed towards selected EU countries (Portugal, Ireland, Greece, Italy and Spain) only to Italy in the amount of EUR 238,156 thousand (in 2012 EUR 175,356 thousand), within exposure to parent company amounted to EUR 156,268 thousand (in 2012 EUR 84,739 thousand).

3.4 ANALYSIS OF PAST DUE FINANCIAL INSTRUMENTS

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

Loans and advances are summarised as follows:

Loans and advances by maturity (past due) – unconsolidated

(all amounts expressed in thousands of EUR)

Unconsolidated	31 December 2013 Loans and advances to customers	31 December 2013 Loans and advances to banks	31 December 2012 Loans and advances to customers	31 December 2012 Loans and advances to banks
Neither past due nor impaired	1,597,847	176,845	1,758,239	58,308
Past due but not impaired	8,719	-	9,712	-
Impaired	259,979	854	223,212	-
Gross	**1,866,545**	**177,699**	**1,991,163**	**58,308**
Impairment losses on loans and advances	(142,490)	-	(127,324)	-
Net	**1,724,055**	**177,699**	**1,863,839**	**58,308**

Loans and advances by maturity (past due) – consolidated

(all amounts expressed in thousands of EUR)

Consolidated	31 December 2013 Loans and advances to customers	31 December 2013 Loans and advances to banks	31 December 2012 Loans and advances to customers	31 December 2012 Loans and advances to banks
Neither past due nor impaired	1,606,213	176,845	1,794,857	58,308
Past due but not impaired	10,238	-	11,461	-
Impaired	278,652	854	237,230	-
Gross	**1,895,103**	**177,699**	**2,043,548**	**58,308**
Impairment losses on loans and advances	(145,868)	-	(129,772)	-
Net	**1,749,235**	**177,699**	**1,913,776**	**58,308**

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

(all amounts expressed in thousands of EUR)

31 December 2013 - Unconsolidated	Individuals Overdrafts	Individuals Credit Cards	Individuals Term loans	Individuals Mortgages	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	38,125	19,565	113,076	356,133	25,956	657,897	1,210,752
Neither past due nor impaired B	12	64	9	-	22,146	364,017	386,248
Neither past due nor impaired C	103	337	346	61	-	-	847
Total neither past due nor impaired	**38,240**	**19,966**	**113,431**	**356,194**	**48,102**	**1,021,914**	**1,597,847**
Not past due but impaired	150	82	715	2,802	2,506	94,182	100,437
Past due or impaired	1,929	2,234	2,874	3,172	11,243	146,809	168,261
Gross	**40,319**	**22,282**	**117,020**	**362,168**	**61,851**	**1,262,905**	**1,866,545**
Impairment losses on loans and advances	(1,626)	(1,245)	(2,738)	(2,841)	(8,438)	(125,602)	(142,490)
Net	**38,693**	**21,037**	**114,282**	**359,327**	**53,413**	**1,137,303**	**1,724,055**

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

(all amounts expressed in thousands of EUR)

31 December 2013 - Consolidated	Individuals Overdrafts	Individuals Credit Cards	Individuals Term loans	Individuals Mortgages	Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	38,125	19,565	113,076	356,133	10,245	37,354	644,620	1,219,118
Neither past due nor impaired B	12	64	9	-	-	22,146	364,017	386,248
Neither past due nor impaired C	103	337	346	61	-	-	-	847
Total neither past due nor impaired	**38,240**	**19,966**	**113,431**	**356,194**	**10,245**	**59,500**	**1,008,637**	**1,606,213**
Not past due but impaired	150	82	715	2,802	365	2,620	101,203	107,937
Past due or impaired	1,929	2,234	2,874	3,172	1,285	12,380	157,079	180,953
Gross	**40,319**	**22,282**	**117,020**	**362,168**	**11,895**	**74,500**	**1,266,919**	**1,895,103**
Impairment losses on loans and advances	(1,626)	(1,245)	(2,738)	(2,841)	(372)	(9,075)	(127,971)	(145,868)
Net	**38,693**	**21,037**	**114,282**	**359,327**	**11,523**	**65,425**	**1,138,948**	**1,749,235**

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

(all amounts expressed in thousands of EUR)

31 December 2012 - Unconsolidated	Individuals Overdrafts	Credit Cards	Term loans	Mortgages	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	40,021	19,069	115,267	335,403	31,440	792,621	1,333,821
Neither past due nor impaired B	370	98	5,605	20,651	24,235	362,379	413,338
Neither past due nor impaired C	77	519	2,260	8,224	-	-	11,080
Total neither past due nor impaired	**40,468**	**19,686**	**123,132**	**364,278**	**55,675**	**1,155,000**	**1,758,239**
Not past due but impaired	46	22	914	3,359	3,296	52,070	59,707
Past due or impaired	2,350	2,364	3,792	2,685	11,764	150,262	173,217
Gross	**42,864**	**22,072**	**127,838**	**370,322**	**70,735**	**1,357,332**	**1,991,163**
Impairment losses on loans and advances	(2,209)	(1,281)	(3,392)	(3,282)	(9,186)	(107,974)	(127,324)
Net	**40,655**	**20,791**	**124,446**	**367,040**	**61,549**	**1,249,358**	**1,863,839**

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

(all amounts expressed in thousands of EUR)

31 December 2012 - Consolidated	Individuals Overdrafts	Credit Cards	Term loans	Mortgages	Finance leases	Sole proprietors	Corporate entities	Total loans and advances to customers
Neither past due nor impaired A	40,021	19,069	115,267	335,403	9,263	40,658	810,758	1,370,439
Neither past due nor impaired B	370	98	5,605	20,651	-	24,235	362,379	413,338
Neither past due nor impaired C	77	519	2,260	8,224	-	-	-	11,080
Total neither past due nor impaired	**40,468**	**19,686**	**123,132**	**364,278**	**9,263**	**64,893**	**1,173,137**	**1,794,857**
Not past due but impaired	46	22	914	3,359	614	3,569	57,198	65,722
Past due or impaired	2,350	2,364	3,792	2,685	1,132	13,332	157,314	182,969
Gross	**42,864**	**22,072**	**127,838**	**370,322**	**11,009**	**81,794**	**1,387,649**	**2,043,548**
Impairment losses on loans and advances	(2,209)	(1,281)	(3,392)	(3,282)	(379)	(9,686)	(109,543)	(129,772)
Net	**40,655**	**20,791**	**124,446**	**367,040**	**10,630**	**72,108**	**1,278,106**	**1,913,776**

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

(all amounts expressed in thousands of EUR)

	Individuals								
	Overdrafts		Credit cards		Term loans		Mortgages		
31 December 2013 - Unconsolidated	**Not impaired**	**Impaired**	**Not impaired**	**Impaired**	**Not impaired**	**Impaired**	**Not impaired**	**Impaired**	**Total individuals**
Past due up to 30 days	288	1	893	22	255	70	320	121	1,970
Past due 30 - 60 days	66	11	130	23	38	33	46	54	401
Past due 60 - 90 days	19	7	34	34	13	40	24	22	193
Past due over 90 days	3	1,534	3	1,095	9	2,416	19	2,566	7,645
Total	**376**	**1,553**	**1,060**	**1,174**	**315**	**2,559**	**409**	**2,763**	**10,209**

	Sole proprietors		Corporate entities		
	Not impaired	**Impaired**	**Not impaired**	**Impaired**	**Total**
Past due up to 30 days	537	30	4,468	258	5,293
Past due 30 - 60 days	79	34	667	2,097	2,877
Past due 60 - 90 days	27	97	765	2,417	3,306
Past due over 90 days	5	10,434	11	136,126	146,576
Total	**648**	**10,595**	**5,911**	**140,898**	**158,052**

The Bank in 2013 restructured 47,478 thousands EUR loans (2012: nil).

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

(all amounts expressed in thousands of EUR)

31 December 2013 - Consolidated	Individuals – Overdrafts – Not impaired	Overdrafts – Impaired	Credit cards – Not impaired	Credit cards – Impaired	Term loans – Not impaired	Term loans – Impaired	Mortgages – Not impaired	Mortgages – Impaired	Finance leases – Not impaired	Finance leases – Impaired	Total individuals
Past due up to 30 days	288	1	893	22	255	70	320	121	86	15	2,071
Past due 30 - 60 days	66	11	130	23	38	33	46	54	45	8	454
Past due 60 - 90 days	19	7	34	34	13	40	24	22	22	6	221
Past due over 90 days	3	1,534	3	1,095	9	2,416	19	2,566	20	1,083	8,748
Total	**376**	**1,553**	**1,060**	**1,174**	**315**	**2,559**	**409**	**2,763**	**173**	**1,112**	**11,494**

	Sole proprietors – Not impaired	Sole proprietors – Impaired	Corporate entities – Not impaired	Corporate entities – Impaired	Total
Past due up to 30 days	709	37	4,986	1,525	7,257
Past due 30 - 60 days	140	41	856	2,228	3,265
Past due 60 - 90 days	59	104	874	2,567	3,604
Past due over 90 days	43	11,247	238	143,805	155,333
Total	**951**	**11,429**	**6,954**	**150,125**	**169,459**

In 2013 the Group restructured 47,478 thousands EUR loans (2012: EUR nil).

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

(all amounts expressed in thousands of EUR)

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

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

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

(all amounts expressed in thousands of EUR)

31 December 2012 - Consolidated	Individuals – Overdrafts – Not impaired	Overdrafts – Impaired	Credit cards – Not impaired	Credit cards – Impaired	Term loans – Not impaired	Term loans – Impaired	Mortgages – Not impaired	Mortgages – Impaired	Finance leases – Not impaired	Finance leases – Impaired	Total individuals
Past due up to 30 days	323	-	897	22	5	57	1	1	83	9	1,398
Past due 30 - 60 days	60	-	211	33	293	74	238	42	36	15	1,002
Past due 60 - 90 days	57	1	67	50	62	53	43	25	20	10	388
Past due over 90 days	22	1,887	-	1,084	12	3,236	26	2,309	15	944	9,535
Total	**462**	**1,888**	**1,175**	**1,189**	**372**	**3,420**	**308**	**2,377**	**154**	**978**	**12,323**

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

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

Loans and advances individually impaired

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated			
31 December 2013	**Individuals**	**Sole proprietors**	**Corporate entities**	**Total**
Individually impaired loans	-	8,475	227,575	236,050
Fair value of collateral	-	14,437	196,401	210,838

31 December 2012	**Individuals**	**Sole proprietors**	**Corporate entities**	**Total**
Individually impaired loans	-	9,295	188,329	197,624
Fair value of collateral	-	20,104	280,828	300,932

In 2013, the Bank and the Group received EUR 10,730 thousands from the sale of pledged collateral.

3.5 LIQUIDITY RISK

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

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

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

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

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

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

Maturities of assets and liabilities - unconsolidated
Non-derivative cash flows by Expected maturities

(all amounts expressed in thousands of EUR)

As at 31 December 2013	Up to 1 month	1-3 months	3-12 months	Total to 1 Year	1- 5 years	Over 5 years	Total over 1 Year	Total
	Expected maturity							
ASSETS								
Cash and balances with central banks	17,049	-	-	**17,049**	-	15,095	**15,095**	**32,144**
Financial assets designated at fair value through profit or loss	-	-	-	**-**	389	-	**389**	**389**
Investment securities available for sale	9,561	3,973	33,283	**46,817**	215,568	43,193	**258,761**	**305,578**
Loans and advances:	316,326	105,542	386,012	**807,880**	688,484	426,155	**1,114,639**	**1,922,519**
- to banks	174,317	3,382	-	**177,699**	-	-	**-**	**177,699**
- to customers	137,566	91,811	380,039	**609,416**	688,484	426,155	**1,114,639**	**1,724,055**
- advances	4,443	10,349	5,973	**20,765**	-	-	**-**	**20,765**
Property, plant and equipment	-	-	-	**-**	2,612	21,133	**23,745**	**23,745**
Investment property	-	-	-	**-**	1,283	-	**1,283**	**1,283**
Intangible assets	-	-	-	**-**	4,585	-	**4,585**	**4,585**
Investment in subsidiaries	-	-	-	**-**	-	3,688	**3,688**	**3,688**
Income tax assets:	-	-	1,373	**1,373**	2,743	241	**2,984**	**4,357**
- current income tax	-	-	1,331	**1,331**	-	-	**-**	**1,331**
- deferred income tax	-	-	42	**42**	2,743	241	**2,984**	**3,026**
Other assets	129	44	661	**834**	391	-	**391**	**1,225**
Total assets	**343,065**	**109,559**	**421,329**	**873,953**	**916,055**	**509,505**	**1,425,560**	**2,299,513**
LIABILITIES								
Liabilities to Central Bank	-	-	-	**-**	131,833	-	**131,833**	**131,833**
Liabilities carried at amortised cost:	954,959	247,252	408,158	**1,610,369**	206,711	69,925	**276,636**	**1,887,005**
- deposits from banks	1,585	-	2,334	**3,919**	9,333	7,000	**16,333**	**20,252**
- due to customers	931,312	241,197	393,206	**1,565,715**	108,046	2,743	**110,789**	**1,676,504**
- other borrowed funds from banks	1,580	2,621	10,596	**14,797**	86,992	60,182	**147,174**	**161,971**
- other borrowed funds from other customers	5	5	2,022	**2,032**	2,340	-	**2,340**	**4,372**
- other financial liabilities	20,477	3,429	-	**23,906**	-	-	**-**	**23,906**
Provisions:	-	-	1,516	**1,516**	6,048	3,441	**9,489**	**11,005**
- provisions for liabilities and charges	-	-	1,516	**1,516**	6,048	-	**6,048**	**7,564**
- retirement benefit obligations	-	-	-	**-**	-	3,441	**3,441**	**3,441**
Other liabilities	1,492	737	-	**2,229**	-	-	**-**	**2,229**
Total liabilities	**956,451**	**247,989**	**409,674**	**1,614,114**	**344,592**	**73,366**	**417,958**	**2,032,072**
Net liquidity gap	**(613,386)**	**(138,430)**	**11,655**	**(740,161)**	**571,463**	**436,139**	**1,007,602**	**267,441**
As at 31 December 2012								
Total assets	260,546	106,506	495,576	**862,628**	893,966	559,602	**1,453,568**	**2,316,196**
Total liabilities	948,239	221,812	408,197	**1,578,248**	360,157	99,869	**460,026**	**2,038,274**
Net liquidity gap	**(687,693)**	**(115,306)**	**87,379**	**(715,620)**	**533,809**	**459,733**	**993,542**	**277,922**

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

(all amounts expressed in thousands of EUR)

	Expected maturity							
As at 31 December 2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**Total to 1 Year**	**1- 5 years**	**Over 5 years**	**Total over 1 Year**	**Total**
DERIVATIVE ASSETS								
Derivatives held for trading:								
- forward currency	1	1	-	2	-	-	-	2
- interest rate cap	-	-	-	-	-	315	315	315
- interest option (CALL)	-	-	6	6	40	-	40	46
Total	**1**	**1**	**6**	**8**	**40**	**315**	**355**	**363**
DERIVATIVE LIABILITIES								
Derivatives held for trading:								
- forward currency	1	1	-	2	-	-	-	2
- interest rate swap (IRS)	-	-	163	163	395	-	395	558
- interest rate cap	-	-	-	-	-	12	12	12
- interest option (PUT)			6	6	35	-	35	41
Total	**1**	**1**	**169**	**171**	**430**	**12**	**442**	**613**
Net liquidity gap	**-**	**-**	**(163)**	**(163)**	**(390)**	**303**	**(87)**	**(250)**
As at 31 December 2012								
Total derivative assets	2	-	-	2	176	112	288	290
Total derivative liabilities	14	-	-	14	161	9	170	184
Net liquidity gap	**(12)**	**-**	**-**	**(12)**	**15**	**103**	**118**	**106**

As at 31 December 2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**Total to 1 Year**	**1- 5 years**	**Over 5 years**	**Total over 1 Year**	**Total**
DERIVATIVE ASSETS								
Derivatives held for hedge accounting	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
DERIVATIVE LIABILITIES								
Derivatives held for hedge accounting:	-	-	113	113	215	-	215	328
Total	**-**	**-**	**113**	**113**	**215**	**-**	**215**	**328**
Net liquidity gap		**-**	**(113)**	**(113)**	**(215)**	**-**	**(215)**	**(328)**

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

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

(all amounts expressed in thousands of EUR)

As at 31 December 2013	Expected maturity						
	Up to 1 month	1 - 3 months	3 - 12 months	Total to 1 year	1 - 5 years	Total over 1 year	Total
Derivatives held for trading:							
- Currency forward							
- outflow	137	95	-	232	-	-	232
- inflow	137	95	-	232	-	-	232
Total outflow	**137**	**95**	**-**	**232**	**-**	**-**	**232**
Total inflow	**137**	**95**	**-**	**232**	**-**	**-**	**232**

(all amounts expressed in thousands of EUR)

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

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

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

(all amounts expressed in thousands of EUR)

	Expected maturity							
As at 31 December 2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**Total to 1 Year**	**1- 5 years**	**Over 5 years**	**Total over 1 Year**	**Total**
ASSETS								
Cash and balances with central banks	17,049	-	-	**17,049**	-	15,095	**15,095**	**32,144**
Financial assets designated at fair value through profit or loss	-	-	-	**-**	389	-	**389**	**389**
Investment securities available for sale	9,561	3,973	33,283	**46,817**	215,568	43,193	**258,761**	**305,578**
Loans and advances:	323,314	106,349	384,865	**814,528**	688,167	439,279	**1,127,446**	**1,941,974**
- to banks	174,317	3,382	-	**177,699**	-	-	**-**	**177,699**
- to customers	143,220	93,704	384,865	**621,789**	688,167	439,279	**1,127,446**	**1,749,235**
- advances	5,777	9,263	-	**15,040**	-	-	**-**	**15,040**
Goodwill	-	-	-	**-**	-	905	**905**	**905**
Property, plant and equipment	-	-	-	**-**	4,287	21,133	**25,420**	**25,420**
Investment property	-	-	-	**-**	8,074	-	**8,074**	**8,074**
Intangible assets	-	-	-	**-**	4,661	-	**4,661**	**4,661**
Income tax assets:	753	-	1,373	**2,126**	2,743	241	**2,984**	**5,110**
- current income tax	-	-	1,331	**1,331**	-	-	**-**	**1,331**
- deferred income tax	753	-	42	**795**	2,743	241	**2,984**	**3,779**
Other assets	129	44	13,794	**13,967**	391	-	**391**	**14,358**
Total assets	**350,806**	**110,366**	**433,315**	**894,487**	**924,280**	**519,846**	**1,444,126**	**2,338,613**
LIABILITIES								
Liabilities to Central Bank	-	-	-	**-**	131,833	-	**131,833**	**131,833**
Liabilities carried at amortised cost:	954,916	251,741	427,161	**1,633,818**	212,724	76,944	**289,668**	**1,923,486**
- deposits from banks	1,585	-	2,334	**3,919**	9,333	7,000	**16,333**	**20,252**
- due to customers	931,293	241,197	393,206	**1,565,696**	108,046	2,743	**110,789**	**1,676,485**
- other borrowed funds from banks	1,556	6,625	29,599	**37,780**	93,005	67,201	**160,206**	**197,986**
- other borrowed funds from other customers	5	5	2,022	**2,032**	2,340	-	**2,340**	**4,372**
- other financial liabilities	20,477	3,914	-	**24,391**	-	-	**-**	**24,391**
Provisions:	-	-	1,516	**1,516**	6,033	3,535	**9,568**	**11,084**
- provisions for liabilities and charges	-	-	1,516	**1,516**	6,033	-	**6,033**	**7,549**
- retirement benefit obligations	-	-	-	**-**	-	3,535	**3,535**	**3,535**
Income tax liabilities:	8	-	-	**8**	-	-	**-**	**8**
- current income tax	8	-	-	**8**	-	-	**-**	**8**
Other liabilities	1,738	737	-	**2,475**	-	-	**-**	**2,475**
Total liabilities	**956,662**	**252,478**	**428,677**	**1,637,817**	**350,590**	**80,479**	**431,069**	**2,068,886**
Net liquidity gap	**(605,856)**	**(142,112)**	**4,638**	**(743,330)**	**573,690**	**439,367**	**1,013,057**	**269,727**
As at 31 December 2012								
Total assets	257,629	109,379	503,357	**870,365**	924,994	579,784	**1,504,778**	**2,375,143**
Total liabilities	948,457	222,363	428,196	**1,599,016**	389,139	106,955	**496,094**	**2,095,110**
Net liquidity gap	**(690,828)**	**(112,984)**	**75,161**	**(728,651)**	**535,855**	**472,829**	**1,008,684**	**280,033**

Expected maturities of off-balance sheet items - unconsolidated

(all amounts expressed in thousands of EUR)

	Expected maturity			
As at 31 December 2013	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Documentary and commercial letters of credit	768	-	-	768
Guarantees	116,066	33,578	22,302	171,946
Derivative financial instruments	12	263	427	702
Credit commitments	283,273	8,708	46	292,027
Total	**400,119**	**42,549**	**22,775**	**465,443**

As at 31 December 2012	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Total	**482,153**	**82,600**	**20,325**	**585,078**

Expected maturities of off-balance sheet items - consolidated

(all amounts expressed in thousands of EUR)

	Expected maturity			
As at 31 December 2013	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Documentary and commercial letters of credit	768	-	-	768
Guarantees	116,066	33,578	22,302	171,946
Derivative financial instruments	12	263	427	702
Credit commitments	281,947	8,708	46	290,701
Total	**398,793**	**42,549**	**22,775**	**464,117**

As at 31 December 2012	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Total	**480,402**	**82,600**	**20,325**	**583,327**

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

(all amounts expressed in thousands of EUR)

As at 31 December 2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities to Central Bank	-	-	-	132,162	-	132,162
Liabilities carried at amortized cost:	955,926	247,618	410,682	212,645	73,527	1,900,398
- deposits from banks	1,586	-	2,340	9,454	7,182	20,562
- due to customers	932,276	241,697	395,649	111,403	2,913	1,683,938
- other borrowed funds from banks	1,581	2,626	10,653	89,341	63,432	167,633
- other borrowed funds from other customers	6	5	2,040	2,447	-	4,498
- advances	20,477	3,290	-	-	-	23,767
Financial guarantees issued	26,268	30,808	23,009	14,837	9,235	104,157

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

(all amounts expressed in thousands of EUR)

As at 31 December 2013	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities to Central Bank	-	-	-	132,162	-	132,162
Liabilities carried at amortised cost:	955,884	252,114	429,788	218,820	80,924	1,937,530
- deposits from banks	1,586	-	2,340	9,454	7,182	20,562
- due to customers	932,257	241,697	395,649	111,403	2,913	1,683,919
- other borrowed funds from banks	1,558	6,637	29,759	95,516	70,829	204,299
- other borrowed funds from other customers	6	5	2,040	2,447	-	4,498
- advances	20,477	3,775	-	-	-	24,252
Financial guaranties issued	26,268	30,808	23,009	14,837	9,235	104,157

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

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	153,418	-	153,418
Liabilities carried at amortized cost:	948,626	221,674	410,534	156,229	103,510	1,840,573
- deposits from banks	9,200	-	47,828	8,447	11,220	76,695
- due to customers	892,151	187,792	350,146	81,099	3,313	1,514,501
- other borrowed funds from banks	30,736	30,058	10,525	62,028	88,977	222,324
- other borrowed funds from other customers	7	5	2,035	4,655	-	6,702
- advances	16,532	3,819	-	-	-	20,351
Financial guaranties issued	22,265	13,353	21,716	60,439	7,667	125,440

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

(all amounts expressed in thousands of EUR)

As at 31 December 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to Central Bank	-	-	-	153,418	-	153,418
Liabilities carried at amortised cost:	948,628	222,225	430,674	186,252	111,004	1,898,783
- deposits from banks	9,200	-	47,828	8,447	11,220	76,695
- due to customers	892,136	187,792	350,146	81,099	3,313	1,514,486
- other borrowed funds from banks	30,753	30,083	30,665	92,051	96,471	280,023
- other borrowed funds from other customers	7	5	2,035	4,655	-	6,702
- advances	16,532	4,345	-	-	-	20,877
Financial guaranties issued	22,265	13,353	21,716	60,439	7,667	125,440

3.6 EQUITY RISKS OF BANKING BOOK

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

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

3.7 MARKET RISK

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

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

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

3.7.1 Derivative instruments

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

3.7.2 Currency Risk

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

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

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

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

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

Group VAR by risk type

(all amounts expressed in thousands of EUR)

	12 months to 31 December 2013			12 months to 31 December 2012		
	Average	High[1]	Low[1]	Average	High[1]	Low[1]
Foreign exchange risk (trading and non-trading portfolio)	2	6	-	5	23	-
Bond risk (banking book)	1,782	2,867	1,054	1,657	2,571	930
Total VAR	**1,784**	**2,873**	**1,054**	**1,662**	**2,594**	**930**

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

Currency risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2013	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	31,025	352	767	32,144
Financial instruments held for trading:	363	-	-	363
- derivative financial instruments	363	-	-	363
Financial assets designated at fair value through profit or loss	389	-	-	389
Investment securities available for sale	305,578	-	-	305,578
Loans and advances:	1,827,992	70,884	23,643	1,922,519
- to banks	120,797	41,803	15,099	177,699
- to customers	1,686,436	29,075	8,544	1,724,055
- advances	20,759	6	-	20,765
Property, plant and equipment	23,745	-	-	23,745
Investment property	1,283	-	-	1,283
Intangible assets	4,585	-	-	4,585
Investment in subsidiaries	3,688	-	-	3,688
Income tax assets:	4,357	-	-	4,357
- current income tax	1,331	-	-	1,331
- deferred income tax	3,026	-	-	3,026
Other assets	1,225	-	-	1,225
Total assets	**2,204,230**	**71,236**	**24,410**	**2,299,876**
LIABILITIES				
Liabilities to Central Bank	131,833	-	-	131,833
Financial instruments held for trading:	613	-	-	613
- derivative financial instruments	613	-	-	613
Liabilities carried at amortised cost:	1,790,901	71,579	24,525	1,887,005
- deposits from banks	20,252	-	-	20,252
- due to customers	1,609,774	42,273	24,457	1,676,504
- other borrowed funds from banks	132,757	29,214	-	161,971
- other borrowed funds from other customers	4,372	-	-	4,372
- other financial liabilities	23,746	92	68	23,906
Derivatives – hedge accounting	328	-	-	328
Provisions:	11,005	-	-	11,005
- provisions for liabilities and charges	7,564	-	-	7,564
- retirement benefit obligations	3,441	-	-	3,441
Other liabilities	2,229	-	-	2,229
Total liabilities	**1,936,909**	**71,579**	**24,525**	**2,033,013**
Net balance sheet position	**267,321**	**(343)**	**(115)**	**266,863**
Credit commitments	**294,984**	**122**	**-**	**295,106**

	EUR	USD	Other	Total
As at 31 December 2012				
Total assets	2,227,569	65,264	23,653	2,316,486
Total liabilities	1,926,374	89,821	23,836	2,040,031
Net balance sheet position	**301,195**	**(24,557)**	**(183)**	**276,455**
Credit commitments	**372,263**	**118**	**-**	**372,381**

Currency risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2013	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	31,025	352	767	32,144
Financial instruments held for trading:	363	-	-	363
- derivative financial instruments	363	-	-	363
Financial assets designated at fair value through profit or loss	389	-	-	389
Investment securities available for sale	305,578	-	-	305,578
Loans and advances:	1,847,081	70,884	24,009	1,941,974
- to banks	120,431	41,803	15,465	177,699
- to customers	1,711,616	29,075	8,544	1,749,235
- advances	15,034	6	-	15,040
Goodwill	905	-	-	905
Property, plant and equipment	25,420	-	-	25,420
Investment property	8,074	-	-	8,074
Intangible assets	4,661	-	-	4,661
Income tax assets:	5,110	-	-	5,110
- current income tax	1,331	-	-	1,331
- deferred income tax	3,779	-	-	3,779
Other assets	14,358	-	-	14,358
Total assets	**2,242,964**	**71,236**	**24,776**	**2,338,976**
LIABILITIES				
Liabilities to Central Bank	131,833	-	-	131,833
Financial instruments held for trading:	613	-	-	613
- derivative financial instruments	613	-	-	613
Liabilities carried at amortised cost:	1,827,382	71,579	24,525	1,923,486
- deposits from banks	20,252	-	-	20,252
- due to customers	1,609,755	42,273	24,457	1,676,485
- other borrowed funds from banks	168,772	29,214	-	197,986
- other borrowed funds from other customers	4,372	-	-	4,372
- other financial liabilities	24,231	92	68	24,391
Derivatives – hedge accounting	328	-	-	328
Provisions:	11,084	-	-	11,084
- provisions for liabilities and charges	7,549	-	-	7,549
- retirement benefit obligations	3,535	-	-	3,535
Income tax liabilities:	8	-	-	8
- current income tax	8	-	-	8
Other liabilities	2,475	-	-	2,475
Total liabilities	**1,973,723**	**71,579**	**24,525**	**2,069,827**
Net balance sheet position	**269,241**	**(343)**	**251**	**269,149**
Credit commitments	**294,984**	**122**	**-**	**295,106**

	EUR	USD	Other	Total
As at 31 December 2012				
Total assets	2,285,923	65,264	24,246	2,375,433
Total liabilities	1,983,210	89,821	23,836	2,096,867
Net balance sheet position	**302,713**	**(24,557)**	**410**	**278,566**
Credit commitments	**370,512**	**118**	**-**	**370,630**

Economic hedge of net balance sheet position in USD in 2012 is done by continuously USD swap transactions in the amount of FX mismatch.

3.7.3 Interest rate risk

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

Interest rate risk - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2013	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	17,049	-	-	-	15,095	-	32,144
Financial instruments held for trading:	-	346	15	-	-	2	363
- derivative financial instruments	-	346	15	-	-	2	363
Financial assets designated at fair value through profit or loss	-	-	-	-	-	389	389
Investment securities available for sale	12,547	10,379	32,301	185,652	37,888	26,811	305,578
Loans and advances:	383,619	313,725	1,146,573	18,139	16,234	44,229	1,922,519
- to banks	169,023	3,382	-	-	-	5,294	177,699
- to customers	214,596	310,343	1,146,573	18,139	16,234	18,170	1,724,055
- advances	-	-	-	-	-	20,765	20,765
Property, plant and equipment	-	-	-	-	-	23,745	23,745
Investment property	-	-	-	-	-	1,283	1,283
Intangible assets	-	-	-	-	-	4,585	4,585
Investment in subsidiaries	-	-	-	-	-	3,688	3,688
Income tax assets:	-	-	-	-	-	4,357	4,357
- current income tax	-	-	-	-	-	1,331	1,331
- deferred income tax	-	-	-	-	-	3,026	3,026
Other assets	-	-	-	-	-	1,225	1,225
Total assets	**413,215**	**324,450**	**1,178,889**	**203,791**	**69,217**	**110,314**	**2,299,876**
LIABILITIES							
Liabilities to Central Bank	131,833	-	-	-	-	-	131,833
Financial instruments held for trading:	366	215	31	-	-	1	613
- derivative financial instruments	366	215	31	-	-	1	613
Liabilities carried at amortised cost:	980,121	338,135	433,875	107,987	2,731	24,156	1,887,005
- deposits from banks	1,585	-	18,667	-	-	-	20,252
- due to customers	931,326	241,197	393,353	107,897	2,731	-	1,676,504
- other borrowed funds from banks	47,205	96,933	17,833	-	-	-	161,971
- other borrowed funds from other customers	5	5	4,022	90	-	250	4,372
- other financial liabilities	-	-	-	-	-	23,906	23,906
Derivatives – Hedge accounting	-	328	-	-	-	-	328
Provisions:	-	-	-	-	-	11,005	11,005
- provisions for liabilities and charges	-	-	-	-	-	7,564	7,564
- retirement benefit obligations	-	-	-	-	-	3,441	3,441
Other liabilities	-	-	-	-	-	2,229	2,229
Total liabilities	**1,112,320**	**338,678**	**433,906**	**107,987**	**2,731**	**37,391**	**2,033,013**
Total interest repricing gap	**(699,105)**	**(14,228)**	**744,983**	**95,804**	**66,486**		
As at 31 December 2012							
Total assets	350,646	333,273	1,268,997	164,353	78,881	120,336	2,316,486
Total liabilities	1,163,230	269,329	474,586	96,270	3,076	33,540	2,040,031
Total interest repricing gap	**(812,584)**	**63,944**	**794,411**	**68,083**	**75,805**		

Interest rate risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2013	Up to 1 month	1-3 months	3-12 months	1- 5 years	Over 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with central banks	17,049	-	-	-	15,095	-	32,144
Financial instruments held for trading:	-	346	15	-	-	2	363
- derivative financial instruments	-	346	15	-	-	2	363
Financial assets designated at fair value through profit or loss	-	-	-	-	-	389	389
Investment securities available for sale	12,547	10,379	32,301	185,652	37,888	26,811	305,578
Loans and advances:	414,696	372,455	1,079,243	19,224	17,852	38,504	1,941,974
- to banks	169,023	3,382	-	-	-	5,294	177,699
- to customers	245,673	369,073	1,079,243	19,224	17,852	18,170	1,749,235
- advances	-	-	-	-	-	15,040	15,040
Good will	-	-	-	-	-	905	905
Property, plant and equipment	-	-	-	-	-	25,420	25,420
Investment property	-	-	-	-	-	8,074	8,074
Intangible assets	-	-	-	-	-	4,661	4,661
Income tax assets:	-	-	-	-	-	5,110	5,110
- current income tax	-	-	-	-	-	1,331	1,331
- deferred income tax	-	-	-	-	-	3,779	3,779
Other assets	-	-	-	-	-	14,358	14,358
Total assets	**444,292**	**383,180**	**1,111,559**	**204,876**	**70,835**	**124,234**	**2,338,976**
LIABILITIES							
Liabilities to Central Bank	131,833	-	-	-	-	-	131,833
Financial instruments held for trading:	366	215	31	-	-	1	613
- derivative financial instruments	366	215	31	-	-	1	613
Liabilities carried at amortised cost:	992,163	362,089	433,875	107,987	2,731	24,641	1,923,486
- deposits from banks	1,585	-	18,667	-	-	-	20,252
- due to customers	931,307	241,197	393,353	107,897	2,731	-	1,676,485
- other borrowed funds from banks	59,266	120,887	17,833	-	-	-	197,986
- other borrowed funds from other customers	5	5	4,022	90	-	250	4,372
- other financial liabilities	-	-	-	-	-	24,391	24,391
Derivatives-Hedge accounting	-	328	-	-	-	-	328
Provisions:	-	-	-	-	-	11,084	11,084
- provisions for liabilities and charges	-	-	-	-	-	7,549	7,549
- retirement benefit obligations	-	-	-	-	-	3,535	3,535
Income tax liabilities:	-	-	-	-	-	8	8
- current income tax	-	-	-	-	-	8	8
Other liabilities	-	-	-	-	-	2,475	2,475
Total liabilities	**1,124,362**	**362,632**	**433,906**	**107,987**	**2,731**	**38,209**	**2,069,827**
Total interest repricing gap	**(680,070)**	**20,548**	**677,653**	**96,889**	**68,104**		
As at 31 December 2012							
Total assets	370,041	360,630	1,269,205	165,358	80,853	129,346	2,375,433
Total liabilities	1,201,944	286,641	474,586	96,270	3,076	34,350	2,096,867
Total interest repricing gap	**(831,903)**	**73,989**	**794,619**	**69,088**	**77,777**		

Sensitivity of net interest income of the Group on 100 b.p. parallel shift of yield curve as of 31. 12. 2013

(mln EUR)

			+50 b.p.			+100 b.p.			-50 b.p.			-100 b.p.		
			Sight	**Term**	**Total**	**Sight**	**Term**	**Total**	**Sight**	**Term**	**Total**	**Sight**	**Term**	**Total**
Total			(1.5)	1.9	**0.45**	(3.0)	3.8	**0.89**	1.3	(1.8)	**(0.55)**	0.9	(1.9)	**(1.03)**
Asset			0.2	6.8	7.0	0.4	13.60	14.0	(0.2)	(6.0)	(6.2)	(0.6)	(6.1)	(6.7)
	Sight Loans		0.2	-	0.2	0.4	-	-	(0.2)	-	(0.2)	(0.6)	-	(0.6)
	Securities	FX	-	0.1	0.15	-	0.2	0.2	-	(0.1)	(0.1)	-	(0.1)	(0.1)
		FL	-	0.1	0.1	-	0.1	0.1	-	(0.1)	(0.1)	-	(0.1)	(0.1)
	Loans	FX	-	1.0	0.29	-	2.0	2.0	-	(0.8)	(0.8)	-	(0.8)	(0.8)
		FL	-	5.6	6.26	-	11.2	11.2	-	(5.1)	(5.1)	-	(5.1)	(5.1)
	Other Financial Assets	FX	-	-	-	-	-	-	-	-	-	-	-	-
		FL	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities			(1.7)	(4.7)	(6.4)	(3.4)	(12.9)	(10.21)	1.4	4.1	5.6	1.5	4.1	5.6
	Sight Deposits		(1.7)	-	(1.7)	(3.4)	-	-	1.4	-	1.4	1.5	-	1.5
	Securities Issued	FX	-	-	-	-	-	-	-	-	-	-	-	-
		FL	-	-	-	-	-	-	-	-	-	-	-	-
	Debts	FX	-	(2.6)	(2.6)	-	(5.3)	(5.3)	-	2.4	2.4	-	2.4	2.4
		FL	-	(2.1)	(2.1)	-	(4.2)	(4.2)	-	1.8	1.8	-	1.8	1.8
	Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
		FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives			-	(0.1)	(0.1)	-	(0.3)	(0.3)	-	0.1	0.1	-	0.1	0.1

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

(mln EUR)

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

The sensitivity of net interest income on 100 b.p. interest rate equalled in increase/decrease of profit 2013 as follows:

- 50 b.p. increase: 0.4 mln EUR;
- 100 b.p. increase: 0.9 mln EUR;
- 50 b.p. decrease: (0.5) mln EUR;
- 100 b.p. decrease: (1.0) mln EUR.

The impact of 100 b.p. interest rate shift on net present value of the Group, as of 31. 12. 2013

(mln EUR)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(7.33)**	(1.95)	1.10	1.66	(4.82)	(2.31)	(1.01)
USD	**0.23**	0.06	0.07	0.11	(0.01)	-	-
CHF	**(0.0)**	(0.02)	0.03	0.04	(0.02)	(0.02)	(0.01)
Total Shift	**(7.10)**	(1.91)	1.20	1.81	(4.85)	(2.33)	(1.02)
Limit	**8.8**						
Utilization %	**80%**						

In the table is presented the interest rate risk in terms of shift sensitivity, which measures the change in net present value of future cash-flows for interest bearing items that would originate from an eventual instantaneous surge of reference market interest rates by 100 b.p., equally for all time tenors. Each time-bucket shows the impact of interest rate change on net present value of cash-flows that according to contractual terms will be repriced to market rates in specific time-interval. The most significant exposure is in EUR currency, while the risk for other currencies is less relevant. The global exposure limit in terms of 100 b.p. interest rate shift sensitivity has been established in the amount of 8.8 million EUR, while actual exposure on reference date is 7.3 million EUR.

Time bucket	Limit	Exposure
0 – 18 months	+/- 5.0	-1.6
from 19 m – 5 years	+/- 7.0	3.0
>5 years	+/- 7.0	-8.2

The Bank currently exceeds the limit in the > 5 years. In the year 2014, the bank should be able to calculate the expected loss on loans and will incorporate it in the calculation during the year 2014. After the bank has calculated PD, LGD and EAD on its own data, the above mentioned position should no longer be in breach.

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

(mln EUR)

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

The impact of 200 b.p. interest rate shift on net present value of the Group, as of 31. 12. 2013

(mln EUR)

Currency	Total	0-18m	18m-3Y	3Y-5Y	5Y-10Y	10Y-15Y	>15Y
EUR	**(13.98)**	(3.27)	2.20	3.34	(9.63)	(4.61)	(2.01)
USD	**0.46**	0.14	0.14	0.20	(0.02)	-	-
CHF	**0.02**	(0.03)	0.06	0.08	(0.04)	(0.03)	(0.02)
Other	**0.08**	0.01	0.03	0.04	-	-	-
Total Shift	**(13.42)**	(3.15)	2.43	3.66	(9.69)	(4.64)	(2.03)
Reg.Capital (Sept 12)	**258.3**						
20% of Reg. Capital	**5%**						

The impact of 200 b.p. interest rate shift on net present value of the Group, as of 31. 12. 2012

(mln EUR)

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

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

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

The effective annual interest rate of individual financial instruments

Banka Koper	2013			2012		
	EUR	USD	Other	EUR	USD	Other
ASSETS						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	0.33	0.16	0.38	2.14	0.74	0.60
Loans and advances to customers	3.17	3.00	1.88	3.10	2.90	2.14
Investment securities available for sale	3.39	-	-	3.30	-	-
LIABILITIES						
Deposits from banks	0.52	-	-	1.51	0.28	0.13
Due to customers	1.29	0.21	0.08	1.52	0.32	0.14
Other borrowed funds	0.99	1.89	-	1.30	1.97	-

The effective annual interest rate of individual financial instruments

Consolidated	2013			2012		
	EUR	USD	Other	EUR	USD	Other
ASSETS						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	0.33	0.16	0.38	2.14	0.74	0.60
Loans and advances to customers	3.31	3.00	1.87	3.17	2.90	2.15
Investment securities available for sale	3.39	-	-	3.30	-	-
LIABILITIES						
Deposits from banks	0.52	-	-	1.51	0.28	0.13
Due to customers	1.29	0.21	0.08	1.52	0.32	0.14
Other borrowed funds	0.99	1.89	-	1.30	1.97	-

3.8 OPERATIONAL RISK

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

The objective of operational risk management is to:

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

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

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

A systematic loss collection method enables an immediate analysis of loss event causes and sources, which led to an operational risk loss. This procedure supports the compliance with general operational risk management standards.
The management of operational risk starts at the level of a single operational unit as an actual responsibility of a unit's head. The process is supplemented with the management of risk at a centralized level, delegated to the Market and Operational Risk, and Methodology Department, which is in charge of organizing operational risk loss collection and

carrying out self-assessments. Self-assessment is a method used to estimate risk exposure of the assessed organizational units and the Group, as well as to assess the risk-appetite of the bank.

The Risk, Policy and Methodology Department assisted by the Operational risk group, reports on a quarterly basis to the Management Board and proposes remedial measures. In 2013, the Group carried out a company-wide self-assessment, focusing on the most important processes. The assessment was prepared according to the methodology developed by the Parent company.

3.9 FAIR VALUE OF ASSETS AND LIABILITIES

Fair value of assets and liabilities– unconsolidated

(all amounts expressed in thousands of EUR)

Banka Koper	2013			2012		
	Carrying value	Fair value	Unrecog-nised gain/ loss	Carrying value	Fair value	Unrecog-nised gain/ loss
ASSETS						
Cash and balances with central banks	32,144	32,144	-	29,388	29,388	-
Financial instruments held for trading:	363	363	-	290	290	-
- derivative financial instruments	363	363	-	290	290	-
Financial assets designated at fair value through profit or loss	389	389	-	282	282	-
Investment securities available for sale	305,578	305,578	-	304,090	304,090	-
Loans and advances:	1,922,519	1,913,597	(8,922)	1,941,582	1,933,658	(7,924)
- to banks	177,699	177,699	-	58,308	58,308	-
- to customers	1,724,055	1,715,133	(8,922)	1,863,839	1,855,915	(7,924)
- advances	20,765	20,765	-	19,435	19,435	-
Investment in subsidiaries	3,688	3,688	-	3,688	3,688	-
Other assets	1,225	1,225	-	888	888	-
Total assets	**2,265,906**	**2,256,984**	**(8,922)**	**2,280,208**	**2,272,284**	**(7,924)**
LIABILITIES						
Liabilities to Central Bank	131,833	131,833	-	201,750	201,750	-
Financial instruments held for trading:	613	613	-	184	184	-
- derivative financial instruments	613	613	-	184	184	-
Liabilities carried at amortised cost:	1,887,005	1,888,309	1,304	1,823,723	1,825,489	1,766
- deposits from banks	20,252	20,596	344	75,359	75,746	387
- due to customers	1,676,504	1,677,043	539	1,507,316	1,507,918	602
- other borrowed funds from banks	161,971	162,326	355	214,170	214,826	656
- other borrowed funds from other customers	4,372	4,438	66	6,527	6,648	121
- other financial liabilities	23,906	23,906	-	20,351	20,351	-
Derivatives-hedge accounting	328	328	-	1,573	1,573	-
Other liabilities	2,229	2,229	-	1,415	1,415	-
Total liabilities	**2,022,008**	**2,023,312**	**1,304**	**2,028,645**	**2,030,411**	**1,766**

Fair value of assets and liabilities – consolidated

(all amounts expressed in thousands of EUR)

Consolidated	2013			2012		
	Carrying value	Fair value	Unrecognised gain/ loss	Carrying value	Fair value	Unrecognised gain/ loss
ASSETS						
Cash and balances with central banks	32,144	32,144	-	29,388	29,388	-
Financial instruments held for trading:	363	363	-	290	290	-
- derivative financial instruments	363	363	-	290	290	-
Financial assets designated at fair value through profit or loss	389	389	-	282	282	-
Investment securities available for sale	305,578	305,578	-	304,090	304,090	-
Loans and advances:	1,941,974	1,933,052	(8,922)	1,986,394	1,978,470	(7,924)
- to banks	177,699	177,699	-	58,308	58,308	-
- to customers	1,749,235	1,740,313	(8,922)	1,913,776	1,905,852	(7,924)
- advances	15,040	15,040	-	14,310	14,310	-
Goodwill	905	905	-	905	905	-
Other assets	14,358	14,358	-	10,491	10,491	-
Total assets	**2,295,711**	**2,286,789**	**(8,922)**	**2,331,840**	**2,323,916**	**(7,924)**
LIABILITIES						
Liabilities to Central Bank	131,833	131,833	-	201,750	201,750	-
Financial instruments held for trading:	613	613	-	184	184	-
- derivative financial instruments	613	613	-	184	184	-
Liabilities carried at amortised cost:	1,923,486	1,924,790	1,304	1,880,275	1,882,041	1,766
- deposits from banks	20,252	20,596	344	75,359	75,746	387
- due to customers	1,676,485	1,677,024	539	1,507,301	1,507,903	602
- other borrowed funds from banks	197,986	198,341	355	270,211	270,867	656
- other borrowed funds from other customers	4,372	4,438	66	6,527	6,648	121
- other financial liabilities	24,391	24,391	-	20,877	20,877	-
Derivatives-hedge accounting	328	328	-	1,573	1,573	-
Other liabilities	2,475	2,475	-	1,567	1,567	-
Total liabilities	**2,058,735**	**2,060,039**	**1,304**	**2,085,349**	**2,087,115**	**1,766**

Fair value of financial instruments

Derivatives

Derivative products fair value is measured with observable inputs for the valuation of interest rate swaps, interest rate caps, structured-deposit embedded option, foreign exchange swaps, forward foreign exchange contracts and interest rate swaps. The plain vanilla derivatives fair value is measured with the support of Kondor+ front-office system, with the data retrieved from money market official quotations available on the Reuters system. The fair value of those instruments is measured with net present value approach, using spot and forward money market interest rates. The fair value data for caps and range accruals (embedded options) are provided by the Parent company and are measured with the Black's Model with SABR volatility.

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

Hedge accounting

Derivatives are measured at fair value. In a specific case concerning the issuance of structured deposits, the Group is protected against interest rate risk, by substituting the fixed rate payments with variable rate.

Available for sale financial instruments

The bank measures these financial instruments at fair value. Shares that are listed on an active market are valued based on their market price, whereby for equities which are not listed, the fair value is determined according to internal valuation model. Fair value of shares which are not listed on an active market, are determined in accordance with Comparable stock-exchange pricing model. Shares, quoted on the Ljubljana Stock Exchange, but do not meet the liquidity criteria, are valuated in accordance with Comparable stock-exchange pricing model. The effect between model price and effective market price of the above mentioned shares as at 31.12.2013 amounted to 3.070 thousand EUR.

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

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

Information of financial ratios for comparable companies has to be obtained from independent sources such as the Ljubljana Stock Exchange, Reuters, etc.
The Value of comparable companies are based on the following financial ratios and market multiples:

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

The bases for making estimates are the financial statements:

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

The final evaluation value of a company is calculated as the average of the values obtained from the individual multiples. If one of the multiples is inadequate for the assessment of a specific share, it is not included in the calculation.

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

	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSET								
Derivatives	-	363	-	**363**	-	290	-	**290**
AFS:	285,294	5,539	9,223	**300,056**	274,174	21,568	2,835	**298,577**
- debt	278,767	-	-	**278,767**	264,793	-	-	**264,793**
- equities	6,527	5,539	9,223	**21,289**	9,381	21,568	2,835	**33,784**
FVTPL – equities	389	-	-	**389**	282	-	-	**282**
Loans and receivables	-	1,789,115	133,404	**1,922,519**	-	1,828,678	112,904	**1,941,582**
LIABILITIES								
Derivatives	-	613	-	**613**	-	184	-	**184**
Financial liabilities, measured at amortised cost	-	1,887,005	-	**1,887,005**	-	1,823,723	-	**1,823,723**

According to the method used the sensitivity analysis is not relevant. Beside these the transfer from level 2 to level 1 for investment in Mercator has been used.

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

(all amounts expressed in thousands of EUR)

	At January 2013	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 2013
ASSET								
AFS equities	2,835	1,806	(761)	(2,314)	-	-	7,657	9,223

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

(all amounts expressed in thousands of EUR)

	At January 2012	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 2012
ASSET								
AFS equities	23,553	-	-	-	-	(23,553)	2,835	2,835

4. NET INTEREST INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
INTEREST INCOME				
Central bank deposits	85	125	85	125
Loans and advances (including finance leases):	63,646	72,082	66,760	75,562
- to banks	572	805	572	805
- to other customers	63,074	71,277	66,188	74,757
Investment securities (AFS and HTM)	7,987	7,382	7,987	7,382
Investment securities HFT	-	22	-	22
Derivatives – hedge accounting	-	344	-	344
	71,718	**79,955**	**74,832**	**83,435**
INTEREST EXPENSE				
Financial liabilities measured at amortised cost:				
- Deposits from central banks	1,089	1,708	1,089	1,708
Bank deposits and loans	394	3,166	394	3,166
Other customers	22,463	19,660	22,463	19,660
Other borrowed funds	2,869	4,595	3,621	5,702
Derivatives - hedge accounting	533	384	533	384
Derivatives - HFT	166	-	166	-
Other	6	12	6	12
	27,520	**29,525**	**28,272**	**30,632**
	44,198	**50,430**	**46,560**	**52,803**

5. DIVIDEND INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Trading securities	-	4	-	4
Investment securities	1,068	1,568	221	968
Dividends from FVPL shares	11	-	11	-
	1,079	**1,572**	**232**	**972**

6. NET FEE AND COMMISSION INCOME

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
FEE AND COMMISSION INCOME				
From security trading on behalf of customers	-	79	-	79
From current account management	3,728	3,384	3,728	3,384
From payment services	10,074	10,725	10,074	10,725
From credit card business	8,072	8,430	8,072	8,430
From interbanking operations	8,101	8,122	8,101	8,122
From loans granted	3,988	4,844	3,988	4,844
From guaranties given	1,721	1,815	1,721	1,815
From safes renting	31	22	31	22
From pension fund management	555	618	555	618
Custody services	765	538	765	538
From payment systems management	2,036	1,792	2,036	1,792
From brokering of loans and insurance contract on behalf of others	158	77	501	767
	39,229	**40,446**	**39,572**	**41,136**
FEE AND COMMISSION EXPENSE				
From security trading	51	132	51	132
From loan brokerage on behalf of others	95	212	95	212
From custody services	328	161	328	161
From credit card processing	9,498	9,591	9,498	9,591
From payment transactions	2,744	3,356	2,744	3,356
Commitment fee for unused credit lines	2,387	2,359	2,435	2,396
	15,103	**15,811**	**15,151**	**15,848**
	24,126	**24,635**	**24,421**	**25,288**

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Loss/income due to sale of investment securities*	141	291	141	291
Write offs of loans and other assets	(971)	(1,408)	(971)	(1,408)
Recoveries from write offs of loans and other assets	329	410	329	410
Losses from financial liabilities measured at amortised cost	-	(189)	-	(189)
	(501)	**(896)**	**(501)**	**(896)**

*As realized revaluation reserve EUR 227 thousands (2012: EUR 268 thousands).

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Trading of derivatives	1,619	(403)	1,619	(403)
Currency trading	670	652	670	652
Trading of debt securities	-	(2)	-	(2)
	2,289	**247**	**2,289**	**247**

9. FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Net effect on derivatives used as hedging instruments	310	771	310	771
Net effect on hedged items	(502)	(537)	(502)	(537)
	(192)	**234**	**(192)**	**234**

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Profit on sale of property and equipment	20	87	51	133
	20	**87**	**51**	**133**

11. OTHER OPERATING GAINS LESS LOSSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Rent	808	1,625	1,306	2,087
Taxes	(1,462)	(495)	(1,462)	(495)
Membership fees	(99)	(87)	(99)	(87)
Other operating expenses	(1)	-	(1)	-
Other operating income	859	-	1,477	175
	105	**1,043**	**1,221**	**1,680**

From rent contracts arises that the future rent revenues amounted to EUR 6,340 thousands (Group EUR 8,216 thousands), as follows:

Banka Koper (all amounts expressed in thousands of EUR)

2013			2012		
Up to 1 year	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
710	2,610	3,020	670	2,466	2,850

Consolidated (all amounts expressed in thousands of EUR)

2013			2012		
Up to 1 year	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
1,312	3,884	3,020	1,162	3,160	2,850

12. ADMINISTRATIVE EXPENSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Staff cost	**26,915**	**26,918**	**27,515**	**27,516**
Salaries	18,602	18,959	19,044	19,400
Social security cost	2,971	3,019	3,047	3,054
Pension costs	1,653	1,692	1,670	1,750
Other	3,689	3,248	3,754	3,312
General and administrative expenses	**11,743**	**12,475**	**12,329**	**12,826**
Material costs	2,296	1,646	2,344	1,681
IT costs	1,896	2,296	1,900	2,302
Rents	1,034	1,041	1,411	1,044
Professional services	5,396	5,821	5,459	6,036
Advertising and marketing	694	1,099	717	1,130
Cost of consulting, auditing, law and notarial services*	427	572	498	633
	38,658	**39,393**	**39,844**	**40,342**

*In this auditor services

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
AUDITOR SERVICES:				
- financial statements audit	54	80	54	80
	54	**80**	**54**	**80**

13. AMORTISATION AND DEPRECIATION

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Amortisation	1,390	1,775	1,415	1,789
Depreciation	3,113	3,368	3,599	3,829
	4,503	**5,143**	**5,014**	**5,618**

In 2013 the Bank changed amortisation and depreciation rates. Due to this the amortisation charges are lower by EUR 319 thousands and the depreciation is lower by EUR 126 thousands.

14. PROVISIONS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Provisions for off-balance sheet exposures	1,354	(658)	1,351	(687)
Provisions for National Housing Saving Scheme	56	(252)	56	(252)
Provisions for legal proceedings	(865)	45	(865)	45
Retirement and long service bonus	(380)	(420)	(387)	(425)
	165	**(1,285)**	**155**	**(1,319)**

15. IMPAIRMENT LOSSES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Impairments on of assets measurement at amortised cost:				
- loans to other customers	20,431	17,614	21,392	18,525
- impairments of other assets	321	-	259	83
Impairments on AFS securities (shares)	3,279	5,144	3,279	5,144
	24,031	**22,758**	**24,930**	**23,752**

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

16. INCOME TAX EXPENSE

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Current tax	601	1,987	952	2,351
Deferred tax (note 39)	(486)	(360)	(676)	(488)
	115	**1,627**	**276**	**1,863**
Profit before tax	**2,638**	**8,812**	**2,974**	**9,466**

Further information about deferred income tax is presented in note 39. The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Prima facie tax calculated at a tax rate of 17%	448	1,586	578	1,781
Income from already taxed released provisions	(9)	(26)	(9)	(26)
Income form already taxed dividends	(183)	(283)	(183)	(283)
Expenses not deductible for tax purposes:				
- negative valuation of securities and derivatives HFT	554	926	773	1,099
- staff costs not assessable for tax	156	171	156	171
- other non-tax deductible expenses	74	78	79	85
- release of deferred tax assets due to disposal of investments and liabilities	(106)	(57)	(106)	(57)
- tax reliefs	(333)	(408)	(336)	(419)
Current tax on profit	**601**	**1,987**	**952**	**2,351**
Deferred tax	(486)	(360)	(676)	(488)
Total income tax	**115**	**1,627**	**276**	**1,863**

For 2013 the income tax rate was 17% (2012: 18%).

A lower effective rate of taxation in 2013 (4.37%) compared to 2012 (18.46%) is mainly influenced by the high amount of relief (EUR 1,066 thousands) and exempt dividends (EUR 1,025 thousands).

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

17. EARNINGS PER SHARE

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Net profit for the year	2,523	7,185	2,698	7,603
Weighted average number of ordinary shares in issue	530,398	530,398	530,398	530,398
Basic and diluted profit per share (expressed in EUR per share)	**4.76**	**13.55**	**5.09**	**14.33**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and Group and held as treasury shares (961 lots). There are no dilutive potential ordinary shares, there are no share options schemes.

18. INCOMES AND EXPENSES ACHIEVED ON FOREIGN MARKETS

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Interest income	5,333	5,420	5,333	5,420
Interest expenses	(6,990)	(10,525)	(7,742)	(11,628)
Interest net income	**(1,657)**	**(5,105)**	**(2,409)**	**(6,208)**
Dividend income	11	-	11	-
Fee and commission income	417	570	417	570
Fee and commission expenses	(2,356)	(2,357)	(2,356)	(2,357)
Fee and commission net income	**(1,939)**	**(1,787)**	**(1,939)**	**(1,787)**
Gains and losses on financial assets held for trading	1,939	(1,899)	1,939	(1,899)
Gains and losses on financial assets used as hedging instruments	277	748	277	748
Realised gains and losses on financial assets not measured at fair value through profit and loss	59	135	59	135
Other operating net income	(509)	(407)	(509)	(407)
Total profit before tax from continuing operations	**(1,819)**	**(8,315)**	**(2,571)**	**(9,418)**

19. CASH AND BALANCES WITH CENTRAL BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Cash in hand	19,867	17,543	19,867	17,543
Balances with central banks	12,277	11,845	12,277	11,845
	32,144	**29,388**	**32,144**	**29,388**
From this: mandatory reserve liability to central banks	15,095	14,027	15,095	14,027

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

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

The Banking group concludes Interest rate swaps (IRS) above all to protect the bank's interest income and then as a standardized offer to its clients. The IRSs are determined so that the repricing dates are in line with the mentioned structured deposits. In 2012 the Bank used FX swaps mainly for foreign exchange management purposes, and in smaller volumes. FX swaps are also offered as a banking service to its customers.

In 2011 and 2012, Banka Koper offered 5 issues of structured deposit in the amount of 32.7 million EUR (and 2013: 29.4 million EUR), with the original maturity of 4 years and 2 and a half. Interest paid on these deposits is a combination of fixed interest rate of:

- 5% in the first year (valid for 1-3 issue) and,
- 6% in the first 6 months (valid for 4 and 5 issue), and

variable interest rate applied in the following 3 or 2 years. Consequently, the return in the last 3 or 2 years depends on the movement of the reference interest rate EURIBOR 6M:

- as for the first and second issue: if the EURIBOR 6M ranges from 1.28% to 5%, the interest rate is 4.25% per year
- as for the third issue: if the EURIBOR 6M ranges from 1.5% to 5%, the interest rate is 5.1% per year
- as for the fourth issue: if the EURIBOR 6M ranges from 1% to 3.5%, the interest rate is 5% per year
- as for the fifth issue: if the EURIBOR 6M ranges from 1% to 3.5%, the interest rate is 5.2% per year

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

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

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

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

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

(all amounts expressed in thousands of EUR)

As at 31 December 2013	Contract/ notional amount	Fair values Assets	Liabilities	Provisions
HFT DERIVATIVES				
Foreign exchange derivatives				
Currency forwards-purchase	231	-	1	-
Currency forwards-sale	231	2	-	-
Interest rate derivatives				
Interest rate cap (CALL)	7,463	314	-	-
Interest rate cap (PUT)	1,500	-	12	-
Interest option (CALL)	33,638	47	-	-
Interest option (PUT)	28,838	-	41	-
Interest rate swap (IRS)	18,530	-	559	-
Total derivative assets/(liabilities) held for trading		**363**	**613**	**-**
DERIVATIVES FOR HEDGE				
Interest rate swap (IRS)	15,108	-	328	-
Total derivative assets/(liabilities) for hedge accounting		**-**	**328**	**-**

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

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
GOVERNMENT SECURITIES:				
- listed	238,506	216,879	238,506	216,879
OTHER DEBT SECURITIES:				
- listed	40,261	47,914	40,261	47,914
EQUITY SECURITIES:				
- listed	13,725	17,465	13,725	17,465
- unlisted	13,086	21,832	13,086	21,832
Total securities available for sale	**305,578**	**304,090**	**305,578**	**304,090**

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

At the end of 2013 pledged securities amounted to EUR 131,832 thousands (2012: EUR 201,746 thousands).

	Banka Koper and consolidated	
Movement	**2013 AFS**	**2012 AFS**
At beginning of the year	**304,090**	**288,218**
Additions	73,571	59,660
Impairment	(3,279)	(5,144)
Interest accrual	9,270	8,074
Expired coupons	(8,475)	(6,456)
Disposals (sale and redemption)	(62,817)	(47,931)
Gains/losses from changes in fair value	(6,782)	7,669
At end of year	**305,578**	**304,090**

22. LOANS AND ADVANCES TO BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Sight deposits	5,293	2,953	5,293	2,953
Placements with other banks	172,406	55,355	172,406	55,355
	177,699	**58,308**	**177,699**	**58,308**

As at 31 December 2013 no placements with other banks are shown under Pledged assets (2012: nil).

23. LOANS AND ADVANCES TO CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Loans to individuals:	541,789	563,096	553,684	574,103
- Overdrafts	40,319	42,864	40,319	42,864
- Credit cards	22,282	22,072	22,282	22,072
- Term loans	117,020	127,838	117,020	127,838
- Mortgages	362,168	370,322	362,168	370,322
- Finance leases	-	-	11,895	11,007
Loans to sole proprietors	70,287	70,735	82,936	81,792
Loans to corporate entities	1,254,469	1,357,332	1,258,483	1,387,653
Gross loans and advances	**1,866,545**	**1,991,163**	**1,895,103**	**2,043,548**
Less provision for impairment	(142,490)	(127,324)	(145,868)	(129,772)
Net loans and advances	**1,724,055**	**1,863,839**	**1,749,235**	**1,913,776**

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

(all amounts expressed in thousands of EUR)

	Loans to individuals – Banka Koper				Total loans to individuals - Banka Koper
	Overdrafts	Credit cards	Term loans	Mortgages	
As at 31 December 2011	**2,064**	**845**	**3,792**	**3,798**	**10,499**
Provision for loan impairment	976	1,354	5,525	8,341	16,196
Amounts recovered during the year	(571)	(918)	(5,784)	(8,857)	(16,130)
Included in statement of income	405	436	(259)	(516)	66
Write off provisions already made	(260)	-	(141)	-	(401)
As at 31 December 2012	**2,209**	**1,281**	**3,392**	**3,282**	**10,164**
Provision for loan impairment	606	1,522	3,521	6,377	12,026
Amounts recovered during the year	(702)	(1,558)	(3,500)	(6,526)	(12,286)
Included in statement of income	(96)	(36)	21	(149)	(260)
Write off provisions already made	(487)	-	(675)	(292)	(1,454)
As at 31 December 2013	**1,626**	**1,245**	**2,738**	**2,841**	**8,450**

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

(all amounts expressed in thousands of EUR)

	Loans to individuals – Consolidated					Total loans to individuals - Consolidated
	Overdrafts	Credit cards	Term loans	Mortgages	Finance leases	
As at 31 December 2011	**2,064**	**845**	**3,792**	**3,798**	**310**	**10,809**
Provision for loan impairment	976	1,354	5,525	8,341	198	16,394
Amounts recovered during the year	(571)	(918)	(5,784)	(8,857)	(73)	(16,203)
Included in statement of income	405	436	(259)	(516)	125	191
Write off provisions already made	(260)	-	(141)	-	(56)	(457)
As at 31 December 2012	**2,209**	**1,281**	**3,392**	**3,282**	**379**	**10,543**
Provision for loan impairment	606	1,522	3,521	6,377	68	12,094
Amounts recovered during the year	(702)	(1,558)	(3,500)	(6,526)	(65)	(12,351)
Included in statement of income	(96)	(36)	21	(149)	3	(257)
Write off provisions already made	(487)	-	(675)	(292)	(10)	(1,464)
As at 31 December 2013	**1,626**	**1,245**	**2,738**	**2,841**	**372**	**8,822**

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	Sole proprietors	Corporate entities	Sole proprietors	Corporate entities
As at 31 December 2011	**11,275**	**98,149**	**11,700**	**99,174**
Provision for loan impairment	6,409	77,781	6,551	79,000
Amounts recovered during the year	(7,033)	(59,609)	(7,100)	(60,117)
Included in statement of income	(624)	18,172	(549)	18,883
Write off provisions already made	(1,465)	(8,347)	(1,465)	(8,514)
As at 31 December 2012	**9,186**	**107,974**	**9,686**	**109,543**
Provision for loan impairment	6,177	70,361	6,356	71,522
Amounts recovered during the year	(6,507)	(49,340)	(6,547)	(49,682)
Included in statement of income	(330)	21,021	(191)	21,840
Write off provisions already made	(418)	(3,393)	(420)	(3,412)
As at 31 December 2013	**8,438**	**125,602**	**9,075**	**127,971**

Customer loan portfolio by economic sector

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	2012	2013	2012
Government	80,565	80,554	80,565	80,554
Trade	220,491	234,692	220,491	234,692
Services	425,588	593,574	426,013	620,020
Construction	73,039	75,631	73,039	75,631
Manufacturing	225,561	258,499	225,561	258,499
Agriculture	6,398	9,875	6,398	9,875
Individuals	541,789	563,095	553,684	574,102
Sole proprietors	61,851	70,735	74,500	81,792
Other	231,263	104,508	234,852	108,383
Gross loans and advances to customers	**1,866,545**	**1,991,163**	**1,895,103**	**2,043,548**
Less provision for impairment	(142,490)	(127,324)	(145,868)	(129,772)
Net loans and advances to customers	**1,724,055**	**1,863,839**	**1,749,235**	**1,913,776**

Slovenian customers and customers from other European countries (Serbia, Croatia, Liberia, Italy) accounted for 96% and 4% of geographic sector risk concentration within the customer loan portfolio, respectively.

Analysis of finance leases by residual maturity:

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated	
	2013	2012
GROSS INVESTMENT IN FINANCE LEASES:		
Not later than 1 year	37,277	30,351
Later than 1 year and not later than 5 years	55,251	47,106
Later than 5 years	30,509	35,839
	123,037	**113,296**
Unearned future interest income on finance leases	(17,678)	(17,775)
NET INVESTMENT IN FINANCE LEASES:		
Not later than 1 year	33,096	26,706
Later than 1 year and not later than 5 years	46,367	38,522
Later than 5 years	25,896	30,293
	105,359	**95,521**

Loans and advances are further analysed as a part of the statement of financial position in the following notes: Analysis of past due financial instruments 3.4, Currency Risk Note 3.7.2., Interest Rate Risk Note 3.7.3., Liquidity Risk Note 3.5., Fair value Note 3.9, and Related Party Transactions Note 47.

24. ADVANCES

Advances

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Commissions receivables	356	304	356	304
Cheques	3	5	3	5
Receivables	629	6,905	1,010	1,975
Claims to Europay	9,968	8,536	9,968	8,536
Claims to citizens	853	868	853	868
Other	8,956	2,817	2,983	2,817
Gross advances	**20,765**	**19,435**	**15,173**	**14,505**
Impairments	-	-	(133)	(195)
Net advances	**20,765**	**19,435**	**15,040**	**14,310**

Movement in provisions for impairment on other assets:

(all amounts expressed in thousands of EUR)

	Banka Koper	Consolidated
As at 31 December 2011	**-**	**122**
Additional provision for impairment	-	111
Amounts recovered during the year	-	(27)
Included in income statement	-	84
Write off of impairment	-	(11)
As at 31 December 2012	**-**	**195**
Additional provision for impairment	-	48
Amounts recovered during the year	-	(110)
Included in income statement	-	(62)
Write off of impairment	-	-
As at 31 December 2013	**-**	**133**

25. GOODWILL

(all amounts expressed in thousands of EUR)

	Consolidated	
	2013	**2012**
Opening net book amount	905	905
Acquisition of a subsidiary	-	-
Impairment	-	-
Closing net book amount	**905**	**905**

26. PROPERTY, PLANT AND EQUIPMENT

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Land and buildings	Hardware equipment	Other equipment	Total Banka Koper	Land and buildings	Hardware equipment	Other equipment	Total consoli-dated
MOVEMENT IN YEAR 2012								
Opening net book amount	24,664	845	2,276	27,785	24,664	852	3,565	29,081
Additions	605	827	419	1,851	605	832	1,076	2,513
Disposals	-	(1)	(7)	(8)	-	(1)	(309)	(310)
Depreciation charge	(2,088)	(467)	(740)	(3,295)	(2,088)	(474)	(1,155)	(3,717)
Closing net book amount	23,181	1,204	1,948	26,333	23,181	1,209	3,177	27,567
AS AT 31 DECEMBER 2012								
Cost	50,331	7,165	11,343	68,839	50,331	7,193	13,349	70,873
Accumulated depreciation	(27,150)	(5,961)	(9,395)	(42,506)	(27,150)	(5,984)	(10,172)	(43,306)
Net book amount as at 31 December 2012	**23,181**	**1,204**	**1,948**	**26,333**	**23,181**	**1,209**	**3,177**	**27,567**
MOVEMENT IN YEAR 2013								
Opening net book amount	23,181	1,204	1,948	26,333	23,181	1,209	3,177	27,567
Transfer to investment property	(338)	-	-	(338)	(338)	-	-	(338)
Additions	270	317	187	774	270	317	1,154	1,741
Disposals	-	-	-	-	-	-	(168)	(168)
Depreciation charge	(1,976)	(447)	(601)	(3,024)	(1,976)	(450)	(956)	(3,382)
Closing net book amount	21,137	1,074	1,534	23,745	21,137	1,076	3,207	25,420
AS AT 31 DECEMBER 2013								
Cost	49,659	7,251	11,159	68,069	49,659	7,279	14,132	71,070
Accumulated depreciation	(28,522)	(6,177)	(9,625)	(44,324)	(28,522)	(6,203)	(10,925)	(45,650)
Net book amount as at 31 December 2013	**21,137**	**1,074**	**1,534**	**23,745**	**21,137**	**1,076**	**3,207**	**25,420**

In 2013 there was no property, plant and equipment pledged (2012; nil).

In addition to its own premises, the Bank or Group hired premises at 35 locations. Future minimum lease payments under lease contracts amount to EUR 5,580 thousand, of this:

(all amounts expressed in thousands of EUR)

Banka Koper and consolidated					
2013			2012		
Up to 1 year	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
558	2,232	2,790	557	2,228	2,785

27. INVESTMENT PROPERTY

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

On 31 December 2013 no stipulated contracts for the acquisition or construction of Investment Property are in place in Banka Koper or Group. No substantial investments in the repair, maintenance or expansion of these investments are planned in 2014.

Movement of investment property

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	2012	2013	2012
At beginning of the year	**1,028**	**1,112**	**6,445**	**1,112**
Depreciation	(89)	(73)	(217)	(112)
Additions	344	102	1,846	5,558
Disposals	-	(113)	-	(113)
At end of year	**1,283**	**1,028**	**8,074**	**6,445**

In the item other operating gains and losses (see note 11) income from property investments carries rents of EUR 80 thousand (2012: EUR 80 thousand), Group of EUR 685 thousand (2012: 312 EUR thousand). In 2013, Bank`s maintenance costs for from property investments amounted to EUR 1 thousands, the respective amounted on Group level amounted to EUR 62 thousands (2012: EUR 46 thousands).

28. INTANGIBLE ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	Development	Licenses	Software and other	Total Banka Koper	Development	Licenses	Software and other	Total consolidated
MOVEMENT IN YEAR 2012								
Opening net book amount	2,317	883	1,029	4,229	2,317	883	1,030	4,230
Additions	1,444	214	124	1,782	1,444	326	126	1,896
Amortisation	(1,077)	(279)	(419)	(1,775)	(1,077)	(292)	(420)	(1,789)
Closing net book amount	2,684	818	734	4,236	2,684	917	736	4,337
AS AT 31 DECEMBER 2012								
Cost	10,000	3,022	3,770	16,792	10,000	3,140	3,777	16,917
Accumulated amortisation	(7,316)	(2,204)	(3,036)	(12,556)	(7,316)	(2,223)	(3,041)	(12,580)
Net book amount as at 31 December 2012	**2,684**	**818**	**734**	**4,236**	**2,684**	**917**	**736**	**4,337**
MOVEMENT IN YEAR 2013								
Opening net book amount	2,684	818	734	4,236	2,684	917	736	4,337
Additions	821	58	860	1,739	821	58	860	1,739
Amortisation	(851)	(244)	(295)	(1,390)	(851)	(268)	(296)	(1,415)
Closing net book amount	2,654	632	1,299	4,585	2,654	707	1,300	4,661
AS AT 31 DECEMBER 2013								
Cost	10,820	3,080	4,629	18,529	10,820	3,198	4,636	18,654
Accumulated amortisation	(8,166)	(2,448)	(3,330)	(13,944)	(8,166)	(2,491)	(3,336)	(13,993)
Net book amount as at 31 December 2013	**2,654**	**632**	**1,299**	**4,585**	**2,654**	**707**	**1,300**	**4,661**

The Bank and Group have not pledged any intangible fixed assets.
The Bank or Group has evidence of future contractual obligations for the acquisition of intangible long term assets of EUR 250 thousand for the acquisition of the AMEX licence.
The Bank or Group does not have any intangible fixed assets in management.
In 2013, the Bank or Group has not recognized any expenditure related to research and development in the statement of income. All development expenditure in 2013 was capitalized as intangible fixed assets, out of which staff expenses amounted to EUR 325 thousand.

29. INVESTMENT IN SUBSIDIARIES

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2013	2012
At beginning of the year	3,688	3,688
Additional investment	-	-
Disposal of a subsidiary	-	-
Disposal surplus	-	-
Release of impairment	-	-
At end of year	**3,688**	**3,688**

30. OTHER ASSETS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Accruals	789	451	794	456
Inventory	19	19	19	19
Taxes and contributions	7	17	113	533
Fixed assets from seized collateral	391	391	12,311	9,459
Prepayments and bails	19	10	1,105	10
Other	-	-	16	14
	1,225	**888**	**14,358**	**10,491**

31. LIABILITIES TO CENTRAL BANK

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Loans granted	131,833	201,750	131,833	201,750
	131,833	**201,750**	**131,833**	**201,750**

32. DEPOSITS FROM BANKS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Demand deposits	1,551	881	1,551	881
Term deposits	18,701	74,478	18,701	74,478
	20,252	**75,359**	**20,252**	**75,359**

33. DUE TO CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
INDIVIDUALS				
- demand deposits	465,831	449,313	465,831	449,313
- term deposits	624,149	604,020	624,149	604,020
SOLE PROPRIETORS				
- demand deposits	38,793	31,971	38,793	31,971
- term deposits	6,040	5,663	6,040	5,663
CORPORATE CUSTOMERS				
- demand deposits	201,208	162,867	201,189	162,852
- term deposits	340,483	253,482	340,483	253,482
	1,676,504	**1,507,316**	**1,676,485**	**1,507,301**

As at 31 December 2013, deposits of EUR 7,401 thousand have been pledged for covering potential credit risk on assets (2012: EUR 5,785 thousand). The same applies for the Group.

34. OTHER BORROWED FUNDS FROM BANKS

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

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	2013		2012		2013		2012	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
In local currency	-	132,757	56,707	122,295	186	168,586	56,707	178,336
In foreign currency	-	29,214	-	35,168	-	29,214	-	35,168
	-	**161,971**	**56,707**	**157,463**	**186**	**197,800**	**56,707**	**213,504**
	161,971		**214,170**		**197,986**		**270,211**	

35. OTHER BORROWED FUNDS FROM OTHER CUSTOMERS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
Long term	**2013**	**2012**	**2013**	**2012**
Building bought on financial lease	119	147	119	147
Other loans	4,003	6,005	4,003	6,005
Liabilities from bought licences	250	375	250	375
	4,372	**6,527**	**4,372**	**6,527**

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

36. OTHER FINANCIAL LIABILITIES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Unpaid commissions	481	184	481	184
Liabilities form credit card business	5,950	5,374	5,950	5,374
Not yet process payments	9,334	4,770	9,334	4,770
Unpaid dividend	106	118	106	118
Creditors	2,582	3,659	2,897	4,013
Salaries	2,027	1,998	2,062	2,035
Deferred income	3,379	3,739	3,470	3,786
Other	47	509	91	597
	23,906	**20,351**	**24,391**	**20,877**

37. ROVISIONS FOR LIABILITIES AND CHARGES

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

The amount of premiums the bank is obliged to pay back to the Housing Fund is estimated considering the suggestion of the Bank of Slovenia, the historical pay-back patterns and expected future conditions in the housing loan segment. The obligation to pay back premiums in case that savings are not used under eligible purposes, applies to the 2nd, 3rd, 4th and 5th tender. The amount of provisions required as at 31. 12. 2013 amount to EUR 202 thousand. The amount is based on the estimation that 80% of all saved funds will be used unpurposely.

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Provisions for off-balance sheet liabilities	5,773	7,143	5,758	7,125
Provisions for National Saving Housing Scheme	202	324	202	324
Legal proceedings due to employees	1,589	753	1,589	753
Total	**7,564**	**8,220**	**7,549**	**8,202**

Movement in provisions:

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
At beginning of year	**8,220**	**7,483**	**8,202**	**7,436**
Additional provision	12,227	19,940	12,227	19,940
Amounts recovered during the year	(12,772)	(19,126)	(12,769)	(19,046)
Included in statement of income under provisions	(545)	865	(542)	945
Included in statement of income under staff costs	-	(51)	-	(51)
Repayment of the premiums for National Saving Housing Scheme	(82)	(77)	(82)	(77)
Indemnities paid	(29)	-	(29)	-
At end of year	**7,564**	**8,220**	**7,549**	**8,202**

38. RETIREMENT BENEFIT OBLIGATIONS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Retirement severance pay and long service bonuses	3,069	2,918	3,163	3,004
Provision for redundancies	372	248	372	248
	3,441	**3,166**	**3,535**	**3,252**

Movements:

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
At beginning of year	**3,166**	**2,968**	**3,252**	**3,049**
Additional provisions	380	420	387	425
Charged to statement of income	380	420	387	425
Utilised provisions	(105)	(222)	(104)	(222)
At end of year	**3,441**	**3,166**	**3,535**	**3,252**

39. DEFERRED INCOME TAXES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
DEFERRED INCOME TAX LIABILITIES				
Non-current assets held for sale	2	2	2	2
Available-for-sale securities	1,006	2,245	1,006	2,245
	1,008	**2,247**	**1,008**	**2,247**
DEFERRED INCOME TAX ASSETS				
Retirement and other employee benefits	324	295	334	305
Provision for loan losses	-	-	743	553
Available-for-sale securities	3,664	3,336	3,664	3,336
Trading securities and derivative financial instruments	7	7	7	7
Provisions for National Saving Housing Scheme	34	55	34	55
Other - depreciation above tax prescribed rate	5	6	5	6
	4,034	**3,699**	**4,787**	**4,262**
Net deferred taxes	**3,026**	**1,452**	**3,779**	**2,015**
MOVEMENT OF DEFERRED INCOME TAXES (OFFSETTING OF ASSETS AND LIABILITIES)				
At beginning of year	1,452	2,314	2,015	2,749
Statement of income (charge) / benefit	486	360	676	488
Deferred tax expense (benefit) on investment securities (fair value measurement)	1,088	(1,222)	1,088	(1,222)
At end of year	**3,026**	**1,452**	**3,779**	**2,015**
DEFERRED INCOME TAXES CHARGED IN STATEMENT OF INCOME				
Retirement and other employee benefits	3	(15)	3	(14)
Provision for loan losses	-	-	190	127
Trading securities and derivative financial instruments	-	(1)	-	(1)
Provisions for National Saving Housing Scheme	(21)	(21)	(21)	(21)
Provision for legal proceedings	-	(17)	-	(17)
Impairment of AFS securities	478	926	478	926
Other	-	(4)		(4)
Differences due to changes in tax rate:				
- trading securities and derivative financial instruments	-	(1)	-	(1)
- retirement and other employee benefits	26	(85)	26	(85)
- provisions for National Saving Housing Scheme	-	(12)	-	(12)
- provision for legal proceedings	-	(2)	-	(2)
- impairment of AFS securities	-	(407)	-	(407)
- other	-	(1)	-	(1)
	486	**360**	**676**	**488**

40. OTHER LIABILITIES

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Accruals	229	260	314	307
Prepayments received	509	406	644	406
Taxes and contributions	1,491	749	1,495	828
Other	-	-	22	26
	2,229	**1,415**	**2,475**	**1,567**

41. SHARE CAPITAL

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated			
	Number of shares	Ordinary shares	Share premium	Treasury shares
As at 31 December 2011	531,359	22,173	7,499	(49)
As at 31 December 2012	531,359	22,173	7,499	(49)
As at 31 December 2013	531,359	22,173	7,499	(49)

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

42. REVALUATION RESERVES

(all amounts expressed in thousands of EUR)

	Banka Koper and consolidated	
	2013	**2012**
Revaluation reserves:		
Debt securities	2,974	(520)
Equity securities	502	9,308
Total	**3,476**	**8,788**

Movement – Banka Koper and consolidated:

(all amounts expressed in thousands of EUR)

	Revaluation reserves
As at 31 December 2011	**2,310**
Valuation of available-for-sale securities	
Equity securities	**(3,216)**
- Valuation	(7,054)
- Disposals	(97)
- Impairment	3,466
- Tax rate changes	469
Debt securities	**9,694**
- Valuation	10,203
- Disposals	(126)
- Tax rate changes	(383)
As at 31 December 2012	**8,788**
Valuation of available-for-sale securities	
Equity securities	**(8,805)**
- Valuation	(10,803)
- Disposals	(91)
- Impairment	2,089
Debt securities	**3,493**
- Valuation	3,590
- Disposals	(97)
As at 31 December 2013	**3,476**

43. RESERVES FROM PROFIT AND RETAINED EARNINGS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Legal reserves	13,324	13,198	13,324	13,198
Statutory reserves	211,968	211,962	211,968	211,962
Retained earnings	8,423	12,835	10,709	14,946
Treasury share`s reserves	49	49	49	49
Total	**233,764**	**238,044**	**236,050**	**240,155**

Movement – Banka Koper

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Treasury share`s reserves	Total reserves
As at 31 December 2011	**12,839**	**211,959**	**11,311**	**49**	**236,158**
Net profit for the financial year	-	-	7,185	-	7,185
Dividends	-	-	(5,299)	-	(5,299)
Transfer to statutory reserves	-	3	(3)	-	-
Transfer to legal reserves	359	-	(359)	-	-
As at 31 December 2012	**13,198**	**211,962**	**12,835**	**49**	**238,044**
Net profit for the financial year	-	-	2,523	-	2,523
Dividends	-	-	(6,821)	-	(6,821)
Transfer of expired dividends to retained earnings	-	-	18	-	18
Transfer to statutory reserves	-	6	(6)	-	-
Transfer to legal reserves	126	-	(126)	-	-
As at 31 December 2013	**13,324**	**211,968**	**8,423**	**49**	**233,764**

Movement – consolidated

(all amounts expressed in thousands of EUR)

	Legal reserves	Statutory reserves	Retained earnings	Treasury share`s reserves	Total reserves
As at 31 December 2011	**12,839**	**211,959**	**13,004**	**49**	**237,851**
Net profit for the financial year	-	-	7,603	-	7,603
Dividends	-	-	(5,299)	-	(5,299)
Transfer to statutory reserves	-	3	(3)	-	-
Transfer to legal reserves	359	-	(359)	-	-
As at 31 December 2012	**13,198**	**211,962**	**14,946**	**49**	**240,155**
Net profit for the financial year	-	-	2,698	-	2,698
Dividends	-	-	(6,821)	-	(6,821)
Transfer of expired dividends to retained earnings	-	-	18	-	18
Transfer to statutory reserves	-	6	(6)	-	-
Transfer to legal reserves	126	-	(126)	-	-
As at 31 December 2013	**13,324**	**211,968**	**10,709**	**49**	**236,050**

Legal reserves

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

Statutory reserves

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

44. 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 2012, the Bank disbursed for dividends EUR 6,821 thousand i.e. EUR 12.86 per share.

(all amounts expressed in thousands of EUR)

	Banka Kope	
	2013	**2012**
Net profit for the period	2,523	7,185
Allocation of the profit to the legal reserves (5%)	(126)	(359)
Residual net profit available for distribution at the AGM	**2,397**	**6,826**

45. CASH AND CASH EQUIVALENTS

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Cash and balances with central bank	17,049	15,361	17,068	15,376
Loans and advances to banks	177,696	42,462	177,696	42,462
Total	**194,745**	**57,823**	**194,764**	**57,383**

46. CONTINGENT LIABILITIES AND COMMITMENTS

Legal proceedings. As at 31 December 2013, the Bank and Group were involved in several legal proceedings against it. Contingent liabilities in this respect are estimated at EUR 965 thousand. To this end, the Bank established provisions of EUR 275 thousand.

Capital commitments. At 31 December 2013, the Bank and Group had no capital commitments (2012: nil).

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank or Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank or Group on behalf of a customer authorising a third party to draw drafts by the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less risky than the amount of the commitment because the Bank or Group do not generally expect the third party to draw funds under the agreement. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank or Group are potentially exposed to losses in an amount equal to the total unused commitments. However, the likely amount of losses, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, secondly, from these drawings subsequently not being repaid as and when due. The Bank or Group monitor the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

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

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2013	**2012**	**2013**	**2012**
Documentary and commercial letters of credit	775	73	775	73
Guarantees	174,633	219,052	174,633	219,052
Credit commitments:				
- original maturity up to 1 year	277,391	340,224	277,391	340,224
- original maturity over 1 year	17,715	32,157	16,386	30,406
	470,514	**591,506**	**469,185**	**589,755**
Provisions for off-balance sheet liabilities:				
Documentary and commercial letters of credit	(7)	-	(7)	-
Guarantees	(2,687)	(2,582)	(2,687)	(2,582)
Credit commitments	(3,079)	(4,561)	(3,064)	(4,543)
Total	**464,741**	**584,363**	**463,427**	**582,630**

47. RELATED PARTY TRANSACTIONS

(all amounts expressed in thousands of EUR)

	Directors and advisers		Management board and their direct family members		Supervisory board members and their direct family members		Major shareholders		Subsidiaries	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
LOANS										
At beginning of the year	287	234	-	-	-	-	43,695	24,479	43,136	26,111
Loans issued during the year	7	100	-	13	-	-	2,592,432	1,007,060	83,212	53,290
Loan repayments during the year	(33)	(47)	-	(13)	-	-	(2,487,345)	(987,844)	(49,547)	(36,265)
At end of year	**261**	**287**	**-**	**-**	**-**	**-**	**148,782**	**43,695**	**76,801**	**43,136**
Impairment as at 31 December	-		-	-	-	-	-	-	864	443
Collateral received as at 31 December	599	679	-	-	-	-	-	-	-	-
DEPOSITS										
At beginning of the year	551	1,381	2,081	2,991	535	843	138,907	363,709	15	2
Deposits received during the year	1,327	1,639	5,777	5,726	1,186	1,520	225,744	363,870	114,137	87,901
Deposits repaid during the year	(984)	(2,469)	(5,529)	(6,636)	(1,129)	(1,828)	(280,644)	(588,672)	(114,133)	(87,888)
At end of year	**894**	**551**	**2,329**	**2,081**	**592**	**535**	**84,007**	**138,907**	**19**	**15**
Interest expense on deposits	22	35	69	92	17	24	2,206	6,295	-	-
Interest income earned	8	9	-	-	-	-	370	437	1,526	881
Other revenue – fee income	1	1	1	1	-	-	510	333	42	114
Guarantees issued by the bank and commitments	-	-	-	-	-	-	2,498	20,366	-	-
Remuneration	861	1,041	1,740*	2,021*	118*	117*				

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

* Listed by names:

(all amounts expressed in thousands of EUR)

Management board	**Gross salary**	**Bonuses**	**Other**	**Payments under pension plan**	**Other**	**Total**
Giancarlo Miranda	269	114	104	-	-	487
Igor Kragelj	288	27	6	3	-	324
Aleksander Lozej	201	20	6	3	-	230
Aleksander Milostnik	200	20	7	3	-	230
Rado Grdina	200	20	6	3	-	229
Francesco Del Genio	143	21	60	-	-	224
Ezio Salvai (member until 30.6.2011)	-	16	-	-	-	16
Total	**1,301**	**238**	**189**	**12**	**-**	**1,740**

Supervisory board members	**Attendance fee**	**Bonuses**	**Total**
Vojko Čok	3	65	68
Roberto Civalleri	5	20	25
Borut Bratina	2	20	22
Elena Breno	2	-	2
Finazzi Luca	1	-	1
Total	**13**	**105**	**118**

48. EVENTS AFTER THE REPORTING PERIOD

The company Cimos d. d. published its Interim Financial Statements as at 1 October 2013 on 7.3.2014. The Report states that the reporting company as at the cut-off date fulfils the requirements for alleged capital inadequacy – long-term insolvency as set forth in the third paragraph of article 14 of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (ZFPPIPP).

Based on the Cimos d.d. Interim Financial Statements as at 1 October 2013 and planned debt-to-equity swap, the Bank has adequately impaired its investment in Cimos d.d..

Produkcija Banka Koper d.d. :: Inspira komunikacije :: April 2014