Banka Koper d. d. Koper

ANNUAL REPORT 2014

Koper, March 2015

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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 190 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. 2014**	**31. 12. 2013**
1.	Intesa Sanpaolo S. P. A.	97,7 %	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	1,3 %	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 2014	**Rating 2013**
Long-term	BBB	BBB
Short-term	F2	F3
Viability	bb	bb
Support	2	2

The international rating agency Fitch Ratings London confirmed on 10 July 2014 to Banka Koper d.d. most of its ratings awarded in 2013. In July 2014, Fitch Ratings confirmed the long-term rating for Banka Koper d.d. at the BBB level, and it maintained at the same levels also the viability rating (bb) and support (2). The rating agency Fitch Ratings London improved the outlook for Banka Koper d.d. from negative to stable, and it also increased the short-term rating to the F2 level.

Therefore, Banka Koper also in the year 2014, maintained the highest rating of the Slovenian banks, since it stands out from other Slovenian banks in terms of its operating results and capital base, as well as in terms of the positive effects it has obtained with the majority shareholder Intesa Sanpaolo.

MILESTONES IN THE BANK'S CORPORATE HISTORY

MANAGEMENT OVERVIEW

1. REPORT OF THE MANAGEMENT BOARD

In 2014, the Slovenian banking environment was still largely characterised by widespread uncertainty and by a conspicuous lack of domestic demand for credit. However, towards the end of the year, a few consistent signs of recovery and rehabilitation, for both the corporate sector and the banking system, started to emerge. Export flows highlighted an accelerated pace of growth, helping to draw the country's GDP growth back into positive territory. Concurrently, the domestic banking industry evidenced a significant reduction of its annual aggregate losses, alongside with a healthy growth of deposits from customers.

Against this background, in the course of 2014 our bank managed to reaffirm its position as one of Slovenia's leading credit institutions, succeeding in maintaining a virtuous path characterised by solid credit operations and increasing overall trust from depositors and business partners.
After the first signs of economic recovery were recognised in Europe and Slovenia, we oriented our lending proposals towards companies that envisaged new investments in the expansion of their production capacity and in the growth of their export operations. For this purpose, we earmarked EUR 100 million of our funding capacity to support sustainable projects targeting production growth. Also, in cooperation with the European Investment Fund and the Slovenian Enterprise Fund, we supported a number of microbusinesses as well as some larger projects in the SME sector. Special emphasis was placed on the agriculture sector, which still shows considerable potential when it comes to its contribution to the development of Slovenian tourism and of domestic economic activity in general.

All in all, this enabled us to increase the number of our customers (individuals and businesses) and the volumes of our household and corporate deposits, confirming the high level of confidence that clients have in the reputation of our bank. As a result, our market share of deposits from individuals grew further, comfortably establishing us among the top four banks of the country in this segment.
But it was not only safety and trustworthiness that made 2014 a successful year for Banka Koper: the quality of our services was the other essential ingredient in our overall relationship with our clients. This feature was directly recognised by our customers, both firms and individuals, in all the customer satisfaction surveys that we carried out during the course of the year. At the end of 2014, by way of example, the customer satisfaction level that we measured in accordance with the ECSI (European Customer Satisfaction Index) methodology indicated for our individual customers an improved degree of satisfaction, approaching 80% of the interviewed sample, a significant achievement under any circumstances.

I firmly believe that the success we are seeing today is a consequence of the systematic work carried out over the last few years, and it is important to note that our employees' contribution to these achievements is undeniable. In this regard, last year our employees were encouraged to submit ideas and suggestions for the improvement of our services: as in the past, their response was remarkable and in 2014, for the fourth consecutive year, the best ideas conceived and proposed by our employees were rewarded and implemented.

At year-end, all of the above, in combination with our continued efforts to maintain strict costs discipline, culminated in a net profit increase of EUR 4.1 million compared to 2013. In particular, our yearly net interest income increased by almost 6 %, and we also recorded an appreciable increase in other income items.

Maintaining sustainable profitability is a fundamental goal for us, as that is an essential driver for the trust and credibility that we want to be granted by our ultimate stakeholders, i.e. our shareholders, our clients, our employees and all the institutions that regulate and cooperate with us.

In our industry, today, more than ever, competitiveness and profitability are linked to sound credit practices and to the modern technological platforms that a bank can put in place. At Banka Koper, we have invested significant resources into introducing new, state-of-the-art solutions for our credit process.
In 2014, we completed our new credit flow solution for credit applications, in turn part of a wider project that will integrate it with a new credit engine for the assignment of credit ratings to our customers. This will ensure faster and more accurate credit decisions, helping to provide our clients with more timely responses to their credit applications.

To ensure the good quality of our credit portfolio has always been high up on our agenda. In 2014, alongside our regular activities for assessing such quality and for identifying early warning signals of credit difficulties of our borrowers, our bank was part of the comprehensive assessment exercise that our regulators carried out as one of the final steps towards the establishment, last November, of the European Single Supervisory Mechanism. In this framework, the asset quality review successfully performed at Banka Koper eventually confirmed the sound approach that our bank has adopted in handling credit risk.

Lastly, it is worth mentioning that the confidence that our management is deriving from our results and from our solid operations is further corroborated by the awareness of belonging to Intesa Sanpaolo Group, one of the leading banking groups in Europe in terms of size, capitalisation, liquidity and profitability. This awareness for our management is a constant stimulus to compare our practices with the best international banking standards and at the same time to achieve for Slovenia recognition as one of the best countries where our parent group is present. It is a mission and a challenge that we will pursue with full dedication throughout 2015.

2. REPORT OF THE SUPERVISORY BOARD

REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2014

In accordance with the third paragraph of Article 272 of the Companies Act (ZGD), the Management Board of Banka Koper d.d. has prepared and forwarded to the members of the Supervisory Board the following documents for review and approval:

- The Audited Annual Report for the Financial Year 2014,
- The Auditor's Report drawn up by the independent auditor KPMG Slovenija, and
- The proposal for the appropriation of profit.

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

REPORT

1. The way and scope of verification of the management of Banka Koper during the financial year 2014

In the course of the financial year 2014, the Supervisory Board of Banka Koper d.d. met four times at regular meetings and seven times at correspondence meetings and examined the strategic and operating matters in relation to the Bank's development, implementation of the business policy and current results posted by the Bank, annual and other reports of the Management Board, as well as other important issues relevant to the Bank's business. The Supervisory Board voted on proposed business deals where due to being in excess of the limit on exposure determined for a particular customer, the Supervisory Board of Banka Koper has to grant its approval and on other matters of interest. The materials for the sessions were forwarded to the members of the Supervisory Board in compliance with the Rules of Procedures governing the discharging of the functions of the Supervisory Board and those functions were discharged in line with the aforementioned enactment.

In 2014, there was a change in the composition of the Supervisory Board. Since Ms Elena Breno was assigned other tasks and duties within the framework of the Intesa Sanpaolo Group, she resigned her position as the member of the bank's supervisory board effective 18 June 2014. Consequently, the 32nd Annual General Meeting of Shareholders of Banka Koper held on 18 June 2014 elected a new member of the supervisory board Mr Walter Chiaradonna.

The Supervisory Board performed its duties in accordance with its principal function, i.e. supervision of the Bank's business run by the Management Board and the Bank's performance in accordance with its powers and focused attention to the following areas:

- monitoring and assessing on a regular basis the compliance with the Bank's business policy for 2014 and the fulfilment of the goals set out within the policy framework;

- discussed the annual plan of the Internal Audit Assignments for the year 2014
- examining the annual report on the carrying out of internal control and the measures that arise from the regulations from the field of the fight against money laundering and terrorist financing, and the implementation of restrictive measures for 2013 and the semi-annual for the first half of 2014;
- examined and approved the Annual Report of the Internal Audit Department for 2013 and examining the interim report for 2014;
- verified the activities and reviewed the findings of the Internal Audit Department during the current year;
- examined the ICAAP Book;
- monitored the Bank's capital adequacy;
- endorsed the rules on assessing suitability of the members of the supervisory board and the members of the management board and appointing the commission for the assessment of suitability of the members of the supervisory board and management board);
- approved the modifications and amendments to the rules of procedure on discharging the functions of the supervisory board and the rules of procedure for the audit committee;
- appointed new members of the management board responsible for the retail network area and risk area; other members of the management board were re-appointed;
- appointed the person responsible for the FATCA area;
- examined the Letter of the Bank of Slovenia to the supervisory board and the management board;
- agreed with the Policy Restructured loans management strategy and monitored on a regular basis carrying out of the activities linked to important financial customer restructuring;
- agreed with the Rules on the internal control system;
- agreed with the project the Organisational aspect of the internal credit rating system and in connection with it confirmed the tasks of the supervisory board, the audit committee and the management board pertinent to it;
- addressed other issues in accordance with powers conferred upon it under law and the Articles of Association.

The Supervisory Board assesses that it had at its disposal timely and adequate data, reports and information, as well as additional clarifications and explanations when required at sessions it held, so as to be able to monitor throughout the financial year the Bank's operations with due attention, as well as the internal audit function and supervise the running of the Bank. In March 2015 the members of the Supervisory Board examined the extensive report on the performance and the results posted by the Bank in 2014, arising from the audited accounting statements.

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

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

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

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

Position:

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

3. Approval of the Annual Report for the financial year 2014

On the basis of the insight into operations carried out by the Bank in the course of the financial year and after due examination of the audited Annual Report and the unqualified opinion stated in the external auditor's report, the Supervisory Board hereby

approves and adopts

The Annual Report of Banka Koper d.d. for the Financial Year 2014.

4. Approval of the proposal on profit appropriation

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

agrees

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

Koper, 26 March 2015

Chairman of the Supervisory Board

Vojko Čok

3. BODIES OF CORPORATE GOVERNANCE

Supervisory Board

During the year under review, the composition of the bank's supervisory board changed. Since she took over other assignments within the Intesa Sanpaolo Group, Ms. Elena Breno resigned her position of the supervisory board member effective 18 June 2014. The Annual General Meeting of Banka Koper elected at its 32nd meeting held on 18 June 2014 a new member of the bank's supervisory board, Mr. Walter Chiaradonna.

Members of the Supervisory Board as at 31 December 2014:

Vojko Čok	Chairman
Roberto Civalleri	Deputy Chairman
Dr. Borut Bratina	Member
Walter Chiaradonna	Member
Luca Finazzi	Member

Management Board

The management board of Banka Koper d.d. is composed of seven members with Mr. Giancarlo Miranda as the president of the management board.

In the course of 2014, there was a change in the composition of the bank's management board. Since he took over other tasks and duties within the Intesa Sanpaolo Group, Mr. Francesco Del Genio resigned his position of the management board member effective 31 May 2014. Ms. Irena Džaković was appointed instead. In September 2014, the bank's supervisory board appointed another member of the management board – Mr. Maurizio Marson.

The composition of the management board as at 31 December 2014:

Giancarlo Miranda, M.Sc.	President
Igor Kragelj	Deputy President
Irena Džaković	Member
Rado Grdina	Member
Mag. Aleksander Lozej	Member
Maurizio Marson	Member
Aleksander Milostnik	Member

4. ECONOMIC AND BANKING ENVIRONMENT

4.1 ECONOMIC ENVIRONMENT AND BANKING ENVIRONMENT

During the year under review, in the euro area there were the signs only of a weak economic recovery primarily based on a rise in private spending. The recovery enjoyed by the Slovenian economy during 2014 was more pronounced. The main source of the economic growth in Slovenia was net export, whose contribution to growth GDP remains at a high level despite domestic demand growth. The reason for a positive contribution of exports is in a solid foreign demand and more favourable cost competitiveness of the Slovenian export sector. Gross investments increased mainly due to the infrastructure projects, partially financed with the European funding. As opposed to investments, private consumption has been recovering more slowly, predominately owing to growth in purchases of permanent goods. In the course of 2014, also a fall of many years of government spending stopped, which was due to the measures of fiscal consolidation was lowering GDP growth.

The country’s economic growth has partly helped to improve the position in the labour market. At the end of December 2014, there were 119,460 unemployed persons, which is by 3.7 per cent less than in the previous year. The unemployment rate slightly decreased in comparison with the previous year, in specifically to 13 per cent, as opposed to the figure in 2013 that stood at 13.5 per cent.

On the other hand, the improving economic conditions were not reflected on growth in prices. The total inflation in Slovenia in the course of 2014 was 0.2 per cent, which is even less than in the year 2013 when it was 0.7 per cent. The falling prices of non-processed food and energy contributed most to the low growth of prices.

A high general government deficit in the course of 2014 is largely a result of the recapitalisation of the banking system and other one-off effects. The public debt should rise at the end of the year 2014 to 82.2 per cent of Slovenia’s GDP. A higher debt is partly a consequence of financing the deficit and partly it is a consequence of pre-financing the payment of bonds in the year 2015.

Despite a relatively fast recovery of the real sector in the course of 2014, that improvement has not been reflected more strongly in the banking environment. Therefore, the year under review was marked by further shrinking of banks’ total assets and lending. A decline in the volume of credits/loans in the Slovenian banking system was most pronounced in October and in December, due to new transfers of bad/non-performing assets to the Bank Asset Management Company. The volume of lending that shrunk the most was corporate lending, whereas a decline in household lending was significantly lower. In the household segment, in the course of 2014, even a small growth in housing loans could be seen. In the Slovenian banking system there is still a high share of non-performing loans, without the transfer to the Bank Asset Management Company the effects of lowering non-performing loans would have been negligible.

On the liabilities side of the banks’ balance sheets it can be seen that the liabilities vis-à-vis the European Central Bank decline significantly since the banks repaid a great portion of liabilities arising from long-term refinancing. With that the banks are orienting more towards gathering deposits from the non-banking sector, which can be seen in the increased volume of deposits placed by companies, households and the government. The increase of the latter is predominately a reflection of the current needs of the government. As a consequence of the shrinking lending and rising deposits, the loan and deposit ratio decreased further and at the end of 2014 it stood at 89 per cent. The loss before taxes in the banking system was 48.5 million euros, which is significantly less than in the year 2013 when the aggregate loss before taxes in the amount of 3.3 billion euros was mostly attributable to high costs of impairments and provisioning.

5. AN OVERVIEW OF THE BANK'S OPERATIONS IN 2014

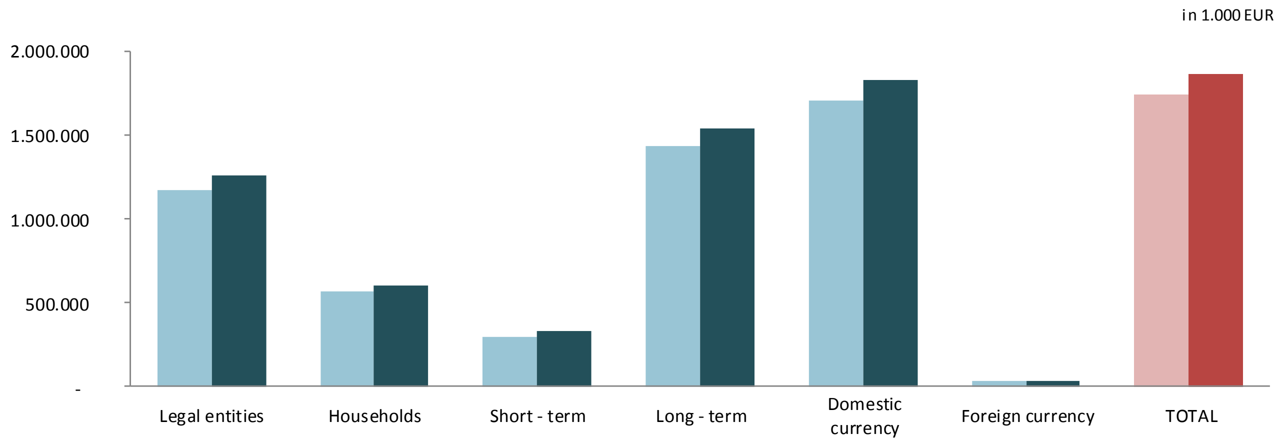
5.1 LENDING OPERATIONS

A decline in the volume of credits/loans of the Slovenian banking system granted to the non-banking sectors continued also In the course of 2014. The falling volume of credits/loans in the Slovenian banking system was most pronounced in October and in December due to new transfers of bad assets to the Bank Asset Management Company (BAMC). The volume of gross credits/loans decreased in the course of 2014 by 3.8 billion euros, which accounts for a 13.0 per cent decrease.

In 2014, the Bank's gross lending to the non-banking sector decreased by 127.2 million euros, i.e. by 6.8 per cent in comparison with 2013. The Bank's non-banking lending market share instead increased from 6.4 per cent at the end of 2013 to 6.9 per cent at year-end 2014.

In terms of currency, lending in euro still largely prevailed in 2014 with a 97.9 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 2014. Short-term loans accounted only for 17.3 per cent of total loans.

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



	Legal entities	Households	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
31.12.2014	1.169.128	570.251	301.102	1.438.277	1.703.506	35.873	1.739.379
31.12.2013	1.262.905	603.640	328.436	1.538.109	1.828.363	38.182	1.866.545

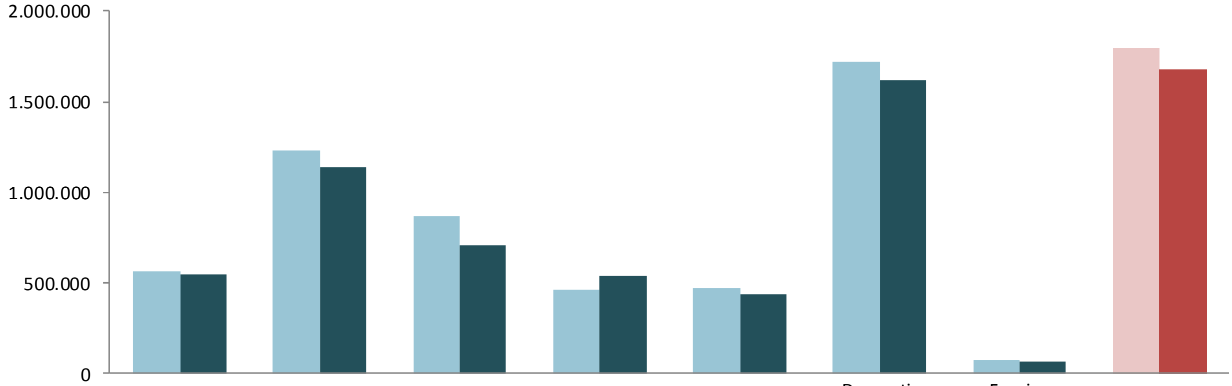
Loans to the corporate sector amounted to 1,169.1 million euros or 67.2 per cent, representing the largest portion of loans to the non-banking sector.

Lending to households - private individuals and sole proprietors - reached 570.3 million euros or 32.8 per cent of total lending to the non-banking sector. Compared to 2013, lending to this customer segment decreased by 33.4 million euros or 5.5 per cent. As in 2014, 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 6.5 per cent, and to corporate sector 7.1 per cent.

5.2 DEPOSITS

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

in 1.000 EUR



	Legal entities	Households	Sight	Short - term	Long - term	Domestic currency	Foreign currency	TOTAL
31.12.2014	566.432	1.232.437	870.815	459.808	468.246	1.722.540	76.329	1.798.870
31.12.2013	546.063	1.134.813	705.832	540.899	434.145	1.615.950	64.926	1.680.876

Customer deposits and received loans increased by 7.0 per cent or 118.0 million euros in 2014 meaning that the Bank maintained almost the same market share. At the end of 2014 Banka Koper achieved a 7.4 per cent market share measured by deposits placed by the non-banking sector.

The sight deposits accounted for a 48.4 per cent share of all deposits followed by short-term deposits (25.6 per cent) and long-term deposits trailing at 26.0 per cent. The deposit structure in terms of currency was dominated by deposits denominated in euro with 95.8 per cent. The sight deposits increased by 23.4 per cent, long-term deposits by 7.9 per cent, while short-term deposits decreased by 15.0 per cent compared to the previous year.

The volume of the deposits placed by legal persons increased by 3.7 per cent (by 20.4 million euros) comparing with 2013. Also in 2014, the deposit structure in terms of currency was dominated by deposits denominated in euro.

Household deposits account for 68.5 per cent of all non-bank deposits and at the end of 2014 totalled 1,232.4 million euros, i.e. 97.6 million euros more year-on-year. Household deposits were mainly denominated in local currency.

5.3 OTHER SERVICES

5.3.1 Card operations

Activa System

The Activa System proves the innovative orientation during all these years of its operation. In the course of 2014, it was demonstrated by introducing contactless cards Activa Maestro and Activa MasterCard, and the possibility to carry out contactless transactions at contactless POS terminals using the cards and other mobile devices through the card schemes Maestro, MasterCard and Visa.

The activities carried out in the course of 2014 were oriented towards compliance to the requirements laid down in the PCI standard, as well as towards protection and security of a card payment instrument.

In the area of market communication, the Activa System also in the course of 2014 continued with its promotional-award-giving game – Moja Activa z nakupi dobiva and Časti te Activa. The objective of these promotional and award-giving activities is to encourage the use of payment cards when paying for goods and services, to underline the advantages of making payment by means of payment cards, to increase the activation of the use of cards, and to strengthen the perception and loyalty vis-à-vis the Activa brand by giving practical awards.

Banka Koper

In the course of 2014, Banka Koper directed the biggest emphasis on the activities for the promotion of the use of the card products Activa MasterCard, the card products of the Visa Inspire Group, the exclusive card American Express, and the ever more popular and usable prepayment card Moja. To the holders and users of these cards Banka Koper offered and by doing so enabled a series of benefits at the points of sale.

During the year under review, Banka Koper successfully completed the development of the certification of the contactless POS terminals, which enable making contactless payments of the card schemes MasterCard and Visa. By doing that, Banka Koper keeps abreast with the latest trend in the area of mobile payments.

5.3.2 New products

In the course of 2014, Banka Koper widened the offering of products in services for its customers on the basis of their expectations, the conditions in the market and regulatory requirements. Out of all those novelties, the following should be emphasised:

- The benefit scheme “Moj Paket”;
- The scheme »Zaupaj mi, jaz ji zaupam«, where Banka Koper rewards its loyal customers who recommend Banka Koper to new customers;
- Collecting bonus points for the users of Banka IN and suing those points to settle selected banking services,
- The offering of insurance products related to accident insurance, supplementary health insurance, travel insurance, automobile insurance, non-life insurance and life insurance;
- Micro loans for the segment of micro enterprises and sole proprietors,
- Agro loans for the agricultural segment, for all needs related to the business cycle,
- Improved offers for mortgage loans with floating and fix interest rate,
- The new internet bank Banka IN for Business segment.

5.3.3 Internet/web banking

Banka IN – it completely substitutes operations in the bank’s branch offices, since it is used anywhere both for operations/transactions on one’s personal account and operations/transactions on one’s business account. The modern way of communication between the customers and the bank, a comprehensive way to perform the banking operations, comfort and usability are only some of many advantages of Banka IN, which with its uniqueness stands out in comparison with other electronic/web banks.

In the course of 2014, Banka Koper successfully replaced now already former The business i-Net with an entirely new version of The business Banka IN, which differs from Banka IN for citizens in additional solutions tailored to meet the needs of the most discerning business users.

At the end of 2014, the number of users of Banka IN was more than 50,000 customers, while the business Banka IN had more than 19,000 customers. The number of all users increased by more than 4 per cent. The intensity of the use of Banka IN is reflected also in payment services, since the share of the transactions executed through the electronic channels adds up to more than 93 per cent of all transactions performed at the bank.

5.3.4 Mobile banking

Mobilna Banka IN – in addition to the internet version, also the Mobile version of Banka IN has become popular with the bank's customers, both with natural persons (individuals) and with business users. The PC application Mobilna Banka IN is suitable for use on modern mobile devices such as tablets and smart cell phones. Also the mobile version is a unique one since it enables, in addition to checking the account balance, also ordering services and secure communication with a bank officer.
At the end of 2014, the mobile version of Banka IN was used by as many as 8,000 users, which is by 77 per cent more than back in 2013.

5.3.5 Asset under management - mutual funds

In the course of 2014, the bank witnessed a U-turn in investments in mutual funds when the trend of several years of net outflows became net inflows in the Slovenian funds in the amount of nearly 40 million euros. According to many analysts, low interest rates paid on deposits have contributed to this trend. The values of the stock-exchange indices on more significant world markets have mostly increased.

A positive atmosphere was felt in the customers investing in foreign funds offered by Banka Koper:

- Eurizon Capital S.A. (21 mutual funds from Eurizon EasyFund and 4 mutual funds from Eurizon Manager Selection Fund)
- Franklin Templeton Investments S.A. (10 mutual funds from Franklin Templeton Investment Funds)

In the 2014 the customers have made a net inflows in those funds totaled over 1.5 million euros. Two marketing campaigns with which Banka Koper lowered entry/front-end fees charged to investors contributed to that result.

5.3.6 Leasing business

The company Finor leasing d.o.o. is specialised for selling all types of leasing across the territory of Slovenia both to natural and to legal persons. In its business units in Koper, Ljubljana and in Maribor, the leasing company has 12 employees. In the course of 2014, the company concluded 1,538 leasing contracts in the aggregate amount of 52.5 million euros. The biggest portion – 685 contracts totalling 21.2 million euros was concluded for commercial vehicles, followed by passenger cars with 671 concluded contracts in the amount of 11.4 million euros, manufacturing and other equipment with 137 concluded contracts in the amount of 6.2 million euros, and real estate with 33 concluded contracts in the amount of 13.1 million euros. Boats accounted for the smallest leasing segment with 12 concluded contracts in the amount of 0.6 million euros.

In the course of 2014, the company posted operating results comprising 2.4 million euros in net interest, 4.2 million euros in net revenues from operating activities, 2.5 million euros in earnings before provisions and 0.8 million euros in net profit.

In the course of 2014, Finor leasing d.o.o. with the new leasing transactions achieved a 5.8 per cent market share and took the 7th place out of 17 leasing companies operating in Slovenia.

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

Banka Koper d.d. is actively included in the voluntary supplementary pension insurance system of the Slovenian pension system, since already back in 2001 it established the Open-ended mutual pension fund of Banka Koper d.d. - OVPS. The latter is designed both for collective and also individual voluntary supplementary pension insurance.

As at 31 December 2014, the pension fund of Banka Koper – OVPS posted total assets in the total value of 31.7 million euros, which represents an 11.6 per cent increase with respect to the end of the year 2013. This increase is mainly attributable to the favourable conditions in the capital markets and a significant decrease of the pressure by the insured persons for payment of the saved funds in one-off amounts. Despite the fact that the tax treatment of an extraordinary exit from the second pillar is discouraged in comparison with the regular exit, it is worth underlining that when talking about pay-outs, extraordinary exists are still strongly present (one-off payment) from the second pillar thus exceeding regular exists (supplementary pension benefits).

In the OVPS pension fund at the end of 2014 there were 5,181 insured persons, which is by 2.3 per cent less than a year earlier and represents a significantly lower decline in the number of the insured persons that a year earlier. Out of that number, 4,619 insured persons were included in the collective voluntary supplementary pension insurance, whereas 562 insured persons were individually insured persons. The number of enterprises, which co-finance collective pension plans/schemes (sponsors), has not changed in comparison with a year earlier; hence, at the end of 2014, in the OVPS pension fund there were still 100 enterprises - sponsors.

The value of the asset unit – VEP/NAV of the pension fund OVPS as at 31 December 2014 stood at 9.2 euros and during the one-year period increased by 6.8 per cent. A consequence of such a high return of our pension fund with a relatively conservative, bond investment policy shall be sought primarily in the record low required return on government-issued securities, which has as a consequence growth in prices and in debt securities. The five-year return of our pension fund – OVPS as at 31 December 2014 stood at 11.7 per cent, whereas NAP growth – since the establishment of the pension fund – OVPS until 31 December 2014 was already 121.2 per cent.

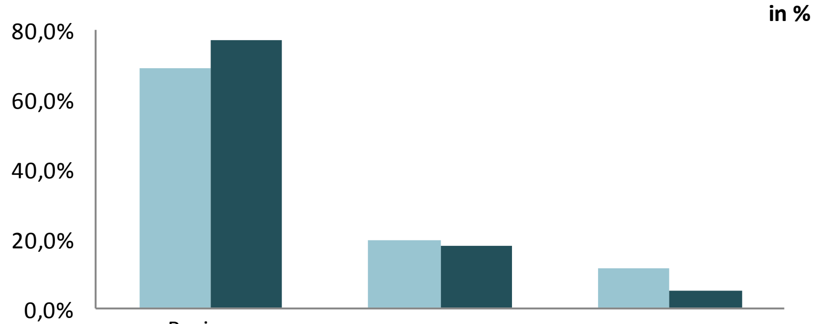
Banka Koper decided in 2014 that it will continue to offer to its insured persons also in the future one mutual pension fund with this guaranteed paid-in net premium and with the guaranteed minimal guaranteed return. Therefore, it will guarantee also in the future for all saved funds of our insured persons with the entire capital of Banka Koper d.d., which is approximately 10 times higher than all the collected funds in the OVPS - Open-ended mutual pension fund of Banka Koper d.d.

6. THE BANK’S ORGANIC GROWTH AND DEVELOPMENT

6.1 CAPITAL INVESTMENTS

Also in 2014, Banka Koper continued with the implementation of the long-term development programme and invested 2.2 million euros in the computerisation of its operations, in office space and in other equipment. Bank’s capital investments in 2014 were lower by 10.3 per cent or 0.3 million euros compared to 2013.

Structure of capital investments in 2014



	Business computerisation	Business premises	Other equipment
2014	69,1%	19,5%	11,4%
2013	77,2%	17,9%	4,9%

The biggest portion of investments, 1.5 million euros, that is, 69.1 per cent, Banka Koper allocated to the computerisation of its business operations, of which the bulk went to the upgrade of the software and hardware and the central banking computer applications.

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

In 2014 Banka Koper allocated only 0.4 million euros, that is, 19.5 per cent of total investments to renovation and refurbishment of premises and modern state-of-the-art banking service, as well as the refurbishment of its branches to be in line with the corporate image of the parent banking group.

6.2 INFORMATION TECHNOLOGY AND TECHNOLOGICAL DEVELOPMENT

In the course of 2014, Banka Koper continued with the development and implementation of the projects with the aim to put in place **paperless, electronic operations and optimise its business processes** and specifically by taking the following steps:

- With the use of the BPM tool, Banka Koper put in place the support for the process of approving credits/loans to all segments of customers and the support for the process of "soft" debt collection. With that also the preparation of documents in digital/electronic format was enabled;
- with the expansion of the scope of electronic documents within the framework of e-poslovalnice (e-branches). It has enabled the possibility for electronic operations at all distribution channels for all customers of the bank;
- With putting in place the technological solution for keeping general and credit files for customers in the electronic format and the equipment of the bank's branches with modern scanners for documents, which has enabled immediate capture and conversion of classical documents into the digital/electronic format and, at the same time, the preparation of certain document has been automated. Furthermore, on-line disposal with documents has become available.

In the course of 2014, Banka Koper completed the overhaul of its electronic operations of the **internet a**nd **mobile** versions of **Banka IN** for legal persons. In addition to natural persons (individuals), also legal persons can benefit from new functionalities and advanced approaches in electronic operations and in the direction of paperless banking operations.

During the year under review, Banka Koper developed a pilot version of **Mobilna plačila (mobile payments)**, it intends to implement in the aforementioned scope in January 2015. It is about Banka IN

»mobile wallet« innovative solution in the Slovenian market. The solution complements the existing the solution for cards and enables carrying out domestic payment transactions in a simple and transparent manner both for the providers of payment services and users.

In the course of 2014, Banka Koper overhauled the carrying out of **back-office treasury procedures** with which it has optimised the processes and minimised operational risks.

In the field of payment services and e-invoices, the bank continued with the **B2B connection** with larger enterprises and institutions and thus Banka Koper ensured a direct and standardised manner for exchanging data/information, which enables more optimal and rational carrying out of the business processes both to the bank and to the enterprises, that is, institutions.

In accordance with legislative changes in the field of e-operations, Banka Koper set up a technological solution for the issuance of **e-invoices** and the receipt of **court decisions** and **enforcements for customers in the electronic format**.

For the purpose of ensuring compliance with **the FATCA regulations** Banka Koper in cooperation with the parent bank introduced the technological support and implemented the processes that ensure recording, monitoring and reporting FATCA-sensitive data and information.

In accordance with the Capital Requirements Directive (CRR) and the Basel 3 regulations, Banka Koper upgraded its technological support **for reporting to the ALM function**, which enables the preparation of new reports connected with liquidity risk, interest-rate risk, preparation of the LCR and NSFR reports.

Within the framework of the **IRB (FIRB) project,** Banka Koper continued with the activities in the field of the optimisation of credit processes, upgraded the technological support for the calculation of the internal credit rating, and continued with the testing period for the calculations of credit ratings for large customers. Banka Koper also continued with the activities connected with the development of the LGD models and with the activities for increasing the quality of collateral for the needs of decreasing the capital requirements of the bank. The Validation Office was established for the needs of monitoring compliance of operations with the Basel regulations.

In co-operation with the parent bank, Banka Koper established the technological solution for the calculation of capital requirements in accordance with the requirements under Basel III and FIRB requirements.

With the aim to be in command of the business processes and be in a position to mitigate risks, Banka Koper kept upgrading its **Internal Controls System.** It organised the Loan administrative control office and established the technological support for the process of controls.

The technological support for the support for sales **(CRM),** as well as the central **Data warehouse,** was amended by adding new content and functionalities with the purpose of ensuring comprehensive data at the daily level for various needs of the bank and external regulators.

In the course of 2014, in the field of the **technical infrastructure,** Banka Koper in a larger part wrapped up the migration of the Microsoft Windows Server 2003 to the MS Windows Server 2012 R2, and completed the migration of the Linux operating system and the Jboss computer application server to the last released version. On that occasion, Banka Koper also implemented additional security elements with the purpose of reducing operational risks.

Furthermore, Banka Koper overhauled the **IDP system and the WAN network**. The solution enables the bank to undertake the implementation also of other security mechanisms in the future.

With all the activities described above, Banka Koper achieved more efficiency in its operations, it optimised the business processes, raised the quality of operations, decreased various types of risks, and complied with the requirements set forth by compliance, regulatory requirements and the requirements made by the parent bank.

7. ACTIVITIES IN THE FIELD OF SUSTAINABLE DEVELOPMENT OF BANKA KOPER IN THE COURSE OF 2014

The operations performed at Banka Koper are based upon respect and the implementation of the principles laid down in the Code of Ethics in Banka Koper and in the Intesa Sanpaolo Group to which Banka Koper belongs. Banka Koper treats the Code of Ethics as a foundation on which it builds its relationships with the key stakeholders and as a starting point for the verification of the alignment between its conduct and the important international guidelines in the field of sustainable development. As it was also the case in the course of 2014, the bank recorded several important steps that already have and still will contribute to responsible behaviour regarding the environment, the employees, the customers and the local community.

Among the essential aspects of the sustainable development of Banka Koper there is risk management that envisages monitoring and prevention of negative influences on the social and natural environment and risks, which arise from lending activity, accessibility of financial assets, support for the economy/real sector, activities for value-added services to the bank's customers, human resource development, the encouragement of the green economy, the reduction of direct influences on the environment, responsible management of the supply chain, ensuring quality of life within Banka Koper, and the encouragement of the development of social capital in the parts of Slovenia in which Banka Koper operates.

Financial accessibility

During the times of crisis older population is particularly vulnerable, and consequently asks for additional financial assets with the age being a frequent barrier for credit to be granted. Therefore, the Bank also in the course of 2014, continued with approving personal loans in the amount of up to 3,000 euros with maturity of 36 months, and it granted a total of 149 such credits/loans in the aggregate amount of 269,275 euros.

Among highly important segments of customers, either due to the nature of the industry in which they operate or due to the specific features of the phase of the development in which they are, Banka Koper also classifies farmers and micro enterprises, which need initial/start-up capital so that they can start working. Among them there are start-up enterprises, young entrepreneurs, social enterprises, etc. Thus Banka Koper in the course of 2014 approved to farmers from all over Slovenia 100 credits/loans in the total amount of 1.72 million euros and nearly 1 million euros to micro enterprises on the basis of the collaboration with the European investment fund within the framework of the project European Progress Microfinance Facility Programme.

Support for the real sector

The support for the real sector as perceived by Banka Koper has several facets. Financing investment projects and other needs of the real sector is only one facet. A highly important role among enterprises is played by Banka Koper in the form of a competent counterpart and a mediator for small and medium-sized enterprises, with which it strengthens competitive advantages of its customers. To this segment Banka Koper approved 1.2 million euros in credits/loans for further development and growth of their business and additional 7.5 million euros on the basis of collaboration with Slovenski podjetniški sklad

(Slovenian enterprise fund), which issues guarantees for the loans/credit facilities approved by Banka Koper.
Already for some years in a row, Banka Koper has been enhancing relationships with its customers also by means of encouraging a dialogue through business breakfast where enterprises express their expectations vis-à-vis Banka Koper and listen to the novelties which are interesting both for enterprises that operate in the domestic market and also for those enterprises that are strongly export-oriented.

Provision of services with added value to the Bank's customers

The year 2014 was marked by the transition of the business users of electronic banking to the modernised and more efficient platform for Banka IN, which is in its entirety adjusted to the needs of their business segment. At the same time, the development of mobile banking for natural persons continued.

Within the framework of the project Posluh 100% - Listening 100% - Banka Koper was encouraging its customers to express their opinions, make complaints and compliments and new proposals for improving operations. Therefore, opinion polls/surveys were conducted on a regular basis over the phone and on the internet regarding customer satisfaction (natural and legal persons), and the results of those surveys and opinion polls demonstrated evident improvement of the operations of Banka Koper in several fields in comparison with previous years.

We received complaints and proposals also to specially organised places in the bank's branch offices and on the bank's website. We invited business clients to participate in a dialogue through our business breakfast meetings.

The development of human resources

Targeted education and training is a foundation for the development of the people employed in Banka Koper. The portion of funds allocated to education and training in the previous year amounted to 1.25 per cent of total bank's costs and expenses (excluding labour costs). In total the number of the realised training hours was 20,791, which means, on average, 27.6 hours per employee.

The greater part of its attention Banka Koper turned to training in the area of information security, the preparations for the introduction of e-invoices, the preparation of credit proposals and training prescribed by law. Just like over the past years, Banka Koper also in the course of 2014 took care of making all the employees aware of the significance of the prevention of money laundering and terrorist financing, and to the compliance of the entire business of Banka Koper.

One of the more important areas of education and training are certainly two-day workshops for staff in commercial units from the sectors for banking operations with small businesses, and medium-sized and large enterprises, in which 85 participants took part.

Furthermore, the activities on the projects for the development of employees with a perspective continued encompassing the development of management staff on the one hand and training managers/leaders in introducing changes with an emphasis on interpersonal relations.

Encouraging the green economy

Banka Koper encourages the development of the green economy so that it itself also develops services and creates offering dedicated to those customers whose awareness of the environment-related issues is at a higher level. Years ago, Banka Koper offered to the market for the first time the so-called green loans for the purchase of electronic devices and other consumer goods that are environment-friendly, for the purchase of electric or hybrid passenger cars or for renovation of buildings in order to make them more energy efficient, the construction of houses that need less energy or passive houses, etc. Thus Banka Koper in the course of 2014, approved for slightly more than 460 thousand euros in such credits/loans.

In collaboration with Slovenski ekološki sklad (Slovenian Ecological Fund), whose main mission is to provide financial and other support for environment-friendly residential investments, Banka Koper was the intermediator for granting 751 credits/loans in the total amount of slightly more than 9 million euros.

Reducing direct impact on the environment

Banka Koper is not only motivating others to adopt a pro-active approach to the protection of the environment, but it also in its own right every year persistently contributes to lowering direct impacts on the environment. With two solar power plants that it mounted on the flat roofs back in 2011 of the head office building in Koper and of the business unit in Sežana, Banka Koper from the commissioning generated and distributed already more than 203 kWh of electric power and by doing that it has contributed to reducing CO2 emissions by more than 142 tonnes.

Otherwise, Banka Koper obtains its entire electrical energy from the renewable sources. Furthermore, it has completely replaced traditional paper with the certified FSC paper. All branch offices of Banka Koper are equipped with containers for separating waste by material.

On the occasion of the World Day of the Environment, Banka Koper together with Društvo Doves, the society that carries out the internationally renowned programme Eko šola, a curriculum dedicated to encouraging and increasing awareness about sustainable development among children, pupils and students, organised a campaign in which it encouraged its customers to use instead of traditional banking transactions at tellers' windows for settling their obligations using electronic signature without printing a payment slip on paper. For each »green« transaction Banka Koper gave 0.10 euros for spreading the mission of Eko šola. In that way Banka Koper raised 2,000 euros durinbg the week dedicated to the environment.

<u>Phasing out resource use by year</u>

	Paper in kg	El.energy in MWh	Water in m3
2010	44,389	4,583	6,900
2011	41,826	4,376	6,476
2012	36,068	4,461	6,589
2013	33,095	4,177	6,358
2014	33,530	3,131	7,484

Ensuring quality of life in Banka Koper

Quality of life means above all how in terms of quality the bank's employees spend their working hours and which benefits the Bank provides for them outside the working environment. The foundation of all the activities is the readiness to listen to people and leading a dialogue with the employees. Banka Koper continued also in the course of 2014, on the basis of the findings of the survey about the organisational climate, which is conducted every year together with the parent bank Intesa Sanpaolo, organised a focus group in which the employees from various business functions participated in order to obtain as wide as possible spectre of proposals for the enhancement of the working atmosphere. What followed were the concrete activities, and specifically seven major projects and eight on-going activities were organised. Among the most visible ones was the team building for all the employees in the form of a theme picnic for strengthening interpersonal relations, the project Moj otrok v pisarni (My child in my office), where the bank at the same time in all its branches opened their doors to the children of all the bank's employees so that they could see first-hand the work their parents do. For the new but also for some existing employees, the bank organised the Programme for learning about the areas and processes in the bank. For sales staff working in the bank's commercial units with a more significant contribution to the success of Banka Koper the bank gave a three-day trip to Turin where they could see themselves the parent bank Intesa Sanpaolo.

For the employees of Banka Koper during the year also the regular recreation was organised for the improvement of their physical shape and five preventive medical check-ups were enabled for the new employees and four regular medical check-ups for managers.

Encouraging the development of social capital

For Banka Koper social capital represents the rate of its engagement in social life and in the environment in which it operates. Banka Koper has always paid significant attention to that part of its mission also in the form of sponsorships and donations, among other things. When sponsorship commitments are taken, the bank subscribes above all to the implementation of the Code of Ethics. A strong emphasis is given by Banka Koper to the inclusion of large crowds of people in the events supported by Banka Koper. One of such events and the most visible one in the course of 2014 was for Banka Koper the 1st Istrian marathon, which has become the third marathon in Slovenia. More funding in comparison with the previous years Banka Koper allocated in 2014 also to the activities related to culture. The most resounding event was the concert of classical music under the leadership of the renowned conductor Riccardo Muti in Ljubljana. In addition, we sponsored one more Orkesterkamp, the summer orchestra and chamber school for young musicians in Bovec, and as something new, also Društvo prijateljev glasbe (Friends of Music Society) with the purpose of educating the young about the reach and the significance of classical music in everyday life.

Banka Koper was also convinced by the passionate commitment of a young film director Gregor Božič, who is at the same time a great fan of old autochthonous fruit trees, and so it sponsored his project for the preservation and protection of various old fruit trees from Goriška Brda.

Slightly less than 45 per cent of the entire funding for sponsorships and donations was allocated to the regular activities of numerous sports clubs and societies, 17 per cent for cultural, activities, 12 per cent for humanitarian initiatives, and 26 per cent for numerous other initiatives arriving from all parts of the country where the bank operates and which preserve active social life there.

8. ORGANISATIONAL CHART AS AT 31 DECEMBER 2014

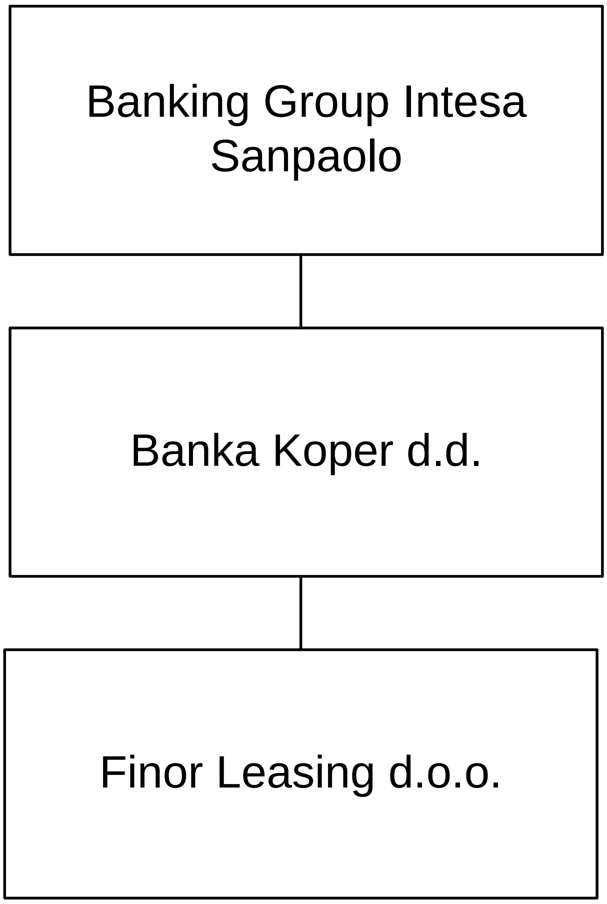
RETAIL NETWORK

- RETAIL CENTRE KOPER
  - BRANCH KOPER
  - BRANCH MARKOVEC
  - BRANCH OLMO
  - BRANCH ANKARAN
- RETAIL CENTRE IZOLA
  - BRANCH IZOLA
- RETAIL CENTRE LUCIJA
  - BRANCH LUCIJA
  - BRANCH PIRAN
- RETAIL CENTRE SEŽANA
  - BRANCH SEŽANA
  - BRANCH KOZINA
  - BRANCH KOMEN
  - BRANCH DIVAČA
- RETAIL CENTRE POSTOJNA
  - BRANCH POSTOJNA
  - BRANCH PIVKA
- RETAIL CENTRE ILIRSKA BISTRICA
  - BRANCH ILIRSKA BISTRICA
  - BRANCH TRNOVO
  - BRANCH PODGRAD
- RETAIL CENTRE MARIBOR
  - BRANCH MARIBOR
  - BRANCH PTUJ
  - BRANCH LENART
  - BRANCH ORMOŽ
  - BRANCH MIKLAVŽ
  - BRANCH SLOVENSKA BISTRICA
- RETAIL CENTRE LJUBLJANA
  - BRANCH LJUBLJANA CENTER
  - BRANCH TRZIN
  - BRANCH KAMNIK
  - BRANCH LOGATEC
  - BRANCH BRDO
  - BRANCH GROSUPLJE
  - BRANCH KOČEVJE
  - BRANCH SLOVENSKA
  - BRANCH DUNAJSKA
- RETAIL CENTRE NOVA GORICA
  - BRANCH NOVA GORICA
  - BRANCH IDRIJA
  - BRANCH TOLMIN
  - BRANCH AJDOVŠČINA
- RETAIL CENTRE NOVO MESTO
  - BRANCH NOVO MESTO
  - BRANCH TREBNJE
  - BRANCH SEVNICA
  - BRANCH ČRNOMELJ
  - BRANCH BREŽICE
- RETAIL CENTRE KRANJ
  - BRANCH KRANJ
  - BRANCH RADOVLJICA
  - BRANCH JESENICE
  - BRANCH GLOBUS
- RETAIL CENTRE MURSKA SOBOTA
  - BRANCH MURSKA SOBOTA
- RETAIL CENTRE CELJE
  - BRANCH CELJE
  - BRANCH VELENJE
  - BRANCH ŽALEC
  - BRANCH ŠENTJUR
- RETAIL CENTRE SLOVENJ GRADEC
  - BRANCH SLOVENJ GRADEC
  - BRANCH RADLJE OB DRAVI
  - BRANCH RAVNE NA KOROŠKEM

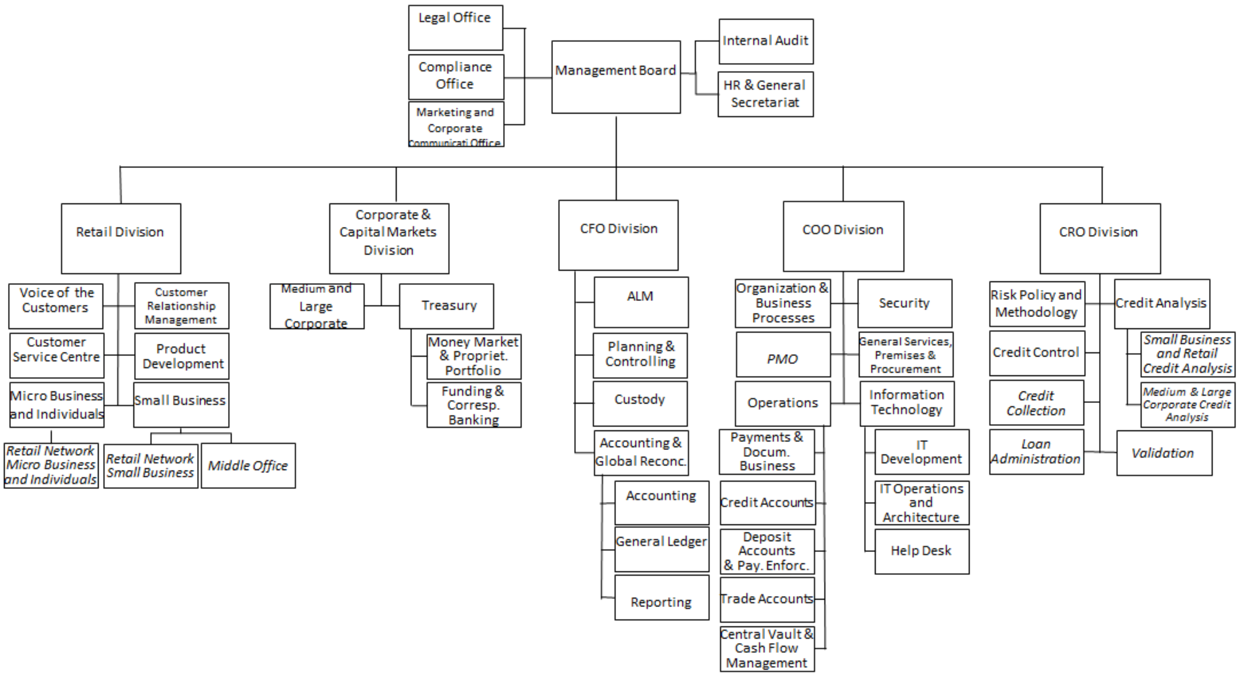
Branches for individuals only

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



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 2014, 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 2014, 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.

Dejan Kurat, M.Sc.Ec.
Certified Auditor

Simona Korošec Lavrič, M.Sc.Ec.
Director

Ljubljana, 23 March 2015

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

KPMG

Independent Auditor's Report

To the Shareholders of Banka Koper d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the group Banka Koper, which comprise the consolidated statement of financial position as at 31 December 2014, 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 2014, 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.

Dejan Kurat, M.Sc.Ec.
Certified Auditor

Simona Korošec Lavrič, M.Sc.Ec.
Director

Ljubljana, 23 March 2015

KPMG Slovenija, d.o.o.

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 2014. 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, 23 March 2015

Member
Aleksander Milostnik

Deputy president
Igor Kragelj

President
Giancarlo Miranda

Member
Aleksander Lozej

Member
Rado Grdina

Member
Irena Džaković

Member
Maurizio Marson

FINANCIAL STATEMENTS

1. STATEMENT OF INCOME

(all amounts expressed in thousands of EUR)	**Notes**	**Year ended 31 December**			
		Banka Koper		**Consolidated**	
		2014	**2013**	**2014**	**2013**
Interest income	4	66,332	71,718	69,130	74,832
Interest expense	4	(20,982)	(27,520)	(21,388)	(28,272)
Net interest income		**45,350**	**44,198**	**47,742**	**46,560**
Dividend income	5	1,114	1,079	514	232
Fee and commission income	6	40,196	39,229	40,597	39,572
Fee and commission expense	6	(14,374)	(15,103)	(14,416)	(15,151)
Net fee and commission income		**25,822**	**24,126**	**26,181**	**24,421**
Net loss on financial assets and liabilities not recognised at fair value through profit and loss	7	2,623	(501)	2,623	(501)
Net gain on financial assets and liabilities held for trading	8	273	2,289	273	2,289
Gains and losses on financial assets and liabilities designated at fair value through profit or loss		131	107	131	107
Fair value adjustments in hedge accounting	9	215	(192)	215	(192)
Gains less losses from foreign exchange transactions		(129)	(1,566)	(114)	(1,581)
Gains less losses on derecognition of non-current assets other than held for sale	10	21	20	56	51
Other operating gains less losses	11	69	105	1,714	1,221
Administrative expenses	12	(39,029)	(38,658)	(40,170)	(39,844)
Amortisation and depreciation	13	(4,571)	(4,503)	(5,352)	(5,014)
Provisions and retirement benefit obligations:		(1,343)	165	(1,336)	155
- provisions	14	(993)	545	(986)	542
- retirement benefit obligations	14	(350)	(380)	(350)	(387)
Impairment losses	15	(22,933)	(24,031)	(24,266)	(24,930)
Operating profit		**7,613**	**2,638**	**8,211**	**2,974**
Income tax expense	16	(986)	(115)	(1,141)	(276)
Net profit for the period		**6,627**	**2,523**	**7,070**	**2,698**
Attributable to:					
Equity holders of the parent		6,627	2,523	7,070	2,698
Non-controlling interest		-	-		-
		6,627	2,523	7,070	2,698
Earnings per share (basic and diluted)					
(expressed in EUR per share)	17	12.49	4.76	13.33	5.09

The following notes on pages 36 to 117 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**	
	2014	**2013**	**2014**	**2013**
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR AFTER TAX	**6,627**	**2,523**	**7,070**	**2,698**
OTHER COMPREHENSIVE INCOME AFTER TAX	**8,855**	**(5,312)**	**8,855**	**(5,312)**
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS	**8,855**	**(5,312)**	**8,855**	**(5,312)**
Available-for-sale financial assets	**10,669**	**(6,400)**	**10,669**	**(6,400)**
- valuation gains (losses) taken to equity	6,145	(8,690)	6,145	(8,690)
- transferred to profit or loss	4,524	2,290	4,524	2,290
Income tax relating to components of other comprehensive income	(1,814)	1,088	(1,814)	1,088
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX	**15,482**	**(2,789)**	**15,925**	**(2,614)**
a) Attributable to owners of the parent	15,482	(2,789)	15,925	(2,614)
b) Attributable to non-controlling interests	**-**	-	**-**	-

3. STATEMENT OF FINANCIAL POSITION

(all amounts expressed in thousands of EUR)	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2014	2013	2014	2013
ASSETS					
Cash and balances with Central Banks*	19	107,468	37,437	107,468	37,437
Financial instruments held for trading:		110	363	110	363
- derivative financial instruments	20	110	363	110	363
Financial assets designated at fair value through profit or loss		267	389	267	389
Investment securities available for sale	21	297,357	305,578	297,357	305,578
Loans and advances:		1,849,746	1,917,226	1,839,581	1,936,681
- to banks	22	233,857	172,406	233,857	172,406
- to customers	23	1,595,841	1,724,055	1,592,121	1,749,235
- advances	24	20,048	20,765	13,603	15,040
Goodwill	25	-	-	905	905
Property and equipment	26	22,263	23,745	24,655	25,420
Investment property	27	1,261	1,283	13,813	8,074
Intangible assets	28	4,365	4,585	4,447	4,661
Investments in subsidiaries	29	3,688	3,688	-	-
Income tax assets		1,312	4,357	2,304	5,110
- current income tax		-	1,331	-	1,331
- deferred income tax	38	1,312	3,026	2,304	3,779
Other assets	30	869	1,225	14,252	14,358
Total assets		**2,288,706**	**2,299,876**	**2,305,159**	**2,338,976**
LIABILITIES					
Financial instruments held for trading:		148	613	148	613
- derivative financial instruments	20	148	613	148	613
Derivatives – Hedge accounting	20	38	328	38	328
Liabilities carried at amortised cost:		1,994,009	2,018,838	2,007,278	2,055,319
- deposits from banks and central banks	31	22,531	20,252	22,531	20,252
- due to customers	32	1,796,653	1,676,504	1,796,646	1,676,485
- other borrowed funds from banks and central banks	33	152,728	293,804	165,732	329,819
- other borrowed funds from other customers	34	2,216	4,372	2,216	4,372
- other financial liabilities	35	19,881	23,906	20,153	24,391
Provisions:		12,125	11,005	12,158	11,084
- provisions for liabilities and charges	36	8,458	7,564	8,436	7,549
- retirement benefit obligations	37	3,667	3,441	3,722	3,535
Income tax liabilities:		419	-	460	8
- current income tax		419	-	460	8
Other liabilities	39	1,639	2,229	2,020	2,475
Total liabilities		**2,008,378**	**2,033,013**	**2,022,102**	**2,069,827**
SHAREHOLDERS´ EQUITY					
Ordinary shares	40	22,173	22,173	22,173	22,173
Share premium	40	7,499	7,499	7,499	7,499
Revaluation reserves	41	12,331	3,476	12,331	3,476
Reserves from profit	42	226,069	225,341	226,598	225,341
Treasury shares	40	(49)	(49)	(49)	(49)
Retained earnings (including income from the current year)	42	12,305	8,423	14,505	10,709
Total shareholders´ equity		**280,328**	**266,863**	**283,057**	**269,149**
Total equity and liabilities		**2,288,706**	**2,299,876**	**2,305,159**	**2,338,976**

* The bank that does not have a settlement account with the central bank shall include the balances on transaction accounts in the country in this item and rename the item accordingly.

The following notes on pages 36 to 117 form an integral part of these financial statements.

4. UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

In the year 2014 – Unconsolidated

(all amounts expressed in thousands of EUR)	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**3,476**	**225,341**	**8,423**	**(49)**	**266,863**
Comprehensive income for the financial year after tax	**41**	**-**	**-**	**8,855**	**-**	**6,627**	**-**	**15,482**
Appropriation of (accounting for) dividends	42	-	-	-	-	(2,017)	-	**(2,017)**
Transfer of net profit to reserves from profit	42	-	-	-	728	(728)	-	**-**
Other - transfer of expired dividends to retained earnings		-	-	-	-	-	-	**-**
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,331**	**226,069**	**12,305**	**(49)**	**280,328**
PROFIT AVAILABLE FOR DISTRIBUTION		-	-	-	-	6,296	-	**6,296**

In the year 2013 – Unconsolidated

(all amounts expressed in thousands of EUR)	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including Income from the current year)	Treasury shares (equity deduction item)	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**8,788**	**225,209**	**12,835**	**(49)**	**276,455**
Comprehensive income for the financial year after tax	**41**	**-**	**-**	**(5,312)**	**-**	**2,523**	**-**	**(2,789)**
Appropriation of (accounting for) dividends	42	-	-	-	-	(6,821)	-	**(6,821)**
Transfer of net profit to reserves from profit	42	-	-	-	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		-	-	-	-	2,415	-	**2,415**

* 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 36 to 117 form an integral part of these financial statements.

5. CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

In the year 2014 – Consolidated

(all amounts expressed in thousands of EUR)	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**3,476**	**225,341**	**10,709**	**(49)**	**269,149**	**269,149**
Consolidated Comprehensive Income for the financial year after tax	**41**	**-**	**-**	**8,855**	**-**	**7,070**	**-**	**15,925**	**15,925**
Appropriation of (accounting for) dividends	42	-	-	-	-	(2,017)	-	(2,017)	**(2,017)**
Transfer of net profit to reserves from profit	42	-	-	-	728	(728)	-	-	**-**
Other - transfer of Finor's retained earnings to reserves from profit		-	-	-	529	(529)	-	-	**-**
CLOSING BALANCE FOR THE REPORTING PERIOD		**22,173**	**7,499**	**12,331**	**226,598**	**14,505**	**(49)**	**283,057**	**283,057**

In the year 2013 – Consolidated

(all amounts expressed in thousands of EUR)	Notes	Ordinary shares	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss (including income from the current year)	Treasury shares (capital deduction item)	Equity attributable to owners of the parent	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	**41**	-	-	**(5,312)**	-	**2,698**	-	**(2,614)**	**(2,614)**
Appropriation of (accounting for) dividends	42	-	-	-	-	(6,821)	-	(6,821)	**(6,821)**
Transfer of net profit to reserves from profit	42	-	-	-	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**

* 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 36 to 117 form an integral part of these financial statements.

6. STATEMENT OF CASH FLOWS

(all amounts expressed in thousands of EUR)	Notes	As at 31 December			
		Banka Koper		Consolidated	
		2014	2013	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES					
Total profit or loss before tax		7,613	2,638	8,211	2,974
Depreciation	13	4,571	4,502	5,352	5,012
Impairments / (reversal of impairments) of financial assets available for sale	15	8,537	3,279	8,537	3,279
Impairments / (reversal of impairments) of loans and receivables		14,395	20,752	15,628	20,331
Net (gains) / losses from exchange differences		6,736	(2,526)	6,721	(2,511)
Net (gains) / losses from sale of tangible assets and investment properties		(21)	(20)	(56)	(51)
Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents		-	-	-	-
Other adjustments to total profit or loss before tax		1,343	906	1,336	909
Cash flow from operating activities before changes in operating assets and liabilities		**43,174**	**29,531**	**45,729**	**29,943**
(Increases) / decreases in operating assets (excl. cash & cash equivalents)		**50,514**	**124,155**	**71,705**	**145,057**
Net (increase) / decrease in financial assets held for trading		253	(653)	253	(653)
Net (increase) / decrease in financial assets designated at fair value through profit or loss		122	(107)	122	(107)
Net (increase) / decrease in financial assets available for sale		(4,437)	(7,889)	(4,437)	(7,889)
Net (increase) / decrease in loans and receivables		54,221	134,131	74,156	155,105
Net (increase) / decrease in other assets		355	(1,327)	1,611	(1,399)
Increases / (decreases) in operating liabilities		**(26,595)**	**(6,024)**	**(49,305)**	**(26,045)**
Net increase / (decrease) in financial liabilities held for trading		(465)	429	(465)	429
Net increase / (decrease) in deposits and loans measured at amortised cost		(24,829)	(8,727)	(47,840)	(28,824)
Net increase / (decrease) in liability – derivatives – hedge accounting		(290)	(1,245)	(290)	(1,245)
Net increase / (decrease) in other liabilities		(1,011)	3,519	(710)	3,595
Cash flow from operating activities		**67,093**	**147,662**	**68,129**	**148,955**
Income taxes (paid) / refunded		597	1,350	237	1,007
Net cash flow from operating activities		**67,690**	**149,012**	**68,366**	**149,962**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**25**	**22**	**164**	**217**
Receipts from the sale of property and equipment and investment properties		25	22	164	217
Cash payments on investing activities		**(1,136)**	**(1,186)**	**(2,563)**	**(2,327)**
Cash payments to acquire tangible assets and investment properties		1,136	(1,178)	(2,563)	(2,319)
Cash payments to acquire intangible fixed assets		-	(8)	-	(8)
Net cash flow from investing activities		**(1,111)**	**(1,164)**	**(2,399)**	**(2,110)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash proceeds from financing activities		-	-	-	**-**
Cash payments on financing activities		**(2,017)**	**(6,834)**	**(1,417)**	**(6,834)**
Dividends paid		(2,017)	(6,834)	(1,417)	(6,834)
Net cash flow from financing activities		**(2,017)**	**(6,834)**	**(1,417)**	**(6,834)**
Effects of change in exchange rates on cash and cash equivalents		6,605	(4,092)	6,605	(4,092)
Net increase in cash and cash equivalents		**64,562**	**141,014**	**64,550**	**141,018**
Opening balance of cash and cash equivalents	44	194,745	57,823	194,764	57,838
Closing balance of cash and cash equivalents	44	**265,912**	**194,745**	**265,919**	**194,764**

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

	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Interest paid	(22,853)	(26,367)	(23,259)	(27,119)
Interest received	66,960	72,221	69,758	75,335
Dividends Received	1,114	1,079	514	232

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

As at 31st December 2014, the Bank and Group did not have any credit lines and loans (2013: EUR 200,000 thousand).

The following notes on pages 36 to 117 form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 BASIS OF PREPARATION

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 and 3.3 Credit risk.

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

Current list of new EU IFRS Standards, Interpretations and amendments to published Standards (as at 22 January 2015) that are not yet effective, for disclosure in financial statements prepared in accordance with IFRS as adopted by the European Union (EU) for the annual financial reporting period ended 31 December 2014.

Please note that this document includes the list of standards and interpretations not yet effective to be disclosed in the financial statements of entities with an annual period beginning on 1 January 2014, based on pronouncements that have been published by the IASB and the IFRIC and endorsed by the EU by 22 January 2015. For entities that issue financial statements after this date it will be necessary for the client and the engagement team to determine whether any new pronouncements have been issued and/or endorsed by the E.U. after the date of this document.
Please note that there are currently accounting pronouncements that have been published by the IASB and the IFRIC that are not yet effective for periods beginning after 1 January 2014; however at the date of

preparing this document those pronouncements had not yet been endorsed by the EU, therefore they are not included in this list. Pronouncements published by the IASB and the IFRIC, but not endorsed by the E.U. as of the date when the financial statements are authorised for issue are not required to be disclosed under IAS 8.30 in financial statements prepared in accordance with IFRS as adopted by the EU.

Standards, Interpretations and amendments to published Standards that are not yet effective

The following new Standards and Interpretations are not yet effective for the annual financial reporting period ended 31 December 2014 and have not been applied in preparing these financial statements: [IAS 8.30 (a)]:

Standard/Interpretation *[IAS 8.31 (a), 8.31(c)]*	**Nature of impending change in accounting policy** [IAS 8.31 (b)]	**Example wording regarding the possible impact on financial statements** *[IAS 8.31 (e)]*
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (Effective for annual periods beginning on or after 1 February 2015. The amendments apply retrospectively. Earlier application is permitted.)	The amendments are relevant only to defined benefit plans[1] that involve contributions from employees or third parties meeting certain criteria. Namely that they are: ▪ set out in the formal terms of the plan; ▪ linked to service; and ▪ independent of the number of years of service. When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.	The entity does not expect the Amendment to have any impact on the financial statements since it does have any defined benefit plans that involve contributions from employees or third parties.
IFRIC 21 Levies (Effective for annual periods beginning on or after 17 June 2014; to be applied retrospectively. Earlier application is permitted.)	The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability, and to the timing of recognising a liability to pay a levy imposed by government. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognised when this event occurs. The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognised when that minimum activity threshold is reached. The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.	It is expected that the Interpretation, when initially applied, will not have a material impact on the financial statements, since it does not results in a change in the entity's accounting policy regarding levies imposed by governments.

Standard/Interpretation *[IAS 8.31(a), 8.31(c)]*	**Nature of impending change in accounting policy** *[IAS 8.31(b)]*	**Example wording regarding the possible impact on financial statements** *[IAS 8.31(e)]*

[1] Post-employment defined benefit plans or other long-term employee defined benefit plans

Standard/Interpretation *[IAS 8.31(a), 8.31(c)]*	**Nature of impending change in accounting policy** *[IAS 8.31(b)]*	**Example wording regarding the possible impact on financial statements** *[IAS 8.31(e)]*
IFRS 3 Business Combinations	The amendment to IFRS 3 *Business Combinations* (with consequential amendments to other standards) clarifies that when contingent consideration is a financial instrument, its classification as a liability or equity is determined by reference to IAS 32, rather than to any other standard. It also clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.	The entity does not expect the Amendment to have any impact on the financial statements.

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 2014.

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

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

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

2.3 REPORTING ON OPERATING SEGMENTS

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

2.4 FOREIGN CURRENCY TRANSLATION

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

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

2.5 INVESTMENTS IN SUBSIDIARIES AND GOODWILL

Investments in subsidiaries in the 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, doubtful 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. Once the terms have been renegotiated and annexes are concluded, the loan is no longer considered past due. However, the client if non performing remains classified in non-performing category for at least 1 year and after that period can be transferred to performing category where the probation period for at least 2 years. The management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

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 2014**	**Estimated useful lives in 2013**
Licences	4	4–5
Investments in research and development	4	4
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 2014	Estimated useful lives in 2013
Buildings	16.6-40	16.6-40
Other investment in intangibles	10	10
Equipment	5	5
Motor vehicles	5	5
Computers and software	4	4

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 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.

2.23 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 2014 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.

2.24 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% (2013: 4.35%) and
- Future salary increases of 0% (2013: 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.

2.25 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.

2.26 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.

2.27 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.

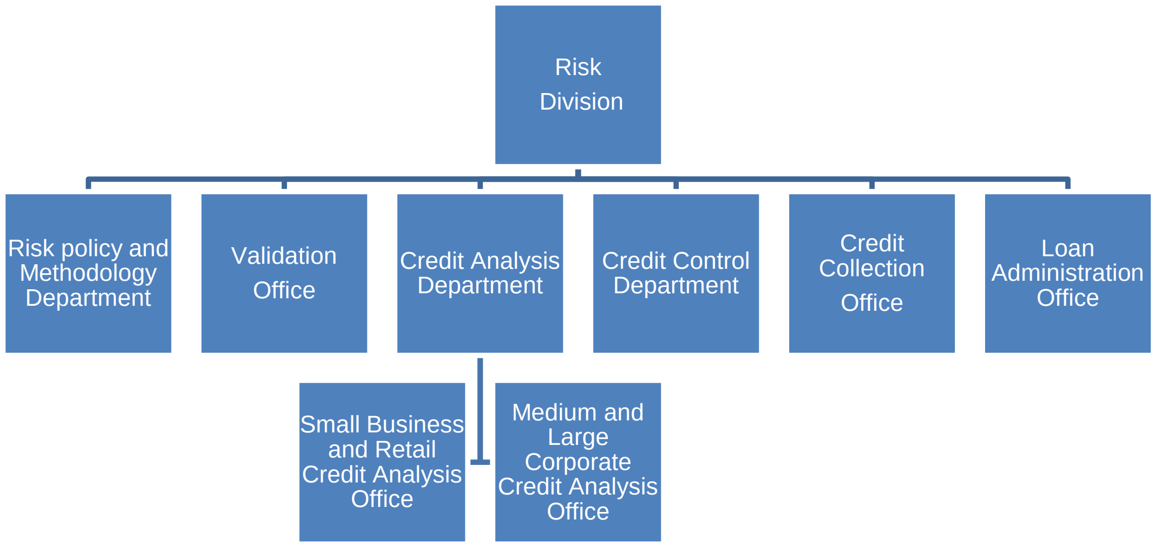
The objective of risk management is to control risk according to the risk appetite and derived willingness of the Group managing and ownership structures to assume risk. Since the Group is part of the larger Banking Group Intesa Sanpaolo, the methodologies and risk management processes are gradually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

Validation Office verifies the adequateness of risk management systems, employed for the fulfilment of banking supervision requirements or within internal risk management processes, and evaluates compliance with legal requirements, guidelines of Parent company, internal procedures or business necessities.

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.

Loan Administration Office performs administrative controls on credit processes in order to verify the adequateness of administrative proceedings and documentation prior to execution of lending contracts.

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 2014 – unconsolidated	**Balance sheet/ Nominal amount**		**Risk weighted amount**		**Capital Requirements**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Credit risk exposures of banking book						
Exposures to state and central bank	559,643	498,927	3,280	6	262	-
Exposures to local municipalities	54,583	58,026	10,890	11,579	871	926
Exposures to public sector	8,328	10,815	4,551	4,098	364	328
Exposures to development banks	798	400	-	-	-	-
Exposures to institutions	303,391	222,255	76,241	54,787	6,099	4,383
Exposures to enterprises	660,673	870,215	574,201	783,151	45,936	62,652
Exposures to equity	17,541	-	23,073	-	1,846	-
Exposures to retail banking	843,336	897,903	499,822	562,379	39,986	44,990
Past due exposures	163,168	23,186	204,128	27,720	16,330	2,218
Exposures to highly risk exposures	996	71,495	1,491	73,417	119	5,873
Exposures to investments funds	29,894	28,363	29,892	28,363	2,391	2,269
Exposures to other assets	43,637	78,193	27,647	63,867	2,212	5,109
Total	**2,685,988**	**2,759,778**	**1,455,216**	**1,609,367**	**116,416**	**128,748**
Credit risk weighted assets			1,455,216	1,609,367	116,416	128,748
Market risk weighted assets			1,513	1,750	121	140
Operational risk weighted assets			125,176	141,788	10,014	11,343
Total risk weighted assets			**1,581,905**	**1,752,905**	**126,551**	**140,231**
Regulatory capital						
Ordinary shares			22,173	22,173		
Share premium			7,499	7,499		
Treasury shares			(49)	(49)		
Legal reserves			13,655	13,324		
Statutory reserves			212,365	211,968		
Treasury shares fund reserves			49	49		
Retained earnings due to transition to IFRS			6,009	6,009		
Revaluation reserve (100% of negative revaluation of AFS shares)			-	(971)		
Revaluation reserves			12,331			
Less intangible assets			(4,365)	(4,585)		
Other transitional adjustments						
unrealised gains/losses on government bonds			(9,007)			
unrealised gains/losses on other shares			(3,333)			
Total qualifying Tier 1 capital			**257,327**	**255,417**		
Revaluation reserve (80% of positive revaluation of AFS shares)			-	1,173		
Total qualifying Tier 2 capital			-	**1,173**		
Diminution of capital:						
- less investment in subsidiaries			-	-		
Total diminution of capital			-	**-**		

Total regulatory capital	**257,327**	**256,590**
Capital Adequacy ratio (%)	**16.27**	**14.64**

(all amounts expressed in thousands of EUR)

Capital adequacy as at 31 December 2014 – consolidated	**Balance sheet/ Nominal amount**		**Risk weighted amount**		**Capital Requirements**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Credit risk exposures of banking book						
Exposures to state and central	560,638	499,787	5,760	6	461	-
Exposures to local municipalities	57,362	61,023	11,446	12,178	916	974
Exposures to public sector	8,408	10,934	4,631	4,157	370	333
Exposures to development banks	798	400	-	-	-	-
Exposures to institutions	303,391	222,255	76,241	54,787	6,099	4,383
Exposures to enterprises	576,765	812,928	490,453	726,912	39,236	58,153
Exposures to equity	13,853	-	13,853	-	1,108	-
Exposures to retail banking	903,759	947,449	535,889	599,539	42,871	47,963
Past due exposures	171,575	40,130	216,105	52,455	17,288	4,196
Exposures to highly risk exposures	996	77,311	1,491	82,091	119	6,567
Exposures to investments funds	29,894	28,363	29,892	28,363	2,391	2,269
Exposures to other assets	70,483	94,689	54,493	74,830	4,359	5,986
Total credit risk exposures	**2,697,922**	**2,795,269**	**1,440,254**	**1,635,318**	**115,218**	**130,824**
Credit risk weighted assets			1,440,254	1,635,318	115,218	130,824
Market risk weighted assets			1,513	1,750	121	140
Operational risk weighted assets			130,185	146,188	10,415	11,695
Total risk weighted assets			**1,571,952**	**1,783,256**	**125,754**	**142,659**
Regulatory capital						
Ordinary shares			22,173	22,173		
Share premium			7,499	7,499		
Treasury shares			(49)	(49)		
Legal reserves			14,184	13,324		
Statutory reserves			212,365	211,968		
Treasury shares fund reserves			49	49		
Retained earnings due to transition to IFRS			6,009	6,009		
Revaluation reserve (100% of negative revaluation of AFS shares)			-	(971)		
Revaluation reserves			12,331			
Less intangible assets			(4,447)	(4,662)		
Less goodwill			(905)	(905)		
Minority interest			-	-		
Other transitional adjustments						
unrealised gains/losses on government bonds			(9,007)	**-**		
unrealised gains/losses on other shares			(3,333)	**-**		
Total qualifying Tier 1 capital			**256,869**	**254,435**		
Revaluation reserve (80% of positive revaluation of AFS shares)			-	1,173		
Total qualifying Tier 2 capital			-	**1,173**		
Total regulatory capital			**256,869**	**255,608**		
Capital Adequacy ratio			**16.34**	**14.33**		

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.

During 2014 the Group maintained adequate amount of Available financial resources, coherently with internally established capital positions target and minimum capital requirements established by banking supervisor during annual assessment and SREP dialogue with the Group regarding the risks exposed to by the Group.

Internally established target level for the Available financial resources is established at 109% of internally assessed capital requirements for all risk categories according to baseline scenario, excluding stress scenarios. On 31 of December 2014 the level of relative indicator was 176%.

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. 2014:

(all amounts expressed in millions of EUR)

Risk	**31. 12. 2014**	**31.12.2013**
Credit Risk	114.11	128.66
Market Risk	0.12	0.14
Operational Risk	10.41	11.69
Banking Book Risk	10.13	35.81
- Interest Rate Risk	4.73	*21.15*
- Equity Risk	5.4	*14.66*
Strategic Risk	9.32	11.47
Concentration of credit risk	2.28	2.57
Profitability risk	-	3.28
Stress test scenario	7.7	8.61
Total capital charges	**154.07**	**202.23**
Available financial resources	**258.26**	**252.55**

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 2014 equalled EUR 2.801 million, which is 13% less than on 31 December 2013. In the Group's credit portfolio of 31 December 2014, 91% of all credit exposures are classified as performing. Banka Koper's credit portfolio at the end December 2014 amounted to EUR 2.798 million of which 92% is classified as performing.

Banka Koper's credit risk related portfolio as at 31 December 2014 *(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	414,001	158,974	6%	158,974	7%	-	0%	-	0%	-	0%
Corporate entities	1,434,669	1,414,955	57%	1,224,263	54%	190,692	93%	21,557	2%	121,795	64%
Banks	308,769	279,177	11%	277,616	12%	1,561	1%	-	0%	3	0%
Private individuals	640,983	640,983	26%	628,437	27%	12,546	6%	1,348	0%	6,133	49%
Total	**2,798,422**	**2,494,089**	**100%**	**2,289,290**	**100%**	**204,799**	**100%**	**22,905**	**1%**	**127,931**	**62%**

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%**

Group's credit risk related portfolio as at 31 December 2014 *(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	414,993	158,974	7%	158,974	7%	-	0%	-	0%	-	0%
Corporate entities	1,424,592	1,395,928	56%	1,194,395	53%	201,533	93%	20,722	2%	126,635	63%
Banks	308,769	279,177	11%	277,616	12%	1,561	1%	0	0%	3	0%
Private individuals	652,244	652,244	26%	638,602	28%	13,642	6%	1,393	0%	6,532	48%
Total	**2,800,598**	**2,486,323**	**100%**	**2,269,587**	**100%**	**216,736**	**100%**	**22,115**	**1%**	**133,170**	**61%**

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 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%**

Analyses by type of collateral

(all amounts expressed in thousands of EUR)	**Banka Koper**				**Consolidated**			
	2014		**2013**		**2014**		**2013**	
	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	472,264	1,069,341	501,827	1,207,121	521,124	1,118,201	557,407	1,262,701
Bank guarantees	21,803	22,704	24,643	26,100	21,803	22,704	24,643	26,100
Personal guarantees	237,081	-	242,657	594,918	237,081	-	242,657	594,918
Debt securities	24,419	36,482	13,185	28,413	24,419	36,482	13,185	28,413
Government guarantees	133,560	140,883	111,344	112,129	133,560	140,883	111,344	112,129
Other collateral	108,558	245,653	110,903	204,008	160,162	297,257	156,440	249,545
Deposits	5,533	6,669	2,195	3,078	5,533	6,669	2,195	3,078
Insurance company guarantees	115,819	132,581	125,009	143,823	115,819	132,581	125,009	143,823
Shares	-	-	26,915	46,451	-	-	26,915	46,451
Total collateralised net loans	**1,119,037**	**1,654,313**	**1,158,678**	**2,366,041**	**1,219,501**	**1,754,777**	**1,259,795**	**2,467,158**
Unsecured	476,804		565,377		372,620		489,440	
Total net loans to customers	**1,595,841**		**1,724,055**		**1,592,121**		**1,749,235**	

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	**Maximum exposure**			
(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Credit risk exposures relating to on-balance sheet assets are as follows:				
Loans and advances to banks	233,857	172,406	233,857	172,406
Loans and advances to customers:	1,595,841	1,724,055	1,592,121	1,749,235
Loans to individuals:	507,095	533,339	517,912	544,862
- overdrafts	32,725	38,693	32,725	38,693
- credit cards	20,171	21,037	20,171	21,037
- term loans	104,817	114,282	104,817	114,282
- mortgages	349,382	359,327	349,382	359,327
- finance leases	-	-	10,817	11,523
Loans to sole proprietors	48,912	53,415	61,846	65,427
Loans to corporate entities	1,039,834	1,137,301	1,012,363	1,138,946
Advances	20,048	20,765	13,603	15,040
Investment securities available for sale:	297,357	305,578	297,357	305,578
- debt securities	283,505	278,767	283,505	278,767
- equity securities	13,852	26,811	13,852	26,811
Other assets	125,236	44,176	151,854	63,821
Credit risk exposures relating to off-balance sheet items are as follows:				
Guarantees	149,578	175,408	149,578	175,408
Credit commitments and other credit related liabilities	259,155	295,445	257,083	294,116
At 31 December	**2,681,072**	**2,737,833**	**2,695,453**	**2,775,604**

The maximum exposure to credit risk represents the worst case scenario of credit risk exposure to the Group at 31 December 2014 and 203, 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.

Banka Koper's rating	2014		2013	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
A	68	0.4	71	0.5
B	19	3.5	19	2.4
C	4	10.6	3	15.8
D	3	38.6	3	41.9
E	6	66.8	4	71.4
	100	**6.2**	**100**	**5.9**

Group's rating	2014		2013	
	Loans and advances (%)	Impairment loss (%)	Loans and advances (%)	Impairment loss (%)
A	68	0.3	70	0.4
B	19	3.5	18	2.4
C	4	10.6	3	15.8
D	3	39.4	4	38.5
E	6	66.5	5	70.7
	100	**6.4**	**100**	**6.0**

Impairments

A necessary amount of credit risk provisions is ascertained on the basis of evaluation of borrowers' creditworthiness and collateral received in pledge. Provisions are computed either using a collective approach or individually. Credit risk losses are computed individually for legal entities and entrepreneurs, whose total exposure exceeds EUR 75,000 and are classified as non-performing with an internal credit classification of C, D or E. Credit risk losses are computed through the assessment of cash-flow, expected to be collected from debtor, guarantor or collateral pledged, discounted at contractual interest rate.

Collective assessment of provisions is performed through estimation of expected loss, which is based on historical data analysis of borrowers clusters regarding the probability of default and loss given default rates. The expected loss calculation methodology is revised and updated annually.

The expected loss for the Corporate segment is estimated by attribution of internal rating and belonging Probability of default rates, whereas for other legal entity's segments the expected loss is estimated with calculation of annual migration rates among different classification clusters (Annual default rate). Annual default rates for private individuals are estimated distinctly by main credit product category clusters. The time window used for the estimation of Annual default rates is 5-years long.

Loss given default rates are estimated by homogenous group of loans, backed by same major classes of collateral and estimated distinctly by borrower's main customer segmentation. The estimation of recoveries has been made using a work-out method, by comparing the net present value of recoveries with exposures at the point of default occurrence. The estimation is based on Group's historical data series of singular borrowers' recoveries long 6 years.

Loans that are considered unrecoverable are consequently written off and charged against provision set for loan impairment after all available legal actions have been taken and the amount of the loss is accurately 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 2014	Slovenia	EU	*Of this in Italy*	Other Europe	Rest of world	Total
Cash, cash balances at Central Banks and other demand deposits at banks	82,199	21,092	*16,379*	50	4,127	107,468
Financial instruments held for trading:	-	110	*110*	-	-	110
- derivative financial instruments	-	110	*110*	-	-	110
Financial assets designated at fair value through profit or loss	-	267	*267*	-	-	267
Investment securities available for sale	208,785	88,572	*74,930*	-	-	297,357
Loans and advances:	1,546,916	237,212	*179,719*	34,334	31,284	1,849,746
- to banks	3	229,742	*177,153*	4,112	0	233,857
- to customers	1,530,978	6,453	*2,548*	30,216	28,194	1,595,841
- advances	15,935	1,017	*18*	6	3,090	20,048
Investments in subsidiaries	3,688	-	-	-	-	3,688
Other assets	769	99	*15*	-	1	869
Contingent liabilities and commitments	**385,805**	**14,812**	***703***	**1,050**	**23**	**401,690**
TOTAL EXPOSURES	**2,228,162**	**362,164**	***272,123***	**35,434**	**35,435**	**2,661,195**

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, cash balances at Central Banks and other demand deposits at banks	32,999	3,681	1,424	146	611	37,437
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:	1,672,339	181,039	140,863	31,868	31,980	1,917,226
- to banks	3	172,403	138,151	-	-	172,406
- 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 – consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2014	Slovenia	EU	*Of this in Italy*	Other Europe	Rest of world	Total
Cash, cash balances at Central Banks and other demand deposits at banks	82,199	21,092	*16,379*	50	4,127	107,468
Financial instruments held for trading:	-	110	*110*	-	-	110
- derivative financial instruments	-	110	*110*	-	-	110
Financial assets designated at fair value through profit or loss	-	267	*267*	-	-	267
Investment securities available for sale	208,785	88,572	*74,930*	-	-	297,357
Loans and advances:	1,536,751	237,212	*179,719*	34,334	31,284	1,839,581
- to banks	3	229,742	*177,153*	4,112	0	233,857
- to customers	1,527,258	6,453	*2,548*	30,216	28,194	1,592,121
- advances	9,490	1,017	*18*	6	3,090	13,603
Other assets	14,152	99	*15*	-	1	14,252
Contingent liabilities and commitments	**383,755**	**14,812**	***703***	**1,050**	**23**	**399,640**
TOTAL EXPOSURES	**2,225,642**	**362,164**	***272,123***	**35,434**	**35,435**	**2,658,675**

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, cash balances at Central Banks and other demand deposits at banks	32,999	3,681	1,424	146	611	37,437
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:	1,691,794	181,039	140,863	31,868	31,980	1,936,681
- to banks	3	172,403	138,151	-	-	172,406
- 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**

On 31.12.2014 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 272,123 thousand (31 December 2013: EUR 238,156 thousand), within exposure to parent company amounted to EUR 190,693 thousand (31 December 2013: EUR 156,268 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

Unconsolidated	31 December 2014		31 December 2013	
(all amounts expressed in thousands of EUR)	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	1,425,431	232,782	1,597,847	171,552
Past due but not impaired	30,936	-	8,719	-
Impaired	283,012	1,075	259,979	854
Gross	**1,739,379**	**233,857**	**1,866,545**	**172,406**
Impairment losses on loans and advances	(143,538)	-	(142,490)	-
Net	**1,595,841**	**233,857**	**1,724,055**	**172,406**

Loans and advances by maturity (past due) – consolidated

Consolidated	31 December 2014		31 December 2013	
(all amounts expressed in thousands of EUR)	**Loans and advances to customers**	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	1,412,284	233,782	1,606,213	171,552
Past due but not impaired	32,897	-	10,238	-
Impaired	294,949	1,075	278,652	854
Gross	**1,740,130**	**233,857**	**1,895,103**	**172,406**
Impairment losses on loans and advances	(148,009)	-	(145,868)	-
Net	**1,592,121**	**233,857**	**1,749,235**	**172,406**

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

31 December 2014 - Unconsolidated	Individuals						
(all amounts expressed in thousands of EUR)	**Overdrafts**	**Credit Cards**	**Term loans**	**Mortgages**	**Sole proprietors**	**Corporate entities**	**Total loans and advances to customers**
Neither past due nor impaired A	31,819	18,485	102,622	345,299	23,688	523,695	1,045,608
Neither past due nor impaired B	2	45	2	-	20,472	358,146	378,667
Neither past due nor impaired C	93	537	279	247	-	-	1,156
Total neither past due nor impaired	**31,914**	**19,067**	**102,903**	**345,546**	**44,160**	**881,841**	**1,425,431**
Not past due but impaired	89	17	1,051	1,917	1,739	86,731	91,544
Past due or impaired	1,893	1,931	2,482	4,749	10,711	200,638	222,404
Gross	**33,896**	**21,015**	**106,436**	**352,212**	**56,610**	**1,169,210**	**1,739,379**
Impairment losses on loans and advances	(1,171)	(844)	(1,619)	(2,830)	(7,698)	(129,376)	(143,538)
Net	**32,725**	**20,171**	**104,817**	**349,382**	**48,912**	**1,039,834**	**1,595,841**

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

31 December 2014 - Consolidated	Individuals							
(all amounts expressed in thousands of EUR)	**Overdrafts**	**Credit Cards**	**Term loans**	**Mortgages**	**Finance leases**	**Sole proprietors**	**Corporate entities**	**Total loans and advances to customers**
Neither past due nor impaired A	31,819	18,485	102,622	345,299	10,002	36,059	488,175	1,032,461
Neither past due nor impaired B	2	45	2	-	-	20,472	358,146	378,667
Neither past due nor impaired C	93	537	279	247	-	-	-	1,156
Total neither past due nor impaired	**31,914**	**19,067**	**102,903**	**345,546**	**10,002**	**56,531**	**846,321**	**1,412,284**
Not past due but impaired	89	17	1,051	1,917	322	1,991	89,228	94,615
Past due or impaired	1,893	1,931	2,482	4,749	937	11,678	209,561	233,231
Gross	**33,896**	**21,015**	**106,436**	**352,212**	**11,261**	**70,200**	**1,145,110**	**1,740,130**
Impairment losses on loans and advances	(1,171)	(844)	(1,619)	(2,830)	(444)	(8,354)	(132,747)	(148,009)
Net	**32,725**	**20,171**	**104,817**	**349,382**	**10,817**	**61,846**	**1,012,363**	**1,592,121**

Loans under not past due but impaired relates manly to restructured loans.

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

31 December 2013 - Unconsolidated	Individuals						
(all amounts expressed in thousands of EUR)	**Overdrafts**	**Credit Cards**	**Term loans**	**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

31 December 2013 - Consolidated	Individuals							
(all amounts expressed in thousands of EUR)	**Overdrafts**	**Credit Cards**	**Term loans**	**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**

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

31 December 2014 - Unconsolidated (all amounts expressed in thousands of EUR)	Individuals								Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	192	16	750	9	214	25	219	24	1,449
Past due 30 - 60 days	76	40	112	23	35	30	34	223	573
Past due 60 - 90 days	46	3	38	15	20	52	18	9	201
Past due over 90 days	2	1.518	4	980	13	2,093	20	4,202	8,832
Total	**316**	**1,577**	**904**	**1,027**	**282**	**2,200**	**291**	**4,458**	**11,055**

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

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

31 December 2014 - Consolidated (all amounts expressed in thousands of EUR)	Individual										Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	192	16	750	9	214	25	219	24	86	5	1,540
Past due 30 - 60 days	76	40	112	23	35	30	34	223	34	5	612
Past due 60 - 90 days	46	3	38	15	20	52	18	9	18	10	229
Past due over 90 days	2	1,518	4	980	13	2,093	20	4,202	25	754	9,611
Total	**316**	**1,577**	**904**	**1,027**	**282**	**2,200**	**291**	**4,458**	**163**	**774**	**11,992**

	Sole proprietors		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	231	190	27,770	10,721	38,912
Past due 30 - 60 days	132	183	1,066	24,818	26,199
Past due 60 - 90 days	79	54	166	7,036	7,335
Past due over 90 days	30	10,779	1,467	136,517	148,793
Total	**472**	**11,206**	**30,469**	**179,092**	**221,239**

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

31 December 2013 - Unconsolidated (all amounts expressed in thousands of EUR)	Individuals								Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	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		Total
	Not impaired	Impaired	Not impaired	Impaired	
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**

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

31 December 2013 - Consolidated (all amounts expressed in thousands of EUR)	Individual										Total individuals
	Overdrafts		Credit cards		Term loans		Mortgages		Finance leases		
	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	Not impaired	Impaired	
Past due up to 30 days	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		Corporate entities		Total
	Not impaired	Impaired	Not impaired	Impaired	
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**

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

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

In 2014, the Group received EUR 9,984 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.

In the year 2014 two new liquidity indicators, LCR (Liquidity coverage ratio) and NSFR (Net stable funding ratio) have been introduced as principal liquidity measures necessary to ensure a minimum prudential level of Group liquidity in baseline and stress conditions. The indicators are calculated in accordance with the Capital Requirements Regulation (CRR regulation) and regularly reported to ALCO and Audit committee.

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)

	Expected maturity							
As at 31 December 2014	**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, cash balances at Central Banks and other demand deposits at banks	91,234	-	-	**91,234**	-	16,234	16,234	**107,468**
Financial assets designated at fair value through profit or loss	-	-	-	**-**	267	-	267	**267**
Investment securities available for sale	915	55,448	57,204	**113,567**	134,879	48,911	183,790	**297,357**
Loans and advances:	346,149	168,679	349,758	**864,586**	598,394	405,642	**1,004,036**	**1,868,622**
- to banks	163,420	26,342	44,095	**233,857**	-	-	-	**233,857**
- to customers	178,101	133,490	299,090	**610,681**	598,394	405,642	**1,004,036**	**1,614,717**
- advances	4,628	8,847	6,573	**20,048**	-	-	-	**20,048**
Property, plant and equipment	-	-	-	**-**	2,438	19,825	22,263	**22,263**
Investment property	-	-	-	**-**	1,261	-	1,261	**1,261**
Intangible assets	-	-	-	**-**	4,365	-	4,365	**4,365**
Investment in subsidiaries	-	-	-	**-**	-	3,688	3,688	**3,688**
Income tax assets:	-	-	13	**13**	1,265	34	1,299	**1,312**
- current income tax	-	-	-	**-**	-	-	-	**-**
- deferred income tax	-	-	13	**13**	1,265	34	1,299	**1,312**
Other assets	113	33	332	**478**	391	-	391	**869**
Total assets	**438,411**	**224,160**	**407,307**	**1,069,878**	**743,260**	**494,334**	**1,237,594**	**2,307,472**
LIABILITIES								
Liabilities carried at amortised cost:	1,122,426	218,063	414,418	**1,754,907**	181,593	57,509	**239,102**	1,994,009
- deposits from banks and central banks	6,198	-	2,333	**8,531**	9,333	4,667	**14,000**	22,531
- due to customers	1,099,074	210,931	398,684	**1,708,689**	84,048	3,916	**87,964**	1,796,653
- other borrowed funds from banks and central banks	1,785	2,604	11,245	**15,634**	88,168	48,926	**137,094**	152,728
- other borrowed funds from other customers	3	13	2,156	**2,172**	44	-	**44**	2,216
- other financial liabilities	15,366	4,515	-	**19,881**	-	-	**-**	19,881
Provisions:	-	-	1,531	**1,531**	6,927	3,667	**10,594**	12,125
- provisions for liabilities and charges	-	-	1,531	**1,531**	6,927	-	**6,927**	8,458
- retirement benefit obligations	-	-	-	**-**	-	3,667	**3,667**	3,667
Income tax liabilities:	-	-	419	**419**	-	-	**-**	419
- current income tax	-	-	419	**419**	-	-	**-**	419
Other liabilities	749	890	-	**1,639**	-	-	**-**	1,639
Total liabilities	**1,123,175**	**218,953**	**416,368**	**1,758,496**	**188,520**	**61,176**	**249,696**	**2,008,192**
Net liquidity gap	**(684,764)**	**5,207**	**(9,061)**	**(688,618)**	**554,740**	**433,158**	**987,898**	**299,280**
As at 31 December 2013								
Total assets	343,065	109,559	421,329	873,953	916,055	509,505	1,425,560	2,299,513
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**

Maturities of assets and liabilities - unconsolidated and consolidated

(all amounts expressed in thousands of EUR)

Derivative cash flows by expected maturity – derivatives settled on a net basis

Expected maturity

As at 31 December 2014	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	110	-	-	110	-	-	-	110
- interest rate cap	-	-	-	-	-	108	108	108
Total	**110**	-	-	**110**	-	**108**	**108**	**218**
DERIVATIVE LIABILITIES								
Derivatives held for trading:								
- forward currency	110	-	-	110	-	-	-	110
- interest rate swap (IRS)	-	-	145	145	-	-	-	145
- interest rate cap	-	-	-	-	-	1	1	1
Total	**110**	-	**145**	**255**	-	**1**	**1**	**256**
Net liquidity gap	-	-	**(145)**	**(145)**	-	**107**	**107**	**(38)**
As at 31 December 2013								
Total derivative assets	1	1	6	8	40	315	355	363
Total derivative liabilities	1	1	169	171	430	12	442	613
Net liquidity gap	-	-	**(163)**	**(163)**	**(390)**	**303**	**(87)**	**(250)**

As at 31 December 2014	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:	-	38	-	38	-	-	-	38
Total	-	**38**	-	**38**	-	-	-	**38**
Net liquidity gap	-	**(38)**	-	**(38)**	-	-	-	**(38)**

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 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)**

In case on interest rate caps, interest options and interest rate swaps cash flows represent just the difference between contractual price and market price of the derivative.

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

(all amounts expressed in thousands of EUR)

As at 31 December 2014	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	110	-	-	110	-	-	-
- inflow	110	-	-	110	-	-	-
Total outflow	**110**	**-**	**-**	**110**	**-**	**-**	**-**
Total inflow	**110**	**-**	**-**	**110**	**-**	**-**	**-**

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**

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

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

(all amounts expressed in thousands of EUR)

As at 31 December 2014	Up to 1 month	1-3 months	3-12 months	Expected maturity Total to 1 year	1- 5 years	Over 5 years	Total over 1 year	Total
ASSETS								
Cash, cash balances at Central	91,234	-	-	**91,234**	-	16,234	**16,234**	107,468
Financial assets designated at fair value through profit or loss	-	-	-	**-**	267	-	**267**	267
Investment securities available for sale	915	55,448	57,204	**113,567**	134,879	48,911	**183,790**	297,357
Loans and advances:	329,474	169,949	338,317	**837,740**	600,720	420,335	**1,021,055**	1,858,795
- to banks	163,420	26,342	44,095	**233,857**	-	-	**-**	233,857
- to customers	161,298	134,760	294,222	**590,280**	600,720	420,335	**1,021,055**	1,611,335
- advances	4,756	8,847	-	**13,603**	-	-	**-**	13,603
Goodwill	-	-	-	**-**	-	905	**905**	905
Property, plant and equipment	-	-	-	**-**	4,830	19,825	**24,655**	24,655
Investment property	-	-	-	**-**	13,813	-	**13,813**	13,813
Intangible assets	-	-	-	**-**	4,447	-	**4,447**	4,447
Income tax assets:	992	-	13	**1,005**	1,265	34	**1,299**	2,304
- deferred income tax	992	-	13	**1,005**	1,265	34	**1,299**	2,304
Other assets	113	33	13,715	**13,861**	391	-	**391**	14,252
Total assets	**422,728**	**225,430**	**409,249**	**1,057,407**	**760,612**	**506,244**	**1,266,856**	**2,324,263**
LIABILITIES								
Liabilities carried at amortised cost:	1,125,860	218,108	420,308	**1,764,276**	178,926	64,076	**243,002**	2,007,278
- deposits from banks and	6,198	-	2,333	**8,531**	9,333	4,667	**14,000**	22,531
- due to customers	1,099,067	210,931	398,684	**1,708,682**	84,048	3,916	**87,964**	1,796,646
- other borrowed funds from	5,226	2,377	17,135	**24,738**	85,501	55,493	**140,994**	165,732
- other borrowed funds from	3	13	2,156	**2,172**	44	-	**44**	2,216
- other financial liabilities	15,366	4,787	-	**20,153**	-	-	**-**	20,153
Provisions:	-	-	1,531	**1,531**	6,905	3,722	**10,627**	12,158
- provisions for liabilities and	-	-	1,531	**1,531**	6,905	-	**6,905**	8,436
- retirement benefit obligations	-	-	-	**-**	-	3,722	**3,722**	3,722
Income tax liabilities:	41	-	419	**460**	-	-	-	460
- current income tax	41	-	419	**460**	-	-	-	460
Other liabilities	1,130	890	-	**2,020**	-	-	-	2,020
Total liabilities	**1,127,031**	**218,998**	**422,258**	**1,768,287**	**185,831**	**67,798**	**253,629**	**2,021,916**
Net liquidity gap	**(704,303)**	**6,432**	**(13,009)**	**(710,880)**	**574,781**	**438,446**	**1,013,227**	**302,347**
As at 31 December 2013								
Total assets	350,806	110,366	433,315	894,487	924,280	519,846	1,444,126	2,338,613
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**

Expected maturities of off-balance sheet items - unconsolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2014	Expected maturity No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	159	-	-	159
Guarantees	93,667	24,912	26,625	145,204
Derivative financial instruments	227	-	221	448
Credit commitments	248,429	7,894	-	256,323
Total	**342,482**	**32,806**	**26,846**	**402,134**

As at 31 December 2013	No later than 1 year	1-5 years	Over 5 years	Total
Total	**400,119**	**42,549**	**22,775**	**465,443**

Expected maturities of off-balance sheet items - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2014	Expected maturity No later than 1 year	1-5 years	Over 5 years	Total
Documentary and commercial letters of credit	159	-	-	159
Guarantees	93,667	24,912	26,625	145,204
Derivatives	227	-	221	448
Credit commitments	246,357	7,894	-	254,251
Total	**340,410**	**32,806**	**26,846**	**400,062**

As at 31 December 2013	No later than 1 year	1-5 years	Over 5 years	Total
Total	**398,793**	**42,549**	**22,775**	**464,117**

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

(all amounts expressed in thousands of EUR) **As at 31 December 2014**	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities carried at amortized cost:	1,123,103	218,328	415,991	186,779	61,688	2,005,889
- deposits from banks and CB	6,199	-	2,336	9,390	4,723	22,648
- due to customers	1,099,746	211,189	400,148	85,590	4,059	1,800,732
- other borrowed funds from banks and CB	1,789	2,611	11,336	91,754	52,906	160,396
- other borrowed funds from other customers	3	13	2,171	45	-	2,232
- advances	15,366	4,515	-	-	-	19,881
Financial guarantees issued	7,992	30,656	17,632	9,114	17,873	83,267

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

(all amounts expressed in thousands of EUR) **As at 31 December 2014**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Liabilities carried at amortised cost:	1,126,540	218,373	421,930	184,004	68,790	2,019,637
- deposits from banks and CB	6,199	-	2,336	9,390	4,723	22,648
- due to customers	1,099,739	211,189	400,148	85,590	4,059	1,800,725
- other borrowed funds from banks and CB	5,233	2,384	17,275	88,979	60,008	173,879
- other borrowed funds from other customers	3	13	2,171	45	-	2,232
- advances	15,366	4,787	-	-	-	20,153
Financial guaranties issued	7,993	30,666	17,648	9,155	18,021	83,483

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 carried at amortized cost:	955,926	247,618	410,682	344,807	73,527	2,032,560
- deposits from banks and CB	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 and CB	1,581	2,626	10,653	221,503	63,432	299,795
- other borrowed funds from other customers	6	5	2,040	2,447	-	4,498
- advances	20,477	3,290	-	-	-	23,767
Financial guaranties 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 carried at amortised cost:	955,884	252,114	429,788	350,982	80,924	2,069,692
- deposits from banks and CB	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 and CB	1,558	6,637	29,759	227,678	70,829	336,461
- 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

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 million of EUR)	12 months to 31 December 2014			12 months to 31 December 2013		
	Average	High[2]	Low[1]	Average	High[1]	Low[1]
Foreign exchange risk (trading and non-trading portfolio)	1	3	-	2	6	-
Bond risk (banking book)	760	1,087	510	1,782	2,867	1,054
Total VAR	**761**	**1,090**	**510**	**1,784**	**2,873**	**1,054**

Currency risk - unconsolidated

As at 31 December 2014 *(all amounts expressed in thousands of EUR)*

	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	99,292	4,410	3,766	107,468
Financial instruments held for trading:	110	-	-	110
- derivative financial instruments	110	-	-	110
Financial assets designated at fair value through profit or loss	267	-	-	267
Investment securities available for sale	297,357	-	-	297,357
Loans and advances:	1,753,635	77,925	18,186	1,849,746
- to banks	173,161	49,757	10,939	233,857
- to customers	1,560,434	28,160	7,247	1,595,841
- advances	20,040	8	-	20,048
Property, plant and equipment	22,263	-	-	22,263
Investment property	1,261	-	-	1,261
Intangible assets	4,365	-	-	4,365
Investment in subsidiaries	3,688	-	-	3,688
Income tax assets:	1,312	-	-	1,312
- deferred income tax	1,312	-	-	1,312
Other assets	869	-	-	869
Total assets	**2,184,419**	**82,335**	**21,952**	**2.288.706**
LIABILITIES				
Financial instruments held for trading:	148	-	-	148
- derivative financial instruments	148	-	-	148
Liabilities carried at amortised cost:	1,889,444	82,565	22,000	1,994,009
- deposits from banks and central banks	22,531	-	-	22,531
- due to customers	1,720,323	54,376	21,954	1,796,653
- other borrowed funds from banks	124,621	28,107	-	152,728
- other borrowed funds from other customers	2,216	-	-	2,216
- other financial liabilities	19,753	82	46	19,881
Derivatives – hedge accounting	38	-	-	38
Provisions:	12,125	-	-	12,125
- provisions for liabilities and charges	8,458	-	-	8,458
- retirement benefit obligations	3,667	-	-	3,667
Income tax liabilities:	419	-	-	419
- current income tax	419	-	-	419
Other liabilities	1,639	-	-	1,639
Total liabilities	**1,903,813**	**82,565**	**22,000**	**2,008,378**
Net balance sheet position	**280,606**	**(230)**	**(48)**	**280,328**
Part of contingent liabilities and commitments sensitive to currency risk	**264,886**	**163**	**-**	**265,049**

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

As at 31 December 2013	EUR	USD	Other	Total
Total assets	2,204,230	71,236	24,410	2,299,876
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**

Currency risk- consolidated

As at 31 December 2014 *(all amounts expressed in thousands of EUR)*

	EUR	USD	Other	Total
ASSETS				
Cash and balances with central banks	99,292	4,410	3,766	107,468
Financial instruments held for trading:	110	-	-	110
- derivative financial instruments	110	-	-	110
Financial assets designated at fair value through profit or loss	267	-	-	267
Investment securities available for sale	297,357	-	-	297,357
Loans and advances:	1,743,412	77,925	18,244	1,839,581
- to banks	173,103	49,757	10,997	233,857
- to customers	1,556,714	28,160	7,247	1,592,121
- advances	13,595	8	-	13,603
Goodwill	905	-	-	905
Property, plant and equipment	24,655	-	-	24,655
Investment property	13,813	-	-	13,813
Intangible assets	4,447	-	-	4,447
Income tax assets:	2,304	-	-	2,304
- deferred income tax	2,304	-	-	2,304
Other assets	14,252	-	-	14,252
Total assets	**2,200,814**	**82,335**	**22,010**	**2,305,159**
LIABILITIES				
Financial instruments held for trading:	148	-	-	148
- derivative financial instruments	148	-	-	148
Liabilities carried at amortised cost:	1,902,713	82,565	22,000	2,007,278
- deposits from banks and CB	22,531	-	-	22,531
- due to customers	1,720,316	54,376	21,954	1,796,646
- other borrowed funds from banks and CB	137,625	28,107	-	165,732
- other borrowed funds from other customers	2,216	-	-	2,216
- other financial liabilities	20,025	82	46	20,153
Derivatives – hedge accounting	38	-	-	38
Provisions:	12,158	-	-	12,158
- provisions for liabilities and charges	8,436	-	-	8,436
- retirement benefit obligations	3,722	-	-	3,722
Income tax liabilities:	460	-	-	460
- current income tax	460	-	-	460
Other liabilities	2,020	-	-	2,020
Total liabilities	**1,917,537**	**82,565**	**22,000**	**2,022,102**
Net balance sheet position	**283,277**	**(230)**	**10**	**283,057**
Part of contingent liabilities and commitments sensitive to currency risk	**262,814**	**163**	**-**	**262,977**

As at 31 December 2013	EUR	USD	Other	Total
Total assets	2,242,964	71,236	24,776	2,338,976
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**

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 2014	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	64,890	-	-	-	16,234	26,344	107,468
Financial instruments held for trading:	-	108	-	-	-	2	110
- derivative financial instruments	-	108	-	-	-	2	110
Financial assets designated at fair value through profit or loss	-	-	-	-	-	267	267
Investment securities available for sale	914	57,413	55,240	126,332	43,606	13,852	297,357
Loans and advances:	409,626	306,679	1,069,745	18,831	7,410	37,455	1,849,746
- to banks	163,420	26,342	44,095	-	-	-	233,857
- to customers	246,206	280,337	1,025,650	18,831	7,410	17,407	1,595,841
- advances	-	-	-	-	-	20,048	20,048
Property, plant and equipment	-	-	-	-	-	22,263	22,263
Investment property	-	-	-	-	-	1,261	1,261
Intangible assets	-	-	-	-	-	4,365	4,365
Investment in subsidiaries	-	-	-	-	-	3,688	3,688
Income tax assets:	-	-	-	-	-	1,312	1,312
- deferred income tax	-	-	-	-	-	1,312	1,312
Other assets	-	-	-	-	-	869	869
Total assets	**475,430**	**364,200**	**1,124,985**	**145,163**	**67,250**	**111,678**	**2,288,706**
LIABILITIES							
Financial instruments held for trading:	88	58	-	-	-	2	148
- derivative financial instruments	88	58	-	-	-	2	148
Liabilities carried at amortised cost:	1,154,215	299,636	432,212	84,037	3,903	20,006	1,994,009
- deposits from banks and CB	6,198	-	16,333	-	-	-	22,531
- due to customers	1,099,198	210,931	398,628	83,993	3,903	-	1,796,653
- other borrowed funds from banks and CB	48,816	88,692	15,220	-	-	-	152,728
- other borrowed funds from other customers	3	13	2,031	44	-	125	2,216
- other financial liabilities	-	-	-	-	-	19,881	19,881
Derivatives – Hedge accounting	-	38	-	-	-	-	38
Provisions:	-	-	-	-	-	12,125	12,125
- provisions for liabilities and charges	-	-	-	-	-	8,458	8,458
- retirement benefit obligations	-	-	-	-	-	3,667	3,667
Income tax liabilities:	-	-	-	-	-	419	419
- current income tax	-	-	-	-	-	419	419
Other liabilities	-	-	-	-	-	1,639	1,639
Total liabilities	**1,154,303**	**299,732**	**432,212**	**84,037**	**3,903**	**34,191**	**2,008,378**
Total interest repricing gap	**(678,873)**	**64,468**	**692,773**	**61,126**	**63,347**		

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
Total assets	413,215	324,450	1,178,889	203,791	69,217	110,314	2,299,876

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**		

Interest rate risk - consolidated

(all amounts expressed in thousands of EUR)

As at 31 December 2014	**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	64,890	-	-	-	16,234	26,344	107,468
Financial instruments held for trading:	-	108	-	-	-	2	110
- derivative financial instruments	-	108	-	-	-	2	110
Financial assets designated at fair value through profit or loss	-	-	-	-	-	267	267
Investment securities available for sale	914	57,413	55,240	126,332	43,606	13,852	297,357
Loans and advances:	424,353	364,523	990,988	20,011	8,696	31,010	1,839,581
- to banks	163,420	26,342	44,095	-	-	-	233,857
- to customers	260,933	338,181	946,893	20,011	8,696	17,407	1,592,121
- advances	-	-	-	-	-	13,603	13,603
Good will	-	-	-	-	-	905	905
Property, plant and equipment	-	-	-	-	-	24,655	24,655
Investment property	-	-	-	-	-	13,813	13,813
Intangible assets	-	-	-	-	-	4,447	4,447
Income tax assets:	-	-	-	-	-	2,304	2,304
- deferred income tax	-	-	-	-	-	2,304	2,304
Other assets	-	-	-	-	-	14,252	14,252
Total assets	**490,157**	**422,044**	**1,046,228**	**146,343**	**68,536**	**131,851**	**2,305,159**
LIABILITIES							
Financial instruments held for trading:	88	58	-	-	-	2	148
- derivative financial instruments	88	58	-	-	-	2	148
Liabilities carried at amortised cost:	1,155,207	311,641	432,212	84,037	3,903	20,278	2,007,278
- deposits from banks and CB	6,198	-	16,333	-	-	-	22,531
- due to customers	1,099,191	210,931	398,628	83,993	3,903	-	1,796,646
- other borrowed funds from banks and CB	49,815	100,697	15,220	-	-	-	165,732
- other borrowed funds from other customers	3	13	2,031	44	-	125	2,216
- other financial liabilities	-	-	-	-	-	20,153	20,153
Derivatives-Hedge accounting	-	38	-	-	-	-	38
Provisions:	-	-	-	-	-	12,158	12,158
- provisions for liabilities and charges	-	-	-	-	-	8,436	8,436
- retirement benefit obligations	-	-	-	-	-	3,722	3,722
Income tax liabilities:	-	-	-	-	-	460	460
- current income tax	-	-	-	-	-	460	460
Other liabilities	-	-	-	-	-	2,020	2,020
Total liabilities	**1,155,295**	**311,737**	**432,212**	**84,037**	**3,903**	**34,918**	**2,022,102**
Total interest repricing gap	**(665,138)**	**110,307**	**614,016**	**62,306**	**64,633**		

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**
Total assets	444,292	383,180	1,111,559	204,876	70,835	124,234	2,338,976
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**		

The Bank or Group regularly measures the following sources of interest rate risk:

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

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

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

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

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

The Group implemented during 2014 interest rate risk models with the aim to adjust interest bearing asset cash-flows for the effect of earlier repayment of loans and expected loss on positions exposed to credit risk.

- The prepayment model is based on probability that some of loans outstanding will be paid off earlier than originally scheduled, Consequently the repayment of outstanding loans is accelerated in comparison with contract terms by using a constant rate of acceleration.
- With the aim to measure the interest rate risk by considering only cash-flows, for which there is a strong confidence that will occur, it is suitable to remove the expected loss that will be generated by credit risk.

Sensitivity of net interest income of the Group on 100 b.p. parallel shift of yield curve as of 31.12. 2014

(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			**(2.5)**	**3.3**	**0.8**	**(4.9)**	**6.6**	**1.7**	**1.0**	**(1.4)**	**(0.4)**	**1.0**	**(1.5)**	**(0.5)**
Asset			**0.9**	**6.5**	**7.4**	**1.9**	**13.1**	**15.0**	**(0.4)**	**(2.9)**	**(3.3)**	**(0.4)**	**(3.0)**	**(3.4)**
	Sight Loans		0.9	-	0.9	1.9	-	1.9	(0.4)	-	(0.4)	(0.4)	-	(0.4)
	Securities	FX	-	0.3	0.3	-	0.7	0.7	-	(0.1)	(0.1)	-	(0.1)	(0.1)
		FL	-	-	-	-	0.1	0.1	-	-	-	-	-	-
	Loans	FX	-	1.2	1.2	-	2.3	2.3		(0.6)	(0.6)	-	(0.6)	(0.6)
		FL	-	5.0	5.0	-	10.0	10.0		(2.2)	(2.2)	-	(2.3)	(2.3)
	Other Financial Assets	FX	-	-	-	-	-	-	-	-	-	-	-	-
		FL	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities			**(3.4)**	**(3.2)**	**(6.6)**	**(6.8)**	**(6.4)**	**(13.2)**	**1.4**	**1.5**	**2.9**	**1.4**	**1.5**	**2.9**
	Sight Deposits		(3.4)	-	(3.4)	(6.8)		(6.8)	1.4	-	1.4	1.4	-	1.4
	Securities Issued	FX	-	-	-	-	-	-	-	-	-	-	-	-
		FL	-	-	-	-	-	-	-	-	-	-	-	-
	Debts	FX	-	(2.5)	(2.5)		(5.0)	(5.0)	-	1.1	1.1		1.1	1.1
		FL	-	(0.7)	(0.7)		(1.4)	(1.4)	-	0.4	0.4		0.4	0.4
	Other Financial Liabilities	FX	-	-	-	-	-	-	-	-	-	-	-	-
		FL	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives			-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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)**	**2.0**	**0.5**	**(3.0)**	**3.7**	**0.8**	**1.2**	**(1.8)**	**(0.6)**	**0.9**	**(1.8)**	**(0,9)**
Asset			**0.2**	**6.8**	**7.0**	**0.4**	**13.5**	**13.9**	**(0.2)**	**(6.1)**	**(6.3)**	**(0.6)**	**(6.1)**	**(6.6)**
	Sight Loans		0.2	-	0.2	0.4	-	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)**	**(9.5)**	**(12.9)**	**1.4**	**4.2**	**5.6**	**1.5**	**4.2**	**5.7**
	Sight Deposits		(1.7)	-	(1.7)	(3.4)	-	(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**

The sensitivity of net interest income on 100 b.p. interest rate equalled in increase/decrease of profit 2014 as follows:

- 50 b.p. increase: 0.9 mln EUR;
- 100 b.p. increase: 1.7 mln EUR;
- 50 b.p. decrease: (0.5) mln EUR;
- 100 b.p. decrease: (0.6) mln EUR.

The impact of 100 b.p. interest rate shift on net present value of the Group, as of 31.12. 2014

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

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 material. The global exposure limit for 100 b.p. interest rate shift sensitivity has been established in the amount of 9.0 million EUR, while effective exposure on reference date is 1.7 million EUR.

Time bucket	Limit	Exposure
• 0 – 18 months	+/- 5.0	-0.87
• from 19 m – 5 years	+/- 6.5	4.62
• >5 years	+/- 7.5	-5.40

In the first six months of 2014 the Group exceeded the limit for the time interval over 5 years. In the second half of the year the exposure gradually decreased to levels below the threshold and in conformity with the authorized limit.

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

Currency *(mln EUR)*	**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%**						

The impact of 200 b.p. interest rate shift on net present value of the Group, as of 31. 12. 2014

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

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

Currency *(mln EUR)*	**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%**						

According to this measure the economic value of the Group would be negatively impacted by rate increase, while rate decrease would lead to increase of economic value.

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	**2014**			**2013**		
	EUR	**USD**	**Other**	**EUR**	**USD**	**Other**
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	0.29	0.15	0.29	0.33	0.16	0.38
Loans and advances to customers	2.98	3.01	1.81	3.17	3.00	1.88
Investment securities available for sale	-	-	-	3.39	-	-
Liabilities						
Deposits from banks and CB	0.24	-	-	0.52	-	-
Due to customers	0.76	0.15	0.07	1.29	0.21	0.08
Other borrowed funds	1.57	1.89	-	0.99	1.89	-

The effective annual interest rate of individual financial instruments

Consolidated	**2014**			**2013**		
	EUR	**USD**	**Other**	**EUR**	**USD**	**Other**
Assets						
Cash and balances with central bank	1.00	-	-	1.00	-	-
Loans and advances to banks	0.29	0.15	0.29	0.33	0.16	0.38
Loans and advances to customers	3.12	3.01	1.80	3.31	3.00	1.87
Investment securities available for sale	-	-	-	3.39	-	-
Liabilities						
Deposits from banks and CB	0.24	-	-	0.52	-	-
Due to customers	0.76	0.15	0.07	1.29	0.21	0.08
Other borrowed funds	1.57	1.89	-	0.99	1.89	-

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. During 2014, 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					
	2014			2013		
	Carrying value	**Fair value**	**Unrecognised gain/loss**	**Carrying value**	**Fair value**	**Unrecognised gain/loss**
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks	107,468	107,468	-	37,437	37,437	-
Financial instruments held for trading:	110	110	-	363	363	-
- derivative financial instruments	110	110	-	363	363	-
Financial assets designated at fair value through profit or loss	267	267	-	389	389	-
Investment securities available for sale	297,357	297,357	-	305,578	305,578	-
Loans and advances:	1,849,746	1,845,201	(4,545)	1,917,226	1,908,304	(8,922)
- to banks	233,857	233,857	-	172,406	172,406	-
- to customers	1,595,841	1,591,296	(4,545)	1,724,055	1,715,133	(8,922)
- advances	20,048	20,048	-	20,765	20,765	-
Investment in subsidiaries	3,688	3,688	-	3,688	3,688	-
Other assets	869	869	-	1,225	1,225	-
Total assets	**2,259,505**	**2,254,960**	**(4,545)**	**2,265,906**	**2,256,984**	**(8,922)**
LIABILITIES						
Financial instruments held for trading:	148	148		613	613	-
- derivative financial instruments	148	148	-	613	613	-
Liabilities carried at amortised cost:	1,994,009	1,994,744	735	2,018,838	2,020,142	1,304
- deposits from banks and central banks	22,531	22,767	236	20,252	20,596	344
- due to customers	1,796,653	1,797,094	441	1,676,504	1,677,043	539
- other borrowed funds from banks and central banks	152,728	152,757	29	293,804	294,159	355
- other borrowed funds from other customers	2,216	2,245	29	4,372	4,438	66
- other financial liabilities	19,881	19,881	-	23,906	23,906	-
Derivatives-hedge accounting	38	38	-	328	328	-
Other liabilities	1,639	1,639		2,229	2,229	-
Total liabilities	**1.995.834**	**1.996.569**	**735**	**2.022.008**	**2.023.312**	**1.304**

Fair value of assets and liabilities – consolidated

(all amounts expressed in thousands of EUR)	Consolidated					
	2014			2013		
	Carrying value	Fair value	Unrecognised gain/loss	Carrying value	Fair value	Unrecognised gain/loss
ASSETS						
Cash, cash balances at central banks and other demand deposits at banks	107,468	107,468	-	37,437	37,437	-
Financial instruments held for trading:	110	110	-	363	363	-
- derivative financial instruments	110	110	-	363	363	-
Financial assets designated at fair value through profit or loss	267	267	-	389	389	-
Investment securities available for sale	297,357	297,357	-	305,578	305,578	-
Loans and advances:	1,839,581	1,835,036	(4,545)	1,936,681	1,927,759	(8,922)
- to banks	233,857	233,857	-	172,406	172,406	-
- to customers	1,592,121	1,587,576	(4,545)	1,749,235	1,740,313	(8,922)
- advances	13,603	13,603	-	15,040	15,040	-
Goodwill	905	905	-	905	905	-
Other assets	14,252	14,252	-	14,358	14,358	-
Total assets	**2,259,940**	**2,255,395**	**(4,545)**	**2,295,711**	**2,286,789**	**(8,922)**
LIABILITIES						
Financial instruments held for trading:	148	148	-	613	613	-
- derivative financial instruments	148	148	-	613	613	-
Liabilities carried at amortised cost:	2,007,278	2,008,013	735	2,055,319	2,056,623	1,304
- deposits from banks and central banks	22,531	22,767	236	20,252	20,596	344
- due to customers	1,796,646	1,797,087	441	1,676,485	1,677,024	539
- other borrowed funds from banks and central banks	165,732	165,761	29	329,819	330,174	355
- other borrowed funds from other customers	2,216	2,245	29	4,372	4,438	66
- other financial liabilities	20,153	20,153	-	24,391	24,391	-
Derivatives-hedge accounting	38	38	-	328	328	-
Other liabilities	2,020	2,020	-	2,475	2,475	-
Total liabilities	**2,009,484**	**2,010,219**	**735**	**2,058,735**	**2,060,039**	**1,304**

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 31.12.2014 amounted to 138 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

(all amounts expressed in thousands of EUR)

	2014				2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Asset								
Derivatives	-	*110*	-	***110***	-	363	-	**363**
AFS:	9,079	282,756	-	**291,835**	285,294	5,539	9,223	**300,056**
- debt	*2,678*	*280,827*	-	***283,505***	*278,767*	-	-	***278,767***
- equities	*6,401*	*1,929*	-	***8,330***	*6,527*	*5,539*	*9,223*	***21,289***
FVTPL – equities	*267*	-	-	***267***	389	-	-	**389**
Loans and receivables	-	*417,096*	*1,432,650*	***1,849,746***	-	1,789,115	133,404	**1,922,519**
Liabilities								
Derivatives	-	*148*	-	***148***	-	613	-	**613**
Financial liabilities, measured at amortised cost	-	*1,358,721*	*635,288*	***1,994,009***	-	1,887,005	-	**1,887,005**

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

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

(all amounts expressed in thousands of EUR)

	At January 2014	Purchase/ Sales	Unrealized gains/losses recorded in P&L	Unrealized gains/losses recorded in revaluation reserve	Realized gains/losses recorded in P&L	Transfers out of level 3	Transfers into level 3	At 31 December 2014
Asset								
AFS equities	9,223	(89)	(7,434)	1,170	43	(2,913)	-	-

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

4. Net interest income

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2014	2013	2014	2013
Interest income				
Central bank deposits	8	85	8	85
Loans and advances (including finance leases):	58,527	63,646	61,325	66,760
- to banks	599	*572*	599	*572*
- to other customers	57,928	63,074	60,726	66,188
Investment securities (AFS and HTM)	7,797	7,987	7,797	7,987
	66,332	**71,718**	**69,130**	**74,832**
Interest expense				
Financial liabilities measured at amortised cost				
- Deposits from central banks	50	1,089	50	1,089
Bank deposits and loans	92	394	92	394
Other customers	17,482	22,463	17,482	22,463
Other borrowed funds	2,735	2,869	3,141	3,621
Derivatives - hedge accounting	251	533	251	533
Derivatives - HFT	362	166	362	166
Other	10	6	10	6
	20,982	**27,520**	**21,388**	**28,272**
	45,350	**44,198**	**47,742**	**46,560**

5. Dividend income

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2014	2013	2014	2013
Investment securities	1,103	1,068	503	221
Dividends from FVPL shares	11	11	11	11
	-		-	
	1,114	**1,079**	**514**	**232**

6. Net fee and commission income

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	2013	2014	2013
Fee and commission income				
From current account management	3,901	3,728	3,901	3,728
From payment services	10,467	10,074	10,467	10,074
From credit card business	8,640	8,072	8,640	8,072
From interbanking operations	8,369	8,101	8,369	8,101
From loans granted	3,849	3,988	4,250	3,988
From guaranties given	1,519	1,721	1,519	1,721
From safes renting	76	31	76	31
From pension fund management	511	555	511	555
Custody services	910	765	910	765
From payment systems management	1,765	2,036	1,765	2,036
From brokering of loans and insurance contract on behalf of others	189	158	189	501
	40,196	**39,229**	**40,597**	**39,572**

Fee and commission expense				
From security trading	56	51	56	51
From loan brokerage on behalf of others	107	95	144	95
From custody services	354	328	354	328
From credit card processing	10,106	9,498	10,106	9,498
From payment transactions	2,799	2,744	2,804	2,744
Commitment fee for unused credit lines	952	2,387	952	2,435
	14,374	**15,103**	**14,416**	**15,151**
	25,822	**24,126**	**26,181**	**24,421**

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**	
	2014	**2013**	**2014**	**2013**
Loss/income due to sale of investment securities*	3,742	141	3,742	141
Write offs of loans and other assets	(1,290)	(971)	(1,290)	(971)
Recoveries from write offs of loans and other assets	171	329	171	329
	2,623	**(501)**	**2,623**	**(501)**

*As realized revaluation reserve EUR 1,990 thousands (2013: EUR 227 thousands).

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

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Trading of derivatives	(378)	1,619	(378)	1,619
Currency trading	651	670	651	670
	273	**2,289**	**273**	**2,289**

9. Fair value adjustments in hedge accounting

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Net effect on derivatives used as hedging instruments	256	310	256	310
Net effect on hedged items	(41)	(502)	(41)	(502)
	215	**(192)**	**215**	**(192)**

Derivatives used as hedge instruments and the nature of hedge items are additional explained in note 20.

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	
	2014	**2013**	**2014**	**2013**
Profit on sale of property and equipment	21	20	56	51
	21	**20**	**56**	**51**

11. Other operating gains less losses

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Rent	1,735	808	2,486	1,306
Taxes	(1,559)	(1,462)	(1,559)	(1,462)
Membership fees	(77)	(99)	(77)	(99)
Other operating expenses	(30)	(1)	(437)	(1)
Other operating income	-	859	1,301	1,477
	69	**105**	**1,714**	**1,221**

From rent contracts arises that the future rent revenues amounted to EUR 6,086 thousands (Group EUR 8,893 thousands), as follows:

(all amounts expressed in thousands of EUR)

Banka Koper					
2014			**2013**		
Up to 1 year	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
682	2,503	2,901	710	2,610	3,020

(all amounts expressed in thousands of EUR)

Consolidated					
2014			**2013**		
Up to 1 year	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
1,792	4,200	2,901	1,312	3,884	3,020

12. Administrative expenses

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Staff cost	***27,417***	***26,915***	***27,965***	***27,515***
Salaries	18,612	18,602	19,018	19,044
Social security cost	2,988	2,971	3,056	3,047
Pension costs	1,643	1,653	1,662	1,670
Other	4,174	3,689	4,229	3,754
General and administrative expenses	***11,612***	***11,743***	***12,205***	***12,329***
Material costs	2,199	2,296	2,262	2,344
IT costs	1,805	1,896	1,839	1,900
Rents	1,341	1,034	1,341	1,411

Professional services	5,058	5,396	5,486	5,459
Advertising and marketing	822	694	843	717
Cost of consulting, auditing, law and notarial services*	387	427	434	498
	39,029	**38,658**	**40,170**	**39,844**

***In this auditor services**

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Auditor services:				
- financial statements audit	83	54	83	54
	83	**54**	**83**	**54**

13. Amortisation and depreciation

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Amortisation	1,630	1,390	1,660	1,415
Depreciation	2,941	3,113	3,692	3,599
	4,571	**4,503**	**5,352**	**5,014**

In 2014 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. In 2014 the amortisation and depreciation rates remained unchanged.

14. Provisions

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Provisions for off-balance sheet exposures	(933)	1,354	(926)	1,351
Provisions for National Housing Saving Scheme	112	56	112	56
Provisions for legal proceedings and future contract obligations	(172)	(865)	(172)	(865)
Retirement and long service bonus	(350)	(380)	(350)	(387)
	(1,343)	**165**	**(1,336)**	**155**

15. Impairment losses

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Impairments on of assets measurement at amortised cost:				
- loans to other customers	14,132	20,431	15,365	21,392
- impairments of other assets	264	321	364	259
Impairments on AFS securities (shares)	8,537	3,279	8,537	3,279
	22,933	**24,031**	**24,266**	**24,930**

Impairment losses on AFS securities relate to shares of Cimos, Trimo Trebnje, Mercator and Gorenjska banka.

16. Income tax expense

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Current tax	1,086	601	1,480	952
Deferred tax (note 38)	(100)	(486)	(339)	(676)
	986	**115**	**1,141**	**276**
Profit before tax	**7,613**	**2,638**	**8,211**	**2,974**

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

Prima facie tax calculated at a tax rate of 17%	1,294	448	1,456	578
Income form already taxed dividends	(189)	(183)	(189)	(183)
Expenses not deductible for tax purposes:				
- staff costs not assessable for tax	155	156	155	156
- other non-tax deductible expenses	51	27	56	32
-tax reliefs	(325)	(333)	(337)	(307)
Total income tax	**986**	**115**	**1,141**	**276**

For 2014 the income tax rate was 17% (2013: 17%) as prescribed by law.
The higher effective tax rate in 2014 (12.95%) compared to 2013 (4.37%) was mainly influenced by different amount of net profit realized over the years in relation to the accrued relief (2014: 1,006 thousand EUR, 2013: 1,066 thousand EUR) and exempt dividend (2014: EUR 1,057 thousand, 2013: EUR 1,025 thousand), which are approximately equal in both years.

In accordance with local regulations, the Financial administration 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	
	2014	**2013**	**2014**	**2013**
Net profit for the year	6,627	2,523	7,070	2,698
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)	12.49	4.76	13.33	5.09

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	
	2014	**2013**	**2014**	**2013**
Interest income	4,259	5,333	4,259	5,333
Interest expenses	(6,322)	(6,990)	(6,728)	(7,742)
Interest net income	**(2,063)**	**(1,657)**	**(2,469)**	**(2,409)**
Dividend income	-	11	-	11
Fee and commission income	534	417	534	417
Fee and commission expenses	(1,523)	(2,356)	(1,523)	(2,356)
Fee and commission net income	**(989)**	**(1,939)**	**(989)**	**(1,939)**
Gains and losses on financial assets held for trading	367	1,939	367	1,939
Gains and losses on financial assets used as hedging instruments	256	277	256	277
Realised gains and losses on financial assets not measured at fair value through profit and loss	159	59	159	59
Gains and losses on fi nancial assets designated at fair value through profit or loss	(9)	-	(9)	-
Other operating net income	(147)	(509)	(147)	(509)
Total profit before tax from continuing operations	**(2,426)**	**(1,819)**	**(2,832)**	**(2,571)**

19. Cash and balances with central banks

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Cash in hand	15,990	19,867	15,990	19,867
Balances with central banks	65,134	12,277	65,134	12,277
Other sight deposits	26,344	5,293	26,344	5,293
	107,468	**37,437**	**107,468**	**37,437**
From this: mandatory reserve liability to central banks	16,234	15,095	16,234	15,095

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 and 2013, Banka Koper offered 5 issues of structured deposit in the amount of 32,7 million EUR (2013: 29,4 million EUR and in 2014: 18,7 million EUR), with the original maturity of 4 years and 2 and a half. Interest paid on these deposits is a combination of fixed interest rate of:
- 5% in the first year (valid for 2-3 issue) and,
- 6% in the first 6 months (valid for 4 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 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,

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 2014	Contract/notional amount	Fair values Assets	Fair values Liabilities
HFT derivatives			
Foreign exchange derivatives			
Currency forwards-purchase	110	-	2
Currency forwards-sale	110	2	-
Interest rate derivatives			
Interest rate cap (CALL)	6,793	108	-
Interest rate cap (PUT)	1,100	-	1
Interest option (CALL)	22,245	-	-
Interest option (PUT)	18,813	-	-
Interest rate swap (IRS)	12,628	-	145
Total derivative assets/(liabilities) held for trading		**110**	**148**
Derivatives for hedge			
Interest rate swap (IRS)	9,617	-	38
Total derivative assets/(liabilities) for hedge accounting		**-**	**38**

As at 31 December 2013	Contract/notional amount	Fair values Assets	Fair values Liabilities
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		**-**	**328**

21. Investment securities (available for sale)

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Government securities:				
- listed	253,709	238,506	253,709	238,506
Other debt securities:				
- listed	29,796	40,261	29,796	40,261
Equity securities:				
- listed	7,155	13,725	7,155	13,725
- unlisted	6,697	13,086	6,697	13,086
Total securities available for sale	**297,357**	**305,578**	**297,357**	**305,578**

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

The Bank and Group did not have pledged securities at the end of 2014 (2013: EUR 131,832 thousands).

Movement	**Banka Koper and consolidated**	
(all amounts expressed in thousands of EUR)	**2014 AFS**	**2013 AFS**
At beginning of the year	**305,578**	**304,090**
Additions	57,505	73,571
Impairment	(8,537)	(3,279)
Interest accrual	9,051	9,270
Expired coupons	(9,370)	(8,475)
Disposals (sale and redemption)	(66,592)	(62,817)
Gains/losses from changes in fair value	9,722	(6,782)
At end of year	**297,357**	**305,578**

Encumbered bonds (27,500 lots of RS68) within available for sales financial instruments amounted to EUR 28,3 million.

22. Loans and advances to banks

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Placements with other banks	233,857	172,406	233,857	172,406
	233,857	**172,406**	**233,857**	**172,406**

As at 31 December 2014 no placements with other banks are shown under Pledged assets (2013: nil).

23. Loans and advances to customers

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Loans to individuals:	*513,559*	*541,789*	*524,820*	*553,684*
- Overdrafts	33,896	40,319	33,896	40,319
- Credit cards	21,015	22,282	21,015	22,282
- Term loans	106,436	117,020	106,436	117,020
- Mortgages	352,212	362,168	352,212	362,168
- Finance leases	-	-	11,261	11,895
Loans to sole proprietors	*56,610*	*70,287*	*70,200*	*82,936*
Loans to corporate entities	*1,169,210*	*1,254,469*	*1,145,110*	*1,258,483*
Gross loans and advances	**1,739,379**	**1,866,545**	**1,740,130**	**1,895,103**
Less provision for impairment	(143,538)	(142,490)	(148,009)	(145,868)
Net loans and advances	**1,595,841**	**1,724,055**	**1,592,121**	**1,749,235**

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 -**
	Overdrafts	**Credit cards**	**Term loans**	**Mortgages**	**Banka Koper**
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**
Provision for loan impairment	1,062	1,101	1,113	1,983	5,259
Amounts recovered during the year	(1,482)	(1,502)	(1,957)	(1,994)	(6,935)
Included in statement of income	(420)	(401)	(844)	(11)	(1,676)
Write off provisions already made	(35)	-	(275)	-	(310)
As at 31 December 2014	**1,171**	**844**	**1,619**	**2,830**	**6,464**

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

(all amounts expressed in thousands of EUR)	Loans to individuals – Consolidated					
	Overdrafts	Credit cards	Term loans	Mortgages	Finance leases	Total loans to individuals - Consolidated
As at 31 December 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**
Provision for loan impairment	1,062	1,101	1,113	1,983	192	5,451
Amounts recovered during the year	(1,482)	(1,502)	(1,957)	(1,994)	(54)	(6,989)
Included in statement of income	(420)	(401)	(844)	(11)	138	(1,538)
Write off provisions already made	(35)	-	(275)	-	(66)	(376)
As at 31 December 2014	**1,171**	**844**	**1,619**	**2,830**	**444**	**6,908**

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

	Banka Koper		Consolidated	
(all amounts expressed in thousands of EUR)	Sole proprietors	Corporate entities	Sole proprietors	Corporate entities
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**
Provision for loan impairment	3,306	55,046	3,460	56,656
Amounts recovered during the year	(3,469)	(39,075)	(3,582)	(39,631)
Included in statement of income	(163)	15,971	(122)	17,025
Write off provisions already made	(577)	(12,274)	(599)	(12,326)
Impairment on capitalised suspended interest	-	77	-	77
As at 31 December 2014	**7,698**	**129,376**	**8,354**	**132,747**

Customer loan portfolio by economic sector	Banka Koper		Consolidated	
(all amounts expressed in thousands of EUR)	**2014**	**2013**	**2014**	**2013**
Government	89,240	80,565	92,098	80,565
Trade	162,022	220,491	180,420	220,491
Services	532,762	425,588	469,410	426,013
Construction	68,104	73,039	73,157	73,039
Manufacturing	196,356	225,561	208,733	225,561
Agriculture	4,846	6,398	5,111	6,398
Individuals	56,610	541,789	67,871	553,684
Sole proprietors	513,559	61,851	527,149	74,500
Other	115,880	231,263	116,181	234,852
Gross loans and advances to customers	**1,739,379**	**1,866,545**	**1,740,130**	**1,895,103**
Less provision for impairment	(143,538)	(142,490)	(148,009)	(145,868)
Net loans and advances to customers	**1,595,841**	**1,724,055**	**1,592,121**	**1,749,235**

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	
	2014	**2013**
Future minimum lease payments (finance leases):		
Not later than 1 year	36,512	37,277
Later than 1 year and not later than 5 years	58,590	55,251
Later than 5 years	29,642	30,509
	124,744	**123,037**
Unearned future interest income on finance leases	(18,704)	(17,678)
Present value of future minimum lease payments:		
Not later than 1 year	31,960	33,096
Later than 1 year and not later than 5 years	49,332	46,367
Later than 5 years	24,749	25,896
	106,041	**105,359**

Forborne exposures as on 31.12.2014 – Banka Koper and Consolidated

(all amounts expressed in thousands of EUR)

	Banka Koper				Consolidated			
	General governments	Non-financial corporations	Households	Total Banka Koper	General governments	Non-financial corporations	Households	Total consolidated
Performing exposures	217	78,014	1,472	**79,703**	217	80,698	1,497	**82,412**
Instruments with modifications in their terms and conditions	251	50,212	1,109	**51,572**	251	55,503	1,278	**57,032**
Refinancing	-	7,590	9	**7,599**	-	7,590	9	**7,599**
Total gross carrying amount	**468**	**135,816**	**2,590**	**138,874**	**468**	**143,791**	**2,784**	**147,043**
Performing	(4)	(5,345)	(23)	**(5,372)**	(4)	(5,348)	(23)	**(5,375)**
Instruments with modifications in their terms and conditions	(57)	(7,335)	(482)	**(7,874)**	(57)	(9,348)	(626)	**(10,031)**
Refinancing	-	(1,486)	(6)	**(1,492)**	-	(1,486)	(6)	**(1,492)**
Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	**(61)**	**(14,166)**	**(511)**	**(14,738)**	**(61)**	**(16,182)**	**(655)**	**(16,898)**
Performing exposures	213	72,669	1,449	**74,331**	213	75,350	1,474	**77,037**
Instruments with modifications in their terms and conditions	194	42,877	627	**43,698**	194	46,155	652	**47,001**

Refinancing	-	6,104	3	**6,107**	-	6,104	3	**6,107**
Net carrying amount	**407**	**121,650**	**2,079**	**124,136**	**407**	**127,609**	**2,129**	**130,145**

In 2014 the Bank restructured 87,581 thousands EUR loans (2013: EUR 77,929 thousands), the Group 93,938 thousands EUR loans (2013: EUR 84,066 thousands).

Forborne exposures as on 31.12.2013 – Banka Koper and Consolidated

(all amounts expressed in thousands of EUR)

	Banka Koper				**Consolidated**			
	General governments	**Non-financial corporations**	**Households**	**Total Banka Koper**	**General governments**	**Non-financial corporations**	**Households**	**Total consolidated**
Performing exposures	280	70,536	978	**71,794**	280	73,742	982	**75,004**
Instruments with modifications in their terms and conditions	200	13,751	521	**14,472**	200	20,005	1,120	**21,325**
Refinancing	-	-	6	**6**	-	-	6	**6**
Total gross carrying amount	**480**	**84,287**	**1,505**	**86,272**	**480**	**93,747**	**2,108**	**96,335**
Performing	(5)	(1,522)	(16)	**(1,543)**	(5)	(1,524)	(16)	**(1,545)**
Instruments with modifications in their terms and conditions	(38)	(3,182)	(290)	**(3,510)**	(38)	(4,076)	(380)	**(4,494)**
Refinancing	-	-	(5)	**(5)**	-	-	(5)	**(5)**
Accumulated impairment, accumulated changes in fair value due to credit risk and provisions	**(43)**	**(4,704)**	**(311)**	**(5,058)**	**(43)**	**(5,600)**	**(401)**	**(6,044)**
Performing exposures	275	69,014	962	**70,251**	275	72,218	966	**73,459**
Instruments with modifications in their terms and conditions	162	10,569	231	**10,962**	162	15,929	740	**16,831**
Refinancing	-	-	1	**1**	-	-	1	**1**
Net carrying amount	**437**	**79,583**	**1,194**	**81,214**	**437**	**88,147**	**1,707**	**90,291**

Forborne flag is the new requirement introduced in 2014; therefore did not effect on classification of clients in 2014.

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 46.

24. Advances

Advances

(all amounts expressed in thousands of EUR)

	Banka Koper		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Commissions receivables	340	356	340	356
Cheques	4	3	4	3
Receivables	863	629	1,219	1,010
Claims to Europay	8,517	9,968	8,517	9,968
Claims to citizens	777	853	777	853
Other	10,124	9.277	3.551	3.304
Gross advances	**20,625**	**21,086**	**14,408**	**15,494**
Impairments	(577)	(321)	(805)	(454)
Net advances	**20,048**	**20,765**	**13,603**	**15,040**

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

	Banka Koper	Consolidated
As at 31 December 2012	**-**	**195**
Additional provision for impairment	329	377
Amounts recovered during the year	(8)	(118)
Included in income statement	321	259
Write off of impairment	-	-
As at 31 December 2013	**321**	**454**
Additional provision for impairment	297	450
Amounts recovered during the year	(33)	(86)
Included in income statement	264	364
Write off of impairment	(8)	(13)
As at 31 December 2014	**577**	**805**

25. Goodwill

(all amounts expressed in thousands of EUR)

	Consolidated	
	2014	**2013**
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 buildings	**Hardware equipment**	**Other equipment**	**Total Banka Koper**	**Land and buildings**	**Hardware equipment**	**Other equipment**	**Total consolidated**
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**

Movement in year 2014								
Opening net book amount	21,137	1,074	1,534	23,745	21,137	1,076	3,207	25,420
Additions	597	352	440	1,389	597	361	1,839	2,797
Disposals	-	-	(10)	(10)	-	-	(129)	(129)
Depreciation charge	(1,908)	(456)	(497)	(2,861)	(1,908)	(460)	(1,065)	(3,433)
Closing net book amount	19,826	970	1,467	22,263	19,826	977	3,852	24,655
As at 31 December 2014								
Cost	50,259	6,160	11,402	67,821	50,259	6,198	15,362	71,819
Accumulated depreciation	(30,433)	(5,190)	(9,935)	(45,558)	(30,433)	(5,221)	(11,510)	(47,164)
Net book amount as at 31 December 2014	**19,826**	**970**	**1,467**	**22,263**	**19,826**	**977**	**3,852**	**24,655**

In 2014 there was no property, plant and equipment pledged (2013; nil).

In addition to its own premises, the Bank or Group hired premises at 32 locations, Future minimum lease payments under lease contracts amount to EUR 5,450 thousand, of this:

(all amounts expressed in thousands of EUR)

Banka Koper and consolidated					
2014			**2013**		
Up to 1 year	**1 to 5 years**	**Over 5 years**	**Up to 1 year**	**1 to 5 years**	**Over 5 years**
545	2,180	2,725	558	2,232	2,790

27. Investment property

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

On 31 December 2014 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 2015.

Movement of investment property

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
At beginning of the year	**1,283**	**1,028**	**8,074**	**6,445**
Depreciation	(80)	(89)	(259)	(217)
Additions	58	344	5,998	1,846
At end of year	**1,261**	**1,283**	**13,813**	**8,074**

In the item other operating gains and losses (see note 11) income from property investments carries rents of EUR 55 thousand (2013: EUR 80 thousand), Group of EUR 943 thousand (2013: 685 EUR thousand). In 2014, Bank`s maintenance costs for from property investments amounted to EUR 8 thousands, the respective amounted on Group level amounted to EUR 188 thousands (2013: EUR 62 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 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**
Movement in year 2014								
Opening net book amount	2,654	632	1,299	4,585	2,654	707	1,300	4,661
Additions	1,065	554	-	1,619	1,065	590	-	1,655
Disposals	-	-	(209)	(209)	-	-	(209)	(209)
Amortisation	(1,014)	(259)	(357)	(1,630)	(1,014)	(288)	(358)	(1,660)
Closing net book amount	2,705	927	733	4,365	2,705	1,009	733	4,447
As at 31 December 2014								
Cost	11,885	3,634	4,420	19,939	11,885	3,787	4,427	20,099
Accumulated amortisation	(9,180)	(2,707)	(3,687)	(15,574)	(9,180)	(2,778)	(3,694)	(15,652)
Net book amount as at 31 December 2014	**2,705**	**927**	**733**	**4,365**	**2,705**	**1,009**	**733**	**4,447**

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 150 thousand for the acquisition of the AMEX licence.

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

In 2014, the Bank or Group has not recognized any expenditure related to research and development in the statement of income. All development expenditure in 2014 was capitalized as intangible fixed assets, out of which staff expenses amounted to EUR 316 thousand.

29. Investment in subsidiaries

(all amounts expressed in thousands of EUR)

	Banka Koper	
	2014	2014
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	
	2014	2013	2014	2013
Accruals	446	789	454	794
Inventory	19	19	19	19
Taxes and contributions	5	7	8	113
Fixed assets from seized collateral	391	391	13,688	12,311
Prepayments and bails	8	19	78	1,105
Other	-	-	5	16
	869	**1,225**	**14,252**	**14,358**

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

31. Deposits from banks

(all amounts expressed in thousands of EUR)

	Banka Koper		Consolidated	
	2014	2013	2014	2013
Demand deposits	6,195	1,551	6,195	1,551
Term deposits	16,336	18,701	16,336	18,701
	22,531	**20,252**	**22,531**	**20,252**

32. Due to customers

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	2013	2014	2013
Individuals				
- demand deposits	529,477	465,831	529,477	465,831
- term deposits	651,650	624,149	651,650	624,149
Sole proprietors				
- demand deposits	45,946	38,793	45,946	38,793
- term deposits	5,364	6,040	5,364	6,040
Corporate customers				
- demand deposits	295,392	201,208	295,385	201,189

- term deposits	268,824	340,483	268,824	340,483
	1,796,653	**1,676,504**	**1,796,646**	**1,676,485**

As at 31 December 2014, deposits of EUR 12,197 thousand have been pledged for covering potential credit risk on assets (2013: EUR 7,401 thousand), The same applies for the Group.

33. Other borrowed funds from banks

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

(all amounts expressed in thousands of EUR)	**Banka Koper**				**Consolidated**			
	2014		**2013**		**2014**		**2013**	
	Short term	**Long term**	**Short term**	**Long term**	**Short term**	**Long term**	**Short term**	**Long term**
In local currency	-	124,621	-	264,590	-	137,625	186	300,419
In foreign currency	-	28,107	-	29,214	-	28,107	-	29,214
	-	**152,728**	**-**	**293,804**	**-**	**165,732**	**186**	**329,633**
	152,728		**293,804**		**165,732**		**329,819**	

34. Other borrowed funds from other customers

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
	Long term	**Long term**	**Long term**	**Long term**
Building bought on financial lease	90	119	90	119
Other loans	2,001	4,003	2,001	4,003
Liabilities from bought licences	125	250	125	250
	2,216	**4,372**	**2,216**	**4,372**

The residual maturity of the financial liability is shown in note 3,5,- Liquidity risk.

35. Other financial liabilities

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	**2013**	**2014**	**2013**
Unpaid commissions	395	481	396	481
Liabilities form credit card business	5,590	5,950	5,590	5,950
Not yet process payments	4,909	9,334	4,909	9,334
Unpaid dividend	107	106	107	106
Creditors	2,355	2,582	2,490	2,897
Salaries	1,973	2,027	2,006	2,062
Deferred income	4,502	3,379	4,605	3,470
Other	50	47	50	91
	19,881	**23,906**	**20,153**	**24,391**

36. Provisions for liabilities and charges

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

The amount of premiums the bank is obliged to pay back to the Housing Fund is estimated considering the suggestion of the Bank of Slovenia, the historical pay-back patterns and expected future conditions in the housing loan segment. The obligation to pay back premiums in case that savings are not used under eligible purposes, applies to the 5th tender. The amount of provisions required as at 31. 12. 2014 amount to EUR 52 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	
	2014	**2013**	**2014**	**2013**
Provisions for off-balance sheet liabilities	6,705	5,773	6,683	5,758
Provisions for National Saving Housing Scheme	52	202	52	202
Legal proceedings due to employees	223	274	223	274
Provision from specific contract obligation	1,478	1,315	1,478	1,315
Total	**8,458**	**7,564**	**8,436**	**7,549**

Movement in provisions:	Banka Koper		Consolidated	
(all amounts expressed in thousands of EUR)	**2014**	**2013**	**2014**	**2013**
At beginning of year	**7,564**	**8,220**	**7,549**	**8,202**
Additional provision	12,579	12,227	12,579	12,227
Amounts recovered during the year	(11,586)	(12,772)	(11,593)	(12,769)
Included in statement of income under provisions	993	(545)	986	(542)

Repayment of the premiums for National Saving Housing Scheme	(39)	(82)	(39)	(82)
Indemnities paid	(60)	(29)	(60)	(29)
At end of year	**8,458**	**7,564**	**8,436**	**7,549**

37. Retirement benefit obligations

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Retirement severance pay and long service bonuses	3,156	3,069	3,211	3,163
Provision for redundancies	511	372	511	372
	3,667	**3,441**	**3,722**	**3,535**

Movements:	**Banka Koper**		**Consolidated**	
(all amounts expressed in thousands of EUR)	**2014**	**2013**	**2014**	**2013**
At beginning of year	**3,441**	**3,166**	**3,535**	**3,252**
Additional provisions	350	380	350	387
Charged to statement of income	350	380	350	387
Utilised provisions	(124)	(105)	(163)	(104)
At end of year	**3,667**	**3,441**	**3,722**	**3,535**

38. Deferred income taxes

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Deferred income tax liabilities				
Non-current assets held for sale	2	2	2	2
Available-for-sale securities	2,533	1,006	2,533	1,006
	2,535	**1,008**	**2,535**	**1,008**

	Banka Koper		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Deferred income tax assets				
Retirement and other employee benefits	321	324	326	334
Provision for loan losses	-	-	987	743
Available-for-sale securities	3,508	3,664	3,508	3,664
Trading securities and derivative financial instruments	4	7	4	7
Provisions for National Saving Housing Scheme	9	34	9	34
Other - depreciation above tax prescribed rate	5	5	5	5
	3,847	**4,034**	**4,839**	**4,787**
Net deferred taxes	**1,312**	**3,026**	**2,304**	**3,779**

Movement of deferred income taxes (offsetting of assets and liabilities)	**2014**	**2013**	**2014**	**2013**
At beginning of year	3,026	1,452	3,779	2,015
Statement of income (charge) / benefit	100	486	339	676
Deferred tax expense (benefit) on investment securities (fair	(1,814)	1,088	(1,814)	1,088
At end of year	**1,312**	**3,026**	**2,304**	**3,779**

Deferred income taxes charged in statement of income				
Retirement and other employee benefits	(3)	3	(9)	3
Provision for loan losses	-	-	245	190
Trading securities and derivative financial instruments	(4)	-	(4)	-
Provisions for National Saving Housing Scheme	(25)	(21)	(25)	(21)
Provision for legal proceedings	-	-	-	-
Impairment of AFS securities	133	478	133	478
Other	(1)	-	(1)	-
Differences due to changes in tax rate:				
- retirement and other employee benefits	-	26	-	26
	100	**486**	**339**	**676**

39. Other liabilities

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Accruals	185	229	289	314
Prepayments received	707	509	872	644
Taxes and contributions	747	1,491	812	1,495
Other	-	-	47	22
	1,639	**2,229**	**2,020**	**2,475**

40. Share capital

(all amounts expressed in thousands of **Banka Koper and consolidated**	**Number of shares**	**Ordinary shares**	**Share premium**	**Treasury shares**
As at 31 December 2012	531,359	22,173	7,499	(49)
As at 31 December 2013	531,359	22,173	7,499	(49)
As at 31 December 2014	531,359	22,173	7,499	(49)

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

41. Revaluation reserves

(all amounts expressed in thousands of EUR)	Banka Koper and consolidated	
	2014	2013
Revaluation reserves:		
- Debt securities	9,108	2,974
- Equity securities	3,223	502
Total	**12,331**	**3,476**

Movement – Banka Koper and consolidated:

(all amounts expressed in thousands of EUR)	Revaluation reserves
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**
Valuation of available-for-sale securities	
Equity securities	**2,721**
- Valuation	(1,415)
- Disposals	(1,270)
- Impairment	5,406
Debt securities	**6,134**
- Valuation	6,515
- Disposals	(381)
As at 31 December 2014	**12,331**

42. Reserves from profit and retained earnings

(all amounts expressed in thousands of EUR)	Banka Koper		Consolidated	
	2014	2013	2014	2013
Legal reserves	13,655	13,324	14,184	13,324
Statutory reserves	212,365	211,968	212,365	211,968
Retained earnings	12,305	8,423	14,505	10,709
Treasury share`s reserves	49	49	49	49
Total	**238,374**	**233,764**	**241,103**	**236,050**

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 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**
Net profit for the financial year	-	-	6,627	-	6,627
Dividends	-	-	(2,017)	-	(2,017)
Transfer to statutory reserves	-	397	(397)	-	-
Transfer to legal reserves	331	-	(331)	-	-
As at 31 December 2014	**13,655**	**212,365**	**12,305**	**49**	**238,374**

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 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**
Net profit for the financial year	-	-	7,070	-	7,070
Dividends	-	-	(2,017)	-	(2,017)
Transfer to statutory reserves	-	397	(397)	-	-
Transfer to legal reserves	860	-	(860)	-	-
As at 31 December 2014	**14,184**	**212,365**	**14,505**	**49**	**241,103**

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.

43. Dividends per share

Dividends payable are not accounted for until they have been ratified by the Annual General Meeting. By the date the financial statements were authorised by the Management Board no dividends were proposed or declared. For 2013, the Bank disbursed for dividends EUR 2,016 thousand i.e. EUR 3.80 per share.

Distribution of the profit of the year	**Banka Koper**	
(all amounts expressed in thousands of EUR)	**2014**	**2013**
Net profit for the period	6,627	2,523
Allocation of the profit to the legal reserves (5%)	(331)	(126)
Transfer of expired dividends	-	18
Residual net profit available for distribution at the AGM	**6,296**	**2,415**

44. Cash and cash equivalents

(all amounts expressed in thousands of EUR)	**Banka Koper**		**Consolidated**	
	2014	**2013**	**2014**	**2013**
Cash and balances with central bank	91,234	22,342	91,241	22,361
Loans and advances to banks	174,678	172,403	174,678	172,403
Total	**265,912**	**194,745**	**265,919**	**194,764**

45. Contingent liabilities and commitments

Legal proceedings, As at 31 December 2014, the Bank and Group were involved in several legal proceedings against it, Contingent liabilities in this respect are estimated at EUR 484 thousand. To this end, the Bank established provisions of EUR 222 thousand.

Capital commitments, At 31 December 2014, the Bank and Group had no capital commitments (2013: 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**	
	2014	**2013**	**2014**	**2013**
Documentary and commercial letters of credit	160	775	160	775
Guarantees	149,418	174,633	149,418	174,633
Credit commitments:	258,817	295,106	256,745	293,777
- original maturity up to 1 year	209,880	277,391	209,880	277,391
- original maturity over 1 year	48,937	17,715	46,865	16,386
	408,395	**470,514**	**406,323**	**469,185**
Provisions for off-balance sheet liabilities:				
Documentary and commercial letters of credit	-	(7)	-	(7)
Guarantees	(4,211)	(2,687)	(4,211)	(2,687)
Credit commitments	(2,494)	(3,079)	(2,472)	(3,064)
Total	**401,690**	**464,741**	**399,640**	**463,427**

46. 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**	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Loans										
At beginning of the year	261	287	-	-	-	-	148,782	43,695	76,801	43,136
Loans issued during the year	7	7	80	-	-	-	3,722,913	2,592,432	64,072	83,212
Loan repayments during the	(40)	(33)	-	-	-	-	(3,697,477)	(2,487,345)	(35,583)	(49,547)
At end of year	**228**	**261**	**80**	-	**-**	-	**174,218**	**148,782**	**105,290**	**76,801**
Impairment as at 31 December	-	-	-	-	-	-	-	-	228	864
Collateral received as at 31 December	545	599	286	-	-	-	-	-	-	-

Deposits										
At beginning of the year	894	551	2,329	2,081	592	535	84,007	138,907	19	15
Deposits received during the	2,387	1,327	10,003	5,777	1,584	1,186	50,104	225,744	-	114,137
Deposits repaid during the	(2,463)	(984)	(9,820)	(5,529)	(1,933)	(1,129)	(53,205)	(280,644)	-	(114,133)
At end of year	**818**	**894**	**2,512**	**2,329**	**243**	**592**	**80,906**	**84,007**	**19**	**19**
Interest expense on deposits	21	22	59	69	13	17	1,670	1,995	-	-
Interest income earned	7	8	-	-	-	-	516	370	-	1,526
Other revenue − fee income	1	1	1	1	-	-	518	510	-	42
Guarantees issued by the bank and commitments	-	-	-	-	-	-	3,024	2,498	-	-
Remuneration	837	861	1,648*	1,740*	77*	118*				

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**	**Total**
Giancarlo Miranda	300	125	10	-	435
Igor Kragelj	287	-	6	3	296
Aleksander Lozej	200	16	6	3	225
Aleksander Milostnik	199	16	7	3	225
Rado Grdina	200	16	5	3	224
Irena Džaković (member from 1. 6. 2014)	114	-	5	1	120
Maurizio Marson (member from 1. 11. 2014)	30	-	6	2	38
Francesco Del Genio (member until 31. 5. 2014)	65	16	4	-	85
Total	**1,395**	**189**	**49**	**15**	**1,648**

(all amounts expressed in thousands of EUR)

Supervisory board members	**Attendance fee**	**Bonuses**	**Total**
Vojko Čok	3	27	30
Roberto Civalleri	4	20	24
Borut Bratina	3	20	23
Luca Finazzi	-	-	-
Walter Chiaradonna (member from 18. 6. 2014)	-	-	-
Elena Breno (member until 18. 6. 2014)	-	-	-
Total	**10**	**67**	**77**

47. Events after the reporting period