ANNUAL REPORT 2012

ON THE RIGHT PATH

ABANKA

Your friendliest bank

ANNUAL REPORT 2012

WE FOLLOW OUR PATH WITH A CLEAR OBJECTIVE, DRIVEN BY THE COMMON THREAD OF OUR OPERATIONS, INTERTWINED WITH KINDNESS AND PARTNERSHIPS. WE ARE LAYING A PATH OF TRUST THROUGH COMMITMENT AND MUTUAL UNDERSTANDING.

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MANAGEMENT REPORT

EXPERIENCES REPRESENT THE BRIDGE TO SUCCESS, LINKING US EVERY STEP OF THE WAY. EACH STEP IN THE BUSINESS WORLD IS TAKEN PRUDENTLY, THROUGH AN INNOVATIVE APPROACH, COMMERCIAL EXPERTISE AND THE CREATION OF THE RIGHT SERVICES.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS*

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2012	31 Dec. 2011
Total assets	**3,614,012**	4,258,192
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,139,636**	2,422,234
Total amount of loans and advances to the non-banking sector, measured at amortised cost	**2,515,942**	2,998,904
Total equity	**165,644**	231,356

INCOME STATEMENT (EUR thousand)	2012	2011
Net interest income	**71,096**	79,748
Net non-interest income	**33,143**	20,867
Labour costs, general and administration costs	**(53,498)**	(53,340)
Depreciation	**(5,939)**	(5,708)
Impairments and provisions	**(129,426)**	(180,094)
Profit or loss from ordinary operations before tax	**(84,624)**	(138,527)
Corporate income tax on ordinary operations	**3,559**	28,871

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2012	2011
Other comprehensive income before tax	**18,883**	(18,560)
Income tax relating to components of other comprehensive income	**(3,540)**	3,711

INDICATORS	2012	2011
Capital adequacy	**9.5%**	9.9%
Performance (in %)		
– return on assets after tax(1)	**(2.02)**	(2.46)
– return on equity after tax(2)	**(38.12)**	(34.37)

Notes:
Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Books of Account and Annual Reports of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 17/12).

(1) The indicator equals the ratio **profit or loss after tax/average assets**. Average assets have been calculated as the average amount of assets as at the last day of each quarter, including the amount of assets as at the last day of December of the previous year.

(2) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity as at the last day of each quarter, including the amount of equity as at the last day of December of the previous year.

* On 5 March 2012, a new Decision on Books of Account and Annual Reports of Banks and Savings Banks was published in the Official Gazette of the Republic of Slovenia No. 17/2012, amending the methodology for calculating certain data and performance indicators.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA VIPA

STATEMENT OF FINANCIAL POSITION (EUR thousand)	31 Dec. 2012	31 Dec. 2011
Total assets	**3,597,986**	4,215,263
Total amount of deposits of the non-banking sector, measured at amortised cost	**2,144,129**	2,424,278
– from legal and other persons, who pursue a business activity[1]	**957,790**	1,213,734
– retail	**1,186,339**	1,210,544
Total amount of loans and advances to the non-banking sector, measured at amortised cost	**2,527,155**	2,989,685
– from legal and other persons, who pursue a business activity[1]	**2,000,735**	2,467,359
– retail	**526,420**	522,326
Total equity	**168,558**	228,689
Impairments of financial assets and provisions	**423,238**	355,592
Off-balance sheet items (B.1 to B.4)	**1,122,164**	1,435,830

INCOME STATEMENT (EUR thousand)	2012	2011
Net interest income	**69,448**	76,038
Net non-interest income	**31,588**	18,385
Labour costs, general and administration costs	**(49,153)**	(48,727)
Depreciation	**(5,167)**	(5,068)
Impairments and provisions	**(127,216)**	(188,444)
Profit or loss before tax from ordinary operations	**(80,500)**	(147,816)
Corporate income tax from ordinary operations	**4,806**	28,667

STATEMENT OF COMPREHENSIVE INCOME (EUR thousand)	2012	2011
Other comprehensive income before tax	**19,084**	(18,615)
Income tax relating to components of other comprehensive income	**(3,531)**	3,723

NUMBER OF EMPLOYEES	31 Dec. 2012	31 Dec. 2011
	880	878

SHARES	31 Dec. 2012	31 Dec. 2011
Number of shareholders	**1,115**	1,130
Number of shares	**7,200,000**	7,200,000
Proportion of par-value shares in share capital (in EUR)	**4.17**	4.17
Book value per share (in EUR)	**23.44**	31.80

Note:
[1] non-financial corporations, public sector entities, other financial institutions, sole proprietors, foreign corporate entities and non-profit institutions serving households.

INDICATORS	2012	2011
Capital adequacy ratio	**9.6%**	9.9%
– Capital of the Bank - for capital adequacy purposes (in thousand of EUR)	**281,686**	349,905
Quality of assets and contingent liabilities (in %)		
Impairments of financial assets at amortised cost and provisions	**11.12**	8.64
Performance (in %)		
– interest margin(1)	**1.74**	1.74
– financial intermediation margin(2)	**2.53**	2.16
– return on assets before tax(3)	**(2.01)**	(3.38)
– return on equity before tax(4)	**(37.61)**	(44.52)
– return on equity after tax(5)	**(35.36)**	(35.89)
Operational costs (in %)		
– operational costs/average assets	**1.36**	1.23
Liquidity (in %)		
– liquid assets/current financial liabilities to the non-banking sector, measured at amortised cost	**49.15**	36.56
– liquid assets/average assets	**18.58**	12.85

Notes:
Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Books of Account and Annual Reports of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, No. 17/12).

(1) The indicator equals the ratio **net interest income/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

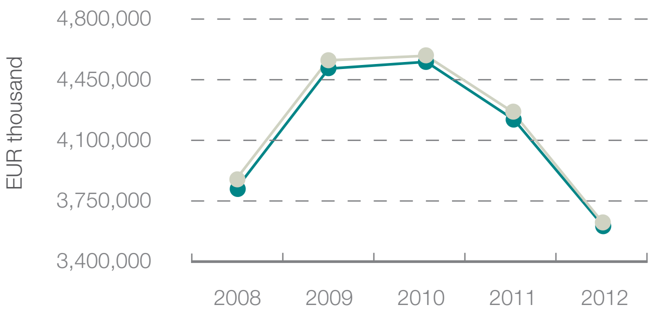
(2) The indicator equals the ratio **(net interest income+net non-interest income)/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(3) The indicator equals the ratio **profit or loss before tax/average assets**. Average assets have been calculated as the average amount of assets over the last 13 months as at the last day of each month, including the amount of assets as at the last day of December of the previous year.

(4) The indicator equals the ratio **profit or loss before tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

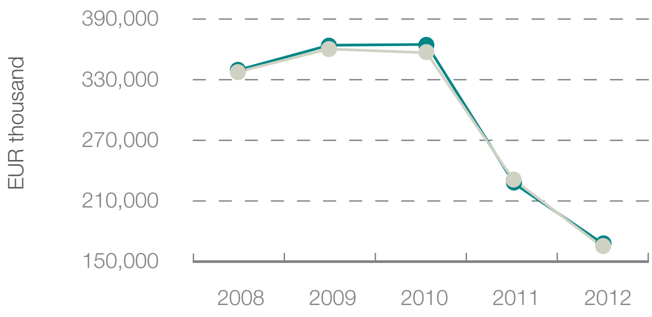
(5) The indicator equals the ratio **profit or loss after tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

TOTAL ASSETS



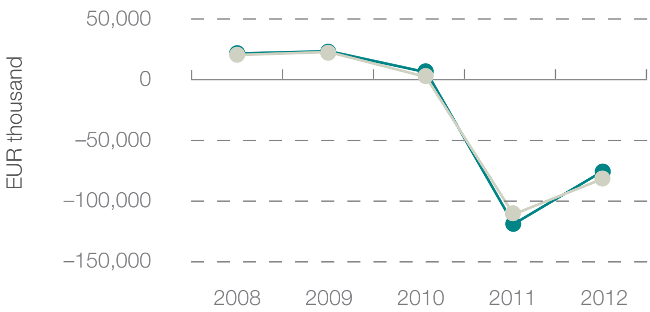
Abanka	3,823,336	4,510,472	4,551,169	4,215,263	3,597,986
Abanka Group	3,883,003	4,557,476	4,586,218	4,258,192	3,614,012

TOTAL EQUITY



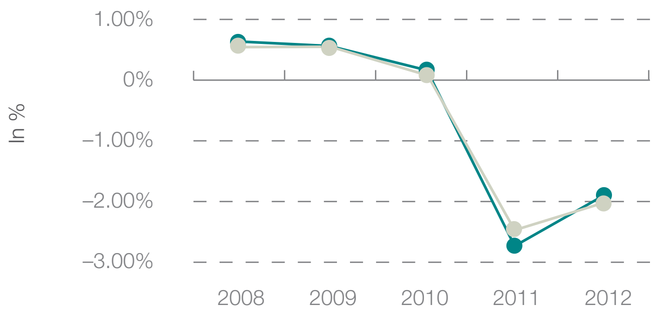
Abanka	339,458	363,577	364,003	228,689	168,558
Abanka Group	336,756	360,277	357,134	231,356	165,644

PROFIT/LOSS AFTER TAX



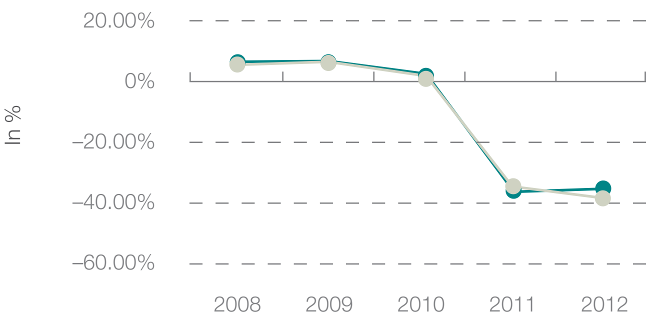
Abanka	22,233	22,925	6,566	–119,149	–75,694
Abanka Group	20,398	22,119	2,991	–109,656	–81,065

RETURN ON AVERAGE ASSETS (net ROAA)



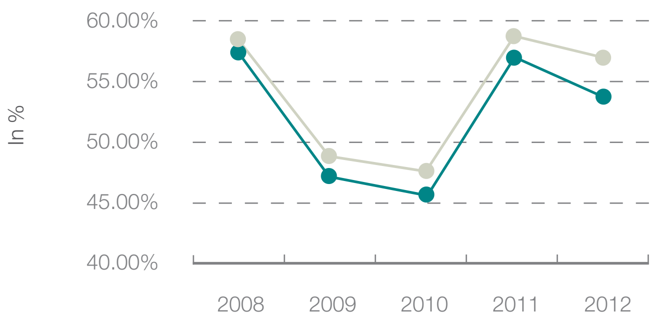
Abanka	0.62%	0.56%	0.15%	–2.72%	–1.89%
Abanka Group	0.56%	0.52%	0.07%	–2.46%	–2.02%

RETURN ON AVERAGE EQUITY (net ROAE)



Abanka	6.29%	6.58%	1.79%	–35.89%	–35.36%
Abanka Group	5.56%	6.35%	0.82%	–34.37%	–38.12%

COST TO INCOME RATIO (CIR)



Abanka	57.41%	47.25%	45.74%	56.97%	53.76%
Abanka Group	58.55%	48.88%	47.71%	58.69%	57.02%

MANAGEMENT

MANAGEMENT BOARD OF THE BANK

Igor Stebernak
Member of the Management Board

Jože Lenič, M.Sc. Econ.
President of the Management Board

Report of the Management Board

Dear Business Partners, Shareholders and Employees of the Abanka Group,

As most banks and companies, Abanka faced many challenges in 2012. The sustained economic and financial crisis continued to bear an impact on negative economic trends, further shrinking of economic activity and even tighter conditions in financial markets. Despite the economic recession, Abanka's operating income in 2012 increased by 15% compared to the previous year. The Bank formed less impairments and provisions and ended the financial year with a loss, however improving its result by EUR 43 million compared to the 2011 year-end.

In 2012, stability and safety of operations remained the Group's basic guideline in decision making. Numerous internal measures were taken that had a positive impact on the capital adequacy ratio, which equalled 9.65% as at the end of 2012. Abanka adapted its lending activity, carefully monitored the management of the loans on the watch list and proactively participated in several companies' restructuring programmes.

The Group's activities remain focused on increasing its key business segments, mostly raising primary sources of funds and lending to retail customers and SMEs. Particular attention is paid to effective risk management. Different measures were adopted to mitigate the impact of the Bank's lowered credit rating, caused partly by the downgrade of the Republic of Slovenia. Due to the deteriorated opportunities for foreign financing, activities to reduce the Bank's dependence on funds raised abroad continued. In 2012, the Bank discharged almost all of its obligations to foreign creditors. In September, the Bank fully redeemed its government-backed bond amounting to EUR 282 million, which enabled it to reduce the risks of refinancing.

Also in 2013, the Bank will continue intensively to manage assets and liabilities, reduce operating expenses, adapt lending activities and improve its internal management.

Abanka's prudent business decisions as well as its customer-focus resulted in significant achievements:

- the risks of refinancing has been decreased;
- the loan-to-deposit ratio has been significantly improved;
- costs have been managed effectively;
- the net non-interest income level has been maintained;
- the Bank is active in bancassurance;
- Abanka is the leading Slovene bank in custody and administrative services for investment funds;
- the Bank is active in the brokerage of precious metals;
- the Bank is successfully introducing technologically advanced services;
- partnership relations through which Abanka offers convenient customer services, such as the execution of payment orders in retail chains, were extended; in 2012, the network of Tuš and Mercator stores was supplemented by Tobačna 3DVA points-of-sale;
- once again in 2012, Deutsche Bank, the leading German bank, granted Abanka the STP Excellence Award in recognition of its high-quality international payment transactions.

In 2012, the Bank continued working on the following five strategic projects, of which two were successfully completed:

- strengthening retail banking;
- developing SME banking;
- re-engineering back-office processes;
- optimising credit approval process within the Group; and
- setting-up a data warehouse.

In order to achieve a solid performance and strengthen its competitive position in the future, Abanka will continue to pursue the following long-term strategic guidelines and goals:

- increasing capital strength for development and stable banking operations, including the possibility of linking with other banks;
- raising primary sources of funds;
- strengthening the retail and SME banking segments;
- improving cost and process efficiency;
- effective bad debt management;
- proactive and effective risk management process;
- optimised assets and liabilities management;
- adjustment of the Bank's organisational structure;
- optimised management of subsidiaries and the increase in their competitiveness.

Abanka will continue to implement activities for consolidating its capital base and forging a capital alliance between banks. As not all capital subscription requirements were met in the first two recapitalisation rounds, Abanka organised a third round of capital increase excluding the pre-emptive rights of the existing shareholders and inviting also other investors to subscribe to new shares. Additional capital will enable the Bank to implement the Abanka Group Strategy, to improve its capital adequacy ratio and to prepare to fulfil the higher capital requirements as laid down by Basel III.

Abanka achieves its business objectives with the help of its loyal customers and business partners, its highly qualified and motivated employees and through the support of its shareholders. Abanka boasts a comprehensive range of financial-insurance products, an extensive branch network, significant information capital, and state-of-the art sales channels. In 2013, the Bank will pursue further modernisation and extension of the branch network, develop and launch new products and services, continue marketing and sales activities targeted at individual segments and provide for the improvement of the existing and the introduction of new innovative sales channels.

In cooperation with the Group companies, the Bank offers its customers a comprehensive range of financial services, remaining a trustworthy partner to corporate and retail customers. It has maintained its position as the number one bank in custody and administrative services in Slovenia, a visible player in investment banking and a respected and well-known partner on the international inter-bank market.

The implementation of the Group's mission »UNITING WITH EXCELLENCE IN FINANCIAL SERVICES« is the expression of its commitment to meeting your expectations. Abanka's mission is to search for proper solutions and to efficiently adapt its operations to your demands. According to forecasts, 2013 will be another difficult and unpredictable year. Nevertheless, through the pursuit of its goals and the common vision as well as the loyalty to its strategic guidelines, Abanka plans to create conditions for stable and profitable operations. Rest assured that in 2013 Abanka will continue to provide the wide range of high-quality banking services and live up to the trust you have placed in us.

Igor Stebernak
Member of the Management Board

Jože Lenič, M.Sc. Econ.
President of the Management Board

SUPERVISORY BOARD

As at 31 December 2012

Andrej ANDOLJŠEK	• Sava d.d., Member of the Management Board • Sava Turizem d.d., Member of the Supervisory Board
Andrej SLAPAR	• Zavarovalnica Triglav d.d., Member of the Management Board • Pozavarovalnica Triglav RE d.d., Chairman of the Supervisory Board
Branko PAVLIN, M.Sc.	• retired
Vladimir Mišo ČEPLAK, M.Sc.	• Zavarovalnica Triglav d.d., Assistant to the President of the Management Board
Franci STRAJNAR, M.Sc.	• Sava d.d., Member of the Management Board • Istrabenz d.d., Member of the Supervisory Board • Sava Turizem d.d., Member of the Supervisory Board
Slaven MIĆKOVIĆ, Ph.D.	• Ministry of Finance, State Secretary, Head of Fiscal Forecasting Department • Sava Re (Pozavarovalnica Sava), Member of the Supervisory Board
Kristina Ana DOLENC	• retired
Janko GEDRIH	• retired

Report of the Supervisory Board

In 2012, the Supervisory Board of Abanka was composed of eight members. The composition of the board changed over the course of the year. Until 29 February 2012, the Supervisory Board had the following composition: Janez Bohorič as Chairman; Branko Pavlin as Deputy Chairman and Simon Zdolšek, Igor Stebernak, Andraž Grum, Slaven Mićković, Uroš Rožič, Vladimir Mišo Čeplak and Franci Strajnar as members.

Simon Zdolšek, Uroš Rožič and Igor Stebernak resigned as members of the Supervisory Board on 29 February 2012, 16 March 2012 and 17 April 2012, respectively, while Janez Bohorič resigned as Chairman of the Supervisory Board on 11 April 2012. On 30 May 2012, the 24th General Meeting of Shareholders appointed Kristina Ana Dolenc, Andrej Slapar, Andrej Andoljšek and Andrej Hazabent as members of the Supervisory Board with four-year terms of office. On 11 October 2012, Andrej Hazabent resigned as member of the Supervisory Board. On 19 November 2012, at its 25th session, the General Meeting of Shareholders appointed Janko Gedrih as member of the Supervisory Board with a four-year term of office. On 21 November 2012, Andraž Grum resigned as member of the Supervisory Board.

As at the end of 2012, Andrej Andoljšek held the office of the Chairman of the Supervisory Board, its Deputy Chairman was Andrej Slapar, whereas Branko Pavlin, Vladimir Mišo Čeplak, Franci Strajnar, Slaven Mićković, Kristina Ana Dolenc and Janko Gedrih were members of the Supervisory Board. The Banking Act lays down specific and detailed conditions and requirements for persons to serve as Supervisory Board members of banks, and does not prohibit individuals with strong economic, personal or other ties with the banks' major shareholders or their Management Boards membership on the Supervisory Boards. In case the Supervisory Board discusses issues related to persons linked to members of the Supervisory Board, the latter are routinely excluded from the discussion and voting on that issue, with the Chairman of the Supervisory Board paying special attention to exclude these members. In case the Chairman is excluded, the session is chaired by the Deputy Chairman. Any such exclusion should be entered into the minutes.

The Supervisory Board has three committees:

- **The Audit Committee**, which had the following composition: Vladimir Mišo Čeplak as Chairman, and Franci Strajnar, Tina Cvar and Jasmina Kovačič as members. The Audit Committee held eight meetings in 2012. The main purpose of the Audit Committee is to assist the Supervisory Board in discharging its supervision duties regarding the reliability of financial statements, financial reports and other financial information that the Bank provides to its shareholders and other members of the public concerning the qualifications, effectiveness and independence of the external auditor, the functioning of the internal audit system and the Bank's compliance with legal requirements.

- **The Compensation and Human Resources Committee**, which was composed of Andrej Andoljšek as Chairman, and Branko Pavlin, Andrej Slapar and Tomaž Kuntarič as members. In 2012, it held five meetings. The main purpose of this committee is to help the Supervisory Board exercise its supervisory responsibilities with regard to preparing decisions related to remunerations, including those having an impact on risks and risk management in the Bank, as well as decisions on staffing issues related to the Management Board and Supervisory Board Membership.
- **The Risk Management and Assets Liability Management Committee** was in 2012 composed of Andrej Slapar as Chairman, and Slaven Mićković, Kristina Ana Dolenc, Franci Strajnar as members. It started work in 2012. The main purpose of this committee is to support the Supervisory Board in the execution of its supervisory responsibilities in preparing decisions on risk management, risk profiles and ALM control in the Bank. In 2012, the committee met three times.

With the exception of the above-stated three committees, the Supervisory Board has no other division of duties among its members.

The self-assessment of the Supervisory Board in 2012 was positive and in accordance with expectations. The assessment of the Supervisory Board's work is based on the conclusion that the Supervisory Board is composed of a suitable group of experts. The professional qualifications of the Supervisory Board's members cover a broad spectrum of expertise in finance, marketing, law, organisation and other fields. The organisation and functioning of the Board's members as a team is effective, as they facilitate the on-going monitoring and supervision of the Bank's operations as well as initiatives and guidelines for its development. The Supervisory Board's self-assessment results positively affected and encouraged its work and confirmed that the Board has properly implemented its activities.

Review of the Supervisory Board's activities in 2012

In accordance with the competencies and obligations defined in the Banking Act, the Companies Act, the Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, and the Bank's Articles of Association, the Supervisory Board operated pursuant to the principles of modern corporate governance and thus, through its supervisory function, contributed to the efficiency and transparency of the Bank's operations.

In 2012, the Supervisory Board held fourteen regular sessions, one extraordinary session and one meeting by correspondence. The Supervisory Board session attendance rate was 97%, all of the absences were for legitimate reasons. The Supervisory Board's regular sessions lasted 63 hours and 28 minutes in total, which is 1.7 times more than in 2011 (36:27).

At its sessions in 2012, the Supervisory Board:

- approved the audited Annual Report of Abanka for 2011, including the auditors' report by KPMG Slovenija d.o.o.;
- discussed reports on the financial operations of Abanka and the Abanka Group in 2012;
- appointed Igor Stebernak as member of the Management Board;
- gave the Management Board its consent to implement the merger project between Abanka and Gorenjska banka, and was regularly informed of the merger project activities;
- approved the start of activities for a capital strengthening of the Bank through the paying-in of newly-issued shares, and took regular note of the Bank's recapitalisation activities;
- approved the Management Board's decision to issue subordinated debt of EUR 25 million;
- approved the proposed agenda and draft resolutions of the Bank's 24th General Meeting of Shareholders and approved the date of the next 25th General Meeting of Shareholders to decide on the share capital increase of the Bank and adopted its agenda;
- approved a due diligence investigation and took note of its results;
- adopted the Statement of Compliance with the Corporate Governance Code;
- approved amendments to the Risk Management Strategy and the related policies;
- took note of the limit systems in the Abanka Group and the identified links between persons, which together can pose one risk for the Bank; regularly examined the proposed revisions of limits for large exposure to customers and issued relevant approvals; took note of the Bank's exposures to groups of related parties and persons in special relationship with the Bank and issued relevant approvals pursuant to Article 167 of the Banking Act;
- was informed of the introduction of countercyclical capital buffers in line with the foreseen amendments of the capital

requirement regime (Basel III) and the aspects of IASB[2] and IFRS[3] on countercyclical provisions;
- took note of the findings of the Internal Capital Adequacy Assessment Process in Abanka and discussed reports on risks in banking operations;
- discussed the findings of the audit report on the credit process and credit risk management;
- approved the report on implementation of the compliance function in 2011 and planned activities for 2012;
- received information on the Bank’s structural liquidity report and the redemption of the government-backed bond;
- approved Abanka’s Investment and Trading Strategy for 2013, including the organisational set-up of the internal control system in the Trading Division and the IAD’s Draft Annual Audit Plan for the Trading Division;
- took note of two tests (under the baseline and adverse scenarios) of a possible increase in impairments and provisions in 2012–2013;
- adopted internal audit reports, follow-up reports on the implementation of Internal Audit Department’s recommendations and requirements, adopted the Internal Audit Department's work plan for 2013 and took note of Abanka's activities to fulfil the requirements set by the Bank of Slovenia;
- approved the Group’s 2012–2016 Financial Plan and gave consent to Group's Annual Plan for 2013 (Financial and Business Plan);
- discussed other issues related to the operations of the Bank and the Group.

Based on up-to-date materials prepared by the Management Board, reports made by specialised in-house departments and its own findings, the Supervisory Board responsibly monitored the Bank's operations and the work of the Internal Audit Department, also supervising the management of the Bank. The Supervisory Board considers its cooperation with the Management Board good; the Management Board reported on all relevant circumstances in a timely and complete manner, provided answers to the questions received, and duly discharged the duties imposed by the Supervisory Board. All members of the Management Board were present at all sessions of the Supervisory Board. The Supervisory Board has concluded that its regular and comprehensive monitoring of Abanka’s operations, its guidance towards the best possible decisions in a particular situation, coupled with appropriate supervision of the Bank’s governance, helped Abanka achieve most of its objectives set for 2012.

2 Internal Accounting Standards Board.
3 International Financial Reporting Standards.

2012 Annual Report

At its session on 25 April 2013, the Supervisory Board discussed the 2012 Annual Report of Abanka together with KPMG Slovenija’s audit report. Cooperation with the audit company was of high quality; the auditors responsible took part in the sessions of the Supervisory Board and the Audit Committee and participated in resolving the outstanding issues. The Supervisory Board confirmed that the Annual Report is a true and fair presentation of the Bank's and Group’s position, gives a comprehensive view of operations in 2012 and thus complements the information it received during the financial year. Comparing the Annual Report with the audited financial statements for the 2012 financial year, the Supervisory Board established that the financial results presented in the Annual Report match the audit report. In its opinion, the Supervisory Board, together with the Management Board, fulfilled all their legal requirements of the 2012 financial year.

The Supervisory Board hereby establishes that the certified external auditor, in its report, issued a positive opinion of the financial statements, which present a true and fair view of the Bank's and Group’s financial position in all material aspects. The Supervisory Board has no comments on the audit report by KPMG Slovenija d.o.o. and believes the Bank's and Group’s operations in 2012 were carried out in accordance with the legal requirements. Based on its insights into the Bank's operations during the year and following a careful examination of the audited Annual Report and the positive opinion issued by the certified auditor in its audit report, the Supervisory Board hereby without objections approves and adopts the Annual Report of Abanka for the 2012 financial year.

The Supervisory Board hereby thanks the Management Board and all employees for their work in 2012.

Andrej Andoljšek
Chairman of the Supervisory Board

PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

ABOUT THE BANK

Abanka Vipa d.d. (hereinafter: Abanka) is a bank with a long tradition in the Slovene banking sector. The origins of Abanka d.d. date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was transformed into a joint-stock company. On 31 December 2002 Banka Vipa merged with Abanka. Since that time, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. In October 2008 the shares of Abanka were listed on the Ljubljana Stock Exchange. Abanka's market share in terms of total assets as at 31 December 2012 was 7.8%.

Abanka is a universal bank with authorisation to provide all banking and other financial services. Through our extensive network of 41 branches across Slovenia, e-banking, our advisory services and personal approach, we offer comprehensive financial services ranging from traditional banking and banking-insurance services to investment banking. In the scope of its investment banking, Abanka also manages the mutual retirement fund AIII.

Abanka has also established its reputation internationally. With regard to inter-bank operations, Abanka uses a network of correspondent banks across the globe to meet its customers' needs for international payment transactions.

Abanka's range of services is further supplemented by factoring, leasing and asset management provided by its subsidiaries in Slovenia: ABANKA SKLADI d.o.o., Analožbe d.o.o., Argolina d.o.o., Afaktor d.o.o. with two subsidiaries in Belgrade and Zagreb, and Aleasing d.o.o. with its participation in the joint venture in Bosnia and Herzegovina, ASA Aleasing d.o.o.

7.8%

market share of Abanka as at the end of 2012

SERVICES OF THE BANK

As at 31 December 2012 Abanka was authorised to provide the following mutually recognised financial services under Article 10 of the Banking Act (ZBan-1):

SERVICE	LICENCE ISSUED
1. Acceptance of deposits;	YES
2. Lending including, inter alia: – consumer loans, – mortgage loans, – factoring, with or without recourse, – financing of commercial transactions (including forfeiting);	YES YES YES YES
3. Financial leasing: leasing of assets for a period which is approximately the same as the life expectancy of the leased assets, where the lessee derives most benefit from the use of the leased assets and assumes total transaction risk;	NO
4. Payment services;	YES
5. Issuance and administering of payment instruments (e.g. travellers' cheques and bankers' drafts insofar as this service is not covered by point 4);	YES
6. Issuance of guarantees and other commitments;	YES
7. Trading for own account or for the account of customers in: – money market instruments, – foreign exchange, including currency exchange transactions, – financial futures and options, – exchange and interest-rate instruments, – transferable securities;	YES YES YES YES YES YES
8. Participation in the issuance of securities and services related to such issues;	YES
9. Advice to undertakings relating to mergers and acquisitions;	YES
10. Money intermediation on inter-bank markets;	NO
11. Portfolio management and advice;	YES
12. Safekeeping of securities and other services related to the safekeeping of securities;	YES
13. Credit reference services: collection, analysis and provision of information on creditworthiness;	YES
14. Renting of safe deposit boxes;	YES
15. Investment services and operations and ancillary investment services set out in Article 10 of the Financial Instruments Market Act.	YES

Abanka is also authorised to provide the following other financial services under Article 11 of the Banking Act:

SERVICE	LICENCE ISSUED
1. Insurance brokerage in accordance with the law governing the insurance business;	YES
2. Payment system management services;	NO
3. Pension fund management in accordance with the law governing pension and disability insurance;	YES
4. Custodian services provided according to the Investment Funds and Management Companies Act;	YES
5. Credit brokerage in consumer and other loans;	NO
6. Finance leasing brokerage and administrative services for investment funds.	YES

BANK PROFILE

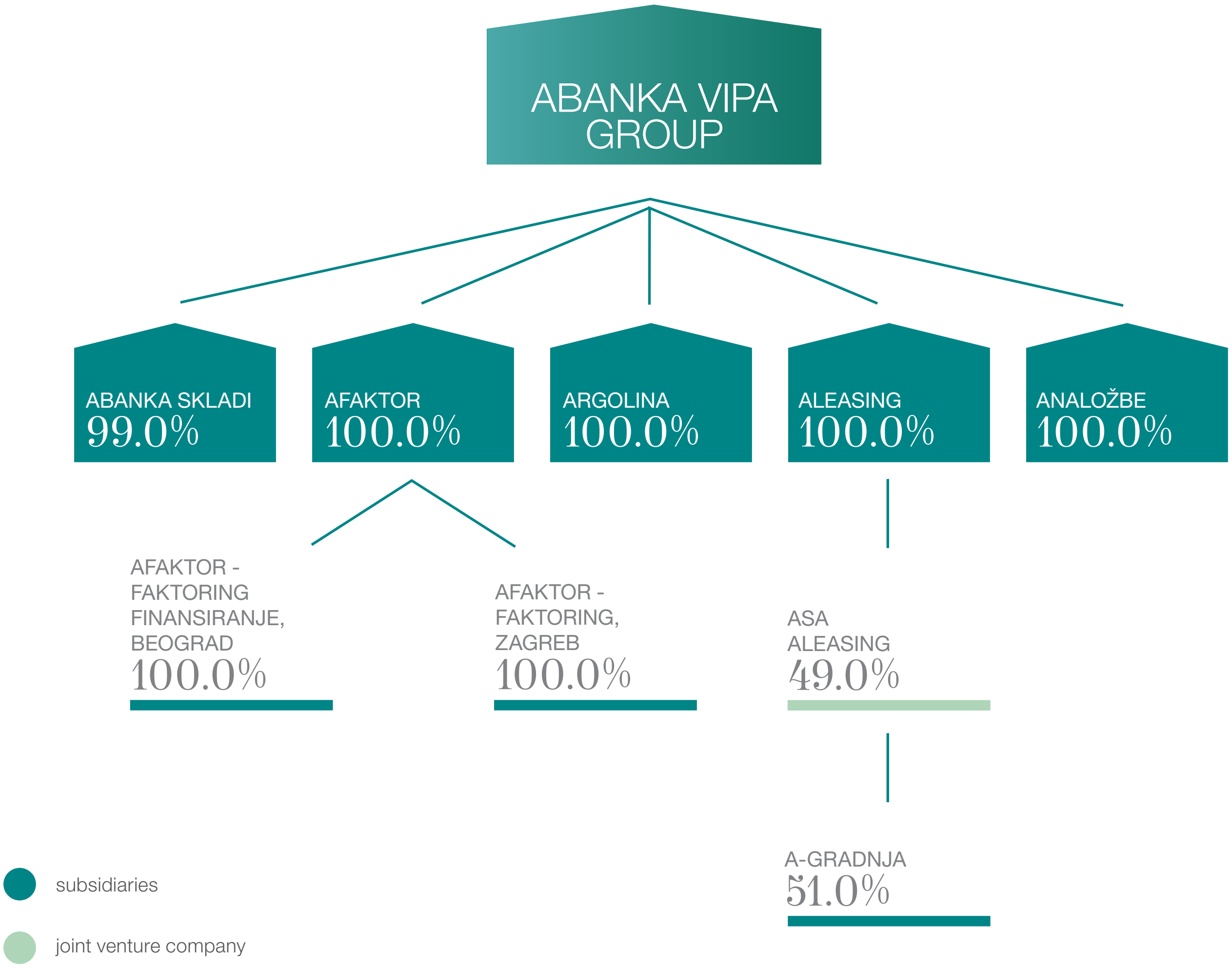
Abanka is entered in the Companies Register kept by the District Court in Ljubljana under registration no. 1/02828/00.

Registered office:	Slovenska cesta 58, 1517 Ljubljana
Transaction account:	SI56 0100 0000 0500 021
SWIFT:	ABANSI2X
Tax number:	68297530
VAT indentification number:	SI68297530
Company registration number:	5026024
Share capital:	EUR 30,045,067.60
Telephone:	(+386 1) 47 18 100
Fax:	(+386 1) 43 25 165
Website:	http://www.abanka.si
E-mail:	info@abanka.si

ABOUT THE GROUP

In addition to Abanka, as the parent company, the Abanka Vipa Group (hereinafter: the Abanka Group) includes the following:

- **subsidiaries:** ABANKA SKLADI d.o.o., Afaktor d.o.o., Argolina d.o.o., Aleasing d.o.o., Analožbe d.o.o.;
- **the joint venture company of the Aleasing subsidiary:** ASA Aleasing d.o.o.



Structure as at 31 December 2012

The following table indicates the year the subsidiaries and the joint venture company were included in the Abanka Group, their activities and the Abanka Group's equity shareholding as at 31 December 2012.

Company	Included in Abanka Group	Activity	Equity Shareholding	Nominal Value of Stakes as at 31 December 2012 (in EUR thousand)
ABANKA SKLADI d.o.o.	1994	investment fund management	99.0%	842
Afaktor d.o.o.	2002	factoring	100.0%	1,505
Argolina d.o.o.	2003	project financing	100.0%	1,052
Aleasing d.o.o.	2003	leasing	100.0%	5,402
Analožbe d.o.o.	2006	investment management	100.0%	100
ASA Aleasing d.o.o.	2007	leasing	49.0%	1,002

Due to recapitalisation, in 2012 the nominal value of Abanka's equity stake in Aleasing d.o.o. and Argolina d.o.o. increased to EUR 5,402 thousand (EUR 1,763 thousand in 2011) and EUR 1,052 thousand (EUR 100 thousand in 2011), respectively.

Activities of Subsidiaries and the Joint Venture Company

Subsidiaries

ABANKA SKLADI d.o.o.

ABANKA SKLADI, družba za upravljanje investicijskih skladov d.o.o. (short company name: ABANKA SKLADI d.o.o.) was established in May 1994. The company is based in Ljubljana and operates in Slovenia.

As at the end of 2012, it was owned by:
• Abanka – 99%; and
• Mateja Gubanec – 1%.

ABANKA SKLADI d.o.o. engages in financial activities and manages investment funds pursuant to the Investment Trusts and Management Companies Act. It was granted a licence to manage investment funds by the Securities Market Agency on 27 October 1994. Investment fund management activities comprise:
• managing the assets of investment funds;
• marketing investment funds, selling investment vouchers or shares of investment funds; and
• administrative services.

At the end of 2012, ABANKA SKLADI d.o.o. was managing twelve subfunds under ABANKA SKLADI umbrella fund:
• ABANKA SKLADI AKTIVNI
• ABANKA SKLADI SVETOVNI
• ABANKA SKLADI EVROPA
• ABANKA SKLADI ZDA
• ABANKA SKLADI AZIJA
• ABANKA SKLADI EVROPSKI TRGI V RAZVOJU
• ABANKA SKLADI BALTINORD
• ABANKA SKLADI AFRIKA IN SREDNJI VZHOD
• ABANKA SKLADI FLEKSIBILNI
• ABANKA SKLADI URAVNOTEŽENI RAZVITI TRGI
• ABANKA SKLADI OBVEZNIŠKI
• ABANKA SKLADI DENARNI EURO

The net value of all subfunds under the umbrella fund of ABANKA SKLADI as at 31 December 2012 was EUR 51,306 thousand, compared to EUR 58,636 thousand as at 31 December 2011.

In February 2012, the company decided to change the name of Abančna DZU to ABANKA SKLADI in order to improve its visibility. In March, the company adopted the 2012–2016 Strategy Business Plan, which defines a market share increase policy with a clear business focus aimed at investors, and the recruiting of appropriate financial services that would address the needs of all interested economic entities. Among the key strategic orientations are the full integration of ABANKA SKLADI's products into Abanka's product range, and cooperation in formulating integrated financial solutions for the Abanka Group's customers.

In August 2012, ABANKA SKLADI, as the first fund management company in Slovenia, received approval for the change in its fund management rules required due to the adoption of the new Investment Trusts and Management Companies Act (ZISDU-2) and secondary legislation governing the operations of fund management companies. Simultaneously, ABANKA SKLADI refreshed its range of products and renamed twelve funds, which now reflect the altered company name. The changes in sub-fund investment policies, which are the result of harmonisation with the new legislation, make products more transparent for the investors, both in terms of investment limitations and risk assessment, as well as offering new opportunities for multiplying invested assets.

In autumn 2012, the company introduced five investment packages, composed of selected sub-funds of the ABANKA SKLADI umbrella fund, which are tailored to individuals' needs in order to simplify investment decisions.

The key emphasis of business in 2012 was raising the visibility of the company and its services, strengthening the cooperation with the Bank and developing the distribution channel of Abanka. In accordance with the work plan and strategy implementation, the latter was accompanied by numerous sales and marketing activities throughout Slovenia. The company organised training sessions to cover the needs of different sales channels and pursued the goal of establishing active communication with the sales network. Special emphasis was devoted to the cost efficiency of operations.

Compared to the previous year, the company recorded a 147% rise in the number of accessions to mutual funds as measured by the number of declarations of accession in 2012.

Afaktor d.o.o.

Afaktor, finančna družba za faktoring d.o.o. (hereinafter: Afaktor d.o.o. Ljubljana), founded in March 1993, is a 100%-owned subsidiary of Abanka and is based in Ljubljana.

The core activities of Afaktor d.o.o. are:
• domestic and international factoring,
• factoring, with or without recourse,
• purchase of receivables,
• accounts-receivable management.

Afaktor d.o.o. Ljubljana has successfully grown through the years since its establishment and broadened its range of factoring services, becoming of one of the three largest factoring companies in Slovenia. In line with the business expansion strategy, Afaktor d.o.o. Ljubljana established the subsidiaries Afaktor – faktoring finansiranje, Belgrade for operations in Serbia at the end of 2007, and Afaktor – faktoring, Zagreb for operations in Croatia in April 2010. Based on that, it acts as a group specialised in factoring, managed and controlled by the parent company Afaktor d.o.o. Ljubljana, which is the sole owner of both subsidiaries. All companies in the group are factoring specialists. The largest volume is in international factoring services in Slovenia. The bulk of the business comes from export factoring, mostly within the FCI[4] association, of which Afaktor d.o.o. Ljubljana has been a member since 2007.

In 2012, all markets were affected by the financial and economic crisis, which was an important factor affecting the operations of all the Afaktor Group companies. The financial crisis raises credit risk in factoring but also increases demand for factoring services by companies. In the reporting year, the companies in the Afaktor Group took advantage of this increased demand for factoring services to expand their business to areas that guarantee reliable cash flow and faster investment turnover, namely to the factoring of export receivables and receivables from certain customers with high credit ratings. Sales opportunities also increased for other factoring services such as accounts-receivable management and collection services.

In the export factoring segment, Afaktor Ljubljana recorded an immense growth of 42% in 2012 over 2011. The number of customers also increased, providing the continuity of operation in all of the Afaktor Group's markets. With effective risk control and collection of receivables, the companies within the Afaktor Group achieved a faster turnover of accounts receivables and shorter default periods.

Operations in 2012 were focused foremost on attracting new customers and concluding contracts with the companies receiving solid and regular orders from solvent buyers, as well as on international factoring with insurance via import factors, which remains a priority in 2013. International factoring will thus continue to be the key business segment, while the range of traditional factoring services will be complemented by accounts-receivable management services. The Afaktor Group plans to increase specialisation in factoring operations aimed at the needs of small and medium-sized companies, and to achieve further growth of the number of transactions and customers.

Internal synergies of the Afaktor Group within the Abanka Group were achieved in operations with shared customers, especially by cross-referencing customers between Afaktor companies and the Bank. The biggest synergy effects with the Bank were achieved in the segment of factoring services for Abanka account holders, primarily in order to improve their liquidity and service their liabilities towards the Bank.

4 Factors Chain International.

Argolina d.o.o.

Argolina, investicijski inženiring d.o.o. (short company name: Argolina d.o.o.) was established in July 2003 for the purpose of investing in the construction of the business and residential complex Argolina, at the site of the former Argo factory in Izola. When the construction is completed, the company is designed to continue working as a building manager until another/final one is selected by new owners. The company's basic activity is the organisation of building construction projects. The company's registered office is in Ljubljana.

Argolina was founded by Abanka Vipa d.d. (25.1%), MPM Engineering d.o.o. (49.9%) and Relax d.o.o. (25.0%). In June 2006, MPM Engineering d.o.o. sold its stake in Argolina d.o.o. to Abanka, which increased its shareholding to 75% of the company. By a resolution at the General Meeting of Shareholders in May 2007, Relax d.o.o. was excluded from the company due to a breach of the Articles of Association. Initially, the stake of Relax d.o.o. was transferred to Argolina and, in accordance with the law, three months later it was acquired by Abanka which became the 100% owner of the company.

The onset of the economic crisis in 2008 adversely affected the implementation of the project, as the foreseen construction on the land owned by Argolina d.o.o. requires specific investors from the international tourism market, which since 2008 has been affected by a recession.

Argolina d.o.o. is currently not actively operating, as all of its business activities will begin with the start of the project implementation. All activities in recent years were performed only to ensure property maintenance and compliance with municipal and national legislation.

Further business activities of Argolina largely depend upon factors that go beyond its sphere of influence. The predominant factor will be the urban development policy of the municipal authorities and decision-making bodies in Izola, which is currently being drafted and expected to be finalised by the end of 2013.

Aleasing d.o.o.

Aleasing, financiranje, svetovanje, trženje d.o.o. (short company name: Aleasing d.o.o.) opened for business on 11 February 2000. It is 100% owned by Abanka and has business units in Ljubljana, Celje and Šempeter pri Gorici. In 2012, the company relocated its headquarters from Celje to Ljubljana.

The purpose of establishing Aleasing was to sell lease-financing services in Slovenia. Leasing completes the sales range of the Abanka Group. Aleasing d.o.o. sells financial and operational leasing products in all business segments, i.e. vehicles, machinery, equipment and real estate. In the framework of its core business, the company is active in selling insurance and its own residential and commercial real estate. Aleasing sets and follows business development trends and tailors its offering to the needs of its business partners.

Tight economic conditions in 2012 negatively impacted the company's operations. The continuation of the European financial crisis and the simultaneous credit downgrades of Slovenia decreased Aleasing's possibilities for raising additional sources of funds with financial institutions outside the Abanka Group. Effective demand for Aleasing services in 2012 surpassed the supply. According to statistical data gathered by the Bank Association of Slovenia, Aleasing took 10th place (excluding floor plan financing).

The economic climate and limited sources of funds in 2012 were reflected in Aleasing's volume of new financing operations, which decreased by 53.5 percentage points compared to 2011. In 2012, the regulatory environment impacted the company's operations in several areas. Legislative changes aimed at stimulating economic activity and strengthening payment discipline had minimal positive impact and have not yet been implemented in full. The greatest direct impact on the financial statements was a result of a decrease in the capital gains tax rate, which negatively affected the company's performance through the deferred tax balance sheet item. Decreased economic activity and reduced liquidity of economic entities caused an increasing number of insolvency procedures, adversely affecting the solvency of customers. The loss in 2012 is to the greatest extent a consequence of impairments of assets (not impaired in previous years) and the elimination of the majority of deferred tax receivables. With proactive and preventive measures, Aleasing managed to neutralise the majority of the negative economic trends. Decreased liquidity in the economy and diminished investment activity caused a decline in the demand for lease items, especially real estate and production equipment, which the company discloses as inventory. The company adapted to the changed economic realities by changing its organisational structure, type of management and optimising its business processes.

In line with the Abanka Group's business policy, Aleasing adopted the strategy of reducing the volume of operations and consolidating the existing portfolio of assets. To comply with the strategy of reducing the volume of operations, Aleasing reduced the number of business units, while retaining a high quality of services through the optimisation of business processes. The company's operations were focused on maintaining business with strategically important partners, speedy debt recovery, finalisation of unfinished projects and selling off the inventory of leased items.

To streamline its operations and ensure proper risk management, in 2012 Aleasing integrated a new process architecture into its operations and set up a new organisational structure of the company. These changes allowed the company to segregate tasks and duties more precisely, define the persons responsible and design a new lease approval process in line with the recommendations of the Audit Department. All these changes required appropriate software support. Working with external providers, the company developed a new document flow software for electronic invoice settlement and the electronic approval of lease transactions.

The automation of invoice settlement and approvals reduced the number of necessary work operations, allowing for more effective monitoring, and better transparency of operations, thereby decreasing the related risks. The reorganisation and process automation enabled the company to carry out additional activities to streamline its business operations. Aleasing made reductions in the number of employees, the number of contractual workers and decreased expenses for student jobs.

In the first half of 2012, the Ljubljana and Celje business units moved to new locations. With these relocations, the company improved the working conditions for employees and the quality of service for customers.

Synergistic effects between the company and the Bank are visible in the area of sales, with Abanka offering leasing services in its branch offices and in joint management of entities in rehabilitation. Possibilities for synergy also exist in the sale of its own real estate.

In 2012, following a bankruptcy of both the lessee and the contractor of a residential building project, the company obtained all documentation required to finalise the construction.

Strategic policies and goals of the company are based on and comply with those of the Abanka Group. Although the business strategy of Aleasing provides for a decrease in the total assets, in December 2012, Abanka Vipa d.d. as the sole shareholder raised the company's share capital by EUR 3.6 million. Aleasing has responded to tight economic conditions by diversifying its range of services, upgrading them with a personalised approach. Special attention is paid to risk management and the safety of investments. The company continuously upgrades its risk management system, adapting it to the situation in the environment in which it operates.

Naložbe d.o.o.

Naložbe, upravljanje z naložbami d.o.o. (short company name: Naložbe d.o.o.) was established in accordance with its Articles and Memorandum of Association on 26 October 2006 for the purpose of providing financial intermediation in both Slovenia and abroad. In its first two years the company’s core business provided credit to foreign investment institutions and forward dealing in the domestic market. In 2009, Naložbe expanded its operations to precious metal trading at the retail level. For that purpose, it started business co-operation with the internationally renowned Swiss refiner, Valcambi SA, which meets the Good Delivery standard – an international standard for bullion. In December 2010 Naložbe stopped precious metal trading business, as its parent company Abanka in December 2010 expanded its operations to precious metal trading at the retail level. In 2012 as in 2011, Naložbe d.o.o. was focused on the management of own assets, simultaneously making efforts to lower and control operating costs. Its main source of revenue was financial income from interests and consulting services.

Joint Venture Company

ASA Aleasing d.o.o.

ASA Aleasing is the joint venture company of the subsidiary Aleasing Ljubljana and ASA Finance Sarajevo. The underlying Joint Venture Agreement was concluded in 2007 between Abanka and ASA Holding Sarajevo. In March 2010, ASA Aleasing was issued a licence to carry out leasing operations in accordance with the law regulating leasing operations in Bosnia and Herzegovina.

The operations of leasing companies in Bosnia and Herzegovina are overseen by the Banking Agency of the Federation of Bosnia and Herzegovina, which carries out an audit of ASA Aleasing at least once a year. Upon the last audit in July 2012, the Agency clearly demanded prompt resolution of outstanding issues regarding an unfinished project in the subsidiary Agradnja, i.e. acquiring the missing authorisations for the project and regulating the repayment schedule for approved and drawn funds. In December, the representatives of both owners of ASA Aleasing reconciled these proposed solutions, which involve the recapitalisation of the joint venture and the assumption of liabilities by its daughter company arising from the loans granted for the project and loan rescheduling. The company acquired the missing urban planning permit. ASA Aleasing implemented all other recommendations and decisions of the Banking Agency of the Federation of Bosnia and Herzegovina by the end of 2012.

Due to the lack of funding, the company reduced the volume of operations and the number of employees from 21 to 16 by closing down unprofitable branches in Banja Luka, Mostar and Bihać. The market share in the core business of personal vehicle leasing decreased from 15% to 13%. In 2012, ASA Aleasing recorded a loss, which is mainly the result of impairments for accrued overdue interest payments from its subsidiary Agradnja for project financing.

ABANKA'S VISION AND MISSION

Abanka pursues its vision in its relations with customers, shareholders and employees, in providing quality banking services. The mission of the Abanka Group is "**UNITING WITH EXCELLENCE IN FINANCIAL SERVICES**". This mission is carried out on the basis of the Group's values, core competencies and comparative advantages.

The Group's ***values*** include:
1. **f**riendliness, 2. **e**xcellence, 3. **p**artnership, 4. **c**ompetence and 5. **i**nnovation.

The Group's ***core competencies*** include:
- a strong culture of customer focus, awareness of customer role, entrepreneurship and adaptability;
- a culture of prudence, cost awareness and diligence;
- niche innovation;
- staff loyalty and a good organisational climate.

The Group's core competencies are mirrored in the following ***comparative advantages*** on the market:
- above-average level of responsiveness to customers;
- cost efficiency;
- a leading position in individual service segments (payment transactions, custodial services).

In its ***vision***, the Abanka Group has set itself very ambitious objectives for the period to 2014. Abanka is a customer-oriented, safe and stable bank, renowned for its flexible and diverse services, whose goal is to achieve long-term return on avarage equity (ROAE) that will be attractive to investors. Its market share is expected to grow primarily in the retail and SME segments; such growth represents the Bank's main strategic guideline. In retail operations, at least 215,000 active personal accounts and 12,800 active SME accounts are envisaged. Abanka plans to attain a 7.5% market share in retail operations. This is in line with the Bank's objective of having the same retail banking share as its combined market share by 2016. Particular attention will be dedicated to acquiring primary sources of funds and improving the loan-to-deposit ratio. The market share in fees and commissions is planned to stay above the market share in terms of total assets. Abanka will lead a successful banking group, in which subsidiaries and associates will be at least as profitable as the Bank itself.

Staff commitment will be at the highest level. Five technologically innovative solutions and sales channels (at least one innovative solution per year) will be introduced, and the best risk management practices established.

THE ABANKA GROUP'S MISSION

Uniting with excellence in financial services.

ABANKA'S STRATEGY

In 2012, the guidelines were followed as set out in the medium-term strategy, which was drafted in 2011 for the period to 2014 on the basis of the information on the economic environment and future year forecasts available at the time.

Abanka's ***key strategic guidelines*** (strategic themes) include:
- increasing capital strength for development and stable banking operations, including the possibility of linking with other banks;
- strengthening the retail and SME banking segments;
- cost and process efficiency.

The achievement of the **strategy objectives** defined in the 2012–2014 Medium-Term Strategy of Abanka was regularly monitored by means of a balanced scorecard at four operation levels.

Level 1: Employees, knowledge and learning
- competent, committed and innovative employees;
- high level of organisational culture;
- optimal structure of the variable remuneration for successful individuals;
- good internal communications;
- systematic work with key development staff;
- systematic training of competent successors.

Key strategic guidelines:
– increasing capital strength for development and stable banking operations,
– strengthening the retail and SME banking segments,
– cost and process efficiency.

Level 2: Processes and organisation
- development, efficiency and profitability of the sales channel mix;
- process efficiency;
- flexible IT system (responsiveness to customer needs);
- effective project work;
- optimal structure of outsourced activities;
- established efficient system of internal customers;
- excellent relations with outsourced service providers (high added value for the Bank).

Level 3: Customers
- increasing market share in key segments (retail and SME banking);
- increasing the number of active customers in key segments;
- increasing the number of services per customer, including cross sales;
- optimal risk spreading (particularly credit risk);
- customer loyalty and satisfaction;
- providing innovative services;
- brand awareness.

Level 4: Financial aspects
- profitability;
- liquidity;
- cost efficiency;
- capital adequacy;
- asset quality;
- acceptable sensitivity to market changes.

With regard to its strategic objectives, Abanka developed a **balanced scorecard** with projections to 2014. This is linked to concrete strategy activities within Abanka and enables continuous monitoring of strategy implementation.

In 2012, the Bank continued working on the following five strategic projects:
- strengthening retail banking;
- developing SME banking;
- re-engineering back-office processes;
- optimising credit approval process within the Group; and
- setting-up a data warehouse.

The last two of the abovementioned projects were successfully completed in 2012.

FINANCIAL PLAN FOR 2013

The financial plan for 2013 was prepared in autumn 2012 on the basis of the then available macroeconomic forecasts and expectations; in December 2012, it was approved by the Supervisory Board. Due to poor macroeconomic forecasts, the plan up to 2016 published in the Annual Report for 2011 is no longer relevant nor used as the basis for annual planning purposes.

In line with its strategy, in 2013 the Abanka Group will primarily focus on improving its capital strength needed for development and stable banking operations, including the possibility of linking with other banks. Moreover, the focus will be on acquiring primary sources of funds, strengthening of retail and SME banking, improving cost and process efficiency, ensuring effective bad debt management, proactive and effective risk management, optimising assets and liabilities management, adjustments of the Bank's organisational structure as well as on the optimal management of subsidiaries and increasing their competitiveness.

In 2013, Abanka will focus on improving its capital strength, acquiring primary sources of funds, strengthening retail and SME banking, improving cost and process efficiency, effective management of risk and bad debt, optimising assets and liabilities management, adapting the organisational structure of the Bank, as well as optimising the management of subsidiaries.

The share capital of Abanka was planned to be increased through recapitalisation in the first half of 2013. As at the end of 2013, balance sheet total of the Bank is expected to reach EUR 3.4 billion. In 2013, the implementation of the financial plan will continue to be carefully monitored, reasons behind any deviations from the plan will be identified, and appropriate and rapid action will be taken in response to business trends. The Bank's assessment is that through the implementation of the planned capital strengthening measures, achievement of the set financial objectives and in-house activities for bad debt restructuring preconditions will be created for the stable and profitable operations of Abanka in the future.

MAJOR BUSINESS EVENTS AND ACHIEVEMENTS IN 2012 AND 2013

Major Business Events and Achievements in 2012

Major business events and achievements in 2012 included:

- **Activities with regard to the selling of the Bank**
  - On 6 January 2012, Abanka received a notification dated 5 January 2012 from the representative of the consortium responsible for the sale of a majority package of shares in Abanka regarding the adoption of a decision by the consortium to terminate the consortium agreement and to dissolve the aforementioned consortium.

- **Discharge of obligations to foreign creditors**
  - After the partial early redemption of bonds in the amount of EUR 69,501 thousand in March 2012, the nominal value of the government-backed Abanka bonds was decreased to EUR 281,088 thousand.
  - In September 2012, the Bank fully redeemed its government-backed bond.
  - Abanka discharged the remaining obligations to foreign creditors.

- **Changes to the Management Board**
  - On 30 May 2012, an agreement was signed between the Supervisory Board and members of the Management Board, Radovan Jereb and Gregor Hudobivnik, on the termination of their terms and office.
  - In April 2012, the Supervisory Board appointed Igor Stebernak member of Abanka's Management Board, who was issued a licence to serve on the Management Board by the Bank of Slovenia in June and started his five-year term of office on 1 July 2012.
  - Since 1 July 2012, Abanka has been governed by a two-member Management Board, composed of Jože Lenič as President and Igor Stebernak as member.

- **Changes to the Supervisory Board**
  - On 29 February 2012, Simon Zdolšek resigned as a member of the Supervisory Board.
  - On 16 March 2012, Uroš Rožič resigned as a member of the Supervisory Board.
  - On 11 April 2012, Janez Bohorič resigned as a Chairman of the Supervisory Board.
  - On 17 April 2012, Igor Stebernak resigned as a member of the Supervisory Board, which appointed Stebernak as a member of Abanka's Management Board on 10 April 2012.
  - On 30 May 2012, the General Meeting of Shareholders appointed Kristina Ana Dolenc, Andrej Hazabent, Andrej Slapar and Andrej Andoljšek members of the Supervisory Board with four-year terms of office starting on the same date.
  - At its first regular session on 4 July 2012, the Supervisory Board of Abanka appointed Andrej Andoljšek as its Chairman and Andrej Slapar as its Vice-Chairman.

- On 11 October 2012, the Supervisory Board took note of the letter of resignation of Andrej Hazabent as a member of the Supervisory Board.
- On 19 November 2012, the General Meeting of Shareholders appointed Janko Gedrih as a member of the Supervisory Board with four-year terms of office starting on the same date.
- On 21 November 2012, Andraž Grum irrevocably resigned as a member of the Supervisory Board.

• Credit rating by Fitch Ratings

- In February, the international ratings agency Fitch Ratings downgraded government-backed bonds of Abanka to »A« and assigned a »negative« outlook following the downgrade of the Sovereign Rating of the Republic of Slovenia. Abanka's Viability Rating was downgraded to »b« and its Innovative Instrument Rating to »CCC«.
- In August, Fitch Ratings assigned to Abanka »B-« Long-Term Foreign Currency Issuer Default Rating, a »5« Support Rating, a »B-« Support Rating Floor, a »b-« Viability Rating, and a »negative« outlook to the Bank's Long-Term Foreign Currency Issuer Default Rating, while the Short-Term Foreign Currency Issuer Default Rating remained unchanged. Abanka's government-backed bond's rating was changed to »A-« and the Hybrid Capital Instrument to »CC«. These downgrades of ratings were mainly a result of the deteriorated credit portfolio of the Bank and its business environment, the tighter capitalisation of the Bank and, according to the rating agency's opinion, uncertainty regarding the support to Abanka by the government.

• Credit rating by Moody's Investors Service

- The international ratings agency Moody's downgraded the government-guaranteed debt of Abanka to »A2« and assigned the Bank a »negative« outlook, following the downgrade of the Sovereign Rating in February 2012.
- In April, Abanka was given the »Ba3« Long-Term Deposit Rating and »Caa2« for Preferred Stock Non-cumulative Rating, and both were given the status of possible further downgrade of rating. The same status was also assigned to the Bank Financial Strength Rating, which was »E+«.
- In July, Abanka was assigned the »Caa1« Long-Term Deposit Rating and »Ca« for Preferred Stock Non-cumulative Rating and the »E« Bank Financial Strength Rating. All credit rating outlooks for the Bank were »negative«. As the cause of the downgrading, Moody's indicated the increased pressure on the Bank's capital adequacy, which is the result of the deterioration of its asset-quality portfolio.
- In August, Moody's again downgraded the Sovereign Rating of the Republic of Slovenia and consequently the government-guaranteed debt rating to »Baa2«, giving a »negative« outlook.

• Credit ratings by Capital Intelligence

- In March 2012, the Capital Intelligence international rating agency changed Abanka's ratings. The ratings assigned to Abanka were as follows: Foreign Currency Long-Term Rating: »BBB-«, Foreign Currency Short-Term Rating: »A3«, Financial Strength Rating: »BB+«, all with a »negative« outlook. Abanka's Support rating was affirmed at »4«.
- In December, the ratings assigned to Abanka were as follows: Foreign Currency Long-Term Rating: »BB«, Foreign Currency Short-Term Rating: »B«, Financial Strength Rating: »BB«, all with a »negative« outlook. Abanka's Support rating was confirmed at »4«.

• Activities for capital strengthening of the Bank

- In the framework of implementing the key strategic guidelines for consolidating the capital base, the Management Board discussed the option of merging with Gorenjska banka, so as to consolidate the market and capital positions of a merged bank and enable capital strengthening of Abanka with an increase of share capital through the paying-in of newly issued shares. According to the opinion of the Supervisory Board, the merger between Abanka and Gorenjska banka was the best option for strengthening the market and capital positions of the Bank. Therefore, the Supervisory Board gave the Management Board its approval to implement the merger project.
- On 30 May 2012, the Annual General Meeting of Shareholders voted in favour of a capital increase in the amount of EUR 50 million.
- In accordance with the provisions of the Prospectus, on 12 September 2012, the management of the Bank revoked the bid for the sale of Abanka's shares, as it was inadvisable to continue with the bid.
- On 19 November 2012, the General Meeting of Shareholders voted in favour of a capital increase of Abanka through paying in new shares at EUR 4.20 per share and totalling EUR 90 million. The three-round public offering would had only been successful, if at least EUR 50 million had been paid in and if the share capital increase was entered into the Companies Register by 30 June 2013.
- In the process of increasing capital, the management of the Bank provided a due diligence investigation via an internationally recognised contractor, and gave all existing and potential new shareholders access to the due diligence summary report. A certified auditor carried out an audit review of the Bank's interim financial statements for the period from 1 January 2012 to 30 September 2012, thus fulfilling all conditions for successful recapitalisation of Abanka.

Events After the Date of the Statement of Financial Position

The following business events that occurred after the reporting period may have impact on the business decisions of the Report's users:

- On 8 January 2013, Slaven Mićković irrevocably resigned as member of the Supervisory Board.

- In October 2012 Abanka, on behalf of the majority shareholder, authorised the Management Board of ABANKA SKLADI to start activities for selling the business. Taking into account all legal limitations Abanka expects it to take the best offer, with sales price maximisation as the main objective.

- In line with the business strategy of the Abanka Group, Aleasing d.o.o. drafted a plan for transferring part of its assets, together with attached rights and obligations, to the newly founded company ANEPREMIČNINE d.o.o., which will constitute the division of Aleasing d.o.o. Abanka as the sole owner of Aleasing d.o.o. will thereby also become the sole owner of ANEPREMIČNINE d.o.o.

- On 18 February 2013, the public share offering, based on a resolution passed at the 25th regular Annual Meeting of Shareholders of Abanka, was concluded. As the number of new shares subscribed and paid in during the course of the public offering was insufficient, the public offering of new shares failed according to the provisions of the Prospectus.

- On 19 February 2013, the Bank of Slovenia sent to Abanka a Decree on Additional Measures to Increase Capital, whereby the Bank of Slovenia required from Abanka's Management Board to convene a general meeting of shareholders by 30 April 2013 at the latest and propose at that meeting a share capital increase under new conditions. In response to that, the Management Board proposed to the Supervisory Board convening another general meeting of shareholders to decide on the share capital increase under such conditions that the Management and Supervisory Boards deem appropriate for strengthening the capital base of the Bank. The proposed recapitalisation totals EUR 90 million, at a price of at least EUR 1 per share, and the pre-emptive rights of the existing shareholders will be excluded. Not only the present major shareholders but also other interested and potentially interested investors will be invited to subscribe to shares.

- On 8 March 2013, the Supervisory Board was briefed on the expected timetable of activities for increasing the Bank's capital through the paying up of new shares and gave its consent to the proposed method for covering the net loss generated in 2012. It also gave its consent to the proposed resolutions for the General Meeting of Shareholders, which will decide on the increase in the Bank's capital through the paying up of new shares in the amount of EUR 90 million.

- On 8 April 2013, the General Meeting of Shareholders voted in favour of a reduction of Abanka's share capital which on the day the resolution was adopted amounted to EUR 30,045,067.60. The share capital is reduced to set off part of the loss for 2012 amounting to EUR 22,845,067.60 against the share capital of the Bank and after the reduction totals EUR 7,200,000.00. Furthermore, the General Meeting of Shareholders voted in favour of a share capital increase of the Bank totalling EUR 90 million, at a share price not lower than EUR 1 and with the exclusion of the existing shareholders' pre-emptive rights.

- On 25 February 2013, the international rating agency Moody's changed Abanka's Long-term Deposit Rating to »Caa3« and its Preferred Stock Non-cumulative Rating to »C«. Abanka's Bank Financial Strength Rating has been affirmed at »E«. The Outlook remains negative. The agency stated, that the downgrades reflect a failure to carry out its planned capital increase.

- On 5 April 2013, the following ratings of Abanka were affirmed by the Fitch Ratings international rating agency: Long-term Foreign Currency Issuer Default Rating at »B-«, Short-term Foreign Currency Issuer Default Rating at »B«, Support Rating at »5« and Support Rating Floor at »B-«. Abanka's Viability Rating was downgraded to »cc« and the Hybrid Capital Instrument Rating to »C«. Abanka's Long-term Foreign Currency Issuer Default Rating maintained a negative outlook. According to the agency's expectations Abanka needs additional capital. The capital position of the Bank could also be adversely affected by further deterioration in the asset quality due to the weak operating environment in Slovenia.

- Of the companies to which the Abanka Group has exposures above EUR 1 million, nine companies faced insolvency proceedings in the first three months of 2013; bankruptcy proceedings were initiated against six companies in the construction, trade, real property sectors and professional, scientific and technical activities, while three companies dealing in trade and textile, fur and leather production underwent compulsory composition. As at 31 December 2012, the Group's total exposure to these companies was 6.9% of consolidated capital.

THE ECONOMIC AND BANKING ENVIRONMENT IN 2012 AND OUTLOOK FOR 2013

The Economic Environment in 2012

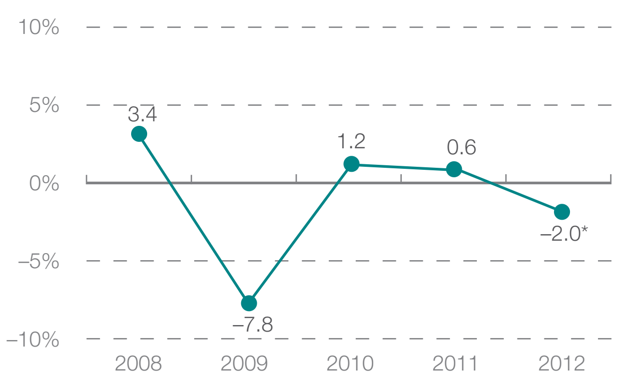
In the time of the global financial crisis, Slovenia experienced one of the steepest falls of gross domestic product (hereinafter: GDP) in the euro area. After a recovery in the second half of 2010 and first half of 2011, Slovenia again slipped back into recession, as was foreseen in the last quarter of 2011. According to the preliminary estimates of the Statistical Office of the Republic of Slovenia, in 2012 GDP decreased in real terms by 2.3% and GDP was estimated at EUR 35,466 million in nominal terms. In the last quarter of 2012, GDP decreased by 3.0% in comparison to the last quarter of 2011.[5]

MAJOR MACROECONOMIC INDICATORS

	2008	2009	2010	2011	2012
GDP growth, %	3.4	–7.8	1.2	0.6	–2.0*
GDP, EUR million (current prices, current exchange rates)	37,244	35,556	35,607	36,172	35,466*
GDP per capita, EUR (current prices, current exchange rates)	18,420	17,415	17,379	17,620	17,457*
Unemployment, registered, %	6.7	9.1	10.7	11.8	11.9*
Unemployment (ILO methodology), %	4.4	5.9	7.3	8.2	8.3*
Labour productivity, GDP per employee, %	0.8	–6.1	3.5	2.2	–0.6*
Inflation (year-end), %	2.1	1.8	1.9	2.0	2.7
Inflation (average), %	5.7	0.9	1.8	1.8	2.6

Note: *estimation
Source: Slovenian Economic Mirror, December 2012. IMAD; Ljubljana, January 2013, and Statistical Office of the Republic of Slovenia.

GROSS DOMESTIC PRODUCT REAL GROWTH RATES IN THE 2008-2012 PERIOD



Note: * estimation
Source: Slovenian Economic Mirror, December 2012. IMAD; Ljubljana, January 2013.

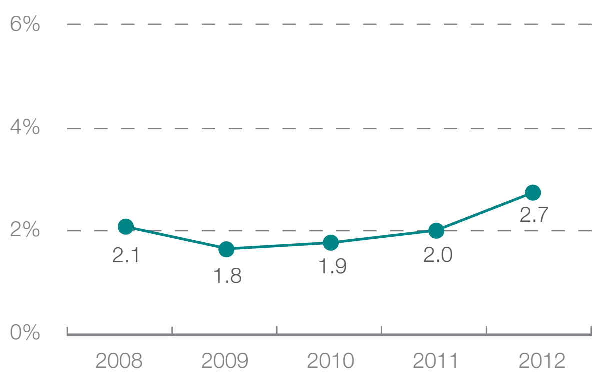
[5] Gross Domestic Product, Slovenia, 4th Quarter 2012. Ljubljana: Statistical Office of the Republic of Slovenia, February 2013.

Despite major fluctuations during 2012, the average price of oil in US dollars (USD 111.69 per barrel) remained approximately the same as in 2011, whereas in euros it increased by 8.7% to EUR 86.6 per barrel. In December 2012, Brent Crude was USD 109.43 and EUR 82.77 per barrel.[6]

The labour market has responded to the state of the economy with a rapid decrease in employment rate and employment opportunities, as seen by a major decline in the number of vacant posts and new hiring.[7] At the end of 2012, the number of registered unemployed greatly increased to 118,061.[8]

In Slovenia consumer prices in 2012 were higher, mostly as a result of the large increases of energy and food prices and a one-off rise in the price of certain services. Year-on-year inflation was 2.7%, while in the euro area it was 2.2%.[9]

CUMULATIVE INFLATION IN THE 2008-2012 PERIOD



Source: Statistical Office of the Republic of Slovenia.

Financial Markets and the Banking Environment in 2012

Throughout most of 2012, the performance of Slovene banks and development of their financial risk were determined by a decrease in economic activity, decline in investment spending, lower domestic and government consumption, accompanied by a slowdown of economic growth in the EU and the mistrust of international financial markets towards Slovene long-term government debt and consequently towards Slovene banks.[10]

The continuation of the economic and financial crisis caused the deterioration of the operating conditions of Slovene companies and lowered their demand for loans, especially the demand for investment loans. The rate of loans to non-bank customers was lower than at the end of 2011 due to the decrease in loans to non-financial sector and the continually declining growth rate of housing loans. The loans for private non-bank customers were restricted by government borrowing in the domestic banking sector. Net claims on the government by the banks have increased considerably due to the decline in government deposits, borrowing and treasury bond issues in the domestic market. At the same time, the banks reduced their net debt towards foreign creditors and net repaid the securities. The decrease in the sources of funds was partially compensated by the increase in low-cost three-year sources in Eurosystem, but not with household deposits, which somewhat decreased in the final months of the year. The refinancing risk, which remains high due to the restricted access to international financial markets and the possibility of downgrading the long-term sovereign credit rating, was somewhat reduced by the repayments to foreign creditors and more favourable debt structures in terms of remaining maturity.[11]

High credit risk for the banks further increased in 2012, but at a lower rate than in 2011. The portion of non-performing debts repaid with delays of 90 days and more increased. The portion of claims on companies in bankruptcy increased, along with the

6 Slovenian Economic Mirror, December 2012. Ljubljana: IMAD.
7 Monthly Bulletin, December 2012. Ljubljana: Bank of Slovenia.
8 Slovenian Economic Mirror, December 2012. Ljubljana: IMAD, Monthly Bulletin, December 2012. Ljubljana: Bank of Slovenia.
9 Slovenian Economic Mirror, December 2012. Ljubljana: IMAD.
10 Stability of the Slovenian Banking System, December 2012. Ljubljana: Bank of Slovenia.
11 Stability of the Slovenian Banking System, December 2012. Ljubljana: Bank of Slovenia.

rise in number of initiated bankruptcy procedures among non-financial companies. Their settlement largely depends on the duration of bankruptcy procedures and slow writing off. Further factor in increase of the credit risk was the rise in portion of claims by the banks with decreased pledged assets due to lowering of the prices of securities as well as residential and commercial real estate. This is reflected in the yearly maintaining of high costs of banks' impairments and provisions. As a result of the lower lending volume and deteriorating portfolio quality, the income risk of banks remained high. The interest rate risk increased; banks are now more exposed to interest risk. Foreign currency exposure remains low.[12]

In this time of crisis, the capital adequacy of banks is around 11.5%. The structure of capital improved as a result of the increase in Tier 1 capital. Nevertheless, the solvency risk is increasing as the banks mostly fulfil capital requirements by reducing the volume of operations and buying-off subordinated debt. The decrease in capital demand contributed to the rise in capital adequacy, whereas the operating loss, early buying-off of subordinated debt and other decreased capital components contributed to the lower capital adequacy.[13]

Outlook for 2013

At the end of 2012, the ECB lowered its economic growth forecast in the euro area for 2013 to a range between -0.9% and 0.3%. It is the prevailing opinion of international institutions that the economic activity in the euro area will stabilise in the first half of 2013, and that a gradual recovery may be expected in the second half of the year.[14] The weak activity in the beginning of 2013 will be a result of the inhibitory effects of low confidence by consumers and investors in the public and private consumption in Slovenia and modest international demand. The economy will gradually start to recover when the accommodative orientation of the European Central Bank's monetary policy and significantly improved trust in the financial markets start affecting domestic private consumption, while the increased international demand is expected to support the export growth.[15] Risks arising from the economic prospects for the euro area support lower growth and are related mainly to slow structural reforms, geopolitical tensions and imbalances in major industrialised countries. These factors may further worsen the sentiment beyond the current expectations and slow down the recovery of private investments, employment and consumption.[16]

Without radical changes in the banking system, the Banks will record a loss in 2013 as well. After three consecutive years of losses, this reduces investment attractiveness for new investors in the Slovene banking sector and prevents the generation of internal capital in banks. The continuation of the economic crisis increases the possibility of further decreases in the borrowers' asset value due to the lower value of real estate, securities, etc. This may force banks into additional impairments and provisions in 2013. The increase in impairments in 2013 thus may not be a reflection of further deterioration in the quality of the credit portfolio, but a consequence of adverse trends in real estate and financial market, regardless of the quality of receivables from customers.[17]

Banks' healthy balance sheets will be the key factor for both the supply of loans for the economy and the normalisation of all financing channels. Other segments of economic policy will have to further contribute to the stabilisation of financial markets and improving prospects for economic growth.[18] The lack of competitiveness of our bank's credit products has become a key issue, which could at least partially be resolved by more differentiated assessment of customers' credit risk. Banks should offer relatively lower premiums and thus lower interest rates to less risky customers with projects showing promising potential.[19]

The sufficient capital strength of Slovene banks is important for maintaining the trust of depositaries and investors. The boundaries of sufficient bank capital adequacy are set relatively high due to the crisis, as a combination of market expectations, international institutions and new regulation, waiting to be implemented. The measures that would probably encourage capital investments in the Slovene banking sector and contribute to a better credit portfolio structure are incentives for new lending arising from coordinated action by banks to companies with potential, and a larger write-off of bad debt charged against current owners, followed by bank consolidation.[20]

12 Stability of the Slovenian Banking System, December 2012. Ljubljana: Bank of Slovenia.
13 Stability of the Slovenian Banking System, December 2012. Ljubljana: Bank of Slovenia.
14 Slovenian Economic Mirror, December 2012. Ljubljana: IMAD.
15 ECB Monthly Bulletin, Editorial, December 2012. Ljubljana: Bank of Slovenia.
16 ECB Monthly Bulletin, Editorial, January 2013. Ljubljana: Bank of Slovenia.
17 Stability of the Slovenian Banking System, December 2012. Ljubljana: Bank of Slovenia.
18 ECB Monthly Bulletin, Editorial, January 2013. Ljubljana: Bank of Slovenia.
19 Stability of the Slovenian Banking System, December 2012. Ljubljana: Bank of Slovenia.
20 Stability of the Slovenian Banking System, December 2012. Ljubljana: Bank of Slovenia.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

The consolidated financial statements of the Abanka Group for 2012 include the subsidiaries Argolina, ABANKA SKLADI, Afaktor, Aleasing and Analožbe, alongside Abanka as the parent bank. The participation of Aleasing in the joint venture ASA Aleasing is also consolidated under the equity method.

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PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

In 2012, **the Abanka Group** recorded **interest income** of EUR 177,961 thousand, down 11.0% on the previous year. The **Group's interest expenses** amounted to EUR 106,865 thousand or 11.1% less than in 2011. **The Abanka Group's interest margin** was EUR 71,096 thousand or 10.8% below the amount reported for 2011.

Abanka's interest income in 2012 was EUR 175,220 thousand, a decrease of 9.9% compared to the previous year, whilst its **interest expenses** totalled EUR 105,772 thousand and were 10.8% below the amount reported in 2011. Abanka's **interest margin** amounted to EUR 69,448 thousand, which was 8.7% below the 2011 level.

In 2012, **the Abanka Group** posted EUR 29,792 thousand in **net fees and commissions** or 5.3% less than the year before. **Abanka** contributed EUR 29,110 thousand to **net fees and commissions**, which was 5.8% less than in 2011.

8.6%

market share of Abanka in net fees in 2012

Other net non-interest income (excluding net fees and commissions) of the **Abanka Group** in 2012 amounted to EUR 3,351 thousand, whereas in the same period of 2011 it was negative and equalled EUR 10,580 thousand. **Other net non-interest income** of the **Abanka** in 2012 amounted to EUR 2,478 thousand, whereas in 2011 it was negative and equalled EUR 12,503 thousand.

Higher non-interest income in 2012

The **Abanka Group's operating costs** totalled EUR 59,437 thousand in 2012 and were 0.7% higher than in 2011. Labour costs of EUR 32,397 thousand were 1.6% below the 2011 level, whilst general and administrative expenses rose by 3.4% to EUR 21,101 thousand in the reporting year. Depreciation expenses in 2012 amounted to EUR 5,939 thousand and were 4.0% higher than the year before. **Abanka's operating costs** in 2012 were EUR 54,320 thousand in total and 1.0% higher than in 2011. Labour costs were 1.6% below the 2011 level and totalled EUR 30,088 thousand, whereas general and administrative expenses equalled EUR 19,065 thousand and were 5.0% above the amount reported for 2011. Depreciation expenses of EUR 5,167 thousand were 2.0% higher than in 2011. At 55.4%, labour costs represented the largest proportion of total expenses, followed by general and administrative expenses with 35.1% and depreciation expenses, which accounted for 9.5% of the total.

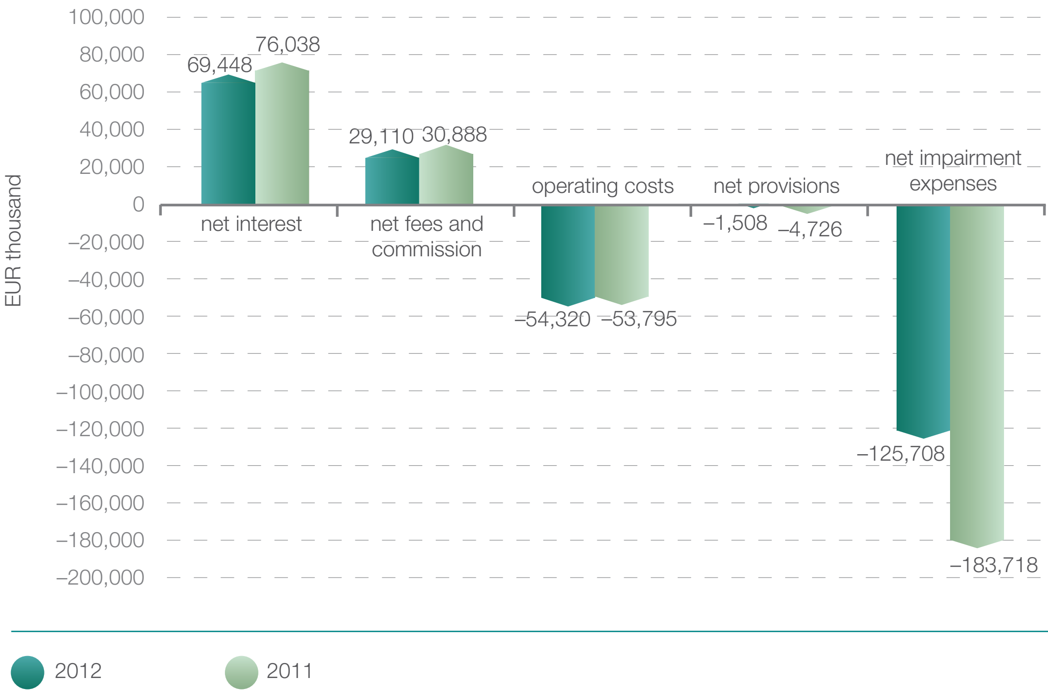
In its operations, Abanka performs efficient cost-management.

In 2012, the **Abanka Group** incurred EUR 129,426 thousand of **net provisioning and impairment expenses**, of which **net impairment expenses** totalled EUR 127,546 thousand, which was EUR 47,415 thousand or 27.1% less than in 2011. **Abanka's net provisioning and impairment expenses** reached EUR 127,216 thousand, of which **Abanka's net impairment expenses** were EUR 125,708 thousand, representing a decrease of EUR 58,010 thousand or 31.6% under the previous year's level.

In 2012, **the Abanka Group** recorded a loss. **Loss before tax** was EUR 84,624 thousand and **consolidated loss after tax** equalled EUR 81,065 thousand; in 2011, the Abanka Group operated at a loss after tax which amounted to EUR 109,656 thousand.

Loss before tax of Abanka totalled EUR 80,500 thousand, whilst **loss after tax** was EUR 75,694 thousand; in 2011, Abanka operated at a loss after tax in the amount of EUR 119,149 thousand.

NET INTEREST, NET FEES AND COMMISSION, OPERATING COSTS AND NET PROVISIONS AND NET IMPAIRMENT EXPENSES OF ABANKA IN 2012 COMPARED TO 2011



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 31 December 2012 amounted to EUR 3,614,012 thousand, having decreased by EUR 644,180 thousand or 15.1% below the level posted at the end of 2011. The combined balance sheet assets of consolidated subsidiaries, amounting to EUR 128,499 thousand, accounted for 3.6% of consolidated total assets (compared to 3.5% in 2011). After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group exceeded Abanka's total assets by 0.4% or EUR 16,026 thousand.

Total assets of Abanka as at the end of 2012 amounted to EUR 3,597,986 thousand, which was EUR 617,277 thousand or 14.6% below the level posted at the end of 2011. As at 31 December 2012, Abanka's market share stood at 7.8%.

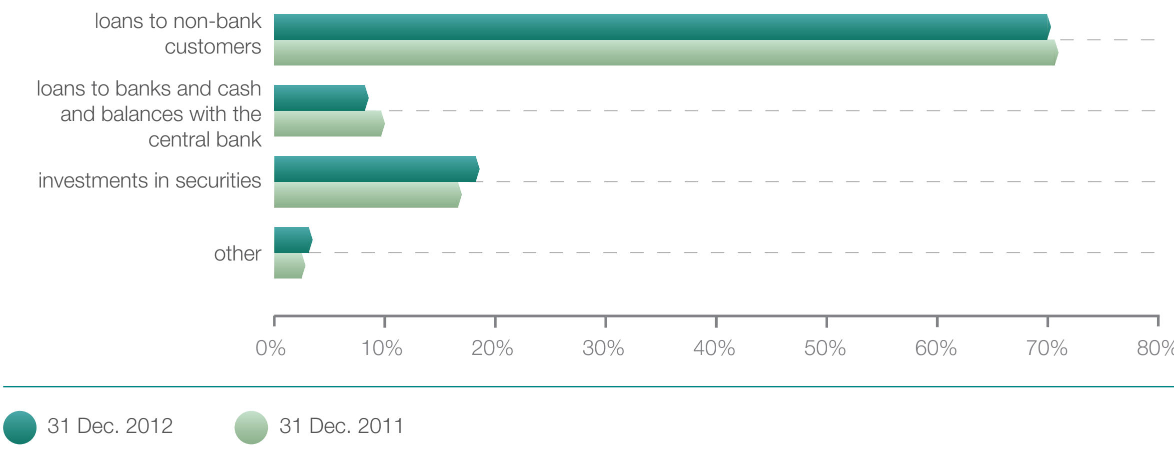
Loans and receivables to non-bank customers accounted for the largest proportion of **consolidated balance sheet assets**, amounting to EUR 2,515,942 thousand at the end of 2012 and representing 69.6% of the total consolidated amount. Compared to 2011, they decreased by 16.1%. As at the end of 2012, **Abanka's loans and receivables to non-bank customers** totalled EUR 2,527,155 thousand and accounted for 70.2% of its total balance sheet assets. Compared to 2011, this represents a 15.5% decrease or EUR 462,530 thousand in nominal terms. This decline was in nominal terms, mostly the result of a smaller volume of loans to domestic and foreign corporate customers and sole proprietors whose combined loans accounted for the largest portion of lending to non-bank customers (70.0%), followed by lending to the public sector at 9.2% and by loans to domestic and foreign retail customers at a 20.8%, which increased compared to the level reported for 2011.

As at 31 December 2012, **loans and receivables to banks and cash and balances with the central bank of the Abanka Group** totalled EUR 296,678 thousand and represented 8.2% of consolidated balance sheet assets. Compared to 2011, they decreased by 28.2%. As at the reporting date, **Abanka's loans and receivables to banks and cash and balances with the central bank** amounted to EUR 295,572 thousand or 28.1% less than as at the end of 2011. They accounted for 8.2% of total balance sheet assets. Total primary sources of liquidity of the Bank increased as a result of higher cash and balances with the central bank from EUR 125,534 thousand as at the 2011 year-end to EUR 214,708 thousand one year later. In the same period, loans and receivables to banks declined from EUR 285,764 thousand as at the end of 2011 to EUR 80,864 thousand as at the 2012 year end.

Investments by the Abanka Group in securities as at the reporting date amounted to EUR 662,489 thousand and were 6.3% or EUR 44,401 thousand lower in comparison with the end of 2011. Their share in total consolidated balance sheet assets grew from 16.6% at the end of 2011 to 18.3% as at the reporting date. At the end of 2012, **investments by Abanka in securities** totalled EUR 662,109 thousand and accounted for 18.4% of balance sheet assets. Compared to the end of 2011, they dropped by EUR 44,249 thousand or 6.3%. Equity securities, with a total value of EUR 26,560 thousand, represented 4.0% of the total securities held by Abanka. They experienced a year-on-year decrease of 49.8% or EUR 26,397 thousand in nominal terms. Debt securities amounted to EUR 635,549 thousand and were 2.7% or EUR 17,852 thousand below the 2011 level.

Abanka's equity investments in subsidiaries and the joint venture company as at the end of 2012 totalled EUR 8,901 thousand and accounted for 0.2% of total assets. In 2012, they rose by EUR 4,591 thousand due to the recapitalisation of the subsidiaries Aleasing d.o.o. and Argolina d.o.o.

ASSET STRUCTURE AS AT 31 DEC. 2012 AND 31 DEC. 2011



Abanka increased its equity investments in subsidiaries.

As at 31 December 2012, **consolidated balance sheet liabilities** were 95.4% of total liabilities (EUR 3,448,368 thousand) and 4.6% of total equity (EUR 165,644 thousand). As at the balance sheet date, the **Bank's balance sheet liabilities** were 95.3% composed of liabilities (EUR 3,429,428 thousand) and 4.7% of total equity (EUR 168,558 thousand).

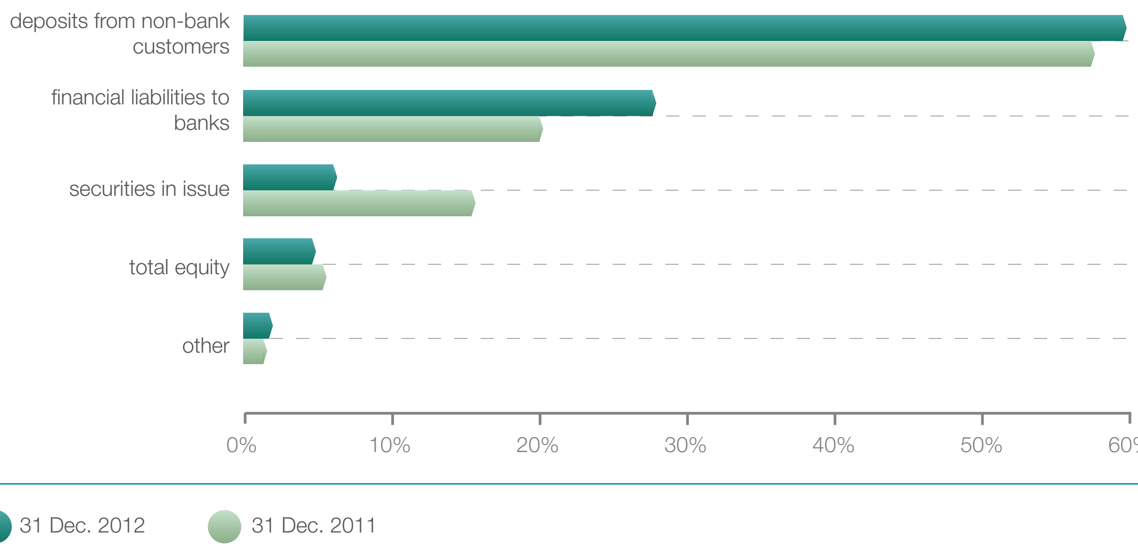
Deposits from non-bank customers of the Abanka Group represented the bulk of total liabilities. By the end of 2012, these decreased by 11.7% or EUR 282,598 thousand and reached EUR 2,139,636 thousand. As at the end of 2012, **deposits from non-bank customers in Abanka** amounted to EUR 2,144,129 thousand, after having decreased by 11.6% or EUR 280,149 thousand. Compared to 2011, deposits from domestic corporate customers decreased by 22.4%, deposits from the public sector by 20.8%, deposits from foreign corporate customers by 33.2% and deposits from sole proprietors by 5.5%, whilst deposits from retail customers decreased by 2.0%. In total deposits from non-bank customers, the largest share was accounted for by domestic and foreign retail customers (55.3%), followed by deposits from the public sector (27.8%) and deposits from domestic and foreign corporate customers and sole proprietors (16.9%).

The Abanka Group's financial liabilities to banks, including financial liabilities to the central bank, amounted to EUR 1,018,982 thousand as at the end of 2012, which was 14.8% more than the year before. **Financial liabilities to banks by Abanka** as at the end of 2012, including financial liabilities to the central bank, totalled EUR 998,870 thousand and were 17.8% higher than at the end of the previous year. This had an impact on their proportion in total liabilities, which increased from 20.1% at the end of 2011 to 27.8% at the end of 2012. The Bank raised new sources of funds primarily by participating in the long-term re-financing operations of the European Central Bank. As at the reporting date, financial liabilities to the Central Bank totalled EUR 533,857 thousand or 166.8% more than at the 2011 year-end.

Securities in issue of the Abanka Group equal those of Abanka. In 2012, they decreased by EUR 431,965 thousand and by the end of 2012 reached EUR 223,258 thousand. Subordinated liabilities in the amount of EUR 119,050 thousand dropped by EUR 10 thousand in 2012, whilst debt securities decreased by EUR 431,955 thousand and amounted to EUR 104,208 thousand. As at the end of 2012, securities in issue represented 6.2% of total liabilities, having decreased from 15.5% as at the end of 2011.

As of the end of 2012, the **total equity** of the **Abanka Group** equalled EUR 165,644 thousand, which was 28.4% less compared to the end of 2011, whereas the **total equity of Abanka** amounted to EUR 168,558 thousand at the year end and decreased in the same period by 26.3%.

STRUCTURE OF LIABILITIES AS AT 31 DEC. 2012 AND 31 DEC. 2011



PERFORMANCE OF THE GROUP IN 2012

Corporate Banking

Contrary to some forecasts, the tight conditions affecting the Slovene economy since the beginning of the crisis continued throughout 2012. The conditions in Slovenia were additionally affected by the decline in economic activity, i.e. a further deterioration of the situation in the entire euro area. As access to sources of funds became limited, banks further decreased their lending activities, contributing to even tighter economic conditions. The year 2012 was also marked by a further decline in investment activity, both due to the uncertainty regarding long-term relationships with international partners and the demand to lower the level of debt that is plaguing companies in these times of crisis.

The low level of investments continues to be the cause for the decreasing added value in construction, i.e. the sector with the highest decline in activity since the onset of the crisis. Furthermore, troubles continue to burden holding companies, whose performance is dependent on the value of their investments, while market conditions are limiting their sales opportunities and in consequence their ability to lower their debt incurred by borrowing. In 2012, the crisis spilled over to other sectors. A fact of particular concern is the decline in activity in export-oriented companies, whose position had been far more advantageous despite the crisis.

Corporate financial indicators still show a high degree of indebtedness, i.e. a deep dependence of companies on bank loans. The problems are most pressing for companies with an inadequate level of share capital and those operating at a loss or with negative cash flow. This, in consequence, increases the demand for the restructuring of existing loans, as companies are unable to settle their due liabilities as agreed upon at the time the loans were approved.

As in previous years, the higher number of insolvency procedures caused an increase in the overdrawing of corporate bank accounts. In 2012, forfeitures of guarantees by companies in bankruptcy procedures continued. Managing overdrawn corporate bank accounts requires special attention. Thus, in 2012, the Bank's Loan Recovery and Restructuring Department increased its number of staff. In this way, Abanka ensured a systematic and professional monitoring of complex cases, which, due to the problems detected, require specific handling of debt collection and recovery. The Loan Recovery and Restructuring Department is also actively involved in the restructuring procedures of companies in difficulty in order to preserve functioning business units. In case it is impossible to restructure a company in difficulty, Abanka performs debt collection, concentrating on the realisation of provided collateral. In 2012, the same as the year before, Abanka secured a portion of debt recovery by the forfeiture of guarantees within the Guarantee Scheme of the Republic of Slovenia.

To manage credit risk more effectively, Abanka monitors with due diligence its credit portfolio and the transactions of companies. Together with the companies, Abanka seeks restructuring solutions in order to preserve and further develop those companies that have the potential for positive long-term performance and thus the ability to settle their liabilities. In 2012, Abanka paid special attention to real time monitoring of the value of collateral, especially real estate. The Bank adapts its Credit Risk Mitigation Policy to market changes, i.e. by acquiring additional collateral.

Considering the economic climate and the limited foreign sources of funds in 2012, Abanka further adapted its loan approval policy. Slower economic activity of companies caused the number and value of issued guarantees to decrease, at the same time impacting a drop in the level of approved letters of credit and collection operations. However, in 2012, the level of specialised documentary operations, which include the realisation of an export operation with the simultaneous use of several instruments, remained the same as one year earlier.

In line with its strategic orientation, the Bank focused on increasing the volume of operations with SMEs.

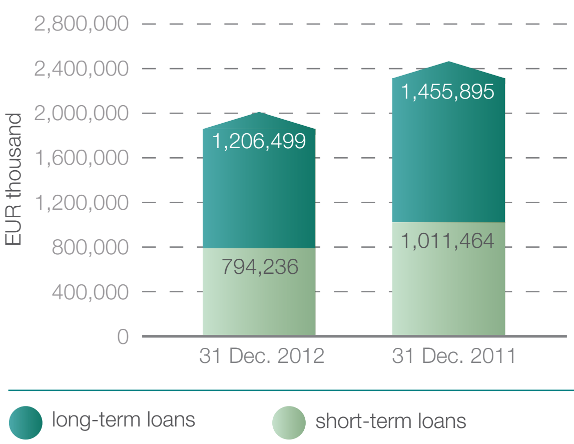
In line with its strategic orientation aimed at expanding the segment of SMEs, in 2012 the Bank focused on increasing the volume of operations with SMEs. Therefore, Abanka carefully monitored their operations, analysed their cash flows and performance as well as their business plans. Abanka's offerings for the SME segment are based on specialised sources of financing, particularly sources of the SID Bank, aimed at promoting internationalisation, infrastructure development, competitiveness and the environment. In order to offer attractive terms and conditions, Abanka designed several special offers for both deposit and loan operations.

8.8%

market share of Abanka in loans to corporate customers as at the end of 2012

As at the end of 2012, **loans to corporate customers and sole proprietors of the Abanka Group** reached EUR 1,962,620 thousand after decreasing by 19.6%. **Abanka's loans to corporate customers and sole proprietors** amounted to EUR 2,000,735 thousand as at the end of 2012, after having gone down by EUR 466,624 thousand or 18.9% since the end of the previous year. The market share of loans to corporate customers equalled 8.8% at the end of 2012, whereas one year earlier it was 9.9%. The share of loans to corporate customers in total assets decreased from 58.5% at the end of 2011 to 55.6% at the 2012 year end. In 2012, the maturity structure of corporate lending continued to be dominated by long-term loans, which accounted for 60.3% of total corporate lending. Loans to corporate customers in 2012 decreased by 18.2% or EUR 357,883 thousand, loans to the public sector by 18.2% or EUR 51,410 thousand, loans to sole proprietors by 11.9% or EUR 5,232 thousand, and loans to foreign corporate customers by 29.2% or EUR 52,099 thousand.

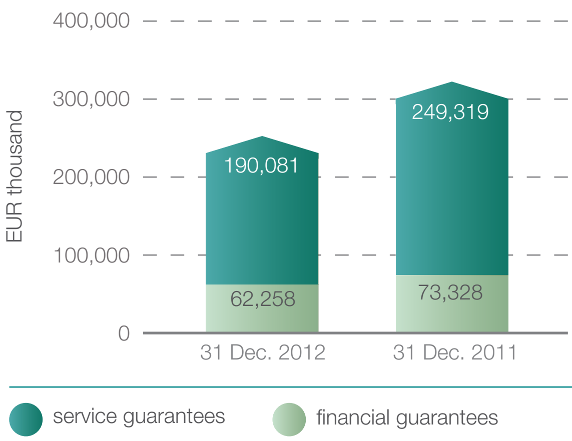
LOANS TO CORPORATE CUSTOMERS AND SOLE PROPRIETORS



The volume of **guarantee operations** decreased in 2012 due to the generally low investment activity of both the private and the public sectors. Low levels of investment activity were seen mostly in the construction sector and consequently in other related sectors. A significant influence on the reduction in the volume of guarantee operations also came from more stringent approval conditions, linked to the deteriorated creditworthiness of companies, as well as the limited options to obtain appropriate collateral.

Guarantees issued by Abanka stood at EUR 252,339 thousand at the end of 2012 and were 21.8% below the amount reported at the end of 2011. Service guarantees in 2012 decreased by 23.8% and financial guarantees by 15.1%. Thus, at the end of 2012, the share of service guarantees in total guarantees was 75.3%, compared to 77.3% at the 2011 year end.

ABANK'S GUARANTEES



10.7%

market share of Abanka in deposits from corporate customers as at the end of 2012

In 2012, **deposits from corporate customers and sole proprietors in the Abanka Group** decreased by 21.3%, reaching EUR 953,297 thousand. **Deposits from corporate customers and sole proprietors in Abanka** at the end of 2012 totalled EUR 957,790 thousand and were 21.1% or EUR 255,944 thousand lower than at the end of 2011. The market share of deposits from corporate customers declined to 10.7% at the end of 2012 from 12.5% at the end of 2011. The highest decrease was recorded in deposits from the public sector, which dropped by 20.8% or EUR 156,521 thousand. In total balance sheet liabilities, the share of deposits from corporate customers by the end of 2012 went down to 26.6% from 28.8% one year earlier. The currency structure of deposits from corporate customers changed slightly, as foreign currency deposits by the end of 2012 accounted for 2.7% of the total, compared to 4.1% at the end of 2011. The maturity structure of deposits from corporate customers changed to a greater degree; at the end of 2012 the share of short term deposits was 67.4%, whilst at the 2011 year-end it equalled 59.0%.

DEPOSITS BY CORPORATE CLIENTS AND SOLE PROPRIETORS

Retail Banking

Abanka is a universal bank, offering its retail customers a comprehensive range of financial products and services through its modern sales channels.

In line with its orientation, in 2012 the Bank continued to focus its attention on raising new sources of financing and deposits from customers. Abanka continued to carry out diverse, segment-tailored activities for attracting new account holders, and encouraged less active customers to expand their business with the bank.

Despite the sustained tight economic conditions, the Bank offered their customers attractive loan options, especially for longer time periods. To limit the risks for both customers and the Bank, special attention was given to the customers' creditworthiness, the quality of their collateral and, consequently, the safety of the Bank's investments.

The 2012 centralisation of bad debt recovery for retail customers led to a uniform and more efficient management of past due receivables.

> Abanka is a universal bank, offering retail customers a comprehensive range of financial products and services through state-of-the-art sales channels.

In order to achieve its objectives, raise the level of quality of its services even further and enhance the satisfaction of its customers, the Bank streamlined its approach in retail banking:

- redesigned its Personal Approach service, offered to the most important customers;
- carried out a detailed segmentation of retail customers to better recognise and respond to the needs of individual segments. In line with the above, the Bank:
  1. introduced a new account for seniors (Aračun Senior) comprising a tailored range of products;
  2. introduced additional features and upgrades to state-of-the-art sales channels for young people (Akeš);
  3. complemented its product range for the active population;
- mapped out a new branch office concept, which has already been partially taken into consideration for the Bank's recently opened or renovated branch offices;
- extended the opening hours in the majority of branch offices to cater to customers' needs;
- centralised the Bank's contact centre, based on a state-of-the-art concept in order to transform it into the Bank's main communication hub in the future;
- introduced a new marketing approach in an attempt to achieve greater visibility of Abanka products in the regional and national markets;
- optimised the system for monitoring sales data according to individual sales officers;
- opened new branch offices in Domžale and the Mercator Center shopping mall in Novo mesto and refurbished the branch office on the premises of Loterija Slovenije in Ljubljana;
- prepared a comprehensive training plan for the branch network employees.

Another important change, introduced in 2012, was the transfer of certain tasks and processes not directly linked to sales from the branch offices to the back office. Thereby, the Bank streamlined the costs of its operations, reduced risks, ensured efficient internal controls and, last but not least, reduced the workload of its sales staff.

In 2012, as in previous years, Abanka carried out two mystery shopper studies in all of its own branch offices and in the branches of its strongest competitors in order to test the quality of their services and, based on the results, adopt suitable measures for its own branch network.

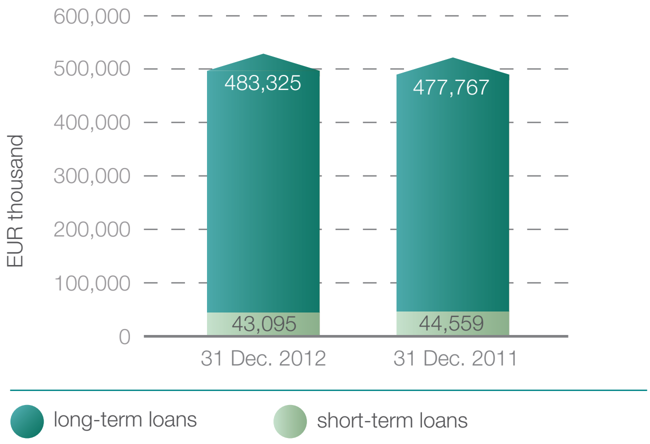
Loans to retail customers by the Abanka Group went down by 0.8% and amounted to EUR 553,322 thousand at the end of 2012. **Loans to retail customers by Abanka** at the 2012 year end amounted to EUR 526,420 thousand, in which the major part was loans to domestic retail customers. In 2012, retail loans increased by 0.8% or EUR 4,094 thousand nominally, whilst their share in balance sheet assets increased from 12.4% at the end of 2011 to 14.6% at the end of the reporting year.

The market share of retail lending climbed from 6.3% at the end of 2011 to 6.5% at the end of 2012. The percentage of short term loans at the end of 2012 was 8.2%, and only 2.1% of total retail lending was denominated in foreign currencies.

The market share of Abanka's loans to retail customers climbed to

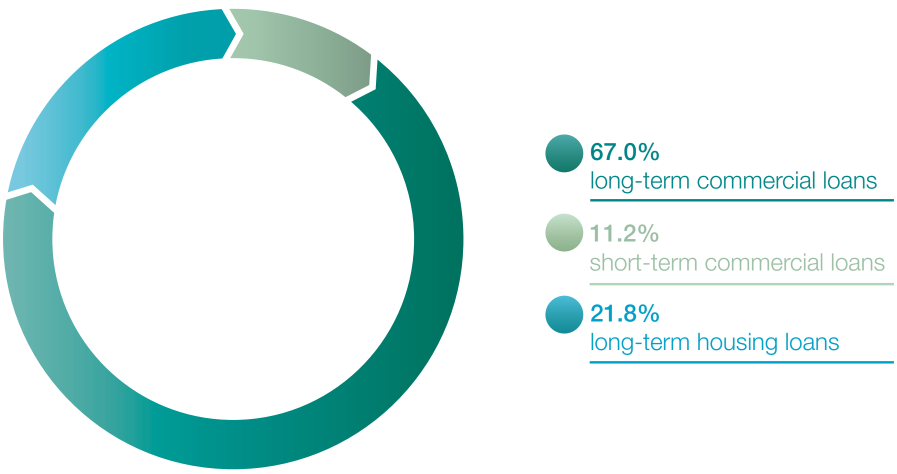
6.5%

ABANKA'S LOANS TO RETAIL CLIENTS



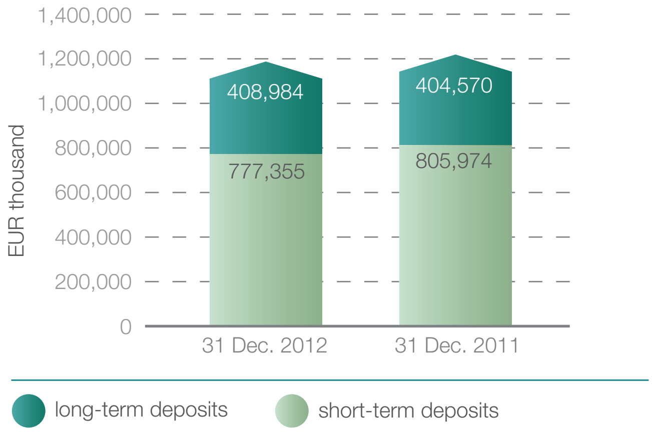
The graph below shows the structure of Abanka's loans to retail customers as at the end of 2012.

ACCOUNT STRUCTURE OF LOANS AS AT 31 DEC. 2012



Deposits from retail customers in the Abanka Group and in **Abanka** at the end of 2012 equalled EUR 1,186,339 thousand, of which deposits from foreign retail customers amounted to only EUR 42,026 thousand. In 2012, deposits from retail customers decreased by 2.0% in total - those from domestic customers by 1.9%, or EUR 21,784 thousand in nominal terms, and those from foreign customers by 5.4%, or EUR 2,421 thousand. The market share of deposits from retail customers went down to 8.0% by the end of 2012 from 8.1% one year earlier. As at the end of 2012, deposits from retail customers represented 33.0% of total balance sheet liabilities, after having increased from 28.7% as at the end of 2011. Their currency structure remained practically unchanged as the share of retail deposits in the domestic currency increased from 96.4% at the end of 2011 to 96.6% at the end of the reporting year. The maturity structure of deposits from retail customers changed in favour of long-term deposits, which at the end of 2012 accounted for 34.5% of total retail deposits, as shown below.

ABANKA'S DEPOSITS BY RETAIL CLIENTS

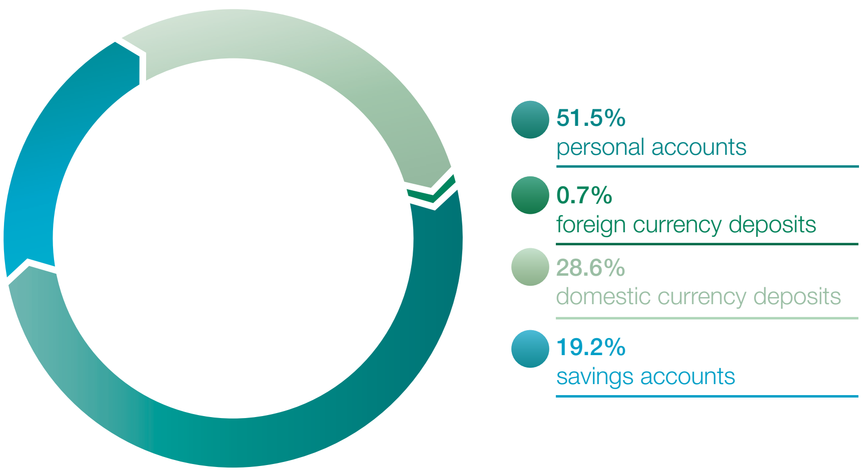


The graph below shows the deposit structure as at 31 December 2012.

8.0%

market share of Abanka in deposits from retail customers at the 2012 year-end

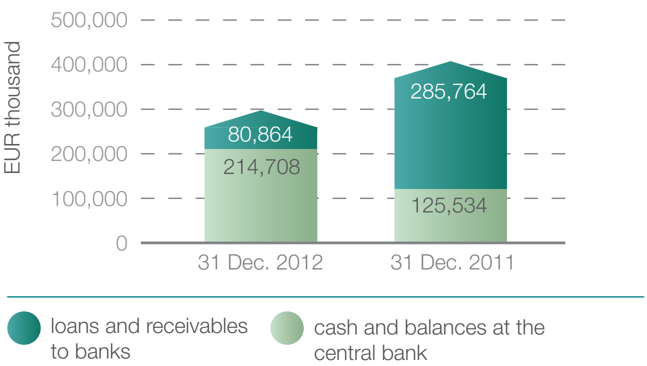
ACCOUNT STRUCTURE OF DEPOSITS AS AT 31 DEC. 2012



Operations with Other Banks

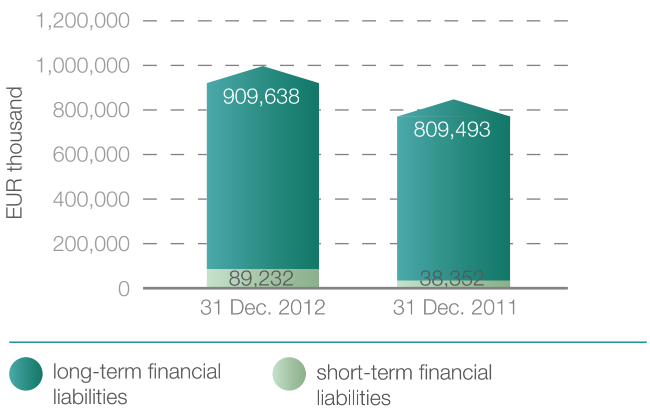
Loans and receivables to banks, cash and balances with the central bank of the Abanka Group included deposits with banks and loans and receivables to banks; as at the end of 2012, they totalled EUR 296,678 thousand. As at the reporting date, **Abanka's loans and receivables to banks and cash and balances with the central bank** amounted to EUR 295,572 thousand or 28.1% less than as at the end of 2011, with cash and balances with the central bank having increased by 71.0%, whilst loans and receivables to banks having decreased by 71.7%. As at the end of 2012, the share of the latter in total balance sheet assets was 2.2%, having decreased from 6.8% one year earlier.

ABANKA'S LOANS AND RECEIVABLES TO BANKS AND CASH AND BALANCES AT THE CENTRAL BANK OF SLOVENIA



At the end of 2012, the **Abanka Group's financial liabilities to banks** amounted to EUR 1,018,982 thousand and those of **Abanka** to EUR 998,870 thousand. The latter were 17.8% or EUR 151,025 thousand higher, compared to the end of 2011. As at the reporting date, financial liabilities to banks represented 27.8% of total balance sheet liabilities, having increased from 20.1% at the end of 2011. Short term financial liabilities to banks by original maturity in the reporting year increased by EUR 50,880 thousand or 132.7% and the long-term financial liabilities to banks by original maturity by EUR 100,145 thousand or 12.4%. As a result, the share of long-term financial liabilities to banks in total liabilities decreased from 95.5% at the end of 2011 to 91.1% at the end of 2012.

ABANKA'S FINANCIAL LIABILITIES TO BANKS



Securities

As at the end of 2012, the **Abanka Group's investments in securities** amounted to EUR 662,489 thousand and exceeded those of Abanka by EUR 380 thousand (the entire difference was accounted for by investments in securities of ABANKA SKLADI).

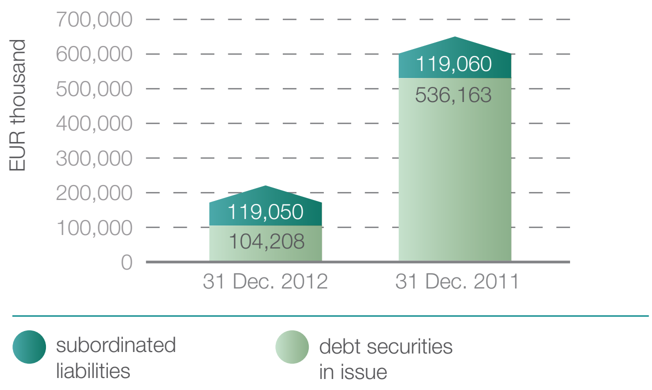
As at the 2012 year-end, **investments in securities of Abanka** stood at EUR 662,109 thousand and were 6.3% lower than at the end of 2011. In total balance sheet assets, they represented 18.4%, which is more than the 16.8% recorded at the end of 2011. The securities portfolio included both equity and debt securities.

At the end of 2012, **the equities portfolio of Abanka** was worth EUR 26,560 thousand, which represented a 49.8% decrease (EUR 26,397 thousand) compared to the 2011 year-end.

The debt securities portfolio of Abanka as at the end of the reporting year totalled EUR 635,549 thousand and accounted for 96.0% of the total securities held by the Bank. Compared to the end of 2011, debt securities decreased by 2.7% or nominally by EUR 17,852 thousand.

ABANKA'S INVESTMENTS IN SECURITIES

ABANKA'S SECURITIES IN ISSUE



Securities in issue of the Abanka Group equalled those of **Abanka**. They included debt securities in issue (i.e. bonds and certificates of deposit) and subordinated liabilities (issued subordinated debt securities and an innovative instrument). Total securities in issue as at the end of 2012 amounted to EUR 223,258 thousand, which was 65.9% or nominally EUR 431,965 thousand less compared to the year before. In total balance sheet liabilities, their share dropped from 15.5% at the end of 2011 to 6.2% one year later. Certificates of deposit at the end of the reporting year amounted to EUR 89,091 thousand, whereas bonds in issue and subordinated liabilities totalled EUR 134,167 thousand. In the reporting year, subordinated liabilities fell by EUR 10 thousand and bonds in issue by EUR 348,518 thousand, due to the fact that Abanka first performed an early partial repurchase of its own ordinary bond guaranteed by the Republic of Slovenia in March 2012, and then paid it out upon maturity in September 2012, which totalled EUR 350,589 thousand. In 2012, certificates of deposit decreased by 48.4% or EUR 83,438 thousand in nominal terms from the previous year.

The Bank fully redeemed the bond guaranteed by the Republic of Slovenia.

Equity Investments

Equity investments in subsidiaries as at 31 December 2012 amounted to EUR 8,901 thousand and were EUR 4,591 thousand higher compared to the 2011 year-end, entirely accounted for by the equity investments in Argolina d.o.o. and Aleasing d.o.o.

EQUITY INVESTMENTS (in EUR thousand)	31 Dec. 2012	31 Dec. 2011	12/11 Index
subsidiaries	8,901	4,310	206.5
Total Equity Investments	**8,901**	**4,310**	**206.5**

Payment Transactions

Once again in 2012, Abanka received the STP Excellence Award from Deutsche Bank, Frankfurt, in recognition of its high-quality performance of international payment transactions. This involves the highly automated processing of payment orders, lower costs and better quality services for customers of the Bank.

Abanka received the STP Excellence Award for the year 2012 for high quality international payment transactions from Deutsche Bank, a leading German bank from Frankfurt.

As regards domestic and cross-border payment transactions, in 2012 Abanka processed 43,407 orders in the Target system, worth EUR 44,532,311 thousand, which accounted for a 9.1% share of the total number of processed orders and a 12.3% share of their total value. The volume of these payments decreased by 20.7% compared to 2011; however, their value increased by 35.2%. A total of 9,434,616 orders were executed in the SEPA infrastructure for small-value payments (SIMP) system, amounting to EUR 4,450,297 thousand. This represented 9.4% of the total number of processed orders and 10.6% of their total value. The volume of payments in this system rose by 79.1% and their value increased by 1.1%. This dramatic increase was mostly due to the replacement of the special payment order with the universal payment order, whereas universal payment order processing increased mainly through the Abatočka sales channel.

In 2012, Abanka recorded international payment transactions, which include international and cross-border payments of sums above EUR 50 thousand, worth EUR 4,200,304 thousand and its 8.9% market share placed it fourth among banks in Slovenia.

The bulk of cross-border payments was performed in the SEPA infrastructure for external payments, which equalled 270,544 orders worth EUR 2,110,194 thousand.

Card and ATM Operations

By the end of 2012, 251,514 cards had been issued, which was 3.4% more than as at the end of 2011. The bulk was accounted for by Ba Maestro (59.9%), which functions as a personal account card, and the biggest growth was recorded by the Business Ba card and, again, by the Visa Electron card, the number of which rose by 45.6% and 12.1% respectively.

In 2012, there were 11.9 million POS terminal transactions with Abanka-issued cards, which was 1.7% more than the year before. The total amount of these transactions reached EUR 572,971 thousand, representing an annual decrease of 17.1% over 2011.

Abanka has an extensive network of points of sale for all types of card products, which enable transactions via Abanka-held POS terminals or through terminals of other banks. On the basis of agreements with retailers (an increase of 0.6%), transactions were being concluded at 19,933 Abanka points of sale, involving one or several products. At the latter, 21.7 million transactions with all types of cards were recorded in 2012, which was 4.9% more than in 2011. These nominally amounted to EUR 919,040 thousand and exceeded the 2011 figure by 3.8%.

277

ATMs owned by Abanka as at the end of 2012

The extensive ATM network is one of Abanka's current sales channels. The number of bank-owned ATMs rose from 269 at the end of 2011 to 277 at the end of 2012, representing a 14.3% market share. Abanka's ATMs processed 6.3 million transactions worth EUR 586,033 thousand. In the reporting year, ATM transactions increased by 2.7% in number, and the value of withdrawals rose by 6.2% compared to 2011.

Investment Brokerage and Precious Metals

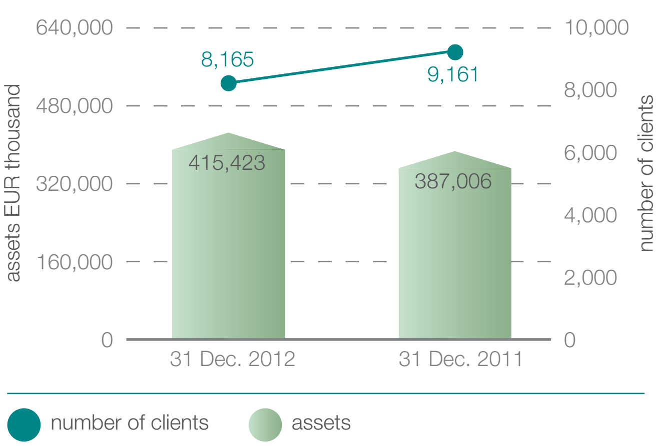
The total volume of trading generated by members of the Ljubljana Stock Exchange in 2012 was EUR 720,775 thousand. Abanka contributed EUR 39,598 thousand to this total, the fifth highest volume of trading among stock exchange members. Total trading of Abanka in foreign markets amounted to EUR 109,031 thousand.

At the end of 2012, the Bank had 8,165 customers using brokerage services in the domestic market, while in foreign markets brokerage services were provided to 735 domestic corporate and retail customers. Customers' assets in domestic and foreign capital markets as at the end of 2012 amounted EUR 415,423 thousand and EUR 25,553 thousand respectively.

In the reporting year, 247.5 kilograms of gold investment bars and coins in a total amount of EUR 10,687 thousand were sold at the headquarters and 18 branches of Abanka.

At the end of 2012, the financial instrument portfolio under management was worth EUR 11,372 thousand. Assets under management decreased due to various factors. The value of assets declined partly owing to uncertain global markets and partly due to payments from managed portfolio. Economic uncertainty increases the needs of corporate customers for highly liquid funds. However, due to pronounced volatility and increasingly uncertain capital markets, retail customers are changing their attitude to risk assumption and consequently moving part of their surplus funds to safer investments.

INVESTMENT BROKERAGE ON THE DOMESTIC MARKET



INVESTMENT BROKERAGE ON FOREIGN MARKETS

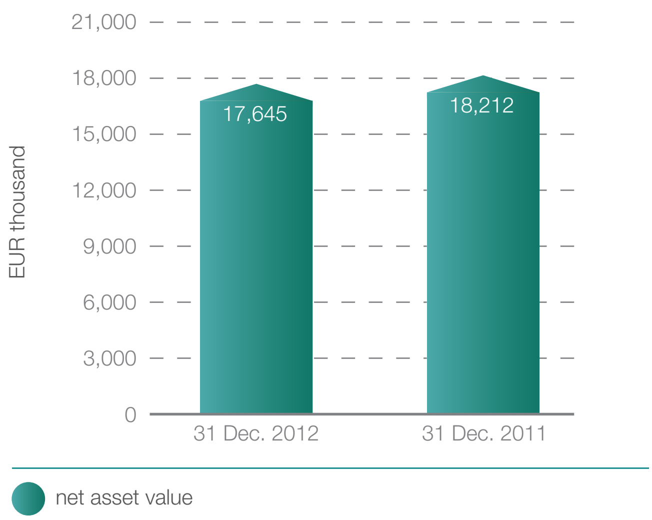
AIII Mutual Pension Fund

The net asset value of the fund as at the end of 2012 was EUR 17,645 thousand, compared to EUR 18,212 thousand one year earlier. In 2012, the net asset value of the fund decreased by 3.1% on the amount reported as at the 2011 year-end.

> In 2012, the return of the fund was 4.5%, well above the minimum guaranteed rate of return.

Throughout 2012, the investment policy adapted to macroeconomic instability. A low percentage of equities in the fund's portfolio and debt securities with short maturities valued security over returns. In the second half of the reporting year, the security and profitability of the fund were also improved as a result of a change in the investment policy (in late June 2012), which enabled placing the major part of assets in bank deposits. Amidst the uncertainty characteristic of 2012, the return of the fund was 4.5%, well above the minimum guaranteed rate of return of 2.0%.

NET ASSET VALUE OF AIII MUTUAL PENSION FUND



Custody and Administrative Services

In 2012, Abanka remained the leading Slovene bank providing custody services for funds and the only provider of administrative services for funds in accordance with the Investment Trusts and Management Companies Act (ZISDU-2). These services are made available to investment funds, mutual pension funds, long-term business funds in insurance companies and assets backing liabilities in pension companies.

> Abanka remains the leading Slovene bank in custody and administrative services for funds.

Abanka managed to keep its predominant market share in 2012 in terms of the net asset value of the funds to which it provides custody and administrative services. In the reporting year, Abanka successfully launched custody services to institutional investors, pursuant to the Financial Instruments Market Act (ZTFI).

Abanka is the only provider of administrative services using its own developed IT. A certified IT auditor has annually confirmed that the software used is in compliance with the relevant regulations. In 2012, Abanka decided to migrate to a new IT system, which will take place in the first half of 2013.

In custody and administrative services, Abanka successfully follows its long-term strategy: consolidating its position as the primary provider of both types of services in Slovenia, and developing administrative services for long-term business funds in insurance companies and assets backing liabilities in pension companies.

Abanka actively cooperates with institutions in Slovenia and elsewhere in the European Union that regulate investment funds and custodial banks. In 2013, the Bank will intensively prepare for new regulation introduced by the amended Pension and Disability Insurance Act (ZPIZ-2) in custody services for pension funds.

Bancassurance

In the last decade, bancassurance has been an important strategic orientation for many financial institutions, enabling both banks and insurance companies to concentrate and integrate their financial services following the one-stop shop concept.

> Abanka is an agent in the insurance market.

Abanka also follows current trends with its strategic partner Zavarovalnica Triglav. In 2012, Abanka and Zavarovalnica Triglav further enhanced their partnership and were the first in Slovenia to offer a bancassurance product which enables both the sale of real property insurance in the Bank and the sale of banking services (opening personal accounts) through Triglav's insurance agent network.

Abanka has acted as a broker in the insurance market since November 2003. In conjunction with Zavarovalnica Triglav, it offers the following bancassurance products:

- **Accident insurance** as a supplementary facility for holders of Aračun accounts, Premium personal accounts and Akeš personal accounts (the first bancassurance product);
- **Endowment life insurance**, a type of insurance where the risk is carried by the insurer;
- **Unit-linked life insurance**, which combines life insurance and investment linked to the unit prices of selected mutual funds and the investment fund of Zavarovalnica Triglav;
- **Single premium unit-linked life insurance**, which combines life insurance and investment elements, linked to the unit prices of selected mutual funds, with the insurance premium being paid in a lump sum when the policy is taken out;
- **Supplementary health insurance**, which is a type of voluntary health insurance available to holders of personal and savings accounts with Abanka who are covered by compulsory health insurance and obliged to make supplementary payments;
- **Various types of life insurance** without investment elements. Throughout the duration of the insurance policy, the sum insured remains the same;
- **Mortgage life insurance**, which is taken out in combination with a mortgage, housing or consumer loan (with a term above two years) and provides a diminishing pay out in the event of death, with the pay out reaching zero when the policy expires;
- **ABAFLEKS investment insurance – ABAFLEKS unit-linked life insurance for adults and FLEKS unit-linked life insurance for young adults** – these products are a combination of life insurance and investment linked to investment funds; the policyholders assume the investment risk but at the same time have a choice among different investment strategies (financial objectives strategy related to funds);
- **ABC life insurance**, which is in essence similar to all unit-linked life insurance products, but offers lower premiums and an open-ended term of insurance;
- **Loss of employment insurance** for borrowers taking a mortgage, housing or consumer loan;
- **Card insurance** is designed for the holders of regular or Premium personal accounts with Abanka and their authorised signatories;
- **Package home insurance**, a type of property insurance.

BREAKDOWN OF LIFE INSURANCE BY NUMBER OF POLICIES AS AT 31 DEC. 2012

88%
mortgage life insurance

7%
life insurance proper

2%
Fleks investment insurance

3%
unit-linked insurance

Total Equity and Ownership Structure

As at the 2012 year end, the total equity of the Abanka Group and Abanka amounted to EUR 165,644 thousand and EUR 168,558 thousand, respectively. In 2012, the Bank's capital decreased by 26.3% or EUR 60,131 thousand and accounted for 4.7% of total balance sheet liabilities.

Abanka covered its net loss for 2012 with reserves from profit in the amount of EUR 43,020 thousand, with share capital in the amount of EUR 22,845 thousand and with capital reserves in the amount of EUR 9,829 thousand. According to a resolution of the General Meeting, EUR 10 thousand was transferred to reserves from profit from unpaid dividends. The capital revaluation surplus increased by EUR 15,553 thousand.

The share book value was EUR 23.44 as at 31 December 2012, calculated on the basis of 7,200,000 shares and excluding treasury shares. The market value of Abanka shares as at 31 December 2012 was EUR 4.0

TEN LARGEST SHAREHOLDERS OF THE BANK

	31 Dec. 2012			31 Dec. 2011		
Rank		**Number of shares**	**Holding in %**		**Number of shares**	**Holding in %**
1	ZAVAROVALNICA TRIGLAV d.d.	1,843,377	25.6	ZAVAROVALNICA TRIGLAV d.d.	1,843,377	25.6
2	SAVA d.d.	1,715,841	23.8	SAVA d.d.	1,715,841	23.8
3	GORENJSKA BANKA d.d.	1,061,220	14.7	GORENJSKA BANKA d.d.	1,061,220	14.7
4	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	527,258	7.3	DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	527,258	7.3
5	HIT d.d.	442,705	6.1	HIT d.d.	442,705	6.1
6	VIPA HOLDING d.d. - in liquidation	266,896	3.7	VIPA HOLDING d.d.	266,896	3.7
7	DAIMOND d.d.	255,907	3.6	DAIMOND d.d.	255,907	3.6
8	ZVON ENA HOLDING d.d. - in bankruptcy proceedings	174,331	2.4	ZVON ENA HOLDING d.d.	174,331	2.4
9	SLOVENSKA ODŠKODNINSKA DRUŽBA d.d.	161,119	2.2	SLOVENSKA ODŠKODNINSKA DRUŽBA d.d.	161,119	2.2
10	NFD 1 delniški podsklad	106,000	1.5	NFD 1 delniški podsklad	106,000	1.5
	Ten largest	6,554,654	91.0	Ten largest	6,554,654	91.0
	Other shareholders	645,346	9.0	Other shareholders	645,346	9.0
	All shareholders	**7,200,000**	**100.0**	**All shareholders**	**7,200,000**	**100.0**

At the end of 2012 and 2011, the ten largest shareholders held 6,554,654 shares or 91.0% of the Bank's share capital. At the end of the reporting year, Zavarovalnica Triglav d.d. participated in Abanka's equity with 25.6%, Sava d.d. with 23.8%, Gorenjska banka d.d. with 14.7% and Delniški vzajemni sklad Triglav Steber I with 7.3%.

As at the end of 2012 the Bank had 1,115 shareholders (compared to 1,130 as at the 2011 year end), whilst the number of redeemed own shares (i.e. treasury shares) was 9,213 both at the end of 2012 and 2011, which accounted for 0.1% of its share capital. Abanka established a treasury share fund for redeemed own shares. As at the end of 2012 foreign entities held 102,692 shares of Abanka, which accounted for 1.4% of the Bank's share capital.

The share capital of Abanka entered in the Companies Register as at 31 December 2012 amounted to EUR 30,045,067.60 and was divided into 7,200,000 ordinary, freely transferable, no-par value shares (ABKN), of which 7,198,874 were in dematerialised form and 1,126 in materialised form, the latter not yet submitted to KDD. Voting rights are attached to 4,676,340 shares. In January 2011, the voting rights attached to 2,513,321 shares owned by Zavarovalnica Triglav d.d., HIT d.d., SOD d.d. and Mobitel d.d. were cancelled in accordance with the decision issued by the Securities Market Agency. All issued shares were fully paid in. Following the initial share issue, capital was regularly increased six times and once for the purpose of the merger by acquisition of Banka Vipa d.d. Prior to the enforcement of the 1999 Book Entry Securities Act, three issues of 3,162,362 shares were placed, after which capital was again raised five times (in 2001 by 337,638 shares, in 2002 by 536,038 shares due to the merger by acquisition of Banka Vipa d.d., in 2003 by 763,962 shares, in 2005 by 700,000 shares and in 2008 by 1,700,000 shares). The proportion of par-value shares in share capital was EUR 4.17 as at the end of 2012.

THE BANK'S DEVELOPMENT AND ITS GOALS

DEVELOPMENT AND MARKETING COMMUNICATIONS IN 2012

Given the difficult market conditions in 2012, Abanka devoted special attention to attracting new customers, opening new bank accounts, acquiring primary sources of funds, as well as increasing non-interest income. Accordingly, the Bank adjusted its development and marketing activities and placed great emphasis on managing different types of risk.

Development activities in 2012 were aimed at adapting payment services to the SEPA[21] rules, compliance with the regulatory requirements, cost-cutting in communication with customers, and improving existing sales channels and products.

The Abatočka network (merchant's points of sale) for executing payment orders was extended to include Tobačna's 3DVA points of sale. Marketing of personal accounts started through Zavarovalnica Triglav, our strategic partner.

Corporate banking

In corporate banking, Abanka pursued its strategic objectives by developing tailored products and services for small and micro-enterprises segment, sole proprietors, farmers and professionals. In doing so, Abanka was able to keep the existing bank account holders and attract new customers to open business accounts.

The company started the optimisation of informing in the e-banking segment for both corporate customers and professionals. The cumulative annual turnover per transaction account in domestic and foreign currencies, and the interest report for accrued interest per transaction account were added to electronic messages.

Corporate customers, who offer direct debit for their customers, had to adapt this payment instrument to the SEPA rules. Since these changes required adjustments on a larger scale, both from the Bank (in 2011 and 2012) and from payees, users of electronic banking, Abanka paid special attention to providing relevant information and notifications to its customers. The migration, which mostly took place in the second half of the year, was finalised by 31 December 2012.

Corporate customers, particularly merchants, were offered additional cooperation in the form of crediting their customers in 2011. In April 2012, Abakredit was upgraded, which enabled merchants to order Abakredit through a web application.

In 2012, the Abatočka network (merchant's points of sale) for executing payment orders was extended to include Tobačna's 3DVA points of sale.

Moreover, Abanka reorganised and improved certain internal processes, updated the Rules on Loan File Management and Loan Approval, as well as the operating instructions for the management and approval of loans and guarantees.

The sales and marketing of competitive offers for companies took place via direct marketing campaigns mostly through corporate account relationship officers. The company organised very successful events for customers in the small and medium business segment (both existing and new customers), and improved the magazine (eBilten), the web sub-site (business finances), as well as Abacom and other digital and modern means of informing customers.

Retail Banking

In line with the Bank's strategy, basic activities in retail banking were aimed at attracting new personal account holders and keeping existing customers.

In 2012, Abanka upgraded the service **Abanka's Family Package**, which facilitates family fund management. New and existing customers who brought new Aračun customers were rewarded with numerous benefits within the special offer entitled »Let Aračun persuade you«. Special attention was paid to the pensioner segment by offering a new personal banking account, Aračun Senior, from October 2012 onward. It is intended for all customers who receive a pension in Slovenia and offers advantages in facilitating account transactions as well as special terms of deposits, overdrafts and debits. With personal bank accounts, Abanka redesigned the process for approving bank account overdrafts and its personal banking approach.

Zavarovalnica Triglav was included in marketing aimed at personal accounts. Its insurance product marketing brokers also help prepare the documentation for opening personal accounts at Abanka.

The users of personal accounts have all information on received, processed and rejected orders for SEPA direct debit available with Abanet Internet banking. Thus far, the existing direct debit was only monitored by reviewing transactions in the current account, but now customers can reject the received direct debit order by SEPA before the execution of the transaction or apply for the refund of executed direct debit transaction. In 2012, a new system of notices for customers, which were previously sent by regular mail, was introduced via Abanet Internet banking.

21 Single Euro Payments Area.

In the **card business** segment, application support for automated ordering of bank cards was provided to further rationalise the operations of the Bank. Online payments with the Ba Maestro card were offered.

Abanka offered cash transfers from one Abanka personal account to another and to personal accounts by other banks in Slovenia through Abanka's ATMs with the Ba Maestro card.

The integrated **redesign of the loan process** was also continued to allow for greater adaptability, flexibility and speed in the making and developing new loan proposals.

In **savings and deposits**, Abanka launched several special products and developed a new term deposit product with a withdrawal option.

In 2012, in the field of marketing communication a new, more detailed segmentation of customers and their needs was introduced with the aim of placing the customer at the centre of our operations.

The segment of elementary school and pre-school children was served through the Ježek (Hedgehog) club and partially through family account management. Abanka follows the set segment strategy in the young customers' group (university and high school students). Its sub-brand Akeš dominates among banks in Slovenia on Facebook, an important marketing and promotion tool for communication with young people. Abanka prepared and implemented its placement in certain other modern communication sites (YouTube, Flicker, etc.). Abanka's website underwent continuous optimisation.

In 2012, more marketing activities were aimed at meeting customers' needs in the active population segment (27–55 years) and in the pensioner segment, which is prevalent among Abanka's customers.

In vertical or value segmentation, Abanka started the implementation of optimised customer service in personal and private banking. The criteria for transition to these two segments were adjusted to market conditions and competitive environment.

Marketing and communication support for the marketing of all of Abanka's important products (deposits and savings, loans) was prepared and the media network was adapted accordingly, taking into account the analyses of the media market and the competitive environment.

Intensive regional marketing and communication activities for the sales promotion of banking products with Abanka's personal aspect were carried out in three regions.

Upon opening of new branches in Domžale and Novo Mesto, Abanka carried out marketing communication campaigns for support and raising the visibility of the new branches in the local environment, and for attracting new customers in all local community segments.

The Bank's public image as the »bank of friendly people« was strengthened. In 2012, a unified marketing communication platform was introduced to provide unified product marketing for at least a two-year period.

In 2012, customer loyalty was also measured, confirming that in these particular times the loyalty achieved, and customers' intention to recommend Abanka to their friends are high, giving the Bank a foundation to build its future activities.

Financial Markets

In 2012, in terms of assets and liabilities management, the Treasury Division:

- continued with the centralised liquidity management process and upgraded the software for monitoring the implementation of plans and cash flow projections by division within the Bank;
- restructured the banking book in accordance with the Basel III Accord and provided for an adequate level and structure of the banking book's portfolio;
- simultaneously introduced and implemented collateral management in the IT system for treasury management.

In 2012, trading with corporate customers was extended to include new currencies – in addition to accounts in Serbian dinars, new Romanian leus and Hong Kong dollars, an account in Russian rubles was opened as well. In this way, Abanka meets the needs of companies and strengthens its visibility as an international bank. In 2012, the sale and purchase of gold was continued with success, offering customers the possibility to invest in gold bars and coins. With the aim to hedge against the risk of gold price movements, the Bank also traded forward contracts on gold on the interbank market.

In the reporting year, the number of customers involved in commercial repo transactions was increased for the purpose of customer business and assets and liabilities management as well as the number of customers dealing in derivative financial instruments.

In 2012, the visibility and image of Abanka in investment banking was raised with marketing and communication support, particularly in the Gorenjska region. With the purpose of further relationship building, a traditional event was organised in autumn for the existing customers who use treasury services.

DEVELOPMENT, MARKETING COMMUNICATIONS, AND GOALS IN 2013

A major leverage for Abanka's good performance in 2013 will be ensuring stability and strengthening the capital base as well as maintaining its development orientation. Abanka will continue to constantly improve the quality of existing products, to develop new products and sales channels, to strengthen the efficiency and quality of marketing communications and to boost sales as a result. To achieve the above, Abanka is constantly adapting its development activities to its customers' rapidly changing needs. Abanka will continue to strive towards building and maintaining stable, long-term relationships with its customers, and tailoring products and services to the needs of individual customer segments.

Abanka intends to keep its mission »UNITING WITH EXCELLENCE IN FINANCIAL SERVICES« as the expression of its commitment to meeting its customers' expectations. The Bank will strive to establish trust in its business relations and a long-term orientation to meet the financial goals of its customers. The Bank's objectives are to provide suitable solutions to its customers' needs, to maintain high-quality services, and to reward customers for their expanded relations with the Bank.

In 2013, Abanka will continue implementing its basic strategic guidelines:

- increasing capital strength for development and stable banking operations;
- strengthening the retail and SME business; and
- cost and process efficiency.

These guidelines will be realised in the framework of further development of the following strategic projects:

- strengthening retail banking;
- developing SME banking;
- re-engineering back-office processes.

Strategic goals will be realised by continuing the following strategic projects:
– strengthening of retail banking;
– developing SME banking; and
– re-engineering back-office processes.

Retail banking in 2013 will be focused on the management of relationships with individual customers and customer segments, taking into account their actual needs, strengthening trust and measuring their satisfaction with Abanka's services. The Bank will introduce a new state-of-the-art contact centre and upgrade its current sales channels.

Activities in the **SME segment** will be centred on strengthening relationships with existing customers, expanding the selection of products used by individual customers and attracting new customers. Special attention will be paid to the Bank's role in consulting SMEs and upgrading its current sales channels.

Despite the uncertain situation in **the financial markets**, Abanka will continue to provide a comprehensive range of investment banking products, make efforts to consolidate its position as the leading provider of custody services for investment funds, and boost its international visibility.

Special attention will be devoted to developing innovative products and services, strengthening the competences of employees, and to providing an innovative working environment. Social technologies will be introduced in communications with customers and in internal business processes. We will continue to increase the stability and safety of our business operations with the further development of risk management functions and the implementation of compliance technologies.

In order to promptly detect and respond to changes, Abanka will continue to develop its system for strategic research, which enables it to identify conditions in the local and international economic environments and take relevant measures, thus providing it with greater flexibility and a competitive edge in the long run.

Abanka's Main Development and Marketing Activities in 2013

In 2013, Abanka will continue to improve its existing sales channels and customer experience and introduce new innovative sales channels, including mobile banking. Abanet online banking will be upgraded with new features. A demo version of online and mobile banking will give the Bank greater visibility.

Next year will see the introduction of new functionalities in card operations. To attract new personal account holders, the Bank will prepare a special offer, tailored to individual segments.

In 2013, Abanka plans to introduce mobile banking for corporate customers. This state-of-the-art technology for performing operations with the Bank is appealing to the technologically more advanced companies, also in the SME segment. In e-business, 2013 will see an upgrade of online banking services, which represents the future of banking and increases the efficiency of the Bank's operations.

Abanka will prepare tailored offers to attract new and expand the operations of existing customers in the segments of micro, small and medium-sized companies and sole proprietors.

Customer segmentation, carried out in 2012, offers a better basis for preparing the so-called segment plans for 2013. In retail and corporate banking management, 2013 will see an even greater focus on the parameters of excellence in customer experience for both the existing and especially for the future customers. This will make it easier for marketing experts to monitor the stagnation or growth in individual sectors, which will allow them to adapt sales and marketing activities accordingly (in all segments), both on the national and regional levels.

Abanka will continue to provide the greatest possible customer satisfaction in all its channels of operation. Satisfaction with the Bank will be measured at all key banking channels.

User-friendly and quickly accessible summaries with information, data and instructions will be available on the Bank's website. Digital banking channels will be upgraded to achieve the greatest possible level of co-operation with the customers.

CORPORATE GOVENRANCE STATEMENT

Corporate Governance Code

The Bank signed the Corporate Governance Code adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 8 December 2009. The Code is available on the website of the Ljubljana Stock Exchange at www.ljse.si in Slovene and English.

Abanka abides by the Code in its operations, with the exceptions and differences disclosed in the **Statement of Compliance with the Corporate Governance Code** of 25 April 2013, contained in this Annual Report. The governance practices of Abanka are accessible on its website at http://www.abanka.si/.

A Description of the Main Features of the Internal Controls and Risk Management in the Bank, in Connection with the Accounting Reporting Procedure

The Bank manages all types of risks in accordance with the Risk Management Strategy of Abanka Vipa d.d. Risks are controlled according to risk management policies by risk type. In line with the operational risk management policy, the Bank establishes procedures for reducing risk and limiting the occurrence of any losses from operational risks of the Bank's individual organisational units and the Bank as a whole. It actively plans and implements measures to reduce the frequency and severity of losses arising from operational risks.

The main objectives of internal controls in risk management in terms of accounting reporting are the effective administration of tasks, the efficient use of funds and their protection against loss due to negligence, abuse, misadministration, default, fraud and other errors, compliance with primary and secondary legislation and instructions by the Management Board and senior management of the Bank, the provision and maintenance of timely, integrated and reliable data and information and their fair disclosure in internal and external reports.

Monitoring the effectiveness of risk hedging methods arising from accounting reporting and risk reduction is a process based on an internal control system consisting of internal controls, the activities of the Internal Audit Department, and compliance activities.

Information Required under Article 70, §6, items 3, 4, 6, 8 and 9 of the Companies Act

- **Holdings of the Bank's shares in terms of achieving the qualified holding according to the Takeover Act**
  As at 31 December 2012, the following shareholders had a qualified holding:

Company	Number of shares	%
Zavarovalnica Triglav d.d.	1,843,377	25.6
Sava d.d.	1,715,841	23.8
Gorenjska banka d.d.	1,061,220	14.7
Delniški vzajemni sklad Triglav Steber I	527,258	7.3
HIT d.d.	442,705	6.1

  Zavarovalnica Triglav d.d. is the majority shareholder in Triglav družba za upravljanje d.o.o. (management company), which manages Delniški vzajemni sklad Triglav Steber I (a mutual share fund). Zavarovalnica Triglav d.d. and Delniški vzajemni sklad Triglav Steber I together hold 2,370,635 shares of Abanka, which represents 32.9% of the Bank's share capital.

- **Special controlling rights**
  None of the Bank's shareholders have special controlling rights.

- **Voting right restrictions**
  According to the Articles of Association, voting rights are not restricted to a certain holding or to a minimum number of shares. Detailed information on the exercise of voting rights is contained in the chapter "Functioning of the General Meeting of Shareholders, Its Key Competencies, a Description of Shareholders' Voting Rights and the Manner in which They are Exercised", which is part of this statement.

  On the basis of Decision No. 0600-46/2010-12 of the Securities Market Agency, dated 13 January 2011, as of the day the Decision becomes final, the following companies shall be prohibited from exercising their voting rights in the target company, Abanka Vipa d.d., Slovenska cesta 58, Ljubljana:
  1. Zavarovalnica Triglav d.d., Miklošičeva cesta 19, Ljubljana, shall be prohibited from exercising voting rights from 1,843,377 ABKN shares or 25.60% of the voting shares issued by Abanka Vipa d.d.;
  2. Slovenska odškodninska družba d.d., Mala ulica 5, Ljubljana, shall be prohibited from exercising voting rights from 161,119 ABKN shares or 2.24% of the voting shares issued by Abanka Vipa d.d.;
  3. HIT, hoteli, igralnice, turizem d.d., Delpinova ulica 7a, Nova Gorica, shall be prohibited from exercising voting rights from 442,705 ABKN shares or 6.15% of the voting shares issued by Abanka Vipa d.d.;

4. Telekom Slovenije d.d., Cigaletova 15, Ljubljana (as the offeree for Mobitel, telekomunikacijske storitve, d.d., Vilharjeva cesta 23, Ljubljana) shall be prohibited from exercising the voting rights attached to 66,120 ABKN shares or 0.92% of the voting shares issued by Abanka Vipa d.d.,

until the above-named companies either jointly, individually on behalf and on account of all, or severally on behalf of and on account of them all, make a takeover bid for the shares of the target company Abanka Vipa d.d. in accordance with the Acquisitions Act or until the companies named above, which are holders of voting rights in the target company, dispose of their ABKN shares, so that the companies named no longer reach the takeover threshold either jointly, individually or severally.

The Bank is unaware of any agreements in which, on the basis of its co-operation, the financial rights arising from securities are separated from the rights arising from the holding of such securities.

- **The Bank's rules on the appointment or replacement of members of the management or supervisory bodies and amendments to the Articles of Association**
  The rules on the appointment or replacement of members of the management or supervisory bodies are presented in the section "Composition and Functioning of Management or Supervisory Bodies and Their Committees", which is part of this statement. The rules regarding amendments to the Articles of Association are disclosed in the section "Functioning of the General Meeting of Shareholders, Its Key Competencies, a Description of Shareholders' Voting Rights, and the Manner in which They are Exercised", which is part of this statement.

- **Authorisations of the management, especially share purchase and share issuing options**
  Subject to the prior approval of the Supervisory Board, the Management Board is authorised to raise the share capital of the Bank in the period until 13 June 2013 by issuing new ordinary shares payable in cash or in kind up to EUR 15,022,533.80 (authorised capital) or 50% of the share capital of Abanka. New shares shall be issued against contributions in kind only if the shares are paid in by the Republic of Slovenia against its receivables and on the basis of the realisation of the guarantee referred to in Article 86(a) of the Public Finance Act. The auditor shall not be obliged to audit the issue of shares against contributions in kind if the respective legal provisions have been met. In the event new shares are issued against contributions in kind, the pre-emptive right to the new shares shall be excluded.

Functioning of the General Meeting of Shareholders, Its Key Competencies, a Description of Shareholders' Voting Rights and the Manner in which They are Exercised

The General Meeting of Shareholders consists of the Bank's shareholders. The General Meeting of Shareholders decides on the following matters: the distribution of the balance-sheet profit on the proposals of the Management and Supervisory Boards; the adoption of the Annual Report, should the Supervisory Board fail to approve the Annual Report or should the Management and Supervisory Boards leave it to the General Meeting of Shareholders to decide on the approval of the Annual Report; the annual report on internal audits (with the opinion of the Supervisory Board); the adoption of an amendment to the Articles of Association; measures to increase or decrease capital, excluding those which according to the Articles of Association fall within the competence of the Management Board; the winding-up of the Bank and status-related changes; the appointment and dismissal of Supervisory Board members; a vote of no confidence in the Management Board members; granting discharge to members of the Management and Supervisory Boards; the appointment of the certified auditor; the Rules of Procedure of the General Meeting of Shareholders; and other matters determined by the Articles of Association and by the law.

The General Meeting of Shareholders is convened at least once a year by the Management Board. It can also be convened by the Supervisory Board. Shareholders holding a total of one-twentieth of the share capital may require that a General Meeting of Shareholders be convened. The Management Board publishes the announcement of a General Meeting of Shareholders in the daily newspaper Delo, in the SEO-net information system of the Ljubljana Stock Exchange, and on the website of the Bank.

Only those shareholders holding ordinary shares who were entered in the Shareholders Register no later than by the end of the fourth day before the date of the General Meeting of Shareholders and who announced their attendance to the Management Board no later than by the end of the fourth day prior to the date of the General Meeting are entitled to participate in and vote at the General Meeting of Shareholders. Shareholders may exercise their rights at the General Meeting of Shareholders in person or through a proxy.

Each ordinary share carries one vote at the General Meeting of Shareholders. The Bank has not issued any shares with restricted rights. The General Meeting of Shareholders shall adopt decisions by a majority of votes cast, unless otherwise stipulated by the Articles of Association or by the law. A three-quarters majority of the represented share capital is required for the General Meeting of Shareholders to adopt decisions on raising or reducing capital, amendments to the Articles of Association, the denial of pre-emption rights to purchase shares in raised share capital, the winding-up of the Bank, status-related changes of the Bank, the dismissal of a member of the Supervisory Board, and a vote of no confidence in members of the Management Board.

The General Meeting of Shareholders on 30 May 2012 took note of the Abanka Vipa d.d. Annual Report for 2011, the remuneration of the Management and Supervisory Boards' members for 2011 and the Supervisory Board's report stating that balance-sheet profits for 2011 equalled EUR 0.00. A discharge was granted to the Management and Supervisory Boards' members for 2011, the 2011 Internal Audit Report was adopted, including the opinion of the Supervisory Board. Furthermore, the General Meeting appointed Andrej Andoljšek, Andrej Slapar, Kristina Ana Dolenc and Andrej Hazabent as members of the Supervisory Board of Abanka Vipa d.d., passed a resolution on share capital increase through monetary contributions financed with a new share issue at an offer price of EUR 7 per share to be entered in the Companies Register by 31 October 2012, appointed KPMG Slovenija d.o.o. as auditors of the Abanka Vipa d.d. Annual Report for 2012, approved amendments to the Memorandum and Articles of Association of Abanka Vipa d.d., and set attendance fees and compensation for the members of standing Supervisory Board committees.

The General Meeting of Shareholders held on 19 November 2012 took note of the fact that the recapitalisation of the Bank financed with capital contributions, required by the General Meeting of Shareholders' resolution dated 30 May 2012, failed to be carried out and passed a resolution on share capital increase through monetary contributions financed with a new share issue at an offer price of EUR 4.20 per share to be entered in the Companies Register by 30 June 2013. Another resolution was passed on the appointment of Janko Gedrih to membership of the Supervisory Board of Abanka Vipa d.d.

Composition and Functioning of Management or Supervisory Bodies and Their Committees

Abanka uses a two-tier management system. The Bank is run by the Management Board, whose work is supervised by the Supervisory Board. The governance of the Bank is based on the law, the Articles of Association, internal documents, generally accepted business practices and the Corporate Governance Code (with the exceptions and differences disclosed in the Statement of Compliance with the Corporate Governance Code).

The Management Board

The Management Board runs the Bank's operations independently, for which it is fully responsible. In legal transactions, the Bank is always jointly represented by two members of the Management Board who are entitled to sign on its behalf.

The Management Board has no less than three and no more than five members, of whom one acts as its President. The number of Management Board members is determined by the Supervisory Board. Since 1 July 2012, the Management Board is composed of:

- Jože Lenič, President, term starting on 17 January 2011 and expiring on 17 January 2016;
- Igor Stebernak, member, term starting on 1 July 2012 and expiring on 1 July 2017.

Radovan Jereb and Gregor Hudobivnik remained members of the Management Board until 1 July 2012, when their terms of office expired.

The Supervisory Board appoints and dismisses the President and the members of the Management Board. The members of the Management Board are appointed and dismissed on the proposal of the President of the Management Board. The President and members of the Management Board are appointed for a five-year term with the possibility of reappointment. Any individual member or President of the Management Board may be dismissed by the Supervisory Board if legal grounds for their dismissal have been established.

The Management Board reports at least four times a year to the Supervisory Board on the planned business policy of the Bank and other material issues regarding the Bank's operations, the performance of the Bank, particularly return on equity, business, especially transactions and the financial position of the Bank and operations that may materially affect the performance or solvency of the Bank.

The Rules of Procedure of the Management Board stipulate the methods of its work, and distribute the areas of work and tasks among its members. The Management Board puts its individual members in charge of individual organisational units, and makes them responsible for their management and coordination.

The Management Board may transfer certain decision-making rights to collective decision-making bodies. The following bodies assist the Management Board in its work:

- **Assets and Liabilities Management Committee**
  The Assets and Liabilities Management Committee manages the Bank's liquidity, currency, interest, market and credit risks, manages capital and capital adequacy, monitors financial results and business volumes, manages other operational risks, sets transfer interest rates and charges, manages the property rights of the Bank, decides on write-offs and on special terms for certain customers, and considers other matters. The Committee meets once a month. It has seven to nine members, the exact number being decided by the Management Board. At the end of 2012, the Assets and

Liabilities Management Committee had nine members. The Management Board appoints the Chairman and Deputy Chairman of the Committee from amongst its members. Other members appointed to the Committee are members of senior management. The Expenses Group is an advisory Body of the Assets and Liabilities Management Committee with powers to independently adopt certain decisions regarding cost management and appointing administrators for different cost types. The Group holds regular meetings once a month. It may have between four and eight members, the exact number being decided by the Management Board. At the end of 2012 the Group had six members.

- **Assets and Liabilities Management Commission**
  This Commission monitors the liquidity position of the Bank and cashflow realisations, decides on special terms for certain customers, and sets interest rates and tariff charge system for customers. The Assets and Liabilities Management Commission has regular meetings, usually twice a week. As at the end of 2012, the Commission had five members.

- **The Corporate Credit Committee and Retail Credit Committee**
  The Corporate Credit Committee decides on the approval of loans, guarantees, sureties, avals and factoring, inflow purchases, opening letters of credit and all investments, which result in a receivable or contingent receivable of the Bank, all within given limits. The Corporate Credit Committee is authorised to decide on the abovementioned investments if they have not been decided on in the framework of individual or Retail Credit Committee authorisations, within exposure limits to individual customers and taking into account large exposure limits. The Committee manages credit risk and exercises the following competences and authorities with regard to the Bank's investment management: approves credit limits, discusses LTV ratio reports, proposals on loans on the watch list, financial restructuring plans, reorganisation programmes and loan restructuring proposals, monitors how authorisations for individual decision-making established in the Management Board's decisions on individual authorisations are exercised by the senior management and other employees, approves the credit rating classification of customers, approves exposures of subsidiaries that exceed limits set by the Bank, decides on accepting syndicated loan agent services, project financing and other financial services and considers other matters. Regular meetings of the Committee are convened once a week, extraordinary and correspondence meetings may be held several times a week. The Committee may have between five and eight members, the exact number being decided by the Management Board. At the end of 2012 the Corporate Credit Committee had five members. The Retail Credit Committee decides on loans of up to EUR 300,000 to customers who are natural persons, sole proprietors, individuals with the legal status of a farmer, and other individuals engaged in gainful activity; monitors how authorisations for individual decision-making by employees laid down in the Management Board's decisions on individual authorisations are exercised; and decides on the credit rating classification of receivables from sole proprietors and other individuals engaged in a gainful activity. The Committee has regular meetings, usually twice a week, and is composed of two members.

- **Liquidity Commission**
  The Liquidity Commission designs the current liquidity, exchange and interest policies of the Bank. The Commission has regular meetings twice a week. At the end of 2012 the Commission had seven members.

- **Operational Risk Committee**
  The Operational Risk Committee is responsible for the following: discussing and adopting incurred loss event reports; discussing large loss events in detail and adopting measures if they occur; discussing and adopting operational risk profiles for organisational units of the Bank and the Bank as a whole; putting forward proposals and requirements for reducing, preventing and managing operational risks; putting forward proposals and requests for amending operational risk management processes; discussing the operational risk management policy and adopting other internal documents on operational risk and its management; monitoring the implementation of the operational risk management policy and other internal acts linked to operational risk and its management; discussing the Internal Audit Department's reports and recommendations linked to operational risk; examining safety in a broad sense, including protection policy, protection system roles and responsibilities, processes and procedures in the scope of protection; adopting internal acts on protection; discussing compliance and anti-money-laundering reports; and carrying out other activities linked to operational risk if necessary. Regular meetings of the Committee are convened quarterly. It may have between ten and twelve members, the exact number being decided by the Management Board. At the end of 2012 the Committee had eleven members.

- **ICAAP Forum**
  The ICAAP Forum is responsible for assessing the concept adequacy of the Internal Capital Adequacy Assessment Process (ICAAP) in the Bank in terms of its range, methodology, goals and its effective administration in the Bank. Regular meetings of the Forum are convened quarterly. The Forum may have between eight and twelve members, the exact number being decided by the Management Board. At the end of 2012 there were nine members on the Forum.

- **Loan Watch Committee**
  The Loan Watch Committee is an advisory board that deals with monitoring and managing loans on the watch list. Loans

on the watch list include significant problem loans and other loans requiring special active monitoring due to the financial restructuring procedures and/or other reasons adversely affecting customers' credit ratings. The Loan Watch Committee holds regular meetings twice a month. It may have between five and six members, the exact number being decided by the Management Board. At the end of 2012, the Committee had six members.

- **Commission for Abanka's Customer Complaints regarding Payment Cards and Abanet Online Bank Usage**
  The Commission deals with customer complaints and is authorised to decide on compensation for losses sustained in certain cases. The Commission holds regular monthly meetings and is composed of three members.

- **Development Committee and Development Board**
  The Development Committee is a collective decision-making body in charge of directing and supervising the development and capacity building of the Bank. Regular meetings of the Committee are convened every two months. It may have up to fifteen members and forty in an extended composition, the exact number being decided by the Management Board. At the end of 2012 the Development Committee had ten members. The main objective of the Development Board is the coordination of resources for the effective and timely implementation of development tasks among development groups and projects, and the assessment of proposals to be forwarded to the Development Committee. The Development Board holds regular monthly meetings. Its composition is decided by the Development Committee or the Management Board of the Bank. At the end of 2012 there were twelve members on the Development Board.

- **Groups for the Supervision of Subsidiary and Associated Companies of Abanka**
  Supervision groups are co-ordination and consultation bodies in charge of the monitoring, co-ordination and supervision of operations and risk exposures in individual subsidiary and associated companies of the Bank, which makes them responsible for ensuring a more integrated and effective risk management system at the level of the Abanka Group. Groups have regular meetings on a monthly or quarterly basis, depending on the nature of the work of the individual subsidiary or associated company. The Bank has the following Groups: the Group for the Supervision of Afaktor d.o.o., the Group for the Supervision of Aleasing d.o.o. and the Group for the Supervision of ASA Aleasing d.o.o. Sarajevo. Each group has three to six members, the exact number being decided by the Management Board. At the end of 2012, the Group for the Supervision of Afaktor d.o.o. and the Group for the Supervision of Aleasing d.o.o. were composed of four members each, while the Group for the Supervision of ASA Aleasing d.o.o. Sarajevo had six members.

Supervisory Board

The Supervisory Board oversees the management of the Bank's business operations. It may have between seven and nine members, who are appointed and dismissed by the General Meeting of Shareholders. The members of the Supervisory Board are appointed for a four-year term with the possibility of reappointment.

The Supervisory Board is responsible for the following: deciding on the appointment and dismissal of Management Board members and their remuneration; deciding on granting loans to Management Board members and other persons stipulated by law; approving the agreements between Supervisory Board members and the Bank; deciding on granting loans to Supervisory Board members; reviewing and providing a written opinion on the Annual Report and the profit distribution to the General Meeting of Shareholders; adopting the Annual Report; reviewing and providing opinions on financial and other reports by the Management Board; supervising the adequacy of the procedures of the Internal Audit Department and for the control of the Bank; proposing nominees for the Supervisory Board to the General Meeting of Shareholders; submitting proposals to the General Meeting of Shareholders for the appointment of the certified auditor; proposing a profit distribution to the General Meeting of Shareholders, together with the Management Board; providing an opinion on the annual internal audit report to the General Meeting of Shareholders; reporting on the annual audit and auditing costs of the Bank to the General Meeting of Shareholders; approving the operations of the Bank if such approval is required in the Articles of Association; deciding on amendments of the Articles of Association but only to the extent so as to adjust the wording of the Articles of Association to validly adopted decisions; adopting its own Rules of Procedure; and other competencies determined by the law or Articles of Association.

The Supervisory Board gives its approval to the Management Board's long-term capital investments in other legal entities exceeding 1% of bank capital – made up of Tier 1, Lower Tier 2 and Upper Tier 2 net of deductible items in accordance with the Banking Act and the relating secondary legislation – to strategic business alliances, the Bank's corporate policy, the Bank's budget, organisation of an internal control system, draft annual work programme of the Internal Audit Department, rules of the Internal Audit Department, conclusion of any legal transaction that in consideration of the overall exposure of the Bank would result in the Bank's large exposure to an individual customer, conclusion of any legal transaction due to which the large exposure of the Bank to an individual customer would rise to equal or exceed 15% or 20% of the bank capital, conclusion of any legal transaction which would result in the Bank's exposure to the members of the Management Board and/or the Supervisory Board, authorised officers of the Bank and parties related to these persons as well as other matters stipulated by law or the Memorandum and Articles of Association.

The Supervisory Board discharges its duties and responsibilities at regular and correspondence sessions. The quorum of the Supervisory Board is constituted if a majority of members is present at a session. Decisions are adopted according to the majority of votes cast. Where a vote is equal, the Chairman shall hold the deciding vote.

The Supervisory Board as at 31 December 2012 was composed of:
- Andrej Andoljšek, Chairman, term starting on 30 May 2012 and expiring on 30 May 2016;
- Andrej Slapar, Deputy Chairman, term starting on 30 May 2012 and expiring on 30 May 2016;
- Branko Pavlin, member, term starting on 29 May 2009 and expiring on 29 May 2013;
- Slaven Mićković, member, term starting on 29 May 2009 and expiring on 29 May 2013;
- Vladimir Mišo Čeplak, member, term starting on 29 May 2009 and expiring on 29 May 2013;
- Franci Strajnar, member, term starting on 21 June 2011 and expiring on 21 June 2015;
- Kristina Ana Dolenc, member, term starting on 30 May 2012 and expiring on 30 May 2016;
- Janko Gedrih, member, term starting on 19 November 2012 and expiring on 19 November 2016.

In 2012, the terms of office of Janez Bohorič as Chairman of the Supervisory Board and of Simon Zdolšek, Uroš Rožič, Andraž Grum, Igor Stebernak and Andrej Hazabent (term of office commenced in the same year) as its members ended.

Supervisory Board Committees

At the end of 2011, the **Audit Committee** was composed of two Supervisory Board members (Vladimir Mišo Čeplak as Chairman, Franci Strajnar as member) and of two external experts (Vinko Perčič and Tina Cvar). In the reporting year, the membership of the Committee changed, as Vinko Perčič was replaced by Jasmina Kovačič. The Audit Committee held eight meetings in 2012. Its main purpose is to assist the Supervisory Board in discharging its supervision duties regarding the reliability of financial statements, financial reports and other financial information that the Bank sends to its shareholders and other members of the public concerning the qualifications, effectiveness and independence of the external auditor and the functioning of the internal audit system.

At the end of 2011, the **Compensation Committee** was composed of two Supervisory Board members (Branko Pavlin as Chairman, and Franci Strajnar as member) and one external expert (Tomaž Kuntarič). In 2012, the composition of the Supervisory Board changed, which led to changes in the composition of this Committee: Andrej Andoljšek became its Chairman and Andrej Slapar replaced Franci Strajnar. The Committee is composed of three Supervisory Board members and one external expert. In 2012, the Committee held five meetings and was renamed the **Compensation and Human Resources Committee**. The main purpose of this Committee is to help the Supervisory Board exercise its supervisory responsibilities with regard to making decisions related to compensation, including those having an impact on risks and risk management in the Bank, as well as decisions on human resources related to the membership of the Management and Supervisory Boards. The Compensation and Human Resources Committee has the following tasks: to propose general principles of the remuneration policies; to formulate positions with regard to individual aspects of the remuneration policies; to assess the appropriateness of the methods applied to provide incentives in the remuneration system for adequate risk, capital and liquidity management; to make recommendations to the Supervisory Board as to the implementation of the remuneration policies; to draft decisions for employees' remuneration, including those having impact on risks and risk management in the Bank; to assess the appropriateness of an external advisor whose services are used by the Supervisory Board in defining the Bank's remuneration policies and other issues under the Committee's competence; to assess the appropriateness of the general principles of the remuneration policies and their implementation; to verify the remuneration policies' compliance with the business policy of the Bank in the long run; to give support to the design and implementation of payment schemes to the Management Board; to assist the Supervisory Board and draw up proposals regarding the criteria and candidates for membership in the Management Board, evaluate the balance of skills, knowledge and experience and prepare a description of the roles and qualifications required for each office; to regularly assess the size, composition and functioning of the Management Board; to help evaluate the work of the Management Board and draft resolutions for discharging individual Management Board's members when appropriate; to support and assist the Supervisory Board in evaluating membership candidates proposed by the Supervisory Board; and other tasks stipulated in the Memorandum and Articles of Association or by a decision of the Supervisory Board.

In 2012, another committee started working in the framework of the Supervisory Board, under the name **Risk Management and Assets Liability Management Committee**. Its competences are risk control and assets and liabilities management. In 2012, it was composed of four Supervisory Board members: Andrej Slapar as Chairman, Slaven Mićković, Kristina Ana Dolenc and Franci Strajnar as members. The main purpose of this Committee is to support the Supervisory Board in the execution of its supervisory responsibilities in relation to preparing decisions related to the risk management function, risk profile and control over the assets and liabilities management in the Bank. In 2012, the Committee held three meetings.

RISK MANAGEMENT

The Group is exposed to various risks in its daily operations that must be appropriately managed. The Group is aware that effective risk management, encompassing risk identification, risk measurement or assessment, risk control, risk monitoring and risk reporting procedures, has a direct impact on its long-term stability and performance. Therefore, the Group has paid due attention to the risk management function, which it will continue to develop further in the future.

The basic tenets of the Group's risk management are officially defined in the Risk Management Strategy. This represents a formal basis for other internal documents that define the processes of assuming and managing different types of risks (including organisational rules on risk management processes and rules on internal control systems) in greater detail, and enable the assessment of risk-bearing capacity. One of the key principles of risk assumption and risk management is understanding the importance of risk management for banking operations, the participation of the management in the risk management process, clear organisational structure, adequate corporate culture, appropriate staff and technological support dedicated to the risk management function, the implementation of good banking practices, compliance with regulatory requirements and auditors' recommendations, monitoring of the external environment, adequate limit systems, clear and up-to-date risk analyses, regular assessments of risk bearing capacity and capital adequacy, risk management at the group level, and the provision of information security. The Risk Management Strategy comprises internal definitions of individual risk types and objectives in risk management and risk bearing.

In order to ensure the long-term safety of operations and good performance, and to meet other objectives set out in the business strategy, the Group implements a proactive and effective process of managing and assuming risk within its risk-bearing capacity. The Group manages all risks that have, will have, or might have a material impact on its operations, provides for sufficient capital to cover all material risks, and maintains a balanced ratio between returns and risks.

It is the Management Board's responsibility to approve the risk management strategy and policies — as well as to ensure their updating, depending on changes in the internal and external environment — to monitor and regularly assess the effectiveness of the risk management system and the progress made in establishing the targeted risk management system and to ensure a transparent and documented process of monitoring important decisions and the clear segregation of competencies and duties in order to maintain compliance with internal decisions and procedures.

In risk management, the senior management is responsible for:
- drafting and implementing the risk management strategy and policy by establishing the processes of identifying, measuring, monitoring, controlling and managing risk for all banking activities;
- establishing an adequate organisational structure for the effective implementation of strategies, policies and procedures, as well as the efficient functioning of risk management systems;
- informing management and supervisory bodies of all material risks assumed by the Group in the course of business;
- establishing and maintaining a risk management system;
- defining procedures, instructions and guidelines for business processes; and
- establishing and controlling risk exposure limits.

The Risk Management Department is in charge of the risk management function, it is independent of the commercial units and directly accountable to the Management Board. The Risk Management Department is responsible for the development and maintenance of **advanced** and **effective** risk management techniques (identification, measurement/assessment, control and monitoring/reporting) at the **Group level** in the most **reliable, integrated, systemic, transparent and understandable manner**. It is also responsible for raising **awareness of the importance of risk management** for the long-term stability and safety of the Group's operations within the risk tolerance/appetite to assume risks determined in the business strategy.

Risk management is performed not only by the Risk Management Department, but also by other organisational units and collective decision-making and consultative bodies.

In 2012, the Group continued to implement prudent risk assumption policies in addition to updating and improving risk management processes. The business environment in which the Group operates remained unstable and unfavourable. In 2012, the number of bankruptcy proceedings and compulsory compositions further increased, some of which significantly influencing the operations. Due to the harsh economic conditions, the Group was most exposed to credit risk. The year 2012 was noticeably marked also by the downgrade of the Slovene government's sovereign debt rating and consequent downgrades of major Slovene banks. The deepening debt crisis forced up the sovereign debt yields on debt securities of some of the euro area member states. The continuing insolvency procedures of customers to which the Abanka Group is exposed, raising increasingly expensive foreign funds, lower economic growth in the European Union, cooling global economic activity, instability of capital markets, as well as losses due to loss events arising from operational risk, primarily abuses and fraud, continue to represent the greatest external threats to the future operations of the Abanka Group.

In addition to the standard measuring methods applied to major risks, the Group regularly performed stress tests in extreme situations by means of which it identified hypothetical stress events and assessed their impact on its financial result and the adequacy of its capital base. When launching new products, the Group paid due attention to risk analysis, which enabled the Group to identify all the material risks arising from the introduction of new products; on such a basis, relevant cost-efficient risk management measures were taken.

The accounting part of the Annual Report contains a detailed description of risk management, while this part includes the following summary of the key elements of major banking risks: credit, operational, market, interest and liquidity risk as well as the implementation of the Internal Capital Adequacy Assessment Process (ICAAP).

In 2012, the Group continued implementing its prudent risk-taking and updated and improved its risk management processes.

CREDIT RISK

Credit risk is the risk that a debtor or counterparty will cause a loss to the Group by failing to discharge an obligation. It includes country risk, concentration risk, dilution risk and residual risk. Credit risk is present in all of the Group's business areas and, since it represents the major risk exposure, the Group treats it as a high priority in the risk management process.

The Group's credit risk management policy complies with general risk management standards in this field. The credit process includes a loan-granting process, a loan-monitoring process, a process for the early detection of increased credit risk and a borrower and exposure credit rating process, performed in line with regularly updated internal credit risk assessment methodologies. Before a credit exposure is created, every borrower is classified into a relevant credit rating group, after which the borrower's transactions are regularly monitored.

High credit risk exposures are primarily mitigated by accepting appropriate forms of collateral and by tightening the system of credit exposure limits. The Group also regularly evaluates the level of expected credit losses and makes the necessary impairments and provisions. Increased credit risk sensitivity analyses and stress scenarios are regularly performed and their results analysed.

In 2012, the tight economic situation deepened in Slovenia and on the global level. The year was marked by the sustained economic crisis, which also affected the banking sector. Unfavourable and uncertain macroeconomic conditions were reflected in the deteriorated business performance of companies, especially their liquidity and capital strength, in a growing number of liquidity proceedings and in a consequential increase in unemployment. All this adversely affected the creditworthiness of customers and the Group's lending operations. Another unfavourable impact was caused by the decrease in the value and liquidity of assets (real property and securities) suitable to be pledged as collateral in obtaining loans, as it reduced borrowers' creditworthiness. Due to the lower value and liquidity of assets, the liquidation of seized assets was more difficult to perform.

In 2012, the quality of the credit portfolio deteriorated due to increased credit risk. The segments to which the Group has relatively high exposure are mostly construction as well as financial holdings and other companies with high financial leverage. The latter contributed the most to the growing number of non-performing assets. As a consequence, this entailed higher impairments and provisions, significantly affecting the Group's operating result. The Group introduced numerous measures and restrictions applicable to operations with corporate customers in riskier lines of business, which was also reflected in stricter sectorial limits.

Trends in the shares of CDE loans, DE loans and non-performing loans in Abanka Group's credit portfolio, excluding exposures to banks, are presented in the graph below.

High credit risk exposures are primarily mitigated by accepting appropriate forms of collateral and tightening the system of credit exposure limits.

TRENDS IN THE SHARES OF CDE LOANS, DE LOANS, AND NON-PERFORMING LOANS (EXCLUDING BANKS)

Note: Shares of CDE loans, DE loans and non-performing loans are reported taking into account impaired interest and fees.

The Abanka Group regularly monitors sovereign risk and accordingly adapts its country limits. In 2012, the Group continued to implement measures for reducing exposure to countries with relatively high country risk, which also influenced the setting of country limits.

The Group responded to the aberrant business realities by further upgrading the process for approving credit exposure limits, aimed at achieving a more efficient approval process, which is supported by control mechanisms and compliant with the general credit risk management standards. In 2013 the process will include an upgrade of the credit limit system. By introducing additional sub-limits in 2012, the Group improved its limit system for large exposures to individual customers and groups of related parties, which are approved by the Bank's Supervisory Board. Furthermore, in 2012 Abanka finalised an expert corporate credit rating model that will enable, among other functions, a more up-to-date monitoring of customers' transactions in 2013.

Changes to the organisation and work procedures for managing the so-called loans on the watch list continued. The Group monitored the volume of non-performing loans on a regular basis and took necessary measures to reduce credit risk exposure. Moreover, the method for assessing losses arising from credit risk was upgraded, and the system of procedures for monitoring operations of subsidiaries in relation to control and reporting was further improved.

As in previous years, in 2012 great attention was also devoted to maintaining strict credit standards at the Group level, primarily through the prudent assessment of customers' credit rating, customer monitoring and a stricter collateralisation policy based on the adequate quality and scope of the provided security, credit exposure limit system improvements and effective debt collection.

Tight economic conditions are forecast to continue in 2013. Dealing with the seriousness of the situation and adopting the appropriate measures needed to mitigate adverse effects on its operations represent a considerable challenge for the Group. Abanka will continue to pay great attention to improving its credit risk management processes, with proactive credit risk management remaining a priority of the Abanka Group.

OPERATIONAL RISK

Operational risk is defined as a risk of losses due to fraud, illicit actions and procedures, errors, omissions, inefficiency, system errors and external factors and/or events. The definition includes legal risk and outsourcing risk, but excludes strategic risk and reputational risk. However, the realisation of operational risk may, as a consequence, impair the Bank's reputation.

The Group regularly identifies and qualitatively assesses operational risk, while also taking stock of preventive and corrective measures in the case of realisation of potential loss events. The system of reporting on the occurrence of loss events in Abanka involves the entire staff and enables a quick reaction in the event of problems, as the Management Board and senior management are included in reporting if necessary. The occurrence and frequency of loss events — financial, non-financial and potential — are discussed quarterly by the Operational Risk Committee, which is a collective decision-making body responsible for directing and controlling operational risk management. The Committee is promptly informed of all significant operational risks and large losses. It also adopts the necessary risk management measures, monitors their implementation and discusses operational risk profiles (assessed, realised and targeted). Abanka has prepared business continuity and staff contingency plans, which are regularly updated and tested, as well as disaster recovery plans for the most critical activities. Such plans are gradually being prepared for all of the Bank's activities.

Abanka has prepared business continuity and staff contingency plans, which are regularly updated and tested, as well as disaster recovery plans for the most critical activities.

In 2012, the Group upgraded its integrated operational risk management system. Special emphasis continued to be placed on operational risk management in harsh and extreme circumstances and crises, mainly abuses and frauds as the most relevant risks in such periods, aimed at their reduction and a quick and effective reaction in the event of their occurrence. A database of the loss events that occurred in 2012 was created, which (similar to previous years) showed that human factors remain the major source of operational risk and consequently the main reason for operational losses. Compared to previous two years, 2012 saw a decrease in losses arising from operational risk. Action plans were prepared for all significant types of loss events, aimed at their prevention or reducing the likelihood of their occurrence. In 2012, the Group maintained its business continuity system and upgraded it, specifically to provide business continuity in the case of critical events. The Job Reassignment Strategy was amended and the IT business continuity plans were subjected to integrated testing. In line with the Fraud Risk Management Policy, the Bank drafted guidelines for employees for dealing with suspected or detected internal fraud.

In 2013, the Group will actively continue to upgrade the operational risk management system, placing emphasis on the rapid identification of risk as well as the prevention of the most recent outstanding risks and extraordinary events that might jeopardise the business continuity of the Bank.

MARKET RISKS

Market risk is defined as the uncertainty that risk of losses in positions due to an adverse movement of risk factors, including interest rates, exchange rates, credit spreads, equity prices, commodity prices and other relevant factors. The Group separately monitors its market risk exposure according to the financial instruments of its trading and banking books. Market risk primarily arises from the activities performed in the Investment Banking Department and the Treasury Department.

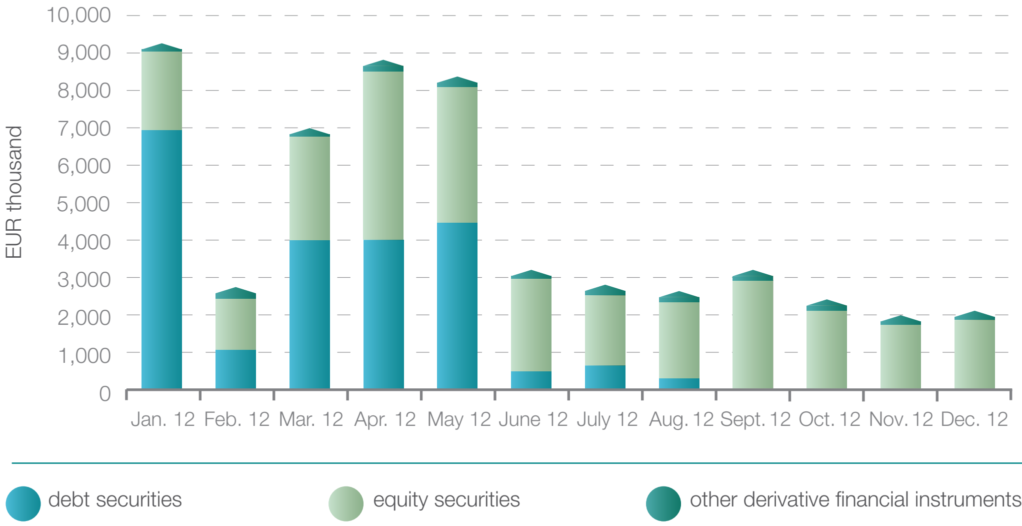
The main purpose of market risk management is to achieve a balance between the return and the acceptable risk level, taking into account macroeconomic environment factors, the Group's risk-bearing capacity and development strategy as well as abiding by legal restrictions and the corporate policy in force. In the Group, trading units generating risk are operationally and organisationally separated from the Risk Management Department, the middle office, and the back office. The Management Board authorised the Assets and Liabilities Committee to authorise market risk exposure limits.

Market risk is regularly measured and assessed by means of the Value-at-Risk method (VaR), which, in combination with stress testing and sensitivity analyses, enables estimating the likelihood of a potential event's occurrence and the level of its consequences. The Management Board, senior management, and Supervisory Board are regularly informed of the market risk analysis results.

In 2012, the Group continued to maintain a relatively conservative market risk appetite.

In 2012, the Group continued to maintain a relatively conservative market risk appetite. The graph below shows the significant reduction in volume of the trading portfolio. This was caused by lower trading limits, which the Group introduced as a measure to respond to the unstable conditions in the financial markets and its deteriorated ability to bear additional risks. The trading securities portfolio includes liquid domestic and foreign investment-grade financial investments.

TRADING BOOK SECURITIES PORTFOLIO IN 2012



The banking book portfolio includes both equity and debt securities, which are not held for trading. The banking book portfolio volume remains at a relatively unchanged level and consists of mostly domestic and foreign government debt instruments and bonds of European banks.

To measure market risks, the Group applies Value at Risk (VaR): a quantitative measure used for assessing potential loss in the value of a position caused by adverse risk factor changes over a given future period at a given level of confidence in normal market conditions. The Group calculates VaR based on a historical simulation at 95% and 99% confidence levels and with a 10-day holding period. The graph below shows a downward trend in VaR on the trading book over 2012, caused by the shrinking of the trading portfolio.

10-DAY VAR OF FINANCIAL INSTRUMENTS IN THE TRADING BOOK AT THE 99% CONFIDENCE LEVEL IN 2012

At a 99% confidence level, with a 10-day holding period and under the assumption of normal market conditions, the Group could not have incurred more than EUR 198 thousand of loss from trading as at the end of 2012.

An adequate limit system is the basic tool for successful market risk management. The Group has established a limit system, including credit and position limits, stop loss limits, market rate compliance limits, VaR limits and limits per single authorised person. In setting limits in the trading and banking book of financial instruments, the Abanka Group follows the principles of prudence and increased portfolio diversification to minimise its exposure to credit and market risks.

In 2012, the Group tightened the limit systems restricting large market risk exposure, and upgraded the methods for stress testing and the calculation of capital requirements for positions generating market risk. Trading in derivative financial instruments was based on a policy of back-to-back trading and the involvement of high-grade counterparties. Trading in derivative financial instruments with other companies was performed only to hedge positions against interest and currency risks. Trading in more complex derivatives was not allowed.

It is estimated that in 2013 conditions in international financial markets will continue to be affected by the developments in the euro area, which once again slipped into recession, in the second half of 2012. Although the pressures on the fiscal sustainability of Mediterranean member countries were reduced in Q4 2012, the position of the euro area remains highly uncertain. Conditions also remain tight in Slovenia, where growing unfavourable macroeconomic trends and the systemic crisis are accompanied by increasing political risk. In addition to the Group's capital position, these are the main reasons why the Abanka Group plans to maintain a low market risk appetite in the future. Upgrading of the limit systems to provide for high liquidity of the trading portfolio, the good credit quality of debt securities, and effective portfolio diversification continue to be the Bank's priorities. The value of the Group's financial instrument portfolio is most sensitive to the decline in stock index prices, credit downgrades of Slovenia, and the poor liquidity of domestic securities. Another serious potential threat is the possibility that portfolios will deteriorate and expand due to the possible realisation of collaterals in lending operations or due to potential debt-to-equity swaps, which will increase the market risk exposure of the Abanka Group. A potential increased exposure of the Group to market risk can also be caused by a counterparty's failure to meet its obligations from transactions in derivatives, which the Group is closing with high-street European banks.

INTEREST RATE RISK

Interest rate risk is the risk arising from the exposure to unfavourable changes in levels of market interest rates. Fluctuations in the levels of prevailing market interest rates have an impact on the value of financial instruments and the future cash flows. As a consequence of these changes, interest margins and profits also change.

For interest rate risk management, an effective interest rate risk management process is in place, which keeps risks at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the interest rate risk management policy. In terms of organisation, interest rate risk limitation and control are separated from operational interest rate risk management and the fulfilment of requirements.

The Group monitors interest rate risk arising from trading in the framework of monitoring market risks. The interest rate risk arising from the banking book is measured by gap analysis. Interest rate gaps show the difference between the cash flows of interest-sensitive assets and liabilities by different time (maturity) buckets.

The extent of interest rate risk is restricted by a limit system and different scenarios are given for measuring the impact of yield curve changes on interest rate risk. The basis risk (arising from various types of variable interest rates) and the risk of embedded options are also taken into account in interest rate risk measuring. The Group regularly performs stress tests and calculates the effect of interest rate fluctuations on its income and equity.

Abanka continuously adapts its interest rate policy to the conditions in the domestic and international markets in order to retain a competitive position in raising primary sources of funds.

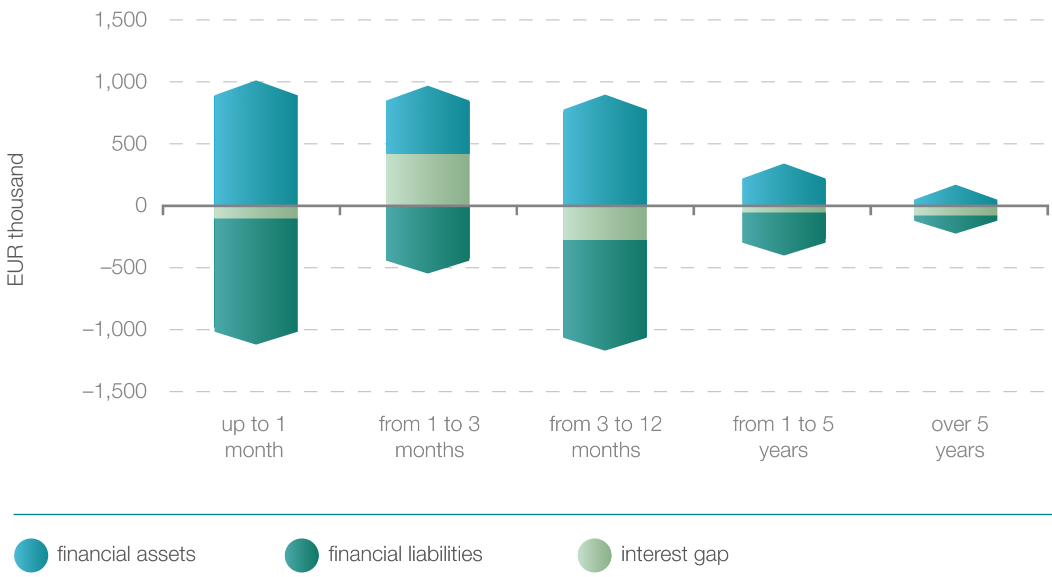
Great insecurity with regard to interest rate movements prevailed in 2012. Sovereign ratings of countries and credit ratings of banks were lowered, globally and in Slovenia, which caused a widening of credit spreads, whereas Euribor rates drastically decreased. Due to a difficult situation on international financial markets, in July the European Central Bank lowered its prime rate from 1% down to a record low of 0.75% and its base deposit rate to 0%. Many other central banks also decreased their prime rates. In March, a decision of the Bank of Slovenia limiting maximum interest rates on deposits by legal entities and natural persons became effective. Banks that offered higher interest rates were faced with higher capital requirements.

In 2012, the Abanka Group continuously adapted its interest rate policy to the conditions in the domestic and international markets in order to retain a competitive position in raising primary sources of funds. Insecurity with regard to interest rate movements was reduced by closing out interest rate positions by individual time buckets. Also in 2012, due to the specific situation in the Slovene market, euro interest rates on loans and deposits, especially on those with longer maturity periods, were higher than in other countries of the euro area.

The graph below shows interest rate gaps by time bucket at the end of 2012.

In the framework of the banking book interest rate management, in 2013 the Bank will continue to strive for a balance of interest rate gaps by time bucket, paying more attention to longer maturity time buckets. Moreover, the Group will monitor basis risk and the impact of embedded option risk on interest rate risk.

INTEREST RATE GAPS



LIQUIDITY RISK

Liquidity risk is the risk that the Group might not be able to meet its payment obligations when due, associated with its financial liabilities and contractual obligations arising from lending. Consequently, this may mean late disbursement of funds to depositors and non-fulfillment of lending commitments. Liquidity risk includes market liquidity risk, i.e. the risk of loss arising from the impossibility of selling or replacing certain financial instruments in a short period of time without a significant impact on the market price.

The Group has developed its own methods for identifying, measuring, managing and monitoring liquidity, which enable it to match the actual and potential liquid funds against the actual and potential use of such funds over certain time periods.

The liquidity risk management process consists of:
- planning and monitoring future cash flows, which include day-to-day funding to ensure that requirements are met, as well as structural assets and liabilities management;
- maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen cash flow trends;
- monitoring balance sheet liquidity ratios against the Group's internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

In order to reduce liquidity risk, the Group established a limit system that includes compliance with the Bank of Slovenia's requirements, internally defined limits and the monitoring of target structural liquidity ratios. The limit setting and liquidity risk monitoring are, in terms of organisation, separated from daily operational risk management.

Different stress scenarios are prepared by the Group for the purpose of liquidity management in extreme situations. A scenario of particular relevance is one of taking into account a liquidity crisis of the Bank and a general liquidity crisis in financial and capital markets. Moreover, in order to hedge liquidity risk, the Group defined procedures for minimising the occurrence of crises that would prevent it from duly and promptly discharging its obligations. Early crisis detection is conducted during the daily monitoring of the Group's liquidity position.

The Group has developed its own methods for identifying, measuring, managing and monitoring liquidity, which enable it to match the actual and potential liquid funds against the actual and potential use of such funds over certain time periods.

In view of the sustained tight conditions in the international financial markets in 2012, special attention was devoted to liquidity risk management. Current business decisions included an on-going concern for maintaining adequate liquidity. Compared to the year before, liquidity conditions deteriorated, which was (in addition to unfavourable conditions in international financial markets) to a great extent a consequence of the general decline in Slovenia's economic situation and the credit downgrades of the country and the Bank. This caused the credit portfolio to deteriorate and prevented the Bank from raising long-term sources of funds from the international financial market; moreover, the government-backed bond fell due in September. In order to maintain an adequate liquidity position, the Group pursued a range of activities for raising primary sources of funds, reduced the volume of its portfolio, and increased the volume of borrowing from the Central Bank.

As at the end of 2012, cash and cash equivalents, securities, short term interbank deposits and deposits with the central bank accounted for almost a quarter of the Group's total assets. This is approximately the same as in 2011, although due to the Group's increased borrowing from the Central Bank, the volume of readily available securities decreased significantly.

The structure of these assets is shown below. Compared to 2011, the highest increase was seen in the share of cash and securities, whereas the share of interbank deposits and deposits with the Central Bank decreased.

LIQUIDITY RESERVE STRUCTURE AS AT 31 DECEMBER 2012

	2012	2011
securities	70%	66%
inter-bank deposits	1%	17%
deposits with the CB	1%	7%
cash	28%	10%

It is expected that unfavourable conditions in international financial markets will continue in 2013. Therefore, the Group will continue to implement an active policy of raising primary sources of funds, carry out capital strengthening measures, and in case of unfavourable trends in 2013, further reduce the volume of its credit portfolio. Through intensive asset liability management in line with the latest economic conditions, the Group will maintain an appropriate liquidity position as well as ensure an adequate volume of liquidity reserves and compliance with all regulatory requirements on liquidity management.

THE ICAAP PROCESS

The Group started preparing its Internal Capital Adequacy Assessment Process (ICAAP) in 2007 by defining the risk profile assessment, which is shown in the risk profile matrix. In 2012, this process was used to identify the material risks arising from the Group's core business and to establish controls for the purpose of risk mitigation. Risk profile monitoring over time allows the timely identification of key movements in the risk profile and represents the basis for taking necessary measures. The Group compares its risk profile with its risk-bearing capacity, assessed according to its internal methodology. Based on the results of analyses, appropriate measures are taken, which enable the Group to assume risks within its risk-bearing capacity.

The Group evaluates (at least quarterly) the adequacy of its capital level and quality in relation to its risk profile by calculating internal capital needs. This calculation not only takes into account the capital requirements for credit, market and operational risks (calculated according to the applicable rules set out in Pillar 1 of the Basel II banking accord), but also identifies internal capital needs (under Pillar 2) for all other risks not fully or not at all included in Pillar 1 (e.g. concentration risk, interest rate risk, liquidity risk, reputational risk, profitability risk, strategic risk, capital risk, etc.).

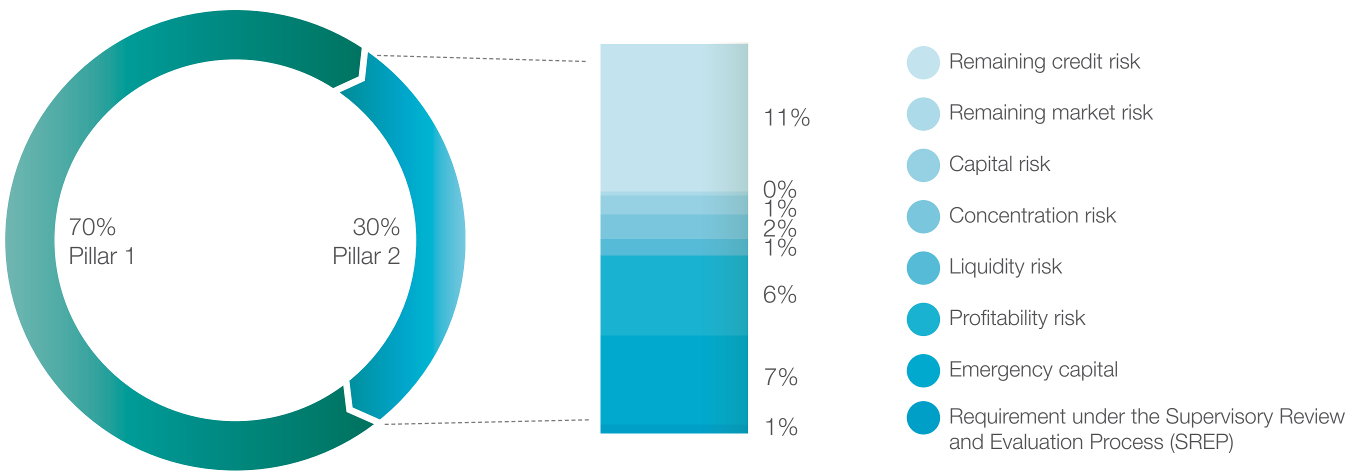
In light of the uncertainty in financial markets, in the ICAAP process, the Bank places more emphasis on regular stress testing, which is performed to identify the vulnerability of the Bank in the event of less likely, but still possible, changes regarding various risk factors. The results of the stress tests were included in the calculation of internal capital needs.

The internal capital adequacy assessment process is defined by two variables. The first variable is the risks to which the Group is exposed, going beyond the first pillar of capital requirements; the second variable is the capital held by the Group for covering risks and potential losses arising from such risks. A comparison of the assessed internal capital needs and the assessed internal capital indicates the Group's ability to cover all the risks to which it is exposed. The capital adequacy ratios expected by the Bank of Slovenia, which were calculated under a simulated adverse scenario, taking into account the impacts from the environment linked to the economic crisis, were higher than those achieved by the Group at the end of 2012. The Group has already taken appropriate measures to strengthen the capital ratios and improve protection against risks related to Pillar 2 of the Capital Requirements Directive. These two-way measures include capital-raising activities as well as activities for decreasing capital requirements and needs (especially for credit risk).

In 2012, the Bank made a calculation of capital needs for credit, market, capital, concentration, liquidity, and profitability risks as well as additional capital needs for external environment risks (emergency capital).

Internal assessment of capital requirements structure in 2012:

INTERNAL ASSESSMENT OF CAPITAL REQUIREMENTS



In 2012, the ICAAP process continued to be upgraded as one of the key pillars of the capital directive in force. This upgrading mostly consisted of reviewing the adequacy of and redefining the parameters for identifying and measuring the weight of individual risk categories and the parameters taken into account in calculating internal capital needs by individual risk categories.

EMPLOYEES

PERSONNEL POLICY AND THE EDUCATIONAL STRUCTURE OF EMPLOYEES

Efficient, motivated and dedicated employees are crucial to achieving the strategic and business objectives of the Bank. In this time of ever greater needs to adapt to the changing requirements of the environment, continuous learning, growth and development of employees becomes an ever more important value. Abanka thus provides its employees opportunities to enhance their competences in a timely and relevant manner. By using transparent communication, the Bank creates a working environment that offers a pleasant atmosphere and encourages employee loyalty.

In 2012, Abanka continued to enforce its **recruitment and personnel policy**, which had been adapted to operational uncertainties. The Bank recruited mostly in the fields of commercial activities and according to legislation, and selectively filled open positions by hiring personnel from an authorised labour agency or by recruiting university students. In 2012, the Bank followed a restrictive recruitment and remuneration policy and will continue to do so in 2013.

At the end of 2012, the Bank had 880 employees — 2 more than at the end of 2011.

Other disclosures about human capital of Abanka in 2012 are shown in the table below:

Total employees as at 31 December 2012	880
Average number of employees during the year[22]	880
New recruits in 2012	37
Employees leaving in 2012	35
Employees – permanent work contract	851
Employees – fixed-term work contract	29
Employees with disabilities	23

880

employees of Abanka as at the 2012 year end

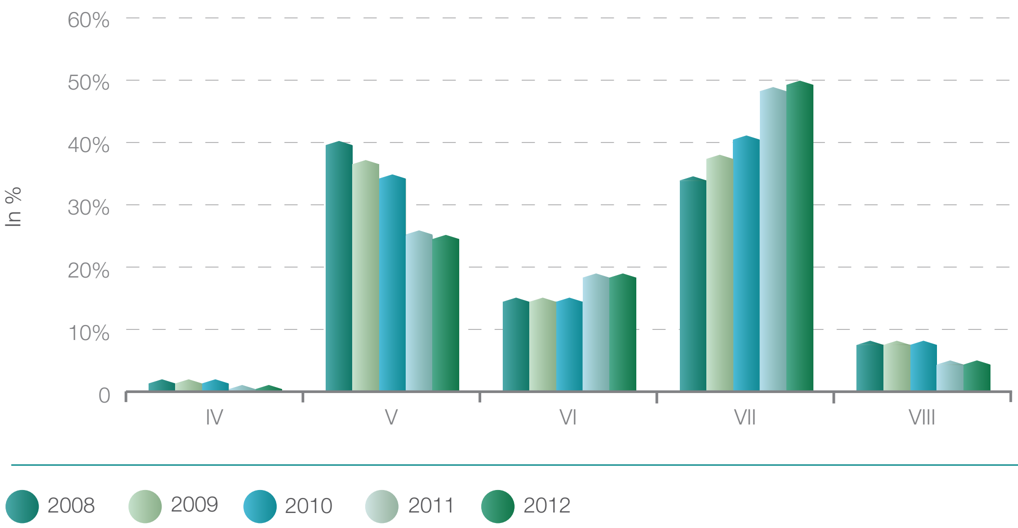
In 2012, the Bank's personnel policy continued the process of **personnel restructuring and improving the educational structure of employees**, as a result of Abanka's long-time personnel policy and the fact that the number of positions in the Bank requiring a secondary school degree is declining due to the needs of the work process and that the demand for staff with higher levels of education and the recruitment thereof are rising. In 2013, the policy of recruiting staff with higher levels of education will continue.

Table: Staff education structure in 2012

	no. of employees
1st - 4th level	6
5th level	223
6th level	167
7th level	439
8th level	45

22 The arithmetic mean over 12 months – as at the last day of the year.

STAFF EDUCATION STRUCTURE BY YEAR FROM 2008 TO 2012



STAFF TRAINING AND DEVELOPMENT

Life-long learning for employees is one of Abanka's key values and the foundation of the Bank's organisational culture. Abanka strives towards an organisation based on constant learning, being aware that the education, training, learning and further development of the Bank's employees are of great importance, especially at a time in which the Bank faces uncertain market conditions. By systematically organising educational activities, Abanka tries to communicate to its employees that constantly upgrading one's knowledge is an essential competence which provides a competitive advantage in the job market.

Abanka is dedicated to promoting the internal transfer of knowledge. 71.4% of the training programmes in 2012 were carried out in-house, either with the Bank's own or external experts. All staff involved in management duties was trained to enhance their managerial skills. The Bank organised training programmes for new products, various training programmes and courses tailored to the Bank's needs and foreign language courses. In 2012, Abanka successfully carried out its first e-course on the prevention of money laundering, which was available to all branch network employees in need of such training. As in previous years, part-time tertiary education for employees selected in an internal call was co-financed. In 2012, the substantive concept and organisational framework of the internal Abanka Academy was finalised aimed at key development staff, and in 2013 the project will be implemented. In 2012, the number of employees included in education and training amounted to 533, i.e. 60.7% of total staff. The average number of education/training hours per employee was 19.6, and 7 hours for managerial staff.

Abanka follows the **development of its employees** systematically, by using various tools, including annual personal meetings, which have been conducted in Abanka since 2000 and serve to establish a development schedule and goal plan for each individual employee. The annual personal meetings in 2012 were held in line with the amended methodology, using new personal meeting software introduced in 2012.

By establishing career plans, Abanka systematically manages the **key development staff** regarding their expertise and suitability for promotion. In 2012, the Bank carried out interviews with all key development staff, prepared new two-year career plans, and defined a group of successors for key positions at the second and third hierarchical levels in the Bank.

> By establishing career plans, Abanka manages its key development staff.

STAFF REMUNERATION

Work performed excellently and not merely well represents the quality which is carefully rewarded. High performers are rewarded through a **performance-related component of the monthly salary**. In 2012, promotions based on criteria stipulated in the Promotion and Remuneration Rules were limited in accordance with the personnel policy. Executive directors of divisions offer special rewards to employees who excel in their performance. At the end of each year, the Management Board gives special bonuses to eight **top achievers**: the four sales staff members and the four most cooperative employees from the back office who are selected on the basis of their work conduct, performance and cooperation with other employees in the Bank.

> Work performed excellently and not merely well represents the quality which is carefully rewarded.

Part of Abanka's transparent communication policy includes feedback regarding its employees' work performance. **Certificates of commendation and acknowledgement**, an award for employees who have shared their knowledge with their colleagues within the Bank, were presented at a special event on 20 April 2012 to coaches and contributors to the Bank's newsletter. This serves to build a culture of co-operation and stimulate employees to perform tasks that are not directly connected to their job, but which are nevertheless important for the Bank.

> At the end of each year, the Management Board gives special bonuses to eight top achievers: the four sales staff members and the four most cooperative employees from the back office.

DEVELOPMENT OF THE ORGANISATIONAL CULTURE

The Bank's values and organisational culture are based on different activities. They serve to promote Abanka as a successful and employee-friendly employer offering high-quality job opportunities and the possibility of further career development.

In the framework of the basic »**Family Friendly Company**« certificate received in 2009, in 2012 Abanka carried out measures to help its staff reconcile their professional and family life, and designed new measures necessary to acquire the full certificate in 2012. The Bank carried out an employee survey and workshops on the family friendly enterprise programmes for the managerial staff.

In 2012, Abanka implemented measures to help its staff reconcile their professional and family life within the framework of the awarded "Family Friendly Company" certificate.

REMUNERATION POLICY

At the end of 2011, Abanka regulated its remuneration policy pursuant to the Banking Act, the Decisions of the Bank of Slovenia, the CRD Directive[23] and the relevant CEBS Guidelines[24].

In October 2011, the Bank's Supervisory Board set up the Compensation Committee to deal with the remuneration policy of the Bank.

On 12 December 2011, the Supervisory Board approved the remuneration policy and, in accordance with that policy, the Bank's Management Board adopted revised criteria for managers' employment contracts. These documents constitute the legal and formal basis for managers' remuneration in Abanka. Remuneration of those employed under the collective agreement has been regulated with the Collective Agreement for the Banking Sector, the Company's Collective Agreement, and the Promotion and Remuneration Rules.

The remuneration policy of the Bank is based on the relevant relation between remuneration and prudent risk-taking. The Bank ensures that relation with appropriate ratios between the fixed and the variable remuneration component for various categories of employees, whereby the total remuneration of an employee may not significantly depend on the variable component. The remuneration policy and the relevant internal rules of the Bank regulate the ratios between the fixed and the variable component of managers' salaries, the mode of payment of the managers' variable remuneration component, and the period of deferred and retained variable remuneration of managers.

Abanka has determined "employees whose work is of a specific nature[25]" to be the Management Board, the executive directors of divisions and the directors of the Risk Management and Internal Audit Departments.

The remuneration policy of the Bank is based on the balance between remuneration and prudent risk-taking.

23 Capital Requirements Directive.
24 Committee of European Banking Supervisors.
25 Employees whose work tasks and activities could have a material impact on a bank's risk profile.

The remuneration policy of Abanka is in compliance with the Bank's mission, the business strategy of the Bank, its strategy of risk management, the Bank's corporate culture, the values of the Bank and its set goals. The remuneration policy and practice is strictly focused on the fulfilment of the Bank's business strategy objectives and adjusted to the risk profile of the Bank and its risk-taking capacity.

Remuneration on the basis of manager employment contracts with variable remuneration components is linked to the fulfilment of objectives, measures and criteria in compliance with the Bank's strategy and business plan. The amount of variable remuneration can increase by achieving better concrete business and financial results. Such a remuneration policy provides performance incentives, while simultaneously containing corrective measures in case of critical deviations from the set goals. Appropriately set decision-taking processes and implemented business policies shall prevent any generation of improper risks in the business operations of the Bank.

The variable component of the remuneration of the Management Board and senior management depends on the conditions and criteria of the Bank's performance. These conditions and criteria are specifically defined. Preconditions include the target net profit for any year and a certain level of impairments and provisions, whereas additional criteria include targets set for the Bank's return on equity after tax, the first maturity bucket liquidity ratio and the capital adequacy ratio.

SUSTAINABLE DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY

Abanka is committed to sustainable business development, not only due to the financial crisis and the unstable economic and financial environment, but also due to the key idea behind sustainable development, which states that economic prosperity is only possible if the environment is preserved and protected for future generations.

> Abanka is convinced that it can prosper economically while simultaneously preserving and protecting the environment for future generations.

ECONOMIC DEVELOPMENT

The transition to an environmentally sustainable economy will affect all of us, directly or indirectly. Success in business will depend on the ability of economic entities to adapt to the challenges of global climate change and other impacts related to energy, forests, water and biodiversity. Abanka believes it can be both sustainable and profitable, and wants to have an important role in leading the way to a new, sustainable and advanced era. As the requirements of business development have converged with addressing global climate change, Abanka has made a number of environmental commitments, increasingly using the power of its human and financial capital towards connecting its customers and partners so as to enable them to take full advantage of these new environmental economics.

The main factor in Abanka's environmental commitment is the potential for profit and economic growth that supports sustainable development and is manifested through the various activities of the Bank:

- As a bank, Abanka obtains sources of funds, primarily in order to promote competiveness and global entrepreneurship, to finance projects and investments in infrastructure, environment as well as regional and social development;
- As a company with a strong presence in the social environment of Slovenia, Abanka is forging innovative partnerships with governmental and non-governmental organisations to preserve natural resources, while promoting greater energy efficiency and environmental responsibility;
- Abanka strengthens the confidence and satisfaction of its customers, listens to their financial needs, promotes the business of successful innovative companies with a vision of developing renewable sources of energy, and creating new green jobs;
- As a retail and corporate bank, Abanka offers its customers a range of products and services tailored to specific segments, provides advice to customers on a whole range of environmentally friendly products, such as ecological loans promoting energy savings as well as various electronic invoicing options available on Abanet that encourage reducing the use of paper etc.;
- Abanka develops and upgrades innovative banking products that make banking operations easier for customers and increase their performance (e.g. electronic banking upgrades, launching of mobile banking, etc.);
- As a major employer with an extended branch network and other facilities, for many years Abanka has been striving to ensure energy efficiency; Abanka has been continuously implementing various measures for achieving savings in energy (e.g. investing in better insulation in buildings and greater energy efficiency of lighting) and paper (e.g. electronic archiving).

> Abanka believes it can be both sustainable and profitable, and wants to have an important role in leading the way to a new, sustainable and advanced era.

While Abanka's environmentally conscious business initiatives are far-reaching, it is clear that the path to sustainable development is not without obstacles. The most important challenge is global climate change. The necessary transition from the existing technologies based on fossil fuels to cleaner technologies based on renewable resources that do not pollute the environment will be multifaceted and involve everybody in one way or another. Abanka has recognised its commitment to this transformation in its business strategy, focusing on a business model that, through good business operations, helps take advantage of existing financial opportunities and creates new ones for an environmentally and economically healthy future.

SOCIAL DEVELOPMENT

Internal Communication

With **effective internal communication**, the Bank supports the implementation of its business objectives, strengthens its corporate culture and builds awareness of its values and business ethics. Abanka communicates with employees through several channels, paying special attention to personal communication at work, training and business events and other informal employee get-togethers. New employees become acquainted with Abanka's operations and organisational structure at introductory courses where they are given the opportunity to personally meet division directors who hold these lectures. Abanka organises events at which top performers and employees who share their skills with their colleagues are offered opportunities for dialogue with Management Board members. Abanka thus strives to establish a corporate structure built on co-operation, expertise and respect.

Due to the geographical dispersion of Abanka's branches and subsidiaries throughout Slovenia, important internal information or responses to topical issues are rapidly disseminated mainly via intranet and e-mail.

The Intrabanka intranet portal is a single entry point for access to on-line applications, information, documents of common interest, a tool for professional cooperation among employees, a tool for exchanging knowledge, a tool for supporting the implementation of basic processes, a tool for building and consolidating the brand name, a platform for searching and quickly accessing content, as well as a tool for managing business content.

Intrabanka portal news is becoming an increasingly consulted source of internal information. News on the intranet is divided into six content categories: corporate communications, human resources news, e-channels, benefits for employees, marketing communication, and technical notifications. All employees have access to a daily news briefing on the intranet, regarding topics about Abanka published in the media.

With effective internal communication, the Bank supports the implementation of its business objectives, strengthens its corporate organisational culture and builds awareness of its values and business ethics.

The quarterly magazine "**View from the Inside**" is designed to disseminate not only expert knowledge and good practice, but also awareness and implementation of values confirmed in the strategy of Abanka. The purpose of the magazine is to help employees understand various expert fields and the complex relations between different lines of business. In their articles, employees of Abanka with different professional backgrounds explain complicated banking practices in plain language.

September saw the launch of a newsletter called **Anovice (Anews)**, which at least once a month features short information on new services, useful advice or anything else connected with banking services. The purpose of such briefs is to make all the employees better acquainted with the Bank's offerings, since they are the best promoters of Abanka services and Abanka brand. The style of these briefs is relaxed and interesting, and their content is prepared in different bank departments.

E-bilten (E-bulletin) is aimed primarily at corporate customers and to a lesser extent to individuals. It is published no more than four times a year and sent to subscribers who chose to subscribe on Abanka's website. E-bulletin gives information on various innovation in Abanka's range of products and operations.

E-novice (E-news) is an electronic newsletter of Abanka aimed at retail customers. It is also published four times a year and sent to subscribers to present four to eight ongoing campaigns of Abanka, which are also published at its website. E-news currently serves as a reminder for interested customers.

Communication with the Media

The media are an important source of information for different stakeholders of Abanka. They serve to present the operations and services of Abanka through advertising and answers to journalists' questions. Media inquiries into all areas of business are channelled to the Corporate Communication Department, which provides proper coordination, timely responses and adequate content. The major source of corporate information is the legally required disclosure of price-sensitive information on the websites of Ljubljana Stock Exchange and of Abanka, which is simultaneously published in the Slovene and English languages.

Media publications on Abanka and other members of the Abanka Group are scrutinised in semi-annual and annual Media Coverage Analyses, primarily monitoring the type and number of publications, the source of information, the content, the medium and the structural value of the publicity. The resulting findings are considered in the communication plans of Abanka and the Abanka Group. The analysis is also used to define one of the parameters for measuring the reputational risk for the Group in accordance with the Basel II requirements. In comparison with 2011, in 2012 there were 33.3% more publications on Abanka, followed on the basis of selected passwords, or 1,094 in total. The average monthly number of publications was 333 or 88% more than one year earlier. The percentage of planned publication rose to 35.3% and was higher by 19.9 percentage points. The percentage of negative publications increased by 12.8 percentage points, given the economic and political situation in Slovenia. The general assessment of Abanka's media presence remained positive, since out of 3,998 analysed publications 3,471 were neutral or positive.

Sponsorships and Donations

Sponsorships

Abanka realises the mission and values as a bank and implements its vision of long-term partnership through a sponsorship programme. Abanka stimulates good mutual relations, supports the development of various sporting, cultural and educational associations and organisations and also provides opportunities for the organisation of different events. Every year, Abanka allocates sponsorship funds to support education, sporting and cultural activities.

Abanka's sponsorship programme is aimed at fostering good inter-personal and business relations, supporting the development and operation of various sporting, cultural and educational associations and organisations and providing funds for the organisation of different events.

Donations

In 2012, Abanka supported many organisations, whose charity work promotes the humanitarian values of compassion and solidarity. Upon opening its new branch office in Domžale, the Bank made a donation to the local environment, while the traditional New Year's donation went to a charitable institution for young adults in general.

PROTECTION OF THE ENVIRONMENT

Abanka is aware of the impact of its operations on the environment and the fact that each and every individual needs to act responsibly for the environment. Modernisation projects and new investments in advanced equipment for heating, cooling and lighting are made in compliance with the annual investment plan. In choosing new equipment, not only price but also technical sufficiency and environmental acceptability are taken into account.

In 2012, in the area of proper waste management the Bank introduced separate waste collection, which in combination with a new system of municipal waste collection charges drastically decreased municipal waste collection payments.

Through their actions, each employee can contribute to more efficient energy use, and help protect the environment.

The Bank continued to pay great attention to awareness raising and training employees on how to make economical use of air-conditioning systems and electricity in general, since individual action can, in fact, bring energy savings and contribute to a cleaner environment as a consequence.

INTERNAL AUDIT OPERATIONS

ORGANISATIONAL POSITION OF THE INTERNAL AUDIT DEPARTMENT

The Internal Audit Department (IAD) performs constant and **overall control over the operations of the Bank and subsidiaries within the Abanka Group** in relation to:

- controlling and evaluating the efficiency of risk management systems and the internal control system;
- evaluation of the internal capital adequacy assessment process (ICAAP) regarding its own assessment of the Group's risk exposure;
- assessing the reliability of the IT system, including the electronic information system and e-banking services;
- assessment of the accuracy and reliability of accounting records and financial reports; and
- verifying the reporting and compliance of the Group's operations with internal rules and external regulations.

The IAD is **organised as an independent department** directly accountable to the Management Board. Its authorisations, responsibilities, tasks and methods of operating are defined in detail in the Rules of the Internal Audit Department, which were adopted by the Management Board with the agreement of the Supervisory Board/the Audit Committee. In the Strategy of the Group 2012-2014 the Management Board also included guidelines for the IAD's work. The audit plan, which is based on a global risk profile assessment of the auditing environment in the Group, is approved annually in agreement with the Supervisory Board/the Audit Committee. To provide for better efficiency and effectiveness of its work, the IAD drew up additional internal documents (e.g. the Internal Auditing Manual, the Methodology of Risk-Assessment-Based Work Planning, the Quality Assurance and Enhancement Programme).

The IAD employs **seven internal auditors**. Three internal auditors are licensed as "certified internal auditors" or "auditors" by the Slovenian Institute of Auditors, and one information system auditor holds a valid CISA[26] licence. The information technology and information system audits performed by the IAD also include outsourced certified information system auditors.

OPERATIONS AND CONTROL OF THE GOVERNANCE SYSTEM

In the reporting year, the IAD followed the adopted Annual Audit Plan for 2012, also adhering to additional requirements of supervisory and other institutions, and requests by the Banks' Management Board and the Supervisory Board. The 2012 Annual Audit Plan was adapted to the changed realities in the internal and external environments, and the Bank's business strategy guidelines. The risk profile assessment of the elements in the auditing environment was updated quarterly. The IAD prepared quarterly reports on the amendments to the Annual Audit Plan and the risk profile assessment of the elements in the environment to inform the Management Board and the Supervisory Board/Audit Committee to this effect.

In 2012, the IAD focused a large part of its activities to auditing the credit process and credit operations and monitoring compliance with the requirements defined by the Bank of Slovenia, following its supervision of Abanka with regard to credit and liquidity risk and management of the Group.

The IAD audited the software solutions for liquidity risk and current liquidity management support and the strategic project of establishing a central data warehouse. Furthermore, the IAD was involved in checking compliance with the Bankart d.o.o. safety requirements concerning the following systems: Poravnava kartic (card settlement), Poravnava Bankomatov (ATM settlement), SEPA and VISA Inc. for VISA credit cards.

Following the adoption of the Decision on the Minimum Scope and Content of an Additional Audit Review with Regard to Compliance with Risk Management Rules in (Savings) Banks[27], the IAD participated, together with the external auditor, in the audit of the key business risk management process. After the adoption of the Decision Regulating Disclosures by (Savings) Banks[28], the IAD audited the public disclosures in the 2011 Annual Report.

The IAD made audit reviews of the following business activities and organisational units: safe deposit box operations, branch offices in the Abanka network exposed to greater risks and the Aleasing d.o.o. subsidiary. At the request of the Management Board and the Supervisory Board, the IAD carried out extraordinary audits of the credit process and significant credit operations of corporate clients and non-residents. Based on its findings, it drafted guidelines for the development of the control environment.

At the request of the SID Bank, the IAD performed two audits of loans extended for special purposes to corporate and individual

26 Certified Information Systems Auditor.

27 Official Gazette of the Republic of Slovenia Nos. 135/06, 28/07, 104/07, 85/10, 62/11.

28 Official Gazette of the Republic of Slovenia Nos. 135/06, 42/09, 85/10, 62/11, 100/11.

clients with guarantees given under the Republic of Slovenia Guarantee Scheme Act.

Through formal advisory services, the IAD participated in the development of the internal management and quality of the control environment, among others working with the Chief Compliance Officer. The IAD assessed the quality of the Group's control environment for the purpose of calculating the risk profile as part of the internal capital adequacy assessment process (ICAAP). Furthermore, the IAD took part in the establishment of a fraud prevention and detection system in the Group and produced a risk analysis for the SEPA payment systems. The IAD's other tasks included a review or establishment of the internal control system, a remuneration policy for employees with tasks of a specific nature, a capacity-building methodology and the outsourcing management policy.

The IAD performed audits and consulting services, monitored the implementation of recommendations and requirements made by external auditors and supervisory institutions to evaluate the elements of the governance system (organisational setup, risk management, internal control system and remuneration system), and recommended improvements aimed at upgrading adequate and efficient risk management and the implementation of an efficient internal control system aimed at achieving strategic goals, effective and efficient operations, reliable and credible reporting, compliance with rules and regulations, as well as efficient reputational risk management.

Due to changes in the auditing environment risk profile of the Abanka Group and the reallocation of human resources to emergency and priority tasks, some audits (included in the Annual Audit Plan for 2012) were not performed. Within the framework of the planning process for 2013, the segments in the audit environment of the Abanka Group not yet covered (investment and trading strategy, human resources management, IT process management, retail banking) were reassessed.

The conclusion of the audits performed in the areas of upgrading the process of retail lending, the reporting system for calculation of deposit guarantees, management of documentary material in digital form, and handling personal and confidential information, was postponed to the beginning of 2013.

The Annual Audit Plan for 2013, approved by the Management Board and consented to by the Supervisory Board/the Audit Committee was prepared on the basis of available human and financial resources. In order to increase the coverage of the auditing environment in the Abanka Group by assurance and consulting services, the Management and Supervisory Boards/the Audit Committee adopted measures to increase the level of human resources in the IAD.

REPORTING ON PERFORMED WORK

All management levels, including the Management Board, **were informed in writing of the findings of the audits performed** by the IAD. A summary of major audit findings and recommendations as well as the realisation of the Annual Audit Plan for 2012 were reported to the Management and Supervisory Boards/the Audit Committee on a quarterly basis. Based on a review of the response reports of the individuals responsible and re-verifications, the IAD monitored the implementation of remedial measures and reported on this to the Management and Supervisory Boards/the Audit Committee.

THE INTERNAL AUDIT QUALITY

In 2009 the IAD underwent an **external quality assessment**, which included the assessment of its compliance with directly adopted International Standards for the Professional Practice of Internal Auditing, the Code of Ethics of Internal Auditors and the Code of International Auditing Principles. The overall assessment of the internal audit activities shows that in all major aspects internal auditing **generally complied with the standards**.

The involvement of the IAD in the monitoring of implementation of the Bank of Slovenia's requirements and the carrying out of emergency tasks at the request of the Management and Supervisory Boards has been reflected in the reduction of activities aimed at upgrading the quality of its operations.

INFORMATION TECHNOLOGY

The Information Technology Division covers three areas: business software development and support, information technology with all general services and information system security. The role of the Information Technology Division in Abanka is to continuously provide available, integrated, safe and user-friendly information and technological support for the Bank's operations at lowest cost and with highest reliability. It is also in charge of maintaining the real property of the Bank, facilitating investments, general services and ensuring the security of the information system. Abanka has striven to establish an information system which will meet all of the Bank's business needs, which will be safe and at the same time flexible as well as easy to operate in terms of managing constant changes.

The core of Abanka's information system is developed and maintained in-house, whereas the sub-systems which do not provide core banking functionality are provided primarily by Slovene suppliers. If a product is not available in the Slovene market, the Bank purchases foreign application software.

Investments in hardware and software, ATMs, POS terminals and intangible assets (licences) for 2012 were budgeted at EUR 4,590 thousand and were realised in the amount of EUR 3,518 thousand.

In **in-house software development** most attention was paid to regulators' duties, and business segment products.

In 2012, significant attention was paid to regulatory projects, primarily to the SEPA project. Abanka upgraded the direct debit scheme for creditors, which was introduced in 2011, and migrated direct debits from the collection centre at Bankart to SEPA SDD[29]. The start of 2012 saw all companies performing salary pay-outs included in the application support for mass payments, while the credit transfer scheme for pension pay-outs was adapted and put to use.

Operations monitoring systems were upgraded. The system for monitoring exposures associated with financial instruments was successfully implemented, accessing card statements through the online banking system was enabled for our customers, and Abanka's tariff system and treasury operations support were upgraded. Information system for managing outstanding bad debt was migrated to the new IT system. In 2012, we continued to develop a bank data warehouse (BDW) for the needs of controlling and credit risk exposure. A great deal of work in the IT segment was done in the development of the risk management systems (automatic calculation of impairment, actual losses records, booking automation in the impairment segment). The finalisation of the abovementioned projects is planned for 2013.

In business operations, the department automated bank card ordering by introducing Web services, enabled customers to transfer funds between personal bank accounts at ATMs, offered online payments with the Ba Maestro card, renewed personal banking services, upgraded the process for approving bank account overdrafts for retail customers, introduced charges for reminders for retail customers, implemented software for the sale of retail customer loans through agents, introduced deposit with a withdrawal option for retail customers, and upgraded the Abanka's family package. The introduction of automated debit for legal entities and trade finance operations system is underway.

In order to streamline its operations, Abanka redesigned the IT processes of configuration management and change management in line with the ITIL standards[30]. Systems for applications source code management and continous build system were introduced. Activities for the implementation of the system for automatic testing were started. Viri-Projekti application development was continued in order to support project management. Activities in the strategic project for migrating to SOA[31] have also been started.

Regarding outsourced software development in 2012, the focus was on the development and maintenance of the existing systems and the implementation of the new systems.

Key projects and tasks in 2012 included upgrading e-channel services with new functionalities: adjustment to the new SEPA rules, transition to the new e-Invoices platform (eRačuni), optimisation of direct mail, implementation of the Abakredit service, support for the users of accounts for seniors. Activities in the replacement of the application for fund support and the transfer of content from the old intranet portal to the new one (internal documents, business instructions) continued. Support for annual personal meetings and absence administration was implemented (human resources management information system). The risk management software was also supplemented. Certain upgrades in portfolio management, order generation, and limits were implemented in the investment banking segment. The upgrades of support systems for corporate customers took place in the automatic current account debit, guarantee scheme and automated impairment calculation areas.

29 Sepa Direct Debit.
30 Information Technology Infrastructure Library.
31 Service-Oriented Architecture.

The Information System Administration Department tasks also include the coordination of information system development for Aleasing and ABANKA SKLADI subsidiaries.

In **IT management**, a large amount of resources and attention in 2012 were devoted to business projects undertaken by the Bank and its subsidiaries, for which the Bank provides IT management services. Among more important activities related to the IT infrastructure itself, the final implementation of the central monitoring of security events and log databases system, upgrade of shared servers, replacement of the IPS system[32] with a new one and further implementation of the Windows 7 operating system at workstations should be mentioned. ATMs were upgraded in accordance with the requirements of the PCI DSS standard[33]. The architecture for connecting of ATMs by VoIP[34] technology was prepared. Upon upgrading, we connected approximately one half of our ATMs with this protocol. The biggest acquisition in IT infrastructure is the safe room on Slovenska Street 58, to which the IT Centre will move from its present location at the beginning of 2013. The new IT Centre is equipped with all associated infrastructure (automatic fire extinguishers, uninterruptible power supply, power generator, safety infrastructure, etc.), which was not present at the previous location. Both IT Centres are equipped with new central network equipment. In addition, the department regularly updated both the system and application software of servers, workstations and communication equipment. Particularly extensive business continuity tests and security settings tests were carried out as planned. The business continuity tests confirmed that the Bank can operate via the backup IT Centre.

In 2012, the **Department of technical support and general services** focused on internal user assistance requests as well as the installation of new hardware and software (including new ATMs), maintained and activated other equipment, maintained office buildings, acquired business premises, managed the construction and renovation of business premises and ran the post room of the Bank.

The department provided for physical and technical protection of the Bank: its business premises and ATMs. Regarding physical and technical protection, the monitoring of key security contractors commenced in 2012, involving security service response tests and safety equipment tests. Employee training in safety at work, fire safety and physical protection with an emphasis on conduct in extraordinary situations, such as robbery/burglary and other violent acts, has been continued.

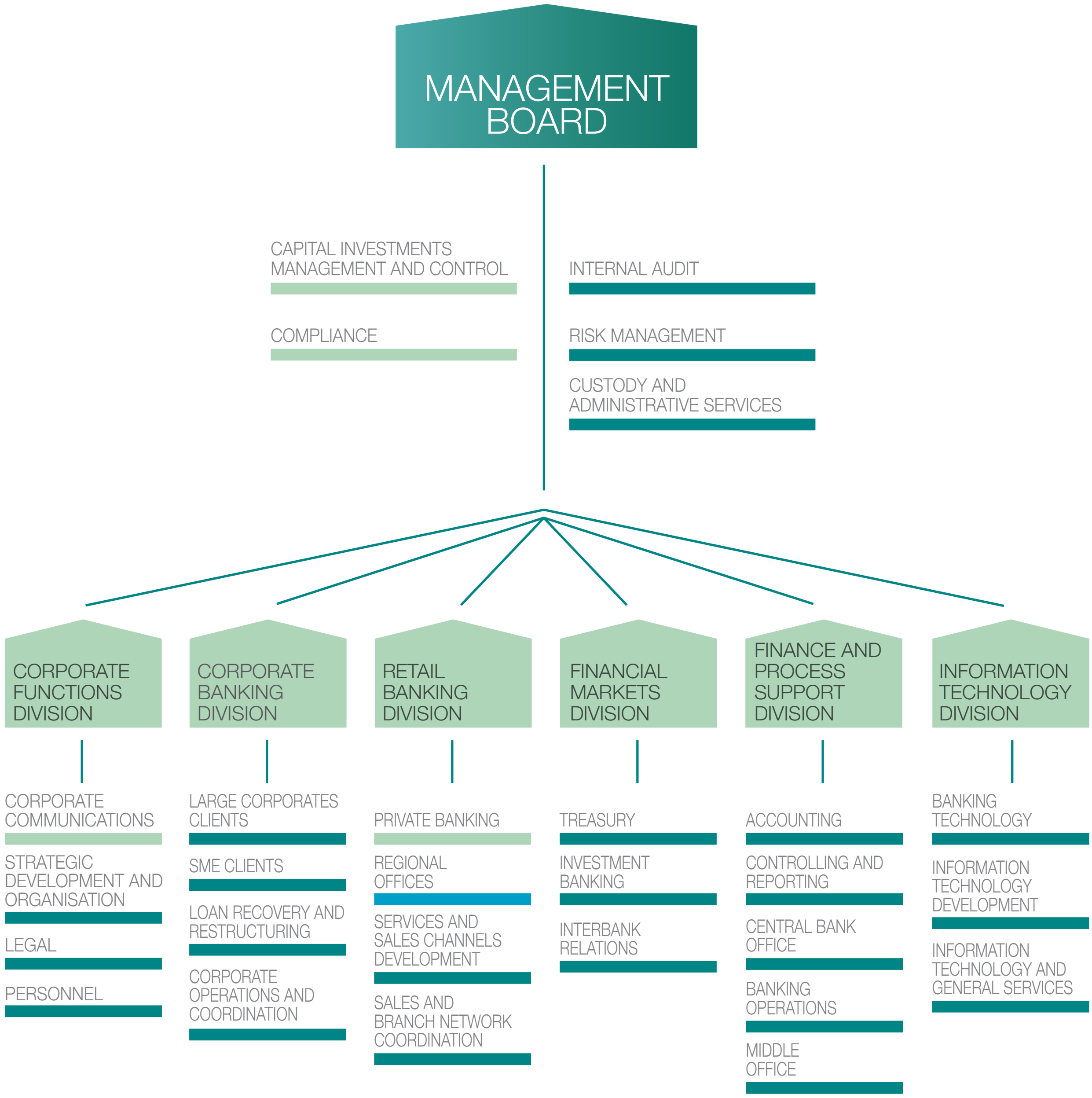
In **information system protection and safety**, Abanka continued to implement an electronic training system for personnel, performed IT risk analyses and risk analyses in subsidiaries, took part in IT audits and inspections, implemented more extensive controls over the functioning of security mechanisms and participated in planning and implementing modifications to the Bank's information system security architecture. Other tasks included incident management and cooperation with external institutions (the Bank Association of Slovenia), associations (ISACA[35], the Slovenian Institute of Auditors) and other banks in the promotion and advancement of information security. Special attention was devoted to the testing of security settings by means of vulnerability testing and penetration tests, and, within major project assignments, to the implementation of a uniform system of audit trail management, user identity management and protection management system.

The role of the Information Technology Division is to provide available, integrated, safe and userfriendly information and technological support.

32 Intrusion prevention system.
33 Payment Card Industry Data Security Standard.
34 Voice over Internet Protocol.
35 Information Systems Audit and Control Association.

ORGANISATION

ORGANISATIONAL CHART AS AT 31 DECEMBER 2012



In an effort to implement the adopted business strategy and maintain its stability in a trying and fast-changing economic environment, Abanka introduced a new organisational structure on 1 April 2013. This guarantees an optimal implementation of business processes and thus helps the Bank achieve its vision and fulfil its strategic and business objectives. This will enable the Bank: (1) to improve sales efficiency and enhance client relationship management; (2) to make management of non-performing assets more effective; (3) to make risk management more effective; (4) higher cost-efficiency; (5) more efficient implementation and management of business processes; (6) higher efficiency in the management of organisational units at all levels of the Bank's organisational structure.

SENIOR MANAGEMENT

MANAGEMENT BOARD	Jože Lenič, M.Sc.	President of the Management Board
	Igor Stebernak	Member of the Management Board
Internal Audit Department	Klavdija Markič	Director of the Internal Audit Department
Risk Management Department	Kristijan Hvala, M.Sc.	Director of the Risk Management Department
Custody and Administrative Services Department	Jasmin Furlan, M.Sc.	Director of the Custody and Administrative Services Department
Chief Compliance Officer	Vesna Colja	Chief Compliance Officer
CORPORATE FUNCTIONS DIVISION	Nevenka Črnko	Division Executive Director
	Franc Bračun, Ph.D.	Director of the Strategic Development and Organisation Department
	Tomaž Marinček	Director of the Legal Department
	Suzana Peršolja Nikolavčič	Money Laundering Prevention Officer
	Jesenka Ličen Kunčič	Chief Security Officer
	Mateja Sedej	Director of the Personnel Department
CORPORATE BANKING DIVISION	Matej Golob Matzele	Division Executive Director
	Barbara Jagodič	Director of the Large Corporate Client Department
	Davorina Mrevlje	Director of the SME Client Department
	Miha Štepec, M.Sc.	Director of the Loan Recovery and Restructuring Department
	Nataša Velunšek Golčer	Director of the Corporate Operations and Coordination
RETAIL BANKING DIVISION	Nataša Damjanovič	Division Executive Director
	Julija Šušmelj Stevanovič	Director of the Sales and Branch Network Coordination
	Jasna Kajtazović	Director of the Services and Sales Channels Development Department
	Bojan Stanković	Director of Ljubljana Regional Office
	Tatjana Ahačič	Director of Kranj Regional Office
	Janja Podvršnik Vrabič	Director of Maribor Regional Office
	Nada Jurko	Director of Celje Regional Office
	Branko Hočevar	Director of Koper Regional Office
	Radovan Jereb, M.Sc.	Director of Nova Gorica Regional Office
FINANCIAL MARKETS DIVISION	Boštjan Herič, M.Sc.	Division Executive Director
	Sabina Župec-Kranjc, M.Sc.	Director of the Treasury Department
	Uroš Vejnović	Director of the Investment Banking Department
	Štefan Volk, M.Sc.	Director of the Interbank Relations Department
FINANCE AND PROCESS SUPPORT DIVISION	Alenka Plut, M.Sc.	Division Executive Director
	Irena Rojc	Director of the Accounting Department
	Silva Matko Gosak, M.Sc.	Director of the Controlling and Reporting Department
	Mojca Žlak, M.Sc.	Director of the Central Back Office
	Marija Kordiš	Director of the Banking Operations Department
	Boštjan Rupar	Director of the Controlling Centre
INFORMATION TECHNOLOGY DIVISION	Nada Mertik	Division Executive Director
	Lilijana Kogovšek Torkar	Director of the Banking Technology Department
	Janez Krašovec, M.Sc.	Director of the Information Technology Development Department
	Matej Jereb	Director of the Information Technology and General Services Department

Senior management organisational chart as at 1 February 2013.

BRANCH NETWORK

Regional and branch offices of Abanka

Ljubljana Regional Office

Slovenska 50 Branch Office	Slovenska 50	Ljubljana
Šiška Branch Office	Celovška 106	Ljubljana
Pražakova Branch Office	Kolodvorska 9	Ljubljana
Bežigrad Branch Office	Dunajska 48	Ljubljana
Njegoševa Branch Office	Njegoševa 8	Ljubljana
Loterija Slovenije Branch Office	Gerbičeva 99	Ljubljana
Smelt Branch Office	Dunajska 160	Ljubljana
Vič Branch Office	Tržaška 87	Ljubljana
Šmartinska Branch Office	Šmartinska 102–104	Ljubljana
Logatec Branch Office	Tržaška 50 a	Logatec
Domžale Branch Office	Ulica Nikole Tesle 19	Domžale
Novo mesto Branch Office	Rozmanova 40	Novo mesto
Novo mesto Mercator center Branch Office	Ljubljanska c. 47	Novo mesto
Krško Branch Office	Cesta krških žrtev 135 B	Krško

Kranj Regional Office

Kranj Branch Office	Nazorjeva 1	Kranj
Jesenice Branch Office	Maršala Tita 39 A	Jesenice
Tržič Branch Office	Cankarjeva 1 A	Tržič

Maribor Regional Office

Maribor I Branch Office	Glavni trg 18	Maribor
Maribor II Branch Office	Cankarjeva 6 B	Maribor
Maribor III Branch Office	Kardeljeva 61	Maribor
Murska Sobota Branch Office	Kocljeva 16	Murska Sobota
Ptuj Branch Office	Osojnikova 9	Ptuj
Slovenj Gradec Branch Office	Ronkova 4 A	Slovenj Gradec
Prevalje Branch Office	Trg 12	Prevalje
Tezno Branch Office	Prvomajska 26	Maribor

Celje Regional Office

Celje I Branch Office	Aškerčeva 10	Celje
Celje II Branch Office	Miklošičeva 1	Celje
Žalec Branch Office	Šlandrov trg 28	Žalec
Velenje Branch Office	Kersnikova 1	Velenje

Koper Regional Office

Koper Branch Office	Ferrarska 12	Koper
Lucija Branch Office	Obala 112	Lucija
Izola Branch Office	Sončno nabrežje 6	Izola
Sežana Branch Office	Partizanska 41	Sežana

Nova Gorica Regional Office

Nova Gorica Erjavčeva Branch Office	Erjavčeva 2	Nova Gorica
Šempeter pri Gorici Branch Office	C. Prekomorskih brigad 2c	Šempeter
Nova Gorica Kidričeva Branch Office	Kidričeva 18	Nova Gorica
Ajdovščina Branch Office	Goriška 25 A	Ajdovščina
Idrija Branch Office	Lapajnetova 47	Idrija
Tolmin Branch Office	Mestni trg 5	Tolmin
Kobarid Branch Office	Markova 16	Kobarid
Postojna Branch Office	Titov trg 1	Postojna

Branch network overview as at 31 December 2012.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Abanka Vipa d.d. (hereinafter: Abanka) accepts and abides by the **Corporate Governance Code** (hereinafter: the Code), adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 8 December 2009.

The Code applied by Abanka in 2012 is also available on the website of the Ljubljana Stock Exchange, at http://www.ljse.si/ in Slovene and English.

The statement applies to the 2012 financial year.

The Management and Supervisory Boards of Abanka hereby declare that they comply with the Code in their work, with certain derogations from the provisions, as disclosed hereinafter.

Code provision 1:
The key objective of a joint-stock company engaged in a revenue-generating business is to maximise the company's value. This, as well as the company's other objectives pursued in the course of its business, such as the long-term value creation for shareholders and the social and environmental aspects ensuring a sustainable development of its business, is stated in the company's articles of association.

The Articles of Association of Abanka state that it is a joint-stock company which operates independently according to the principles of liquidity, prudence and profitability with the purpose of making profit. The defined goals include achieving an adequate return on equity, a competitive position in the market, and ensuring the capital strength of the Bank. On top of that, Abanka continually pursues the goal set out in the Code: the maximisation of its value.

Code provision 4.2:
The company encourages all significant shareholders, institutional investors and the state in particular, to publicly disclose their investment policy with respect to the stake they hold in the company concerned, i.e. their voting policy, the type and frequency of their engagement in the company's governance, and the dynamics of their communication with the respective company's managerial or supervisory bodies. The company is considered to have called its shareholders to make such a disclosure pursuant to this Principle if the convocation of the meeting includes the respective invitation.

Abanka is of the view that providing information to the public via its shareholders about their investment policy is primarily at the shareholders' discretion and depends on their public communications policy. No encouragement by Abanka can specifically influence its shareholders' decisions to inform the public. Abanka's main concern is to treat all of its shareholders equally.

Code provision 6.2:
In the proposed new composition of the supervisory board at least a half of the members are independent. Members that act and adopt decisions independently are taken to be independent supervisory board members. A supervisory board member is always taken to be dependent if he has close business ties with the company, its management or significant shareholders. In the event of changed circumstances that affect the member's meeting the criteria of independence, such a member immediately informs the supervisory board. The obligation to appoint independent members applies both to shareholders as well as works councils.

Several members of the Supervisory Board of Abanka may be deemed to have an economic, personal or other close relationship with the Bank's major shareholders or their Management Boards. These members are not prohibited from serving as supervisory board members pursuant to the Banking Act and the Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks, which very specifically and in detail stipulate the conditions and requirements for banks' supervisory board members. The Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks is a regulation applicable only to banks sufficiently covering the management of conflict of interest of members or the independence of the Supervisory board. There are no employee-elected representatives on the Supervisory Board, as the legal provision regarding workers' participation in Supervisory Boards is not applicable to banks.

Code provision 22.7:
The company discloses the gross and net remuneration of each member of the management board and of the supervisory board. Such a disclosure is clear and comprehensible to an average investor, and includes aside from statutorily-imposed content:

- *an explanation how the choice of performance criteria contributes to the company's long-term interests,*
- *an explanation of the methods applied to determine whether the performance criteria have been met,*
- *precise information on the deferment periods with regard to variable components of remuneration,*

- *information on the policy regarding termination payments, including the criteria conditioning termination payments and the amounts of termination payments,*
- *information with regard to vesting periods for share-based remuneration,*
- *information on the policy regarding the retention of shares after vesting,*
- *information on the composition of peer groups in companies that have been studied with respect to their remuneration policies in the course of setting up a remuneration policy in the company concerned.*

Regarding remuneration of the members of the Management and the Supervisory Boards, the Bank discloses the information required by law and related secondary legislation.

Ljubljana, 25 April 2013

Management Board

Jože Lenič, M.Sc. Econ.
President of the Management Board

Igor Stebernak
Member of the Management Board

Supervisory Board

Andrej Andoljšek
Chairman of the Supervisory Board

CONSOLIDATED FINANCIAL REPORT

WE ARE GUIDED BY PATHS THAT LEAD IN PLANNED DIRECTIONS IN THE PURSUIT OF OUR ESTABLISHED OBJECTIVES.

GENERAL INFORMATION

Abanka Vipa d.d. is a bank with a long tradition in the Slovene banking sector. The origins of Abanka d.d. date back to 1955, when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990, when it was transformed into a joint-stock company. On 31 December 2002, Banka Vipa merged with Abanka. Since that time, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. In October 2008, the shares of Abanka were listed on the Ljubljana Stock Exchange. Abanka's market share in terms of total assets as at 31 December 2012 was 7.8%.

Abanka is a universal bank authorised for all banking and other financial services. Through a network of 41 branches across Slovenia, easily accessible e-banking as well as its advisory services and personalised client approach, it provides comprehensive financial services ranging from traditional banking and banking-insurance services to investment banking. Abanka also manages the mutual retirement fund AIII VPS as part of its investment banking.

Moreover, Abanka is an internationally renowned bank. It enables international client payment transactions through its inter-bank operations based on a worldwide network of correspondent banks.

The range of Abanka's products and services is complemented by its subsidiaries and the joint venture company: Abanka Skladi, Argolina, Afaktor, Aleasing, together with ASA Aleasing and Analožbe.

At the end of 2012, Abanka employed 880 staff, two more than at the end of 2011.

The Bank is run by the Management Board: Jože Lenič, M.Sc. Econ, President, and Igor Stebernak, Member.

ABANKA'S REGISTERED OFFICE:

ABANKA VIPA d.d.
Slovenska cesta 58
1517 Ljubljana
Slovenia

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management of the Bank has approved the financial statements of ABANKA VIPA GROUP for the year ended 31 December 2012 (pages 96 to 103 of the Consolidated Financial Statements), the applied accounting policies, and the notes to the financial statements (pages 104 to 212 of the Consolidated Financial Statements).

The management of the Bank is responsible for preparing the Consolidated Financial Statements, which give a true and fair representation of the financial position of the Group as at 31 December 2012, and the results of its operations for the year then ended.

The management of the Bank confirms that accepted accounting policies have been used on a consistent basis, and that the accounting estimates have been made in compliance with the principle of prudence. The management of the Bank also confirms that the consolidated financial statements have been prepared on the assumption of a going concern and in compliance with the relevant legislation and International Financial Reporting Standards, as adopted by the EU.

The management is also responsible for the proper management of accounting, taking appropriate measures to protect the Group's assets, as well as preventing and discovering fraud, other irregularities or illegal acts.

In the year ended 31 December 2012, Abanka Vipa d.d. did not start any related party transactions under unusual market conditions.

Ljubljana, 19 April 2013

Management Board

Igor Stebernak Member of the Management Board	Jože Lenič, M.Sc. Econ. President of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED INCOME STATEMENT

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2012	2011
1	2		3	4
1	Interest income	5	177,961	199,998
2	Interest expenses	5	(106,865)	(120,250)
3	**Net interest income (1+2)**		**71,096**	**79,748**
4	Dividend income	6	1,470	1,349
5	Fee and commission income	7	42,887	43,886
6	Fee and commission expenses	7	(13,095)	(12,439)
7	**Net fee and commission income (5+6)**		**29,792**	**31,447**
8	Realised gains/(losses) on financial assets and liabilities not measured at fair value through profit or loss	8	5,406	(1,300)
9	Net gains/(losses) on financial assets and liabilities held for trading	9	835	(8,554)
10	Net losses on financial assets and liabilities designated at fair value through profit or loss	10	(1,705)	(338)
11	Exchange differences		554	(64)
12	Net (losses)/gains on derecognition of assets other than held for sale		(225)	66
13	Net other operating expenses	11	(2,461)	(1,246)
14	Administration costs	12	(53,498)	(53,340)
15	Depreciation and amortisation	13	(5,939)	(5,708)
16	Provisions	14	(1,880)	(5,133)
17	Impairment	15	(127,546)	(174,961)
18	Share of loss of the joint venture accounted for using the equity method		(517)	(494)
19	Total (loss)/profit from non-current assets held for sale		(6)	1
20	TOTAL LOSS BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)		(84,624)	(138,527)
21	Tax income related to loss from continuing operations	16	3,559	28,871
22	TOTAL LOSS AFTER TAX FROM CONTINUING OPERATIONS (20+21)		(81,065)	(109,656)
23	**NET LOSS for the financial year (22)**		**(81,065)**	**(109,656)**
	a) Loss attributable to owners of the parent		(81,063)	(109,645)
	b) Loss attributable to non-controlling interests		(2)	(11)
				in EUR
24	Basic earnings per share	17	(11.27)	(15.25)
25	Diluted earnings per share	17	(11.27)	(15.25)

These financial statements were approved for issue by the Management Board on 19 April 2013 and signed on its behalf by:

Management Board

Igor Stebernak
Member of the Management Board

Jože Lenič, M.Sc. Econ.
President of the Management Board

The notes on pages 104 to 212 are an integral part of these consolidated financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2012	2011
1	2		3	4
1	**NET LOSS FOR THE FINANCIAL YEAR AFTER TAX**		**(81,065)**	**(109,656)**
2	**OTHER COMPREHENSIVE INCOME/(LOSS) AFTER TAX (3+5+8)**		**15,343**	**(14,849)**
3	**Foreign currency translation (4)**		**(237)**	**(6)**
4	Translation losses taken to equity		(237)	(6)
5	**Available-for-sale financial assets (6+7)**		**19,120**	**(18,554)**
6	Net valuation gains/(losses) taken to equity		15,989	(34,543)
7	Net losses transferred to profit or loss		3,131	15,989
8	**Income tax relating to components of other comprehensive income/(loss)**	**34**	**(3,540)**	**3,711**
9	**TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**(65,722)**	**(124,505)**
	a) Attributable to owners of the parent		(65,720)	(124,495)
	b) Attributable to non-controlling interests		(2)	(10)

These financial statements were approved for issue by the Management Board on 19 April 2013 and signed on its behalf by:

Management Board

Igor Stebernak Member of the Management Board	Jože Lenič, M.Sc. Econ. President of the Management Board

The notes on pages 104 to 212 are an integral part of these consolidated financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2012	2011
1	2		3	4
1	Cash and cash balances with the central bank	18	214,708	125,534
2	Financial assets held for trading	19	20,641	31,284
3	Financial assets designated at fair value through profit or loss	20	11,515	22,831
4	Available-for-sale financial assets	21	496,340	570,845
5	Loans and receivables		2,603,881	3,286,516
	– debt securities	22	–	4,948
	– loans to banks	22	81,970	282,664
	– loans to non-bank customers	23	2,515,942	2,998,904
	– other financial assets		5,969	–
6	Held-to-maturity investments	24	152,982	102,784
7	Non-current assets held for sale	25	1,938	1,326
8	Property and equipment	25	54,692	55,048
9	Investment property	25	809	83
10	Intangible assets	25	4,105	3,905
11	Investment in the joint venture accounted for using the equity method	26	–	517
12	Tax assets		37,476	39,333
	– current tax assets		38	1,889
	– deferred tax assets	34	37,438	37,444
13	Other assets		14,925	18,186
14	**TOTAL ASSETS (from 1 to 13)**		**3,614,012**	**4,258,192**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2012	2011
1	2		3	4
15	Deposits and loans from the central bank	28	533,857	200,061
16	Financial liabilities held for trading	19	17,931	15,142
17	Financial liabilities designated at fair value through profit or loss	29	8,760	8,263
18	Financial liabilities measured at amortised cost		2,859,253	3,764,915
	– deposits from banks	30	11,263	39,403
	– deposits from non-bank customers	30	2,129,631	2,412,220
	– loans from banks	30	473,862	648,055
	– loans from non-bank customers		10,005	10,014
	– debt securities issued	31	104,208	536,163
	– subordinated liabilities	32	119,050	119,060
	– other financial liabilities		11,234	–
19	Provisions	33	27,131	24,623
20	Tax liabilities		226	321
	– deferred tax liabilities	34	226	321
21	Other liabilities		1,210	13,511
22	TOTAL LIABILITIES (from 15 to 21)		3,448,368	4,026,836
23	Share capital	35	7,200	30,045
24	Share premium	35	143,288	153,117
25	Revaluation reserves	35	4,549	(10,794)
26	Reserves from profit	35	13,638	57,556
27	Treasury shares	35	(240)	(240)
28	Retained earnings (including loss from the current year)		(2,799)	1,662
29	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (from 23 to 28)		165,636	231,346
30	Equity attributable to non-controlling interests		8	10
31	TOTAL EQUITY (29 + 30)		165,644	231,356
32	**TOTAL LIABILITIES AND EQUITY (22 + 31)**		**3,614,012**	**4,258,192**

These financial statements were approved for issue by the Management Board on 19 April 2013 and signed on its behalf by:

Management Board

Igor Stebernak
Member of the Management Board

Jože Lenič, M.Sc. Econ.
President of the Management Board

The notes on pages 104 to 212 are an integral part of these consolidated financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2012

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves
1	2	3	4	5
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**30,045**	**153,117**	**(10,794)**
2	**Consolidated comprehensive loss for the financial year after tax**	**–**	**–**	**15,343**
3	Covering of the loss brought forward	–	–	–
4	Covering of the loss from the current year	(22,845)	(9,829)	–
5	Other	–	–	–
6	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5)**	**7,200**	**143,288**	**4,549**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2011

Item No.	ITEM DESCRIPTION	Share capital	Share premium	Revaluation reserves
1	2	3	4	5
1	**OPENING BALANCE FOR THE REPORTING PERIOD**	**30,045**	**153,117**	**4,056**
2	**Consolidated comprehensive loss for the financial year after tax**	**–**	**–**	**(14,850)**
3	Dividends	–	–	–
4	Transfer of net profit to reserves from profit	–	–	–
5	Covering of the loss brought forward	–	–	–
6	Covering of the loss from the current year	–	–	–
7	Other	–	–	–
8	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5+6+7)**	**30,045**	**153,117**	**(10,794)**

These financial statements were approved for issue by the Management Board on 19 April 2013 and signed on its behalf by:

Management Board

Igor Stebernak
Member of the Management Board

Jože Lenič, M.Sc. Econ.
President of the Management Board

The notes on pages 104 to 212 are an integral part of these consolidated financial statements.

(All amounts in EUR thousand unless otherwise stated)

Reserves from profit	Retained earnings (including loss from the current year)	Treasury shares (equity deduction item)	**Equity attributable to owners of the parent (from 3 to 8)**	Equity attributable to non-controlling interests	**Total equity (9+10)**
6	7	8	9	10	11
57,556	**1,662**	**(240)**	**231,346**	**10**	**231,356**
–	**(81,063)**	**–**	**(65,720)**	**(2)**	**(65,722)**
(731)	731	–	**–**	–	**–**
(43,197)	75,871	–	**–**	–	**–**
10	–	–	**10**	–	**10**
13,638	**(2,799)**	**(240)**	**165,636**	**8**	**165,644**

Reserves from profit	Retained earnings (including loss from the current year)	Treasury shares (equity deduction item)	**Equity attributable to owners of the parent (from 3 to 8)**	Equity attributable to non-controlling interests	**Total equity (9+10)**
6	7	8	9	10	11
173,246	**(3,110)**	**(240)**	**357,114**	**20**	**357,134**
–	**(109,645)**	**–**	**(124,495)**	**(10)**	**(124,505)**
–	(1,294)	–	**(1,294)**	–	**(1,294)**
4,615	(4,615)	–	**–**	–	**–**
(597)	597	–	**–**	–	**–**
(119,729)	119,729	–	**–**	–	**–**
21	–	–	**21**	–	**21**
57,556	**1,662**	**(240)**	**231,346**	**10**	**231,356**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2012	2011
1	2		3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total loss before tax		(84,624)	(138,527)
	Depreciation and amortisation	13	5,939	5,708
	Impairments of investment property, intangible assets and other assets	15	894	2,276
	Share of loss of the joint venture accounted for using the equity method		517	494
	Net (gains)/losses from exchange differences		(554)	64
	Net losses/(gains) from sale of tangible assets and investment properties		27	(66)
	Other (gains) from investing activities	37	(5,010)	(748)
	Other losses from financing activities	37	3,478	4,309
	Net unrealised losses/(gains) from non-current assets held for sale		6	(1)
	Net unrealised gains/(losses) in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)		19,120	(18,554)
	Other adjustments to total profit or loss before tax	37	3,007	5,255
	Cash flow from operating activities before changes in operating assets and liabilities		**(57,200)**	**(139,790)**
b)	**Decreases in operating assets (excl. cash & cash equivalents)**		**546,318**	**350,529**
	Net decrease in financial assets held for trading		10,728	11,054
	Net decrease in financial assets designated at fair value through profit or loss		11,316	7,812
	Net decrease in financial assets available for sale		46,584	67,269
	Net decrease in loans and receivables		475,391	271,506
	Net (increase)/decrease in non-current assets held for sale		(6)	4,234
	Net decrease/(increase) in other assets		2,305	(11,346)
c)	**(Decreases) in operating liabilities**		**(579,741)**	**(201,264)**
	Net increase in financial liabilities to central bank		333,795	200,034
	Net increase in financial liabilities held for trading		2,789	2,157
	Net increase in financial liabilities designated at fair value through profit or loss		497	111
	Net (decrease) in deposits, loans and receivables measured at amortised cost		(483,494)	(233,679)
	Net (decrease) in debt securities issued measured at amortised cost		(431,955)	(169,298)
	Net (decrease) in other liabilities		(1,373)	(589)
d)	**Cash flow from operating activities (a+b+c)**		**(90,623)**	**9,475**
e)	**Income taxes refunded**		**1,783**	**699**
f)	**Net cash flow from operating activities (d+e)**		**(88,840)**	**10,174**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT (continued)

Desig-nation	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2012	2011
1	2		3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**50,230**	**11,867**
	Receipts from the sale of tangible assets		564	511
	Receipts from the sale of intangible assets		–	100
	Receipts from non-current assets or liabilities held for sale		–	1,298
	Receipts from the sale of financial assets held to maturity		49,666	9,958
b)	**Cash payments on investing activities**		**(102,092)**	**(93,475)**
	(Cash payments to acquire tangible assets and investment properties)		(5,307)	(6,017)
	(Cash payments to acquire intangible assets)		(1,931)	(1,965)
	(Cash outflow to non-current assets or liabilities held for sale)		–	(43)
	(Cash payments to acquire held to maturity investments)		(94,854)	(85,450)
c)	**Net cash flow from investing activities (a+b)**		**(51,862)**	**(81,608)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**–**
b)	**Cash payments on financing activities**		**(3,488)**	**(15,656)**
	(Dividends paid)		–	(1,294)
	(Cash repayments of subordinated liabilities)	32	(3,488)	(14,362)
c)	**Net cash flow from financing activities (a+b)**		**(3,488)**	**(15,656)**
D.	Effects of change in exchange rates on cash and cash equivalents		(362)	1,867
E.	**Net (decrease) in cash and cash equivalents (Af+Bc+Cc)**		**(144,190)**	**(87,090)**
F.	**Opening balance of cash and cash equivalents**		**423,741**	**508,964**
G.	**Closing balance of cash and cash equivalents (D+E+F)**	**37**	**279,189**	**423,741**

These financial statements were approved for issue by the Management Board on 19 April 2013 and signed on its behalf by:

Management Board

Igor Stebernak
Member of the Management Board

Jože Lenič, M.Sc. Econ.
President of the Management Board

The notes on pages 104 to 212 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements were compiled in accordance with the basic accounting policies defined hereinafter.

Reporting entity

Abanka Vipa d.d. is headquartered in Slovenia. The consolidated financial statements of the Bank as at and for the year ended 31 December 2012 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in the jointly controlled entity. The Group is primarily involved in corporate, retail and investment banking, and in providing asset management services.

1.1 Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU.

The scope of information and notes included in the Group's Annual Report and the breakdown of financial statements are also prescribed in the Companies Act and in the Decision on the Books of Account and Annual Reports of (Savings) Banks issued by the Bank of Slovenia.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- financial assets and liabilities measured at amortised cost.

(c) Functional and presentation currency

These consolidated financial statements are presented in euros, which is the Bank's functional currency. All financial information presented in euros has been rounded to the nearest thousand unless otherwise stated ("in EUR").

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information on critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in Note 3 – Critical accounting estimates and judgments in applying accounting policies.

The deterioration of the Slovenian economy throughout 2012 supplemented by adverse macro economic indicators has significantly and adversely affected the Bank's financial condition and performance and presents significant risks and challenges for the Bank in the year ahead. The Management Board has taken into consideration the uncertainties that currently impact Slovenian financial institutions and the Bank specifically. These include the continuing ability to access funding from the Eurosystem funding and Central Bank of Slovenia liquidity facilities to meet liquidity requirements and the commitment of the Bank of Slovenia and Government to support the Bank's liquidity needs. The Bank of Slovenia has confirmed that the Bank is of systemic importance to the Slovenian banking system.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Bank's business and funding plans are taking into account:
• the period over which the Slovenian economy is expected to recover from the current crisis;
• the Group's schedule of committed debt repayments;
• the Group's ability to continue to access liquidity and funding, in particular from the Eurosystem and Bank of Slovenia liquidity facilities;
• the ability of the Bank to raise additional required capital in the financial markets to meet its required regulatory capital ratios; and
• the ability of the Group to release of assets.

The following table shows the key risks faced by the Group and the main mitigation measures which the management either takes or recognises as possibly having a risk-mitigation effect in the event the risks materialise, which the Group accounted for in the preparation of its business plans.

Key risks	Measures
Credit risk	
– continuing deterioration of economic conditions; – deteriorating financial state of clients and their ability to meet their debt payments; – continuing negative trend in insolvency proceedings; – lack of activity in the Slovene real estate market and capital market idiosyncrasies (shallow and poorly liquid capital market); – uncertain effect of the future economic situation on the value and timing of collateral payments.	– implementing additional control mechanisms in loan granting; – increasing the role of the Risk Management Department in the loan granting process; – reorganizing and adequately staffing the risk management department; – improving the functioning of the troubled asset management unit and intensive resolution of problematic debtors; – improving credit score assessment, supported by a credit scoring model for corporate customers; – acquiring additional adequate credit collateral; – including financial and other covenants in loan agreements; – tightening of credit limits; – limiting business with corporate customers in high-risk industry sectors; – regular and in-depth monitoring of borrowers' operations.
Liquidity risk	
– continuing uncertainty in the financial markets and in the economy; – deteriorating financial position of the Groups' borrowers, affecting their loan servicing capacity; – decreasing volumes of liquidity reserves and received deposits.	– prudent management of current and expected cash flows; – decreasing volumes of the credit portfolio and divestment of the non ECB eligible securities; – acquiring appropriate non-marketable financial assets (bank loans) that are ECB eligible; – strengthening marketing activities in raising primary sources of funds; – constant liquidity risk monitoring of the Group, on-going attention to structural liquidity ratios and evaluation of internally defined limits; – intensified debt recovery actions; – designing a real estate management programme for the real estate foreclosed by the Bank; – designing a programme for the real estate subject to execution and a strategy of the real estate marketing owned by the Bank's borrowers; – setting up procedures for increasing the share capital of the Bank and procedures for a covered bond issue; – regular reporting to the Bank of Slovenia on the Group's liquidity position; – measures governed by the Measures of the Republic of Slovenia to enhance bank stability act.
Capital risk	
– failure to meet the capital adequacy requirements of the Bank of Slovenia; – further losses at the Group level; – failure to pay in new shares in the repeated recapitalisation process by 31 July 2013.	– further restrictions of the lending activity and the optimisation of risk-weighted assets resulting in lower capital adequacy requirements (restricted lending activities, lending to lower risk borrowers, reducing the volume of high-risk exposures, acquiring adequate collateral in the form of business and/or residential premises, allowing for the use of more favourable risk weights to exposures, more efficient debt recovery); – divesting certain equity investments; – reducing operating costs; – improving the quality of the Group's internal governance; – further activities towards capital ties with Gorenjska banka d.d.; – approval by the Bank's General Meeting of Shareholders to increase share capital through new monetary contributions; – measures in accordance with Article 248 of the Banks and Savings Banks Act (ZBan-1); – measures in accordance with the Measures of the Republic of Slovenia to enhance bank stability act.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Capital adequacy

As explained in Note 2.4.3, the Bank met both the consolidated and unconsolidated capital adequacy levels of 8% as required by Slovenian law at 31 December 2012; however, in July 2012 the Bank of Slovenia introduced a higher capital adequacy requirement of 11.4% for the Group. As a result the Bank is required to raise additional capital of EUR 90 million by 31 July 2013. The higher level of capital incorporated in business plans for 2013 and later also required by the Bank of Slovenia is intended to reflect the risks and uncertainties faced by the Bank due mainly to the current economic challenges facing Slovenia and the possibility that further contraction or deterioration of the economy could negatively impact the Bank's future results and financial position.

In order to meet the Bank of Slovenia's requirement to raise additional capital, the shareholders of the Bank passed a resolution on 8 April 2013 to make an offer new shares totalling EUR 90 million to all existing shareholders that hold more than 1% in the Bank and to selected interested investors. Should the attempt to raise additional regulatory capital not be successful, the Bank of Slovenia has the power to intervene and there are a number of options available to it. There is also a risk that the minimum regulatory capital requirement may increase in the future and that the Bank's efforts to neutralise/counterbalance such an increase through optimisation of its risk-weighted assets might prove insufficient. If the Bank is required to further increase its capital position there is a risk that it may not be able to raise additional capital from the financial markets or from internal sources. It should also be noted that the Bank of Slovenia has acknowledged that Abanka is of systemic importance to the Slovenian banking system.

For further details please refer to Note 2.4.3.

(e) Standards, interpretations and amendments issued but not yet effective

The Group has chosen not to early adopt the following standards and interpretations that have been issued and endorsed by EU, but which do not yet take effect for accounting periods beginning on 1 January 2012:

- Amendments to IAS 1 "Presentation of Financial Statements" (effective 1 July 2012);
  The major amendment requires that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss.
- Amendments to IAS 12 "Deferred Tax: Recovery of Underlying Assets" (effective 1 January 2013);
  The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.
- IAS 19 (amendment) "Employee Benefits" (effective 1 January 2013);
  The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.
- IAS 27 (revised) "Separate Financial Statements" (effective 1 January 2014);
  IAS 27 (2011) includes the existing requirements of IAS 27, IAS 28 and IAS 31. The standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, Consolidated Financial Statements.
- IAS 28 (revised) "Investments in Associates and Joint Ventures" (effective 1 January 2014);
  The main change is that for any retained portion of the investment that has not been classified as held for sale, the equity method is applied until the disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture. In the case of the cessation of significant influence or joint control when significant influence was succeeded by joint control, the retained interest in the investment is not re-measured.
- Amendments to IFRS 7 and IAS 32 "Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2013);
  The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- IFRS 10 “Consolidated Financial Statements” (effective 1 January 2014);
  The standard provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008).
- IFRS 11 “Joint Arrangements” (effective 1 January 2014);
  The standard supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.
- IFRS 12 “Disclosure of Interests in Other Entities” (effective 1 January 2014);
  The standard requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.
- IFRS 13 “Fair Value Measurement” (effective 1 January 2013).
  The standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements.

The application of the new interpretations mentioned above will not affect the valuation of items in the Group’s financial statements, but the application of some of them will affect their presentation and disclosure.

1.2 Consolidation

(a) Subsidiaries
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(b) Transactions and non-controlling interests
The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Associates
Associates are all entities in which the Group has between 20% and 50% of the voting rights and over which the Group has significant influence, but does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group’s investment in associates includes goodwill (net of any accumulated impairment loss) identified upon acquisition.

The Group’s share of the post-acquisition profits or losses of associates is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associate.

(d) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Each venture partner usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venture partner and recognised in its financial statements as an investment in the jointly controlled entity.

An investor recognises its interest in a jointly controlled entity using the equity method, whereby interest in a jointly controlled entity is initially recorded at cost. The Group's share of the post-acquisition profits or losses of joint ventures is recognised in the income statement and increases or decreases the carrying amount of the investment.

The Group's joint venture is disclosed in Note 26.

1.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Assets and Liabilities Management Committee. In the role of chief operating decision maker, the Assets and Liabilities Management Committee is, among other matters, also responsible for allocating resources, assessing financial performance and making decisions.

In accordance with IFRS 8, the Group has the following business segments: retail banking, corporate banking and financial markets.

1.4 Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Bank and its subsidiaries in Slovenia is the euro, whereas the functional currency of two of the Group's subsidiaries is the national currency of Serbia, i.e. the Serbian dinar (RSD), and the national currency of Croatia, i.e. the Croatian kuna (HRK). The functional currency of the joint venture company is the Bosnia and Herzegovina convertible mark (BAM).

(a) Transactions and balances

Foreign currency transactions are translated into the respective functional currency of the operation, using the spot exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the ECB reference rate as at that date. The foreign exchange gains and losses on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate as at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate as at the date that fair value was determined. Foreign currency differences arising from retranslation are recognised in profit or loss, except for differences arising from the retranslation of available-for-sale equity instruments that are recognised directly in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of the historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euros at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euros at spot exchange rates as at the dates of the transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income in the translation reserve. However, if the operation is not wholly owned, the relevant proportional share of the difference is allocated instead to the non-controlling interest. When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss upon disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

1.5 Financial assets

The Group initially recognises loans and receivables, debt securities and given deposits on the date that they originate. Regular purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchasing and selling the asset, all other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

A financial asset is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset in the statement of financial position. Upon the de-recognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition. Reclassifications after initial recognition are also possible under certain circumstances.

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: held-for-trading financial assets and those designated at fair value through profit or loss at inception.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading, unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related instruments were classified in different groups of financial instruments and therefore valued differently; or
- financial instruments containing one or more embedded derivatives that significantly modify the cash flows are designated at fair value through profit or loss; or
- certain instruments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The payments of the structured deposits are equity-indexed, which results in dissimilar risks inherent in the host and embedded derivative. The Group therefore designates the compound financial instruments as financial liabilities at fair value through profit or loss.

Interest income and expenses, and dividend income on held-for-trading financial assets are included in "Net interest income" or "Dividend income", respectively.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or 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 substantially recover all of its initial investment, other than because of credit deterioration.

(c) Held-to-maturity financial assets
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

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

Available-for-sale financial assets can be reclassified if they can be classified as loans and receivables at the moment of reclassification and the Group has the ability and intent to hold the financial asset for the foreseeable future or until maturity.

Amortised cost measurement
Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. The method is explained in Note 1.8 Interest income and expenses.

Fair value measurement
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Interest earned whilst holding trading securities is reported as interest income. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Valuation methods and the assumptions applied are additionally disclosed in Note 3(d). The fair value hierarchy is described and disclosed in the same Note.

Impairment of financial assets is described in Note 1.11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.6 Offsetting financial instruments

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

1.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All effects of derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

All derivatives of the Group are classified as held-for-trading (Note 19). Changes in the fair value of derivative instruments are recognised immediately in the income statement.

Past due receivables from derivatives remain recorded under the same item of financial assets (derivatives) and are not reclassified under other receivables. When objective evidence of the possible impairment of derivative financial assets due to credit risk exists, the Group assesses the impairment loss and recognises it in the valuation of the derivative.

1.8 Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in the income statement using the effective interest method.

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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

1.9 Fee and commission income and expenses

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct cost) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed, and the Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (e.g. the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses) are recognised upon completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

Fees and commissions paid that are mostly related to payment transactions are recognised as the Group’s expenses as they arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.10 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

1.11 Impairment of financial assets

(a) Assets carried at amortised cost

At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a 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 a loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group estimates whether there is impartial evidence of the impairment or possibility of loss by considering the following: significant financial difficulties for the debtor; actual breach of contract (such as a failure to repay interest), principal, fees and commissions; restructuring of financial assets; bankruptcy or undergoing financial reorganisation; the possibility of bankruptcy or financial reorganisation; the existence of a measurable decline in the projected cash flows of a group of financial assets from the initial recognition of those assets, even though the decline cannot yet be allocated to individual assets in the group, including negative changes when settling debts in the group of financial assets, or national or local economic conditions associated with the failure to settle financial assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics 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 of impairment.

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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, a creditor may measure the impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value, using an observable market price.

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

Homogenous groups and sub-groups are created for the collective assessments of debtors. These are classified according to credit risk categories, which reflect their ability to settle obligations in accordance with contractual provisions. Classification in groups and subgroups takes place according to the following criteria:

a) the type of debtor;
b) the debtor's credit rating;
c) stability of the debtor's operations;
d) the credit rating of the financial asset or contingency and commitment, including off-balance sheet items for private individuals; and
e) the type of collateral.

Companies are classified into subgroups according to the credit rating of individual debtors. Credit risk loss is calculated for individual subgroups of companies on the basis of an aggregate (annual) credit rating migration matrix and a calculation of the average recovery rate for individual subgroups. The annual migration matrix sets out the probability of debtor transfers from one credit group to another credit group over one year. Past experiences with losses and factors indicating the current state are taken into account when evaluating losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group divides the financial assets of individuals into subcategories according to the credit rating of the financial assets. Classification of the financial assets of individuals is based on objective criteria (i.e. the regularity of settling liabilities to the Group). Any necessary impairments are formed on the basis of the credit rating of the financial assets.

Exposures to government and exposures secured with best-quality collateral are not impaired, meaning provisions are not formed against them.

The percentage of losses from credit risk for the collective assessment of companies is calculated once per year, or during the year if there are significant changes in circumstances within the Group and/or in the market.

The Group regularly checks the methodology and assumptions used when assessing losses. The assessment of loss must be brought into line with changes in the circumstances in the Group, in the market or to legislation.

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

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

Restructuring of loans
Restructuring of financial assets includes activities pursued by the Group in relation to borrowers on whom it has outstanding claims due to a default. The Group assesses whether the restructuring of a debtor's exposure is reasonable. If it is reasonable, the Group forms an adequate restructuring plan and monitors its implementation and effects.

The restructuring of these claims may include one or several activities that would not have been pursued had the defaulter been in a normal economic and financial position. Restructuring activities include:
- grace period and/or principal repayment rescheduling;
- partial write-off;
- interest rate change; and
- other adequate measures.

When the Group decides for individual debt restructuring, such debt remains classified as restructured until fully recovered.

(b) Assets carried at fair value
At each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group carries out an assessment of whether there is objective evidence of impairment of the equity and debt instruments classified as available-for-sale financial assets, whose fair value reserve is negative (deficit). Evidence for impairment of an available-for-sale equity investment includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer of the equity instrument operates, which indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also regarded by the Group as objective evidence of impairment. A significant decrease in the fair value of an equity security below its cost is considered to be at least a 40% decrease in its fair value compared to its average cost. A period of a prolonged decrease in the fair value of an equity security below its cost is considered to be a period of at least nine months from the date when its fair value first fell below its average cost and remained lower throughout that period. In the said period, the Group continuously recognises a loss in fair value reserve in relation to the relevant equity security.

The key indicator for debt securities impairment is the issuer's performance, i.e. its credit rating and the breach of contractual obligations. If there is objective evidence of impairment of an available-for-sale debt instrument, such an instrument has to be impaired.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Upon the impairment of available-for-sale financial assets, the amount of the cumulative revaluation loss (difference between the current fair value and the acquisition cost for equity instruments or amortised cost for debt instruments), recognised directly in equity, is removed from equity and recognised in profit or loss.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

1.12 Property and equipment, intangible assets, investment property and non-current assets held for sale

Land and buildings mainly comprise investments in branches and offices. All property and equipment is stated at the historical cost less depreciation and impairment loss. The historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to administration costs during the financial period in which they are incurred.

The Group includes licences and software among its intangible assets. Intangible assets are valued at historical cost upon initial recognition. Subsequent valuation is made using the historical cost model. All intangible assets have finite useful lives. In line with the historical cost model, intangible assets are recorded at the historical cost less amortisation and the accumulated impairment loss.

Investment property includes land and buildings leased out under an operating lease. Investment property is valued at the historical cost upon initial recognition. Subsequent valuation is made using the historical cost model, as made for tangible assets. The same accounting treatment that applies to tangible assets is applied to investment property.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	2011	2012
Buildings	2–3%	2–3%
Equipment	14–20%	14–20%
Computers	10–50%	10–50%
Intangible assets	25–33.3%	25–33.3%

The residual values and useful lives of assets are reviewed and adjusted if appropriate at each reporting date. Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Property and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on the disposal of property and equipment are determined by comparing proceeds with carrying amount and are included in gains and losses upon the de-recognition of assets other than those held for sale in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continued use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for the sale of such assets. Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of the carrying amount and fair value less costs to sell and reported within “Non-current assets held for sale”.

1.13 Impairment of investments in associates and joint ventures

In line with IAS 36, when assessing the impairment of investments in associates and joint ventures, the Group reviews not only objective evidence of impairment, but also any indication that an investment in an associate or joint venture may be impaired. In addition to indications from external and internal sources of information, the Group takes into account other indications of possible impairment, such as the decision of a company’s management to wind the company up or underperformance.

If there is an indication that an investment in an associate or joint venture may be impaired, according to IAS 36 the Group calculates the impairment amount as the difference between the carrying amount of the investment and its recoverable amount. The recoverable amount is the higher of an investment’s:

- fair value less costs to sell; and
- value in use, which equals the present value of the future cash flows expected to arise from this investment, discounted at the current market rate of return on a similar financial asset.

If any of these amounts exceeds the carrying value, the investment is not impaired. If expected future cash flows cannot be estimated to calculate the value in use, the Group calculates the impairments using the net asset value method.

At each reporting date, the Group makes an assessment regarding whether previous impairments of non-financial assets may be reversed.

1.14 Leases

A group company is the lessor

A lease is classified as a finance lease if it transfers all the substantial risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer all the substantial risks and rewards incidental to ownership.

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense. Initial direct costs incurred by lessors in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

A group company is the lessee

The leases entered into by the Group are primarily operating leases. The Group rents business premises, equipment, cars and locations for cash machines. The total payments made under operating leases are charged to administration costs. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with the central bank, amounts due from other banks and ECB eligible securities held for trading, designated at fair value through profit or loss and available-for-sale.

1.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable than 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in a settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

1.17 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 Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise the fee income earned on a straight line basis over the life of the guarantee and contingent liability or provision in accordance with IAS 37 in the income statement, which presents the best estimate of the expenditure required to settle any financial obligation existing as at the statement of financial position date. These estimates are determined based on the experience of similar transactions and a history of past losses, supplemented by the judgment of management.

Any increase in the liability relating to guarantees is taken to the income statement under provision charges.

1.18 Employee benefits

The Group provides benefits to employees as a legal obligation, including jubilee benefits and retirement bonuses. Employee benefits are included in staff costs and provisions for employee benefits. The Group sets aside such provisions based on actuarial calculations made by independent actuaries every three years. In the meantime, the Group either establishes or cancels these provisions on the basis of its own calculations, using data averages for employees under collective agreements, employees under management agreements with special authorities and employees on the Management Board.

The major assumptions used in these calculations are the following:
- the discount rate;
- the number of employees eligible for benefits;
- the rate of labour turnover; and
- the average annual wage growth.

In accordance with Slovene legislation, employees may retire after 35 to 40 years of service, at which time (if they meet certain conditions) they become eligible for outright retirement benefits. Furthermore, pursuant to the collective agreement, employees are also entitled to jubilee payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Defined contributions to state social security are deducted each month from the payroll, expensed as incurred and included in administration costs.

1.19 Taxation

Taxation is provided for in the consolidated financial statements in accordance with the Slovene legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the expected taxable profit for the year using the tax rates in effect at the statement of financial position date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date, and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

The Group has created deferred taxes on the temporary differences arising from the impairment of tangible and intangible assets, from different depreciation rates for accounting and tax purposes, from the revaluation and impairment of available-for-sale securities, from the provisions created for employee benefits and for the repayment of premiums under the national housing savings scheme, from the impairment of loans and receivables in subsidiaries and from tax losses carried forward.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised. Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available, against which these losses can be utilised. Future taxable profits are based on the 2012–2016 Financial Plan.

Deferred tax related to the fair value re-measurement of available-for-sale investments, which is charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and subsequently (upon de-recognition or impairment) recognised in the income statement together with the deferred gain or loss.

1.20 Borrowings and deposits

Borrowings are recognised initially at the fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement 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 and the difference between the carrying amount of the liability and the consideration paid is included in realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss.

Deposits from banks and non-bank customers are measured at amortised cost.

1.21 Share capital

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(c) Treasury shares

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

1.22 Managed funds

The Group manages a significant amount of assets on behalf of legal entities and natural persons, and a fee is charged for this service. These assets are not shown in the consolidated financial statements of the Group.

1.23 Fiduciary activities

The Group acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements as they are not assets of the Group.

1.24 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are classified in the financial statements as held-for-trading financial assets, available-for-sale financial assets or held-to-maturity financial assets, even though the transferee has the right by contract or custom to sell or re-pledge them as collateral. The counterparty liability is included in financial liabilities linked to transferred assets. Securities purchased under agreements to resell ("reverse repos") are recorded as loans to banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

1.25 Amendments of the financial statements after issue

The Bank's shareholders and management have the power to amend the financial statements after issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 RISK MANAGEMENT

The Group is exposed daily to various risks in its operations, which can be broadly divided into credit risk, market risk, interest rate risk, foreign exchange risk, liquidity risk, operational risk, capital risk, business risk and reputational risk. The ability to manage and appropriately control risks has a direct impact on the Group's long-term stability and performance. The Group therefore pays heightened attention to the risk management function, which includes risk identification, risk measurement or assessment, risk control, risk monitoring and risk reporting procedures.

This chapter includes a description of individual types of risks; in addition to these, the operations of the Group may also be affected by other risks that are not yet recognised as significant by the Group, or which are insignificant at present, but could grow in significance in the future.

Due to a further deterioration of economic and financial circumstances, the Group's operations in 2012 were marked by serious challenges. The Group's risk exposure was considerable, particularly to credit risk in the Republic of Slovenia. The number of insolvency proceedings increased, affecting some important customers of the Group. Tight conditions were reflected in the deterioration of customers' performance and creditworthiness; defaults also increased. The Group continued to implement proactive measures and to adapt its credit/lending policy to the changed realities. Increased credit risk was primarily mitigated by the prudent assessment of the credit risk of customers, accepting appropriate forms of collateral that guarantee a higher percentage of recovery in case of default, by requiring additional credit protection, including financial covenants and other contractual provisions in credit agreements, and by limiting the level of credit risk exposure through the credit limit system. The Group introduced many measures and limits applicable to operations with corporate customers in riskier industry sectors with high financial leverage, who significantly contributed to an increase in the share of non-performing exposures. In recent years, the Group systematised and formalised the procedures of the in-depth monitoring of borrowers' operations. Within the scope of its powers, the Loan Recovery and Restructuring Department, through its working teams, deals with problem loans and is closely involved in their recovery. The Group carefully analysis non-performing loans and also regularly examines them via the Committee for Special Loan Treatment, which reports to the Credit Committee on recovery cases. On the basis of these analyses and estimated cash flows, the Group had to create additional impairments and provisions for some important exposures, which was reflected in its loss for 2012.

In such trying circumstances, the Group continued to focus on improving its credit risk management processes. In 2011, it started upgrading the process of approving large exposure limits, with the aim of achieving a more efficient granting process supported by control mechanisms and compliant with general credit risk management standards. In the context of this upgrading, the internal credit rating process was improved in 2012. A computerised credit scoring model was developed, which will mainly accelerate the determination of corporate credit ratings for small companies and serve as the basis for all other corporate customers. Furthermore, a credit limit register was set up, and greater emphasis was placed on risk reporting to the Supervisory Board. In order to diversify its credit portfolio, the Group paid special attention to measures aimed at limiting exposures to high-risk activities and countries.

In 2012, the Group's attitude towards market risks remained rather conservative. The uncertainty on the international financial markets persisted throughout the first half of 2012, until July and August when the situation started to settle down as a result of the measures announced by the European Central Bank. By the end of the year, the required rates of return on bonds issued by distressed euro area members decreased considerably, which in turn decreased pressure on their public finance sustainability. Tough macroeconomic conditions in the euro area continued due to low economic growth and high unemployment. The volume of trading on the Ljubljana Stock Exchange decreased again in 2012, stock liquidity was low, and the total trading volume hit a 15-year record low. As a result of more optimistic market sentiment in the second half of 2012, the SBITOP index rose by 7.8%.

As the Group's additional market risk-bearing capacity decreased and given the uncertainty on the financial markets, the Group continued with an even stricter system of trading limits to reduce its market risk exposure. The Group limited its trading in securities to liquid positions of higher credit quality. The already decreased volume of securities trading was further considerably diminished in 2012, which made the Group's trading activity relatively insignificant.

The uncertainly on the financial markets, tight economic conditions and the consequent credit downgrading of many countries, banks and companies were the main factors influencing liquidity conditions in 2012. The liquidity of financial institutions within the European Monetary Union was greatly affected by the liquidity operation of the European Central Bank in late February, when banks drew EUR 529.5 billion of three-year loans. In the second half of 2012, the purchases of government securities announced by the European Central Bank helped settle the situation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In 2012, the Group's borrowings from the European Central Bank increased, in spite of which the volume of total wholesale liabilities decreased. The latter was achieved mainly as a result of the repayment of inter-bank loans and the payment of government-backed bonds issued by Abanka. In order to ensure an adequate liquidity position, the Group was very active in raising primary sources of funds and, in accordance with lower level of liabilities, reduced the volume of its credit portfolio.

In 2012, the Group complied with the regulatory requirements for the category one liquidity ratio and amount of the required reserves. In comparison to the previous year, the liquidity ratio fell as a consequence of fewer sources of funds and reduced loan-servicing capacity. The Group carried out trail reporting of the new liquidity indicator LCR (Liquidity Coverage Ratio) as well as preparations for reporting on NSFR (Net Stable Funding Ratio). These indicators are being introduced by the ECB in order to standardise the requirements for ensuring liquidity within the European Monetary Union.

The year 2012 was marked by serious uncertainties with regard to interest rate movements. Downgrades caused a widening of credit spreads, whilst Euribor reference interest rates decreased greatly. The ECB reduced its interest rates to record lows, i.e. the main refinancing rate from 1% to 0.75% and the rate for deposit facility to 0%. In 2012, many other central banks also decreased their main refinancing rates.

The Group actively adjusted its range of products and adapted its interest rate policy to the market situation. On the liabilities side, interest rates were affected mostly by increased competition in collecting deposits from non-bank customers. On the assets side, the levels and structure of interest rates were defined by deteriorated credit portfolio quality and a changed structure of assets held as core liquidity.

In order to reduce interest rate risks, the Group followed an active policy of closing interest rate gaps by time bucket and by interest rate type, and thus managed to maintain this risk at a relatively low and stable level.

Regarding operational risk management, regular preventive activities were carried out in order to decrease the occurrence of loss events, whilst corrective activities were conducted so as to reduce the reoccurrence of loss events arising from operational risk. A new software application was developed for the reporting of loss and other events, which represent a deviation from the normal state or function, enabling better monitoring and the resolving of such events. Moreover, a database of the loss events that occurred in 2012 was created, indicating that the human factor remains the main source of losses arising from operational risk and showing an increased influence of external factors. This is the main reason the Group continued to pay the greatest attention to measures for the prevention of internal and external fraud (common phenomena during difficult economic downturns) with the aim of better management and quick and effective reactions in the event of actual abuse or fraud. In 2012, the Group maintained its business continuity system and upgraded it, in particular to provide business continuity in the case of critical events. Furthermore, a quantitative business impact analysis was made and The Strategy of ensuring alternative workplaces was upgraded. IT business continuity plans were subject of integrated testing.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group applied the existing methods for the assessment of internal capital requirements, continued to regularly monitor its risk profile and evaluate its risk-bearing capacity, designed and performed stress tests, and calculated the amount of its internal capital assessment and internal capital requirement assessment on a quarterly basis. In the context of ICAAP, the Group identified higher risk profiles, reduced its risk-bearing capacity and the need for raising additional capital, which spurred the adoption of capital-strengthening measures.

The macroeconomic outlook for the environment in which the Group operates continues to be uncertain. The Group has responded to the changed terms of business, but nevertheless estimates that tight economic conditions, which are reflected mainly in the deterioration of the credit portfolio quality and a decrease in the value of different assets, might also adversely affect its performance in 2013. Furthermore, in the event of continuing unfavourable conditions and the worsening liquidity position, the exposure to some problematic industry sectors may have a negative financial impact, despite adopted mitigation measures. Therefore, in 2013, the Group remains committed to proactive risk management and strengthening of its capital base, with the aim of stabilising its financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1 Credit risk

Credit risk is the risk that a debtor or counterparty will cause a financial loss for the Group by failing to discharge an obligation. This risk represents the potential unwillingness or inability of the debtor to fully meet its contractual obligations within the agreed period and/or amount. It includes country risk, concentration risk, dilution risk and residual risk.

Country risk is the risk of a loss arising from lending to borrowers in foreign countries. It is linked to the economic, social and political environment of the debtor country. Specific kinds of country risk are transfer risk and sovereign risk. Transfer risk exists when a debtor's obligation is not denominated in a local currency. Sovereign risk arises from the default of a foreign sovereign entity acting as a debtor.

Concentration risk is the risk of a loss arising from being overexposed to a single individual, groups of related parties and parties connected by common risk factors, such as the same economic sector or geographical area or transactions of the same type. Concentration risk also arises from using credit protection.

Dilution risk is the risk that the amount of receivables to which the Group is entitled might be reduced due to successful objections by the debtor arising from the legal relationship with the previous creditor that gave rise to such receivables.

Residual risk is the risk of less effective credit protection than expected.

Credit risk arises in all areas of banking involving risk-bearing balance sheet asset items and risk-bearing off-balance sheet items. Credit risk is the most important risk in the Group's operations and is therefore given high priority by the management.

2.1.1 The credit risk management process

The main objective of **credit risk management** is to achieve and maintain the quality and diversification of the credit portfolio that provides for stable and sound operations and target capital adequacy as well as the maximisation of risk-adjusted returns. The Group assumes and manages credit risk in accordance with its **strategy** and policy of assuming and managing credit risk. In relation to this, the Group mainly pursues the following objectives:

- investing in lower risk customers, industries and countries;
- obtaining appropriate credit protection (collateral and guarantees), with an emphasis on quality and value of credit protection;
- diversification of the credit portfolio; and
- intensive resolution of problem loans.

The credit risk management process includes the identification, measurement, control and monitoring of credit risk, including reporting credit risks to which the Group is or might be exposed in its operations.

Credit risk is managed at the level of individual transactions and debtors, as well as at the level of the overall credit portfolio.

The Group has an established **structure and organisation of appropriate functions for credit risk management**. The Management Board and senior management are responsible for efficient credit risk management. The Management Board transferred some of its competencies in this area to senior management and collective decision-making bodies (the Corporate Credit Committee, the Retail Credit Committee, the Assets and Liabilities Committee and the ICAAP Forum). The Committee for Special Loan Treatment is also involved in the management of non-performing loans and other loans that require special treatment. Supervisory groups were established for co-ordination and consultation purposes at the Group level. Their task is to monitor, co-ordinate and supervise the operations and risk exposure of the subsidiaries.

The Group has clearly delimited competencies and tasks between commercial units and the Risk Management Department, which is organisationally independent of the units that assume credit risk and is directly accountable to the Management Board. Furthermore, competencies and tasks are also clearly delimited between commercial units and the back office, including management.

The extent and features of internal reporting on credit risk allow an appropriate flow of information up- and down-stream, as well as between organisational units. This enables timely decision-making at all managerial levels of the Group with regard to measures for mitigating credit risk and for monitoring the results of these measures. There is an established practice of producing periodic and, when appropriate, extraordinary reports on assumed credit risk. The Supervisory Board discusses quarterly reports on exposures to various risks, including credit risk.

2.1.1.1 Credit risk measurement

a) Loans

The Group's exposure to credit risk depends on the following three credit risk components: exposure amount, a debtor's default probability reflected in its credit rating, and the recovery ratio on defaulted obligations, which is dependent on collateral and debt collection.

The Group has set up its own internal methodologies for measuring credit risk, which serve as the basis for the process of classifying borrowers and exposures into credit rating categories: A, B, C, D and E.

Credit rating "A" denotes the lowest credit risk and is assigned to borrowers with the highest creditworthiness, those who are assessed as being able to regularly settle their due liabilities when they fall due. Credit rating "B" is assigned to borrowers whose financial position is somewhat weaker, yet the Group does not expect any significant difficulties in them being able to service their obligations. Credit rating "C" is assigned to borrowers whose cash flows are estimated to be insufficient for the regular settlement of all due liabilities and/or who are either undercapitalised and/or who lack sufficient long-term sources of funds to finance long-term investments. Credit rating "D" is assigned to borrowers who are insolvent or undergoing rehabilitation or compulsory settlement and for whom there is a substantial probability of default, but the Group has reason to expect that their loans will be repaid, at least in part. Credit rating "E" denotes the highest credit risk and is assigned to borrowers who are in bankruptcy proceedings and borrowers for whom it is assessed that they will not be able to repay their due obligations from their operating cash flow. Country risk is also taken into account when assigning credit ratings to foreign borrowers.

Corporates are classified into nine credit rating grades (credit rating categories from A to D are subdivided into two credit rating grades). The assignment of credit ratings to customers and exposures is based on quantitative and qualitative criteria, such as an assessment of the borrowers' financial position, the ability to provide sufficient cash flow for future debt servicing, the borrower's loan servicing track record, and the quality and amount of credit protection.

The Group also performs its own credit risk analyses of foreign banks and countries, taking into account inter alia credit ratings and credit reports by external credit assessment institutions, as well as export credit agencies' ratings in the case of country credit risk analyses.

Prior to credit approval, all debtors have to be classified into the appropriate rating category. Throughout the duration of the legal relationship underlying credit exposure, the Group monitors the borrower's operations and the quality of credit protection. The Group also regularly evaluates the level of expected credit losses and creates the necessary impairments and provisions in accordance with the International Financial Reporting Standards.

b) Debt securities

Credit risk arising from investments in debt securities is managed by a limit system, which is based on internal and external ratings (Fitch Ratings and Moody's Investors Service) of securities and their issuers. The limit system permits investments in debt securities of high credit quality. Investing in debt securities issued by foreign issuers without an external credit rating is not allowed. The Group avoids investments in both subordinated and structured debt financial instruments.

c) Credit-related commitments and contingent liabilities

Credit-related commitments and contingent liabilities represent guarantees, letters of credit and undrawn portions of granted loans, overdrafts and credit lines. The primary purpose of these instruments is to ensure that funds are available to a customer when required. Guarantees and standby letters of credit, which are written undertakings by the Group to pay in the event of the customer's default on its obligations to a third party, potentially carry the same credit risk for the Group as loans. Credit-related commitments and contingent liabilities represent potential credit risk for the Group. The same methodology as for loans is used to measure the credit risk arising from these instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

d) Derivatives

In case of derivative instruments, which are traded over-the-counter (OTC), the Group is exposed to counterparty credit risk: this is the risk that counterparty may not fulfil their contractual payment obligations. Counterparty credit risk from positions in derivatives equals the credit exposure value of these transactions. The exposure on a specific transaction is calculated as the sum of the current market value of the transaction and potential exposure.

The Group avoids transactions involving counterparties with lower credit ratings. For transactions that involve counterparties with such a credit rating, the Group insists on adequate collateral.

2.1.1.2 Credit risk mitigation

a) Credit limits

The Group mitigates credit risk by setting and monitoring credit limits at the level of individual borrowers or counterparties and groups of related counterparties. Structural limits are also established for industries, geographical regions and for specific products within the credit limits for banks. For the purpose of effectively managing the concentration risk arising from loans collateralised by securities, the Group has established a system of limits on both the amount of such loans and the amount of pledged securities. The system of credit limits is also the basic tool for the successful management of the credit risk arising from positions in debt securities, derivatives, REPO and reverse transactions. Credit risk exposure limits ensure that the Group's credit portfolio is adequately diversified.

The Risk Management Department proposes credit limits, taking into account the limits prescribed by law. Credit limits are approved by the Assets and Liabilities Committee or the Credit Committee, depending on the type of credit limit. Every large exposure to an individual customer or a group of related parties and the limit on exposure to individuals with a special relationship with the Bank are subject to previous approval by the Supervisory Board.

Due to the integration of two existing groups of related parties into one group of related parties, at the end of 2011 the Group created a new expanded group of related parties; consequently, the maximum exposure limit was exceeded. In 2012, in accordance with adopted measures, the Group reduced the aforementioned exposure. However, as at 31 December 2012, it still exceeded the maximum exposure limit, partly because the capital of the Bank decreased. In January 2013, the exposure to this group of related parties was brought in line within the limits prescribed by law.

Credit limits are set and monitored according to the internal methodologies. The Group regularly monitors the limits and provides for adequate diversification of the credit portfolio.

b) Credit protection (collateral and guarantees)

In addition to the risk limit system, the Group also requires credit protection in order to reduce credit risk. A credit protection policy was developed for this purpose, defining the types of funded and unfunded credit protection that the Group accepts, as well as the procedures for assessing and monitoring the adequacy and value of credit protection. The most common forms of credit protection are real-estate collateral, guarantees and securities collateral.

As funded credit protection, the Group primarily accepts collateral in the form of real estate, other physical collateral, receivables, cash on deposit held by a credit institution, and securities. As unfunded credit protection, the Group mainly accepts joint and several guarantees from corporate and retail customers, guarantees of the Republic of Slovenia, and guarantees issued by insurance companies and banks.

In granting credit, the most important for the Group is a borrower's creditworthiness, enabling the settlement of all its obligations, while accepted credit protection serves as a secondary source of loan repayment. The quality of collateral and the loan-to-value ratio required by the Group depend on a borrower's credit rating and the loan maturity. Credit protection instruments reduce losses arising from credit risk, decrease capital requirements and improve the enforceability of past-due receivables. In 2012, the percentage of secured loans in the total loan portfolio increased.

The Group mitigates credit risk by applying credit protection, but this may simultaneously trigger or increase other risks (such as legal risk, operational risk, liquidity risk or market risk); therefore, the Group pays due attention to residual risk in applying credit protection. This risk arises, for example, when the property provided as collateral is overvalued or when the liquidation of the collateral in reasonable time is either problematic or implausible.

Due to the continuing deterioration of the Slovene economy in 2013, the potential effect of existing and expected fiscal consolidation, and illiquid markets the inputs used to estimate the fair value of collateral, which cannot be drawn from observable market data, are inherently uncertain.

c) Master netting agreements

The Group further restricts its exposure to credit losses by entering into master netting agreements, that cover securities sale and repurchase agreements, transactions in derivatives and other capital market instruments. These transactions can be carried out only with the counterparties who have concluded master netting agreements with the Group. These arrangements are usually settled on a gross basis, but in the case of a default they are settled on a net basis.

d) Financial covenants and other contractual provisions in credit agreements

The Group additionally mitigates credit risk exposure by including financial covenants and other contractual provisions in credit agreements. Pari passu[1] and negative pledge[2] provisions are some of the most commonly used provisions in a contract. Moreover, agreements usually stipulate additional reporting requirements. Financial covenants consist of a set of financial categories or financial ratios that a borrower must maintain at an agreed level throughout the term of the loan. Most often they refer to the funding structure and income statement. Compliance with these provisions is regularly monitored within the Group.

2.1.1.3 Credit risk management in extreme situations

The Group performs activities to reduce credit risk and mitigate the impact of extreme situations on its operations. The Supervisory Board is regularly informed of the course of developments.

As the difficult economic situation continued throughout 2012, the Group proceeded with the implementation of measures based on stricter credit standards. By using a stricter system of credit limits, the Group better restricted its exposure to more risky borrowers, industries and countries. Due to the deteriorated creditworthiness of customers and increased delays in payment, some downgrading to lower rating categories had to be made. According to expected losses arising from credit risk, the volume of impairments and provisions increased. The Group regularly and actively monitored the borrowers' operations, especially in terms of their cash flow adequacy. Given the options, it obtained additional collateral or other credit protection in cases of deteriorated quality or insufficient volume of the existing credit protection, followed-up the fulfilment of financial and other commitments made in loan agreements; and improved the procedures for the efficient collection of receivables. If needed, the Group even agreed to the restructuring of receivables. The Group has established mechanisms for the prompt identification of weakened financial position of borrowers, which required close monitoring and the determination of their further treatment. In this way, the Group takes care of and efficiently deals with problem loans.

1 The pari passu clause defines the Bank's requirement of the borrower to guarantee to the Bank at least the same status as to the borrower's other creditors and to refrain from any activity that may result in the disproportionate satisfaction of creditors or in a preferential status of the borrower's other creditors, unless the borrower simultaneously guarantees the Bank at least the same status in a form and with a substance acceptable to the Bank.

2 The negative pledge clause defines the Bank's requirement on the borrower, until full repayment of the loan, to refrain from taking out a mortgage, creating a land charge, instituting a lien, granting a right of retention, entering into an assignment (of receivables) or providing collateral by way of title transfer and to refrain from encumbering the borrower's movable, immovable or other property, receivables or other assets in any other way to the benefit of third parties without prior approval of the Bank.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.2 Impairment and provisioning policies

The following table shows the structure of the loan portfolio and the average percentages of impairment according to internal credit ratings.

STRUCTURE OF LOANS AND THE AVERAGE PERCENTAGES OF IMPAIRMENT BY INTERNAL CREDIT RATING

As at 31 December	2012		2011	
Internal credit rating	Loans (%)	Average % of impairment	Loans (%)	Average % of impairment
A	38.38	0.86	49.73	0.78
B	24.71	4.47	26.77	4.52
C	17.63	13.23	11.97	15.93
D	5.77	32.36	5.91	39.45
E	13.51	58.99	5.62	60.48
	100.00	**13.60**	**100.00**	**9.24**

The majority of loan exposures are classified into the highest internal rating categories (A and B). The quality of the loan portfolio further deteriorated in 2012 compared to 2011; consequently, the proportion of loans classified into A and B categories decreased, and the proportion of loans with lower credit ratings increased. Due to a substantial increase in impairments, the average percentage of impairments in the total portfolio rose, partly also due to reduced exposure to customers with higher credit ratings.

The Group assesses whether there is objective evidence of an impairment or the possibility of a loss, such as the following:
- significant financial difficulties of the debtor;
- actual breach of contractual terms;
- restructuring of financial assets;
- probability of bankruptcy or financial reorganisation; and
- existence of a measurable decrease in estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group, including:
  – adverse changes in the payment status of debtors in the group; and
  – national or local economic conditions that correlate with defaults on financial assets in the group.

When there is objective evidence of impairment or possible losses, the Group creates impairments of financial assets or provisions for commitments and contingencies on the basis of an individual or collective assessment.

An individually significant financial instrument or off-balance sheet position is assessed individually when an objective evidence of impairment or a possibility of a loss event exists.

Individual impairments of financial assets are calculated as the difference between the carrying amount and recoverable amount. The latter is calculated by discounting estimated future cash flows, which include cash flows from the foreclosure of collateral, if certain required conditions are met.

For the purpose of calculating collective impairments, homogenous groups of debtors are formed according to similar credit risk characteristics that reflect the debtor’s ability to meet its contractual obligations. The Group estimates the impairments and provisions for particular homogenous groups of exposures on the basis of historical default data and credit losses.

The Group regularly monitors credit risk losses.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.3 Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk from the balance sheet items and off-balance sheet items, without taking collateral or other credit protection into account.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT PROTECTION

		Maximum exposure	
As at 31 December		2012	2011
	Credit risk exposures relating to on-balance sheet assets:	**3,427,375**	**4,049,382**
1.	Cash and cash balances with the central bank	187,941	102,148
2.	Financial assets held for trading	4	11,054
	– debt securities	–	9,094
	– loans and other financial assets	4	1,960
3.	Financial assets designated at fair value through profit or loss	8,760	18,408
	– debt securities	8,760	18,408
4.	Available-for-sale financial assets	473,807	523,123
	– debt securities	473,807	523,123
5.	Loans and receivables	2,597,912	3,286,516
	– debt securities	–	4,948
	– loans to banks	81,970	282,664
	– loans to non-bank customers	2,515,942	2,998,904
	– loans and receivables to retail customers	553,323	557,576
	– loans and receivables to corporate entities	1,962,619	2,441,328
6.	Held-to-maturity investments	152,982	102,784
	– debt securities	152,982	102,784
7.	Other financial assets	5,969	5,349
	Credit risk exposures relating to commitments and contingencies (note 2.3.6):	**424,351**	**592,176**
	– financial guarantees	59,154	68,832
	– other commitments and contingencies	365,197	523,344
	Total credit risk exposure	**3,851,726**	**4,641,558**

The exposure arising from balance sheet assets and commitments and contingencies shown above is based on carrying values as shown in the statement of financial position and in commitments and contingencies (Note 2.3.6).

(All amounts in EUR thousand unless otherwise stated)

2.1.4 Loans to non-bank customers and loans to banks

The following tables show loans by their overdue status, loan impairments and fair value of collateral.

LOANS TO NON-BANK CUSTOMERS AND LOANS TO BANKS

As at 31 December 2012	Loans to non-bank customers	Loans to banks	Total loans
Neither past due nor impaired loans	1,598,405	81,919	**1,680,324**
Past due but not impaired loans	345,371	51	**345,422**
Individually impaired loans	981,899	–	**981,899**
– of which D and E loans	446,234	–	**446,234**
Gross loans	**2,925,675**	**81,970**	**3,007,645**
Less: total impairments	(409,733)	–	**(409,733)**
– individual impairments	(335,295)	–	**(335,295)**
– of which impairments of D and E loans	(273,875)	–	**(273,875)**
– collective impairments	(74,438)	–	**(74,438)**
Net loans	**2,515,942**	**81,970**	**2,597,912**
Fair value of collateral	**3,165,985**	**–**	**3,165,985**
– of which fair value of collateral for individually impaired D and E loans	443,509	–	**443,509**

As at 31 December 2011	Loans and receivables to non-bank customers	Loans and receivables to banks	Total loans
Neither past due nor impaired loans	2,342,433	282,656	**2,625,089**
Past due but not individually impaired loans	253,049	8	**253,057**
Individually impaired loans	737,816	–	**737,816**
– of which D and E loans	382,367	–	**382,367**
Gross loans	**3,333,298**	**282,664**	**3,615,962**
Less: total impairments	(334,394)	–	**(334,394)**
– individual impairments	(247,743)	–	**(247,743)**
– of which impairments of D and E loans	(184,739)	–	**(184,739)**
– collective impairments	(86,651)	–	**(86,651)**
Net loans	**2,998,904**	**282,664**	**3,281,568**
Fair value of collateral	**3,290,877**	**–**	**3,290,877**
– of which fair value of collateral for individually impaired D and E loans	236,576	–	**236,576**

Among non-impaired loans, which are divided into past due and non-past due loans, the Group classifies collectively assessed impaired and non-impaired loans, individually assessed non-impaired loans, loans insured with best-quality collateral and other loans that are not subject to impairments. The largest item represents neither past due nor impaired loans. The bulk of non-impaired loans represent collectively impaired loans, of which EUR 1,474,936 thousand are represented by neither past due nor impaired loans and EUR 300,193 thousand by past due but not impaired loans.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The disclosed fair value of collateral includes deposits, residential and commercial real estate and securities. Residential and commercial real estate is evaluated by independent external appraisers. Marketable securities are designated at their market value. Valuation models or book value are applied when their fair value cannot be reliably estimated. Deposits pledged as collateral are carried at their book value.

a) Loans neither past due nor impaired

LOANS NEITHER PAST DUE NOR IMPAIRED

As at 31 December 2012

Internal credit rating	Total loans											
	Total loans to non-bank customers										Loans to banks	
	Loans and receivables to retail customers					Loans and receivables to corporate entities						
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other				
A	24,205	7,173	319,229	175,290	525,897	367,427	125,192	11,340	503,959	**1,029,856**	**66,292**	**1,096,148**
B	–	2	202	858	1,062	354,949	172,468	9,531	536,948	**538,010**	**15,391**	**553,401**
C	–	–	1,997	1,604	3,601	3,845	13,924	6,247	24,016	**27,617**	**236**	**27,853**
D	–	–	–	–	–	38	2,236	0	2,274	**2,274**	**–**	**2,274**
E	–	–	–	58	58	2	417	171	590	**648**	**–**	**648**
Total	**24,205**	**7,175**	**321,428**	**177,810**	**530,618**	**726,261**	**314,237**	**27,289**	**1,067,787**	**1,598,405**	**81,919**	**1,680,324**
Fair value of collateral	–	–	552,004	69,051	621,055	675,608	518,967	63,195	1,257,770	**1,878,825**	**–**	**1,878,825**

As at 31 December 2011

Internal credit rating	Total loans and receivables											
	Total loans to non-bank customers										Loans and receivables to banks	
	Loans and receivables to retail customers					Loans and receivables to corporate entities						
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other				
A	24,596	7,089	297,803	199,601	529,089	737,388	212,612	15,532	965,532	**1,494,621**	**272,511**	**1,767,132**
B	–	–	22	86	108	481,897	304,114	17,977	803,988	**804,096**	**8,658**	**812,754**
C	–	–	–	–	–	18,495	17,175	6,600	42,270	**42,270**	**1,487**	**43,757**
D	–	–	–	24	24	100	1,166	3	1,269	**1,293**	**–**	**1,293**
E	–	–	–	–	–	–	20	133	153	**153**	**–**	**153**
Total	**24,596**	**7,089**	**297,825**	**199,711**	**529,221**	**1,237,880**	**535,087**	**40,245**	**1,813,212**	**2,342,433**	**282,656**	**2,625,089**
Fair value of collateral	–	–	472,751	59,559	532,310	1,034,558	735,072	72,926	1,842,556	**2,374,866**	**–**	**2,374,866**

Note:
The methodology for assigning credit ratings to corporate customers takes quantitative and qualitative criteria into account, whereas for retail customers the payment regularity criterion is applied to a greater extent.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Loans past due but not impaired

LOANS PAST DUE BUT NOT IMPAIRED

As at 31 December 2012										Total loans to non-bank customers
	Loans and receivables to retail customers					Loans and receivables to corporate entities				
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	6,574	55	–	8,799	**15,428**	57,140	40,966	4,194	**102,300**	**117,728**
Past due 31 to 60 days	424	17	1,369	4,845	**6,655**	27,786	17,176	8,355	**53,317**	**59,972**
Past due 61 to 90 days	–	2	1,323	2,628	**3,953**	13,776	11,743	1,325	**26,844**	**30,797**
Past due over 90 days	1,915	15	2,762	10,707	**15,399**	46,873	67,619	6,983	**121,475**	**136,874**
Total	**8,913**	**89**	**5,454**	**26,979**	**41,435**	**145,575**	**137,504**	**20,857**	**303,936**	**345,371**
Fair value of collateral	–	–	11,227	6,724	**17,951**	185,637	200,024	25,665	**411,326**	**429,277**

As at 31 December 2011										Total loans and receivables to non-bank customers
	Loans and receivables to retail customers					Loans and receivables to corporate entities				
	Overdrafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Other		
Past due up to 30 days	908	18	1,525	5,769	**8,220**	4,159	13,893	1,209	**19,261**	**27,481**
Past due 31 to 60 days	–	8	995	3,121	**4,124**	4,951	13,358	1,320	**19,629**	**23,753**
Past due 61 to 90 days	5,755	61	–	9,600	**15,416**	36,605	62,017	6,855	**105,477**	**120,893**
Past due over 90 days	1,698	27	2,990	11,718	**16,433**	13,495	43,711	7,283	**64,489**	**80,922**
Total	**8,361**	**114**	**5,510**	**30,208**	**44,193**	**59,210**	**132,979**	**16,667**	**208,856**	**253,049**
Fair value of collateral	–	–	10,170	6,916	**17,086**	51,460	150,785	17,245	**219,490**	**236,576**

Past due loans are loans for which the debtor has failed to make a payment when contractually due in part or in the total amount. "Past due" means one or more days overdue. Past due loans include the total amount of exposure under a single loan agreement and not merely the instalment not paid when contractually due. Exposures from other loan agreements to the same debtor not in arrears are not included among past due loans.

The amount of loans that are past due but not impaired, which include collectively assessed impaired and non-impaired loans, grew by 36.5% in 2012 (vs. 23.1% in 2011), which was mainly a reflection of the increase in non-impaired loans that are past due up to 30 or more than 90 days. At the same time, the fair value of collateral in 2012 increased by 81.5% (vs. 38.1% in 2011).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

c) Individually impaired loans

INDIVIDUALLY IMPAIRED LOANS

						Total loans
	Loans and receivables to corporate entities				Loans to banks	
As at 31 December 2012	Large corporates	SMEs	Other			
Individually impaired loans	524,567	453,534	3,798	**981,899**	–	**981,899**
Fair value of collateral	403,691	448,154	6,038	**857,883**	–	**857,883**

						Total loans
	Loans and receivables to corporate entities				Loans and receivables to banks	
As at 31 December 2011	Large corporates	SMEs	Other			
Individually impaired loans	433,176	301,673	2,967	**737,816**	–	**737,816**
Fair value of collateral	378,641	296,019	4,775	**679,435**	–	**679,435**

Note: Impaired loans to retail customers are not included because they are impaired collectively.

d) Renegotiated loans

The renegotiation of financial assets can also be explained as activities performed by the Group in relation to customers who have not met their contractual financial obligations. The Group assesses whether the renegotiation of a debtor's exposure is reasonable. If it is reasonable, the Group forms an adequate restructuring plan and monitors its implementation as well as its effects.

The Group classifies outstanding claims on a debtor (financial assets) to be renegotiated by carrying out one or more activities that the Group would not undertake if the debtor's economic and financial situation were normal. Possible activities involved in restructuring claims are as follows:

- extending the term for the repayment of the principal;
- declaring a moratorium on the repayment of the principal;
- decreasing the amount of claims,
- changing the interest rate; and
- other adequate measures.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

RENEGOTIATED LOANS

As at 31 December 2012	Loans to retail customers: Loans without mortgage collateral	Loans to retail customers: Collateralised mortgage loans	Loans to retail customers	Loans to corporates: Loans without mortgage collateral	Loans to corporates: Collateralised mortgage loans	Loans to corporates	Total renegotiated loans
Neither past due nor individually impaired loans	1,114	1,826	**2,940**	14,306	43,941	**58,247**	**61,187**
Past due but not individually impaired loans	1,370	331	**1,701**	11,719	25,748	**37,467**	**39,168**
Individually impaired loans	–	–	**–**	161,735	136,678	**298,413**	**298,413**
– of which D and E loans	–	–	**–**	71,783	51,387	**123,170**	**123,170**
Gross loans	**2,484**	**2,157**	**4,641**	**187,760**	**206,367**	**394,127**	**398,768**
Less: total impairments	(763)	(560)	**(1,323)**	(51,806)	(40,133)	**(91,939)**	**(93,262)**
– individual impairments	–	–	**–**	(50,020)	(36,407)	**(86,427)**	**(86,427)**
– of which impairments of D and E loans	–	–	**–**	(41,061)	(24,526)	**(65,587)**	**(65,587)**
– collective impairments	(763)	(560)	**(1,323)**	(1,786)	(3,726)	**(5,512)**	**(6,835)**
Net loans	**1,721**	**1,597**	**3,318**	**135,954**	**166,234**	**302,188**	**305,506**

Share of renegotiated **gross loans** and receivables in total **gross loans** and receivables to non-bank cutomers	**13.63%**
Share of renegotiated **net loans** and receivables in total **net loans** and receivables to non-bank cutomers	**12.14%**

As at 31 December 2011	Loans to retail customers: Loans without mortgage collateral	Loans to retail customers: Collateralised mortgage loans	Loans to retail customers	Loans to corporates: Loans without mortgage collateral	Loans to corporates: Collateralised mortgage loans	Loans to corporates	Total renegotiated loans
Neither past due nor individually impaired loans	870	454	**1,324**	65,959	58,114	**124,073**	**125,397**
Past due but not individually impaired loans	1,553	68	**1,621**	7,303	952	**8,255**	**9,876**
Individually impaired loans	–	–	**–**	104,778	66,001	**170,779**	**170,779**
– of which D and E loans	–	–	**–**	64,895	27,813	**92,708**	**92,708**
Gross loans	**2,423**	**522**	**2,945**	**178,040**	**125,067**	**303,107**	**306,052**
Less: total impairments	(602)	(16)	**(618)**	(31,827)	(22,233)	**(54,060)**	**(54,678)**
– individual impairments	–	–	**–**	(28,086)	(19,283)	**(47,369)**	**(47,369)**
– of which impairments of D and E loans	–	–	**–**	(21,702)	(13,431)	**(35,133)**	**(35,133)**
– collective impairments	(602)	(16)	**(618)**	(3,741)	(2,950)	**(6,691)**	**(7,309)**
Net loans	**1,821**	**506**	**2,327**	**146,213**	**102,834**	**249,047**	**251,374**

Share of renegotiated **gross loans** and receivables in total **gross loans** and receivables to non-bank cutomers	**9.18%**
Share of renegotiated **net loans** and receivables in total **net loans** and receivables to non-bank cutomers	**8.38%**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

A dominant share of the loans renegotiated in 2012 is (as in 2011) represented by loans to corporates in the process of financial-business restructuring. Corporates, whose loans have been the subject of restructuring, come from different industry sectors. The increase in renegotiated loans by 21.5% in 2012 (in 2011: 99.0%) was mainly the result of the further deterioration of financial circumstances particularly, in the construction, trade, industrial, financial activities and real-estate management sectors.

e) Non-performing loans

The Group regularly monitors the amount of non-performing loans (hereinafter: NPLs), internally defined as loans to D- and E-rated debtors and loans to C-rated debtors that are more than 90 days overdue. NPLs include principal amounts, accrued interest, and fees and commissions. In case that a debtor's payments fall into arrears with only part of its loan, the total amount of the loan is classified as NPL, not merely the overdue part of the loan. Non-performing loans include individually and collectively impaired loans.

NON-PERFORMING LOANS

As at 31 December 2012	Loans to non-bank customers	Loans to banks	Total loans
Non-performing loans (NPLs)	751,920	–	**751,920**
Share of NPLs in total loans	25.70%	–	**25.00%**
As at 31 December 2011			
Non-performing loans (NPLs)	550,994	–	**550,994**
Share of NPLs in total loans	16.53%	–	**15.24%**

Due to the tight economic circumstances that initiated the beginning of insolvency proceedings of some major customers of the Group and have, among other things, been reflected in the deterioration of the solvency of the counterparties, the quality of loan portfolio deteriorated in 2012 and the proportion of NPLs increased by 9.17 percentage points.

(All amounts in EUR thousand unless otherwise stated)

2.1.5 Debt securities

The following table presents the Group's exposure to debt securities, classified according to the purpose of their acquisition and credit quality, taking into account credit ratings by the agencies Fitch Ratings and Moody's Investors Service.

DEBT SECURITIES BY CREDIT RATING

As at 31 December 2012	Debt securities held for trading (note 19)	Debt securities designated at fair value through profit or loss (note 20)	Available-for-sale debt securities (note 21)	Held-to-maturity debt securities (note 24)	Debt securities reclassified to loan category (note 22)	Total
Non-past due debt securities at fair value / at amortised cost						
AAA	–	–	154,642	–	–	**154,642**
AA- to AA+	–	–	16,866	–	–	**16,866**
A- to A+	–	8,760	213,284	147,937	–	**369,981**
Lower than A-	–	–	62,694	5,045	–	**67,739**
Unrated	–	–	26,321	–	–	**26,321**
Total non-past due debt securities	**–**	**8,760**	**473,807**	**152,982**	**–**	**635,549**
Total debt securities	**–**	**8,760**	**473,807**	**152,982**	**–**	**635,549**

As at 31 December 2011	Debt securities held for trading (note 19)	Debt securities designated at fair value through profit or loss (note 20)	Available-for-sale debt securities (note 21)	Held-to-maturity debt securities (note 24)	Debt securities reclassified to loan category (note 22)	Total
Non-past due debt securities at fair value / at amortised cost						
AAA	570	–	133,731	–	–	**134,301**
AA- to AA+	8,524	9,284	217,772	102,784	–	**338,364**
A- to A+	–	8,263	124,494	–	2,968	**135,725**
Lower than A-	–	862	17,551	–	1,980	**20,393**
Unrated	–	–	29,420	–	–	**29,420**
Total non-past due debt securities	**9,094**	**18,409**	**522,968**	**102,784**	**4,948**	**658,203**
Past due debt securities at fair value / at amortised cost, individually impaired						
Past due 31 to 60 days	–	–	56	–	–	**56**
Past due over 90 days	–	–	108	–	–	**108**
Total past due debt securities	**–**	**–**	**164**	**–**	**–**	**164**
Total debt securities	**9,094**	**18,409**	**523,123**	**102,784**	**4,948**	**658,367**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Among unrated debt securities the Group classifies bonds issued by issuers registered in the Republic of Slovenia that do not have external credit ratings; consequently, the Group considers their internal credit rating. At the end of 2012, the Group did not have any overdue debt securities exposure (vs. EUR 164 thousand in 2011).

2.1.6 Assets seized for debt repayment

In 2012, the value of the real property in the Group's possession increased as a result of 86% higher collateral foreclosures compared to 2011. This increase consists of repossessions of business and residential premises worth EUR 611 thousand and EUR 525 thousand, respectively.

The Group acquired the following assets through the seizure of real estate as collateral:

REAL ESTATE HELD BY TAKING POSSESION OF COLLATERAL

(note 25)

	Carrying amount	
As at 31 December	**2012**	**2011**
Commercial real estate	1,925	1,314
Residential real estate	525	–
Total	**2,450**	**1,314**

The value of the real estate (market value or certified assessor's valuation in the case of execution) together with any costs arising from property in hand (valuation costs, real estate sales tax, if applicable, etc.) acquired by the Group for the purpose of debt settlement is deducted from the outstanding claims on the borrower. The acquired real estate is sold as soon as practicable. Until such real estate remains unsold, it is disclosed in the statement of financial position as non-current assets held for sale.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.7 Credit risk exposure by industry sector

The following table shows the credit risk exposure of financial assets by industry sector.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS ACCORDING TO INDUSTRY SECTOR

	Financial assets	Manufac-turing	Construc-tion	Trade	Finan-cial and insurance activities	Profes-sional, scien-tific and technical activities	Public admin-istration and defence activities	Other	Retail custom-ers	Foreign entities*	Total
1.	Cash and cash balances with the central bank	–	–	–	187,941	–	–	–	–	–	**187,941**
2.	Financial assets held for trading	–	–	–	–	–	–	–	–	4	**4**
	– loans and other financial assets	–	–	–	–	–	–	–	–	4	**4**
3.	Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	–	–	8,760	**8,760**
	– debt securities	–	–	–	–	–	–	–	–	8,760	**8,760**
4.	Available-for-sale financial assets	–	–	–	84,669	–	130,326	2,621	–	256,191	**473,807**
	– debt securities	–	–	–	84,669	–	130,326	2,621	–	256,191	**473,807**
5.	Loans and receivables	504,354	215,497	341,642	311,306	98,045	3,468	340,718	549,850	233,032	**2,597,912**
	– loans to banks	–	–	–	397	–	–	–	–	81,573	**81,970**
	– loans to non-bank customers	504,354	215,497	341,642	310,909	98,045	3,468	340,718	549,850	151,459	**2,515,942**
	– loans and receivables to retail customers	–	–	–	–	–	–	–	549,850	3,473	**553,323**
	– loans and receivables to corporate entities	504,354	215,497	341,642	310,909	98,045	3,468	340,718	–	147,986	**1,962,619**
6.	Held-to-maturity investments	–	–	–	5,045	–	147,937	–	–	–	**152,982**
	– debt securities	–	–	–	5,045	–	147,937	–	–	–	**152,982**
7.	Other financial assets	223	333	693	3,572	56	123	295	188	486	**5,969**
	Total financial assets - as at 31 December 2012	**504,577**	**215,830**	**342,335**	**592,533**	**98,101**	**281,854**	**343,634**	**550,038**	**498,473**	**3,427,375**
	Total financial assets - as at 31 December 2011	**593,778**	**251,719**	**468,707**	**642,784**	**133,453**	**288,660**	**406,049**	**553,842**	**710,390**	**4,049,382**

Note: * Item "Foreign entities" includes corporate entities and retail customers domiciled outside of the Republic of Slovenia. Foreign corporate entities are not classified by industry sector.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group was the most exposed to the borrowers registered for performing financial and insurance services, which also include financial holdings. Exposure to borrowers in manufacturing was the second largest exposure. The structure of exposure by industry sector did not change significantly in 2012, compared to 2011.

2.1.8 Credit risk exposure by geographical area

The following table shows the credit risk exposure of financial assets by geographical area.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS BY GEOGRAPHICAL AREA

As at 31 December 2012

	Financial assets	Slovenia	Other EU member states	SE and Eastern Europe (without EU member states)	Other countries	Total
1.	Cash and cash balances with the central bank	187,941	–	–	–	**187,941**
2.	Financial assets held for trading	–	3	–	1	**4**
3.	Financial assets designated at fair value through profit or loss	–	8,760	–	–	**8,760**
4.	Available-for-sale financial assets	217,616	245,250	–	10,941	**473,807**
5.	Loans and receivables	2,364,880	87,368	126,728	18,936	**2,597,912**
	– debt securities	–	–	–	–	**–**
	– loans to banks	397	62,774	849	17,950	**81,970**
	– loans to non-bank customers	2,364,483	24,594	125,879	986	**2,515,942**
6.	Held-to-maturity investments	152,982	–	–	–	**152,982**
7.	Other financial assets	5,483	341	122	23	**5,969**
	Total financial assets	**2,928,902**	**341,722**	**126,850**	**29,901**	**3,427,375**

As at 31 December 2011

	Financial assets	Slovenia	Other EU member states	SE and Eastern Europe (without EU member states)	Other countries	Total
1.	Cash and cash balances with the central bank	102,148	–	–	–	**102,148**
2.	Financial assets held for trading	8,567	1,490	–	997	**11,054**
3.	Financial assets designated at fair value through profit or loss	9,283	9,125	–	–	**18,408**
4.	Available-for-sale financial assets	252,587	245,522	240	24,774	**523,123**
5.	Loans and receivables	2,858,624	221,237	151,839	54,816	**3,286,516**
	– debt securities	–	4,948	–	–	**4,948**
	– loans and receivables to banks	63,342	191,489	2,435	25,398	**282,664**
	– loans and receivables to non-bank customers	2,795,282	24,800	149,404	29,418	**2,998,904**
6.	Held-to-maturity investments	102,784	–	–	–	**102,784**
7.	Other financial assets	5,000	280	51	18	**5,349**
	Total financial assets	**3,338,993**	**477,654**	**152,130**	**80,605**	**4,049,382**

The Group's geographical exposure is based on the domicile or head office of the counterparties.

The Group conducts its business primarily in Slovenia. The largest foreign exposures from a regional perspective were in EU member states, primarily including Germany, France, Luxemburg, the Netherlands and Austria.

2.1.8.1 Sovereign debt exposure of selected euro area countries

As at 31 December 2012 the Group had no exposure to the selected euro area countries (Portugal, Ireland, Italy, Greece and Spain). As at 31 December 2011, the Group was exposed only to sovereign risk due to its investments in Italian government bonds.

2.2 Market risk

Market risk is the uncertainty that an adverse change in risk factors, including interest rates, exchange rates, credit spreads, prices of financial instruments, commodity prices and other relevant parameters, may unfavourably affect the value of a financial instrument and/or consequently lead to a loss. The Group monitors its market risk exposure in its trading and banking books. Market risks primarily arise from the activities performed in investment banking and treasury departments. The trading book positions include positions in equity and debt instruments, foreign exchange, commodities and financial derivatives that the Group intends to sell at a profit in the short run. Part of the trading book also consists of financial derivatives that hedge positions in the trading book and financial derivatives that the Group sells to its customers in line with its back-to-back policy. The banking book positions include strategic positions as well as positions in equity and debt instruments, foreign exchange and financial derivatives held by the Group for a longer period or held for asset and liability management purposes.

Market risk comprises the following risk segments: position risk, foreign exchange risk, commodities risk and the risk of exceeding large trading exposure limits.

Position risk denotes the risk of a loss due to price changes of a financial instrument and is either specific or general. Specific position risk arises from an adverse movement in the price of a financial instrument due to factors related to its issuer, or to the issuer of the underlying financial instrument in the case of a financial derivative. General position risk arises from an adverse movement in the price of a debt financial instrument caused by interest rate fluctuations or, in the case of an equity financial instrument, by changes in capital market prices that are not related to individual features of the financial instrument in question.

In the framework of market risks, foreign exchange risk arises from the possible decline in the value of financial instruments due to an adverse movement in foreign exchange rates.

Commodities risk is the risk of loss in commodity positions and commodity-based derivatives due to adverse movements in commodity prices.

The risk of exceeding large exposure limits denotes the risk arising from trading with individual customers.

2.2.1 Market risk management process

The market risk management strategy is based on the Group's market risk-bearing capacity, the existing and expected market conditions, realised and projected financial data, regulations in force and the existing risk management systems. In 2012, the Group market risk appetite was low. The Group pursued a policy of drastic reduction in trading activity, portfolio diversification, highly liquid financial investments in countries with a high credit rating while simultaneously avoiding investments with speculative credit ratings. The Group's trading in derivative financial instruments is based on a policy of back-to-back trading and the involvement of counterparties with higher credit ratings. Such trades are concluded mostly to hedge against financial risks.

The purpose of **the market risk management process** is to minimise losses from positions in trading and banking books. Simultaneously, it takes into account opportunities and potential risks in capital markets and target capital adequacy. The Group aspires to achieve the most favourable ratio between generated return and assumed risk and it manages market risk pursuant to the Market Risk Policy of the Group.

The market risk management process comprises:
- procedures of market risk identification, measurement/assessment, monitoring, control, and
- internal reporting on market risk.

Identification procedures are used to define existing and potential risks that arise from trading and banking book positions. Before launching new services or entering new markets, risks and a risk management process need to be defined. The Trading Strategy, which presents potential risks and the way they will be managed, is formulated on an annual basis. The Risk Management Department gives an opinion on the Trading Strategy, which is approved by the Supervisory Board.

The system of limits for trading in financial instruments enables effective risk diversification, whilst taking into account available opportunities on capital markets and the Group's capital adequacy. The Risk Management Department sets a limit system primarily on the basis of the existing and expected capital base, the result of the income statement and the level of acceptable risk. The limit system includes credit and position limits, stop loss limits, market rates compliance limits, VaR limits and limits per single authorised person.

The Group has also established a system of limits for the banking book debt and equity financial instruments, through which it implements its policy of investing in debt instruments of high credit quality, while following the goal of credit diversification and maximum loss limitation.

The structure and organisation of appropriate functions for market risk management are the responsibility of the Management Board and senior management. The Management Board authorised the Assets and Liabilities Committee to approve market risk exposure limits.

The competencies and responsibilities are clearly delimited between trading units (treasury, investment banking), the back office, the middle office and the Risk Management Department, which is organisationally independent of the units that assume market risk.

The extent and features of internal reporting: the middle office is responsible for the daily calculating of exposures from financial instruments in trading and in the banking book and reporting to the Management Board, senior management, trading units and the Risk Management Department. Monthly reports on market risk exposure, the utilisation of limits, the size of Value-at-Risk, stress-testing results and sensitivity analysis results for trading and the banking book are presented to the Assets and Liabilities Committee. The Supervisory Board discusses a report on Group's exposure to various types of risks, including market risk, on a quarterly basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2.1.1 Market risk measurement techniques

Market risk measurement techniques comprise risk analyses and validation. This includes assessing the possible frequency of a potential event and the size of its consequences. Market risk is regularly measured by:
- the Value-at-Risk method (i.e. VaR);
- stress testing;
- sensitivity analysis; and
- calculating market risk capital requirements, using the standardised approach.

The Group is aware of the limitations of the VaR method in cases of extreme market conditions, which is why the Group performs stress testing as a supplement to VaR. Stress testing assesses potential impacts of extraordinary, yet plausible, events in financial markets on the value of financial instruments.

Market risk is also measured with sensitivity analyses to determine the impact of changes in different risk factors (such as interest rates, the value of stock indices, foreign currency rates and credit spreads) and their influence on the Group's profit and equity level.

2.2.1.2 Market risk mitigation

An adequate limit system is the basic tool of effective market risk management. For the purpose of **hedging and reducing market** risk, a system of trading limits is in place alongside a system of limits on the banking book operations with debt and equity financial instruments. The market risk regime is implemented daily through systems of limits and clear guidelines on responsibilities and competencies in assuming risk.

For the main part of trading in derivative financial instruments, exposures to position risk, interest rate risk and currency risk are reduced by pursuing a back-to-back policy. Market risks are hedged by counter transactions.

2.2.1.3 VaR of the trading book

Value-at-risk assessment (VaR assessment) is a quantitative measure used for assessing potential loss in the value of positions caused by adverse risk factor changes over a given future period at a given confidence level. The Group calculates value-at-risk (VaR) by applying the historical simulation approach and in compliance with the standards set by the Bank of Slovenia. The model assumes the following:
- a 10-day holding period, meaning that within 10 days all the positions included in the calculation can be liquidated, i.e. sold off. This assumption does not necessarily always hold true for all positions, i.e. not in a period of general illiquidity of financial markets. Expanding the daily VaR to a longer period is based on the assumption of a static portfolio;
- a 1-year observation period, meaning that the most recent year should sufficiently well reflect the market situation changes that influence the business of the Group. In fact, historical data do not necessarily represent a good indicator of potential future risk factors. This is especially true in periods of extreme market conditions;
- the 99% level of confidence, meaning that on any one day of one hundred trading days the Group would suffer a loss from trading activity exceeding the calculated value. The amount of such excessive losses cannot be measured with VaR.

VaR measuring shows that the Group's potential loss on one day out of one hundred trading days will at least equal the calculated VaR on an individual trading day, under the assumption that positions can be sold over the following 10-day period.

The year 2012 was characterised by uncertainty in international financial markets and a difficult macroeconomic environment in the euro area. Considering this and its weaker capital adequacy, the Group kept its market risk appetite low. The decrease in the trading book VaR was mostly driven by the shrinking volume of the securities trading portfolio. The Group's market risk exposure was carefully managed through a system of limits, continuously responding to conditions in financial markets and the Group's risk-bearing capacity.

(All amounts in EUR thousand unless otherwise stated)

The following table presents the VaR value of the trading book.

VAR OF THE TRADING BOOK

2012	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	56	74	419	10
Interest rate risk	16	25	61	16
Equity risk	123	203	357	80
Commodity risk	0	1	5	0

2011	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	31	52	115	5
Interest rate risk	73	79	199	27
Equity risk	160	306	749	98
Commodity risk	1	1	2	–

2.2.1.4 VaR of the banking book

The market risk of banking book portfolios of securities and financial derivatives is also determined using a value-at-risk (VaR) model.

VAR OF THE BANKING BOOK

2012	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	327	274	1,548	43
Interest rate risk	2,735	3,783	4,714	2,735
Equity risk	2,135	3,898	5,079	2,030

2011	As at 31 December	Average	Maximum	Minimum
Foreign exchange risk	65	162	819	36
Interest rate risk	5,060	4,669	5,260	3,989
Equity risk	4,901	3,843	4,901	3,459

The VaR level of the banking book as at 31 December 2012 decreased considerably due to the lower exposure to interest rate risk, as the Group closed its interest rate swap positions. The reduction of the banking book equity portfolio lowered its VaR primarily through the lower exposure to equity price volatility.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2.2 Foreign exchange risk

Foreign exchange risk arises from exposure to changes in foreign exchange rates, which may adversely affect the Group's income.

2.2.2.1 Foreign exchange risk management process

The foreign exchange risk strategy focuses on risk exposure in accordance with set limits and the Group's risk capacity in view of its income and capital adequacy. Foreign exchange risk is identified, measured, controlled and monitored in line with the Group's established foreign exchange risk management policy. **The foreign exchange risk management process** is based on the procedures for identifying, measuring, monitoring and managing foreign exchange risk and includes internal reporting.

The structure and organisation of appropriate functions for foreign exchange risk management are set out in the relevant policy. Its implementation is controlled by the Assets and Liabilities Committee, whereas the Treasury Department operationally manages foreign exchange risk and balances open positions in accordance with the limits for overnight and intra-day positions.

The extent and features of internal reporting: it is an established practice to produce daily reports on foreign exchange exposures, including daily calculations of maximum potential losses arising from net foreign exchange positions. Regular monthly reports on foreign exchange exposures are also produced for the Assets and Liability Committee. The Supervisory Board quarterly discusses a report on a Group's exposure to various types of risks, including foreign exchange risk.

The foreign exchange measurement system covers the daily monitoring of net foreign exchange positions and the daily calculation of maximum loss limits associated with foreign exchange risk by using the Value-at-Risk method. Foreign exchange risk is measured and assessed in accordance with the internal methodology. This defines the stress testing used by the Group to evaluate potential losses resulting from foreign exchange rate fluctuations.

The Group **hedges and reduces foreign exchange rate risk**, since fluctuations in the prevailing foreign currency exchange rates have an impact on its financial position and cash flows. In 2012, the gaps between foreign currency inflows and outflows, which mostly arose from payment transactions, were managed by arbitrage. These exposures associated with financial instruments in foreign currencies were low and well within the set limits.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents the Group's foreign exchange risk exposure and includes the Group's financial instruments at their carrying amounts by currency.

CONCENTRATION OF CURRENCY RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2012

	Financial assets	EUR	USD	CHF	GBP	Other	Total
1.	Cash and cash balances with the central bank	213,879	177	299	69	284	**214,708**
2.	Financial assets held for trading	20,201	101	280	1	57	**20,640**
3.	Financial assets designated at fair value through profit or loss	11,515	–	–	–	–	**11,515**
4.	Available-for-sale financial assets	488,877	7,356	–	–	107	**496,340**
5.	Loans and receivables	2,531,191	32,190	20,789	4,848	8,894	**2,597,912**
	– loans to banks	31,107	31,215	6,120	4,848	8,680	**81,970**
	– loans to non-bank customers	2,500,084	975	14,669	–	214	**2,515,942**
6.	Held-to-maturity investments	152,982	–	–	–	–	**152,982**
7.	Other financial assets	5,940	25	–	–	4	**5,969**
	Total financial assets	**3,424,585**	**39,849**	**21,368**	**4,918**	**9,346**	**3,500,066**
	Finanacial liabilities						
1.	Deposits and loans from the central bank	533,851	3	–	3	–	**533,857**
2.	Financial liabilities held for trading	17,797	107	4	3	20	**17,931**
3.	Financial liabilities designated at fair value through profit or loss	8,760	–	–	–	–	**8,760**
4.	Financial liabilities measured at amortised cost	2,773,429	40,064	21,543	4,561	8,422	**2,848,019**
	– deposits from banks	7,815	1,758	1,408	95	187	**11,263**
	– deposits from non-bank customers	2,063,550	38,306	15,165	4,466	8,145	**2,129,632**
	– loans from banks	468,802	–	4,970	–	90	**473,862**
	– loans from non-bank customers	10,005	–	–	–	–	**10,005**
	– debt securities issued	104,208	–	–	–	–	**104,208**
	– subordinated liabilities	119,049		–	–	–	**119,049**
5.	Other financial liabilities	11,099	115	–	–	20	**11,234**
	Total financial liabilities	**3,344,936**	**40,289**	**21,547**	**4,567**	**8,462**	**3,419,801**
	Net on-balance sheet position	**79,649**	**(440)**	**(179)**	**351**	**884**	**80,265**
	Loan commitments	**150,084**	**721**	**–**	**–**	**2,242**	**153,047**

The Group's foreign currency exposure in other currencies amounted to EUR 884 thousand of net long position in 2012 (2011: EUR 17.274 thousand of net long position).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2011

	Financial assets	EUR	USD	CHF	GBP	Other	Total
1.	Cash and cash balances with the central bank	124,830	177	226	64	237	**125,534**
2.	Financial assets held for trading	26,737	651	3,595	3	298	**31,284**
3.	Financial assets designated at fair value through profit or loss	22,831	–	–	–	–	**22,831**
4.	Available-for-sale financial assets	569,715	906	–	–	224	**570,845**
5.	Loans and receivables	3,160,713	58,640	30,147	6,140	30,876	**3,286,516**
	– loans and receivables to banks	194,632	57,149	12,569	6,140	17,122	**287,612**
	– loans and receivables to non-bank customers	2,966,081	1,491	17,578	–	13,754	**2,998,904**
6.	Held-to-maturity investments	102,784	–	–	–	–	**102,784**
7.	Other financial assets	5,327	18	–	–	4	**5,349**
	Total financial assets	**4,012,937**	**60,392**	**33,968**	**6,207**	**31,639**	**4,145,143**
	Finanacial liabilities						
1.	Deposits from the central bank	200,055	3	–	3	–	**200,061**
2.	Financial liabilities held for trading	10,654	623	3,593	4	268	**15,142**
3.	Financial liabilities designated at fair value through profit or loss	8,263	–	–	–	–	**8,263**
4.	Financial liabilities measured at amortised cost	3,654,304	59,686	30,383	6,454	14,088	**3,764,915**
	– deposits from banks	34,832	2,742	763	288	778	**39,403**
	– deposits from non-bank customers	2,319,301	56,944	16,515	6,166	13,294	**2,412,220**
	– loans and advances from banks	634,934	–	13,105	–	16	**648,055**
	– loans and advances from non-bank customers	10,014	–	–	–	–	**10,014**
	– debt instruments	536,163	–	–	–	–	**536,163**
	– subordinated liabilities	119,060	–	–	–	–	**119,060**
5.	Other financial liabilities	6,366	54	2	7	9	**6,438**
	Total financial liabilities	**3,879,642**	**60,366**	**33,978**	**6,468**	**14,365**	**3,994,819**
	Net on-balance sheet position	**133,295**	**26**	**(10)**	**(261)**	**17,274**	**150,324**
	Loan commitments	**236,756**	**1,390**	**–**	**–**	**1,503**	**239,649**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2.2.2 Foreign exchange sensitivity analysis

The following table shows a foreign exchange sensitivity analysis and the impact of changes on profit and equity due to depreciation.

THE IMPACT OF FOREIGN CURRENCY (DEPRECIATION) EXCHANGE RATES ON PROFIT AND EQUITY

As at 31 December 2012			
Currency	**Depreciation of foreign currency against EUR**	**Effect on after-tax result of income statement**	**Effect on equity**
USD	10%	151	(100)
CHF	5%	9	–
GBP	10%	(37)	–
Other	10%	(81)	(11)
Total		**42**	**(111)**

As at 31 December 2011			
Currency	**Depreciation of foreign currency against EUR**	**Effect on after-tax result of income statement**	**Effect on equity**
USD	20%	213	(181)
CHF	10%	1	–
GBP	15%	47	–
Other	15%	(3,089)	(34)
Total		**(2,828)**	**(215)**

In the event of the appreciation of the foreign currency against the euro (and considering the same scenario as above), the impact on profit and equity would be exactly the opposite.

2.2.3 Interest rate risk

Interest rate risk is the risk arising from the exposure of the Group's financial position to unfavourable changes in interest rate levels in the market. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on fair value risk and cash flow risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As a consequence of these changes, interest margins and the Group's income also change.

2.2.3.1 Interest rate risk management process

In accordance with **the interest rate risk management strategy**, the Group has limited the size of interest rate risk by setting up a limit system and by defining the amount of required internal capital. The Group monitors interest risk through assets and liabilities management in terms of their maturity, amount and interest rate setting method and through the application of derivative financial instruments. The Group also regularly calculates the impact of interest rate changes on net interest income and the value of capital by applying a standardised interest rate shock.

The Group performs an efficient **interest rate risk management process**, which enables the risk to remain at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the established interest rate risk management policy. The interest rate risk management process is based on the procedures involving the identification, measurement, assessment and management of interest rate risk. The process is supported by efficient internal reporting.

The structure and organisation of appropriate functions for interest rate risk management are set out in the relevant policy. Its implementation is controlled by the Assets and Liabilities Committee, whereas the Treasury Department is in charge of interest rate risk management within the set limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As required by its **internal reporting**, the Group monitors interest rate risk arising from trading in the framework of global market risk control and uses the Value-at-Risk method, stress testing, and sensitivity analysis to measure it. The level of exposure to the interest rate risk in the banking book is controlled by the Assets and Liabilities Committee on a monthly basis, whilst quarterly reports on interest rate risk exposure are submitted to the Supervisory Board.

Interest rate risk, arising from mismatches in the banking book, **is measured** by means of gap analysis. Gap analysis comprises aggregating cash flows into different maturity buckets, categorised by the earlier of contractual re-pricing or maturity dates. To classify non-maturing items, the Group uses an internal methodology. Open positions are monitored and reported on a monthly basis.

The Group takes on exposure to the effects of interest rate fluctuations. It is therefore important for the Group to measure its interest rate sensitivity and manage its assets and liabilities in accordance therewith. The Group regularly calculates the effect of interest rate fluctuations on its profit and equity.

For the purpose of monitoring the effectiveness of **interest rate risk hedging and reduction**, the Group regularly assesses its risk capacity in line with the set methodology. The Group used derivatives to hedge against interest rate risk.

Great uncertainty with regard to interest rate movements prevailed in 2012. Downgrading of countries and banks, globally and in Slovenia, caused a widening of credit spreads whereas Euribor rates significantly decreased. Due to a difficult situation on international financial markets, the European Central Bank in July lowered its main refinancing rate from 1% to a record low of 0.75% and rate for the deposit facility to 0%.

In the interest rate structure of the Group's liabilities, the share of sources of funds received with a fixed interest at the 2012 year-end remained the same as one year earlier. Through proactive asset and liability management, the Bank managed to keep the interest rate gaps in longer time buckets at a relatively low and stable level.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts categorised by the earlier of contractual re-pricing or maturity dates.

CONCENTRATION OF INTEREST RATE RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2012

	Financial assets	**Up to 1 month**	**From 1 to 3 months**
1.	Cash and cash balances with the central bank	187,941	–
2.	Financial assets held for trading	172	4,908
3.	Financial assets designated at fair value through profit or loss	–	–
4.	Available-for-sale financial assets	4,365	9,300
5.	Loans and receivables	817,871	940,265
	– loans to banks	81,464	298
	– loans to non-bank customers	736,093	939,935
	– other financial assets	314	32
6.	Held-to-maturity investments	12,000	8,750
	Total financial assets	**1,022,349**	**963,223**
	Financial liabilities		
1.	Deposits and loans from central bank	533,853	–
2.	Financial liabilities held for trading	2	5,830
3.	Financial liabilities designated at fair value through profit or loss	–	–
4.	Financial liabilities measured at amortised cost	579,960	526,902
	– deposits from banks	2,401	1,045
	– deposits from non-bank customers	532,155	391,110
	– loans from banks	5,346	105,120
	– loans from non-bank customers	–	–
	– debt securities issued	38,825	28,835
	– subordinated liabilities	–	–
	– other financial liabilities	1,233	792
	Total financial liabilities	**1,113,815**	**532,732**
	Interest rate sensitivity gap	**(91,466)**	**430,491**
	Loan commitments	**59,480**	**11,951**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total
	–	–	–	26,767	**214,708**
	33	10,496	1,186	3,846	**20,641**
	8,760	–	–	2,755	**11,515**
	65,572	277,347	117,223	22,533	**496,340**
	731,624	39,220	26,010	48,891	**2,603,881**
	207	–	–	1	**81,970**
	731,371	39,208	26,010	43,325	**2,515,942**
	46	12	–	5,565	**5,969**
	91,730	25,502	15,000	–	**152,982**
	897,719	**352,565**	**159,419**	**104,792**	**3,500,067**
	–	2	2	–	**533,857**
	33	10,857	1,074	135	**17,931**
	8,760	–	–	–	**8,760**
	1,149,135	380,646	213,360	9,250	**2,859,253**
	2,129	2,519	3,149	20	**11,263**
	641,116	365,136	200,042	72	**2,129,631**
	353,527	–	9,869	–	**473,862**
	10,094	(89)	–	–	**10,005**
	23,168	13,080	300	–	**104,208**
	119,050	–	–	–	**119,050**
	51	–	–	9,158	**11,234**
	1,157,928	**391,505**	**214,436**	**9,385**	**3,419,801**
	(260,209)	**(38,940)**	**(55,017)**		
	23,426	**–**	**58,190**	**–**	**153,047**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONCENTRATION OF INTEREST RATE RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2011

	Financial assets	Up to 1 month	From 1 to 3 months
1.	Cash and cash balances with the central bank	102,148	–
2.	Financial assets held for trading	3,966	–
3.	Financial assets designated at fair value through profit or loss	–	862
4.	Available-for-sale financial assets	34,081	81,961
5.	Loans and receivables	943,055	1,209,248
	– loans and receivables to banks	189,659	93,138
	– loans and receivables to non-bank customers	753,396	1,116,110
6.	Held-to-maturity investments	–	4,492
	Total financial assets	**1,083,250**	**1,296,563**
	Financial liabilities		
1.	Deposits from the central bank	6	–
2.	Financial liabilities held for trading	–	–
3.	Financial liabilities designated at fair value through profit or loss	–	–
4.	Financial liabilities measured at amortised cost	705,998	920,855
	– deposits from banks	11,439	4,150
	– deposits from non-bank customers	581,141	416,545
	– loans and advances from banks	106,499	130,073
	– loans and advances from non-bank customers	–	–
	– debt instruments	6,244	370,087
	– subordinated liabilities	675	–
	Total financial liabilities	**706,004**	**920,855**
	Interest rate sensitivity gap	**377,246**	**375,708**
	Loan commitments	**60,206**	**89,191**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	Total
–	–	–	23,386	**125,534**
10	4,726	560	3,128	**12,390**
155	–	9,129	12,685	**22,831**
80,457	246,965	79,495	47,886	**570,845**
974,486	70,355	33,459	55,913	**3,286,516**
4,815	–	–	–	**287,612**
969,671	70,355	33,459	55,913	**2,998,904**
700	90,356	7,236	–	**102,784**
1,055,808	**412,402**	**129,879**	**142,998**	**4,120,900**
55	200,000	–	–	**200,061**
–	–	–	6	**6**
8,263	–	–	–	**8,263**
1,391,004	499,817	247,169	72	**3,764,915**
18,765	2,235	2,790	24	**39,403**
756,618	440,889	216,979	48	**2,412,220**
401,616	–	9,867	–	**648,055**
10,025	(11)	–	–	**10,014**
85,595	56,704	17,533	–	**536,163**
118,385	–	–	–	**119,060**
1,399,322	**699,817**	**247,169**	**78**	**3,973,245**
(343,514)	**(287,415)**	**(117,290)**		
77,489	**5,622**	**2,674**	**4,468**	**239,649**

(All amounts in EUR thousand unless otherwise stated)

2.2.3.2 Interest rates by currency

The Group monitors interest rates by currency for financial instruments. Average interest rates are shown in the following table.

AVERAGE INTEREST RATES BY CURRENCY FOR FINANCIAL INSTRUMENTS

		2012			2011		
		EUR	USD	CHF	EUR	USD	CHF
	Financial assets						
1.	Cash and cash balances with the central bank	0.08%	–	–	0.36%	–	–
2.	Financial assets held for trading	–	–	–	2.83%	–	–
3.	Financial assets designated at fair value through profit or loss	0.00%	–	–	2.51%	–	–
4.	Available-for-sale financial assets	3.79%	4.05%	–	3.68%	–	–
5.	Loans and receivables	4.56%	0.29%	1.63%	4.98%	0.59%	2.18%
	– loans to banks	0.22%	0.16%	0.00%	1.03%	0.48%	0.00%
	– loans to non-bank customers	4.63%	4.47%	2.30%	5.23%	4.63%	2.19%
6.	Held-to-maturity investments	3.77%	–	–	4.08%	–	–
	Financial liabilities						
1.	Deposits and loans from the central bank	0.75%	–	–	1.00%	–	–
2.	Financial liabilities held for trading	0.00%	–	–	0.00%	–	–
3.	Financial liabilities measured at amortised cost	2.58%	0.16%	0.43%	2.90%	0.17%	0.76%
	– deposits from banks	3.01%	–	0.01%	2.48%	0.00%	0.01%
	– deposits from non-bank customers	2.51%	0.16%	0.02%	2.54%	0.17%	0.09%
	– loans from banks	2.64%	–	1.65%	3.49%	0.00%	1.58%
	– loans from non-bank customers	0.69%	–	–	2.05%	–	–
	– debt securities issued	4.40%	–	–	3.72%	–	–
	– subordinated liabilities	2.10%	–	–	3.49%	–	–
4.	Financial liabilities associated to transferred assets	–	–	–	–	–	–

2.3 Liquidity risk

Liquidity risk is the risk that includes the risk of failing to provide liquidity sources and market liquidity risk.

The risk of failing to provide liquidity sources is the risk that the Group might not be able to meet its payment obligations when due, and/or that as a consequence of its inability to provide sufficient funding to meet payment obligations by the due date, the Group might be forced to provide the required funding at costs significantly above usual.

Market liquidity risk is the risk of loss arising from the impossibility of selling or replacing positions (in financial instruments) in a short period of time without this bearing a significant impact on the market price, due to insufficient market depth, market imbalances or other reasons.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3.1 Liquidity risk management process

The liquidity risk management strategy is based on prudent and stable operations, and includes the careful management of assets and liabilities (both on- and off-balance sheet) as well as a balanced borrowing strategy, which enables the Group to meet its financial obligations as they fall due (liquidity) and to sustainably meet all its financial obligations (solvency).

The Group provides for an adequate amount and structure of high quality liquid assets. It takes into account market liquidity risk, i.e. the risk of loss arising from the impossibility of selling or replacing a position (in financial instruments) in a short period of time without a significant impact on the market price.

The liquidity risk management process follows the established liquidity risk management policy. This process includes implementation procedures and rules on measures for identifying, assessing, monitoring, reporting on and minimising risk exposure.

The liquidity risk management process consists of:
- integrated planning and monitoring future cash flows, which include day-to-day funding, with a view to ensuring that requirements are met and sources are replenished as they mature;
- maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen cash flow trends;
- assessing market liquidity risk;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- managing the concentration and profile of debt maturities;
- liquidity management in different scenarios, and liquidity stress tests in extreme situations;
- monitoring the liquidity position of the banking system and the national economy;
- adopting adequate liquidity policies in view of the given circumstances; and
- establishing an adequate relationship between the costs, benefits and risks involved in providing liquidity.

The structure and organisation of appropriate functions for liquidity risk management are defined in the relevant policy. Its implementation is jointly controlled by the Assets and Liabilities Committee and the Liquidity Committee, whereas liquidity management is within the competence of the Treasury Department.

Internal reporting takes the form of cash flow measurement and projections for the next day, week and month, as these are key periods for operational liquidity management. Furthermore, liquidity measurements for longer periods are carried out to monitor liquidity exposure in those periods, and to manage potential liquidity crises. The starting point for those projections is the contractual maturity of financial liabilities, the expected recovery date of financial assets and the assessment of the expected movement of unstable sources. Liquidity risk exposure is followed and controlled by the Liquidity Committee on a daily basis and by the Assets and Liabilities Committee on a monthly basis. The Supervisory Board quarterly discusses a report on a Group's exposure to various types of risks, including liquidity risk.

2.3.1.1 Liquidity risk measurement

The procedures for **measuring liquidity risk** include quality and quantity assessments for risk measurement. The Group developed its own methods for establishing, measuring, managing and monitoring liquidity, which enable matching the actual and potential liquid funds to the actual and potential use of such funds over certain time periods. The Group evaluates the adequacy of liquid assets and their availability. When an assessment of liquidity is made, the Group primarily takes into account the possibility of obtaining liquidity in the short run on the basis of these funds. The Group also monitors the distribution of costs, benefits and risks involved in providing liquidity. A methodology was developed for this purpose, which covers important assets and liability items, off-balance items and all liquidity maintenance costs. This methodology is regularly upgraded by the Group.

The Group regularly upgrades its methodology for calculating cash flows based on expected maturity. Discrepancies between expected and contractual cash flows are assessed using the assumptions that are based on historical data. Calculated assumptions are tested regularly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3.1.2 Liquidity risk mitigation

With the aim of **hedging and reducing liquidity risk**, the Group implements prudent assets and liabilities management, which is the foundation of stable operations; therefore, the following objectives are pursued:

- to be able to meet all short-term financial obligations arising from on- and off-balance-sheet cash flows;
- to minimise the costs of liquidity maintenance; and
- to anticipate potential extraordinary circumstances or crisis situations and to implement contingency plans in the event of the latter.

In order to reduce liquidity risk, the Group uses a limit system, which includes compliance with the Bank of Slovenia's requirements, internally defined limits and the monitoring of target structural liquidity ratios. In 2012, the Group tightened its limit system requirements by changing the allowable levels of certain liquidity indicators, and by introducing additional limits.

For the purpose of liquidity risk hedging, a method for identifying and measuring liquidity risk is applied, and a contingency plan is in place in the event of a liquidity crisis. The Group is hedged against liquidity risk through careful management of the high quality liquid assets portfolio, and by ensuring an appropriate level of adequately diversified funding sources.

In order to monitor the effectiveness of hedging and minimise liquidity risk, the Group regularly assesses its risk capacity in accordance with the established methodology.

2.3.1.3 Liquidity management scenarios in extreme situations

The Group prepares various liquidity scenarios in extreme situations with the aim of identifying potential weaknesses and vulnerabilities in its liquidity position. These scenarios assume worsened liquidity conditions due to credit rating downgrades of the Bank and a diminished reputation domestically and internationally. Moreover, the Group prepares scenarios assuming extreme liquidity situations in domestic and foreign financial markets, a reduced confidence in the banking system, and a decline in economic activity.

The Group performs combined scenarios in extreme situations, including both Group-specific and market-wide stress scenarios, and regularly revises the system of assumptions used for all types of potential liquidity crises.

In these scenarios, the Group determines the impact on maintaining an adequate amount of available liquid assets for covering past due liabilities and the impact on the income statement arising from the search for new, more expensive sources of financing. On the basis of liquidity stress tests conducted for different degrees of extreme situations, the Group forms and adjusts high quality liquid assets and manages their volume and structure.

2.3.1.4 Contingency plan

In order to hedge liquidity risk, procedures are defined for minimising the occurrence of crisis situations that would prevent the Group from duly and promptly discharging its obligations. Early crisis detection is carried out during the daily monitoring of the Group's liquidity position.

The contingency plan of the Group defines the indicators that point to a liquidity crisis, measures for improving the liquidity position and the competences and responsibilities for actions to be taken in the event of a liquidity crisis.

2.3.2 Liquidity ratios and structural liquidity indicators

Liquidity ratios and structural liquidity indicators are based on compliance with the Bank of Slovenia's regulations regarding the minimum requirements for ensuring an adequate liquidity position. This regulation prescribes the ratio of financial assets to financial liabilities according to residual maturity. For this purpose, the following prescribed ratios are calculated and monitored:

- the liquidity ratio with a residual maturity of assets and liabilities of up to 30 days. The value of this ratio may not be less than 1; and
- the liquidity ratio with a residual maturity of assets and liabilities of up to 180 days. This ratio is calculated for information purposes.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In 2012, both liquidity ratios worsened, affected by a decrease in funds received and a deterioration of quality of the credit portfolio.

PRESCRIBED LIQUIDITY RATIOS (ASSETS/LIABILITIES)

	Average 2012	As at 31 December 2012	Average 2011	As at 31 December 2011
Maturity of up to 30 days	1.31	1.43	1.45	1.36
Maturity of up to 180 days	0.97	0.90	1.26	1.09

The Group also monitored the liquidity situation by the continuously calculating structural liquidity indicators. Indicators that show the percentage of liquidity reserve in total assets and the percentage of liquidity reserve in short-term deposits of the non-banking sector remained, on average, the same as in 2012. The loan-to-deposit ratio for the non-banking sector including issued certificates of deposits improved as outstanding loans to the non-banking sector decreased more than total deposits.

CORE LIQUIDITY/TOTAL ASSETS

	Average 2012	As at 31 December 2012	Average 2011	As at 31 December 2011
Core liquidity/total assets	22.4	22.9	21.3	21.4
Core liquidity/short-term deposits of the non-banking sector	93.9	89.9	93.2	94.1
Loans to non-banking sector/deposits of the non-banking sector	115.7	112.9	123.4	115.6

2.3.3 Funding approach

The Group keeps its funding sources at an adequate level and appropriately diversifies them by currency, lender/creditor, banking product, and maturity. The Group reduced its foreign bank debt, paid back government-guaranteed bonds, issued by Abanka and received additional long-term funding from the European Central Bank and the public sector.

2.3.4 Non-derivative cash flows

2.3.4.1 Non-derivative cash flows from liabilities based on contractual maturity

The following table shows non-derivative cash flows by their remaining contractual maturity as at the date of the statement of financial position. On-balance sheet items disclosed in the maturity table represent undiscounted cash flows including future interest payments. Off-balance sheet items are included in the time bucket containing the earliest date on which loan commitments could be drawn down (according to IFRS7 amendments: B11C(b)), or on which financial guarantees could be called (according to IFRS7 amendments: B11C(c)).

Foreign currency cash flows are converted into euros using the spot exchange rate as at the date of the statement of financial position.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON CONTRACTUAL MATURITY

As at 31 December 2012

	Financial liabilities	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
1.	Deposits and loans from central bank	53,952	30,061	–	460,922	–	**544,935**
2.	Financial liabilities held for trading	10	–	–	–	–	**10**
3.	Financial liabilities designated at fair value through profit or loss	–	–	–	8,760	–	**8,760**
4.	Financial liabilities measured at amortised cost	1,056,788	413,915	713,335	677,323	123,567	**2,984,928**
	– deposits from banks	9,196	726	1,958	–	–	**11,880**
	– deposits from non-bank customers	1,016,715	390,447	517,358	254,347	5,657	**2,184,524**
	– loans from banks	1,126	5,388	155,263	257,829	99,345	**518,951**
	– loans from non-bank customers	–	–	10,045	–	–	**10,045**
	– debt securities issued	23,384	14,126	24,170	38,312	18,565	**118,557**
	– subordinated liabilities	391	629	1,887	126,835	–	**129,742**
	– other financial liabilities	5,976	2,599	2,654	–	–	**11,229**
	Total potential future payments for financial liabilities	**1,110,750**	**443,976**	**713,335**	**1,147,005**	**123,567**	**3,538,633**
	Loan commitments and financial guarantees	**212,201**	**–**	**–**	**–**	**–**	**212,201**

As at 31 December 2011

	Financial liabilities	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
1.	Deposits from the central bank	6	–	55	206,300	–	**206,361**
2.	Financial liabilities held for trading	6	–	–	–	–	**6**
3.	Financial liabilities designated at fair value through profit or loss	–	–	–	8,263	–	**8,263**
4.	Financial liabilities measured at amortised cost	1,154,438	454,097	1,239,781	843,423	271,650	**3,963,389**
	– deposits from banks	16,997	3,625	18,792	352	–	**39,766**
	– deposits from non-bank customers	1,111,769	403,497	638,781	318,001	5,010	**2,477,058**
	– loans and advances from banks	18,337	20,860	135,862	431,588	126,542	**733,189**
	– loans and advances from non-bank customers	–	–	223	10,119	–	**10,342**
	– debt instruments	6,659	25,046	442,940	66,391	20,645	**561,681**
	– subordinated liabilities	676	1,069	3,183	16,972	119,453	**141,353**
5.	Other financial liabilities	3,435	2,845	158	–	–	**6,438**
	Total potential future payments for financial liabilities	**1,157,885**	**456,942**	**1,239,994**	**1,057,986**	**271,650**	**4,184,457**
	Loan commitments and financial guarantees	**308,481**	**–**	**–**	**–**	**–**	**308,481**

The largest part of liquidity reserves held by the Group in 2012 to meet balance sheet and off-balance sheet obligations was composed of debt securities, whilst the second largest liquidity reserve item as at the reporting date was cash and cash equivalents. The Group does not have any commitments and contingencies that would exceed the contractually determined amount of obligations.

2.3.4.2 Non-derivative cash flows based on expected maturity

The Group does not use the undiscounted maturity analysis (in the previous table) to manage liquidity; instead, the Group takes cash flows by expected maturity into account, which are summarised in the following table.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Expected cash flows from on-balance sheet items also include estimated loan prepayments based on historical statistical data. Demand deposits are classified into different time buckets according to an internal methodology. Demand deposits are divided into stable and unstable sources, using a statistical method based on a multi-annual time series. Stable sources are subsequently dispersed into different long-term time buckets.

Expected cash flows from off-balance sheet items are classified into different time buckets according to an internal methodology based on historical data, and also taking into account the credit rating of customers to which the Group has a potential off-balance sheet exposure.

The Group carries out measures for maintaining the level of liquidity gaps within internally defined limits. These measures include activities for raising long-term funds, maturity matching of assets and liabilities and ongoing adjustments of the interest rate policy.

NON-DERIVATIVE CASH FLOWS BASED ON EXPECTED MATURITY

As at 31 December 2012

	Financial assets	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
1.	Cash and cash balances with the central bank	214,708	–	–	–	–	**214,708**
2.	Financial assets held for trading	1,656	–	–	–	–	**1,656**
3.	Financial assets designated at fair value through profit or loss	–	–	281	8,760	2,474	**11,515**
4.	Available-for-sale financial assets	5,393	13,082	73,758	317,361	155,667	**565,261**
5.	Loans and receivables	842,436	207,785	547,665	880,037	291,753	**2,769,676**
	– loans to banks	66,135	302	129	42	16,792	**83,400**
	– loans to non-bank customers	770,425	207,474	547,526	879,921	274,961	**2,680,307**
	– other financial assets	5,876	9	10	74	–	**5,969**
6.	Held-to-maturity investments	12,219	9,350	92,860	29,738	16,513	**160,680**
	Total financial assets	**1,076,412**	**230,217**	**714,564**	**1,235,896**	**466,407**	**3,723,496**
	Financial liabilities						
1.	Deposits and loans from central bank	53,948	30,061	–	460,924	2	**544,935**
2.	Financial liabilities held for trading	10	–	–	–	–	**10**
3.	Financial liabilities designated at fair value through profit or loss	–	–	–	8,760	–	**8,760**
4.	Financial liabilities measured at amortised cost	559,900	423,116	754,987	898,167	351,611	**2,987,781**
	– deposits from banks	2,950	831	2,431	2,519	3,149	**11,880**
	– deposits from non-bank customers	526,073	399,543	558,537	472,672	230,552	**2,187,377**
	– loans from banks	1,126	5,388	155,263	257,829	99,345	**518,951**
	– loans from non-bank customers	–	–	10,045	–	–	**10,045**
	– debt securities issued	23,384	14,126	24,170	38,312	18,565	**118,557**
	– subordinated liabilities	391	629	1,887	126,835	–	**129,742**
	– other financial liabilities	5,976	2,599	2,654	–	–	**11,229**
	Total financial liabilities	**613,858**	**453,177**	**754,987**	**1,367,851**	**351,613**	**3,541,486**
	Net liquidity gap	**462,554**	**(222,960)**	**(40,423)**	**(131,955)**	**114,794**	**182,010**
	Loan commitments and financial guarantees	**72,041**	**4,081**	**6,847**	**527**	**128,705**	**212,201**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON EXPECTED MATURITY

As at 31 December 2011

	Financial assets	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
1.	Cash and cash balances with the central bank	125,538	–	–	–	–	**125,538**
2.	Financial assets held for trading	7,094	–	31	4,809	581	**12,515**
3.	Financial assets designated at fair value through profit or loss	–	24	2,736	11,176	15,460	**29,396**
4.	Available-for-sale financial assets	30,571	87,651	92,270	288,954	142,091	**641,537**
5.	Loans and receivables	833,764	399,538	945,500	1,233,904	134,742	**3,547,448**
	– loans and receivables to banks	186,461	90,204	287	7,680	3,557	**288,189**
	– loans and receivables to non-bank customers	647,303	309,334	945,213	1,226,224	131,185	**3,259,259**
6.	Held-to-maturity investments	–	4,970	1,418	92,942	7,899	**107,229**
7.	Other financial assets	5,028	52	150	114	5	**5,349**
	Total financial assets	**1,001,995**	**492,235**	**1,042,105**	**1,631,899**	**300,778**	**4,469,012**
	Financial liabilities						
1.	Deposits from the central bank	6	–	55	206,300	–	**206,361**
2.	Financial liabilities held for trading	6	–	–	–	–	**6**
3.	Financial liabilities designated at fair value through profit or loss	–	–	–	8,263	–	**8,263**
4.	Financial liabilities measured at amortised cost	612,509	464,706	1,287,993	1,097,093	507,024	**3,969,325**
	– deposits from banks	11,465	3,717	19,212	2,588	2,792	**39,774**
	– deposits from non-bank customers	575,372	414,014	686,573	569,435	237,592	**2,482,986**
	– loans and advances from banks	18,337	20,860	135,862	431,588	126,542	**733,189**
	– loans and advances from non-bank customers	–	–	223	10,119	–	**10,342**
	– debt instruments	6,659	25,046	442,940	66,391	20,645	**561,681**
	– subordinated liabilities	676	1,069	3,183	16,972	119,453	**141,353**
5.	Other financial liabilities	3,435	2,845	158	–	–	**6,438**
	Total financial liabilities	**615,956**	**467,551**	**1,288,206**	**1,311,656**	**507,024**	**4,190,393**
	Net liquidity gap	**386,039**	**24,684**	**(246,101)**	**320,243**	**(206,246)**	**278,619**
	Loan commitments and financial guarantees	**132,344**	**5,941**	**14,782**	**1,105**	**154,309**	**308,481**

2.3.5 Derivative cash flows

2.3.5.1 Derivatives settled on a net basis

The Group's derivatives that are settled on a net basis include:
- foreign exchange derivatives: over-the-counter (OTC) currency options; and
- interest rate derivatives: interest rate swaps and interest rate options.

The following table shows an analysis of the Group's derivative financial instruments with negative fair value, which are settled on a net basis, arranged in groups according to maturity on the basis of the outstanding contractual maturity on the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE - SETTLED ON A NET BASIS

As at 31 December 2012	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	(302)	(905)	–	–	**(1,207)**
– interest rate derivatives	(270)	(1,334)	(2,277)	(7,984)	(212)	**(12,077)**
Total	**(270)**	**(1,636)**	**(3,182)**	**(7,984)**	**(212)**	**(13,284)**

As at 31 December 2011	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives	–	(293)	(2,047)	–	–	**(2,340)**
– interest rate derivatives	(198)	(431)	(1,114)	(4,871)	(1,902)	**(8,516)**
Total	**(198)**	**(724)**	**(3,161)**	**(4,871)**	**(1,902)**	**(10,856)**

2.3.5.2 Derivatives settled on a gross basis

The Group's derivatives that are settled on a gross basis include:
- foreign exchange derivatives:
- currency forwards and currency swaps.

The following table shows an analysis of the Group's derivative financial instruments with a negative fair value settled on a gross basis and arranged in logical groups according to maturity on the basis of the outstanding contractually determined maturity on the date of the statement of financial position. Items shown in the table represent the contractually determined undiscounted cash flows.

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE - SETTLED ON A GROSS BASIS

As at 31 December 2012	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	3,826	2,229	1,516	108	–	**7,679**
– outlows	3,859	2,280	1,579	114	–	**7,832**
Total inflows	**3,826**	**2,229**	**1,516**	**108**	**–**	**7,679**
Total outflows	**3,859**	**2,280**	**1,579**	**114**	**–**	**7,832**

As at 31 December 2011	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Derivatives held for trading						
– foreign exchange derivatives						
– inflows	7,211	3,200	1,036	–	–	**11,447**
– outlows	7,772	3,453	1,111	–	–	**12,336**
Total inflows	**7,211**	**3,200**	**1,036**	**–**	**–**	**11,447**
Total outflows	**7,772**	**3,453**	**1,111**	**–**	**–**	**12,336**

(All amounts in EUR thousand unless otherwise stated)

2.3.6 Commitments and contingencies

Items referring to potential obligations are presented off-balance sheet. The triggering events for these obligations have not occurred and these facilities are not yet due. Those obligations for which trigger events have already occurred are presented in the statement of financial position.

a) Loan commitments

The following table shows a summary of the contractually determined values of loan commitments (overdrafts and credit lines, granted undrawn loans, revolving loans) that oblige the Group to provide loans to customers.

b) Guarantees and other financial facilities

The following table also includes guarantees and other financial facilities, arranged according to contractually determined maturity dates.

COMMITMENTS AND CONTINGENCIES

(notes 2.1.3, 2.2.2.1, 2.2.3.1, 2.3.4.1, 2.3.4.2, 38)

As at 31 December 2012	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	131,744	3,070	18,233	**153,047**
Guarantees and other financial facilities	138,558	96,453	36,293	**271,304**
– financial guarantees	38,152	11,903	9,099	**59,154**
– performance guarantees	79,509	74,054	21,787	**175,350**
– letters of credit	205	–	–	**205**
– avals	258	–	–	**258**
– derivatives	3,365	10,496	5,407	**19,268**
– other	17,069	–	–	**17,069**
Total	**270,302**	**99,523**	**54,526**	**424,351**

As at 31 December 2011	Up to 1 year	From 1 to 5 years	Over 5 years	Total
Loan commitments	178,632	21,985	39,032	**239,649**
Guarantees and other financial facilities	183,949	129,130	39,447	**352,526**
– financial guarantees	46,632	13,570	8,630	**68,832**
– performance guarantees	109,195	107,660	22,966	**239,821**
– avals	215	–	–	**215**
– derivatives	3,780	7,900	7,851	**19,531**
– other	24,127	–	–	**24,127**
Total	**362,581**	**151,115**	**78,479**	**592,175**

Commitments and contingencies are reduced by the provisions for guarantees and commitments, and by the other provisions (Note 38).

Commitments and contingencies are carried at nominal value; the only exception is derivative financial instruments carried at market value. If the market value (current exposure) of derivative financial instruments had been increased by the potential exposure, the counterparty credit risk exposure would have amounted to EUR 23.258 thousand at the end of 2012 (at the end of 2011: EUR 25,258 thousand).

The item “other” mainly includes mainly potential liabilities for the National Housing Savings Scheme (NHSS (Note 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4 Capital management

Capital management is an on-going process of decision-making and maintaining the required level and quality of the Group's capital.

Capital risk arises from an inadequate level of capital, an inadequate capital structure in view of the scope and manner of business or in relation to difficulties in raising new capital. The Group has established procedures and mechanisms for ensuring an adequate structure and amount of capital.

The aim of capital management is to provide for an adequate amount of capital that ensures confidence in the security and stability of the Group, and to ensure a return on capital that will meet shareholder expectations. However, the Group should hold the sufficient level of capital and capital adequacy that is legally required and depends on the extent and type of the Group's services provided, and also on the risks the Group is exposed to in its operations.

The management and supervisory bodies regularly monitor and assess the effectiveness of the capital management system. The Group calculates its regulatory capital and capital adequacy at least quarterly.

At all times, the Group's capital has to be at least equal the total sum of minimum capital requirements.

2.4.1 Regulatory capital and capital adequacy

Regulatory capital consists of original own funds (Tier 1) and additional own funds I (Tier 2).

Original own funds (Tier 1 capital) comprise:
- paid-up share capital and share premium,
- reserves and retained profits,
- non-controlling interest,
- hybrid instrument of a transitional period for the payment of incentives,
- adjustments to valuation differences eligible as original own funds, i.e. prudential filters, and
- deduction items from Tier 1 capital (own shares, intangible assets, assessment of adjustments on financial assets measured at fair value and the difference between the reported impairments and provisions according to IFRS and the regulation on loss assessment).

  The hybrid instrument of a transitional period for the payment of incentives is a subordinated loan (Note 32) taken out on 18 January 2007 from VTB Bank Europe, based in London. The loan fulfils the Bank of Slovenia's requirements for inclusion in Tier 1 and Tier 2.

  <u>The basic features of the subordinated loan</u> are as follows:
  – issue amount: EUR 120 million;
  – interest rate: 3 month EURIBOR + 1.90%, and after 10 years: 3 month EURIBOR + 2.85%;
  – maturity: perpetual, not callable for 10 years;
  – call option: the Bank may repay the hybrid instrument only after 10 years from the issue date, the earliest possible repayment date being 3 February 2017 in this case. The Bank may exercise its call option only subject to approval by the Bank of Slovenia;
  – prepayment: the Bank may prepay the subordinated loan in the following cases:
    a) there are changes in the regulatory (tax) environment resulting in additional costs of the hybrid instrument for the Bank; earliest prepayment possible in 5 years from the issue date, the earliest possible prepayment date being 3 February 2012 in this case;
    b) there are changes in the regulatory environment which exclude the hybrid instrument from the calculation of the Bank's Tier 1 or core capital; the earliest possible prepayment date being 23 January 2007 in this case.
    The instrument may be prepaid subject to approval by the Bank of Slovenia.
  – payments of the hybrid instrument: non-cumulative;

– status of the obligations under the hybrid instrument: these obligations are subordinate to regular and other subordinated obligations and in the case of bankruptcy or liquidation are payable immediately before non-cumulative preference shares and ordinary shares;
– security for the claims arising from the hybrid instrument: no security provided;
– loss coverage: the hybrid instrument may be used to absorb losses on a going-concern basis;
– payments under the hybrid instrument: the Bank may opt not to make payments under the hybrid instrument if in the previous financial year it earned no balance sheet profits. If the Bank opts not to make payments under the hybrid instrument, within one year of the date the respective payment should have been made and taking into account the relevant legal provisions, it may not:
  a) announce or make dividend payments or other payments related to instruments of the same or lower ranking as the hybrid instrument;
  b) allow its subsidiaries to announce or make dividend payments or other payments related to the instruments of the same or lower ranking as the hybrid instrument;
  c) redeem, repurchase or purchase instruments of the same or lower ranking as the hybrid instrument itself, or allow its subsidiaries to do so.

Additional own funds I (Tier 2 capital) include:
• excess on limit of original own funds, which is transferred to Tier 2 capital (arising from a hybrid instrument);
• adjustments to valuation differences in available-for-sale equities (equities and equities holdings); prudential filters.

The credit risk capital requirement of the Group is calculated by applying the Standardised Approach. Consequently, the Group discloses no **deduction items from Tier 1 capital and Tier 2 capital arising from the IRB** (Internal Ratings-Based) approach.

Tier 1 capital and Tier 2 capital are **decreased by equity investments** in other credit and financial institutions and investment fund companies that individually exceed 10% of the other institution's share capital to establish the actual amount of capital to be further used for the capital adequacy calculation, taking capital requirements for credit, market and operational risks into account.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table shows regulatory capital components and capital adequacy ratios.

REGULATORY CAPITAL AND CAPITAL ADEQUACY

As at 31 December	2012	2011
Paid up share capital	7,200	30,045
(-) own shares	(432)	(1,933)
Share premium	143,288	153,117
Reserves	9,213	57,556
Non-controlling interest	9	10
Interim profits (audited)	–	–
Adjustments to valuation differences eligible as original own funds – prudential filters	(786)	(2,191)
Hybrid instruments	120,000	120,000
(-) hybrid instruments with incentive to redeem and subject to limit	120,000	120,000
(-) Other deductions from original own funds	(96,932)	(82,995)
(-) intangible assets	(4,105)	(3,906)
(-) excess on limits for hybrid instruments	(92,766)	(78,936)
(-) adjustments of financial assets measured at fair value	(61)	(153)
(-) difference between the reported impairments and provisions according to IFRS and the BoS regulations on loss assessment	–	–
Original own funds (Tier 1)	**181,560**	**273,609**
Excess on limits for original own funds transferred to additional own funds I (hybrid instruments)	92,766	78,936
Adjustments to valuation differences in available-for-sale equities - prudential filters	4,091	3,814
Additional own funds I (Tier 2)	**96,857**	**82,750**
(-) Deductions from original and additional own funds I (equity investments in credit and financial institutions)	–	(517)
Total regulatory capital (for solvency purposes)	**278,417**	**355,842**
Capital requirement for credit risk	215,777	268,288
Capital requirement for market risk	372	2,225
Capital requirement for operational risk	17,634	17,462
Total capital requirements	**233,783**	**287,975**
Tier 1 capital adequacy ratio	**6.21%**	**7.59%**
Total capital adequacy ratio	**9.53%**	**9.89%**

Over the presented two years, the Group (and the Bank) maintained its total capital adequacy ratio above the regulatory minimum (8%). Total regulatory capital decreased by 21.8% in 2012 (in 2011: decrease by 22.6%), mainly due to the net loss for the year 2012, which resulted in a decline of total capital adequacy ratio to 9.53% (in 2011: 9.89%).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.4.2 Minimum capital requirements

The following table shows capital requirements by risk type and their structure.

CAPITAL REQUIREMENTS BY RISK TYPE AND THEIR STRUCTURE

As at 31 December	2012		2011	
Capital requirements	**Amount**	**Structure**	**Amount**	**Structure**
Capital requirement for credit risk	215,777	92.3%	268,288	93.2%
Capital requirement for market risk	372	0.2%	2,225	0.8%
Capital requirement for operational risk	17,634	7.5%	17,462	6.1%
Total capital requirements	**233,783**	**100.0%**	**287,975**	**100.0%**

2.4.2.1 Credit risk capital requirement

The credit risk capital requirement of the Group is calculated by applying the Standardised Approach. The following table shows capital requirement amounts per exposure category.

CREDIT RISK CAPITAL REQUIREMENT

	As at 31 December	2012	2011
	Standardised approach	**215,777**	**268,288**
1.	**Exposure classes excluding securitization positions**	**215,777**	**268,288**
	Central governments or central banks	162	9
	Regional governments or local authorities	57	83
	Administrative bodies and non-commercial undertakings	273	231
	Institutions	7,229	8,129
	Corporates	104,783	154,125
	Retail	40,891	47,732
	Secured by real estate property	2,784	267
	Past due items	18,181	17,601
	Items belonging to regulatory high-risk categories	30,065	21,861
	Covered bonds	872	502
	Short-term claims on institutions and corporates	1,345	5,978
	Collective investments undertakings (CIU)	1,371	2,932
	Other items	7,764	8,838
2.	**Securitization positions**	**–**	**–**

In 2012, credit risk capital requirement decreased by 19.6% (in 2011: decrease by 8.3%), i.e. by EUR 52,511 thousand and, within that, the largest decrease in absolute amount was registered in exposure class for corporates.

(All amounts in EUR thousand unless otherwise stated)

2.4.2.2 Market risk capital requirement

The Group's market risk capital requirement is calculated by applying the Standardised Approach. Market risk capital requirement involves the calculation of capital requirements for position risk (specific and general risk due to price changes of financial instruments), foreign exchange risk and settlement risk.

MARKET RISK CAPITAL REQUIREMENT

As at 31 December		2012	2011
	Standardised approach	**372**	**2,225**
1.	**Position risk**	**372**	**428**
	Debt securities	47	132
	Equity securities	325	296
2.	**Foreign exchange risk**	**–**	**1,797**
3.	**Settlement risk**	**–**	**–**

2.4.2.3 Operational risk capital requirement

The Group's operational risk capital requirement is calculated by applying the Basic Indicator Approach.

CAPITAL REQUIREMENT FOR OPERATIONAL RISK

As at 31 December	2012	2011
Basic indicator approach	17,634	17,462

2.4.3 Internal capital adequacy assessment process

The internal capital adequacy process was introduced with new capital regulations under the Basel II banking implementation in early 2008, primarily in order to better provide the Group's adequate capital in view of the actual risks the Group assumes and to which it is exposed, as well as to ensure that the capital remains at an adequate level in the future, in view of the Group's business development plans.

The internal capital adequacy assessment process is defined by two variables. The first variable represents the risks to which the Group is exposed, going beyond the first pillar of capital requirements, and the second variable is the capital held by the Group for covering risks and potential losses arising from such risks. A comparison of the internal assessment of capital requirements and the internal assessment of capital indicates the Group's ability to cover all risks to which it is exposed.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), the Group developed new and upgraded existing methods for calculating internal assessments of capital requirements, continued to regularly monitor its risk profile and evaluated the risk-bearing capacity, set up and performed stress tests, and calculated the amount of its internal assessment of capital and internal assessment of capital requirements for all important types of risks on a quarterly basis. This information is included in quarterly reports on the outcome of the Internal Capital Adequacy Assessment Process, which is communicated to the members of the ICAAP Forum, which consists of the senior management of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2012 the Bank's unconsolidated capital adequacy ratio was 9.65% (and 9.53% at consolidated level) and an unconsolidated tier 1 capital ratio equalled to 6.35% (and 6.21% at consolidated level). Although the legal capital adequacy ratio of 8% was met on a consolidated and unconsolidated basis, the Bank of Slovenia, on the basis of stress testing scenarios, required a consolidated capital adequacy ratio of 11.4% and a consolidated tier 1 capital ratio at 9.1%. Therefore, the Group started implementing measures to strengthen capital ratios and improve protection against all known types of risk.

Despite the interest shown by two major shareholders of the Bank, Zavarovalnica Triglav d.d. and Gorenjska banka d.d., which both subscribed and paid in proportional amounts (together EUR 36.3 million) of share capital, the capital increase procedure was not completed in February 2013 (ref. Note 43). Consequently, the Bank of Slovenia sent to Abanka – defined as a systemically important bank due to its relevance for the banking sector – a decree on requiring from Abanka's Management Board to convene a general meeting of shareholders by no later than 30 April 2013 and to propose at that meeting a share capital increase of no less than EUR 90 million by 31 July 2013 excluding the pre-emptive rights of the existing shareholders.

The General Meeting of Shareholders held on 8 April 2013 passed a resolution on share capital increase through new share issuance. The issue price per new share shall be set by the Management Board, subject to the approval by the Supervisory Board, taking into account that the total issue value of all new shares shall be no less than EUR 90 million and no more than EUR 90.1 million. The pre-emptive rights of the existing shareholders shall be fully excluded until the subscription of new shares. The Management Board shall invite to bid for new shares all the existing shareholders of Abanka holding at least 1% of share capital as well as other potential investors, subject to the approval by the Supervisory Board and in accordance with the legislation regulating the financial instruments market.

A stronger capital base will enable the Bank to achieve clearly defined strategic objectives and comply with the expectations of the Bank of Slovenia.

In parallel with the recapitalisation project, Abanka is leading the project of establishing capital ties with Gorenjska banka and carrying out risk-weighted asset management activities. In the first quarter of 2013 the latter have already helped the Bank improve its capital adequacy ratios – the capital adequacy ratio and tier 1 capital ratio as at 31 March 2013 are estimated to be higher than as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

(a) Impairment losses on loans and advances

The Group constantly monitors the quality of its credit portfolio and assesses credit risk losses. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating an adverse change in the payment status of borrowers in a group of loans, or in national or local economic conditions that correlate with defaults on assets in the group of loans. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When determining impairment losses on a particular asset in the loan portfolio, credit spreads are taken into account in the process of discounting the estimated future cash flows of the financial instrument. For wider credit spreads, the Group charges higher interest rates that in turn result in increased impairment losses.

The Group regularly measures the impact of the deterioration of the credit portfolio on the amount of credit risk losses, on profit or loss, as well as on regulatory capital and the capital adequacy ratio of the Group. It employs sensitivity analyses to provide additional information on potential credit risk losses and necessary impairments of financial assets.

Stress tests for credit risk are performed on the basis of various sensitivity analyses. One such analysis assumes that 2% of A, B, C and D loans are downgraded by one credit rating category. The result showed that credit risk losses would increase by 1.5% (2011: 2.2%) or EUR 7 million (2011: EUR 8.2 million). The other sensitivity analysis was conducted in accordance with the assumption that 1% of A, B and C loans are downgraded by one credit rating category, 1% of these loans are downgraded by two credit rating categories and 2% of D-rated loans are downgraded by one credit rating category. The result of the latest sensitivity analysis has shown that credit risk losses would rise by 2.8% (2011: 4.2%) or EUR 12.7 million (2011: EUR 15.3 million).

(b) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost. The Group considers a significant decrease in the fair value of financial assets below their cost to be at least a 40% decrease in their fair value as compared to their average cost. A prolonged decrease in the fair value of financial assets below their cost is considered to be a period of at least nine months from the date when the fair value of the relevant equity investments first fell below their average cost and remained lower throughout that period. In the said period, the Group continuously recognises a loss in fair value reserve in relation to the relevant equity investments.

In addition, the Group estimates the usual fluctuation in share prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss of EUR 118 thousand (2011: EUR 2,729 thousand), being the transfer of the total debit balance in the fair value reserve to profit or loss.

(c) Held-to-maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances (e.g. selling an insignificant amount close to maturity) the Group is required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

If all held-to-maturity investments were to be so reclassified, the carrying value would decrease by EUR 418 thousand (2011: a EUR 1,175 thousand decrease), with a corresponding entry in the fair value reserve in shareholders' equity.

(d) Fair value of financial assets and liabilities
Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted active market price.

The estimated fair values of financial instruments have been determined by the Group using, available market information where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data in order to determine the estimated fair value. Market quotations may be outdated or reflect distressed sale transactions and therefore may not represent the fair values of financial instruments. The management has used all available market information in estimating the fair value of financial instruments.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

- Level 1: The quoted market price for the financial instrument in an active market
- Level 2: Valuation techniques based on mostly observable inputs
- Level 3: Valuation techniques using mostly unobservable inputs.

<u>Financial instruments carried at fair value</u>
Trading securities, other securities at fair value through profit or loss, investment securities available for sale and financial derivatives, including those classified as repurchase receivables, are carried in the consolidated statement of financial position at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale (Note 21) for which there were no available external independent market price quotations or market prices did not reflect actual fair values and certain trading securities (Note 19).

The Group uses widely recognised valuation models for determining the fair value of financial instruments. Valuation techniques are primarily based on using observable market data, which reduces the need for management judgement and estimation, and also reduces the uncertainty associated with the determination of fair values. Valuations include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, the Garman-Kohlhagen model for option pricings and other valuation models. The assumptions and inputs used in valuation techniques include market foreign currency exchange rates, market interest rates, price volatilities and correlations, expected cash flows and other inputs in order to determine the fair values of financial instruments.

In accordance with the Group's rules on valuing financial instruments, the Group does not use its valuation model for assets with a value of less than EUR 10 thousand, nor does it apply the model to any cases where quality valuation input data cannot be provided.

The Group valued financial instruments at cost, when their fair value could not be determined. The reasons for the inability to determine fair values were that some financial instruments were not traded in an active market, which clearly defined their fair value, and that there was no active market participant or seller to make an offer for those financial instruments or assets.

The Group is willing to sell at a reasonable price those investments that are valued at cost in the event interested potential buyers exist.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 31 december 2012	Quoted prices in active markets (1)	Valuation techniques based on observable market data (2)	Valuation techniques incorporating information other than observable market data (3)	Total
Financial assets measured at fair value				
Financial assets held for trading	1,647	16,783	2,211	**20,641**
– equity securities	1,475	–	5	**1,480**
– derivatives	–	16,779	2,206	**18,985**
– unit linked investments	172	–	–	**172**
– other	–	4	–	**4**
Financial assets designated at fair value through profit or loss	11,234	–	281	**11,515**
– debt securities	8,760	–	–	**8,760**
– equity holdings	–	–	281	**281**
– unit linked investments	2,474	–	–	**2,474**
Available-for-sale financial assets	441,616	50,592	4,132	**496,340**
– debt securities	423,317	50,490	-	**473,807**
– equity securities	18,299	102	3,452	**21,853**
– equity holdings	–	–	680	**680**
Total financial assets	**454,497**	**67,375**	**6,624**	**528,496**
Financial liabilities measured at fair value				
Financial liabilities held for trading	–	17,928	3	**17,931**
– derivatives	–	17,918	3	**17,921**
– spot transactions	–	10	–	**10**
Financial liabilities designated at fair value through profit or loss	8,760	–	–	**8,760**
– structured deposit	8,760	–	–	**8,760**
Total financial liabilities	**8,760**	**17,928**	**3**	**26,691**

In 2012, the Group transferred one position in securities totalling EUR 834 thousand from Level 2 to Level 1 of the fair value hierarchy, based on the observation that the quoted market price allows for Level 1 classification.

One position in securities totalling EUR 12,504 thousand was transferred from Level 1 to Level 2 of the fair value hierarchy, based on the observation that the quoted market price does not allow for Level 1 classification.

In 2012, the Group sold financial assets, measured at cost in a total amount of EUR 2,159 thousand (2011: nil).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at 31 December 2011	Quoted prices in active markets (1)	Valuation techniques based on observable market data (2)	Valuation techniques incorporating information other than observable market data (3)	Total
Financial assets measured at fair value				
Financial assets held for trading	3,837	27,008	439	**31,284**
– debt securities	570	8,524	–	**9,094**
– equity securities	1,174	–	5	**1,179**
– derivatives	–	18,460	434	**18,894**
– unit linked investments	157	–	–	**157**
– other	1,936	24	–	**1,960**
Financial assets designated at fair value through profit or loss	20,761	–	2,070	**22,831**
– debt securities	18,408	–	–	**18,408**
– equity securities	–	–	–	**–**
– equity holdings	–	–	2,070	**2,070**
– unit linked investments	2,353	–	–	**2,353**
Available-for-sale financial assets	523,288	42,164	5,393	**570,845**
– debt securities	478,908	41,947	2,268	**523,123**
– equity securities	31,935	217	2,463	**34,615**
– equity holdings	–	–	662	**662**
– unit linked investments	12,445	–	–	**12,445**
Total financial assets	**547,886**	**69,172**	**7,902**	**624,960**
Financial liabilities measured at fair value				
Financial liabilities held for trading	–	15,119	23	**15,142**
– derivatives	–	15,113	23	**15,136**
– spot transactions	–	6	–	**6**
Financial liabilities designated at fair value through profit or loss	8,263	–	–	**8,263**
– structured deposit	8,263	–	–	**8,263**
Total financial liabilities	**8,263**	**15,119**	**23**	**23,405**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AT LEVEL 3 OF THE FAIR VALUE HIERARCHY

	Financial assets held for trading			Financial assets designated at fair value through profit or loss	Available-for-sale financial assets				Financial liabilities held for trading
	Equity securities	Deriva-tives	**Total**	**Equity holdings**	Debt securities	Equity securities	Equity holdings	**Total**	**Derivatives**
As at 1 January 2012	5	434	**439**	**2,070**	2,268	2,463	662	**5,393**	**23**
Total gains/(losses)	–	1,779	**1,779**	**(1,789)**	(131)	420	18	**307**	**(14)**
– in profit or loss	–	1,779	**1,779**	**(1,789)**	(134)	(642)	18	**(758)**	**(14)**
– in other comprehensive income	–	–	**–**	**–**	3	1,062	–	**1,065**	**–**
Purchases	–	–	**–**	**–**	–	1,375	–	**1,375**	**–**
Sales, redemptions, settlements	–	(7)	**(7)**	**–**	(2,137)	(865)	–	**(3,002)**	**(6)**
Transfers to level 3	–	–	**–**	**–**	–	59	–	**59**	**–**
As at 31 December 2012	**5**	**2,206**	**2,211**	**281**	**–**	**3,452**	**680**	**4,132**	**3**
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2012	**–**	**1,779**	**1,779**	**(1,789)**	**–**	**(643)**	**18**	**(625)**	**14**

	Financial assets held for trading			Financial assets designated at fair value through profit or loss	Available-for-sale financial assets				Financial liabilities held for trading
	Equity securities	Deriva-tives	**Total**	**Equity holdings**	Debt securities	Equity securities	Equity holdings	**Total**	**Derivatives**
As at 1 January 2011	5	5,736	**5,741**	**2,598**	2,261	5,292	1,574	**9,127**	**95**
Total gains/(losses)	–	(24)	**(24)**	**(528)**	38	(3,319)	(913)	**(4,194)**	**(24)**
– in profit or loss	–	(24)	**(24)**	**(528)**	38	(3,266)	(913)	**(4,141)**	**(24)**
– in other comprehensive income	–	–	**–**	**–**	–	(53)	–	**(53)**	**–**
Purchases	–	–	**–**	**–**	–	4	1	**5**	**–**
Sales, redemptions, settlements	–	(5,278)	**(5,278)**	**–**	(31)	–	–	**(31)**	**(48)**
Transfers to level 3	–	–	**–**	**–**	–	486	–	**486**	**–**
As at 31 December 2011	**5**	**434**	**439**	**2,070**	**2,268**	**2,463**	**662**	**5,393**	**23**
Gains/(losses) in profit or loss for assets/liabilities held as at 31 December 2011	**–**	**(6)**	**(6)**	**–**	**–**	**(3,266)**	**–**	**(3,266)**	**24**

The Group did not recognise that changing one or more of the inputs to reasonably possible alternative assumptions would change the fair value significantly.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at their fair value.

	Carrying value		Fair value	
As at 31 December	**2012**	**2011**	**2012**	**2011**
Financial assets				
Loans and receivables	2,603,881	3,286,516	2,617,974	3,376,609
– debt securities	–	4,948	–	4,948
– loans to banks	81,970	282,664	81,802	288,671
– loans to non-bank customers	2,515,942	2,998,904	2,530,203	3,082,990
– retail customers	553,322	557,576	538,510	567,132
– corporate entities	1,962,620	2,441,328	1,991,693	2,515,858
– other financial assets	5,969	–	5,969	–
Held-to-maturity investments	152,982	102,784	152,564	100,959
Financial liabilities				
Deposits and loans from the central bank	533,857	200,061	533,857	200,061
Financial liabilities measured at amortised cost	2,859,253	3,764,915	2,815,176	3,739,792
– deposits from banks	11,263	39,403	11,568	39,164
– deposits from non-bank customers	2,129,631	2,412,220	2,162,483	2,423,688
– retail customers	1,186,174	1,210,165	1,195,426	1,204,026
– corporate entities	943,457	1,202,055	967,057	1,219,662
– loans from banks	473,862	648,055	469,259	659,920
– loans from non-bank customers - corporate entities	10,005	10,014	9,965	9,960
– debt securities issued	104,208	536,163	104,208	536,859
– subordinated liabilities	119,050	119,060	46,459	70,201
– other financial liabilities	11,234	–	11,234	–
Loan commitments	153,047	239,649	358	505

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Loans to banks
  Loans to banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed-interest-bearing deposits is based on discounted cash flows, using prevailing money-market interest rates for debts with a similar credit risk and remaining maturity.

- Loans to non-bank customers
  Loans are net of provisions for impairment. The estimated fair value of loans represents the discounted amount of the estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value.

  Average discount interest rates used, depending on the currency, maturity of the instrument and credit risk of the counterparty, were as follows:

	2012	2011
Loans to banks (Note 22)	1.8%	1.1%
Loans to non-bank customers (Note 23)		
– retail customers	1.9%	3.2%
– corporate entities	1.7%	3.0%

- Held-to-maturity investments
  Held-to-maturity investments comprise securities. The fair value of held-to-maturity assets is based on the market prices from Bloomberg (BGN) or discounted values.

- Deposits and loans from banks and non-bank customers and subordinated deposits
  The estimated fair value of deposits with no stated maturity, including non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed-interest-bearing deposits and other borrowings not quoted on an active market is based on discounted cash flow, using interest rates on new debts with a similar remaining maturity. The discount rates used were consistent with the Group's credit risk and also depend on the currency and maturity of the instrument; they ranged from 0.4% p.a. to 1.9% p.a. in 2012 (2011: from 1.3% p.a. to 2.9% p.a.).

- Debt securities issued and subordinated debt securities
  Total fair value is calculated on the basis of the prices quoted in an active securities market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4 SEGMENT ANALYSES

(a) By business segment

The Group provides services in three business segments:

- Retail banking – incorporating personal accounts (of residents and non-residents), savings accounts, domestic and foreign currency fixed-term deposits, annuity and dedicated savings, Abanet online banking, AbaSMS mobile services, mobile bank, loans, account overdrafts, insurance services, funds, AIII, payment cards, investments to securities, Abacent, gold, leasing, safe deposit boxes, MoneyGram, “design your own card”, payment transactions and payment instruments, e-accounts;
- Corporate banking – incorporating transaction accounts, account overdrafts, loans and deposits with different terms, payment cards, certificates of deposits, documentary operations, guarantees, letters of credit, payment transactions and payment instruments, Abatočka, cash management, Abakredit, e-account, on-line banks (Abacom and Abanet), on-line payment service, AbaSMS mobile service; and
- Financial markets – incorporating trading with financial instruments, liquidity management, ALM, investment banking and inter-bank relations.

The Group’s operational activities in the fields of custody and administrative services, IT and banking technology are not disclosed separately but are included in the “Other” segment. The “Other” segment also includes the activities of subsidiaries (leasing, factoring, investment management and other activities) and the valuation of the joint venture in the consolidated statements.

For the purpose of intra-company accounting, transactions between segments were treated on the basis of an agreed and harmonised set of transfer instruments to account for the transfers of various effects (internal transfers/allocation of indirect costs by business segment, debiting overheads to commercial segments, internal transfers of earnings between business segments).

Liabilities, interest expenses and other non-interest expenses from financing were allocated to those business segments that generated them. No other material expense items are attributed to business segments.

Assets and liabilities by business segment represent a majority of the statement of financial position assets and liabilities, but they exclude tax receivables that are disclosed at the group level and not allocated to business segments. The Central Back Office’s activities and activities of the ATM and Card Operations Back Office Unit are also not accounted for by business segment.

Business segment results depend on the system of opportunity interest rates, which is based on alternative/opportunity interest rates applied to interest-bearing assets and liabilities items, aimed at establishing opportunity income and expenses. This serves as a basis for calculating opportunity interest margins for individual business segments (as the difference between earned income and opportunity income) as well as opportunity interest margins for individual segments of expenses (as the difference between opportunity expenses and incurred expenses). This is also the basis for establishing positive and negative opportunity interest margins and consequently positive or negative contributions to the performance of individual business segments.

Business segments are reported to the Assets and Liabilities Management Committee, which has the role of the decision-making body.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION

As at 31 December 2012	Retail banking	Corporate banking	Financial markets	Other	Group
External net income[1]	10,020	103,761	(18,540)	7,117	102,358
Revenues from other segments	–	–	–	–	–
Segment result	(15,965)	(86,928)	20,358	(1,572)	(84,107)
Operating loss					(84,107)
Share of result of the joint venture	–	–	–	(517)	(517)
Loss before tax					(84,624)
Income tax					3,559
Net loss for the year					**(81,065)**
Segment assets	568,469	1,959,969	962,953	87,638	3,579,029
Investment in the joint venture	–	–	8,901	(8,901)	–
Unallocated assets					34,983
Total assets					**3,614,012**
Segment liabilities	1,219,930	869,974	1,324,194	29,757	3,443,855
Unallocated liabilities					4,513
Total liabilities					**3,448,368**
Other segment items					
Capital expenditure	1,273	399	36	5,530	7,238
Depreciation and amortisation	1,102	250	26	4,561	5,939
Net impairment and provision charge	(5,078)	(113,285)	(8,789)	(2,274)	(129,426)
Other non-cash expenses	–	–	–	–	–
[1]Including					
– interest income	26,281	115,503	33,434	2,743	177,961
– interest expenses	(27,187)	(24,524)	(54,057)	(1,097)	(106,865)
– dividend income	–	–	1,454	16	1,470
– fee and commission income	15,254	18,760	1,124	7,749	42,887
– fee and commission expenses	(4,328)	(5,978)	(495)	(2,294)	(13,095)

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2011	Retail banking	Corporate banking	Financial markets	Other	Group
External net income[1]	13,780	125,421	(35,521)	8,864	112,544
Revenues from other segments	–	–	–	–	–
Segment result	(8,023)	(116,151)	(24,969)	11,110	(138,033)
Operating loss					(138,033)
Share of result of the joint venture	–	–	–	(494)	(494)
Loss before tax					(138,527)
Income tax					28,871
Net loss for the year					**(109,656)**
Segment assets	562,837	2,423,416	1,137,506	104,617	4,228,376
Investment in the joint venture	–	–	4,310	(3,793)	517
Unallocated assets					29,299
Total assets					**4,258,192**
Segment liabilities	1,244,410	1,050,855	1,674,003	51,114	4,020,382
Unallocated liabilities					6,454
Total liabilities					**4,026,836**
Other segment items					
Capital expenditure	1,598	251	13	6,120	7,982
Depreciation and amortisation	1,126	266	40	4,276	5,708
Net impairment and provision charge	(1,951)	(164,915)	(21,654)	8,426	(180,094)
Other non-cash expenses	–	–	–	–	–
[1]Including					
– interest income	27,588	135,392	31,593	5,425	199,998
– interest expenses	(24,802)	(24,444)	(69,289)	(1,715)	(120,250)
– dividend income	–	–	1,333	16	1,349
– fee and commission income	15,441	19,886	1,484	7,075	43,886
– fee and commission expenses	(4,447)	(5,413)	(642)	(1,937)	(12,439)

Capital expenditure relates to the purchases of tangible and intangible assets in the current business year.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(b) Geographical concentration

Country risk is also part of the credit risk assumed by the Group. In order to facilitate country risk management, the Bank produced a set of rules stipulating procedures for establishing and monitoring risk exposures to foreign countries as well as procedures for setting and monitoring the respective risk exposure limits. According to these rules, the Bank establishes risk exposures to individual foreign countries quarterly, in line with credit ratings assigned by external credit assessment institutions. This serves as a basis for the classification of foreign countries into seven internal rating categories, which in turn determine exposure limits per country. In this way, the adequate spreading of risk to achieve the highest possible return is ensured.

GEOGRAPHICAL CONCENTRATIONS OF NON-CURRENT ASSETS AND REVENUES

As at 31 December 2012	Total non-current assets	Revenues
Slovenia	61,450	191,382
Other European Union countries	–	20,235
Other former Yugoslavia countries	98	8,873
Other countries	–	1,828
Investment in the joint venture	–	–
	61,548	**222,318**

As at 31 December 2011	Total non-current assets	Revenues
Slovenia	60,301	204,074
Other European Union countries	–	26,851
Other former Yugoslavia countries	66	9,714
Other countries	–	4,594
Investment in the joint venture	517	–
	60,884	**245,233**

Revenues consist of interest income, fee and commission income and dividend income.

The Group operates principally in Slovenia, where it is based. Inter-bank exposures account for more than 50% of all international transactions, whilst the rest are transactions with foreign companies and at the central government level.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 NET INTEREST INCOME

	2012	2011
Interest income		
Loans and advances	145,950	172,169
– to banks	1,168	3,496
– to customers	144,782	168,673
Available-for-sale securities	14,783	14,266
Financial assets held to maturity	5,010	748
Financial assets held for trading	11,699	11,242
Financial assets at fair value through profit or loss	102	568
Cash and short-term funds	417	1,004
Reverse repos	–	1
	177,961	**199,998**
Interest expenses		
Deposits	55,815	56,559
– from banks	402	273
– from customers	55,413	56,286
Repos	–	25
Debt securities in issue	13,432	24,486
Financial liabilities held for trading	11,240	10,760
Loans from banks	26,375	28,339
Subordinated liabilities	–	79
Other	3	2
	106,865	**120,250**
Net interest income	**71,096**	**79,748**

Interest income accrued on impaired financial assets amounts to EUR 5,574 thousand (2011: EUR 6,825 thousand).

6 DIVIDEND INCOME

	2012	2011
Held-for-trading securities	101	100
Available-for-sale securities	1,369	1,249
	1,470	**1,349**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7 NET FEE AND COMMISSION INCOME

BREAKDOWN BY TYPE OF TRANSACTION:

	2012	2011
Fee and commission income		
Payment transactions	13,643	13,302
Transaction account management	3,943	3,857
Card and ATM operations	16,174	16,194
Lending operations	787	908
Guarantees granted	3,683	4,500
Custody services	2,073	2,200
Investment banking	812	1,186
Fund management	1,364	1,375
Other services	408	364
	42,887	**43,886**
Fee and commission expenses		
Payment transactions	2,623	2,407
Card and ATM operations	9,625	9,093
Guarantees received	2	21
Custody services	223	264
Stock exchange, Central Securities Clearing Corporation	212	346
Other services	410	308
	13,095	**12,439**
Net fee and commission income	**29,792**	**31,447**

8 REALISED GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Net realised gains from available-for-sale financial assets	6,536	396
Realised losses from loans and other financial assets and liabilities	(2,029)	(2,258)
Realised gains from loans and other financial assets and liabilities	899	562
	5,406	**(1,300)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

	2012	2011
Foreign exchange transaction gains	1,256	1,531
Net losses from derivatives	(1,415)	(8,788)
Realised gains/(losses) from securities:		
– debt securities	290	(96)
– equity holdings	600	(1,496)
Unrealised gains/(losses) from trading securities	104	(369)
Other	–	664
	835	**(8,554)**

10 NET GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Net gains/(losses) arising on:		
– equity securities	(1,789)	1,641
– debt securities	494	(1,946)
– unit-linked investment	137	153
– structured deposit	(547)	(186)
	(1,705)	**(338)**

11 NET OTHER OPERATING EXPENSES

	2012	2011
Other operating income		
– income from non-banking services	12	10
– income from debit cards and deferred payment cards	–	168
– income from sale of vehicles, real estate and other	1,160	969
– other operating income	2,851	1,794
	4,023	**2,941**
Other operating expenses		
– taxes, contributions and other duties	(209)	(85)
– membership fees and similar	(142)	(169)
– other operating expenses	(6,133)	(3,933)
	(6,484)	**(4,187)**
Net other operating expenses	**(2,461)**	**(1,246)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 ADMINISTRATION COSTS

	2012	2011
Staff costs	32,397	32,926
– wages and salaries	26,806	28,149
– social security costs	1,687	1,658
– pension costs	2,975	2,997
– provisions for employee benefits (Note 33)	929	122
Professional services	13,941	13,005
Advertising and marketing	1,561	1,847
Other administration costs	1,584	1,869
IT and software costs	2,305	2,098
Rent payable	745	742
Other costs	965	853
	53,498	**53,340**

	2012	2011
Auditor's fees:		
– auditing of the annual report	95	119
– other auditing services	35	45
– other non-auditing services performed by auditors other than the auditors of the annual report	436	–
	566	**164**

13 DEPRECIATION AND AMORTISATION

	Note	2012	2011
Property and equipment	25	4,216	4,106
Investment property	25	11	4
Intangible assets	25	1,712	1,598
		5,939	**5,708**

14 PROVISIONS

	Note	2012	2011
Provisions for employee benefits	33	–	(93)
Other provisions	33	280	728
Provisions for guarantees and commitments	33	1,600	4,498
Net charge of provisions		**1,880**	**5,133**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15 IMPAIRMENT

	Note	2012	2011
Impairment of financial assets:			
– available-for-sale financial assets	21	8,858	16,872
– loans to non-bank customers	23	117,877	155,767
– other financial assets		(83)	46
Impairment of non-financial assets:			
– property and equipment	25	–	2,150
– intangible assets	25	19	–
– investment property	25	117	–
– other non-financial assets		758	126
		127,546	**174,961**

Severe economic conditions continued in 2012, further deteriorating the creditworthiness of the Group's customers and increasing defaults, while certain major customers underwent insolvency proceedings. The Group consequently downgraded certain customers and formed additional impairments and provisions. Most additional impairments were formed against exposure to financial and insurance companies, especially holding companies, as well as borrowers in the manufacturing sector.

In 2012, the Group also impaired those available-for-sale equity securities whose fair value decreased steadily or substantially below their value at cost.

16 INCOME TAX

	Note	2012	2011
Current tax		70	121
Deferred tax credit	34	(3,629)	(28,992)
		(3,559)	**(28,871)**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	2012	2011
Loss before tax	(84,624)	(138,527)
Tax calculated at a tax rate of 18% (2011: 20%)	(15,232)	(27,705)
Deductible income	(4,568)	(7,132)
Non-deductible expenses	5,979	5,966
Effect of calculation at lower tax rates on:		
– deferred tax expense	7,822	–
– deferred tax income	2,440	–
	(3,559)	**(28,871)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Tax-base-deductible income includes tax-free income for the current year, non-deductible expenses from previous years and newly formed deferred tax assets. Non-deductible expenses include non-deductible expenses for the current year and utilised deferred tax assets.

Pursuant to the Amendments to the Corporate Income Tax Act adopted at the end of April 2012, the corporate income tax rate was decreased from 20% to 15%.

The transitional provisions of the Act provide that the tax rate shall decrease gradually: the tax shall be paid at the rate of 18% of the tax base for 2012, 17% of the tax base for 2013, and 16% of the tax base for 2014.

Due to the changed rate of taxation on corporate income to be applied from 1 January 2012, the Group recognised the effect of changes in the rate of taxation in relation to deferred taxes arising from transactions in securities, the deferred tax loss, deferred taxes arising from various provisions made, from depreciation differences, from the impairment of property and equipment and from the impairment on loans and receivables in a total amount of EUR 10,262 thousand.

In November 2010, the Bank and the Tax Administration of the Republic of Slovenia signed a Cooperation Agreement within the pilot project on horizontal monitoring.

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records covering the period of five 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 that may give rise to a potential material liability in this respect.

17 EARNINGS PER SHARE

Basic earnings per share for 2012 and 2011 are calculated by dividing the net loss attributable to the owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume the conversion of all dilutive potential ordinary shares, which the Bank did not have as at 31 December 2012, nor as at 31 December 2011.

	2012	2011
Loss attributable to owners of the parent in EUR thousand	(81,063)	(109,645)
Weighted average number of ordinary shares in issue	7,190,787	7,190,787
Number of treasury shares (Note 35)	9,213	9,213
Basic earnings per share (expressed in EUR per share)	**(11.27)**	**(15.25)**
Diluted earnings per share (expressed in EUR per share)	**(11.27)**	**(15.25)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 CASH AND CASH BALANCES WITH THE CENTRAL BANK

	2012	2011
Cash in hand	26,767	23,386
Settlement account and obligatory reserve	183,756	36,838
Other deposits with central bank	4,185	65,310
Total cash and cash balances with the central bank	**214,708**	**125,534**
Included in cash and cash equivalents (Note 37)	214,708	125,534

The final adjustment to the obligatory reserve requirements of the Eurosystem was made with the introduction of the euro, when the regulation on reserve requirements ceased to be in force and the ECB Regulation on the application of minimum reserves entered into force.

An interest rate analysis of cash and cash balances with the central bank is disclosed in Note 2.2.3.2. Fair value is disclosed in Note 3(d).

19 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

FINANCIAL ASSETS HELD FOR TRADING

	2012	2011
Debt securities	**–**	**9,094**
Treasury bills – listed	–	8,524
Other debt securities – listed	–	570
Equity securities	**1,480**	**1,179**
– listed	1,358	1,057
– unlisted	122	122
Unit-linked investments	**172**	**157**
Derivatives	**18,985**	**18,894**
Other	**4**	**1,960**
Total financial assets held for trading	**20,641**	**31,284**
Current	4,735	8,559
Non-current	15,906	22,725
Included in cash and cash equivalents (Note 37)	–	–

An interest rate analysis of financial assets held for trading is disclosed in Note 2.2.3.2. Additional information about fair value is disclosed in Note 3(d).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Derivative financial instruments
The Group uses the following derivative instruments for non-hedging purposes:

Currency forwards represent an obligation to buy or sell a certain amount of a currency in accordance with the provisions of the forward contract.

Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted interest rate and the current market rate, based on a notional principal amount.

An **interest rate cap** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate cap is to provide a hedge against rising interest rates, for which the buyer pays a premium in advance.

An **interest rate floor** is an interest rate option in which the buyer has the right (but no obligation) to call upon the issuer (seller) of the option to pay the difference between the strike price and the actual interest rate as at the relevant maturity dates. The purpose of the interest rate floor is to provide a hedge against falling interest rates, for which the buyer pays a premium in advance.

An **interest rate collar** is an interest rate option: a combination of purchasing an interest rate cap and selling an interest rate floor.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. No exchange of principal takes place, except for certain currency swaps. The Group's credit risk is the potential cost of replacing the swap contracts if the counterparties fail to perform their obligations. This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Foreign currency options are contractual agreements under which the seller (issuer) grants the buyer (owner) the right, but not the obligation, to buy (call option) or to sell (put option) foreign currency on or by a specified date or within a specified period in accordance with the provisions of the contract (amount, price in a specified amount at a pre-determined rate). The buyer of the option pays and the seller receives a premium to compensate for the currency risk assumed. The Group negotiates foreign currency options with its clients (OTC market). The Group is exposed to credit risk only in case it purchases such options and up to their carrying amount which is equal to their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in 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 Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in 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 over time. The fair values of derivative instruments held are set out on the following page.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2012	Notional contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	14,173	149	116
– currency swaps	2,794	7	6
– OTC currency options	10,515	3	3
Interest rate derivatives (OTC):			
– interest rate swaps	497,185	12,399	13,573
– OTC interest rate options	79,613	4,223	4,223
Equity derivatives – forwards	2,504	2,204	–
Total derivative assets/liabilities held for trading		**18,985**	**17,921**

As at 31 December 2011	Notional contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
– currency forwards	25,749	920	889
– OTC currency options	20,957	23	23
Interest rate derivatives (OTC):			
– interest rate swaps	603,763	14,754	11,438
– OTC interest rate options	85,290	2,786	2,786
Equity derivatives – forwards	2,514	411	–
Total derivative assets/liabilities held for trading		**18,894**	**15,136**

As at 31 December 2012, financial liabilities held for trading also included (besides derivatives) spot transactions in the amount of EUR 10 thousand (2011: EUR 6 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Debt securities	8,760	18,408
Equity securities – unlisted	281	2,070
Unit-linked investment	2,474	2,353
Total assets designated at fair value through profit or loss	**11,515**	**22,831**
Current	281	2,234
Non-current	11,234	20,597

Financial assets designated at fair value through profit or loss comprise various structured products referring both to bonds and the unit-linked investment. Structured products are debt securities derived from an underlying instrument, which defines their return. The interest payments of the above debt securities are equity-indexed, which results in dissimilar risks inherent in the host and embedded derivative. The Group therefore designates hybrid contracts as financial assets at fair value through profit or loss. Underlying instruments may be shares, indices, funds, commodities, etc.

An accounting mismatch would arise if the equity and debt securities were accounted through equity as the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating those equity and debt securities at fair value, the movement in the fair value will be recorded in the income statement.

There were no significant gains or losses attributable to changes in the credit risk for those debt securities designated at fair value in 2012 and 2011.

An interest rate analysis of financial assets designated at fair value through profit or loss is disclosed in Note 2.2.3.2. Additional information on fair value is disclosed in Note 3(d).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
Debt securities	**473,807**	**523,123**
Treasury bills (listed)	13,634	41,947
Other debt securities – at fair value:	460,173	481,176
– listed	460,173	481,011
– unlisted	–	165
Shares and equity holdings	**22,533**	**35,277**
Equity holdings* – at fair value (unlisted)	680	662
Shares – at fair value:	21,853	34,615
– listed	19,011	32,430
– unlisted	2,842	2,185
Unit-linked investments	**–**	**12,445**
Total available-for-sale financial assets	**496,340**	**570,845**
Current	75,112	191,772
Non-current	421,228	379,073
Included in cash and cash equivalents (Note 37)	–	27,953

* investments in limited liability companies

The Group's available-for-sale financial assets, which represent subordinated liabilities of the issuer, as at 31 December 2012 accounted for 0.19% of the total (2011: 0.19%).

An interest rate analysis of available-for-sale financial assets is disclosed in Note 2.2.3.2. Additional information about fair value is disclosed in Note 3(d).

On 1 October 2008, the Group reclassified part of its financial assets previously carried as held-for-trading securities, to available-for-sale securities.

Due to the transformation of the public limited company into an investment fund, the Group additionally reclassified these financial assets held for trading to the category of financial assets available for sale, as at 19 August 2011.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

RECLASSIFICATION OF FINANCIAL INSTRUMENTS

	2012	2011
From "held-for-trading" to "available-for-sale"		
Carrying amount as at 31 December	100	4,271
Fair value as at 31 December	100	4,271
Fair value of the gain/(loss) that would have been recognised in profit or loss if the financial asset had not been reclassified	7	(1)
(Expenses)/income recognised in profit or loss after reclassification	(488)	119
Impairment loss	53	(91)

MOVEMENTS IN AVAILABLE-FOR-SALE TREASURY BILLS ARE AS FOLLOWS:

	2012	2011
As at 1 January	**41,947**	**41,481**
Additions	76,878	258,482
Disposals	(105,500)	(258,500)
Amortisation of discount	309	484
As at 31 December	**13,634**	**41,947**

MOVEMENTS IN OTHER AVAILABLE-FOR-SALE SECURITIES ARE AS FOLLOWS:

	2012	2011
As at 1 January	**528,898**	**607,635**
Exchange differences on monetary assets	(44)	27
Additions (purchase)	124,201	216,136
Disposals (sale)	(44,442)	(51,432)
Disposals (maturity and redemption)	(156,375)	(208,973)
Amortisation of discount and premium, interest accrued	14,478	960
Gains/(losses) from changes in fair value	24,848	(18,583)
Impairment losses (Note 15)	(8,858)	(16,872)
As at 31 December	**482,706**	**528,898**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22 LOANS TO BANKS AND DEBT SECURITIES CLASSIFIED AS LOANS

LOANS TO BANKS

	2012	2011
Placements with other banks	37,961	62,992
Loans and deposits to other banks	44,009	219,672
Gross loans	81,970	282,664
Provision for impairment	–	–
Net loans	**81,970**	**282,664**
Current	65,209	276,569
Non-current	16,761	6,095
Included in cash and cash equivalents (Note 37)	64,481	270,254

DEBT SECURITIES CLASSIFIED AS LOANS

Due to the impact of the financial crisis on the functioning of securities markets, in 2008 the Group used the option available under IAS 39 and reclassified financial instruments from held-for-trading financial assets and available-for-sale financial assets to loans. There was no such reclassification after 2008.

	2012	2011
From "held-for-trading" to "loans and receivables"		
Carrying amount as at 31 December	–	4,948
Fair value as at 31 December	–	4,265
Fair value of the loss that would have been recognised in profit or loss if the financial asset had not been reclassified	–	(369)
Income recognised in profit or loss after reclassification	51	108
Impairment loss	–	–
Average effective interest rate determined on the date of reclassification	8.5%	
Estimated cash flow determined on the date of reclassification	31,632	

In 2012, the Group divested all securities that were (pursuant to the amended IAS 39) transferred from the category of financial assets held for trading to the category of loans. In the reporting year, no impairment of these assets took place.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF DEBT SECURITIES CLASSIFIED AS LOANS ARE AS FOLLOWS:

As at 1 January 2011	**3,500**
Provision for impairment	–
Sale	(3,500)
As at 31 December 2011 and 2012	**–**

23 LOANS TO NON-BANK CUSTOMERS

	2012	2011
Corporate entities	2,353,624	2,759,884
Retail customers	572,051	573,414
Gross loans	2,925,675	3,333,298
Provision for impairment	(409,733)	(334,394)
Net loans	**2,515,942**	**2,998,904**
Current	1,364,688	1,642,936
Non-current	1,151,254	1,355,968

Receivables for interest are recognised together with the underlying financial instrument.

The Group accepted listed securities at a fair value of EUR 67,663 thousand (2011: EUR 185,150 thousand) as collateral for loans, which it is permitted to sell or re-pledge.

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT ARE AS FOLLOWS:

	Note	Corporate entities	Retail customers	Total
As at 1 January 2011		**180,126**	**13,962**	**194,088**
Provision for impairment	15	153,609	2,158	155,767
Write-offs		(15,179)	(282)	(15,461)
As at 31 December 2011		**318,556**	**15,838**	**334,394**
Provision for impairment	15	112,825	5,052	117,877
Write-offs		(40,377)	(2,161)	(42,538)
As at 31 December 2012		**391,004**	**18,729**	**409,733**

All loans were written down to their recoverable amounts.

The shrinking of the credit portfolio was due to a decrease in the sources of funds caused by the payment of EUR 350,589 thousand for a government-backed bond that matured (Note 31). This reduction was also caused by lowered borrowing on the international interbank market and fewer deposits from institutional investors, to a large extent a consequence of the Bank’s credit downgrading.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Loans to banks and non-bank customers are further analysed in the following notes: Credit risk (Note 2.1), Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 42).

Loans to non-bank customers also include finance lease receivables as disclosed in Note 39.

24 HELD-TO-MATURITY INVESTMENTS

	2012	2011
Debt securities – at amortised cost – listed	**152,982**	**102,784**
Current	112,699	5,192
Non-current	40,283	97,592

The Group has not reclassified any financial assets out of held-to-maturity investments (2011: nil).

Debt securities have fixed interest rates.

An interest rate analysis of held-to-maturity investments is additionally disclosed in Note 2.2.3.2. Fair value is disclosed in Note 3(d).

MOVEMENTS IN HELD-TO-MATURITY INVESTMENTS ARE AS FOLLOWS:

	2012	2011
As at 1 January	**102,784**	**26,544**
Additions (purchase)	94,854	85,450
Disposals (maturity and redemption)	(49,666)	(9,958)
Amortisation of discount	5,010	748
As at 31 December	**152,982**	**102,784**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25 PROPERTY AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE

	Land and buildings	Computers	Other equipment	Assets under con-struction	**Total property and equipment**	**Intangible assets**	**Invest-ment property**	**Non-current assets held for sale**
As at 31 December 2011								
Cost	62,901	23,837	16,514	5,586	108,838	18,664	153	1,326
Accumulated depreciation/amortisation	23,829	18,278	11,683	–	53,790	14,759	70	–
Net book amount	**39,072**	**5,559**	**4,831**	**5,586**	**55,048**	**3,905**	**83**	**1,326**
Cost								
As at 1 January 2012	**62,901**	**23,837**	**16,514**	**5,586**	**108,838**	**18,664**	**153**	**1,326**
Additions	824	1,438	1,297	892	4,451	1,931	854	612
Disposals	(2)	(871)	(1,793)	–	(2,666)	(660)	–	–
Impairment charge (Note 15)	–	–	–	–	–	(19)	(117)	–
As at 31 December 2012	**63,723**	**24,404**	**16,018**	**6,478**	**110,623**	**19,916**	**890**	**1,938**
Depreciation								
As at 1 January 2012	**23,829**	**18,278**	**11,683**	**–**	**53,790**	**14,759**	**70**	**–**
Depreciation and amortisation (Note 13)	1,157	1,824	1,235	–	4,216	1,712	11	–
Disposals	(1)	(854)	(1,220)	–	(2,075)	(660)	–	–
As at 31 December 2012	**24,985**	**19,248**	**11,698**	**–**	**55,931**	**15,811**	**81**	**–**
Net book amount as at 31 December 2012	**38,738**	**5,156**	**4,320**	**6,478**	**54,692**	**4,105**	**809**	**1,938**

All investment property generates income and expenses. There was EUR 18 thousand of rental income from investment property (2011: EUR 9 thousand) and EUR 12 thousand of direct expenses recognised in the income statement in 2012 (2011: EUR 4 thousand). Income from other operating leases totalled EUR 752 thousand in 2012 (2011: EUR 533 thousand).

Non-current assets held for sale arise from tangible fixed assets received as payment of claims amounting to EUR 1,938 thousand (2011: EUR 1,326 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Land and buildings	Computers	Other equipment	Assets under con-struction	**Total property and equipment**	**Intangible assets**	**Invest-ment property**	**Non-current assets held for sale**
As at 31 December 2010								
Cost	62,066	22,745	15,358	6,433	106,602	16,886	154	7,823
Accumulated depreciation/amortisation	22,688	17,752	11,397	–	51,837	13,244	66	–
Net book amount	**39,378**	**4,993**	**3,961**	**6,433**	**54,765**	**3,642**	**88**	**7,823**
Cost								
As at 1 January 2011	**62,066**	**22,745**	**15,358**	**6,433**	**106,602**	**16,886**	**154**	**7,823**
Additions	918	2,308	2,482	309	6,017	1,961	–	5,779
Transfer between groups	15	–	–	–	15	–	–	(15)
Disposals	(98)	(1,216)	(1,326)	–	(2,640)	(183)	(1)	(1,554)
Impairment charge (Note 15)	–	–	–	(1,156)	(1,156)	–	–	(994)
Transfer to inventories	–	–	–	–	–	–	–	(9,713)
As at 31 December 2011	**62,901**	**23,837**	**16,514**	**5,586**	**108,838**	**18,664**	**153**	**1,326**
Depreciation								
As at 1 January 2011	**22,688**	**17,752**	**11,397**	**–**	**51,837**	**13,244**	**66**	**–**
Depreciation and amortisation (Note 13)	1,173	1,705	1,228	–	4,106	1,598	4	–
Disposals	(32)	(1,179)	(942)	–	(2,153)	(83)	–	–
As at 31 December 2011	**23,829**	**18,278**	**11,683**	**–**	**53,790**	**14,759**	**70**	**–**
Net book amount as at 31 December 2011	**39,072**	**5,559**	**4,831**	**5,586**	**55,048**	**3,905**	**83**	**1,326**

26 INVESTMENT IN THE JOINT VENTURE AND SUBSIDIARIES OF THE BANK

THE JOINT VENTURE, WHICH IS UNLISTED, IS:

2012 Name	**Country of incorpora-tion**	**Assets**	**Liabilities**	**Equity**	**Revenues**	**Net loss**	**% Interest held**
ASA Aleasing d.o.o.	Bosnia and Herzegovina	18,192	19,688	(1,496)	2,417	(2,632)	49

2011 Name	**Country of incorpora-tion**	**Assets**	**Liabilities**	**Equity**	**Revenues**	**Net loss**	**% Interest held**
ASA Aleasing d.o.o.	Bosnia and Herzegovina	34,949	33,813	1,136	2,343	(977)	49

ASA Aleasing is a joint venture of the subsidiary Aleasing. ASA Aleasing holds 51% in A-Gradnja; as at 31 December 2012, its balance sheet total equalled EUR 16,642 thousand (2011: EUR 16,081 thousand) and loss amounted to EUR 12 thousand (2011: EUR 50 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

SUBSIDIARIES OF THE BANK:

Name	Country	% Interest 2012	% Interest 2011
Abanka Skladi d.o.o., Ljubljana – unlisted	Slovenia	99.00	99.00
Afaktor d.o.o., Ljubljana – unlisted	Slovenia	100.00	100.00
Aleasing d.o.o., Ljubljana – unlisted	Slovenia	100.00	100.00
Argolina d.o.o., Ljubljana – unlisted	Slovenia	100.00	100.00
Analožbe d.o.o., Ljubljana – unlisted	Slovenia	100.00	100.00

In addition to Afaktor d.o.o., Ljubljana, as the parent company, the Afaktor Group includes the following companies: Afaktor – factoring d.o.o. registered in Zagreb, Croatia and Afaktor – faktoring finansiranje d.o.o. registered in Belgrade, Serbia. Both companies are 100%-owned subsidiaries of Afaktor d.o.o., Ljubljana.

In February 2012, Abančna DZU d.o.o. was renamed ABANKA SKLADI d.o.o.

In December 2012, Abanka increased the share capital of Aleasing and Argolina by EUR 3,639 thousand and EUR 8,000 thousand, respectively.

27 PLEDGED ASSETS

	2012	2011
Financial assets designated at fair value through profit or loss	–	648
Available-for-sale financial assets	394,188	266,317
Loans to banks	16,761	4,948
Loans to non-bank customers	94,096	70,000
Held-to-maturity investments	149,327	89,421
Total pledged assets	**654,372**	**431,334**

Assets are pledged as collateral for the Eurosystem (ECB) claims and for the purposes of Deposit Guarantee Scheme, guaranteed claims of investors, VISA credit card transactions and financial derivative transactions and for other liabilities.

28 DEPOSITS AND LOANS FROM THE CENTRAL BANK

	2012	2011
Deposits	6	6
Liabilities from long-term refinancing operations	533,851	200,055
Total deposits from the central bank	**533,857**	**200,061**
Current	83,857	61
Non-current	450,000	200,000

In 2012, which among events other saw the government-backed bond of EUR 350,589 thousand mature, the Group carried out numerous activities in order to maintain an adequate liquidity position. In addition to raising primary sources of funds and decreasing the volume of credit portfolio, the Group also increased the volume of borrowing from the Central Bank.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Structured deposit (non-current)	**8,760**	**8,263**

The contractual undiscounted amount that will be required to be paid upon the maturity of the above debt security is EUR 8,920 thousand (2011: EUR 8,972 thousand). The amount exceeds the book amount by EUR 160 thousand (2011: EUR 709 thousand).

There were no significant gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value in 2012.

Deposits classified as financial liabilities designated at fair value through profit or loss are related to securities held as assets.

An interest rate analysis of the financial liabilities designated at fair value through profit or loss is disclosed in Note 2.2.3.2. Additional information on fair value is disclosed in Note 3(d).

30 DEPOSITS FROM BANKS AND NON-BANK CUSTOMERS, LOANS FROM BANKS

DEPOSITS FROM BANKS

	2012	2011
Deposits from banks	**11,263**	**39,403**
Current	11,263	39,057
Non-current	–	346

Fixed and variable interest rate deposits from banks account for 30% (2011: 81%) and 70% (2011: 19%) of the total, respectively.

DEPOSITS FROM NON-BANK CUSTOMERS

	2012	2011
Corporate entities	943,292	1,202,055
Retail customers	1,186,339	1,210,165
Total deposits from non-bank customers	**2,129,631**	**2,412,220**
Current	1,898,139	2,121,087
Non-current	231,492	291,133

Fixed and variable interest rate deposits from non-bank customers account for 70% (2011: 71%) and 30% (2011: 29%) of the total, respectively.

Deposits and certificates of deposit provided as collateral for loans granted in 2012 totalled EUR 53,847 thousand (2011: EUR 58,657 thousand). The fair value of those deposits approximates the carrying amount.

An interest rate analysis of deposits from banks and non-bank customers is additionally disclosed in Note 2.2.3.2. Fair value is disclosed in Note 3(d).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

LOANS FROM BANKS

	2012	2011
Loans from banks	**473,862**	**648,055**
Current	154,365	157,533
Non-current	319,497	490,522

Fixed and variable interest rate loans from banks account for 2.2% (2011: 1.6%) and 97.8% (2011: 98.4%) of the total, respectively.

Financial liabilities measured at amortised costs are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.2.2), Interest rate risk (Note 2.2.3), Liquidity risk (Note 2.3), Fair value (Note 3(d)) and Related-party transactions (Note 42).

31 DEBT SECURITIES ISSUED

	Interest rate on 31 December	2012	2011
Certificates of deposit (falling due: 2013 to 2020)	3.5–5.9%	89,091	172,529
Bonds – 14th issue, due 24 March 2015 in EUR	6M Euribor + 2.5%	15,117	15,166
ABVIPFloat 09/12, due 18 September 2012 in EUR	3M Euribor + 1%	–	348,468
Total debt securities issued		**104,208**	**536,163**
Current		57,860	461,926
Non-current		46,348	74,237

In 2012, Abanka paid off the principal of ABVIPFLoat 09/12 totalling EUR 350,589 thousand: on 13 March 2012, the Bank made an early partial redemption of the bond in the amount of EUR 69,898 thousand. The bond coupon was composed of EUR 1,000 and interest of EUR 5.71. The bond reached its final maturity date on 18 September 2012. The coupon was composed of the principal of EUR 1,000 and interest of EUR 4.25. The total amount of the matured coupons was EUR 282,283 thousand.

The second coupon of the 14th issue AB14 bonds of EUR 21.41 matured on 24 March 2012. The coupon consisted of interest. The total settled amount of the matured AB14 coupons was EUR 321 thousand.

The third coupon of the 14th issue AB14 bonds of EUR 18.50 matured on 24 September 2012. The coupon consisted of interest. The total settled amount of the matured AB14 coupons was EUR 278 thousand.

Fair value is disclosed in Note 3(d).

32 SUBORDINATED LIABILITIES

	Interest rate on 31 December	2012	2011
Short-term euro debt securities		–	1
Subordinated loan	3M Euribor + 1.9%	119,050	119,059
Total subordinated liabilities		**119,050**	**119,060**
Current		391	675
Non-current		118,659	118,385

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

On 18 January 2007, Abanka signed an agreement on a subordinated loan, which is classified as an innovative instrument according to the definition in Article 11 of the Decision on Capital Calculation of (Savings) Banks (Official Gazette of the RS, no. 135/2006 and 104/2007). The innovative instrument is a subordinated loan from VTB Europe, a bank with its head office in London. The innovative instrument fulfils all of the requirements of the Bank of Slovenia for inclusion in the Tier 1 and Tier 2 capital of the Bank.

The subordinated loan was financed by a bond issue, so-called loan participation notes, issued by a Dutch company established specifically for this transaction. The proceeds from the notes issue were paid to VTB Europe to fund the subordinated loan that it provided to Abanka. Any payments of interest and principal on the subordinated loan are the sole source of funds to cover payments of the interest and principal on the notes. As such, holders of the notes are exposed to Abanka's risk, though they have no recourse to any assets of Abanka.

Payments of principle and interest under the subordinated loan granted in January 2007 were entirely at the discretion of the management of Abanka and, therefore, the subordinated loan did not meet the definition of a financial liability in accordance with IFRS as adopted by the EU. Accordingly, the subordinated loan was classified as an equity instrument in its entirety in 2007.

In April 2008, the Management Board of Abanka declared a resolution in a Board Meeting regarding the discretionary right of the payment of interest of the subordinated loan and announced the modification to the public. This modification resulted in a change in the accounting treatment of the notes and consequently a reclassification from equity to liabilities was made at a fair value of EUR 117,539 thousand. Distributions to holders of the equity instrument that had been made up to May 2008 were debited by the entity directly to retained earnings. Since that time, distributions to holders have increased interest expenses. In 2012, the Bank paid interest of EUR 3,488 thousand (2011: EUR 3,872 thousand).

The Group did not issue dividend bonds, convertible bonds or bonds with a pre-emptive right to the purchase of shares.

Fair value is disclosed in Note 3(d).

33 PROVISIONS

	Note	Provisions for guarantees and commitments	Other provisions	Provisions for employee benefits	Total
As at 1 January 2011		**14,685**	**1,652**	**3,536**	**19,873**
Additional provisions	12, 14	4,498	728	29	5,255
Utilised during the year		–	(264)	(241)	(505)
As at 31 December 2011		**19,183**	**2,116**	**3,324**	**24,623**
Additional provisions	12, 14	1,600	280	929	2,809
Utilised during the year		–	(163)	(138)	(301)
As at 31 December 2012		**20,783**	**2,233**	**4,115**	**27,131**

Provisions for retirement benefits and jubilee payments were set aside by the Group as at 31 December 2012 based on its own calculations (2011: actuarial calculations).

The calculation is based on the following major assumptions:
• a discount rate of 3.08% (2011: 3.43%);
• staff fluctuation from 2010 to 2012; and
• average wage growth: 2.8% per annum.

Employees are also entitled to jubilee payments for every decade of service.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other provisions are disclosed in Note 38.

Other provisions mainly include provisions for the national housing savings scheme (NHSS). Whenever a saver in the NHSS fails to take up the option of a housing loan on the NHSS terms, the Group is obliged to repay all the premiums received by the saver during the saving period to the National Housing Fund. The Group has created EUR 1,112 thousand (2011: EUR 1,275 thousand) of provisions for that purpose.

34 DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using effective tax rates according to the tax rate valid in the year when the elimination of temporary differences is projected, i.e. 15% or for a part of total deferred tax for tax loss at 17% and the remaining part at 16% (2011: 20%).

MOVEMENTS IN THE DEFERRED INCOME TAX ACCOUNT ARE AS FOLLOWS:

	2011	Movement	2012
Deferred income tax assets			
Available-for-sale investments	8,886	(5,326)	3,560
Impairment of property and equipment, intangible assets and investment property	98	(24)	74
Provisions for employee benefits	495	(99)	396
Other provisions	70	(42)	28
Impairment on loans and receivables	2,377	(1,125)	1,252
Tax losses carried forward	25,518	6,610	32,128
	37,444	**(6)**	**37,438**
Deferred income tax liabilities			
Different depreciation rates for accounting and tax purposes	321	(95)	226
	321	**(95)**	**226**

INCLUDED IN THE INCOME STATEMENT:

	Note	2012	2011
Available-for-sale investments		(1,786)	3,325
Impairment of property and equipment, intangible assets and investment property		(24)	(3)
Different depreciation rates for accounting and tax purposes		95	–
Provisions for employee benefits		(99)	(42)
Other provisions		(42)	(72)
Impairment on loans and receivables		(1,125)	339
Tax losses carried forward		6,610	25,445
	16	**3,629**	**28,992**

(All amounts in EUR thousand unless otherwise stated)

INCLUDED IN EQUITY:

	2012	2011
Available-for-sale investments – unrealised gains	2,541	5,061
Available-for-sale investments – unrealised losses	(6,081)	(1,350)
	(3,540)	**3,711**

The Group recorded deferred tax assets for tax losses in the amount of EUR 6,610 thousand (2011: EUR 25,445 thousand) which, in accordance with the Slovenian Corporate Income Tax Act, can be carried forward indefinitely (Note 1.19).

35 SHARE CAPITAL, SHARE PREMIUM, TREASURY SHARES, REVALUATION RESERVES AND RESERVES FROM PROFIT

The Bank's share capital is comprised of 7,200,000 registered par-value shares, all of which are ordinary shares. The number of shares with voting rights is 4,676,340. In January 2011, the voting rights attached to 2,513,322 shares owned by Zavarovalnica Triglav d.d., HIT d.d., SOD d.d. and Mobitel d.d. were suspended in accordance with a decision of the Securities Market Agency; one share was subsequently sold. In addition, 9,213 treasury shares and 1,126 shares that have not been converted pursuant to Article 68 of the Dematerialised Securities Act (ZNVP) carry no voting rights. All shares issued are fully paid. Shareholders with a holding of at least 5% of the issued share capital as at 31 December are as follows:

2012	Share
Zavarovalnica Triglav d.d.	25.6%
Sava d.d.	23.8%
Gorenjska banka d.d.	14.7%
Delniški vzajemni sklad Triglav Steber Global	7.3%
HIT d.d.	6.1%

2011	Share
Zavarovalnica Triglav d.d.	25.6%
Sava d.d.	23.8%
Gorenjska banka d.d.	14.7%
Delniški vzajemni sklad Triglav Steber I	7.3%
HIT d.d.	6.1%

In 2012, there were no changes to treasury shares, meaning that as at 31 December 2012 Abanka held 9,213 (0.13%) shares with the designation ABKN, totalling EUR 240 thousand (2011: EUR 240 thousand).

MOVEMENTS IN SHARE CAPITAL:

	Number of shares	Total
As at 1 January 2011 and 1 January 2012	**7,200,000**	**30,045**
Issue of shares	–	–
Covering of the loss from the current year (Note 36)	/	(22,845)
As at 31 December 2012	**7,200,000**	**7,200**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

MOVEMENTS OF TREASURY SHARES:

	Number of shares	Total
As at 1 January 2011 and 1 January 2012	**9,213**	**240**
Sale	–	–
Purchase	–	–
As at 31 December 2012	**9,213**	**240**

MOVEMENTS IN SHARE PREMIUM:

	2012	2011
As at 1 January	**153,117**	**153,117**
Issue of shares	–	–
Appropriation of rewards in the form of shares	–	–
Covering of the loss from the current year	(9,829)	–
As at 31 December	**143,288**	**153,117**
– paid-in capital surplus	143,288	143,288
– elimination of the general capital revaluation adjustment	–	9,829

Revaluation reserves in the amount of EUR 4,549 thousand (2011: EUR -10,794 thousand) refer to the valuation of available-for-sale financial assets, which totalled EUR 4,832 thousand (2011: EUR -10,748 thousand) and consolidation equity adjustment, which amounted to EUR -283 thousand (2011: EUR -46 thousand).

Reserves from profit include legal reserves and reserves for treasury shares.

Reserves for treasury shares have to be released and may be released only if treasury shares are either sold or withdrawn.

In the past, the Group has created legal reserves in accordance with the Companies Act.

Share premium and legal reserves may be used for covering loss after tax for the year, if it cannot be covered from retained earnings or other reserves from profit.

MOVEMENTS OF ABANKA'S SHARES PLEDGED TO THE GROUP:

	Number of shares	Total
As at 1 January 2011	**48,350**	**2,345**
Pledge received	57,519	2,790
Fair value adjustment	/	(3,441)
As at 31 December 2011	**105,869**	**1,694**
Pledge received	–	–
Pledge lifted	(57,869)	(926)
Fair value adjustment	/	(576)
As at 31 December 2012	**48,000**	**192**

As at 31 December 2012, Abanka's shares pledged to the Group accounted for 2.67% of share capital (2011: 5.64%).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36 PROPOSED TREATMENT OF ACCUMULATED LOSS

The Bank covered its net loss for 2012 following the sequence defined in the Order of the Bank of Slovenia. Pursuant to the Order, the Management Board of Abanka proposed to the Supervisory Board and the latter to the General Meeting of Shareholders that a simplified reduction of share capital be performed in order to clear part of the loss for 2012 against the share capital. The proposal was accepted by the General Meeting of Shareholders on 8 April 2013.

	2012	2011
Net loss from the current year attributable to owners of the parent	(81,063)	(109,645)
Covering of the net loss from the current year attributable to owners of the parent	75,871	119,729
From reserves from profit	27,670	119,729
– from statutory reserves of the Bank	22,033	–
– from other reserves from profit of the Bank	5,460	119,149
– from other reserves from profit of subsidiary Abanka Skladi d.o.o.	177	580
From share premium (general capital revaluation adjustment)	9,829	–
From reserves from profit – legal reserves of the Bank	15,527	–
From share capital	22,845	–
Total reserves from profit, share premium and share capital	**75,871**	**119,729**

37 CASH FLOW STATEMENT

The indirect method was used to prepare the cash flow statement.

CASH AND CASH EQUIVALENTS

	2012	2011
Cash and cash balances with the central bank (Note 1.15, 18)	214,708	125,534
Treasury bills (Note 1.15, 21)	–	27,953
Loans to banks (Note 1.15, 22)	64,481	270,254
	279,189	**423,741**

CASH FLOWS FROM INTEREST AND DIVIDENDS

	2012	2011
Interest paid	107,224	109,634
Interest received	170,826	194,567
Dividends received	1,470	1,347

OTHER ITEMS IN THE CASH FLOW STATEMENT

Other gains from investing activities totalling EUR 5,010 thousand relate to held-to-maturity investments.

Other losses from financing activities totalling EUR 3,478 thousand relate to interest from subordinated liabilities (Abanka's subordinated bonds).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other adjustments to total profit or loss before tax relate to net provisions (EUR 11,427 thousand of new provisions less EUR 8,618 thousand of released provisions) and losses on the de-recognition of other assets other than those held for sale (EUR 198 thousand).

38 COMMITMENTS AND CONTINGENCIES

a) Legal proceedings

As at 31 December 2012 and 31 December 2011, there were some legal proceedings against the Group; however, management considers the provision booked to be appropriate. Total claims in legal actions brought against the Group amount to EUR 4,291 thousand (2011: EUR 3,158 thousand), for which provisions were formed. The Group made provisions for these legal proceedings on the basis of an estimated future cash flow of EUR 877 thousand (2011: EUR 841 thousand). For all other legal proceedings, the Group estimates that it is less than probable that a cash outflow will be required to settle the proceedings.

The Group acts as a defendant in 44 civil (and commercial) disputes. The value in dispute (principal) totals EUR 12,103 thousand. The Group is not involved in any dispute concerning intellectual property or protection of competition.

Major legal disputes in which the Group acts as the defendant are the following:

- Siteep Tegrad & PAP d.d. (in bankruptcy proceedings)
  Ref. No. XI Pg 4345/2010, District Court of Ljubljana
  On 2 December 2010, Abanka was served a claim for the payment of EUR 1,727,167.48 plus legal default interest as of 23 September 2009 on the grounds of an allegedly unlawful set-off in bankruptcy proceedings of a deposit received as collateral. The court of first instance upheld most of the claim, amounting to EUR 1,727,167.48 plus default interest as of 30 September 2009, and ordered the defendant to pay legal expenses in the amount of EUR 26,874.10. An appeal was filed, which the Court dismissed. A judicial review of the Higher Court decision was claimed on 21 December 2012.

- Raiffeisen banka d.d., Maribor
  Ref. No. VII Pg 2410/2011, District Court of Ljubljana
  On 21 June 2011, Abanka was served a claim for the payment of EUR 3,821,170.81 plus legal default interest as of 26 January 2011, due to its failure to honour a bill of exchange of Merkur. A defence was lodged on 20 July 2011. The action is pending.

- MIP d.d. (in bankruptcy proceedings)
  Abanka's subsidiary ABANKA SKLADI d.o.o. is a defendant in a lawsuit filed by MIP d.d. (in bankruptcy proceedings) claiming the annulment of an agreement and payment of EUR 2,839,040 plus legal default interest as of the day proceeds were accepted. The court of first instance ruled against the subsidiary ABANKA SKLADI d.o.o., to which the defendant duly filed an admissible appeal.

  In addition to the above lawsuits (in which, if the Group lost, it would be obliged to pay the claimed amounts), the Group also acts as a defendant in the following lawsuits (where losing would not incur an obligation to pay, but the loss of its right to be fully repaid from the bankruptcy estate):

- MIP- POMURKA Reja d.o.o. (in bankruptcy proceedings)
  Ref. No. Pg 9/2010, District Court of Murska Sobota
  On 8 April 2010, Abanka as the defendant was served an action requesting the annulment of Abanka's right to be fully repaid from the real property, i.e. plot numbers 3879/2, 3879/35, 3879/29, 3879/32, 3879/18 and 3879/37, all entered in the Land Registry of Murska Sobota (the value in dispute is EUR 4,604,764.69 plus default interest) and to delete Abanka's mortgages on the above-stated real property registered under Ref. No. 1271/2006. Abanka filed a statement of defence. On 28 March 2011, the Court issued a decision to suspend the trial until a final decision is given in the preliminary issue, i.e. a claim for the annulment of purchase agreements in the case Ref. No. Pg 442/2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The same court will adjudicate the case of Pomurka mesna industrija d.d. (in bankruptcy proceedings) as plaintiff vs. MIP Pomurka reja d.o.o. (in bankruptcy proceedings) as the defendant (Ref. No. Pg 442/2009), claiming the annulment of the agreement that gave MIP Pomurka Reja d.d. the real property title, i.e. plot numbers 3879/2, 3879/35, 3879/29, 3879/32, 3879/18 and 3879/37, all entered under land certificate number 4430 in the Land Registry of Murska Sobota, which have been pledged as collateral to Abanka. As the judgement in the latter case may also affect the mortgage under no. 1471/2008 with Abanka as a mortgagee, entered under land certificate number 4430 in the Land Registry of Murska Sobota, Abanka filed a motion to intervene. The Court ruled in favour of Abanka. The plaintiff filed an appeal.

- POMURKA mesna industrija d.d. Murska Sobota (in bankruptcy proceedings)
  Ref. No. XI Pg 675/2010, District Court of Ljubljana
  On 26 March 2010, Abanka was served an action for the annulment of the right to be fully repaid from the bankruptcy estate, which the plaintiff filed against seven defendants. The plaintiff challenges the conclusion of an agreement pledging brand names as a collateral, made on 25 July 2008 between MIP d.d. Nova Gorica, MIP DML d.o.o. Ljubljana and Abanka, and requests the annulment of Abanka's right to be fully repaid from the bankruptcy estate an amount of EUR 1,849,555.73 from the debtor MIP DML d.o.o. (in bankruptcy proceedings). Abanka filed a statement of defence. The action is pending.

- MAB TRANSPORT d.o.o. (in bankruptcy proceedings)
  On 13 July 2012, Abanka's subsidiary Aleasing d.o.o. was served a lawsuit filed by Mab transport d.o.o. (in bankruptcy proceedings) as plaintiff for the nullity of a registered claim and the nullity of the registered right to be fully repaid from the bankruptcy estate in the amount of EUR 2,173,152.59.

Major legal disputes brought to an end in 2012:

- Gradis skupina G d.d.
  Ref. No. XI Pg 108/2006, District Court of Ljubljana
  On 26 October 2006, Abanka was served a lawsuit filed against Abanka, Mebles IMS d.o.o. (in bankruptcy proceedings) and Movenso d.o.o., seeking principal and alternative relief. The principal relief sought by the plaintiff is the annulment of an agreement to sell part of the debtor in bankruptcy (part of the "Zbiljski gaj" project) made on 10 October 2003. The plaintiff further claims: from Abanka a refund of SIT 530 million plus legal default interest as of 10 October 2003 until the date of the refund, from Mebles IMS d.o.o. (in bankruptcy proceedings) a refund of SIT 119,484,538.60 plus legal default interest as of 15 October 2003 until the date of the refund and from Abanka and Mebles IMS d.o.o. (in bankruptcy proceedings) a (joint and several) refund of SIT 557 million plus legal default interest as of 10 October 2003 until the date of the refund. The plaintiff further claims from Abanka SIT 304,198,542 plus legal default interest as of 10 October 2003 until the date of the payment. The plaintiff, as an alternative relief, claims that Abanka be obliged to fulfil the assumed obligation of bearing the entire risk and all the negative consequences of the registration of the mortgage of the Knific family as creditors, or to establish the right of the plaintiff to be fully repaid from the bankruptcy estate, and that Abanka be obliged to refund the expenses incurred thus far arising from the registration of the mortgage in the amount of SIT 304,198,542 as well as to safeguard the plaintiff against any future additional expenses or other negative consequences arising from the registration of the mortgage or establishment of the right to be fully repaid from the bankruptcy estate. A court settlement was reached, according to which the plaintiff will dismiss the action and pay Abanka EUR 7,870 to cover court fees. The case is closed.

- Infond Holding d.d.
  Ref. No. V Pg 2989/2009 and Zg 37/2009, District Court of Ljubljana
  Infond Holding d.d. filed for an interim injunction to impose a restraint on the disposal of Pivovarna Laško and Mercator shares, which the Court dismissed. Following an appeal by Infond Holding, the Higher Court reversed the decision and ordered a retrial at the court of first instance. Due to the fact that the plaintiff underwent bankruptcy proceedings, the case has been suspended since 28 December 2009.

  On 13 September 2011, Abanka was served a lawsuit (Ref. No. V Pg 2989/2009) filed by Infond Holding, requesting the Court to nullify all sale agreements dated 6 August 2009 and all orders for transfer of securities, which served as the basis for the transfer of 100,001 shares with ticker symbol MELR and 285,463 shares with ticker symbol PILR and a demand from the Bank to issue orders to retransfer these shares to KDD and to register liens as entered on 5 August 2009. The alternative relief sought is a

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

payment of EUR 17,751,085.47 in damages. At the hearing on 28 November 2012, a court settlement was reached, agreed to take effect if neither of the parties to the dispute cancelled the settlement by 18 December 2012. The court settlement in essence determines that the plaintiff (Infond Holding d.d.) will dismiss the claim and compensate Abanka for court fees incurred in the amount of EUR 40,000. According to the court settlement thus reached, neither party has any claim to the other party. The case is closed.

b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to customers upon request. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet their obligations to third parties, carry the same credit risk as loans, documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowing. Cash requirements under guarantees and standby letters of credit are considerably lower than the amount of the commitment, because the Group does not generally expect the third party to draw the funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is 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 when due. The Group monitors the term to maturity of credit commitments, because long-term commitments generally involve greater credit risk than short-term ones. The total outstanding contractual amount of credit commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded.

The following table indicates the contractual amounts of the Group's guarantees and commitments to extend credit to customers:

GUARANTEES AND COMMITMENTS

	Note	2012	2011
Performance bonds		190,081	249,319
Financial guarantees		62,258	73,328
Avals		272	226
Letters of credit		205	–
Loan commitments		155,981	244,581
Derivatives		19,268	19,531
Other		18,181	25,646
		446,246	**612,631**
Provision for guarantees and commitments and other provisions:	33		
– guarantees and commitments		(20,783)	(19,183)
– other provisions			
– legal proceedings		(877)	(841)
– national housing savings scheme (NHSS)		(1,112)	(1,275)
– other		(244)	–
		423,230	**591,332**

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39 LEASES

	2012	2011
Gross investment in finance leases, receivable:	**75,189**	**95,913**
– no later than 1 year	34,150	39,073
– later than 1 year and no later than 5 years	37,864	50,243
– later than 5 years	3,175	6,597
Unearned future finance income on finance leases	9,126	13,836
Net investment in finance leases:	**66,063**	**82,077**
– no later than 1 year	30,464	34,275
– later than 1 year and no later than 5 years	32,862	42,176
– later than 5 years	2,737	5,626

	2012	2011
Investment in operating leases, receivable:	**2,826**	**3,107**
– no later than 1 year	993	1,145
– later than 1 year and no later than 5 years	1,833	1,962
– later than 5 years	–	–

	2012	2011
Operating lease liabilities:	**1,239**	**1,066**
– no later than 1 year	225	191
– later than 1 year and no later than 5 years	632	595
– later than 5 years	382	280

Finance lease liabilities were immaterial in both 2012 and 2011.

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40 TRANSACTIONS IN THE NAME AND FOR THE ACCOUNT OF THIRD PARTIES

Pursuant to the Decision on the Books of Account and Annual Reports of (Savings) Banks issued by the Bank of Slovenia, the Group discloses transactions in the name and for the account of third parties.

	2012	2011
Assets	**3,232,713**	**2,732,939**
Claims of settlement and transaction accounts for customer assets	**3,094,706**	**2,592,508**
– from financial instruments	3,086,985	2,591,958
– investment services and transactions (Financial Instruments Market Act - ZTFI)	467,834	442,356
– reception, transmission and execution of orders	439,846	416,705
– management of financial instruments	27,988	25,651
– for the account of the Bank	9	–
– custody operations (Investment Trusts and Management Companies Act - ZISDU)	2,619,151	2,149,602
– against the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for sold financial instruments	16	291
– against other settlement systems and institutions for sold financial instruments (buyers)	7,630	130
– against the brokerage for purchased financial instruments and net receivables from the CSCC (ZISDU)	75	129
Customers' cash	**3,010**	**3,732**
– in the settlement account for customer assets	857	1,084
– in banks' transaction accounts (ZTFI)	1,162	1,407
– in banks' transaction accounts (ZISDU)	991	1,241
Other transactions authorised by the customer	**134,997**	**136,699**
Liabilities	**3,232,713**	**2,732,939**
Liabilities of settlement and transaction accounts for customer assets	**3,097,687**	**2,596,545**
– to customers from cash and financial instruments	3,095,766	2,595,868
– investment services and transactions (ZTFI)	469,720	445,025
– reception, transmission and execution of orders	441,064	417,936
– management of financial instruments	28,656	27,089
– custody operations (ZISDU)	2,626,046	2,150,843
– to the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for purchased financial instruments	75	63
– to other settlement systems and institutions for purchased financial instruments (sellers)	1,649	95
– to the bank or the bank's settlement account for commission, fees, etc.	152	84
– to the brokerage for sold financial instruments and income from transactions in the name and for the account of third parties (ZISDU)	30	435
Other transactions authorised by the customer	**135,041**	**136,394**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

INCOME AND EXPENSES FROM FEES AND COMMISSIONS

	2012	2011
Income from fees and commissions related to (ancillary) investment services and transactions for customers	**2,977**	**3,477**
Reception, transmission and execution of orders	265	404
Management of financial instruments	138	199
Custody and related services	2,132	2,265
Maintenance of customers' dematerialised securities accounts	211	177
Safekeeping of financial instruments for customers' account	2	4
Advice to undertakings on capital structure, business strategy and related matters and advice and services relating to mergers and acquisitions of undertakings	229	428
Expenses from fees and commissions related to (ancillary) investment services and transactions for customers	**260**	**315**
Fees and commissions in connection with the CSCC (Central Securities Clearing Corporation) and similar organisations	163	212
– from investment banking operations (ZTFI)	163	171
– from custody operations (ZISDU)	–	41
Fees and commissions in connection with the stock exchange and similar organisations	13	16
Other transactions	84	87

41 MANAGED FUNDS

The Group manages assets totalling EUR 81,214 thousand (2011: EUR 89,772 thousand) on behalf of third parties. Managed fund assets are accounted for separately from those of the Group. Income and expenses of these funds are for the account of the respective fund, and the Group has no liability in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

42 RELATED-PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise a significant influence over the other party in making financial or operational decisions.

Related parties include key management personnel (the Management Board of the Bank, members of the Management Boards and directors of subsidiaries, executive directors of the Bank, members of the Supervisory Board of the Bank, all of these persons' close family members and individual companies in which these persons have significant influence), entities with significant influence on the Bank, associated and joint venture companies.

A number of banking transactions have been entered into with related parties in the normal course of business. The volume of transactions involving related parties for the year-end and related expenses and income for the year are as follows:

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Type of related party	Key management personnel		Entities with a significant influence		Associates and joint ventures	
	2012	2011	2012	2011	2012	2011
Financial assets and income						
Loans						
Loans as at 31 December	14,807	59,718	61,371	78,774	32,575	32,619
Interest income and fee income	740	2,105	3,388	3,642	1,416	1,701
Financial assets designated at fair value through profit or loss						
Debt securities as at 31 December	–	–	2,474	2,353	–	–
Gains	–	–	137	153	–	–
Financial assets held for trading						
Equity securities as at 31 December	–	–	335	–	–	–
Gains	–	–	245	–	–	–
Available-for-sale financial assets						
Debt securities as at 31 December	–	–	7,931	10,193	–	–
Interest income	–	–	716	727	–	–
Equity securities as at 31 December	–	–	2,817	962	–	–
Gains/(losses)	–	–	(11)	5	4,007	–
Other receivables	**29**	**5**	**59**	**36**	**–**	**–**
Other operating income	**–**	**165**	**–**	**–**	**–**	**–**
Undrawn loans granted (off-balance sheet records)	**107**	**73**	**6,683**	**6,923**	**–**	**–**
Guarantees						
Guarantees issued as at 31 December	1,800	–	1,945	–	–	–
Guarantee fee income	5	–	4	–	–	–
Comfort letters						
As at 31 December – risky	–	–	–	–	–	–
As at 31 December – non-risky	–	–	–	–	–	–
Financial liabilities and expenses						
Deposits						
Deposits as at 31 December	5,464	1,387	17,496	56,312	29	–
Interest expenses	188	38	1,118	1,486	–	–
Other financial liabilities measured at amortised cost						
Debt securities issued and subordinated liabilities as at 31 December	3,932	–	11,896	14,215	–	–
Interest expenses	205	–	649	1,068	–	–
Other liabilities	**–**	**–**	**26**	**3**	**–**	**–**
Administration costs	**–**	**–**	**–**	**–**	**–**	**–**
Provisions for guarantees and commitments						
Provisions as at 31 December	7	2	212	312	–	–
Net provision income/(expenses)	(4)	21	(115)	31	–	–
Fiduciary activities	**–**	**–**	**7**	**81**	**–**	**–**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Bank also has contractual relations with state-related companies.

Individually significant transactions with state-related companies include: given loans, debt securities available for sale, received long-term loans and accepted deposits. As at 31 December 2012, individually significant given long-term loans totalled EUR 70,000 thousand (1 contract) (2011: 1 contract amounting to EUR 70,000 thousand), debt securities available for sale EUR 47,233 thousand (1 contract) (2011: 1 contract amounting to EUR 39,023 thousand), received long-term loans EUR 335,369 thousand (17 contracts) (2011: 21 contracts amounting to EUR 419,014 thousand) and received deposits EUR 10,000 thousand (1 contract) (2011: 2 contracts amounting to EUR 34,000 thousand).

As at 31 December 2012, remaining (individually insignificant) given loans totalled EUR 8,254 thousand (2011: EUR 21,324 thousand), debt securities EUR 16,477 thousand (2011: EUR 24,535 thousand), received loans EUR 109,407 thousand (2011: EUR 66,812 thousand) and received deposits EUR 49,128 thousand (2011: EUR 87,700 thousand).

In the reporting year, interest income from transactions with state-related companies amounted to EUR 1,782 thousand (2011: EUR 2,840 thousand). In 2012, interest income from derivative financial instruments equalled EUR 2,340 thousand (2011: EUR 2,056 thousand). In 2012, net gains from derivative financial instruments were EUR 3,676 thousand (2011: EUR 6,361 thousand) and interest expenses on deposits amounted to EUR 18,958 thousand (2011: EUR 18,172 thousand).

THE NUMBER OF ABANKA VIPA D.D. SHARES HELD BY MEMBERS OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND EXECUTIVE DIRECTORS

	2012	2011
As at 1 January	**7,717**	**7,717**
Changes in the composition of the Management Board, the Supervisory Board and executive directors	(5,879)	/
Sale	–	–
Purchase	–	–
As at 31 December	**1,838**	**7,717**

In both 2012 and 2011, no share options issued by Abanka Vipa d.d. were granted to the management as remuneration.

The Group's outstanding loans to members of the Bank's Management Board and to directors of subsidiaries stood at EUR 55 thousand as at the end of 2012 (2011: EUR 67 thousand). The amount of loan repayments totalled EUR 12 thousand (2011: EUR 7 thousand). The average interest rate on the loans was 3.93% (2011: 4.06%).

The Group's outstanding loans to members of the Bank's Supervisory Board stood at EUR 1 thousand at the end of 2012 (2011: EUR 185 thousand). There were no loan repayments in 2012 (2011: EUR 213 thousand). The average interest rate on the loans was 8.9% (2011: 6.18%).

The Group's outstanding loans to management personnel stood at EUR 1,291 thousand at the end of 2012 (2011: EUR 1,430 thousand). The amount of loan repayments totalled EUR 246 thousand (2011: EUR 186 thousand). The average interest rate on the loans was 2.78% (2011: 3.18%).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

BREAKDOWN OF EARNINGS AND BENEFITS OF THE MANAGEMENT AND SUPERVISORY BOARD MEMBERS AND MANAGEMENT PERSONNEL

Total earnings and benefits received by the Management Board from 1 January to 31 December 2012

	Gregor HUDOBIVNIK**	Radovan JEREB, M.Sc. Econ.**	Jože LENIČ, M.Sc. Econ.	Igor STEBERNAK*	Total in EUR
Fixed part of the salary (gross)	57,305.37	57,305.36	120,544.29	53,143.43	288,298.45
Variable part of the salary (gross)	–	–	–	–	–
Profit sharing	–	–	–	–	–
Options and other remuneration	–	–	–	–	–
Reimbursements	722.16	679.32	1,383.12	648.72	3,433.32
Insurance premiums	1,240.08	1,240.08	2,480.16	918.55	5,878.87
Benefits	7,638.12	3,913.92	14,262.68	3,842.80	29,657.52
Fees and commissions	–	–	–	–	–
Attendance fees for supervisory work in subsidiaries	4,050.00	–	–	–	4,050.00
Total earnings	**70,955.73**	**63,138.68**	**138,670.25**	**58,553.50**	**331,318.16**
Total net earnings	**30,319.55**	**29,642.38**	**53,636.23**	**24,910.48**	**138,508.64**

* 1 July 2012 – start of the term of office of the Member of the Management Board
** 30 June 2012 – end of the term of office

In the period following the end of their term of office, Gregor Hudobivnik and Radovan Jereb received the deferred part of the variable remuneration from 2008 of gross EUR 10,633.00 (net EUR 5,119.48) and gross EUR 7,564.00 (net EUR 3,659.37) respectively.

Total earnings and benefits received by the Management Board from 1 January to 31 December 2011

	Jože LENIČ, M.Sc. Econ.*	Radovan JEREB, M.Sc. Econ.	Gregor HUDOBIVNIK	Total in EUR
Fixed part of the salary (gross)	100,233.17	114,067.70	114,067.70	328,368.57
Variable part of the salary (gross)	–	25,000.00	22,500.00	47,500.00
Profit sharing	–	–	–	–
Options and other remuneration	–	–	–	–
Reimbursements	1,400.48	1,254.60	1,486.04	4,141.12
Insurance premiums	1,811.25	2,415.00	2,415.00	6,641.25
Benefits	5,453.84	7,625.32	13,781.92	26,861.08
Fees and commissions	–	–	–	–
Attendance fees for supervisory work in subsidiaries	–	–	9,150.00	9,150.00
Total earnings	**108,898.74**	**150,362.62**	**163,400.66**	**422,662.02**
Total net earnings	**48,607.42**	**68,849.68**	**69,338.26**	**186,795.36**

* 17 January 2011 – start of the term of office of the President of the Management Board

As at 31 December 2012, members of the Bank's Management Board sat on the Supervisory Boards of the non-associated companies Krka d.d. (Jože Lenič, M.Sc. Econ.) and Helios Domžale d.d. (Igor Stebernak).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Total earnings received by the members of the Management Boards and the directors of subsidiaries for their work in 2012 amounted to EUR 458 thousand (2011: EUR 478 thousand).

PROVISIONS AND ACCRUED COSTS FOR THE BANK'S MANAGEMENT BOARD AND THE MEMBERS OF THE MANAGEMENT BOARDS AND DIRECTORS OF SUBSIDIARIES

	2012	2011
Provisions for retirement benefits and jubilee payments	136	170
Accrued costs for unused leave	34	31
	170	**201**

TOTAL EARNINGS AND BENEFITS RECEIVED BY MANAGEMENT PERSONNEL

	2012	2011
Salaries	2,802	2,433
Retirement, severance and jubilee payments	39	50
	2,841	**2,483**

PROVISIONS AND ACCRUED COSTS FOR MANAGEMENT PERSONNEL

	2012	2011
Provisions for retirement benefits and jubilee payments	617	497
Accrued costs for unused leave	169	148
	786	**645**

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2012

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)
Andrej Andoljšek	5,955.00	3,938.00	165.06	10,058.06	7,794.94
Andrej Slapar	4,500.00	5,012.00	19.03	9,531.03	7,386.55
Janez Bohorič	4,545.73	1,432.00	118.88	6,096.61	4,724.85
Vladimir Mišo Čeplak, M.Sc.	9,000.00	8,234.00	–	17,234.00	13,356.35
Kristina Ana Dolenc	4,500.00	4,654.00	–	9,154.00	7,094.35
Janko Gedrih	300.00	358.00	60.15	718.15	556.57
Andraž Grum, Ph.D.	8,775.00	6,086.00	–	14,861.00	11,517.27
Andrej Hazabent, M.Sc.	3,217.70	1,432.00	462.16	5,111.86	3,961.68
Slaven Mićković, Ph.D.	9,000.00	7,518.00	–	16,518.00	12,801.45
Branko Pavlin, M.Sc.	9,766.27	6,802.00	1,511.08	18,079.35	14,011.49
Uroš Rožič, M.Sc.	3,000.00	716.00	–	3,716.00	2,879.90
Igor Stebernak	3,425.00	1,432.00	–	4,857.00	3,764.17
Franci Strajnar, M.Sc.	9,000.00	8,950.00	1,647.95	19,597.95	15,188.40
Simon Zdolšek	2,250.00	1,432.00	266.40	3,948.40	3,060.01
	77,234.70	**57,996.00**	**4,250.71**	**139,481.41**	**108,097.98**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM 1 JANUARY TO 31 DECEMBER 2011

	Service remuneration	Attendance fees	Reimbursements	Total in EUR (gross)	Total in EUR (net)
Janez Bohorič	12,500.00	3,993.14	296.49	16,789.63	13,011.92
Branko Pavlin, M.Sc.	9,000.00	2,596.52	–	11,596.52	8,987.31
Vladimir Mišo Čeplak, M.Sc.	9,000.00	6,463.67	–	15,463.67	11,984.34
Miha Dolinar	5,000.00	2,754.65	–	7,754.65	6,009.86
Andraž Grum, Ph.D.	9,000.00	3,670.52	–	12,670.52	9,819.66
Slaven Mićković, Ph.D.	9,000.00	3,670.52	–	12,670.52	9,819.66
Uroš Rožič, M.Sc.	9,000.00	3,670.52	–	12,670.52	9,819.66
Igor Stebernak	4,620.00	2,148.00	–	6,768.00	5,245.20
Franci Strajnar, M.Sc.	4,000.00	2,864.00	471.69	7,335.69	5,685.16
Simon Zdolšek	9,000.00	4,141.39	569.09	13,710.48	10,625.62
	80,120.00	**35,972.93**	**1,337.27**	**117,430.20**	**91,008.39**

43 EVENTS AFTER THE REPORTING DATE

The following business events that occurred after the reporting period may have impact on the business decisions of the Report's users:

- In October 2012 Abanka, on behalf of the majority shareholder, authorised the Management Board of ABANKA SKLADI to start activities for selling the business. Taking into account all legal limitations Abanka expects it to take the best offer, with sales price maximisation as the main objective.

- In line with the business strategy of the Abanka Group, Aleasing d.o.o. drafted a plan for transferring part of its assets, together with attached rights and obligations, to the newly founded company ANEPREMIČNINE d.o.o., which will constitute the division of Aleasing d.o.o. Abanka as the sole owner of Aleasing d.o.o. will thereby also become the sole owner of ANEPREMIČNINE d.o.o.

- On 18 February 2013, the public share offering, based on a resolution passed at the 25th regular Annual Meeting of Shareholders of Abanka, was concluded. As the number of new shares subscribed and paid in during the course of the public offering was insufficient, the public offering of new shares failed according to the provisions of the Prospectus.

- On 19 February 2013, the Bank of Slovenia sent to Abanka a Decree on Additional Measures to Increase Capital, whereby the Bank of Slovenia required from Abanka's Management Board to convene a general meeting of shareholders by 30 April 2013 at the latest and propose at that meeting a share capital increase under new conditions. In response to that, the Management Board proposed to the Supervisory Board convening another general meeting of shareholders to decide on the share capital increase under such conditions that the Management and Supervisory Boards deem appropriate for strengthening the capital base of the Bank. The proposed recapitalisation totals EUR 90 million, at a price of at least EUR 1 per share, and the pre-emptive rights of the existing shareholders will be excluded. Not only the present major shareholders but also other interested and potentially interested investors will be invited to subscribe to shares.

- On 8 March 2013, the Supervisory Board was briefed on the expected timetable of activities for increasing the Bank's capital through the paying up of new shares and gave its consent to the proposed method for covering the net loss generated in 2012. It also gave its consent to the proposed resolutions for the General Meeting of Shareholders, which will decide on the increase in the Bank's capital through the paying up of new shares in the amount of EUR 90 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- On 8 April 2013, the General Meeting of Shareholders voted in favour of a reduction of Abanka's share capital which on the day the resolution was adopted amounted to EUR 30,045,067.60. The share capital is reduced to set off part of the loss for 2012 amounting to EUR 22,845,067.60 against the share capital of the Bank and after the reduction totals EUR 7,200,000.00. Furthermore, the General Meeting of Shareholders voted in favour of a share capital increase of the Bank totalling EUR 90 million, at a share price not lower than EUR 1 and with the exclusion of the existing shareholders' pre-emptive rights.

- On 25 February 2013, the international rating agency Moody's changed Abanka's Long-term Deposit Rating to "Caa3" and its Preferred Stock Non-cumulative Rating to "C". Abanka's Bank Financial Strength Rating has been affirmed at "E". The Outlook remains negative. The agency stated, that the downgrades reflect a failure to carry out its planned capital increase.

- On 5 April 2013, the following ratings of Abanka were affirmed by the Fitch Ratings international rating agency: Long-term Foreign Currency Issuer Default Rating at "B-", Short-term Foreign Currency Issuer Default Rating at "B", Support Rating at "5" and Support Rating Floor at "B-". Abanka's Viability Rating was downgraded to "cc" and the Hybrid Capital Instrument Rating to "C". Abanka's Long-term Foreign Currency Issuer Default Rating maintained a negative outlook. According to the agency's expectations Abanka needs additional capital. The capital position of the Bank could also be adversely affected by further deterioration in the asset quality due to the weak operating environment in Slovenia.

- Of the companies to which the Abanka Group has exposures above EUR 1 million, nine companies faced insolvency proceedings in the first three months of 2013; bankruptcy proceedings were initiated against six companies in the construction, trade, real property sectors and professional, scientific and technical activities, while three companies dealing in trade and textile, fur and leather production underwent compulsory composition. As at 31 December 2012, the Group's total exposure to these companies was 6.9% of consolidated capital.

KPMG

Independent Auditor's Report

To the Shareholders of ABANKA VIPA d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the company ABANKA VIPA d.d. and its subsidiaries (ABANKA VIPA Group), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the ABANKA VIPA Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.

KPMG

Emphasis of matter

We draw attention to the disclosures made in note 1.1. Basis of Preparation. These disclosures set out a number of material economic, political and market risks and uncertainties that impact the Slovene banking system and which could adversely affect the future operation and financial position of the Bank and the Group. These uncertainties also include the ability to access funding from existing major shareholders and other investors in order to meet capital adequacy requirements. Our opinion is not qualified in this respect.

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.

As at 31 December 2012, the Bank covered a loss by priority in compliance with the decree of the Bank of Slovenia that differs from the requirements defined by the Companies Act, as explained within the Note 36 to the financial statements.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Mag. Simona Korošec Lavrič

Certified Auditor

Boris Drobnič

Partner

Ljubljana, 19. April 2013

KPMG Slovenija, d.o.o.
1

The Independent Auditor's Report hereof is a translation of the original Independent Auditor's Report in Slovene, issued on the financial statements and the notes thereto in Slovene. This translation is provided for reference purposes only.

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