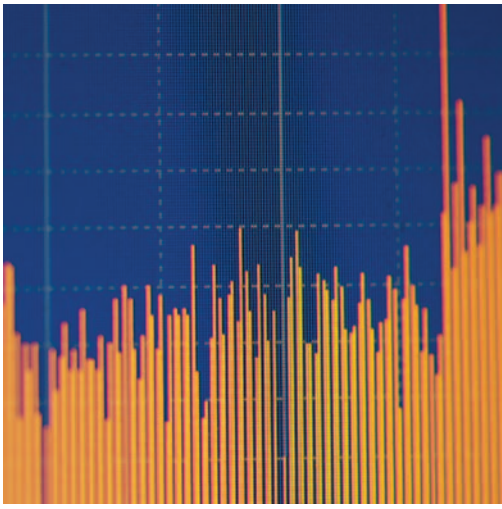

Annual Report: 2012

Gorenjska Banka
All that counts.

Annual Report: 2012

Gorenjska Banka
All that counts.

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Management Report

International rating of Gorenjska banka, d. d., Kranj - Fitch Ratings	
Long-term Credit Rating	**B**
Support	**5**
Viability	**b**
Short-term Credit Rating	**B**

	2012	2011
Statement of financial position, as at 31 December (in thousands of EUR)		
Total assets	1,790,040	1,947,403
Total deposits from the non-banking sector:	1,151,138	1,236,712
- corporates and other entities	384,987	477,731
- individual clients	766,151	758,981
Total amount of loans to the non-banking sector:	1,153,856	1,245,376
- corporates and other entities	1,033,119	1,126,851
- individual clients	120,737	118,525
Total equity	289,187	337,026
Impairment of financial assets and provisions	236,969	171,731
Total off-balance sheet operations	173,780	175,177
Income statement (in thousands of EUR):		
Net interest income	42,035	52,687
Net non-interest income	9,439	41,109
Labour costs, general and administrative costs	24,978	25,795
Depreciation	2,207	2,131
Impairment and provisioning	96,078	64,200
Profit/loss before income tax	(71,789)	1,672
Tax related to profit/loss	(9,564)	(8)
Other comprehensive gains/losses	26,398	(12,626)
Tax related to other comprehensive gains/losses	(4,944)	2.525
Number of employees, as at 31 December	408	422
Shares:		
Number of shareholders	482	477
Number of shares	331,416	331,416
Number of shares, less treasury shares	305,701	305,701
Nominal share value or an amount belonging to non-par share in registered capital (in EUR)	42	42
Book value per non-par share (in EUR)	967	1,102
Ratios (in %):		
Capital:		
- Capital adequacy (according to the Bank of Slovenia)	14.07	15.14
Assets quality:		
- Impairment of financial assets at amortised cost and provisions / on-balance and off-balance sheet items classified	11.21	7.94
Profitability:		
- Interest margin (net interest income to total assets)	2.23	2.69
- Financial mediation margin (net interest income and net non-interest income to total assets)	2.73	4.79
- Return on assets – before tax	(3.81)	0.09
- Return on equity – before tax	(21.26)	0.49
- Return on equity – after tax	(18.43)	0.49
- Return on equity – before tax (before impairment)	6.63	18.16
Operational costs:		
- Operational costs / average assets	1.44	1.43
- Operational costs / income	52.81	29.77
Liquidity:		
- Average liquid assets / average sight deposits from non-banking sector	51.35	51.13
- Average liquid assets / average assets	23.48	23.63

The business sphere was in 2012 predominantly affected by further worsening of the conditions on financial markets. The ratings of countries and commercial banks were deteriorating persistently. In Slovenia, banks were also facing numerous problems, leading to further increases in impairments and provisions, which reached more than 20-percent growth at the annual level. The Slovenian banking system thus ended 2012 with serious losses, recording negative figures for third year in a row. Such an environment is causing concern rather than instilling the necessary optimism.

Gorenjska banka was also not immune from the conditions in the banking and the wider economic environment in 2012. Impairments of loans and securities were also high for Gorenjska banka in 2012, resulting in first-ever annual losses at the level of EUR 62.2 million. Despite poor results, the Bank remains highly liquid and entirely capable of timely settlement of its liabilities. The structure of assets and liabilities is adequate. The Bank also kept its 14-percent capital adequacy, remaining one of the strongest Slovenian banks in terms of capital. The Bank thus meets the prescribed capital requirements also in case of serious stress scenarios.

The scope of operations of Gorenjska banka as measured in total assets decreased by 8 percent as compared to the year before. The Bank also recorded a slightly poorer position in terms of market share in total assets. At the end of 2012, this figure stood at 3.88 percent. The decreased scope of operations is a consequence of the global economic situation and the related drop in the value of investments, at the same time reflecting the tough economic conditions in the primary operational environment of Gorenjska banka. Companies lack projects for the Bank to finance and often also cannot ensure adequate collateral. Numerous companies are over-indebted and default on payments to banks, thus deteriorating the quality of existing loans and the value of collateral.

In the light of such conditions, **maintaining safety and stability** was of key significance. On the one side, this meant decreasing our liabilities to banks and legal entities, and on the other, decreasing the scope of loans to non-banks and the value of securities portfolio. At the same time, we focused more intensely on households, for which we strengthened our position in 2012 both in terms of fund placement and raising by way of a well-deliberated interest rate policy. We also managed to strengthen our position in the segment of small and medium sized enterprises. We adjusted to lower margins by efficiently managing operating costs, which we were able to keep at 1.4 percent of the value of average assets, i.e. at the 2011 level, despite lower assets.

We remain a highly liquid bank. The liquidity ratio was consistently above 1 throughout 2012. Competitive offers enabled us to preserve adequate structure of assets and liabilities as well as to settle timely all current liabilities. We solved easily any discrepancies between inflows and outflows by activating secondary liquidity and investments with the status of suitable financial property, based on which we can obtain the funds of the European Central Bank.

Our business decisions were in 2012 mostly focused on ensuring stable operations of Gorenjska banka, which seems contrary to the disclosed negative figures at first glance. Despite the negative result, we provided for high liquidity and capital reserves. We did not lag behind plans in current operations. The credit decisions we made were well deliberated, process and services novelties were thoughtfully adjusted to the needs of our clients, whilst cost efficiency still remained one of our distinguishing skills.

Above-average capital strength is of special importance in the present period. It also enables Gorenjska banka solid development opportunities. As concerns these opportunities, we remain fond of alliance with Abanka Vipa, d.d., Ljubljana, but not at any cost and not at the expense of threatening the stability of Gorenjska banka. Our ambition to keep the decisive role in the potential alliance process remains the same, which is completely understandable taking into account the factors of key importance for the alliance. In 2012, the alliance activities were implemented in compliance with the adopted guidelines and I expect these activities to continue also in 2013, even though the unsuccessful capital increases of Abanka Vipa d.d., Ljubljana affect the very substance of the alliance process.

The 2013 financial year will not be any less demanding than the previous one. Macroeconomic forecasts are pessimistic and developments uncertain. Sources of financing will be difficult to obtain at both the national and banking system level, consequently also for the business sector. Further aggravation of conditions on international financial markets and the related financing conditions are to be expected. For this reason, Gorenjska banka does not plan an increase in the scope of operations, but we do plan positive operating results again.

Positive operating results for 2013 will be achieved with optimum scope of operations through reasonable risk taking for loans to non-banks. Though low, our dependence on financing on international markets will be decreased through accelerated obtainment of stable sources from households. Investments in the information system development, improvement of the HR structure and changes in the Bank's organisational structure will enhance the efficiency of existing business processes. We will be actively engaged in restructuring and other activities that will increase our business clients' capacity to settle liabilities in the time of crisis. Temporary ownership of companies is also an option. We will continue devoting a large part of our creative energy to winning new business clients, in particular among small and medium-sized enterprises, as well as to keeping our existing clients loyal.

I do not claim this to be easy. There will be plenty of challenges, also in relation to the necessary banking system consolidation, and I do not wish to look back one day and regret too many opportunities missed. I am convinced that the team behind Gorenjska banka is determined and competent to keep the commitment it made to its clients, partners, owners, and other stakeholders. With clear business priorities and objectives, reasonable risk taking and well-deliberated decision making, it is mostly qualified employees, constructive Supervisory Board and responsible owners in whom I see a great deal of advantages of Gorenjska banka and at the same time one of the fundamental guarantees for our future success. I hereby express my honest thanks to all for your professional, productive and committed work.

Gorazd Trček
President of the Management Board

Composition of the Supervisory Board in 2012

The Supervisory Board presided by Franc Balanč and with Zlatko Kavčič, Miro Pinterič, Drago Štefe, Mojca Globočnik, Miha Resman, and Mitja Selan acting as members was appointed at the General Meeting of Shareholders of Gorenjska banka, d.d., Kranj, on 14 May 2008. At the regular General Meeting of Shareholders held on 12 June 2012, a new seven-member Supervisory Board was appointed: Mojca Globočnik, Milan Marinič, Primož Karpe, Tibor Šimonka, Matej Podlipnik, Miha Resman, and Stojan Žibert. Miha Resman was appointed Chairman of the Supervisory Board.

The Audit Committee and the Commission for Receipts, Human Resources and Organisational Affairs are responsible for the performance of special tasks from the area of the Supervisory Board's competencies. The Audit Committee presided by Mitja Selan and with Mojca Globočnik and Dr. Marko Hočevar acting as members was appointed at the Supervisory Board's session held on 11 February 2010. The Commission for Receipts, Human Resources and Organisational Affairs consisted of three members: Franc Balanč, Zlatko Kavčič, and Mitja Selan. New members of the Committee and the Commission were appointed at the constitutive session of the Supervisory Board held on 12 June 2012. Milan Marinič was elected Chairman of the Audit Committee, whilst Primož Karpe and Mitja Selan became its members. Three members of the Supervisory Board were elected to the Commission for Receipts, Human Resources and Organisational Affairs: Miha Resman, Mitja Podlipnik, and Stojan Žibert.

The Supervisory Board members' term will expire at the conclusion of the General Meeting of Shareholders, at which a decision will be taken regarding the Bank's 4th annual report, counting from the appointment of the Supervisory Board onwards. The term of the members of the Committee and the Commission expires upon the expiry of the term of the members of the Supervisory Board.

Review of the Supervisory Board's activities in 2012

In 2012, the Supervisory Board held eight regular, one constitutive, two extraordinary, and three correspondence sessions. The Bank's Supervisory Board followed and monitored the Bank's operations and the work of the Management Board in accordance with its competencies and duties of the Supervisory Board as stipulated in the Banking Act, Decision of the Bank of Slovenia on the Diligence of Members of Management Boards and Supervisory Boards of Banks and Savings Banks, Companies Act, and the Bank's By-Laws. In the course of its work, the Supervisory Board took into account the interests of owners, clients, and employees. The supervisory function was carried out based on regular briefings from the Management Board, and based on the certified auditor's report and the annual report at the end of the financial year.

The Management Board informed the members of the Supervisory Board in a regular, timely and comprehensive manner about the Bank's business results achieved as well as all major events related to the Banks operations and strategy, in particular about the alliance procedure with Abanka Vipa, d.d., Ljubljana and risk management.

The Supervisory Board oversaw the activities of the Internal Audit Department based on regular quarterly reports. It approved the 2011 internal audit report and established that the department functioned independently in accordance with its adopted work programme and the rules governing internal auditing. The Board also adopted:

- Reports of the Audit Committee;
- Reports of the Commission for Receipts, Human Resources and Organisational Affairs;
- Assessment of the Supervisory Board's work in 2011;
- Rules of Procedure of the Supervisory Board;
- Reports on changes in large exposures, exposures to related entities and to entities in special relationship with the Bank;
- Amendments to the Policy on Receipts and Awards at the Bank;
- Information on the Programme of Measures for Achieving the Bank's Planned Objectives for 2012.

It discussed and adopted the Bank's unaudited annual report for 2011 with the Bank's financial statements and established that the Bank had operated successfully in the light of the financial crisis and that it had managed risks appropriately. The Supervisory Board approved that net profit for 2011 be used in compliance with Articles 64 and 230 of the Companies Act and Article 37 of the Bank's By-Laws for legal and statutory reserves and that the remaining net profit be undistributed. The Board reviewed, approved and adopted the Bank's audited 2011 annual report. The Board approved and adopted the certified auditor's report for the 2011 financial year.

In line with the proposal of the Commission for Receipts, Human Resources and Organisational Affairs, the Supervisory board confirmed the President of the Management Board Gorazd Trček for the next five-year term at its session held on 23 July 2012.

In 2012, the Supervisory Board gave its consent to the Management Board for the following proposals:

- Rules on the Management Strategy for Risks and the Process for Internal Capital Adequacy Assessment at the Bank (ICAAP);
- Increase in High Exposure and Exposure to Entities in Special Relationship with the Bank;
- Amendments to the Policy of Professional and Ethical Standards for the Members of the Bank's Management Board and Supervisory Board;
- The Bank's 2013 Operating Plan with the plan of development and business policy foundations for 2013;
- Definition of the Draft Internal Audit's Annual Action Plan for 2013.

The Supervisory Board was familiarised with:

- the substance of the valuations of equity stakes in Abanka Vipa, d.d., Ljubljana, Sava, d.d., Kranj, and Pivovarna Laško, d.d., Laško as at 31 December 2011; the Board approved that Gorenjska banka, d.d., Kranj uses these valuations for the purpose of accounting treatment as at 31 December 2011;
- the document Framework Bases for the Examination of Synergy Effects of Capital Ties between Gorenjska banka, d.d., Kranj and Abanka Vipa, d.d., Ljubljana and for the Assessment of the Justification of Capital Ties; the Board adopted the decision that the submitted document should be amended and supplemented as concerns the assessment and projections for all the risks, capital adequacy, liquidity, potential synergies, operational efficiency, and presentation of individual elements of the Bank's operations, which should not deteriorate due to the alliance;
- the capital increase procedure of Abanka Vipa, d.d., Ljubljana; the Board established that the Management Board's implemented and anticipated capital-increase related activities are appropriate and in compliance with the resolutions of the Supervisory Board;
- the Bank's risk management process and internal controls system;
- the presentation of the Bank's risk exposure;
- the implementation of the ICAAP process at the Bank and report in the ICAAP process implementation;
- the letter of the Bank of Slovenia regarding the finding arising from the review and assessment of the ICAAP process at the Bank;
- the letter of the Bank of Slovenia including warnings and recommendations and the order to eliminate violations, the Bank's appeal against the order and the decision of the Bank of Slovenia on partial amendments to the order to eliminate violations; the Supervisory Board is monitoring the implementation of demands from the letter, which are presently in line with the schedule;
- activation of the company Imobilia-GBK, d. o. o., Kranj;
- business plan foundations and HR structure of Imobilia-GBK, d. o. o., Kranj.

The Supervisory Board was continuously informed about the implementation of activities related to the alliance with Abanka Vipa, d.d., Ljubljana and the capital increase procedure of Abanka Vipa, d.d., Ljubljana, expressing its consent to the capital increase at the level proportionate to the existing share.

The Supervisory Board proposed to the General Meeting of Shareholders to adopt the following proposals and reports in 2012:

- the 2011 internal audit report with the opinion on the report;
- the report by the Supervisory Board on the review, approval and adoption of the Bank's audited annual report for the 2011 financial year, the report on the activities of the Supervisory Board during 2011, and the Supervisory Board's opinion on the report by the certified auditor for the 2011 financial year;
- the proposal for appointing the auditor to audit the Bank's operations for the 2012 financial year;
- the proposal on the election of members of the Bank's Supervisory Board with the following composition: Mojca Globočnik, Milan Marinič, Primož Karpe, Stojan Petrič, Matej Podlipnik, Miha Resman, and Stojan Žibert;
- the proposal to establish and use the 2011 distributable profit with the proposal for the discharge of the members of the Management Board and Supervisory Board for the 2011 financial year;
- the proposal for the Management Board's authorisation to purchase treasury shares and the report on justified grounds for complete exclusion of the priority right for disposal of treasury shares.

Based on the data, reports, information and, as necessary, additional clarifications and explanations prepared by the Management Board, the Supervisory Board responsibly monitored the Bank's operations and the work of the internal audit department, and supervised the management of the Bank.

Information on the approval and adoption of the 2012 annual report

The Bank's Management Board first submitted the 2012 annual report to the Audit Committee, which gave a positive opinion on the report. Within the legally prescribed deadline, the Bank's Management Board submitted to the Supervisory Board for review the audited annual report for 2012, including the Bank's audited financial statements and the certified auditor's report prepared by Deloitte revizija, d. o. o., Ljubljana. Based on the audit of Gorenjska banka, d. d., Kranj statement of financial position as at 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the period then ended, the summary of significant accounting policies and other explanatory notes, the auditor issued the opinion that the Bank's financial statements present a true and fair picture of the financial position of Gorenjska banka, d.d., Kranj as at 31 December 2012, its operating result and cash flows for the period then ended, in accordance with the International Financial Reporting Standards as adopted by the EU. The auditor's report also includes confirmation of the consistency of the business report with the audited financial statements.

In the opinion of the Supervisory Board, the Bank's Management Board and the Supervisory Board fulfilled all of their legal obligations in the 2012 financial year.

On the basis of the above statements, the Supervisory Board approved and adopted the annual report of Gorenjska banka, d. d., Kranj for 2012 and the certified auditor's report for the 2012 financial year.

Miha Resman
Chairman of the Supervisory Board

Management and Organisational Chart

Management of the Bank

President of the Management Board	**Gorazd Trček**
Member of the Management Board	**Srečko Korber**
Member of the Management Board	**Tilen Zugwitz**

Divisions

- Commercial banking
  Katja Božič
- Treasury
  Gorazd Marčun
- Payments & international
  Milena Preželj
- Retail banking
  Igor Poljšak
- Accounting & operating support
  Irena Šest
- Administrative & human
  Nada Nastran
- Information systems
  Janez Prešern

Departments

- Internal audit
  Sonja Kerec
- Legal office
  Igor Colnar
- Risk management
  Matevž Slapničar
- Marketing communications
  Irena Čebulj
- Risk claims management
  Robert Kristanc
- Compliance
  Božo Jašovič

Organisational Chart of Gorenjska banka Group

Gorenjska banka, d. d., Kranj

Subsidiaries

- Imobilia–GBK, d. o. o., Kranj, **100 %**
- Gorenjski glas, d. o. o., Kranj, **82.0499 %**

Associated company

- Skupna, d. d., Ljubljana, **26.0269 %**

Top Management Structure

General meeting of shareholders

Supervisory Board

- **Miha Resman**
  President
- **Tibor Šimonka**
  Deputy President
- **Mojca Globočnik**
  Member
- **Primož Karpe**
  Member
- **Milan Marinič**
  Member
- **Matej Podlipnik**
  Member
- **Stojan Žibert**
  Member

Management Board

- **Gorazd Trček**
  President of the Management Board
- **Srečko Korber**
  Member of the Management Board
- **Tilen Zugwitz**
  Member of the Management Board

The nomination and remuneration comitee

- **Miha Resman**
  President
- **Matej Podlipnik**
  Member
- **Stojan Žibert**
  Member

The audit comitee

- **Milan Marinič**
  President
- **Primož Karpe**
  Member
- **Mitja Selan**
  Member

Business Network

Gorenjska banka, d. d., Kranj

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  President of
  the Management Board:
  Gorazd Trček

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  Telefax: +386 4 / 202 15 03

  BIC: GORE SI 2X
  E-mail: info@gbkr.si
  Website: http://www.gbkr.si

- International business:

  Telephone: +386 4 / 208 44 16
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  General Manager International:
  Milena Preželj

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- **Radovljica,**
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Agencies

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Economic environment

Operational performance and financial risk development of Slovenian banks were in 2012 determined by numerous factors: declining economic activity, reducing investment spending, and decreasing household and state consumption on the one side, and decelerating economic growth in the EU and lack of confidence of the international financial markets in the Slovenian long-term government debt, consequently in the banks, on the other.

According to the first estimates of the Statistical Office of the Republic of Slovenia, gross domestic product decreased by 2.3% in real terms in 2012. In 2012, exports of goods were higher by 0.3% as compared to 2011, whilst imports fell by 2.4%. The export-to-import ratio was 95.2 percent.

The value of industrial production was, according to the preliminary data of the Statistical Office of the Republic of Slovenia, higher in 2012 as compared to the year before. It declined by almost 7% in mining and by 0.5% in manufacturing, but rose by almost 11% in electricity, gas and steam supply.

The situation on the labour market remains poor. According to the last available data of the Employment Service of Slovenia, the number of registered unemployed persons at the end of December 2012 stood at 118,061, which is 4.7% more as compared to 2011. In 2012, the number of newly registered unemployed persons grew by 7.2%, whilst hiring fell by 4.4%.

Consumer prices rose by 2.7% in 2012, which is by 0.7 percentage point more than in the same period of the preceding year. In Slovenia, the annual inflation rate as measured by the harmonised index of consumer prices equalled 2.8 percent (in 2011, 2.1 percent).

The table below illustrate macroeconomic indicators for Slovenia in the 2010 - 2012 periods.

	2012	2011	2010
Gross domestic product, in %	(2.3)	0.6	1.2
GDP per capita, in EUR, current rate	17,244	17,620	17,379
Unemployment rate, ILO, in %	8.9	8.2	7.3
Labour productivity (GDP per hour worked), in %	(1.1)	2.2	3.5
Inflation, annual average, in %	2.6	1.8	1.8
Export of goods and services, in %	0.3	7.0	10.1
Import of goods and services, in %	(4.3)	5.2	7.9
Total current account balance payment, in million EUR	874	2	(209)

Source: Spring forecast economic trends for the year 2013, March 2013, Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (UMAR); The Statistical office of the Republic of Slovenia.

The key interest rates remained low in 2012: the European Central Bank at 0.75% (last change in July 2012), the US Federal Reserve between 0% and 0.25% (last change in December 2008), and the Bank of England at 0.50% (last change in March 2009). Due to still weak inflation pressures and despite data on slow economic recovery, the key interest rate is, as anticipated by analysts, probably to stay at a low level well into 2013. In 2012, 6-month EURIBOR decreased by 129.7 basis points.

The table below illustrates the extent to which various major global stock indices and the Slovenian stock index changed in 2011 and 2012. Most of the major global stock indices recorded a positive growth in 2012.

The downgrading of national rating by the three biggest credit rating agencies in September 2011 was followed by new downgrades, the biggest one in August 2012 (Moody's cut it by three notches, to Baa2, S&P by one notch, to A, and Fitch also by one notch, to A-), and the last one in February 2013 (S&P cut it by one notch, to A-). The major reasons the agencies stated for downgrades were the political risk of (non-)implementation of the necessary reforms and weakening bank portfolios, also leading to downgrading of banks.

Index	Value as at 31 December 2012 (index points)	Change in the year (in %)	
		2012	2011
SBI20 (Slovenia)	635.51	7.8	-30.7
DOW JONES IA (USD)	13,104.14	7.3	5.5
NASDAQ COMPOSITE (USD)	3,019.51	15.9	-1.8
S&P 500 (USD)	1,426.19	13.4	0.0
NIKKEI 225 (Japan)	10,395.18	22.9	-17.3
DAX (Germany)	7,612.39	29.1	-14.7

Banking environment

Banks were facing a major deterioration of their investment quality. Insolvency of business entities was increasing delays in settling liabilities to banks, the quality of collateral deteriorated. Bad debt problems, which were in the previous years mostly related to industries dealing with acquisitions and construction, are due to harsher economic conditions increasingly spreading also to other industries. A number of reasons led to the downgraded national rating in 2012 and also affected severely toughened financing conditions of Slovenian banks.

In 2012, the number of initiated bankruptcy proceedings increased. Due to the decreasing ratings of Slovenia and its banks, there were no options for their debt raising abroad. The required return on government bonds in Slovenia fell below 6% but conditions on the financial markets remained uncertain. Due to the inactivity on the Slovenian stock exchange markets, market prices as the measure for fair value of domestic securities were questionable.

According to the last available data, total assets of the Slovenian banking system decreased by 6.3% in 2012 and according to final data of Gorenjska banka its total assets decreased by 8.1%. The market share of Gorenjska banka by total assets fell by 0.07 percentage point to 3.88%. Banks recorded total losses before tax of EUR 602 million. The main reason for the banking system losses remain impairments and provisions, which totalled EUR 1,592 million in 2012, up EUR 385 million on the year before.

Composition of the group

In addition to Gorenjska banka, d. d., Kranj, the Gorenjska Banka Group (hereinafter: the Group) comprises the following two subsidiaries: Imobilia-GBK, d. o. o., Kranj and Gorenjski glas, d. o. o., Kranj and the associated company, Skupna pokojninska družba, d. d., Ljubljana. In 2011 and 2012, there were no changes in the composition of the group. Imobilia-GBK, d. o. o., Kranj became active again in 2012.

The Bank has not prepared consolidated financial statements, as the effect of consolidation of that companies is of no material importance.

The table below illustrates Gorenjska banka, d. d., Kranj's equity holdings in subsidiaries and associated companies and the nominal amounts of these holdings as at 31 December 2012.

Company	Equity holdings (in %)	Nominal amounts (in thousands of EUR)
Imobilia-GBK, d. o. o., Kranj	100	13
Gorenjski glas, d. o. o., Kranj	82.0542	476
Skupna pokojninska družba, d. d., Ljubljana	26.0269	3,807

About the Bank

Gorenjska banka, d. d., Kranj is an independent public limited company with its registered office at Bleiweisova cesta 1, Kranj.

The Bank's roots stretch back to the 19th century, when organised banking was first established in the Gorenjska region. On 25 March 1955, the first municipal bank in the Gorenjska region was established in Kranj, followed by banks in Škofja Loka, and the following year in Radovljica, Tržič and Bled. Over time, a single bank emerged, which was included in the Ljubljanska banka system in 1972, initially as a branch, and as a public limited company in the system of Ljubljanska banka subsidiary banks as of 27 December 1989.

The process of separation from the Ljubljanska banka system began in 1994 with the purchase of shares of Gorenjska banka, d. d., Kranj held by Nova Ljubljanska banka, d. d., Ljubljana. The process was completed in June 1996, when the Bank withdrew these shares.

The Bank has an authorisation to perform banking services pursuant to Article 7 of the Banking Act (Official Gazette of the Republic of Slovenia, No. 99/10 – official consolidated text (52/11 – correction), 9/11 - ZPlaSS-B, 35/11, 59/11, 85/11, 48/12, 105/12; hereinafter: the ZBan-1). Banking services are the acceptance of deposits from the public and the granting of credits for its own account.

The bank has authorisation to provide mutually recognised financial services.

The bank may provide the following mutually recognised financial services, pursuant to Article 10 of the ZBan-1:

1. acceptance of deposits;
2. granting of credits, including: consumer and mortgage loans, the purchase of receivables with or without recourse (factoring) and the financing of commercial transactions, including export financing based on a discounted purchase without recourse of non-current, undue receivables collateralised with a financial instrument (forfeiting);
3. payment services;
4. issuance and management of other payment instruments (i.e. travellers' cheques and bankers' drafts) in the part in which this service is not included in service of former point 3.;
5. issuance of guarantees and other commitments;
6. trading for own account or for account of customers in: money market instruments, foreign exchange, including exchange transactions, financial futures and options, exchange and interest-rate derivatives and transferable securities;
7. participation in the issuance of securities and services related to such issues;
8. advice and services related to mergers and acquisitions;
9. investment management and related consultancy services;
10. safekeeping of securities and other safekeeping services;
11. renting of safe deposit boxes;
12. investment services and operations and ancillary investment services, from paragraph (1) of Article 10 of the Market in Financial Instruments Act (hereinafter: the ZTFI).

The Bank may also perform additional financial services after Article 11 of the ZBan-1, namely insurance brokerage in accordance with the law governing the insurance business.

During the period covered by this business report, the Bank provided the banking services in extra financial services and the majority of mutually recognised financial services for which it has Bank of Slovenia authorisation.

The bank's offer includes factoring services, however, the total amount of factoring in 2011 and 2012 was negligible. Trade financing was mainly done in the form of collateralized loans and guarantees.

The Bank did not trade in futures or options on its own account or on account of customers in 2011 and 2012.

There were no requests from customers for the Bank's participation in the issue of securities or for related services during 2011 and 2012. There were also no requests for consultancy services or services related to mergers and acquisitions.

The Bank did not provide investment management services or related consultancy services in 2011 and 2012.

Of investment services and operations, in 2011 and 2012 the Bank performed only services from points 2 and 3 of the first paragraph of Article 8 of the Market in Financial Instruments Act (hereinafter referred to as ZTFI): execution of orders for customers and dealing on own account.

Of ancillary investment services, in 2011 and 2012 the Bank only performed services from point 1 of the first paragraph of Article 10 of ZTFI: services of keeping accounts of dematerialised securities of customers.

About subsidiaries

Gorenjski glas, d. o. o., Kranj is a company that publishes a newspaper of the same name. Gorenjski glas was entered in the register of companies at the District Court in Kranj as a limited liability company on 22 November 1996. The company's primary activity is the publication of newspapers, magazines and periodicals. Its main products are the Gorenjski glas newspaper with supplements, and the sale of advertising space in the newspaper itself and its supplements. The company's registered office is Bleiweisova cesta 4, Kranj.

Gorenjska banka, d. d., Kranj is the majority owner of Gorenjski glas d. o. o., holding 82.05% of shares. Delo, d. d., Ljubljana, holds 10% of shares, while the remaining 7.95% of shares are held by individuals.

Gorenjski glas, d. o. o. has 37 employees, while 6 independent journalists and 40 external contractors.

Gorenjska banka, d. d, Kranj, is 100% owner of the subsidiary Imobilia-GBK, promet z nepremičninami in hipotekarnimi posli, d. o. o., Kranj, with registered office at Bleiweisova cesta 1, Kranj. As of its establishment, the company was inactive and started operating in February 2012, initiating the procedures for obtaining adequate staff for its operations. The following activities were assigned to the company:

- management of the real estate portfolio and implementation of market procedures for the founder's real estate trading;
- management of the movable property portfolio (predominantly equipment and machinery); and
- management of the securities and shares portfolio.

About the associated company

Skupna pokojninska družba, d. d., Ljubljana (hereinafter: Skupna) specialises exclusively in supplementary pension insurance, and is the largest underwriter of voluntary supplementary pension insurance in Slovenia. The company's registered office is Trg republike 3, Ljubljana. Skupna has 15 employees.

The company may perform:

- collecting premiums voluntary supplementary pension insurance,
- assets management,
- payment of pension annuities,
- implement compulsory supplementary insurance in accordance with the 291st Article of the Law on Pension and Disability Insurance,
- management of closed and open mutual pension funds.

Zavarovalnica Triglav, d. d., Ljubljana is Skupna's majority owner, holding 30.14% of shares, followed by Nova Ljubljanska banka, d. d., Ljubljana with 28.13%, Gorenjska banka, d. d., Kranj with 26.03%, with the remaining 15.07% held by minority shareholders.

At the end of 2012, there were 450 companies included in Skupna's voluntary supplementary pension insurance system. Over 65 thousand policyholders were included in the pension plan; the value of the cover of assurance was EUR 146 million on the last day of 2012.

Business policies of the Bank

Through universal and quality banking services, Gorenjska banka increases the possibilities of its clients to realise their plans, objectives, and wishes.

The fundamental objective of the Bank is to maximise mutual benefits for clients, employees, and the Bank's shareholders. We will pursue this objective by efficient employees, who will be able to develop partner relations with clients, meet their expectations and needs, as well as increase their loyalty.

Customer loyalty will be enhanced through customer satisfaction, which will be ensured by performing services matching their expectations, wishes, and needs. Our services will be available at competitive prices and we will gain competitive advantage mostly through quality. Customer relations will be built on financial stability and professional correctness. The latter will be evident from efforts of the entire team and each individual employee of the Bank.

We will satisfy owners though stability and long-term growth.

Employee performance will be boosted by promoting their personal and professional development, enabling promotion, motivating individuals and teams, ensuring friendly working conditions and safe employment through plans achieved. Modern internal organisation and high employee motivation will serve as tools for achieving the desired level of service quality, productivity, cost efficiency, stability, and the Bank's long-term growth.

The Bank's vision is to remain a stable, reliable and trustworthy financial institution, which will offer its customers services of the highest quality at competitive prices. The Bank will keep the position of a mid-sized universal Slovenian bank renown for excellent and trustworthy bankers through flexible solutions, quality services and individual approach.

The fundamental values the Bank will pursue in its operations are:

- operational security and stability,
- business efficiency and correctness,
- flexibility and cooperation.

The basic guidelines of the Bank's business policy are even more important due to the insecure environment. Activities will continue to be oriented towards optimising the scope of operations and reasonable risk taking, increasing competitiveness, developing integral information system, improving technological support to operations, and developing HR and organisational structure. Special attention will be given to the comprehensive management of the risks that arise from banking operations and the management of operating costs.

Activities related to the process of allying with Abanka Vipa d.d., Ljubljana will be carried out in compliance with the adopted guidelines. We wish to hold a decisive role in the alliance process, which is understandable from the viewpoint of the economic situation of both banks and also taking into account all the key factors relevant for the alliance process.

Obtaining funds

In compliance with the secure operations principles, the Bank provided for adequate liquidity in 2012 as the level of liquidity ratios consistently exceeded class 1 as defined by the Decision of the Bank of Slovenia on Minimum Requirements for Providing Adequate Liquidity Position.

In 2012, the Bank managed its liquidity in the domestic currency mostly by obtaining and granting short-term liquidity loans on the interbank money market and borrowing under operations of main and longer-term refinancing.

Liabilities of Gorenjska banka to the central bank increased from EUR 75 million as at last day of 2011 to EUR 81 million by the end of 2012. Funds were borrowed for three years and are due in 2015. In 2012, the Bank also raised EUR 14 million long-term loans with domestic banks. The Bank repaid EUR 47.3 million long-term loans, so that its long-term liabilities to domestic and foreign banks decreased by EUR 33.3 million in 2012.

Short-term indebtedness of Gorenjska banka on the interbank money market decreased from EUR 18.8 million as at last day of 2011 to EUR 18.5 million by the end of 2012.

By way of its interest-rate policy, the Bank also in 2012 systematically encouraged individuals as well as small and medium-sized enterprises to save over shorter periods of time. The short-term nature of assets obtained in this manner requires a more precise management of liquidity and interest-rate risks; however, this segment also contributes the most to the Bank's stable operations. In the field of non-bank deposits, the market share of Gorenjska banka dropped from 5.0% to 4.8% in 2012. The reason is the decrease in the liabilities to non-banking legal entities.

The Bank collateralised the ECB credit operations through the Bank of Slovenia by establishing an adequate financial assets fund. Its declared value at the end of 2012 equalled EUR 144 million, of which EUR 85 million of collateral and EUR 59 million of freely available financial assets.

Fund placement

In the field of fund placement Gorenjska banka allocated a substantial part of funds to reorganisation and additional collateralisation of its credit portfolio, active management and regulation of bad loans, and to collection and sale of pledged property.

At the same time, the Bank continued winning new clients, mostly in the segment of small and medium-sized enterprises. For this purpose, the Bank cooperated with municipalities, regional chambers of craft, and the Slovenian Enterprise Fund to ensure favourable loans with subsidised interest rate. The Bank also enabled project financing for development of business, mostly for the field of the so-called green energies, through long-term sources obtained from SID banka and the European Investment Bank.

Gorenjska banka ended 2012 with a 3.7-percent market share in loans to non-banks. The volume of loans to corporates, which equalled EUR 1.03 billion at the end of 2012, decreased by slightly more than 8 percent as compared to the year before. The reasons for this situation remain more or less similar to those from 2011 - besides increased impairments of bad loans, in particular further decrease in the number of clients with appropriate rating, inability to provide adequate collateral, and lack of projects for the Bank to finance.

In the field of retail lending, the trend of growth and rising market share of Gorenjska banka continued also in 2012. Retail loans totalled EUR 120.7 million, up 1.9 percent on 2011. Besides the competitive offer, this was achieved mostly through innovative market channels and the Bank's cooperation.

Securities portfolio management

Business policy management of the securities portfolio is focused on providing a balanced portfolio, with an emphasis on safety, liquidity, diversification, predictability and profitability or viability of investment options and the possibility of collateralising European Central Bank operations.

The Bank's securities portfolio has been shrinking since 2008 and 2012 was no exception in this respect. Gorenjska banka purchased securities worth EUR 12.5 million and sold or liquidated upon maturity securities worth EUR 82 million, thus generating EUR 1.9 million loss. At the end of 2012, the Bank increased its capital investment portfolio due to changed liabilities by the value of shares in the companies Intereuropa, d.d., Koper, and Merkur, d.d., Naklo.

The Bank performed EUR 0.5 million transactions at the Ljubljana Stock Exchange for its own account. It paid in EUR 10.2 million for bond IPOs, and carried out securities transactions worth EUR 55.1 million on euro markets.

As a member of the Ljubljana Stock Exchange, the Bank acted as an intermediary for its clients in buying and selling securities in the total amount of EUR 1.63 million in 2012.

Gorenjska banka was actively participating also in joint offering of securities of the companies Mercator, d.d., Ljubljana, Petrol, d.d., Ljubljana, Pivovarna Laško, d.d., Laško, and Thermana, d.d., Laško. At the same time, the Bank acted individually trying to sell its stake in Skupna pokojninska družba, d.d., Ljubljana and in Gorenjski glas, d.d., Kranj.

Payment services

As concerns payment services in 2012, the poor economic growth, series of compulsory compositions, bankruptcies and liquidations, high level of unemployment, weak solvency, and generally bad economic situation all required a high level of adjusting to the needs of users and the related modernisation of payment services.

The Bank's volume of payment transactions was higher than in 2011 in practically all segments. The volume of domestic payment transactions rose by 4 percent as compared to the year before, equalling EUR 4.8 billion at the end of the year. The volume of international payment transactions, which reached EUR 1.8 billion at the end of 2012, rose by as much as 12 percent as compared to 2011.

The number of payment orders processed also increased in 2012 as compared to the year before. As compared to 2011, the Bank thus processed 6 percent more payment orders in the field of domestic payment transactions and 9 percent more payment orders in the field of international payment transactions.

At the end of the year, 5,938 corporates, sole proprietors and other civil law entities had commercial accounts open with Gorenjska banka, which is slightly more than in the year before and accounts for 2.9 percent of all accounts open in Slovenia. In 2012, the Bank also recorded a 1-percent growth in the number of personal accounts. At the end of 2012, the Bank recorded almost 99 thousand active accounts.

Gorenjska banka continued with its activities related to the Single Euro Payment Area (SEPA) also in 2012. Already before the end of the year, it enabled execution of domestic direct debits SEPA, which will replace direct debits according to the national scheme in the beginning of 2013.

Income statement

In 2012, the Bank generated EUR 71,789 thousand pre-tax loss, whilst reaching EUR 1,672 thousand profit in 2011. Return on equity before taxes was negative at 21.26 percent and return on assets before taxes was also negative at 3.81 percent.

Net interest stood at EUR 42,035 thousand, which is 20.2% less as compared to 2011. Interest income in the amount of EUR 75,779 thousand fell by 13.6% as compared to 2011, whilst interest expenses in the amount of EUR 33,744 thousand were down 3.7% on 2011.

The decrease in net interest resulted from lower reference interest rates, smaller credit porfolio and higher exclusion of interest income due to substantial increase in the percentage of impairments for a certain part of the credit portfolio. The result for 2012 excludes accrued interest in the amount of EUR 15,847 thousand.

Interest margin, calculated as the ratio of net interest to average assets, fell from 2.69% in 2011 to 2.23% in 2012.

Net fees and commissions stood at EUR 9,902 thousand, down 5.6 percent on 2011. Fee and commissions income equalled EUR 10.925 thousand, 5.5% less as compared to 2011, whilst fee and commissions expense stood at EUR 1,023 thousand, down 4.3% on 2011.

Dividend income totalled EUR 2,634 thousand, which is an increase of 38.1% over the year 2011. The Bank received dividends from capital investments in five companies: Mercator, d. d., Ljubljana, Petrol, d. d., Ljubljana Gorenjski glas, d. o. o., Kranj, Skupna pokojninska družba, d. d., Ljubljana, and Zavarovalnica Triglav, d. d., Ljubljana.

In 2011, the Bank disclosed a loss of EUR 3,754 thousand from financial assets not measured at fair value through P/L (in 2011, EUR 31,867 thousand gains), EUR 7,424 thousand loss from financial assets held for trading (in 2011, EUR 4,488 thousand loss), and EUR 6,385 thousand gains from financial assets recognised at fair value through P/L (in 2011, EUR 746 thousand gains).

Other income included EUR 3 thousand net loss from exchange rate differentials. Foreign exchange transactions resulted in EUR 205 thousand gains (under gains from financial assets held for trading). Other operating profit in the amount of EUR 1,239 thousand predominantly resulted from cost settlements and collected written-off receivables from previous periods.

Total operating expenses reached EUR 27,184 thousand, which is 2.7% less as compared to 2011. Of these, the biggest share of 56.9% is represented by costs of labour, whilst costs of material and services accounted for 35.0% and costs of depreciation and amortisation for 8.1%. Labour costs dropped by 4.8% as compared to 2011, costs of materials and services by 0.3%, whilst depreciation and amortisation increased by 3.6% as compared to 2011.

The ratio of operating expenses to average assets was 1.44%, up 0.01 percentage point on 2011.

Impairment and provisioning costs for the credit and securities portfolios in 2012 exceeded revenues from elimination of provisions and impairments by EUR 96,078 thousand, increasing by 49.7% as compared to 2011.

The share of provisions and impairments in classified assets, which includes loans and related receivables, increased from 7.94% at the end of 2011 to 11.21% at the end of 2012.

Total comprehensive income, i.e. net profit and loss and total other comprehensive income after tax, amounted to EUR 40,771 thousand loss in 2012 (2011, EUR 8,421 thousand loss). It includes EUR 62,225 thousand net loss (income statement) and EUR 21,454 thousand profit from positive revaluation surplus (statement of financial position). Due to the decreased value of available-for-sale securities, the Bank in 2011 disclosed EUR 10,101 thousand loss in the statement of comprehensive income.

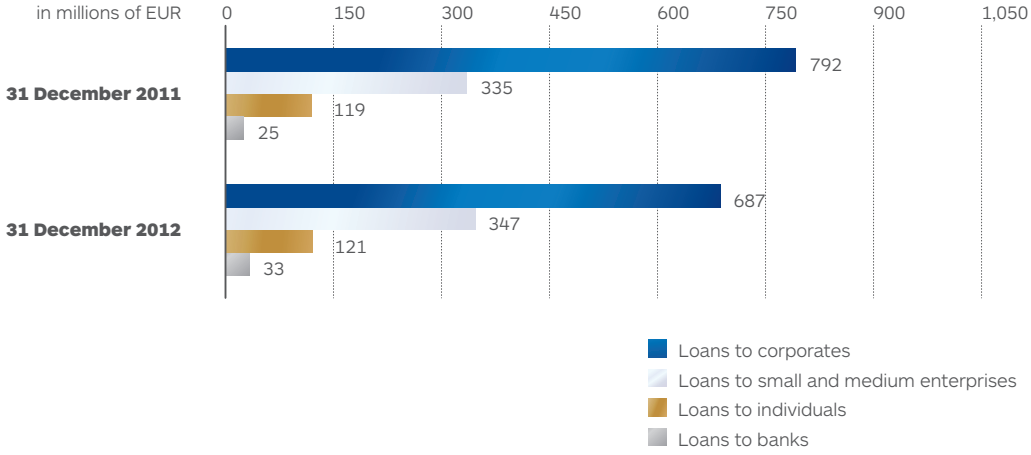
Statement of financial position

In 2012, the Bank's **total assets** were down EUR 157,363 thousand or 8.1%. At the end of December 2012, these assets stood at EUR 1,790,040 thousand.

Cash and balances with the central bank decreased by EUR 10,439 thousand or 37.7% in 2012. The share of cash in assets was only 1.0 percent.

Loans to banks, which also include deposits with banks, increased by EUR 7,446 thousand in 2012 or by 29.3%. At the end of December 2012, their share in assets was 1.8 percent. The change was mostly related to the increase in short-term loans (by EUR 9,591 thousand) and decrease in short-term deposits (by EUR 2,145 thousand), whilst long-term loan repayments remained at the same level. At the end of December 2012, loans to banks comprised demand deposits and short-term deposits in the amount of EUR 1,999 thousand, EUR 603 thousand of long-term loans to banks, and EUR 30,237 thousand of short-term loans to banks.

The figure below shows the structure of loans to customers.



Loans to non-banks fell by EUR 91,520 thousand in 2012 or by 7.3%. They accounted for 64.5% of the Bank's assets at the end of December 2012.

Loans to corporates and loans to individuals accounted for 57.7% and 6.8% of assets respectively. In the structure of loans to non-banks, 57.4% were long-term. In 2012, the Bank succeeded in increasing the amount of retail loans by 1.9%, thus increasing its market share from 1.43% to 1.49%.

Investments in securities and equity fell by EUR 71,143 thousand in 2012 or by 11.6%. The balance of securities increased by EUR 12,522 thousand due to purchases of securities. The Bank received EUR 82,015 thousand assets for sold and mature securities. Selling of securities resulted in EUR 1,958 thousand net loss for the Bank.

The portfolio mostly comprises bonds of the Republic of Slovenia, bonds and shares of domestic banks, and also foreign securities. At the end of 2012, the share of investments in securities and equity in assets equalled 30.3%. Of the aforementioned securities, 92.4% were available for sale, 6.7% were held for trading, and 0.9% were investments in subsidiaries and affiliates.

At the end of 2012, the Bank held equity investments in two subsidiaries, one affiliate and fifteen independent companies.

At the end of 2012 the Bank held equity investments in two subsidiaries, one affiliate and thirteen independent companies.

Equity investments:

Company	31 December 2012, in %
Investment in subsidiaries:	
Imobilia-GBK, d. o. o., Kranj	100
Gorenjski glas, d. o. o., Kranj	82.0499
Investment in associates:	
Skupna pokojninska družba, d. d., Ljubljana	26.0269
Equity investments:	
Iskratel, d. o. o., Kranj	25
Intereuropa d. d., Koper	18.2340
Abanka Vipa, d. d., Ljubljana	14.7392
Merkur, d. d., Naklo	7,5510
Istrabenz, d. d., Koper	7.3031
Pivovarna Laško, d. d., Laško	6.2991
Peko, d. d., Tržič	5.8603
Bankart, d. o. o., Ljubljana	5.5569
Thermana, d. d., Laško	5.0839
Kreditni biro SISBON, d. o. o., Ljubljana	4.4800
Petrol, d. d., Ljubljana	4.0406
NFD Holding, d. d., Ljubljana	3.4097
Zavarovalnica Triglav, d. d., Ljubljana	0.0260
Banka Celje, d. d., Celje	0.0051
Probanka, d. d., Maribor	0.0002

The Bank's equity investment in the interbank financial telecommunications company SWIFT Belgium is minimal, but mandatory as a membership fee.

Liabilities to banks, which include deposits and loans by commercial banks as well as liabilities to the central bank, fell by EUR 31,163 thousand or 9.4% in 2012. The share of liabilities to the banking sector accounted for 16.8 percent of liabilities at the end of December 2012.

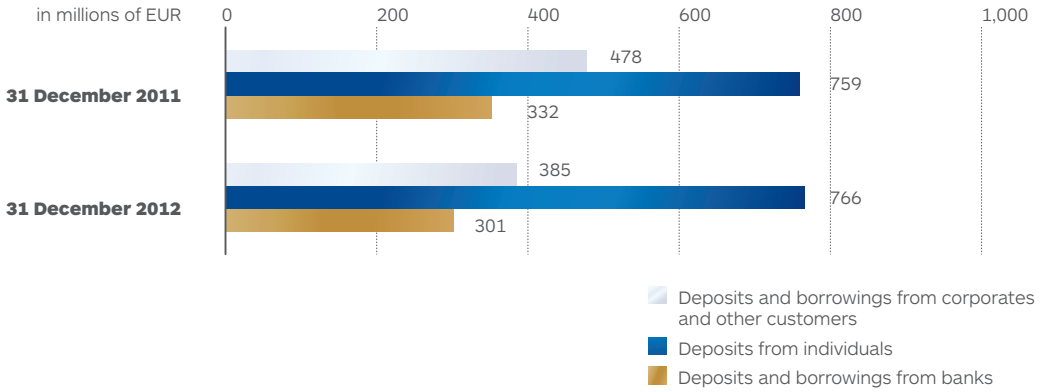
The Bank can utilise central banking liquidity operations, through which it obtains short-term assets required for daily management of inflows and outflows based on pledged securities with the status of suitable financial property. At the end of 2012, the balance of liabilities to the central bank totalled EUR 80,661 thousand, up 7.5% on 2011.

The Bank decreased its current liabilities to commercial banks in 2012 by EUR 3,294 thousand, and its long-term liabilities by EUR 33,462 thousand. At the end of 2012, current liabilities to commercial banks included loans raised amounting to EUR 28,504 thousand and deposits amounting to EUR 176 thousand, whilst long-term liabilities included loans raised amounting to EUR 191,407 thousand.

Liabilities to non-banks recorded a drop of 6.9% in 2012, decreasing by EUR 85,574 thousand. At the end of 2012, they accounted for 64.3% of liabilities in the statement of financial position.

Deposits held by non-banks mostly comprise retail deposits, which rose by 0.9% (or EUR 7,170 thousand). These deposits account for 42.8% of liabilities; their maturity changed in favour of long-term deposits, which increased by 6.7%. Liabilities to non-banking legal entities accounted for 21.5% of sources of funding at the end of December 2012 and were by 19.4% (or EUR 92,744 thousand) lower as compared to the year before. Funds obtained are predominantly short-term.

The figure below shows the structure of due to customers.



Total equity fell by EUR 47,839 thousand or 14.2% in 2012. The figure includes the increase due to the positive revaluation surplus from financial assets (EUR 21,454 thousand) and the decrease due to net loss (EUR 62,225 thousand) and own shares (EUR 7,068 thousand).

The book value of one share, calculated based on total equity, amounted to EUR 966.53 at the end of 2012 (as at 31 December 2011, EUR 1,102.47).

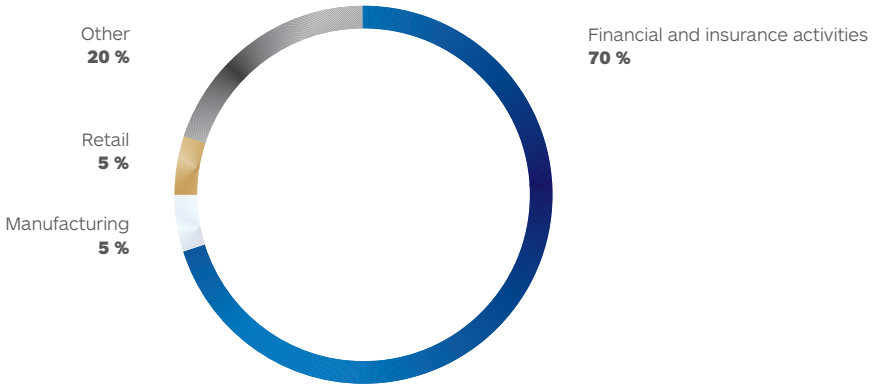
Shareholders of Gorenjska banka, d. d., Kranj, as at 31 December 2012:

Name of shareholder	Number of ordinary shares	Share in capitalu, in %	Share in voting rights, in %
Sava, Družba za upravljanje in financiranje, d. d., Kranj *	152,110	45.9	49.8
Nova KBM, d. d., Maribor	14,658	4.4	4.8
Zavarovalnica Triglav, d. d., Ljubljana	13,222	4.0	4.3
Kaertner Sparkasse AG, Celovec	10,000	3.0	3.3
Merkur, Trgovina in storitve, d. d., Naklo	9,089	2.7	3.0
Iskra ISD, d. o. o., Kranj	8,849	2.7	2.9
Banka Sparkasse, d. d., Ljubljana	7,500	2.3	2.5
Telekom Slovenije, d. d., Ljubljana	5,351	1.6	1.8
Domel, d. o. o., Železniki	5,331	1.6	1.7
Aerodrom, d. d., Ljubljana	5,121	1.5	1.7
Total top ten major shareholders	**231,231**	**69.8**	**75.6**
Other shareholders	74,470	22.5	24.4
Gorenjska banka, d. d., Kranj - own shares	25,715	7.8	0.0
Total 481 shareholders	**331,416**	**100.0**	**100.0**

* Of a total of 152,110 shares owned by Sava, d.,d., Kranj, 27,917 shares of Gorenjska banka, d. d., Kranj were transferred to a trustee Abanka Vipa, d. d., Ljubljana. The trustee holds securities as collateral for the benefit of the holders of bonds issued by Sava, d. d., Kranj with maturity 9. 12. 2014.

The Bank's share capital at the end of 2011 comprised 331,416 ordinary shares. There were 481 holders of the Bank's shares entered in the shareholders register as at 31 December 2012 (2011: 477). The 10 largest shareholders held 69.8% of the Bank's share capital (2011: 73.2%).

The figure below shows the structure of Shareholders by Sector as at 31 December 2012.



As at 31 December 2012, 70.7% of shareholders were domestic companies from the finance and insurance sectors, 4.8% of shareholders were domestic retail companies, 4.7% were domestic manufacturing companies, while other sectors were represented to a lesser degree.

The Bank's capital adequacy ratio equalled 14.07% at the end of 2012 (as at 31 December 2011: 15.14%); the ratio was fluctuating between 13% and 15% during 2012.

Based on the resolution from the General Meeting of Shareholders, the Bank brought forward total 2011 distributable profit to 2012 (EUR 1,464 thousand).

Net loss for 2012 in the amount of EUR 62,225.28 thousand was completely covered from retained profits in the amount of EUR 1,463.55 thousand and other reserves from profit in the amount of EUR 60,761.73 thousand.

IT upgrades

The Bank's development projects were to a large extent related to information support, which included in 2012 mostly upgrading processes and procedures for planning, approval and monitoring of loan repayment, material bookkeeping, payment transactions, management of security events and information, and online banking.

For loans, interest accrual was thoroughly renovated, the existing collateral monitoring was supplemented together with support to liquidity planning, which included automation of planning by defining conditions for replacing existing loan transactions.

For material bookkeeping, the process of issuing, calculating, and paying travel order expenses was automated. Electronic office was introduced for invoices received, automatic transfer of liquidated invoices to the process of recording and making payment orders was enabled, and automatic support to VAT charging and reporting to the tax administration was set up.

The area of payment transactions was upgraded with comprehensive support to operations with business debit card, support to automatic production of notices on opening and closing commercial accounts and to making reports on solvency and blockage of commercial accounts. Processing of commissions calculating and charging was also upgraded for various services of payment transactions.

The Link online bank for natural entities was completely renovated in terms of substance, technical features and design. The LINK c online bank for legal entities was also upgraded in 2012 with new functionalities.

The SIEM system for managing security events and information was introduced. Most servers and other active components were already covered by the system in 2012. New disk cabinets for the primary and substitute location were purchased. Virtual environment was set up for the segment of electronic mail and domain servers, transfer to the new version of domain servers was also performed. Numerous updates were also introduced in the data warehouse, mostly with the purpose of faster and more efficient decision making.

Investment projects

In 2012, Gorenjska banka allocated to investments aimed at modernising and enhancing security of the business network EUR 1.105 million, which is 5 percent more as compared to the year before. These investments were carried out with the purpose of further adjustment of branches to modern service concepts and implementation of more advanced security standards.

Advisory points were in particular subject to renovation in 2012, so that they now enable an appropriate level of confidentiality and discretion for customer communications. Additional security and safety equipment was set up in numerous branches with the purpose of more efficient physical and technical security.

A thorough modernisation of the central branch in Jesenice was carried out, thus enabling more efficient execution of work processes and consequently a higher level of quality of banking services. The new environment is also visibly more customer-friendly.

In 2012, Gorenjska banka also arranged everything necessary for the planned major renovation of its central building in Kranj. Investment works, which will also include change of the entry logistics and arrangement of separate premises for welcoming and communicating with customers, are anticipated for the first months of 2013.

Service innovations

Of service innovations Gorenjska banka introduced in 2012, we should mention the thorough renovation of the Link online bank for natural entities in terms of substance, technical features and design. When implementing upgrades, the Bank pursued the highest safety standards, enhanced Link transparency, im-proved navigation, added new functionalities, at the same time also modernising the design of the online bank. Link is soon to get also its mobile version and application for Android mobile telephones. Digital certificates of Slovenian certificate agencies will also enable entry into Link.

The online bank for legal entities Link c was also upgraded, namely with support to the ISO UNIFI standard, SEPA DD func-tionality for payers and invoice recipients, authorised overview of Maestro card, and import of data with a special module.

The website of Gorenjska banka was modernised. Besides revised graphics, navigation and entry page, upgrades were mostly related to new functionalities of the website, clearer use of informative calculations, expansion of conversion points, better understanding of terminology used, and, consequently, easier search for the desired banking service and contents.

Halfway through the year, the Bank offered newly established companies the "Perfect Start" service package, which offers banking services, accounting services, services of Simobil Perfect Office, and access to business information in one place. The Bank thus enabled individuals deciding on an independent business career measurable financial savings, at the same time alleviating their administrative burdens and errands.

In line with the increasing importance of financial safety, the Bank also expanded its insurance offer for natural entities in 2012. Besides banking services, the Bank's customers can also decide on accident insurance for personal account holders, unemployment insurance, and risk life insurance. As borrowers, they can improve borrowing terms and conditions by concluding life insurance for borrowers, whilst payment card holders can conclude insurance against card abuse.

At the end of the year, the Bank expanded its service offering for corporates by Activa Maestro debit business card. The card was particularly warmly welcomed by entrepreneurs as it strongly facilitates access to cash and daily operations.

Organisational changes

In order to enhance its operational efficiency, Gorenjska banka also had to partially rearrange the existing internal organisation.

As of 1 January 2012, Gorenjska banka no longer operates with six regional business units as it abolished its business units and centralised their management function, transferring a part of the responsibilities, competencies and tasks of former managers of business units to the relevant staff functions.

Due to the increased complexity of operations involving corporates, in 2012 the Department for Risky Receivables started operating at Gorenjska banka. The department is actively solving dilemmas related to the poor situation of companies and management of bad investments.

The Compliance Department was also newly established. The department brings together persons authorised for especially exposed areas of banking operations.

Human resource policy

In the field of HR policy, Gorenjska banka was adjusting in particular to uncertain business conditions and the related activities for streamlining its operations, aimed at achieving adequate cost efficiency.

An important part of HR activities was also directed towards decreasing the number of employees. The Bank was satisfying its HR needs especially by reallocation of employees and organisational changes of the existing operational scheme.

New hires were carried out in compliance with the policy of ensuring optimum coverage of all business functions of the Bank. In 2012, the Bank was thus employing only in areas requiring new hires due to increased operational risks or exposure.

Human resource structure

As at the last day of 2012, Gorenjska banka had 408 employees, 14 less than in 2011. The Bank recorded 21 new hires, whilst 35 employees left the Bank, mostly due to retirement. New hires were carried out with the purpose of strengthening the Bank's commercial function and partially also with the purpose of establishing the Department for Risky Receivables and Compliance Department, which were set up in 2012.

Average number of employee and educational structure, in the 2012:

Qualification degree	IX	VIII	VII	VI	V	IV	III	Total
Average number of employees	4	39	92	33	238	8	2	416

The educational and age structure of the Bank's employees has been more or less the same for some years. The trend of the growing share of employees with formal education exceeding level VI continues. The share grew from 38 percent in 2011 to over 40 percent in 2012. The average age of employees was 45 in 2012.

Education

Gorenjska banka was ensuring employee education and training through activities, which were on the one side intended to increase employee competences and motivation, and on the other to offer support to all major projects carried out by the Bank in 2012.

All employees were included in the system of regular monthly trainings with the objective of internal knowledge transfer; these trainings were mostly related to knowledge and skills related to new products, marketing and sales, efficient work with customers, ensurance of regulatory compliance of operations, and decreasing of operational risks.

Branch employees went through a test e-training, familiarising themselves with novelties in the field of money laundering detection and prevention with the help of modern web tools. An important part of the training cycle was also dedicated to acquiring various licences, which employees need for the performance of specific banking operations, and upgrading computer knowledge.

Formal off-the-job training was attended by 17 employees in 2012, 3 of which decided to obtain formal education with the support of the Bank in 2012.

Social responsibility

The socially responsible stance of Gorenjska banka is shown in donating and sponsoring, in cooperation with a youngsters and also in its employee relations and in its endeavours to maintain a positive organisational climate.

Support of the wider community in which the Bank operates affects vitally its operations and development. Therefore, the Bank has been helping the community through sponsorship projects and donations for a more quality lifestyle for several years. Fair play, healthy competition, above-average competencies, cooperation and social responsibility are those values emphasized in dynamic relations with partners chosen.

The Bank again earmarked approximately two thirds of sponsorship funds to sports and recreation in 2012. Similar to past years, the Bank supported mostly projects and teams that are important in the primary geographical area of the Bank's operations, but their excellence and reputation reach also national or international level. For these projects, the Bank acted as the general or major sponsor.

Gorenjska banka earmarked almost 18 percent of its budget to projects aimed at quality spending of free time. We should expose the Kranj Student Club, which is one of the best organised student clubs in Slovenia with its reach exceeding the Kranj region. In line with the Bank's assessment, it is sensible to cooperate with the active population, which is also interesting for the Bank in the long run from the viewpoint of both business cooperation and recruitment.

It is delightful to see that a socially responsible stance is familiar to youngsters despite extreme ambitiousness. The Bank was thus proud to sponsor their project "Young Mummies", which offers support to young student families.

In this context, we should also mention partnership projects of the scouts, which are mainly focused on nature conservation.

Gorenjska banka also acts as a sponsor in projects aimed at promoting entrepreneurship and educating the business public. The Bank earmarked 16 percent of its available funds to the aforementioned activities in 2012.

In cooperation with Akademija Finance, the Bank took over the role of general sponsor of the "Best Entrepreneurial Idea Competition" already for the second year in a row. The project is being carried out in the first half of the year. According to the Bank's estimate, it efficiently represents and exposes positive examples and awards promising entrepreneurial projects.

The Bank contributed to entrepreneurs' better access to knowledge also by sponsoring specific trainings organised by Planet GV. By doing so, the Bank indirectly emphasizes the importance of permanent additional training and communicates this also to the wider business public.

The Bank also sponsored selected local fairs organised to promote crafts and entrepreneurship in 2012.

Gorenjska banka, d. d., Kranj is a privately held company with over 250 shareholders and more than EUR 4 million in total equity, and is therefore bound by the law which governs acquisitions.

Banks that are bound by the law which governs acquisitions must include in their annual reports data and explanations stated in point 6 of Article 70 of the Companies Act (Official Gazette of the Republic of Slovenia, No. 65/09 - official consolidated text and No. 33/11, 91/11, 32/12, 57/12).

Share capital structure

The Bank's share capital comprises 331,416 ordinary shares. Ordinary shares confer voting rights, whereby each share confers one vote at the general meeting of shareholders. Shareholders exercise their voting rights at the Bank's general meeting of shareholders with respect to the proportion of their shares in the share capital and with respect to the type of shares and in accordance with the Bank's articles of association. Treasury shares have no voting rights.

Restrictions to share transfers

Bank shares are transferable in accordance with the regulations that govern dematerialised securities. Current shareholders have pre-emptive rights to new share issues corresponding to their proportion of share capital held. The Bank has no other restrictions on shareholding, while approval from the Bank of Slovenia is required for the acquisition of a qualifying holding. There is no requirement of obtaining the consent of the Bank or other shareholders for the transfer of shares.

Significant direct and indirect holdings of securities by the Bank

Qualifying holdings, as prescribed by the law governing acquisitions, were achieved by one company in 2011 and in 2012: Sava, Družba za upravljanje in financiranje, d. d., Kranj, which holds 152,110 ordinary shares and thus a 49.8% share of the voting rights.

Restrictions of voting rights

Shareholders' voting rights are exercised with respect to the number of shares and are not restricted by the articles of association to a certain proportion or a certain number of votes. Shareholders who are the holders of registered shares with voting rights, who are entered in the share register at least ten days before the convening of the general meeting of shareholders and who remain registered until the end of the meeting are considered to be eligible shareholders.

Bank rules on the appointment and replacement of members of management and supervisory bodies and on amendments to the articles of association

The Bank's rules on the appointment and replacement of members of management and supervisory bodies and on amendments to the articles of association are defined in the articles of association of Gorenjska banka, d. d., Kranj.

The supervisory board appoints and recalls members of the Bank's general meeting of shareholders. Persons who do not fulfil the conditions for membership of the Bank's supervisory board pursuant to the Companies Act or the Banking Act may not be appointed to the supervisory board. Members of the supervisory board are appointed for a four year term and may be reappointed. The term of supervisory board members expires on the day that the general meeting of shareholders is convened in the fourth year after their election. Members of the supervisory board may terminate their terms early through recall or on the basis of a written resignation from the member.

The president and members of the Bank's management board appoint and discharge or recall the supervisory board. Only persons who fulfil the conditions for appointment pursuant to the Companies Act or the Banking Act may be appointed president of the Bank's management board. The president of the management board and the members of the management board are appointed for a five year term and may be reappointed. The term of management board members lasts as long as the term of the president of the management board. In the case of early termination of the term of the president of the management board, the terms of the members of the management board are terminated concurrently.

The articles of association may be amended through a resolution of the Bank's general meeting of shareholders. The Bank's general meeting of shareholders may authorise the supervisory board to make amendments to the articles of association, which comprise the harmonisation of the wording with currently adopted resolutions.

Management authorisations

The Companies Act prescribes the limitation of authorisations of the management board by the general meeting of shareholders for the acquisition of treasury shares such that the general meeting of shareholders defines the duration of validity of the authorisation, price limitations and the proportion of shares that can be purchased on the basis of the authorisation. The last authorisation of the management board for the acquisition of treasury shares was conferred at the general meeting of shareholders of Gorenjska banka, d. d., Kranj on 12 June 2012 (valid 18 months).

The Bank may acquire and dispose of treasury shares pursuant to the Companies Act. The Bank's management board decides on the conditions for acquisition and disposal of treasury shares, and must notify the Bank's general meeting of shareholders about transactions involving treasury shares.

The Bank's management board may increase the Bank's share capital up to a total amount of EUR 6,914,872.50 (up to 50% of the value of the Bank's share capital) within five years from the day of entry of eleven amendments to the articles of association of Gorenjska banka, d. d., Kranj in the court register. Preference shares without voting rights may also be issued within the scope of this capital increase, and the management board may, with the consent of the supervisory board, fully or partially exclude the shareholders' pre-emptive right to new shares. Eleven amendments to the articles of association were entered in the court register on 14 May 2008.

Other explanations

Shareholders in Gorenjska banka, d. d., Kranj do not have any special controlling rights.

The Bank does not have an employee shareholding scheme.

Bank is not known is there are any agreements between shareholders which may result in restrictions on the transfer of securities and voting rights.

The Bank does not have any agreements to which the Bank is a party, which would come into effect on the basis of changes in control of the Bank as a result of a bid as defined by the law that governs acquisitions.

The Bank does not have any agreements between the Bank and members of management or supervisory bodies or Bank employees which foresee compensation if they were dismissed without grounds or their employment relations terminated because of a bid as defined by the law that governs acquisitions.

Annual Report 2012:

Financial Report

Statement of management's responsibilities

On 5 April 2013 the Management Board approved the Financial Statements of Gorenjska banka, d. d., Kranj for the year ended 31 December 2012 and the 2012 Annual Report concluded on 31 December 2012.

The Management Board confirms the financial statements of Gorenjska banka, d. d., Kranj for the year ended 31 December 2012, the applied accounting policies, and the notes to the financial statements.

The Management Board is responsible for the preparation of the Annual report so that it gives a true and fair view of the financial position of the Bank as at 31 December 2012 and the results of its operations for the year then ended.

The Management Board confirms that the 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 Board also confirms that the financial statements have been prepared under the assumption of going concern and in compliance with the relevant legislation and International Financial Reporting Standards as adopted by the EU.

The Management Board is also responsible for proper management of accounting, for taking appropriate measures to protect the Bank's assets and to prevent and discover fraud, other irregularities or illegal acts.

The tax authorities may at any time inspect the books and records within five years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances which may give rise to a potential material liability in this respect.

Kranj, 5 April 2013

President of the Management Board:
Gorazd Trček

Member of the Management Board:
Srečko Korber

Member of the Management Board:
Tilen Zugwitz

Income statement

The notes on pages 47 to 99 are an integral part of these financial statements.

	(in thousands of EUR)	Notes	Year ended 31 December 2012	2011
1	Interest and similar income	5	75,779	87,717
2	Interest expense and similar charges	5	33,744	35,029
3	**Net interest income** (1-2)		**42,035**	**52,688**
4	Dividend income	6	2,634	1,908
5	Fee and commission income	7	10,925	11,557
6	Fee and commission expense	7	1,023	1,069
7	**Net fee and commission income (5-6)**		**9,902**	**10,488**
8	Net gains/losses on financial assets and liabilities not measured at fair value through profit and loss	8	(3,754)	31,867
9	Net losses on financial assets and liabilities held for trading	9	(7,424)	(4,488)
10	Net gains on financial assets and liabilities designated at fair value through profit or loss	10	6,385	746
11	Exchange differences	11	(3)	(26)
12	Net gains on disposals of assets other than held for sale	12	197	267
13	Other operating net income	12	1,239	19
14	Administration costs	13	24,977	25,795
15	Depreciation	24,25,26	2,207	2,131
16	Provisions	14	130	(272)
17	Impairment	15	95,948	64,472
18	Share of profit of associates and joint ventures accounted for using the equity method	27	262	329
19	**Total profit/loss before tax** (3+4+7+8+9+10+11+12+13-14-15-16-17+18)		**(71,789)**	**1,672**
20	Tax expense related to profit or loss	16	(9,564)	(8)
21	**Total profit/loss after tax** (19-20)		**(62,225)**	**1,680**
22	**Profit/loss for the period** (21)		**(62,225)**	**1,680**

Statement of comprehensive income

The notes on pages 47 to 99 are an integral part of these financial statements.

	(in thousands of EUR)	Notes	2012	2011
1	**Profit/loss for the period**		**(62,225)**	**1,680**
2	**Total other comprehensive gains/losses after tax** (3+7)		**21,454**	**(10,101)**
3	**Net gains/losses on financial investments available-for-sale** (4+5+6)		**26,398**	**(12,626)**
4	Net unrealised gains/losses recognised in other comprehensive income, before tax	39	9,759	(50,493)
5	Realised losses reclassified to the income statement from other comprehensive income	39	16,089	37,867
6	Other reclassification		550	-
7	**Tax related to other comprehensive gains/losses**	**16, 39**	**(4,944)**	**2,525**
8	**Total comprehensive income** (1+2)		**(40,771)**	**(8,421)**

Statement of financial position

The notes on pages 47 to 99 are an integral part of these financial statements.

	(in thousands of EUR)	Notes	As at 31 December 2012	2011
1	Cash and balances with central banks	17	17,268	27,707
2	Financial assets held for trading	18	36,218	52,733
3	Financial assets designated at fair value through profit or loss	19	61,436	55,032
4	Available-for-sale financial assets	20	440,291	501,585
5	Loans and receivables		1,191,692	1,275,603
	- Loans and receivables to banks	21	32,840	25,394
	- Loans and receivables to customers	22	1,153,856	1,245,376
	- Other financial assets	23	4,996	4,833
6	Property and equipment	24	8,415	8,604
7	Investment property	25	826	724
8	Intangible assets	26	3,090	3,242
9	Investments in subsidiaries, associates	27	4,888	4,626
10	Deffered income tax assets	35	25,615	17,362
	- Income tax assets		4,019	1,287
	- Deferred income tax assets		21,596	16,075
11	Other assets	28	301	185
12	**Total assets** (from 1 to 11)		**1,790,040**	**1,947,403**
13	Due to central banks	32	80,661	75,068
14	Trading liabilities	29	-	12
15	Financial liabilities measured at amortised cost		1,413,352	1,529,191
	- Due to banks	30	176	1,974
	- Due to customers	30	1,139,720	1,224,637
	- Borrowings from banks	32	219,911	254,869
	- Borrowings from other customers	32	11,418	12,075
	- Debt securities in issue	31	30,307	30,307
	- Other financial liabilities	33	11,820	5,329
16	Provisions	34	2,221	2,281
17	Deferred income tax liabilities	35	2,443	1,542
18	Other liabilities	36	2,176	2,283
19	**Total liabilities** (from 13 to 18)		**1,500,853**	**1,610,377**
20	Share capital	37	13,830	13,830
21	Share premium	37	9,381	9,381
22	Revaluation reserves	39	9,285	(12,170)
23	Reserves from profit	39	282,410	343,171
24	Treasury shares	37	(25,719)	(18,650)
25	Retained earnings (including income from the current year)	39	-	1,464
26	**Total equity** (from 20 to 25)		**289,187**	**337,026**
27	**Total equity and liabilities** (19+26)		**1,790,040**	**1,947,403**

Statement of changes in equity

The notes on pages 47 to 99 are an integral part of these financial statements.

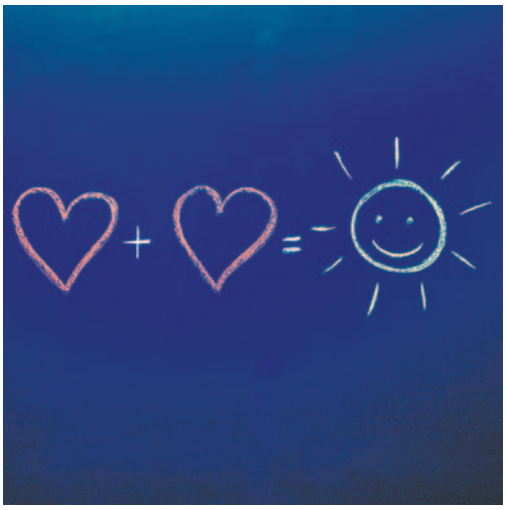
	(in thousands of EUR)	Notes	Share capital	Share premium	Revaluation reserves (for available-for-sale financial assets)	Profit reserves	Retained earnings (including income from the current year)	Treasury shares	Total equity
1	**1 January 2011**		**13,830**	**9,381**	**(2,069)**	**342,927**	**21,427**	**(18,650)**	**366,846**
2	**Total comprehensive income for the year 2011**		**-**	**-**	**(10,101)**	**-**	**1,680**	**-**	**(8,421)**
3	Dividends paid		-	-	-	-	(21,399)	-	(21,399)
4	Transfer from net income to reserves		-	-	-	244	(244)	-	-
5	**31 December 2011**		**13,830**	**9,381**	**(12,170)**	**343,171**	**1,464**	**(18,650)**	**337,026**
6	**Profit for appropriation for the year ended 31 December 2011**		**-**	**-**	**-**	**-**	**1,464**	**-**	**1,464**
1	**1 January 2012**		**13,830**	**9,381**	**(12,170)**	**343,171**	**1,464**	**(18,650)**	**337,026**
2	**Total comprehensive income for the year 2012**		**-**	**-**	**21,454**	**-**	**(62,225)**	**-**	**(40,771)**
3	Sales / purchases of treasury shares	37	-	-	-	-	-	(7,069)	(7,069)
4	Covering of net loss for the year		-	-	-	(60,762)	60,762	-	-
5	Other movements 1)		-	-	1	1	(1)	-	1
6	**31 December 2012**		**13,830**	**9,381**	**9,285**	**282,410**	**-**	**(25,719)**	**289,187**
7	**Profit for appropriation for the year ended 31 December 2012**	46	**-**	**-**	**-**	**-**	**-**	**-**	**-**

1) Rounding

Cash flow statement

The notes on pages 47 to 99 are an integral part of these financial statements.

(in thousands of EUR)	Notes	Year ended 31 December 2012	2011
A. Operating activities			
a) Interest received		75,935	86,508
Interest paid		(33,744)	(35,029)
Dividend received	6	2,634	1,908
Fee and commission receipts	7	10,925	11,557
Fee and commission paid	7	(1,023)	(1,069)
Realised gains on financial assets not measured at fair value through profit or loss	8	1,145	1,234
Realised losses on financial assets not measured at fair value through profit or loss	8	(4,900)	(1,061)
Net trading incomes		403	244
Cash payments to employees and suppliers	13	(24,977)	(25,795)
Other incomes		1,616	437
Other expenses		(376)	(417)
Cash flows from operating profits before changes in operating assets and liabilities		**27,638**	**38,517**
b) (Increase)/decrease in operating assets		**97,137**	**22,597**
Decrease in financial assets held for trading		8,888	6,134
(Increase)/decrease in financial assets available for sale		63,124	(8,127)
Decrease in loans		25,179	24,400
(Increase)/Decrease in other assets		(54)	190
c) Increase/(decrease) in operating liabilities		**(117,598)**	**2,731**
Increase/(decrease) in advances from central banks		5,593	5,004
Decrease in financial liabilities held for trading		(15)	(46)
Decrease in deposits and borrowed funds, measured at amortised cost		(122,685)	(1,944)
Increase in debt certificates		-	5
Increase/(decrease) in other liabilities		(491)	(288)
č) Cash flow from operating activities (a+b+c)		**7,177**	**63,845**
d) Paid income taxes		**(2,725)**	**(10,221)**
e) Net cash flow from operating activities (č+d)		**4,452**	**53,624**
B. Investing activities			
a) Cash proceeds related to investing activities		**-**	**987**
Cash receipts from the sale of property and equipment		-	105
Cash receipt from the sale of held to maturity investments		-	882
b) Cash payments related to investing activities		**(1,838)**	**(2,974)**
Cash payment to acquire property and equipment		(1,274)	(1,612)
Cash payment to acquire intangible assets		(564)	(1,362)
c) Net cash flow from investing activities (a-b)		**(1,838)**	**(1,987)**
C. Financing activities			
a) Cash proceeds related to financing activities		**-**	**-**
b) Cash payments related to financing activities		**-**	**(21,399)**
Dividend paid		-	(21,399)
c) Net cash flow from financial activities (a-b)			**(21,399)**
D. Effect of exchange rate changes on cash and cash equivalents		(69)	409
E. Net increase / (decrease) in cash and cash equivalents (Ae+Bc+Cc)		**2,614**	**30,238**
F. Cash and cash equivalents at beginning of year		**46,959**	**16,312**
G. Cash and cash equivalents at end of year (D+E+F)	41	**49,504**	**46,959**



Annual Report 2012:

Notes to Financial Statements

1. General information

Gorenjska banka, d. d., Kranj (the Bank) is a joint stock company incorporated in Slovenia. The Bank's main activity is accepting the deposits of natural and legal persons, and extending loans out of these funds for its own account. Moreover, the Bank also provides numerous other financial services.

Both banking and financial services are provided to customers within the business network, involving 29 agencies. The customers of Gorenjska banka avail themselves of the LINK electronic bank and wide network of ATMs. Access to information is also possible at the Bank's website at the following address: http://**www.gbkr.si**.

The Bank's equity securities are not publicly traded.

At the end of 2012, the Bank employed 408 people (2011: 422).
The Bank is managed by three-member Management Board. The President of the Management Board is Mr. Gorazd Trček.
The address of the Bank's registered office is as follows: Gorenjska banka, d. d., Kranj, Bleiweisova cesta 1, 4000 Kranj, Slovenia.

The Management board verifies the financial statements of Gorenjska banka, d. d., Kranj.

The Bank does not have a controlling entity, in other entity's consolidated financial statement is included as an associated company.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1. Basis of preparation

The Bank's financial statements for the year 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU. Additional information required by national regulations is included where appropriate.

The financial statements comprise the income statement and statement of other comprehensive income showing as two statements, the statement of financial positions, the statement of changes in equity, the cash flow statement and the notes.

The financial statements are presented in euro, which is the Banks's functional and presentational currency. The figures shown in the financial statements are stated in thousands of euro.

The disclosures on risks, which the Bank is exposed in its business, are presented in the risk management report contained in Note 4.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

2.1.1. Existing standards amended in 2012

In 2012, the following amendments to the existing standards issued by the International Accounting Standards Board (the IASB) and adopted by the EU were in force:

- Amendments to IFRS 7 »Financial Instruments: Disclosures« - Transfer Transactions of Financial Assets as adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

Adoption of the above amendments to the existing standards did not cause any changes in the Bank's accounting policies.

2.1.2. Standards and interpretations issued by the IASB and adopted by the EU, but not yet in force

At the date of authorization of these financial statements the following standards, revisions and interpretations adopted by the EU were issued but not yet effective as at 31 December 2012:

- IFRS 10 "Consolidated Financial Statements" as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements" as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 " Disclosure of Interests in Other Entities" as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 13 "Fair Value Measurement" as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- IAS 27 (amended in 2011) "Separate Financial Statements" as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);

- IAS 28 (amended in 2011) "Investments in Associates and Joint Ventures" as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 1 '"First-time Adoption of International Financial Reporting Standards" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, as adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income, as adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets, as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 19 "Employee Benefits" – Improvements to Accounting for Post-employment Benefits, as adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities, as adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" as adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The Bank decided not to apply these amendments to the standard before entering into force. The Bank expects that the adoption of the standard will not have a significant impact on the Bank's financial statements in the period of initial application.

2.1.3. Standards and interpretations issued by the IASB, but not yet adopted by the European Union

At present, the IFRS as adopted by the EU do not significantly differ from regulations that were adopted by the IASB, with the exception of the following standards, amendments to the existing standards and interpretations, which as at 31 December 2012 have not been validated for use:

- IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2015);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures;
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", and IFRS 12 "Disclosure of Interests in Other Entities" – Transition Guidance (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities", and IFRS 27 "Separate Financial Statements" – Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to various standards "Improvements to IFRSs (2012)", which arise from the annual IFRS improvements project published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34), mainly with the purpose of eliminating inconsistencies and text interpretations (amendments are effective for annual periods beginning on or after 1 January 2013).

The Bank anticipates that the introduction of these standards, amendments to the existing standards, and interpretations will not have a significant impact on the Bank's financial statements in the period of initial application. At the same time, hedging related to the portfolio of financial assets and liabilities, the principles of which the EU has not yet adopted, is still not regulated.

The Bank estimates that the use of hedging related to financial assets and liabilities in compliance with the requirements of IAS 39 'Financial Instruments: Recognition and Measurement' would not have a significant impact on the Bank's financial statements if they were applied as at the statement of financial position date.

2.1.4. Early adoption of standards

In 2012 the Bank did not apply standards, amendments or interpretations that would not yet be effective. The Bank expects that the adoption of such standards, amendments and interpretations will not have a significant impact on the Bank's financial statements in the period of initial application.

2.2. Associates and subsidiaries

As of 31 December 2012 the Bank had two subsidiaries and one associate.

Subsidiaries are entities that are directly or indirectly controlled by the Bank. Associates are entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

Under this method, The Bank's share of its associates' post-acquisition profits or losses is recognized in the income statement and its share in post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Bank's accounting policy contains rules regarding the non-materiality and in line with these rules the Bank's subsidiaries accounts do not exceed set limits for materiality individually as well as a group. The Bank has not prepared consolidated financial statements, as the effect of consolidation of subsidiaries is of no material importance. Investments in associates are accounted for by the equity method.

Investments in subsidiaries and associates are disclosed within investment in associates and subsidiaries (Note 27).

2.3. Foreign currency translation

2.3.1. Functional and presentation currency

Assets and liabilities items denominated in foreign currency are converted in the financial accounts with the Bank of Slovenia and ECB reference rate as published on 31 December 2012 (for the year 2011: with the Bank of Slovenia and ECB reference rate as published on 31 December 2011). The effects of foreign currency translation are shown in the income statement as a net result of foreign currency translation.

The financial statements are presented in euro, which is the Bank's functional and presentation currency.

2.3.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets, are presented in other comprehensive income within the corresponding item.

Income and costs denominated in foreign currency are translated into euro using the exchange rate as of date of transaction. Gains and losses arising from purchase and sale of foreign currenent of the current year in net gains less losses on financial assets and liabilities held for trading.

2.4. Financial assets

2.4.1. Classification

The Bank 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. In general management determines the classification of its investment at initial recognition.

2.4.1.1. Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit of 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 instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets are designated at fair value through profit or loss also when financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows. Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets are included in 'net income from financial instruments designated at fair value through profit or loss'. Interest income and expense and dividend income and expenses on financial assets at fair value through profit or loss are included in “Net interest income” or “Dividend income”, respectively.

2.4.1.2. 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 upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

2.4.1.3. Held to maturity financial assets

Held to maturity financial assets are non-derivative instruments with fixed or determinable payments and fixed maturity that an entity undoubtedly intends and is able to hold to maturity.

The Bank cannot classify any financial assets as held to maturity if the Bank has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity financial assets before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset's call date that changes in the market interest rate would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

Whenever sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions from the preceding paragraph, any remaining held-to-maturity investments must be reclassified as available for sale.

2.4.1.4. Available for sale financial assets

Available for sale investments are those intended to be hold for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2.4.1.5. Reclassification of financial assets

The Bank did not reclassified financial assets in the period considered.

2.4.2. Measurement and recognition

Regular-way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the Bank commits to purchase or sell the assets.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Available for

sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using effective interest rate.

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. 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 assets are derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive oncome 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. Dividend on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on market prices. If there is no active market for a financial asset, the fair value of those financial instruments are determined by using valuation techniques.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished - that is, when the obligation is discharged, cancelled or expires.

2.4.3. Fair value measurement principles

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

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

2.5. Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.6. Offsetting financial instruments

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

2.7. Derivative financial instruments

Derivatives, including futures and forward contracts, swaps and options are initially recognized in the statement of financial position at fair value. Fair values are obtained from quoted market prices, discounted cash flow models or pricing models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.
The bank does not apply hedge accounting.

2.8. Interest income and expense

Interest income and expense for all interest-bearing financial instruments, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method. Interest income includes coupons earned on fixed income investment and on securities designated at fair value through profit or loss and charged discount and premium on debt securities and other discounted instruments.

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. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, 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 rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9. Fee and commission income

Fees and commissions are generally recognised in the income statement on an accrual basis when the service has been provided. Fee and commission income predominantly include fees and commissions from guarantee operations, execution of payment transactions, foreign currency exchange and card operations as well as agency and commission operations. Fees and commissions included in the effective interest rate calculation are disclosed under interest income and expenses. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.10. Dividend income

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

2.11. Impairment of financial assets

2.11.1. Assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings; and
- Deterioration of the borrower's competitive position.

The estimated period between a loss occurring and its identification is determined on case by case basis. In general, the period used is 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant (are part of exposure to one client that exceeds EUR 650 thousand) and individually or collectively for financial assets that are not individually significant.

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

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

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

For the purpose of collective evaluation of impairment, financial assets are grouped in groups from A to E on the basis of similar credit risk characteristics that include financial condition of the client, its ability to generate adequate cash flow to repay the loan, received collateral and past experience with the client.

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

Methodology is based on the migration matrices (among groups A to E) for the years 1998 to 2011. Migration of a client to group E is considered a loss event for the Bank. The amount of impairment needed is calculated from the probability that a client will migrate from groups A, B, C and D into group E in the period of five years. To calculate expected loss the probability of migration to group E is multiplied by the average loss that the bank had with exposures classified in the group E in the past.

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written of after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

2.11.2. Assets classified as available for sale, measured at fair value

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets should be impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets need to be impaired. If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from other comprehensive income and recognised in the income statement. 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.

2.12. Intangible assets

Intangible assets, which relate solely to software licences and the licences for their use, are stated at cost, less accumulated amortisation and impairment losses. Amortisation is provided on a straight-line basis at rates designed to write off the cost of software over its estimated useful life, not exceeding a period of ten years. Assets in the course of transfer, construction or implementation are not amortised until they are brought into use. The term and method of depreciation for intangible assets with a determinable useful life are reviewed at the end of each financial year.

2.13. Accounting for leases

2.13.1. Where the Bank is the lessee

All leases where the Bank acts as lessee are operating. Payments made based on operating leases are included in the income statement proportionately to the contract duration and are disclosed under other operating expenses. 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 recognized as an expense in the period in which termination takes place.

2.13.2. Where the Bank is the lessor

All leases where the Bank acts as lessor are operating. Payments received based on operating leases are included in the income statement proportionately to the contract duration and are disclosed under other operating income.

2.14. Property and equipment

All property and equipment is initially recorded at cost. The Bank assesses each year whether there are indications that assets may be impaired. If any such indication exists, the Bank estimates the recoverable amount. Recoverable amount is the higher of the asset's fair value less costs to sell and value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In 2011 and 2012 wasn't identified needs for a reduction in value.

Items of property and equipment are recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reported date.

Depreciation is calculated on a straight-line basis at rates designed to write off the cost or valuation of buildings and equipment over their estimated useful lives, as follows:

	2012	2011
Buildings	33 years	33 years
Computers	2 years	2 years
Equipment	5 years	5 years
Motor vehicles	5 years	5 years

Land is not depreciated. Assets in the course of transfer or construction are not depreciated until they are brought into use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Maintenance and repairs are charged to the income statement during the financial period in which they are incurred.

2.15. Investment property

Investment property is the property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes. Investment property includes apartments and commercial premises rented that are exceeding 50% of the total area or are larger than 50 m2 and the renting contracts are long term. Investment property is shown at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is measured in the same way as property and equipment. Investment property is initially measured at cost. Depreciation rates used for investment property are identical to the rates used for the same kind of property or equipment. This also means that the useful life of the investment property is identical to the same sort of property or equipment. The Bank's actions related to verifying and implementing impairments of investment property are also identical. No needs for impairments occurred in 2011 and 2012.

2.16. Cash and cash equivalents

For the purpose 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 balances with central banks, loans to banks and other short-term high liquid investments.

2.17. Provisions

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

2.18. Employee benefits

Employee benefits include jubilee benefits, retirement indemnity bonuses and other long - services benefits. Valuations of these obligations are carried out by independent qualified actuaries.

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

If employees fulfilling certain conditions they are entitled to indemnity paid in lump sum. Employees are also entitled to long services bonus for every ten years of employment with the Bank. These obligations are measured at the present value of the future cash outflows. All gains and losses are recognised in the income statement.

2.19. Financial guarantee contracts

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

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

2.20. Income tax and deferred income taxes

Taxation has been provided for in the financial statements in accordance with Slovenian legislation currently in force. The charge for taxation in the statement of income for the year comprises current tax and changes in deferred tax.

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 that have been enacted for the financial year following the reporting year.

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

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

Income tax is calculated using 16% (2011: 20%) tax rate.

2.21. Share capital

2.21.1. 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.

2.21.2. 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.

2.21.3. Treasury shares

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

2.22. Borrowings and other financial liabilities measured at amortized cost

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

Other financial liabilities of the bank, measured at amortized cost, are deposits of banks and customers and debt securities issued.

2.23. Fiduciary activities

The Bank also offers its clients securities intermediation services. A fee is charged for this service. The clients' assets are not included in the statement of financial position and do not represent a risk for the Bank. Details on fiduciary activities and belonging accrued fees are given in note 7.

2.24. Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3. Critical accounting estimates and judgments

a) Impairment losses on loans and advances

The Bank reviews its loan portfolio to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is 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 that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. 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. Individual estimates are based on future cash flows assessed by accounting officers using all relevant information on counterparty and its ability to meet specific obligations. Scheduled cash flows are reviewed by risk management sector. Low value exposures are reviewed on the pool basis. 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.

b) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and cooperative market prices. To the extent practical, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

The Bank applied a model for significant investments in quoted equity instruments as it assessed that the market was becoming increasingly more inactive and inappropriate for defining the fair value of these instruments. To assess the market's inactivity, the Bank used factors indicating that a substantial decrease in the volume and level of activities in relation to the usual market activities has occurred.

c) Impairment of available for sale equity investments

The Bank determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may 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.

4. Financial risk management

During its operations the Bank assumes a variety of risks that to a large extent depend on the Bank's risk appetite. The Bank is mainly oriented towards traditional banking operations.

The key part of the Bank's business activities is the credit portfolio, and in view of this the Bank's primary goal is security, which comes above profitability, although it is not neglected. Financial instruments held for trading represent only a small part of the Bank's assets. The Bank maintains interest rate and currency risks at a relatively low level, while habitually regulating the exposure that arises from day-to-day business operations.

The Bank's orientation towards an active and prudent risk management is supported with an adequate organizational structure that ensures a secure and equitable approach to risk management. The basis of risk management organization is the segregation of duties; greater segregation prevents errors, fraud and irregularities, and eliminates conflict of interests. The Bank assures the separation of commercial function or branches entering into transactions and risk undertaking (front office) from backup function that monitors and conducts business (back office), and the monitoring and risk management function in all business areas.

Within the framework of the annual report preparation the Bank conducts a yearly assessment of the risk management strategies and policies adequacy and in accordance with policies of undertaking and managing risks evaluates the Bank's capacity to undertake risks.

4.1. Credit risk

Credit risk is the most significant risk in bank management, which is why it garners the most attention in the Bank. Credit risk is a risk due to uncertainty that counterparty will meet its obligations fully when contractually obliged to do so.

The Bank is exposed to the credit portfolio credit risk that includes both accounts receivable (loans, securities investments, capital investments, etc.) and off-balance sheet liabilities (guarantees, letters of credit, standing credits, accounts receivable from credit derivatives, etc.) to companies, banks, the public sector, sole proprietors, individuals and other clients.

The Bank assesses adequate impairments with regard to individual credit risk and when there is objective evidence of impairments.

The Bank has an established credit process that is comprised of credit approval, credit monitoring, early detection of increased credit risk, and debtor and/or exposure classification.

The Bank has a clear segregation of duties between corporate banking sector, treasury sector and retail banking sector on the one hand and back-office and risk management sector on the other hand, which enables the separation of commercial function from the function of operations monitoring and risk management.

Most of the investments (other than standardised, less risky investments of smaller amounts) are approved at the level of one of the two credit committees, which further reduces the risk of conflicts of interest and limits excessive exposure to credit risk.

The Bank controls credit risk both at the level of individual clients and transactions, and at the entire portfolio level. Aspects taken into account with regard to credit risk management are:

- quality of investments (principal's credit ranking, classification of accounts receivable, impairments)
- concentration (high exposure of individual clients and persons related to him, individual principal's borrowing, branches, regions, states)
- currency (foreign exchange risks, classification of portfolio regarding currency and monitoring of conformity with sources)
- maturity (classification of portfolio regarding maturity and monitoring of conformity with sources)
- insurance (determination, evaluating and monitoring the proper amount and quality of insurance),
- credit types (overdrafts, short-term loans, long-term loans).

Existing or potential credit risk is monitored throughout the entire period of the contract, that is from the receipt of application through the process of approval and until the final repayment of the loan.

The Bank's credit function is organized in two units, in corporate banking sector and in retail banking sector, and, in addition, the Bank is exposed to credit risk also with some other operations that falls under the treasury sector jurisdiction. The Bank has organized the department of risky assets, in whose jurisdiction is the recovery and restructuring of bad loans. These four units are responsible for business arrangements and for the preparation of credit drafts by virtue of internal acts governing this area.

Accounting sector is responsible for conducting business operations, all statements and other activities that fall within the framework of support function. Risk management prepares credit ratings and analysis of customers, monitors the Bank's exposure to credit risk, assesses the adequacy of impairments and provisions, and identifies the amount of necessary impairments in case of group assessment of exposure.

Back office and risk management sector provides the Bank's management and authorized persons with various reviews and reports on credit risk management.

Reports on credit exposure at the counterparty level, large exposures and other regular reports regarding credit risk are typically prepared on a monthly basis, whereas reports on defaults are provided daily.

4.1.1. Credit risk measurement

The Bank has an established credit approval system, which includes the assessment and analysis of all important factors that influence the obligator's risk and/or exposure. The Bank's credit approval criteria are defined separately for loans to legal entities and separately for retail loans. The Bank also assumes credit risk with investments in debt securities; however, this is dealt with on a case-by-case basis at the highest level.

Credit draft approvals for legal entities are the responsibility of the Credit Committee. In accordance with internal acts governing signing and authorization, individual employees have the authorization to deal with particular operations. All operations, for which individual employees are authorized, must be reported to the Credit Committee and the Management Board on a monthly basis.

The Bank gives special attention to risk exposuremonitoring of the persons that have entered into a special agreement with the Bank.

To assess credit risk, the Bank has an established classification system of debtors and/or exposure into credit grades and group classification. Classification process is based on quantitative and qualitative criteria and takes into account the principal characteristics of individual obligor and/or exposure. The criteria ensure a clear classification of risks into appropriate credit grades and/groups on the basis of the principal's business operations and financial stability. Impairments and provisions are formed on the basis of classification and potential loss appraisal based on credit risk for certain groups, or on the basis of individual potential loss appraisal for individual debtors and/exposure.

The process and rules of classification are monitored regularly, and the adequacy of the classification process and impairment and provisions formation is reviewed in accordance with the International Financial Reporting Standards as adopted by the EU at least once yearly.

The Bank has an established system of regular credit portfolio management. This involves regular monitoring of exposure to individual clients and an assessment of obligors' financial situation. The Bank monitors daily whether the conditions originating in the credit agreement are complied with, and special attention is given to monitoring whether repayments of liabilities are made in time.

For the duration of the credit agreement the Bank constantly monitors the debtor's business operations, and it examines individual debtor's risk and/or exposure in detail and assesses the adequacy of credit ranking as well as the expected payments of contractual obligations at least monthly. At the same time it also examines the adequacy and value of any insurance.

In accordance with the classification of claims into grades and the formation of impairments, the entire credit portfolio of individual clients is assessed every month, and eventual necessary changes of the required level of impairments and/or provisions are suggested. Claims regarding individuals are classified with regard to the number of unpaid instalments. Claims of individuals are classified according to the number of days late in paying their liabilities to the bank.

Loans and guarantee insurance is examined throughout the entire repayment period or until the guarantee's maturity. With all long-term loans and guarantees insurance quality examination is routine, as is the assessment of adequate insurance. In case of inadequate insurance possible measures to take up supplementary insurance are suggested.

Risk management and corporate banking sector regularly monitor and analyse the entire credit portfolio. They also analyse the amalgamation of credit portfolio on a regular basis.

To ensure appropriate control and monitoring of amalgamation risk, the Bank actively controls the Bank's portfolio, in particularly by changing and strengthening credit policy, as well as by adjusting overdraft limits.

The Bank employs a range of policies and practices to mitigate credit risk. The most common is the taking of security for advances. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- mortgages over residential and properties and business premises
- charges over business assets, such as equipment, inventory and accounts receivable
- charges over financial instruments such as debt securities and equities
- insurance by insurance companies

In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as financial difficulties of the counterparty are noticed.

Type of collateral is determined by the nature and business of the counterparty.

Advances other than loans, such as bonds and treasury bills, are generally unsecured. These advances include bonds, treasury bills and the like.

The Bank has a policy too start with working out process for the loans in default immediately after its occurrence and it includes the process of selling the collateral.

Estimates of collateral values are made based on limited available information and assuming orderly liquidation of collateral if that becomes necessary. Changes in economic conditions, specific circumstances of individual customers and collateral properties will result in changes in estimates in the future and the changes can be material. The amounts ultimately realized if liquidation of collateral is required could materially differ from the estimates used by the bank in accounting for loan impairment provisions.

Of the total of EUR 87.670 thousand (2011: EUR 80,957 thousand) retail loans insured with Zavarovalnica Triglav, d. d., Ljubljana, in 2011 the Bank cashed in insurance policies of EUR 378 thousand (2011: EUR 444 thousand).

In 2012, the bank sold collaterals in the amount of EUR 5,636 thousand (2011: EUR 1,097 thousand) for EUR 65,968 thousand (2011: EUR 6,061 thousand) past due loans loans to non-banks. The amount of sold movables was EUR 3,257 thousand, sold securities amounted to EUR 1,390 thousand (2011: EUR 583 thousand), income from assignment of receivables was EUR 597 thousand (2011: EUR 201 thousand), income from guarantees amounted to EUR 278 thousand (2011: EUR 180 thousand) and amount of other sold collaterals was EUR 114 thousand (2011: dividends received from the pledged shares amounted to EUR 81 thousand).

4.1.2. Maximum exposure to credit risk

The table below presents the worst case scenario of credit risk exposure, without taking account of any collateral held of other credit enhancements attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

(in thousands of EUR)	2012	2011
Credit risk exposures relating to on-balance sheet assets are as follows:		
Financial assets held for trading – debt securities and derivatives	19,734	28,956
Financial assets designated at fair value through profit or loss	61,436	55,032
Available-for-sale financial assets – debt securities	395,012	439,158
Loans and receivables to banks	32,840	25,394
Loans and receivables to customers		
Corporates and other entities		
Corporates	686.537	791,809
Small and medium enterprises (SME)	346.582	335,042
Individual clients		
Overdrafts	16,446	16,748
Housing loans	59,259	53,414
Consumer and other loans	45,032	48,363
Other financial assets	4,996	4,833
Other assets	301	185
	1,668,175	**1,798,934**
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	40,750	24,042
Commitments to extend credit	115,062	120,417
Commercial letters of credit	7,176	5,043
	162,988	**149,502**

As shown above, 63.0% of total maximum exposure is derived from loans and receivables to customers (2011: 63.9%); 21.6% represents available-for-sale debt securities (2011: 22.5%).

The portfolio is separated to corporate and small and medium enterprises (SME) portfolio using the criteria for SMEs in the Company Act. SMEs the companies that have at least two of the following:

- average number of employees is lower than 250,
- sales are lower than EUR 35,000 thousand,
- total assets are lower than EUR 17,500 thousand.

Sole proprietors are included in SMEs.

In 2012, the Bank's prudent investment policy and efficient risk management led to the following achievements:

- impairment of the loans to customers other than banks has increased by 38.4% (2011: 11.1%), its share in loans has increased to 12.0% (2011: 8.3%),
- 25.7% of the loans are individually impaired (2011: 18.3%),
- share of the loans past due has increased to 26.2% (2011: 16.6%),
- 81.8% of investments in debt securities have a rating of at least A- (FitchRatings) (2011: 75.7%).

The table below presents fair value of the collateral received. Adequate forms of collateral are considered, which the Bank can use in impairment calculation and could use in case of any overdue receivables. The collateral received for on-balance sheet items (for loans and securities) and for off-balance sheet is included.

(in thousands of EUR)	2012	2011
Mortgages	799,427	853,615
Accession to obligations	363,596	383,008
Securities and equity investments pledged	143,648	253,374
Guarantees by companies	104,081	101,780
Insurance of loans and contingent claims to individuals by the insurance company	88,137	92,252
State guarantees	39,113	41,002
Insurance policies SID Bank	20,828	16,508
Pledged deposits	13,046	4,966
Other collateral	6,585	7,049
Total amount of collateral received	**1,578,461**	**1,753,554**

4.1.3 Loans and receivables

Loans and receivables are summarised as follows:

As at 31 December 2012

	Loans to individual clients			Loans to corporates and other entities			
(in thousands of EUR)	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	**Loans to banks**	**Total**
Neither past due nor impaired	-	-	476	37,000	1,594	32,840	71,910
Not past due but group impaired	16,529	59,950	45,520	506,226	229,894	-	858,119
Past due and group impaired	407	142	1,252	54,956	11,191	-	67,948
Not past due but individually impaired	-	-	-	51,970	9,365	-	61,335
Past due and individually impaired	-	-	-	62,254	222,152	-	284,406
Gross	**16,936**	**60,092**	**47,248**	**712,406**	**474,196**	**32,840**	**1,343,718**
Less: allowance for impairment	(490)	(833)	(2,216)	(25,869)	(127,614)	-	(157,022)
Net	**16,446**	**59,259**	**45,032**	**686,537**	**346,582**	**32,840**	**1,186,696**

As at 31 December 2011

	Loans to individual clients			Loans to corporates and other entities			
(in thousands of EUR)	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	**Loans to banks**	**Total**
Neither past due nor impaired	-	-	646	41,524	7,649	25,394	75,213
Past due but not impaired	-	-	-	-	2	-	2
Not past due but group impaired	16,917	54,031	48,607	642,171	242,019	-	1,003,746
Past due and group impaired	355	144	1,738	42,890	6,432	-	51,559
Not past due but individually impaired	-	-	-	32,001	43,505	-	75,506
Past due and individually impaired	-	-	-	96,087	82,106	-	178,193
Gross	**17,272**	**54,175**	**50,992**	**854,673**	**381,713**	**25,394**	**1,384,219**
Less: allowance for impairment	(524)	(762)	(2,628)	(62,864)	(46,671)	-	(113,449)
Net	**16,748**	**53,413**	**48,364**	**791,809**	**335,042**	**25,394**	**1,270,770**

The total impairment provision for loans and advances is EUR 157.0 million (2011: EUR 113.4 million) of which EUR 137.0 million (2011: EUR 83.0 million) represents the individually impaired loans and the remaining amount of EUR 20.0 million (2011: EUR 30.5 million) represents the group provisions. Further information of the impairment allowance for loans and advances is provided in Note 2.11.

At the end of 2011, the Bank had 178,193 thousand individually impaired loans outstanding, at the end of 2012 they amounted to 284,406 thousand. Among the most important reasons for individual impairments were worsening of financial condition of the debtors or the introduction of insolvency proceedings and delayed repayments of liabilities, as well as poor and inadequate insurance that has decreased in value in last year.

a) Loans and receivables neither past due nor impaired

As at 31 December 2012

(in thousands of EUR)	Loans to idividual clients	Loans to corporates and other entities		Loans to banks	Total
		Loans to corporates	Loans to SME		
Banks	-	-	-	32,840	32,840
Corporates	-	37,000	1,594	-	38,594
Individual clients	476	-	-	-	476
Total	**476**	**37,000**	**1,594**	**32,840**	**71,910**
Fair value of collateral	1,161	37,929	1,815	-	40,905

As at 31 December 2011

(in thousands of EUR)	Loans to idividual clients	Loans to corporates and other entities		Loans to banks	Total
		Loans to corporates	Loans to SME		
Banks	-	-	-	25,394	25,394
Corporates	-	41,524	7,649	-	49,173
Individual clients	646	-	-	-	646
Total	**646**	**41,524**	**7,649**	**25,394**	**75,213**
Fair value of collateral	1,519	46,037	16,314	-	63,870

(b) Loans and receivables not past due but group impaired

As at 31 December 2012

(in thousands of EUR)	Loans to individual clients			Loans to corporates and other entities		Total
	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	
Group A	16,370	59,062	44,189	216,116	80,199	415,936
Group B	123	580	533	111,364	68,826	181,426
Group C	6	308	269	177,677	79,045	257,305
Group D	11	-	1	1,069	1,792	2,873
Group E	19	-	528	-	32	579
Gross	**16,529**	**59,950**	**45,520**	**506,226**	**229,894**	**858,119**
Less: allowance for impairment	(202)	(726)	(1,091)	(7,704)	(4,117)	(13,840)
Net	**16,327**	**59,224**	**44,429**	**498,522**	**225,777**	**844,279**
Fair value of collateral	29,285	129,663	45,356	356,480	311,132	871,915

As at 31 December 2011

(in thousands of EUR)	Loans to individual clients			Loans to corporates and other entities		Total
	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	
Group A	16,917	53,455	43,200	242,119	90,059	445,750
Group B	-	160	5,147	168,848	69,036	243,191
Group C	-	416	238	231,201	81,739	313,594
Group D	-	-	17	3	1,129	1,149
Group E	-	-	6	-	56	62
Gross	**16,917**	**54,031**	**48,608**	**642,171**	**242,019**	**1,003,746**
Less: allowance for impairment	(169)	(655)	(1,020)	(16,716)	(6,451)	(25,010)
Net	**16,748**	**53,377**	**47,588**	**625,455**	**235,568**	**978,736**
Fair value of collateral	21,963	110,585	46,435	617,484	465,044	1,261,511

Criteria for classification in groups are as follows:

A	Clients in good financial condition
B	Clients in weaker financial condition however, it is not expected that it will impair further
C	Clients with very high debt-to-equity ratio and clients with not adequate maturity structure of balance sheet and whose operating cash flows may in future not be sufficent to cover their obligations
D	Clients for which high probability exists that obligations may not be repaid in ful
E	Clients who are insolvent and represent high risk

c) Loans and receivables past due and group impaired

As at December 2012

			Loans to individual clients	Loans to corporates and other entities		
(in thousands of EUR)	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	**Total**
Past due up to 30 days	68	19	63	17,557	425	18,132
Past due 30 – 90 days	47	14	48	40	217	366
Past due over 90 days	292	109	1.141	37,359	10,549	49,450
Gross	**407**	**142**	**1.252**	**54,956**	**11,191**	**67,948**
Less: allowance for impairment	(288)	(107)	(1.125)	(1,850)	(2,777)	(6,147)
Net	**119**	**35**	**127**	**53,106**	**8,414**	**61,801**
Fair value of collateral	721	307	1.245	18,673	14,665	35,611

As at 31 December 2011

			Loans to individual clients	Loans to corporates and other entities		
(in thousands of EUR)	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME	**Total**
Past due up to 30 days	-	32	116	20,010	71	20,228
Past due 30 – 90 days	-	7	24	3,244	108	3,383
Past due over 90 days	355	104	1,598	19,637	6,253	27,947
Gross	**355**	**144**	**1,738**	**42,890**	**6,432**	**51,559**
Less: allowance for impairment	(355)	(107)	(1,608)	(1,815)	(1,535)	(5,420)
Net	**-**	**37**	**130**	**41,075**	**4,897**	**46,139**
Fair value of collateral	-	40	138	21,888	4,768	26,834

The amount of the loans past due has increased in 2012 to 26.2% of all loans (2011: 16.6%).

The amount of past due and individually not impaired assets was as of 31 December 2012 EUR 67,948 thousand (31 December 2011: EUR 51,559 thousand). These assets were impaired through the process of group impairment. The bank has assessed the recoverable amount of these exposures and has estimated that the proceeds from collateral shall be adequate to cover the net amount of outstanding loans and therefore no individual impairment was needed.

(d) Loans and receivables not past due but individually impaired

As at 31 December 2012

(in thousands of EUR)	Loans to corporates	Loans to SME	Total loans to customers
Not past due but individually impaired loans	51,970	9,365	61,335
Less: allowance for impairment	(7,603)	(2,381)	(9,984)
Net	**44,367**	**6,984**	**51,351**
Fair value of collateral	43,045	6,289	49,333

As at 31 December 2011

(in thousands of EUR)	Loans to corporates	Loans to SME	Total loans to customers
Not past due but individually impaired loans	32,001	43,505	75,506
Less: allowance for impairment	(2,773)	(4,437)	(7,210)
Net	**29,228**	**39,068**	**68,296**
Fair value of collateral	54,815	81,063	135,878

(e) Loans and receivables past due and individually impaired

As at 31 December 2012

(in thousands of EUR)	Loans to corporates	Loans to SME	Total loans to customers
Past due up to 30 days	124	-	124
Past due 30 – 90 days	3,228	-	3,228
Past due over 90 days	58,902	222,152	281,054
Gross	**62,254**	**222,152**	**284,406**
Less: allowance for impairment	(7,885)	(118,340)	(126,225)
Net	**54,369**	**103,812**	**158,181**
Fair value of collateral	33,975	113,125	147,100

As at 31 December 2011

(in thousands of EUR)	Loans to corporates	Loans to SME	Total loans to customers
Past due up to 30 days	10	-	10
Past due 30 – 90 days	-	5,498	5,498
Past due over 90 days	96,077	76,608	172,685
Gross	**96,087**	**82,106**	**178,193**
Less: allowance for impairment	(41,560)	(34,250)	(75,810)
Net	**54,527**	**47,856**	**102,383**
Fair value of collateral	76,186	61,457	137,644

Loans to individuals are impaired as a group of assets.

Fair value of collateral includes:
- state guarantees,
- SID bank's insurance policies,
- banks deposits pledged, financial instruments pledged, the Bank shares pledged,
- guarantees received from banks, legal and individual persons,
- accretion to obligations,
- mortgages and other pledged property.

Fair value of collateral equals:
- the market or assessed value (the model) of financial assets held as collateral,
- the value of loans outstanding for accretion to obligations held as collateral,
- 100% of the value of insurance company guarantees, bank guarantees, state and municipal guarantees,
- values of resential real estate and values of commercial real estate equal market values of comparable real estate sales levels.

4.1.4. Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as at 31 December 2012. For this table, the Bank has allocated exposures to regions based on the country of domicile of our counterparties.

(in thousands of EUR)	Slovenia	Other European union countries	Other countries	Total
Financial assets held for trading – debt securities, derivatives	19,494	-	240	19,734
Financial assets designated at fair value through profit or loss	-	19,948	41,488	61,436
Available-for-sale financial assets – debt securities	273,765	107,688	13,559	395,012
Loans and receivables to banks	29,591	2,127	1,122	32,840
Loans and receivables to customers				
Corporates and other entities				
Corporates	659,612	1,256	25,670	686,538
Small and medium enterprises (SME)	317,609	11,909	17,063	346,581
Individual clients				
Overdrafts	59,259	-	-	59,259
Housing loans	44,963	20	49	45,032
Consumer and other loans	16,437	1	8	16,446
Other financial assets	4,886	2	108	4,996
Other assets	301	-	-	301
As at 31 December 2012	**1,425,917**	**142,951**	**99,307**	**1,668,175**
As at 31 December 2011	**1,518,942**	**170,931**	**109,061**	**1,798,934**

The Bank operates principally in Slovenia. Transactions with other countries are principally in the form of investments in debt securities.

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties as at 31 December 2012.

(in thousands of EUR)	Public administration, and defence, comp. social security	Financial intermediation	Manufacturing	Real estate renting, business activities	Wholesale, retail	Other sector	Individuals	Total
Financial assets held for trading - debt securities, derivatives	42	19,692	-	-		-	-	19,734
Financial assets designated at fair value through P&L	-	61,436	-	-	-	-	-	61,436
Available-for-sale financial assets - debt securities	351,659	27,635	-	-	2,602	13,116	-	395,012
Loans to banks	-	32,840	-	-	-	-	-	32,840
Loans to customers								
Corporates and other entities								
Corporates	-	110,638	291,961	38,057	109,690	136,192	-	686,538
SME	293	48,199	77,464	42,053	34,260	144,312	-	346,581
Individual clients								
Overdrafts	-	-	-	-	-	-	16,446	16,446
Housing loans	-	-	-	-	-	-	59,259	59,259
Consumer and other loans	-	-	-	-	-	-	45,032	45,032
Other financial assets	28	329	113	26	127	214	4,159	4,996
Other assets	9	273	-	15	1	3	-	301
As at 31 December 2012	**352,031**	**301,042**	**369,538**	**80,151**	**146,680**	**293,837**	**124,896**	**1,668,175**
As at 31 December 2011	**389,212**	**320,940**	**378,153**	**84,388**	**174,126**	**333,588**	**118,527**	**1,798,934**

4.1.5. Loans and advances renegotiated

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

As of 31 December 2012 restructure financial instruments amounted to EUR 245,591 thousand (2011: EUR 320,899 thousand), from which EUR 46,446 thousand past due under restructured terms. All loans to corporates remain impaired also following restructuring (2011: EUR 16,278 thousand).

4.1.6. Debt securities

The table below presents an analysis of debt securities (included in Notes 18, 19, 20 and 23) by rating agency rating, based on FitchRatings and Moody's Investor Service.

As at 31 December 2012

(in thousands of EUR)	Financial assets, designated at fair value through profit or loss	Financial assets, held for trading	Available-for-sale financial assets	Total
AAA	-	-	41,861	41,861
A- to A+	41,488	240	305,959	347,687
Lower than A-	19,948	19,451	29,794	69,193
Unrated	-	-	17,398	17,398
Total	**61,436**	**19,691**	**395,012**	**476,139**

As at 31 December 2011

(in thousands of EUR)	Financial assets, designated at fair value through profit or loss	Financial assets, held for trading	Available-for-sale financial assets	Total
AAA	-	-	31,205	31,205
A- to A+	37,644	218	326,701	364,563
Lower than A-	17,388	28,726	57,820	103,934
Unrated	-	-	23,431	23,431
Total	**55,032**	**28,944**	**439,157**	**523,133**

Portfolio of structured securities has been measured at fair value through profit and loss. Structured securities have an issuer rating of at least BB+ (2011: BB+).

4.2. Market risk

In the course of its business operations the Bank also assumes market risks, that is risks of credit derivatives fair value changes due to changing market prices. Market risks arise from open positions of interest, currency and equity instruments that are exposed to general and specific market changes, such as changes of interest rates, currency exchange rates and prices of shares. The Bank has an established methodology of market risk exposure assessment and expected potential loss appraisal that is based on a number of suppositions and scenarios. The borders of acceptable risk exposure are determined by the Management Board and are monitored regularly.

The Bank monitors the exposure to currency risk daily. In order to limit the currency risk, the defined boundaries are relatively low. To close or decrease the currency risk exposure, the Bank follows the decisions regarding investment and interest rate policy, as well as using the derivative instruments for currency risk security. Due to low limits

(EUR 50 thousand per currency) the Bank's exposure to currency risk is negligible.

Interest rate risk exposure is controlled by the Bank's interest rate policy, and in particular cases derivative instruments are also used. A greater attention in the Bank's business operations is placed on net interest income protection.

With regard to market risk, the Bank has an established trading policy that defines derivative instruments and other trade methods.

According to the Bank's trading policy and market risk management, operative market risk management falls under the jurisdiction of the treasury sector. The treasury sector follows the directions of risk management on the basis of received reports and analyses created by accounting sector and approved by the Balance Control Committee.

A key aspect to ensure the adequate market risk management and conformity of the Bank's business operations with the minimum trading standards laid down by the Bank of Slovenia are the organizational rules, connected with the delimitation of competences between the treasury sector and back-up work done in the accounting sector.

4.2.1. Currency risk

The Bank's financial situation and cash flow are exposed to currency exchange fluctuations. The Bank's currency risk is controlled and monitored on a daily basis. The Bank has a rather conservative policy of currency risk management in that it minimizes the currency risk by closing open currency position every day. The boundaries of acceptable exposure in each foreign currency are monitored daily and approved by the management of the Bank.

The table below summarises the Bank's exposure to currency risk at 31 December. Included in the table are the Bank's financial instruments at carrying value, categorised by currency.

(in thousands of EUR)	USD	Other	EUR	Total
31 December 2012				
Assets				
Cash and balances with central banks	56	280	16,932	17,268
Financial assets held for trading	-	-	36,218	36,218
Financial assets designated at fair value through profit or loss	-	-	61,436	61,436
Available-for-sale financial assets	-	-	440,291	440,291
Loans and receivables to banks	7,615	9,444	15,781	32,840
Loans and receivables to customers	5,807	893	1,147,156	1,153,856
Other financial assets	12	-	4,984	4,996
Other assets	-	-	301	301
Total assets	**13,490**	**10,617**	**1,723,099**	**1,747,206**
Liabilities				
Due to banks	-	-	176	176
Due to customers	12,651	10,263	1,116,806	1,139,720
Borrowings from banks	-	-	300,572	300,572
Borrowings from customers	-	-	11,418	11,418
Other financial liabilities	64	-	11,756	11,820
Debt securities in issue	-	-	30,307	30,307
Other liabilities	-	-	2,176	2,176
Total liabilities	**12,715**	**10,263**	**1,473,211**	**1,496,189**
Net on-balance sheet financial position	**775**	**354**	**249,888**	**251,017**
Credit commitments	**26**	**1,277**	**161,685**	**162,988**
31 December 2011				
Total assets	8,953	14,721	1,889,171	1,912,845
Total liabilities	9,098	14,836	1,582,620	1,606,554
Net on-balance sheet financial position	**(145)**	**(115)**	**306,551**	**306,291**
Credit commitments	**311**	**245**	**148,946**	**149,502**

The Bank has a defined absolute limit with fixed boundaries for the entire foreign currency position, where long and short foreign currency positions are netted. Long and short positions include gross balance items decreased by the impairments that will probably bring loss, off-balance sheet items of potential obligations, which the Bank will in fact have to pay for including the derivative instrument items (above all futures contracts). The level of joint open foreign currency position limit is decided by the management.

The Bank has also defined limits of individual foreign currency open positions. Open positions for particular foreign currencies are determined in the same way as the joint open foreign currency position. The level of open foreign currency positions limit is determined by the management.

The Bank has closed foreign exchange positions, so the sensitivity to currency risk is negligible. The value of the VaR is calculated for the exposures in the following currencies: USD, CHF, GBP and GBP (for which a limit for total exposure amo-unts to EUR 100 thousand per currency - the limit for other currencies amount to EUR 50 thousand). The calculation of VaR value is based on the requirements of Basel standards (99 percent confidence interval, observation period of 250 working days, a 10-day holding period) and is based on historical simulation method. As of 31 December 2012 VaR value is EUR 1.75 thousand (2011: EUR 3 thousand).

4.2.2. Interest rate risk

The Bank's interest rate risk is manifested as the interest rate change exposure risk on the Bank's net interest rate income and as the interest rate change to fair value of derivative instruments with a fixed interest rate exposure risk. Due to the changing of the current value of future cash flow from the Bank's funds, financing sources liabilities and off-balance sheet positions, interest rate changes at the same time also influence the Bank's capital economical value. However, some derivative instruments, such as capital investments, are not directly exposed to the interest rate risk.

Interest rate risk arises from interest rate sensitive assets with different maturities and repricing dates and different interest rate variability dynamics from financing sources liabilities. The Bank controls and monitors interest rate risk exposure on the basis of interest rate gap methodology and extreme situations test regarding different interest rate movements scenarios. The Bank performs stress testing for interest rate risk for shift of yield curve by 100 basis points for impact on net interest income and for shift for 200 basis points for impact on economic value of the Bank's capital, which is in line with recommendations of Banking Supervision Committee at Bank for international settlements (BIS).

The aim of interest rate risk control is to minimize net interest margin fluctuations due to interest rate market volatility. The Bank's interest rate risk exposure is monitored and controlled on the basis of interest rate gap methodology. The reports contain the interest rate sensitivity analysis according to individual periods of time, and include interest rate sensitive balance and off-balance sheet items that are controlled separately according to the interest rate type and period of time with regard to their maturity or the new date of interest rate determination. In order to monitor the interest rate changes sensitivity, the Bank uses techniques designed to track market values and interest rate incomes (by measuring interest rate income sensitivity). The Management Board stipulates the boundaries of acceptable interest rate gaps according to individual periods of time that are monitored regularly.

The Bank has an established interest rate risk system in place to ensure the adequate net interest rate income level, and the adequate bank capital level in the context of interest rate fluctuations. The Bank's policy is to regularly monitor and control the Bank's interest rate risk exposure, to develop interest rate growth scenarios and to prepare measures for the instances of interest rate movements that would have severe negative consequences for the net interest rate incomes and bank capital.

To ensure the realization of the interest rate risk management directions and the annual business plan, the Asset and Liability Committee was founded (hereinafter: ALCO). ALCO primary tasks are:

- review of reports and preparations of interest rate risk measures,
- review of balance and interest rate movements prognosis,
- review of the Bank's interest rate risk,
- proposals on directions for interest rate fixing,
- creation of risk exposure reduction measure,
- creation of proposals on interest rate and market policy.

Risk management provides the Management Board and ALCO with a monthly interest rate risk exposure analysis for reviewing. ALCO monitors and analyses interest rate risk at least on a monthly basis. It also reports to the Management Board and suggests measures in instances when the interest rate risk exposure exceeds or approaches the acceptable boundaries.

One of the key interest rate risk exposure indications, apart from the time period of exposure, is the so-called stress test that denotes the impact of the yield curve parallel shift on the Bank's net interest rate incomes and on economical capital value.

Day-to-day management of the interest rate risk is the domain of the Bank's treasury sector. Treasury sector is responsible for prevention of interest rate risk exceeding the set limits.

Interest rate risk management is based on interest rate risk exposure limits. The Bank has a limit for the stress effect test that determines the highest permitted amount of loss by parallel yield curve shift, and limits with regard to time bands that are defined as the highest absolute value of the difference between asset items and liability items (balance and off-balance sheet), the interest rate of which changes in a particular time period or the items reach maturity in a particular time period.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Maturity dates do not differ significantly from the contract dates, except for the maturity of EUR 436,523 thousands (2011: EUR 427,863 thousands) of due to customers up to one month, of which over two third represent current/settlement accounts considered by the Bank as a stable core source of funding of its operations.

(in thousand of EUR)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest-bearing	Total
31 December 2012							
Assets							
Cash and balances with central banks	7,959	-	-	-	-	9,309	17,268
Financial assets held for trading	19,018	-	-	-	-	17,200	36,218
Financial assets designated at fair value through profit or loss	19,948	-	-	41,488	-	-	61,436
Available-for-sale financial assets	-	11,526	68,301	200,266	105,407	54,791	440,291
Loans and receivables to banks	25,054	7,142	-	-	600	44	32,840
Loans and receivables to customers	710,728	93,064	287,329	26,063	22,700	13,972	1,153,856
Other financial assets	-	-	-	-	-	4,996	4,996
Other assets	-	-	-	-	-	301	301
Total assets	**782,707**	**111,732**	**355,630**	**267,817**	**128,707**	**100,613**	**1,747,206**
Liabilities							
Due to banks	-	176	-	-	-	-	176
Due to customers	596,919	168,123	294,265	71,813	552	8,048	1,139,720
Borrowings from banks	22,500	86,000	180,773	10,000	-	1,299	300,572
Borrowings from customers	-	-	11,375	-	-	43	11,418
Other financial liabilities	1,521	-	-	-	-	10,299	11,820
Debt securities in issue	-	-	-	30,000	-	307	30,307
Other liabilities	-	-	-	-	-	2,176	2,176
Total liabilities	**620,940**	**254,299**	**486,413**	**111,813**	**552**	**22,172**	**1,496,189**
Interest sensitivity gap	**161,767**	**(142,567)**	**(130,783)**	**156,004**	**128,155**		
31 December 2011							
Total assets	754,122	250,725	248,393	383,481	154,465	121,659	1,912,845
Total liabilities	700,910	228,231	495,490	163,657	464	17,802	1,606,554
Interest sensitivity gap	**53,212**	**22,494**	**(247,097)**	**219,824**	**154,001**		

On the assumption that the Bank investments and liabilities remain unchanged on 31 December 2012 and remain in the Bank's possession until maturity, in addition to the Bank not actively interfering with investment and liability structure in order to change the interest rate risk exposure, a horizontal shift of the yield curve by 1 percentage point would represent a decrease in net interest income within one-year period in the amount EUR 2.93 million (2010: EUR 3.19 million). At this, the decline in interest rates by 1 percentage point is unrealistic, since the level of interest rates in periods of up to five years is less than 1 percent.

The Bank also assesses the interest rate changes influence on the economical capital. A decrease in market interest rates of 2 percentage points for all time periods would represent a reduction of the economic capital in the amount of EUR 7.4 million (2011: EUR 0.2 million). Here, too, is a theoretical decline as interest rates drop by 2 percentage points is not realistic.

In case of changes that would be larger/smaller than the ones used in the scenarios above, the impact on the net interest income and capital would be proportionally larger/smaller.

In 2011, the average interest rate of assets was 4.35% (2011: 4.82%) and the average interest rate of liabilities was 2.20% (2011: 2.20%). Average interest rates are calculated from interest income and expense on the average balances of interest-bearing business. Default interests are excluded.

4.2.3. Market risk from trading equity instruments

Market risk from trading equity instruments is a risk that market prices of the equities in the Bank's portfolio would change in adverse direction and would negatively affect the Bank's income statement.

The bank assesses its exposure to market risk from trading equity instruments by measuring its maximum expected losses based upon 10 days holding period in the period of past 5 years at 99% level of confidence. As of 31 December 2012 the maximum amount the Bank might lose (with 99% probability) has amounted to EUR 2,112 thousand (31 December 2011: EUR 2,765 thousand).

4.3. Liquidity risk

The Bank is exposed to daily outflow of monetary means from overnight deposits, transaction accounts, matured deposits, loan withdrawals and paid guarantees. The Bank's liquidity situation is not represented only by activities ensuring appropriate cash flow, but also by liquid assets availability that enables it to comply routinely with matured liabilities to clients. In accordance with this, the Bank calculates and regularly reports on a number of liquidity indicators (regarding assets, liabilities, assets and liabilities relation).

Short-term disparity remains within the limits of acceptable framework considering sight deposit stability that indicates a stable growth. The Bank's capacity to regularly settle its current liabilities is guaranteed. The Bank easily regulates possible disparities regarding inflows and outflows by activating secondary liquidity that is by the use of Central Bank's derivative instruments. Management Board determines the boundaries of received investments shares that are available to cover outflows in the event of unexpected major outflows.

Liquidity management and liquidity management programme is incorporated in the banks' annual business plan. The annual business plan contains basic bank liquidity management directions that are then integrated in monthly bank liquidity activities, and in daily operative bank liquidity performance. The plan also shows the techniques and procedures for bank liquidity monitoring and control. All key changes of planned funds and investments inflows and outflows are brought up-to-date in the new version of bank liquidity plan for the current month, as well as for all the months until the end of the year.

In accordance with internal regulations, treasury sector daily monitors cash flow, reports to the Liquidity Committee that decides on the proposed projection, and prepares possible scenarios with regard to the probability of foreseen events.

When assessing the necessary liquidity, the Bank minutely and regularly monitors:

- time scheme of current and impending cash flow with regard to the assets and liabilities to financing sources;
- extent of meeting potential outflows with inflows from maturing or quickly convertible funds in a particular time period;
- extent of potential outflows that can be covered by borrowing on the interbank market;
- access to other financing sources on the basis of secondary reserve liquidity;
- extent and maintenance of required liquidity as defined by regulations.

The activities of Liquidity Committee are defined in a special internal regulation.

To control liquidity risk, accounting sector, in accordance with the regulation of Bank of Slovenia, daily calculates the ratio between accounts receivable and liabilities, and daily notifies the Management and the Bank of Slovenia about the achieved liquidity factors.

The Bank ensures and controls its liquidity:

- by borrowing the missing liquidity funds on the interbank monetary market – interbank monetary market in the Republic of Slovenia and foreign banks in Eurosystem by way of unsecured interbank loans,
- with loaned credit lines at other banks,
- by securing missing funds from ECB according to the rules of Eurosystem's monetary policy (long, short tender),
- by using daily loans and the marginal lending facility of the Bank of Slovenia,
- via accelerated subscriptions of deposits by legal entities under more favourable conditions for the principal,
- by selling debt securities.

The Bank has an established fund of eligible financial assets (registered maximum lien at securities placed on the ECB List of eligible financial assets in Central Securities Clearing Corporation Ljubljana for the benefit of the Bank of Slovenia). At the same time the Bank disposes of a sufficient amount of securities, where maximum lien can be registered and be placed in the eligible financial assets fund, thus increasing secondary liquidity (securing ECB funds in accordance with the policy of ECB as well as daily loans and marginal lending facility use), which is sufficient to control liquidity crises.

4.3.1. Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position.

The amounts disclosed in the table are the contractual undiscounted cash flows. The amounts disclosed differ from the amount included in the statement of financial position because they are based on discounted cash flows.

(in thousands of EUR)	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2012						
Liabilities						
Due to banks	-	177	-	-	-	177
Due to customers	595,083	170,500	305,294	80,674	690	1,152,241
Borrowings from banks and central banks	22,549	5,990	29,275	217,783	38,049	313,646
Borrowings from other customers	-	-	2,683	9,168	-	11,851
Debt securities in issue	-	-	309	32,842	-	33,151
Other liabilities	9,699	-	595	-	-	10,294
Total liabilities (contractual maturity dates)	**627,331**	**176,667**	**338,156**	**340,467**	**38,739**	**1,521,360**
Assets held for managing liquidity risk (contractual maturity dates)	**378,762**	**136,487**	**401,411**	**560,932**	**319,553**	**1,797,145**
31 December 2011						
Liabilities						
Due to banks	240	1,089	657	-	-	1,986
Due to customers	619,111	189,601	282,041	150,148	664	1,241,565
Borrowings from banks and central banks	65,189	592	48,454	196,484	41,314	352,033
Borrowings from other customers	-	-	730	12,471	-	13,201
Debt securities in issue	-	-	1,583	33,147	-	34,730
Other liabilities	3,987	377	1,398	675	937	7,374
Total liabilities (contractual maturity dates)	**688,527**	**191,659**	**334,863**	**392,925**	**42,915**	**1,650,889**
Assets held for managing liquidity risk (contractual maturity dates)	**315,374**	**187,756**	**404,541**	**747,221**	**335,779**	**1,990,671**

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise: cash and balances with central bank; certificates of deposit; government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

The Bank takes into account in managing liquidity risk also other financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities.

4.3.2. Derivative financial liabilities

The Bank's derivatives are settled on a net basis. The table below analyses the Bank's derivative financial liabilities into relevant maturity grouping based on the remaining period at the date of the statement of financial position to the contractual maturity date. Net settled derivatives that have a positive fair value are not included. At the end of 2012 there were no derivative financial liabilities.

(in thousands of EUR)	Up to 1 month	Total
31 December 2011		
Foreign exchange derivatives	12	12
Total	**12**	**12**

4.3.3. Commitments and contingencies

The bank manages the liquidity risk associated with loan commitments and financial guarantees on the basis of expected cash outflows. That outflows, disclosed in the time bands when the Bank expect the loan commitments to be drawn, are summarised in the table below. Guarantees and commercial letters of credit are also included in table below, based on the earliest contractual maturity date.

(in thousands of EUR)	Up to 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2012					
Commitments to extend credit	87.202	3.479	24.069	312	115.062
Guarantees	40.750	-	-	-	40.750
Commercial letters of credit	7.176	-	-	-	7.176
Total off-balance sheet items	**135.128**	**3.479**	**24.069**	**312**	**162.988**
31 December 2011					
Commitments to extend credit	83,709	8,948	8,498	19,262	120,417
Guarantees	24,042	-	-	-	24,042
Commercial letters of credit	5,043	-	-	-	5,043
Total off-balance sheet items	**112,794**	**8,948**	**8,498**	**19,262**	**149,502**

4.4. Estimated fair value of financial assets and liabilities

4.4.1. Financial instruments not measured at fair vaule

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

(in thousands of EUR)	Carrying value		Fair value	
	2012	2011	2012	2011
Financial assets				
Loans to banks	32,840	25,394	32,896	25,511
Loans to customers	1,153,856	1,245,376	1,154,076	1,242,611
Financial liabilities				
Due to banks	176	1,974	177	1,776
Due to customers	1,139,720	1,224,637	1,142,918	1,231,148
Borrowings from banks and from other customers	231,329	266,945	231,853	266,768
Debt securities in issue	30,307	30,307	30,307	30,307

The fair value for other financial assets and liabilities is not disclosed because the carrying amount is a reaconable approximation of fair value.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

4.4.1.1. Loans and advances

Fair value of loans and advances is calculated based on discounted expected future principal and interest cash flows. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans. As the Bank has very limited portfolio of loans and advances with fixed rate, the fair value of loans and advances is not significantly different from their carrying value.

4.4.1.2. Bank and customer deposits

For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the reporting date. The estimated fair value of other deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The value of long-term relationships with depositors is not taken into account in estimating fair values. As most of the Bank's deposits are either short term with rates being almost equal to market rate or have a variable rate, being market rate, there is no significant difference between the fair value of these deposits and their carrying value.

4.4.1.3. Borrowings

Most of the Bank's long-term debt has no quoted market prices and fair value is estimated as the present value of future cash flows, discounted at interest rates available at the repoting date to the Bank for new debt of similar type and remaining maturity. Again, as the majority of the Bank's long-term debt is with variable interest rates there is no significant difference between their carrying and fair value.

4.4.2. Financial instruments measured at fair value

Financial instruments held for trading and available for sale are measured at fair value. Measurement and recognition at fair value is disclosed in Note 2.4.2.

4.4.3. Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans, issued structured debt and equity investments. The sources of input parame-ters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters. Fair value is also determined on the basis of information obtained on the last available transaction.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

4.4.3.1. Assets and liabilities measured at fair value

(in thousand of EUR)	Level 1	Level 2	Level 3	Total
31 December 2012				
Financial assets held for trading				
- Debt securities	19,451	240	-	19,691
- Equtiy securities	16,485	-	-	16,485
- Derivatives	-	42	-	42
Financial assets designated at fair value				
- Debt securities	-	61,436	-	61,436
Available-for-sale financial assets				
- Investment securities - debt	366,210	28,802	-	395,012
- Investment securities - equity	21,938	10,075	13,266	45,279
Total assets	**424,084**	**100,595**	**13,266**	**537,945**
Financial liabilities at fair value through profit or loss	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**
31. december 2011				
Total assets	**484,067**	**84,489**	**40,793**	**609,350**
Total liabilities	**-**	**12**	**-**	**12**

In 2011, the Bank applied a valuation model (Level 3) to measure the fair value of shares of Abanka Vipa, d. d., Ljubljana, Pivovarna Laško, d. d., Laško, and Sava, d. d., Kranj. It assessed that these financial instruments no longer had an active market and that the current cost of these instruments on the regulated market no longer reflected their actual fair value, their fair value thus being defined based on the valuation model.

In 2012, the Bank used valuation model only for shares of Abanka Vipa, d.d., Ljubljana and Pivovarna Laško, d.d., Laško, using market price for fair value valuation of shares of Sava, d.d., Kranj.

4.4.3.2. Presentation of valuation models

In 2011 and 2012, the Bank applied valuation models to measure the fair value of shares ABKN and PILR (2011: ABKN, PILR and SAVA). The models were applied with the consent of the Bank's Supervisory Board and submitted for review to the Bank of Slovenia, which provided no comments concerning the application of these models.

Shares of the bank Abanka Vipa, d. d., Ljubljana, with the code ABKN

At the end of 2011 and 2012, the Bank owned 1,061,220 ABKN shares or 14.74-percent equity stake in Abanka Vipa, d. d., Ljubljana. ABKN shares are traded at the Ljubljana Stock Exchange. ABKN shares are traded at the Ljub-ljana Stock Exchange, but their liquidity is relatively poor considering the assessed ownership share, which cannot simply be purchased at the Stock Exchange. Total transactions at the Stock Exchange stood at EUR 31 thousand at the end of 2012 (2011: EUR 177 thousand), which accounted for 0.01% (2011: 0.04%) of total transactions and 0.01% (2011: 0.04%) of total transactions with shares. The number of transactions was 80 (2011: 141) and the total volume of lots was 5,768 (2011: 6,470 lots).

In 2012, the price of ABKN shares fell by 74.9% (2011: by 67.0%), from EUR 16.00 to EUR 4.01. The fall was a reflection of the extremely poor liquidity of the share at the Ljubljana Stock Exchange and the general economic situation.

The market value of the company's equity **for 2012** was assessed using the method of present value of expected available cash flows and, as information, also market valuation methods, i.e. the comparable quoted companies and transactions method. Final estimate was given based on the method of the present value of future cash flows. This method enables consideration of the characteristics and potential of the evaluated company, as well as capital adequacy requirements, which on marketing valuation method can not be strictly considered.

Method	Method / amounts in EUR	Weight	Mean	Lower range	Higher range
Return-based method	DCF method	100%	5.6	5.0	6.2

For the year 2011, the market value of the company's equity was assessed using the method of present value of expected available cash flows (DCF) and the comparable quoted companies method. The valuation is based on the weighted mean value, calculated according to the pessimistic and optimistic scenarios. The value range is +/- 10%. More emphasis was placed on the pessimistic scenario (55- percent weight).

Method, scenario / value in EUR	Weight	Value	Weighted value	Lower range	Higher range
Optimistic DCF	45 %	28.0			
Optimistic upper value of multipliers	45 %	31.0			
Arithmetic mean		29.5	13.3	12.0	14.6
Pessimistic DCF	55 %	20.2			
Pessimistic upper value of multipliers	55 %	24.0			
Arithmetic mean		22.1	12.2	11.0	13.4
Share value range			25.4	23.0	28.0

In order to measure the fair value of the 14.74-percent equity stake in Abanka Vipa, d. d., Ljubljana as at 31 December 2012 based on assessments obtained using the above-mentioned valuation models, the Bank applied the value of EUR 5.60 (2011: EUR 27.50) per share instead of the market price of EUR 4.01 (2011: EUR 16.00) per share, which is in the value range between EUR 5.00 and EUR 6.20 per share (2011: EUR 23.00 and 28.00 per share). The carrying value amounted to EUR 5,943 thousand, at EUR 5.60 per share (2011: EUR 29,183.6 thousand, at EUR 27.50 per share).

Bases of the method of present value of expected available cash flows **for 2012**:

- The method of present value of expected available cash flows is based on the assumption of a going concern, i.e. a company oriented to maximising the value and continuing with its operations in the foreseeable future.
- The required rate of return on equity has been assessed at the level of 15.71%.
- The remaining value is, based in the assessment of growth possibilities in the industry, assessed taking into account that normalized free cash flow is growing at the rate of 2.0%, which corresponds to long-term potential of the company, entry barriers for arrival of new competitors and also the fact that nominal projections have been made taking into account the inflation rate. Assumptions for the future development of the banking sector on the target market in relation to the gross domestic product growth are applied.
- Projections have been prepared up to 2020, following which the value is assessed by capitalizing normalized free cash flow.
- It is taken into account that from 2013 every year 25% of the profit is retained to ensure an adequate level of capital. Minimum Tier 1 is set at the level of 9%.
- The discount rate of 10% for minority owner and pack discount rate of 24% for lack of marketability have been applied.
- The effect of changed discount rate and growth rate for normalized free cash flow on the value of shares of Abanka Vipa, d.d., Ljubljana was tested.

The bases of the discounted cash flow (DCF) method, **for the year 2011**:

- Operating projections have been prepared for up to 2016.
- The value is calculated under the assumption of long-term growth of 2.8%, required capital adequacy of 10% and required rate of return of 11.49%. The pessimistic scenario takes into account 2.5-percent long-term growth.
- The capital adequacy calculation takes into account that capital surplus be paid to owners and deficit be financed by 25-percent subordinated debt.
- Due to the inactive market assumption, 10% discount has been applied for lack of marketability.

Under the assumption of the criterion of comparable prices of equivalent entities with the method of comparable stock-exchange prices, the value of the entity **for the year 2011** is defined based on comparison with market prices of shares and market multipliers of quoted comparable entities.

Shares of the company Pivovarna Laško, d. d., Laško with the code PILR

At the end of 2011 and 2012, the Bank owned 542,448 PILR shares or 6.3 percent equity stake in the company.
PILR shares are traded at the Ljubljana Stock Exchange, but their liquidity is relatively poor considering the assessed ownership share, which cannot simply be purchased at the Stock Exchange. Total transactions at the Stock Exchange stood at EUR 986 thousand at the end of 2012 (2011: EUR 819 thousand), which accounted for 0.27% (2011: 0.17%) of total transactions and 0.33% (2011: 0.21%) of total transactions with shares. The number of transactions was 141942 (2011: 1,127) and the total volume of lots was 142,793 (2011: 69,856 lots).

In 2012, the price of PILR shares fell by 36.6 % (2011: by 31,1%), from EUR 11.02 to EUR 6.99. The fall was not merely a reflection of the company's financial position, but also of the extremely poor liquidity of the share at the Ljubljana Stock Exchange and the general economic situation.

The market value of the company's equity **for 2012** was assessed using the method of present value of expected available cash flows and also market valuation methods, i.e. the comparable quoted companies and transactions method. More emphasis was placed on the method of present value of expected available cash flows (75-percent weight).

Method / amounts in EUR	Weight	Mean	Lower range	Higher range
DCF method	75 %	10.5	8.7	13.4
Market method	25 %	22.5	20.6	25.9
Estimated value of share		13.5	11.7	16.5

For the year 2011, the market value of the company's equity was assessed using the method of present value of expected available cash flows and also the market method, i.e. the comparable quoted companies method. More emphasis was placed on the method of present value of expected available cash flows (75-percent weight).

Method / amounts in EUR	Weight	Mean	Lower range	Higher range
DCF method	75 %	13,8	10,9	16,2
Market method	25 %	24,3	20,9	27,0
Estimated value of share		16,3	13,4	18,9

In order to measure the fair value of the 6.3-percent equity stake in Pivovarna Laško, d. d., Laško as at 31 December 2012 based on weighted mean of assessments obtained using the above-mentioned valuation models, the Bank applied the price of EUR 13.5 (2011: EUR 16.30) per share instead of the market price of EUR 6,99 (2011: EUR 11.02) per share, which is in the value range between EUR 11.70 and EUR 16.50 (2011: EUR 13.40 and 18.90 per share). The carrying value amounted to EUR 7,323 thousand, at EUR 13.50 per share (2011: EUR 8,841.9 thousand, at EUR 16.30 per share).

The bases of the discounted cash flow method, **for the year 2011 and 2012**:

- The discounted cash flow method is based on the assumption of a going concern, i.e. a company oriented to maximising the value and continuing with its operations in the future.
- The required rate of return on equity has been assessed at the level of 15.86% (2011: 16.72%).
- The discount rate is defined as the WACC (weighted average cost of capital) and has been assessed at the level of 14.26% (2011: 13.09%).
- The remaining value is, based in the assessment of growth possibilities in the industry, assessed taking into account that free cash flows be growing at the rate of 2.0%, which corresponds to long-term potential of the company, entry barriers for arrival of new competitors and also the fact that nominal projections have been made taking into account the inflation rate.
- The estimated value has been increased for the value of redundant assets and financial investments, and decreased for financial and contingent liabilities.
- A 20% (2011: 20%) discount rate for minority owner has been applied.
- A 15% (2011: 5%) discount rate for lack of liquidity has also been applied as the liquidity of shares, which are otherwise traded at the stock exchange, is too weak to enable a prompt sale of all the shares on the market.

The bases of the comparable quoted companies method, **for the year 2011 and 2012**:

- The value has been calculated using market multipliers defined based on market data of comparable quoted companies.
- Comparable companies with similar risk elements as Pivovarna Laško were identified using databases (Damodaran, FT), based on industry analyses and operational characteristics.
- The multiplier calculation took into account share prices as at 31 December 2012 (2011: 31 December 2011) and operating results of these companies from 2011 (2011: from 2010). The following multipliers were applied: MVIC / sales: 3.05 (2011: 2.40) and MVIC / EBITDA: 10.41 (2011: 8.12).
- A 15% (2011: 5%) discount rate for lack of liquidity has also been applied as the liquidity of shares, which are otherwise traded at the stock exchange, is too weak to enable a prompt sale of all the shares on the market.

Shares of the company Sava, d. d., Kranj with the code SAVA

At the end of 2011 and 2012, the Bank owned 56,475 SAVA shares or 2.81 percent equity stake in the company. SAVA shares are traded at the Ljubljana Stock Exchange. Total transactions at the Stock Exchange stood at EUR 845 thousand at the end of 2012 (2011: EUR 1,471 thousand), which accounted for 0.23% (2011: 0.31%) of total transactions and 0.28% (2011: 0.37%) of total transactions with shares. The number of transactions was 692 (2011: 1,522) and the total volume of lots was 140,684 (2011: 33,137 lots).

In 2011, the price of SAVA shares fell by 72% (2011: by 87%), from EUR 12.00 to EUR 3.40. The fall was a reflection of the extremely poor liquidity of the share at the Ljubljana Stock Exchange and the general economic situation. However, in 2012, the Bank using market price for fair valuation of SAVA shares, not valuation model. Cost evaluation of the model are in fact too high relative to the amount invested and the projected value of the differences that would be obtained through evaluation.

Internal valuation, **for the year 2011**:

- The key assumption for valuation is that Sava, d. d., Kranj is a going concern.
- The internal valuation of SAVA shares in based on the assumption that the company will be able to restructure its financial sources in the long run and that no uncontrolled execution of liens on its property by the company's lending banks will take place.
- The internal valuation was prepared by correcting the independent external valuation of the assessed value of the Sava, d. d. Holding as at 30 June 2011 taking into account last available data on the operations of individual companies of the Sava, d. d. Group, thus correspondingly adjusting some individual valuations.

4.5. Capital management

Capital management is a continuous process of determining and maintaining a sufficient amount and quality of capital. The Bank must ensure with its capital management policy that it always has available adequate capital, with respect to the extent and types of services and of risks to which it is exposed in the provision of these services (required capital).

The Bank must conduct business in such a way that the risks it is exposed to when performing certain transaction never exceed the limitations defined by the Banking Act and other regulations based on the Banking Act.

The table below contains a summary of capital components, capital charges and the capital adequacy ratio.

(in thousands of EUR)	2012	2011
Original own funds (Tier 1)		
Paid up capital	13,830	13,830
(-) Treasury shares and treasury shares received in pledge *	(26,441)	(26,314)
Share premium	9,381	9,381
Reserves and retained earnings	227,113	287,875
(-) Intangible assets	(3,090)	(3,242)
(-) Revaluation reserves – Prudential filters	-	(6,434)
Total core capital (Tier 1)	**220,792**	**275,096**
Additional own funds (Tier 2)		
Revaluation reserve from equity investments AFS	64	445
Total additional own funds (Tier 2)	**64**	**445**
Deductible items		
(-) Holdings in other credit and financial institutions amounting to more than 10% of their capital	(5,943)	(29,184)
(-) Participations hold in insurance undertakings	(4,399)	(4,136)
Total deductible items from original own funds	**(10,278)**	**(32,875)**
Total deductible items from additional own funds	**(64)**	**(445)**
Total Tier 1 capital (for capital adequacy ratio)	**210,515**	**242,222**
Total capital (for capital adequacy ratio)	**210,515**	**242,222**
Capital requirements		
Capital requirement for credit risk and counterparty credit risk	107,511	113,212
Capital requirement for market risk	2,976	4,283
Capital requirement for operational risk	9,243	10,493
Total capital requirement	**119,730**	**127,989**
Capital adequacy ratio	**14.07%**	**15.14%**

* Treasury shares received in pledge are evaluated according to the last available transaction price.

In the calculation of capital, the Bank only considers those other reserves which are anticipated to remain capital elements and will not be distributed. If the Bank considered all other reserves, the capital would be higher by EUR 55,297 thousand (2011: EUR 55,297 thousand) and would as of 31 December 2012 stand at EUR 265,811 thousand (2011: EUR 297,518 thousand). Capital requirements would not be lower and would as of 31 December 2012 stand at EUR 119,730 thousand (2011: EUR 127,989 thousand). As of 31 December 2012, capital adequacy ratio would equal 17.76% (2011: 18.60%).

5. Net interest income

	2012	2011
Interest and similar income		
Cash and balances with central banks	92	269
Financial assets held for trading	1,412	1,855
Financial assets designated at fair value through profit or loss	18	18
Available-for-sale financial assets	16,273	16,689
Held-to-maturity investments	-	4,262
Loans and receivables and other financial assets	57,984	64,624
	75,779	**87,717**
Interest expense and similar charges		
Due to central bank	669	492
Debt securities in issue	1,575	1,580
Deposits from banks	34	47
Due to customers	25,049	24,951
Borrowings from banks	6,067	7,583
Borrowings from customers	350	376
	33,744	**35,029**
Net interest income	**42,035**	**52,688**

Interest accrued on loans is valued and impaired using the same levels as loans, with the impairment effect decreasing interest income in the income statement, thus excluding interest from income. The Bank also excludes total interest accrued in case of customer insolvency and in case of lodging a claim with a court due to enforcement or legal action. For clients in bankruptcy or compulsory settlement proceedings and classified in D or E groups or individually assessed with impairment rate of 35 or more, interest is accrued and recorded only under off-balance-sheet items when meeting this criteria. Excluded interest is only disclosed in the balance sheet in case of repayment (collateral liquidation, payment from the bankruptcy estate, etc.). Interest is also disclosed under off-balance-sheet items from the moment of lodging a claim with a court in case of enforcement or legal action and is only disclosed under income in case of repayment.

6. Dividend income

	2012	2011
Financial assets held for trading	857	1,143
Available-for-sale financial assets	1,348	765
Investments in subsidiaries	429	-
	2,634	**1,908**

In thousands of EUR

7. Net fee and commission income

	2012	2011
Fee and commission income		
Credit related fees and commissions	964	1,102
Garantees related fees and commisions	415	295
Payment services related fees and commisions		
Keeping current accounts	2,658	2,738
Debit and credit payments	2,737	2,787
Cash withdrawals at ATMs	1,165	1,121
Card transactions	1,491	2,001
Other services relating to the payment	1,305	1,331
Other fees and commissions	191	182
	10,925	**11,557**
Fee and commission expense		
Payment services related fees and commisions	513	530
Garantees related fees and commisions	297	300
Other fees and commissions	213	239
	1,023	**1,069**
Net fee and commission income	**9,902**	**10,488**

Net commission from investment services

	2012	2011
Income from commission for investment services for customers		
Commission from orders	47	40
Account maintenance fees	13	15
	60	**55**
Cost of commission		
Commision paid to the Central Clearing Corporation (KDD) and similar institutions	54	49
Commision paid to the stock exchange and similar institutions	43	43
	97	**92**
Net commission from investment services	**(37)**	**(37)**

8. Net gains on financial assets and liabilities not measured at fair value through profit and loss

	2012	2011
Gains from available-for-sale financial assets	1,060	1,168
Gains from loans	86	97
Gains from other financial liabilities mesasured at amortised cost	-	18
Gains from held-to-maturity investments (Note 20)	-	31,659
Losses from available-for-sale financial assets	(2,990)	(63)
Losses from loans	(1,909)	(995)
Losses from other financial assets and liabilities	(1)	(17)
	(3,754)	**31,867**

9. Net losses and gains on financial assets and liabilities held for trading

	2012	2011
Net losses from dealing with equity investments	(7,291)	(4,048)
Net losses from dealing with debt securities	(380)	(444)
Net gains from dealing in foreign currencies	205	243
Net gains/losses from derivatives	42	(239)
	(7,424)	**(4,488)**

In thousands of EUR

10. Gains and losses on financial assets and liabilities designated at fair value through profit or loss

	2012	2011
Gains on debt securities	6,385	1,106
Losses on debt securities	-	(360)
	6,385	**746**

11. Exchange differences revaluations

	2012	2011
Gains on exchange differences revaluations	4,015	6,803
Losses on exchange differences revaluations	(4,018)	(6,829)
	(3)	**(26)**

12. Other operating income

	2012	2011
Net gains on disposals of assets other than held for sale		
Gains on disposals of property and equipment	215	283
Losses on disposals of property and equipment	(18)	(16)
	197	**267**
Other operating net income		
Rental income	247	293
Other operating income	1,369	144
Other operating expense	(377)	(418)
	1,239	**19**
Total	**1,436**	**286**

13. Administration costs

	2012	2011
Staff costs:		
Gross salaries	12,256	12,436
Social security costs	798	847
State pension contribution	1,050	1,116
Other costs related to gross salaries	63	67
Other employee costs	1,300	1,789
	15,467	**16,255**
Costs of materials and services:		
Other professional services	5,056	5,441
Auditor services	49	42
Advisory services and other unauditor services	477	304
Repairs and maintenance expenses	646	618
Other costs of services	2,379	2,136
Costs of materials	903	999
	9,510	**9,540**
Total	**24,977**	**25,795**

The number of persons employed by the Bank at 31 December 2012 was 408 (2011: 422).

In thousands of EUR

14. Provisions

	2012	2011
Provisions for guarantees and commitments (Note 34)	46	395
Employee benefit provisions (Note 34)	(176)	(123)
	(130)	**272**

15. Impairment

	2012	2011
Impairment losses on loans and advances to customers (Note 22)	58.101	11,274
Other financial assets (Note 23)	(18)	(75)
Bad debts written off	-	565
Impairment of available-for-sale equity investment (Note 39,20)	37,865	26,750
Impairment of available-for-sale debt securities (Note 39,20)	-	17,639
Impairment of fair value of equity options (Note 18)	-	8,319
	95,948	**64,472**

In 2011 the Bank impaired the fair value of equity options because of counterparty credit risk.

16. Tax expense related to profit or loss

	2012	2011
Current tax related to profit or loss	-	6,890
Deferred tax (Note 35)	(9,564)	(6,898)
	(9,564)	**(8)**
Profit before tax	(71,789)	1,672
Unrecognised expenditure	38,752	45,149
Exempt income	(20,484)	(11,889)
Tax relief	-	(481)
Tax base	**(53,521)**	**34,451**
Tax expense	**-**	**6,890**

Due to impairments of securities, which are not recognised expenses for tax purposes, tax expense differs substantially from expense from the income statement.

In accordance with the tax legislation in the Republic of Slovenia the corporate tax rate is gradually decreasing. Thus, up to and including the 2006 the tax rate of was 25%. In 2007 it was decreased to 23%, in 2008 to 22%, in 2009 to 21%, in 2010 to 20% and in 2012 to 18%.

In accordance with local regulations, the tax authorities may at any time inspect the Bank's books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The last tax inspection was conducted in 2007 for the year 2006. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Defferred tax:

	2012	2011
Expense from deferred tax	5,151	3,763
Income from deferred tax	(14,437)	(10,661)
	(9,286)	**(6,898)**

As at 31 December 2012, claims for tax on other comprehensive income stood at EUR 4,944 thousand (in 2011: tax obligation EUR 2,525 thousand).

17. Cash and balances with central bank

	2012	2011
Cash in hand	9,305	9,306
Balances with central banks	7,963	18,401
	17,268	**27,707**

18. Financial assets held for trading

	2012	2011
Securities:		
Debt securities – listed	19,691	28,944
Equity securities – listed	16,485	23,777
Fair value of derivatives:		
Forwards (currency forwards)	-	12
Other derivatives	42	-
	36,218	**52,733**

Among the listed bonds are included the bonds in the amount of EUR 19,451 thousand (2011: EUR 19,864 thousand), which have the nature of subordinated debt. Commitments at the time the bankruptcy or liquidation are subordinated to debt instruments and are not paid soon, until they are paid all the (not-subordinated) obligations to ordinary creditors. Other than interest and principal, the Bank from such bonds had no other rights.

In 2011, the Bank applied a valuation model to measure the fair value of the Sava, d.d., Kranj shares (Note 4.4.3.1), in 2012 the market price.

The notional amounts of derivative financial instruments are disclosed in Note 40.b.

In 2011, the Bank impared the fair value of equity options of EUR 8,319 thousand (Note 15).

The movement of the positive fair value of equity options:

Balance at 1 January 2011	2,919
Positive fair value increase	5,400
Impairment (Note 15)	(8,319)
Balance at 31 December 2011	**-**

19. Financial assets designated at fair value through profit or loss

	2012	2011
Debt securities	61,436	55,032
	61,436	**55,032**

Debt securities represent equity-linked bonds with embedded derivatives. Their yield depends on the movement of certain shares. These securities are principal-guaranteed bonds with an equity-linked coupon.

20. Available-for-sale financial assets

	2012	2011
Debt securities - listed	395,012	439,158
Equity investment		
- Listed	35,217	52,466
- Unlisted	10,062	9,961
	440,291	**501,585**

Financial instruments in the amount of EUR 1,072 thousand (2011: EUR 1,073 thousands) (unlisted equity securities) is accounted for at cost due to the fact that there is no active market for these securities and the Bank can not reliably measure their fair value or the cost of fair value measurements exceeded the benefits. These investments are in majority investments in non public companies with relatively closed ownership. The Bank has not defined its intention regarding the term of holding these investments. The Bank expects to sell the investments in case of an attractive offer, however it is able and willing to hold these investments as a long-term investment.

The equity investments include also an investment in company Iskratel, d. o. o., Kranj where the Bank holds a 25% share. The Bank is going to dispose of this share in the future under an existing forward sales agreement with maturity in 2013. The contract gives the Bank a right to receive the payment in the form of financial assets (Note 44). Although the Bank still owns 25% share in equity of Iskratel, the company is not accounted for as an associate under IAS 28, as the Bank has no significant influence over the company. The investment is valued at contract value.

At the end of 2012, a fund of ECB eligible financial property that can be pledged for ECB loans contained 1,125,000 RS57 bonds, 1,000,000 RS59 bonds, 350,000 RS54 bonds, 10,000,000 French inflation bonds OATI22, 1,000,000,000 German inflation bonds OBLI18, 8.000 Poland bonds POLAND0216 and 6.900 Poland bonds POLAND0420. As of 31 December 2012 the fund amounted to EUR 143,783 thousand (2011: EUR 140,724 thousand), the value of free financial property was EUR 59,123 thousand (2011: EUR 61,670 thousand).

In order to comply with the regulation requiring sufficient liquid funds for guaranteed deposits the Bank had as of 31 December 2012 EUR 16,714 thousand (2011: EUR 16,688 thousand) (2,2% of the total amount of guaranteed deposits) invested in RS49, RS67 and RS68 bonds.

Due to the decrease in the fair value of the Greek government bond with the code GGB22 (the Bank classifies it under available-for-sale assets) and the existence of objective evidence that the bond has become impaired for reasons of major financial difficulties of the issuer, the state of Greece, the Bank has, in compliance with IAS 39, transferred cumulative loss recognized within other comprehensive income to the income statement despite the fact that derecognition was not made and the bond was not sold. In 2011, the effect of revaluation on the listed price and the amount of transferred impairment equalled EUR 17,639 thousand.

In March 2012, the Bank exchanged the bonds of the Republic of Greece with the code GGB22 for twenty newly issued Greek bonds with the codes GGB23 – GGB42 in the nominal value of EUR 6,300 thousand, for bonds of the Stabilisation Fund with the codes EFSF13 and EFSF14 in the nominal value of EUR 3,000 thousand, and 6-month treasury bills with the code EFSF12 in the nominal value of EUR 403 thousand. In June 2012, the Bank sold all the bonds of the Republic of Greece with the codes GGB23 – GGB42.

Due to a long-term and significant decrease in the fair value of shares of Petrol, d. d., Ljubljana, Istrabenz, d. d., Koper, and NFD Holding, d. d., Ljubljana, the Bank has, in compliance with IAS 39, also transferred cumulative loss recognized within other comprehensive income to the income statement, despite the fact that derecognition was not made and that the equity share was not sold. The Bank classifies equity shares in these companies under available-for-sale financial assets. Impairment values are presented in the table below.

The Bank acted in the same manner also for shares of Abanka Vipa, d.d., Ljubljana and shares of Pivovarna Laško, d.d., Laško. As the Bank assessed that a significant drop in the price of the ABKN and PILR shares was not merely a reflection of a poor financial situation of the issuer, but also of extremely poor liquidity of shares at the Ljubljana Stock Exchange (LJSE) as well as general economic situation related to the crisis in Europe and the political and economic crisis in the Republic of Slovenia, it applied the assessed value according to the valuation model for the fair value criterion and necessary impairment (Note 4.4.3.2). The effect of revaluation on the assessed value according to the valuation model and the amount of transferred impairment is presented in the table below.

In 2012, the Bank obtained shares of Merkur, d.d., Naklo and Intereuropa, d.d., Koper through conversion of receivables to equity shares. Despite the fact that derecognition was not made and that the equity share was not sold, the Bank transferred loss recognized within other comprehensive income to the income statement. Impairment values are presented in the table below.

Impairment of available-for-sale equity investment:

	2012	2011
Petrol, d. d., Ljubljana shares (PETG)	1,189	-
Istrabenz, d. d., Koper shares (ITBG)	980	1,479
NFD Holding, d. d., Ljubljana shares (NF2R)	103	3,186
Abanke Vipa, d. d., Ljubljana shares (ABKN)	23,241	22,085
Pivovarna Laško, d. d., Laško shares (PILR)	873	-
Merkur, d. d., Naklo shares (MER)	10,098	-
Intereuropa, d. d., Koper shares (IEKG)	1,381	-
	37,865	**26,750**

The movement in available-for-sale financial assets may be summarised as follows:

	2012	2011
At 1 January	501,585	499,287
Additions	12,522	113,412
Debt / equity swap	13,069	-
Disposals	(75,307)	(106,164)
Replacement	-	54,448
Interest accrual	(15)	(229)
Gains/losses from changes in fair value	(11,563)	(50,493)
Transfer of changes in fair value from equity options execution	-	(8,676)
At 31 December	**440,291**	**501,585**

In 2011, the Bank carried out the replacement of the RS33 bond for the RS59 bond in the amount of EUR 54,448 thousand and thereby decreased the market risks for lower coupon and shorter maturity of RS59 (from 11.25 years to 4.25 years), improved possible inconsistency in liabilities due date, and improved the liquidity of its assets. The RS59 bond is, in contrast to the RS33 bond, a relatively highly liquid bond in the Eurosystem and also one of the most liquid bonds of the issuer, the Republic of Slovenia. The Bank classified it as available-for-sale assets. As the RS33 bond was in the past obtained as collateral for loans with an extremely long period of maturity (issued in 2002, maturity in 2022) and as its liquidity was extremely poor, the Bank reclassified it from available-for-sale assets to held-to-maturity assets in 2006. The fair value as at reclassification date was assumed as deemed cost. When the exchange for the RS59 bond was made, the entire remaining difference between the recorded value and the exchange value was disclosed as capital gains (Note 8: EUR 31,659 thousand).

Due to the execution of option agreements for shares, the fair value of options in the amount of EUR 8,676 thousand, which had already been recognized in the income statement under losses on financial assets and liabilities held for trading (in 2009, EUR 861 thousand; in 2010, EUR 2,172 thousand; and in 2011, EUR 5,643 thousand), was transferred to available-for-sale financial assets.

Gains/(losses) from available-for-sale financial assets transfer to net profit:

	2012	2011
Gains from available-for-sale financial assets (Note 8)	1,060	1,168
Losses from available-for-sale financial assets (Note 8)	(2,990)	(63)
Losses from equity investment - impairment (Notes 15)	(37,865)	(26,750)
Losses from debt securities - impairment (Notes 15)	-	(17,639)
	(39,795)	**(43,284)**

21. Loans and receivables to banks

	2012	2011
Items in course of collection from other banks	1,999	4,144
Loans and advances to other banks	30,841	21,250
	32,840	**25,394**

In the year 2011 and in the year 2012 the Bank has not pledged any financial instruments. At the end of 2012, loans to banks included EUR 32,236 thousand cash equivalents, i.e. loans with original maturity of less than 90 days of acquisition date (in 2011, EUR 19,252 thousand).

22. Loans and receivables to customers

	2012	2011
Individual clients:		
Overdrafts	16,936	17,272
Housing loans	60,092	54,175
Consumer and other loans	47,247	50,992
Corporates and other entities:		
Corporates	712,407	854,673
Small and medium enterprises (SME)	474,196	381,713
Gross loans and receivables	**1,310,878**	**1,358,825**
Less specific provisions for impairment	(157,022)	(113,449)
	1,153,856	**1,245,376**

The amount of loans and receivables to customers is decreased by the amount of commission that is accounted for in accordance with effective interest rate principle. As of 31 December 2012 the accrued received commission amounted to EUR 992 thousand (2011: EUR 1,082 thousand).

Movements in provisions for impairment of loans to individual clients are as follows:

				Individual clients
	Overdrafts	Consumer and other loans	Housing loans	Total
Balance at 1 January 2011	579	2,599	499	3,677
Doubtful debts expense (Note 15)	455	542	614	1,611
Reversal of impairment (Note 15)	(509)	(513)	(352)	(1,374)
Balance at 31 December 2011	**525**	**2,628**	**761**	**3,914**
Doubtful debts expense (Note 15)	326	741	917	1,984
Reversal of impairment (Note 15)	(360)	(1,154)	(846)	(2,360)
Balance at 31 December 2012	**491**	**2,215**	**832**	**3,538**

Movements in provisions for impairment of loans to corporates and other entities are as follows:

			Corporates and other entities
	Loans to corporates	Loans to SME	Total
Balance at 1 January 2011	62,807	35,691	98,498
Doubtful debts expense (Note 15)	26,752	15,394	42,146
Changing the status of the company	(254)	254	-
Reversal of impairment (Note 15)	(26,440)	(4,668)	(31,108)
Balance at 31 December 2011	**63,119**	**46,417**	**109,536**
Doubtful debts expense (Note 15)	13,091	59,367	72,458
Changing the status of the company	(39,982)	39,982	-
Reversal of impairment (Note 15)	(10,106)	(18,405)	(28,511)
Balance at 31 December 2012	**25,868**	**127,615**	**153,483**

In thousands of EUR

23. Other financial assets

	2012	2011
items in the course of collection	4,187	4,058
Commissions	332	349
Other financial assets	645	613
	5,164	**5,020**
Provisions for impairment	(169)	(187)
	4,996	**4,833**

Movement in provisions for impairment is as follows:

Balance at 1 January 2011	262
Additional provisions (Note 15)	69
Recovery of amounts previously provided for (Note 15)	(144)
Balance at 31 December 2011	**187**
Additional provisions (Note 15)	91
Recovery of amounts previously provided for (Note 15)	(109)
Balance at 31 December 2012	**169**

24. Property and equipment

	Land & buildings	Computers	Motor vehicles and other equipment	Assets under construction	Total
1 January 2011					
Cost	14,617	6,918	5,643	206	27,384
Accumulated depreciation	(9,030)	(6,619)	(4,287)	-	(19,936)
Net book amount	**5,587**	**299**	**1,356**	**206**	**7,448**
Year ended December 2011					
Opening net book value	5,587	299	1,356	206	7,448
Additions	1,444	408	521	-	2,373
Transfer from intangible assets	408	-	-	-	408
Transfer	19	-	185	(204)	-
Transfer to investment property	(109)	-	-	-	(109)
Disposals	(65)	-	(33)	-	(98)
Depreciation charge	(678)	(346)	(394)	-	(1,418)
31 December 2011	**6,606**	**361**	**1,635**	**2**	**8,604**
31 December 2012					
Cost	15,851	6,557	5,971	2	28,381
Accumulated depreciation	(9,245)	(6,196)	(4,336)	-	(19,777)
Net book amount	**6,606**	**361**	**1,635**	**2**	**8,604**
Year ended December 2012					
Opening net book value	6,606	361	194	2	8,604
Additions	742	493	-	22	1,451
Transfer to investment property	(183)	-	-	-	(183)
Disposals	(36)	-	(18)	-	(54)
Depreciation charge	(587)	(339)	(477)	-	(1,403)
31 December 2012	**6,542**	**515**	**1,334**	**24**	**8,415**
31 December 2012					
Cost	16,120	6,576	5,591	24	28,311
Accumulated depreciation	(9,578)	(6,061)	(4,257)	-	(19,896)
Net book amount	**6,542**	**515**	**1,334**	**24**	**8,415**

None of the property and equipment has been pledged as at 31 December 2012 and as at 31 December 2011.

In 2011 and 2012 the Bank finances purchases of property and equipment with its own funds and does not finance them with loans.

In thousands of EUR

25. Investment property

	Apartments	Buildings	Total
1 January 2011			
Cost	83	2,701	2,784
Accumulated depreciation	(72)	(1,992)	(2,064)
Net book amount	**11**	**709**	**720**
Year ended December 2011			
Opening net book value	11	709	720
Additions	1	-	1
Transfer from property and equipment	-	109	109
Disposals	-	(7)	(7)
Depreciation charge	(2)	(97)	(99)
31 December 2011	**10**	**714**	**724**
1 January 2012			
Cost	84	2,537	2,621
Accumulated depreciation	(74)	(1,823)	(1,897)
Net book amount	**10**	**714**	**724**
Year ended December 2012			
Opening net book value	10	714	724
Additions	6	-	6
Transfer from property and equipment	-	184	184
Depreciation charge	(2)	(86)	(88)
31 December 2012	**14**	**812**	**826**
31 December 2012			
Cost	90	2,683	2,773
Accumulated depreciation	(76)	(1,871)	(1,947)
Net book amount	**14**	**812**	**826**

Estimated fair value of investment property is EUR 2,952 thousans (2011: EUR 2,903 thousand) is based on comparable market transactions. No external valuer was involved.

Investment properties generated in 2012 a rental income of EUR 234 thousand (2011: EUR 280 thousand). Direct operating expenses in 2012 were EUR 8 thousand (2011: no direct operating expenses).

26. Intangible assets

	Software licences	Assets under construction	Total
1 January 2011			
Cost	7,333	176	7,509
Accumulated depreciation	(4,607)	-	(4,607)
Net book amount	**2,726**	**176**	**2,902**
Year ended December 2011			
Opening net book value	2,726	176	2,902
Additions	1,166	196	1,362
Transfer to investment property	(408)	-	(408)
Transfer	96	(96)	-
Depreciation charge	(614)	-	(614)
31 December 2011	**2,966**	**276**	**3,242**
1 January 2012			
Cost	7,962	276	8,238
Accumulated depreciation	(4,996)	-	(4,996)
Net book amount	**2,966**	**276**	**3,242**
Year ended December 2012			
Opening net book value	2,966	276	3,242
Additions	563	-	563
Transfer	255	(255)	-
Depreciation charge	(715)	-	(715)
31 December 2012	**3,069**	**21**	**3,090**
31 December 2012			
Cost	8,780	21	8,801
Accumulated depreciation	(5,711)	-	(5,711)
Net book amount	**3,069**	**21**	**3,090**

In 2011 and 2012 the Bank finances purchases of intangible assest with its own funds and does not finance them with loans.

27. Investment in associates and subsidiaries

Investment in subsidiaries

2012	Assets	Liabilities	Equity	Profit	Revenue	interest held, %
Imobilia-GBK, d. o. o., Kranj	19	52	(33)	(46)	0.01	100
Gorenjski glas, d. o.,o., Kranj	1,404	614	790	57	3,404	82.0542

2011	Assets	Liabilities	Equity	Profit	Revenue	interest held, %
Imobilia-GBK, d. o. o., Kranj	13	-	12	(0.2)	0.03	100
Gorenjski glas, d. o. o., Kranj	1,833	554	1,279	53	3,612	82.0542

Imobilia-GBK, d. o. o., Kranj became active again in 2012. Despite this corresponds to the irrelevance of the criteria in terms of consolidation.

As of 31 December 2012 investments in subsidiaries amounted to EUR 489 thousand (2011: EUR 489 thousand). The carrying value of investments was: EUR 13 thousand in the company Imobilia-GBK, d. o. o., Kranj, and EUR 476 thousand in the company Gorenjski glas, d. o. o., Kranj.

In March 2013, the Bank sold its share in the company Gorenjski glas, d. o. o., Kranj (Note 44).

Investment in associates

	2012	2011
At beginning of year	4,137	3,808
Share of results	262	329
At end of year	**4,399**	**4,137**

The Bank's interest in its principal associates, of which country of incorporation is Slovenia, are unlisted, and are as follows:

2012	Assets	Liabilities	Equity	Profit	Revenue	% interest held
Skupna pokojninska družba, d. d., Ljubljana	263,669	246,764	16,918	3,255	6,269	26.0269

2011	Assets	Liabilities	Equity	Profit	Revenue	% interest held
Skupna pokojninska družba, d. d., Ljubljana	328,862	312,970	15,892	2,522	6,188	26.0269

Share of results recognised in income statement:

	2012	2011
Share of results from investment in associates	262	329
	262	**329**

The Bank holds a 25-percent stake in the company Iskratel, d. o. o., Kranj, but does not classify it as an associated company as it intends to dispose of the share in the near future (Note 44).

28. Other assets

	2012	2011
Prepaid and deferred expenses or costs	197	98
Stock	93	77
Other assets	11	10
	301	**185**

In thousands of EUR

29. Trading liabilities

	2012	2011
Fair value of derivatives:		
Forwards (currency forwards)	-	12
	-	**12**

The notional amounts of derivative financial instruments are disclosed in Note 40.b.

30. Due to banks and to customers

	2012	2011
Due to banks		
– Term deposits	176	1,974
	176	**1,974**
Due to customers		
Corporates and other entities		
– Current/settlement accounts	86,839	89,657
– Term deposits	286,730	375,999
Individual clients		
– Current/demand accounts	349,684	338,206
– Term deposits	416,467	420,775
	1,139,720	**1,224,637**
Total	**1,139,896**	**1,226,611**

31. Debt securities in issue

In 2009 the Bank has issued a senior non subordinated bond (GB01) with maturity date 21 October 2014, with a coupon of 5.25%. The issue has amounted to 600 lots with face value of EUR 50 thousand. The bond issue is not listed. As of 31 December 2012 the bonds amounted to EUR 30,307 thousand (2011: EUR 30,307 thousand).

32. Due to central banks and borrowings from banks and from customers

	2012	2011
Due to central banks	80,661	75,068
Borrowings from banks	219,911	254,869
Borrowings from customers	11,418	12,075
	311,990	**342,012**

The amount of borrowings from banks is decreased by the amount of commission that is accounted for in accordance with effective interest rate principle. As of 31 December 2012 the accrued received commission amounted to EUR 195 thousand (2011: EUR 247 thousand).
The amount of borrowings from other customers is decreased by the amount of commission that is accounted for in accordance with effective interest rate principle. As of 31 December 2012 the accrued received commission amounted to EUR 10 thousand (2011: EUR 16 thousand).

33. Other financial liabilities

	2012	2011
Obligations to the mortgagor of bank's shares (Note 37)	7,069	-
Due to suppliers	1,083	1,589
Obligations under card operations	422	1,090
Salaries and other due to employee	1,441	1,354
Accrued expenses	72	593
Unexecuted obligations for payment	1,590	250
Other financial liabilities	143	353
	11,820	**5,329**

34. Provisions

	2012	2011
Provisions for retirement indemnity bonuses	1,275	1,089
Provisions for jubilee benefits	124	134
Provisions for guarantees and commitments	367	413
Other provisions	455	645
	2,221	**2,281**

At the time of retirement the retiring employee who has fulfilled certain conditions is entitled to a lump sum of EUR 4,771 (2011: EUR 6.021). After every ten years period an employee has worked for the Bank, the employee is entitled to an award.

Movement of provisions:

	Provisions for retirement indemnity bonuses and jubilee benefits	Provisions for guarantees and commitments	Other provisions
At 1 January 2011	1,100	808	645
Provisions made (Note 14)	173	313	-
Recovery of amounts previously provided (Note 14)	(50)	(708)	-
At 31 December 2011	**1,223**	**413**	**645**
Use of provisions	-	-	(190)
Provisions made (Note 14)	186	458	-
Recovery of amounts previously provided (Note 14)	(10)	(504)	-
At 31 December 2012	**1,399**	**367**	**455**

Other provisions have been recognised for expected cost of premiums from the national housing savings scheme paid to the savers that the Bank will most probably need to repay to the National Saving Scheme.

National Savings Scheme includes requirement that premiums must be repaid to the state if the saver does not take a loan. In that case the Bank has a responsibility to return the premiums, while the savers retain them. As this Scheme is not as successful as the government hoped it would be, a lot of savers do not take a loan. The Bank creates provisions for those premiums that the government already gave to the savers but based on historical data the Bank knows that they won't take a loan and the Bank will have to repay the premium.

35. Income taxes

Current income taxes

	2012	2011
Income tax assets		
Current income tax	4,019	1,287
	4,019	**1,287**

Deferred income taxes

Deferred income taxes are calculated on all temporary differences arising between the tax bases of assets and liabilities and their carrying values using tax rate that have been enacted.

The movement on the deferred income tax account is as follows:

	2012	2011
At 1 January	(14,533)	(5,108)
Available-for-sale financial assets	3,940	(10,274)
Held-to-maturity investments	-	(1,129)
Employee benefit provisions	27	(7)
Tax loss	(8,563)	-
Other liabilities	(23)	-
Other provisions (options)	-	1,986
At 31 December	**(19,152)**	**(14,533)**

In thousands of EUR

Deferred income tax assets and liabilities are attributable to the following items:

	2012	2011
Deferred income tax liabilities		
Available-for-sale financial assets	2,443	1,542
	2,443	**1,542**
Deferred income tax assets		
Employee benefit provisions	172	199
Other liabilities	152	129
Available-for-sale financial assets	12,709	15,748
Tax loss	8,563	-
	21,596	**16,075**
Deferred income tax liabilities		
Deferred tax liability expecting to be recovered after more than 12 months	2,443	1,542
Deferred income tax assets		
Deferred tax asset expecting to be recovered after more than 12 months	21,492	11,622
Deferred tax asset expecting to be recovered within 12 months	104	4,453

The deferred tax charge in the income statement comprises the following temporary differences (Note 16):

	2012	2011
Employee benefit provisions	26	(7)
Other provisions (options)	-	1,986
Other liabilities	(23)	-
Loss	(8,563)	
Impairment of securities	(1,004)	(8,877)
	(9,564)	**(6,898)**

36. Other liabilities

	2012	2011
Prepaid and deferred income	1,999	1,994
Liabilities for taxes, contributions and other benefits	161	217
Liabilities for advances	16	72
	2,176	**2,283**

37. Ordinary shares, share premium and treasury shares

All shares are of the same class (ordinary shares) and,except for treasury shares are not restricted in managing. More than 5% of the ordinary shares of the Bank have a shareholder Sava, d. d., Kranj, which has a 49.8 percent share of voting rights.

At 31 December 2012, 331,416 non-par shares have been authorised (2011: 331,416 shares). In the normal course of its equity trading and market activities, the Bank buys and sells its own shares. This is in accordance with the Bank's constitution and is compliant with Slovenian law. These shares are treated as a deduction from shareholders' equity. Gains and losses on sales of treasury shares are charged to the share premium account. In 2011 the number of own shares has not changed.

In 2012, due to the transfer of own shares received as collateral from off-balance sheet accounting records to the statement of financial position, own shares have increased by 6500. At 31 December 2012 the Bank had 32,215 treasury shares (2011: 25,715 treasury shares). Acquisition of treasury shares is consistent with Article 247 of the Companies Act (Official Gazette of Republic of Slovenia, No. 65/09 – official consolidated text). The total number of treasury shares held by the Bank shell not exceeds 10% of share capital.

In 2011 the number of treasury shares pledged as collateral was not changed. In 2012, the Bank has received 569 own shares as collateral and 16 own shares were excluded from collaterals.

	Number of shares	Nominal share value	Share of ordinary shares
At 1 January 2011	**6,873**	**287**	**2.07**
At 31 December 2011	**6,873**	**287**	**2.07**
Shares pledged as collateral	569	24	0.17
Shares deleted from collateral	(16)	(1)	0.00
At 31 December 2012	**7,426**	**310**	**2.24**

Of 7,426 shares pledged as collateral, 6,500 are recorded in the books of account under treasury shares.

Nominal share value or an amount belonging to non-par share in regisered capital amounted to EUR 41,73.

In 2012, pursuant to the Put Option Contract 6500 own shares were recorded in the statement of financial position as a reduction of capital and an increase in liabilities to the mortgagor. Option contract was awarded in 2009 and is in addition to the put option with the possibility of realization in December 2013, included a call option of the Bank, with the possi-bility of realization in August 2012th Bank of options is not realized. Obligations under the option contract in the financial statements before 2012 were not recorded. Treasury shares which are the subject of the contract, were recorded only during the credit insurance and as such recorded in the financial statements and the annual report.

The contract value, which amounted to EUR 6,771,311 at the end of 2011, has no significant effect on the financial statements from previous years, so this was not corrected. Error had no impact on the income statement in 2011 and also the influence on the capital adequacy ratio was negligible (0.03 percentage points) as own shares are already fully deducted from capital. The share of own shares including own shares received as collateral has not changed and over the life of the option contract and never exceeded 10% of the share capital. Presentation of own shares in the statement of financial position did not affect the shareholders' rights, as the pledger over the life of the contract exercises the right of ownership (voting, dividends), which is also registered in the Central Securities Clearing Corporation.

Share options

The Bank offers share options to the members of the Management Board. The exercise price of the granted options is equal to the transaction price of the shares or to the book value per share in case of unknown transaction price. The option plan is terminated with the cessation of an employment contract. The options are exercisable starting a half year from the grant date only if the Bank achieves targets of profitability; the options have a contractual option term of five years. The Bank has no legal or constructive obligation to repurchase or settle the options in cash.

Share options at exercise date (year):

	2012	2012	2011	2011
	Number of shares	Purchase price in EUR	Number of shares	Purchase price in EUR
2012	-	-	200	1,350
2013	720	1,141	720	1,141
2014	900	1,221	900	1,221
2015	1,100	1,200	1,100	1,200

Share options at exercise date (year) 2012 had not been exhausted.

38. Dividends per share

At the end of 2012, the Bank disclosed EUR 54.3 million other reserves, for which it anticipates not to be distributed (in 2011, EUR 115.0 million). The amount of distributable reserves at 31 December 2012 is EUR 55.3 million (2011: EUR 56.8 million distributable reserves and retained earnings).

For 2010 a dividend of EUR 29.00 per share was paid as interim dividend. A dividend of EUR 41.00 per share was declared at the Annual General Meeting in May 2011. EUR 21,399 thousand dividends were thus paid using the 2010 distributable profit.

There were no income tax consequences of dividends to shareholders that were proposed before the financial statements were authorised for issue.

For 2011 there were no dividends.

39. Reserves and retained earnings

	2012	2011
Reserves from profit:		
Statutory reserves	87,241	94,309
Reserves for treasury shares	25,719	18,650
Legal reserves	59,840	59,840
Other reserves	109,610	170,372
	282,410	**343,171**
Retained earnings	-	1,464
Revaluation reserves	9,285	(12,170)
	291,694	**332,465**

Movements in reserves were as follows:

	2012	2011
Statutory reserves		
At 1 January	94,309	94,150
Transfer from retained earnings	-	160
Transfer from/(to) reserves for treasury shares	(7,069)	-
At 31 December	**87,241**	**94,309**
Reserves for treasury shares		
At 1 January	18,650	18,650
Transfer from statutary reserves	7,069	-
At 31 December	**25,719**	**18,650**
Legal reserves		
At 1 January	59,840	59,756
Transfer from retained earnings	-	84
At 31 December	**59,840**	**59,840**
Other reserves		
At 1 January	170,372	170,372
Covering loss from current year	(60,762)	-
At 31 December	**109,610**	**170,372**
Retained earnings		
At 1 January	1,464	21,427
Covering loss from current year	(1,464)	-
Income from current year	-	1,680
Dividend	-	(21,399)
Transfer to statutory reserve	-	(160)
Transfer to legal reserve	-	(84)
At 31 December	**-**	**1,464**
Revaluation reserve	**2012**	**2011**
At 1 January	(12,170)	(2,069)
Available-for-sale financial assets:		
Net (losses)/gains from changes in fair value	9,759	(50,493)
Net losses/gains transferred to net profit	16,089	43,508
Held-to-maturity investments:		
Net gains transferred to net profit on disposal (interest income)	-	(5,641)
Effect of change in tax rate	550	-
Deferred income tax	(4,944)	2,525
At 31 December	**9,285**	**(12,170)**

Legal reserves can be used only under circumstances and only for purposes stated in the Company Act.

Statutory reserves can be used for reserves for treasury shares, for covering of loss, for increase of share capital, for legal reserves and for covering other risks.

Other reserves can be used for reserves for treasury shares, for covering of loss, for increase of share capital, for earnings payout to shareholders, employees, management board and/or supervisory board, as insurance of other risks, for legal and/or statutory reserves and for other purposes in line with the policy of the Bank.

In thousands of EUR

40. Off-balance sheet business

a) Contingent liabilities and commitments

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

	2012	2011
Guarantees	40,750	24,042
Commitments to extend credit	115,062	120,417
Commercial letters of credit	7,176	5,043
Spot transactions	1.252	151
	164,240	**149,653**
Provisions for guarantees and commitments (Note 34)	(367)	(413)
	163,873	**149,240**

b) Derivative financial instruments

The table below presents the derivative financial instruments by notional amounts.

	2012	2011
Forwards (currency forwards)	-	104
Forwards (forwards on equity shares)	-	8,888
Options (equity call options)	3,240	16,532
Other derivatives (GDP-linked Securities)	6,300	-
	9,540	**25,524**

The fair values of derivative financial instruments are disclosed under notes 18 and 29. The fair value of the forward on equity shares equals zero.

On the exchange of Greek bonds (Note 20), the Bank was entitled to 31.5 nominal units of option coupons (EUR 6,300 thousand) linked to the movements in the Greek GDP (GDP-linked securities).

c) Court proceedings

The Bank was involved in certain court proceedings in 2011 and 2012, but does not expect any losses arising from these proceedings; therefore, the Bank has not set aside any provisions for unresolved legal actions.

41. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days maturity:

	2012	2011
Cash and balances with central banks (Note 17)	17,268	27,707
Loans and receivables to banks (Note 21)	32,236	19,252
	49,504	**46,959**

The amount of obligatory reserves is daily available for the Bank's liquidity needs and is therefore considered as cash equivalent.

In thousands of EUR

42. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Bank has two subsidiaries and one associated company. Terms are the same as for the unrelated persons.

To the related party (that owns more than 20% of the Bank) loans have been granted and deposits were taken, both under the terms equal to terms for unrelated parties. In 2012 EUR 7,839 thousand short-term loans, of which EUR 4.080 thousand were extended (2011: EUR 8,060 thousand, of which EUR 5,440 thousand were extended), were granted at average inerest raste of 5.5% (2011: 5.5%). In 2011, 2,723 thousand long-term loans were granted (extended) at an average interest rate of 3M Euribor + 4.8%.

A related party's (that owns more than 20% of the Bank) past due liabilities as of 31 December 2012 amounted to EUR 29,057 thousand. It is related to outstanding maturities of a long term loan. Since then the amount is acrueing interest at legal penalty interest rate. In February 2013, the credit was reprogrammed.

To the members of the Management and Supervisory Boards loans have been granted and deposits taken under the prevalent conditions in the market. In 2012 no new loans were granted (2011: EUR 40 thousand long-term loans were granted at an average interest rate of 6M Euribor + 1.9%).

To key management personnel loans have been granted and deposits taken under the prevalent conditions in the market. In 2012 EUR 70 thousand loans were granted (2011: EUR 207 thousand) at an average interest rate of 4.5% (2011: 5.7%).

None of the transactions incorporate special terms and conditions and no guarantees were given or received.

The volumes and outstanding balances of related party transactions are as follows:

Type of related party	Key management personnel		Shareholders over 20 %		Associates		Subsidiaries	
	2012	2011	2012	2011	2012	2011	2012	2011
Loans :								
Loans outstanding at 1 January	5,282	3,279	33,495	32,177	-	-	-	-
Loans issued during the year	-	2,584	10,074	31,012	-	-	40	-
Elimination due to changes in the membership of Supervisory Board	(4,845)	-	-	-	-	-	-	-
Loan repayments	(57)	(1,031)	(7,635)	(29,694)	-	-	-	-
Loans outstanding at 31 December	**380**	**5,282**	**35,934**	**33,495**	**-**	**-**	**40**	**-**
Impairment	4	67	3,909	1,155	-	-	-	-
Interest income earned	13	316	1,934	2,065	-	-	-	-
Deposits								
Deposits at 1 January	14,797	10,769	-	-	9,217	1,502	1,044	851
Deposits received	6,286	38,684	44,932	-	4,427	36,942	16,052	14,034
Elimination due to changes in the membership of Supervisory Board	(14,511)	-	-	-	-	-	-	-
Deposits repaid	(6,052)	(34,656)	(44,735)	-	(9,706)	(29,227)	(16,509)	(13,840)
Deposits at 31 December	**520**	**14,797**	**197**	**-**	**3,938**	**9,217**	**587**	**1,044**
Interest expense on deposits	9	305	1	-	230	233	17	18
Other revenue – fee income	**0**	**9**	**9**	**8**	**6**	**8**	**13**	**10**
Share options	**3,240**	**3,375**	**-**	**-**	**-**	**-**	**-**	**-**

In thousands of EUR

43. Management's, Supervisors' and key management personnel's remuneration

In the year that ended 31 December 2012	Fixed revenue	Variable revenue	Cost reimbursements	Insurance premiums	Other benefits	Total
Management:						
Gorazd Trček	270	19	-	4	12	305
Srečko Korber	216	16	-	4	5	241
Tilen Zugwitz	216	16	-	4	4	240
Supervisors:						
Franc Balanč	13.8	-	2.8	-	0.4	17.0
Mojca Globočnik	20.7	-	5.6	-	0.3	26.6
Primož Karpe	9.7	-	4.7	-	0.3	14.7
Zlatko Kavčič	11.1	-	2.4	-	-	13.5
Milan Marinič	9.7	-	6.2	-	0.3	16.2
Miro Pinterič	11.0	-	2.3	-	-	13.3
Matej Podlipnik	9.7	-	4.1	-	0.3	14.1
Miha Resman	23.2	-	7.2	-	0.3	30.7
Mitja Selan	11.0	-	6.0	-	-	17.0
Tibor Šimonka	9.7	-	3.0	-	0.3	13.0
Drago Štefe	11.1	-	2.2	-	-	13.3
Stojan Žibert	9.8	-	3.9	-	0.3	14.0
Marko Hočevar	-	-	0.6	-	-	0.6
Key management personnel:	1,339	24	-	36	-	1,399
Total	**2,192**	**75**	**51**	**48**	**23**	**2,389**

In the year that ended 31 December 2011	Fixed revenue	Variable revenue	Cost reimbursements	Insurance premiums	Other benefits	Total
Management:						
Gorazd Trček	270	192	-	4	6	472
Srečko Korber	215	123	-	4	6	348
Tilen Zugwitz	215	61	-	4	5	285
Supervisors:						
Franc Balanč	25.4	-	6.3	-	0.2	31.9
Mojca Globočnik	20.3	-	3.3	-	-	23.6
Zlatko Kavčič	20.3	-	5.1	-	-	25.4
Miro Pinterič	20.3	-	3.9	-	-	24.2
Miha Resman	20.3	-	3.3	-	-	23.6
Mitja Selan	20.3	-	6.4	-	-	26.7
Drago Štefe	20.3	-	4.5	-	-	24.8
Marko Hočevar	-	-	1.1	-	-	1.1
Key management personnel:	1,297	112	-	32	-	1,441
Total	**2,144**	**488**	**34**	**44**	**17**	**2,727**

Management's and key management personnel's remuneration is disclosed within staff cost (Note 13).

44. Significant events after the date of the statement of financial position

In February 2013, the Bank sold the entire stake in the company Iskratel, d. o. o., Kranj and recorded EUR 5,244 thousand capital gains. In March 2013, the Bank sold the entire share in the company Gorenjski glas, d. o. o., Kranj and recorded EUR 246 thousand capital gains.

There were no other significant events after the date of the statement of financial position.

45. Changes in equity

Changes in items of equity in 2012 are a consequence of:

a) Covering of net loss for the year 2012 in the amount of EUR 62,225 thousand from retained earnings and from other reserves;

b) Increase in own shares for EUR 7,069 thousand from the accounting treatment of treasury shares in connection with the put option contract;

c) increase of revaluation reserve for financial instruments available for sale in amount EUR 21,454 thousand.

46. Profit/loss for appropriation

Profit or loss for appropriation is a term under the Companies Act, as the sum of reatined earnings or loss and profit, less the distribution for reserves or net loss.

Net loss for the year 2012 in the amount of EUR 62,225.28 thousand was fully covered from retained earnings in the amount of EUR 1,463.55 thousand and from other reserves in the amount of EUR 60,761.73 thousand.

b) Retained earnings	1,464
a) Loss for the year 2012	(62,225)
c) Covering of net loss for the year 2012 from other reserves	60,761
d) Profit for appropriation 2012 (a + b + c)	-

47. The classification of securities according to the listing

As at 31 December 2012

	Listed			
	Ljubljana Stock Exchange	Other stock exchange	**Unlisted**	**Total**
Equity securities held for trading	16,485	-	-	16,485
Debt securities held for trading	19,451	240	-	19,691
Debt securities designated at fair value through profit or loss	-	61,436	-	61,436
Equity securities, designated at fair value, available-for-sale	25,203	-	8,982	44,186
Equity securities, designated at nominal valute, available-for-sale	-	-	1,093	1,093
Debt securities available-for-sale	270,148	124,864	-	395,012
Total	**341,287**	**186,540**	**10,075**	**537,903**

As at 31 December 2011

	Listed			
	Ljubljana Stock Exchange	Other stock exchange	**Unlisted**	**Total**
Equity securities held for trading	23,777	-	-	23,777
Debt securities held for trading	28,726	218	-	28,944
Debt securities designated at fair value through profit or loss	-	55,032	-	55,032
Equity securities, designated at fair value, available-for-sale	52,466	-	8,888	61,354
Equity securities, designated at nominal valute, available-for-sale	-	-	1,073	1,073
Debt securities available-for-sale	288,859	150,299	-	439,158
Total	**393,828**	**205,549**	**9,961**	**609,338**

48. Agency business

	2012	**2011**
Assets		
Clients' money:		
- at settlement account for client assets	20	-
	20	**-**
Liabilities		
Clearing or transaction liabilities for client assets:		
- to Central Securities Clearing Corporation or bank settlement account for bought financial instrument	20	-
	20	**-**

In thousands of EUR

Annual Report 2012:

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT
to the owners of GORENJSKA BANKA d.d.

Report on the Financial Statements

We have audited the accompanying financial statements of the bank Gorenjska banka d.d. (hereinafter: the "bank"), which comprise the statement of financial position as at 31 December 2012, and the income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 bank'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 bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the bank 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.

Emphasis of Matter

We draw your attention to Note 4.1 *Credit Risk* to unconsolidated financial statements, which among other things states that the bank has a substantial part of its credit portfolio secured by real estate and shares. Due to the inactive nature of the Slovenian real estate market, the estimated collateral values that may have a significant impact on these financial statements are based on very limited market data. In addition, many of the shares posted as collateral are either thinly traded or not publicly listed. The future economic situation remains uncertain, which can considerably influence the time and value of realisation of these collaterals. Therefore, the financial statements may not include all the effects of this uncertainty which may be material in nature.

Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc
Certified Auditor

Yuri Sidorovich
President of the Board

For signature please refer to the original Slovenian version.

Deloitte.
DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

Ljubljana, 8 April 2013

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

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