Annual Report 2013

Gorenjska Banka
All that counts.

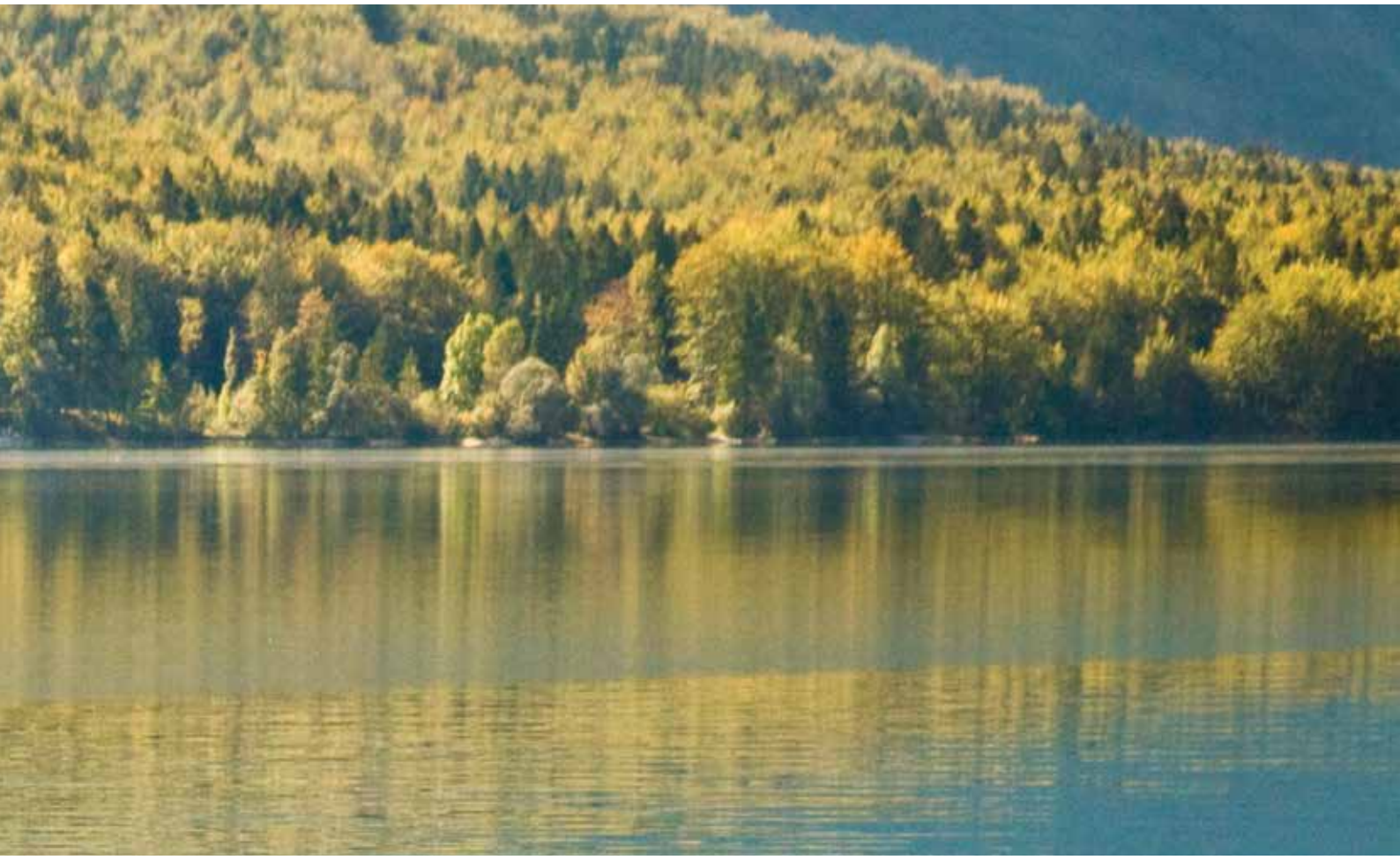
A diverse living space, where people
have unbelievable energy and persistence.

To live with Gorenjska and share its beat.

All that counts.

Gorenjska Banka
All that counts.

Management Report



Key finnancial data

	2013	2012	2011
Statement of financial position, as at 31 December (in thousands of EUR)			
Total assets	1,560,886	1,790,040	1,947,403
Total deposits from the non-banking sector:	1,065,853	1,151,138	1,236,712
- corporates and other entities	328,529	384,987	477,731
- individual clients	737,323	766,151	758,981
Total amount of loans to the non-banking sector:	959,578	1,153,856	1,245,376
- corporates and other entities	836,772	1,033,119	1,126,851
- individual clients	122,806	120,737	118,525
Total equity	165,712	289,187	337,026
Impairment of financial assets and provisions	324,286	236,969	171,731
Total off-balance sheet operations	143,110	173,780	175,177
Income statement (in thousands of EUR):			
Net interest income	35,311	42,035	52,687
Net non-interest income	5,830	9,439	41,109
Labour costs, general and administrative costs	24,345	24,978	25,795
Depreciation	2,406	2,207	2,131
Impairment and provisioning	125,906	96,078	64,200
Profit/loss before income tax	(111,518)	(71,789)	1,672
Tax related to profit/loss	4,082	(9,564)	(8)
Statement of comprehensive income (in thousands of EUR):			
Other comprehensive gains/losses	(9,142)	26,398	(12,626)
Tax related to other comprehensive gains/losses	1,556	(4,944)	2,525
Number of employees, as at 31 December			
as at 31 December	401	408	422

	2013	2012	2011
Shares:			
Number of shareholders	481	482	477
Number of shares	331,416	331,416	331,416
Nominal share value or an amount belonging to non-par share in registered capital (in EUR)	42	42	42
Book value per non-par share (in EUR)	554	967	1,102
Ratios (in %):			
Capital:			
- Capital adequacy (according to the Bank of Slovenia)	13.42	14.07	15.14
Assets quality:			
- Impairment of financial assets at amortised cost and provisions / on-balance and off-balance sheet items classified	17.95	11.21	7.94
Profitability:			
- Interest margin (net interest income to total assets)	2.09	2.23	2.69
- Financial mediation margin (net interest income and net non-interest income to total assets)	2.43	2.73	4.79
- Return on assets – before tax	(6.59)	(3.81)	0.09
- Return on equity – before tax	(41.40)	(21.26)	0.49
- Return on equity – after tax	(42.92)	(18.43)	0.49
- Return on equity – before tax (before impairment)	4.81	6.63	18.16
Operational costs:			
- Operational costs / average assets	1.58	1.44	1.43
- Operational costs / income	65.03	52.81	29.77
Liquidity:			
- Average liquid assets / average sight deposits from non-banking sector	50.89	51.35	51.13
- Average liquid assets / average assets	25.09	23.48	23.63

Statement of the President of the Management Board* of Gorenjska banka

The 2013 business year was one of the most demanding so far for the Slovenian banking system. The low and unstable economic activity, accompanied by overindebtedness of a major portion of the Slovenian corporate sector continued to increase credit and income risks and weakened the quality of banks' credit portfolios. As a result, Slovenian banks had to cope with numerous problems and consequently with the further increase in impairments and provisions, which in most banks literally slashed the business results. The Slovenian banking system thus ended 2013 with serious losses, recording negative figures for the fourth year in a row.

Gorenjska banka was no exception. Impairments were high at our Bank in 2013, resulting in annual losses at the level of EUR 115.6 million. In spite of the poor result the Bank remains highly liquid and strong in capital terms.

The volume of business, measured in total assets, was 12.8 percent lower in 2013 than the year before, which reflects both the economic situation in which the Bank predominantly operates and the global economic situation with the related decrease in the value of financial assets. The above was at the same time the result of appropriate balancing of return and liquidity, arising mainly from lower liabilities and assets. The most important source has been traditionally the retail deposits, where Gorenjska banka in 2013 managed to maintain its market share in spite of the unfavourable external circumstances and the rather dynamic movement.

The fundamental guideline in the adoption of decisions in 2013 was to ensure safe and stable operations of the Bank. A significant portion of the Bank's capacities was devoted to additional collateralisation of the credit portfolio, active management of non-performing loans and the collection of pledged property. At the same time we more intensively focused on household banking, where the well-thought-out service and pricing policy enables us to maintain trust and stable market shares. By pursuing a prudent investment policy, which we re-defined in 2013, we will gradually increase the Bank's role in the segment of SMEs.

Capital adequacy of Gorenjska banka is traditionally among the highest among Slovenian banks. Nevertheless, the findings of stress tests and asset quality review revealed that if the extreme stress scenario were to happen – which is not likely – Gorenjska banka could face a potential capital deficit in the amount of EUR 328 million. On the basis of these findings the Bank designed the »Plan of activities to eliminate potential internal capital deficit«, which is content-wise a programme for a thorough business, organisational, process, HR and development restructuring of the Bank. The implementation of activities envisaged in the programme will significantly increase the absorption capacity and capital strength of the Bank as well as improve the quality of its assets and risk profile, as a result of which the Bank will have sufficient capital for safe, reliable and stable operations even if the most extreme circumstances take place. The proposed activities were assessed as appropriate and feasible also by the Bank of Slovenia, which extended the original deadline from 30 June 2014 until the end of 2014.

Performance result in 2014 will in many aspects depend on the consistent and successful implementation of the goals projected in the restructuring programme. Our number one task will be to ensure further strengthening of capital and thus stable operations throughout successful operations as well as other measures. We do not expect the volume of business to increase in 2014, but we plan to again achieve a positive result. We will consolidate business cooperation with the non-banking sector, become integrated in restructuring processes and carry out those activities that will increase our business clients' ability to repay liabilities. We will look for the opportunities for new business and thus additional sources of income. One of the options is to connect with suitable banking institutions, if such an action would prove to be reasonable from the business perspective owing to the expected synergy effects.

The business priorities and targets are clear. We sincerely thank the owners and the Supervisory Board for their support in defining and achieving the above, the clients and business partners for their trust and cooperation with the Bank, and the employees for constructive and dedicated fulfilment of the adopted commitments.

Andrej Andoljšek
President of the Management Board

* At its meeting on 24 January 2014 the Supervisory Board of Gorenjska banka adopted a resolution on early termination of the term of office of the Management Board's President Gorazd Trček due to his retirement. In his place, Andrej Andoljšek, who had previously resigned from the position of the Supervisory Board member of the Bank, was appointed substitute member and President of the Management Board.

Report of the Supervisory Board of Gorenjska banka, d. d., Kranj

Composition of the Supervisory Board in 2013

At the end of 2013, the Supervisory Board of Gorenjska banka, d.d., Kranj, was composed of seven members, namely: Andrej Andoljšek, Chairman, Tibor Šimonka, Deputy Chairman, and Mojca Globočnik, Primož Karpe, Miran Kalčič, Matej Podlipnik and Gregor Rovanšek as members.
The composition of the Supervisory Board changed in 2013. On 16 April 2013, Milan Marinič resigned from the position of the Supervisory Board member and on 19 July 2013 a letter of resignation from the position of the member and Chairman of the Supervisory Board was submitted by Miha Resman. On 30 July 2013, Stojan Žibert resigned from the position of the Supervisory Board member. Due to the above changes, the 25th Annual General Meeting of Shareholders of Gorenjska banka, d.d., Kranj, held on 28 August 2013, elected new members for a five-year term of office: Andrej Andoljšek, Miran Kalčič and Gregor Rovanšek. The function of the Supervisory Board Chairman was until 18 July 2013 performed by Miha Resman, from 18 July 2013 until 10 September 2013 by Mojca Globočnik and from 10 September 2013 onwards by Andrej Andoljšek.

The Audit Committee, the Risk Monitoring and Asset and Liability Committee, and the Nomination and Remuneration Committee were appointed to implement special tasks. According to their competencies they prepared expert groundwork and proposed resolutions for the Supervisory Board.

At the end of the year the Audit Committee was composed of: Chairman Gregor Rovanšek and members Primož Karpe, Milan Marinič and Mitja Selan.
In connection with the changes in the Supervisory Board, the composition of the Audit Committee altered during the year.

At the end of the year the Nomination and Remuneration Committee was composed of: Andrej Andoljšek, Chairman, and Matej Podlipnik and Miran Kalčič, members.
Due to the changes in the Supervisory Board, the composition of the Nomination and Remuneration Committee changed during the year as well.

At the end of the year, the composition of the Risk Monitoring and Asset and Liability Committee was as follows: Mojca Globočnik, Chairwoman, and Tibor Šimonka, Matej Podlipnik, Milan Marinič and Dino Bolčina as members.
Owing to the changes in the Supervisory Board, the composition of the Risk Monitoring and Asset and Liability Committee changed during the year as well.

Review of the Supervisory Board's activities in 2013

In 2013, the Supervisory Board held eight regular, one extraordinary and four correspondence meetings. The Supervisory Board followed and monitored the Bank's operations and the work of the Management Board in accordance with its authorisations, competencies and duties as stipulated in the Banking Act, the Decision of the Bank of Slovenia on Diligence of Members of Management and Supervisory Boards of Banks and Savings Banks, the Companies Act and the Bank's By-Laws.

The Management Board informed the members of the Supervisory Board about the Bank's business operations, strategy and other important business events. In relation to cost-effectiveness, the Supervisory Board requested the Management Board to prepare and implement measures for the achievement of the planned goals. The Supervisory Board paid special attention to monitoring risk management and NPL management, regarding which the Management Board was assigned to prepare and implement additional measures and activities.

In the scope of review of the Slovenian banking system stability Gorenjska banka, d.d., underwent a due diligence based on service quality review and stress tests. In relation to the above Gorenjska banka, d.d., was issued the Order to Eliminate Violations, wherein the Bank of Slovenia established a potential shortfall of EUR 328 million and set the deadlines for the implementation of activities that will ensure the elimination of this shortfall. At the December meeting, the Supervisory Board acknowledged the results of the asset quality review (AQR) and stress test (ST).
In line with the Decision of the Bank of Slovenia on Diligence of Members of Management and Supervisory Boards of Banks and Savings Banks, the Supervisory Board guided the activities related to the as-

sessment of performance of the Management Board and key personnel of the Bank.
In early 2014, the Management Board of the Bank prepared the Plan of activities to eliminate potential internal capital deficit, which is already being carried out.

The Supervisory Board oversaw the activities of the Internal Audit Department based on regular quarterly reports. It approved the 2012 internal audit report and established that thedepartment functioned independently in accordance with its adopted work programme and the rules governing internalauditing.

In 2013, the Supervisory Board also discussed and adopted:

- the material for the 25th Annual General Meeting and in this scope verified, approved and adopted the audited Annual Report of the Bank for 2012 as well as the report of the certified auditor for the 2012 financial year and approved it;
- the decisions about the changes in the Bank's Management Board;
- the information about the programme and progress of the implementation of measures aimed at implementing the Bank's Operating Plan for 2013;
- the information about the achievement of the business policy targets;
- the reports on operation and performance estimates;
- the amendment to the Remuneration and Bonus Policy of the Bank;
- the reports on the changes in large exposure, exposure to related parties and exposure to persons in a special relationship with the Bank;
- the reports of the Supervisory Board's committees.

In 2013, the Supervisory Board gave approval to the Management Board for the following proposals:

- the Bank's 2014 Operating Plan and requested that it be supplemented with measures and activities based on the AQR and ST;
- amendments to the Rules of Procedure of the Internal Audit Department;
- determining the draft action plan of the Internal Audit Department for 2014;
- the Rules on Risk Management Strategy and Internal Capital Adequacy Assessment Process;
- the increase in large exposures and exposures to persons in a special relationship with the Bank;
- the amendments to the Policy of Professional and Ethical Standards for the Members of the Bank's Management Board and Supervisory Board.

In 2013, the Supervisory Board was familiarised with:

- the information about the merger of Gorenjska banka d.d., Kranj, and Abanka Vipa d.d., Ljubljana, the capital increase procedure of Abanka Vipa, d.d., Ljubljana, and the procedure and schedule for finding a strategic partner;
- the business model and the business plan foundations of Imobilia-GBK, d.o.o., Kranj;
- the external quality assessment review of internal audit.

Performance of Gorenjska banka in 2013

Gorenjska banka, d.d., Kranj, ended the 2013 financial year with a loss of EUR 115.6 million, having operated in a demanding economic environment. Its total assets were 12.8 percent lower than the year before. Along with numerous negative effects the bank risks were mainly characterised by credit risk related to the past decisions about financing companies which during the recession became illiquid or even initiated bankruptcy proceedings. The Bank therefore increased the coverage of portfolio with provisions and impairments, which in 2013 amounted to EUR 125.8 million. Impairments made in 2013 and previous years totalled EUR 324.3 million, of which EUR 235.2 million referred to credit portfolio impairments. The

ratio between the credit portfolio and provisions and impairments was 17.95 percent.

Even though lending conditions worsened and the possibilities of crediting at an acceptable risk level decreased, the Bank succeeded in increasing its market share in loans to corporates from 4.5% to 5.1% as well as the market share of retail loans from 1.49% to 1.56%. In retail deposits – prime quality sources of funds – the Bank maintained its market share of 5.2%.

At the end of 2013, the Bank's capital adequacy ratio was 13.42%. The findings of the stress test and asset quality review indicated that a capital shortfall was a possibility. Based thereon, the Management Board prepared the Plan of activities to eliminate potential internal capital deficit, which is content-wise a programme for a thorough restructuring of the Bank. The Plan is being implemented.

A significant portion of the Bank's activities in 2013 was dedicated to improving the model for collecting pledged property, arranging additional pledges and actively managing NPLs. The 2014 operating result will depend on consistent implementation of the measures included in the Plan.

Information on the approval and adoption of the 2013 Annual Report

The Bank's Management Board first submitted the 2013 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 auditedAnnual Report for 2013, 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 2013, 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 andother explanatory notes, the auditor issued the opinion that the Bank's financial statements give a true and fair view of the financial position of Gorenjska banka, d.d., Kranj, as at 31 December 2013, 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 ofthe business report with the audited financial statements.

In the opinion of the Supervisory Board, the Bank's Management Board and Supervisory Board fulfilled all of their legal obligations in the 2013 financial year.

On the basis of the above, the Supervisory Board approved andadopted the Annual Report of Gorenjska banka, d.d., Kranj, for 2013 and the certified auditor's report for the 2013 financialyear

Mojca Globočnik
Chairwoman of the Supervisory Board

Management and Organizational Chart

Management and organizational chart is valid from 28 February 2014.

Management of the Bank

President of the Management Board - Andrej Andoljšek

Member of the Management Board - Srečko Korber

Directorate

Mojca Osolnik Videmšek

Departments

Internal audit
Sonja Kerec

Legal office
Igor Colnar

Compliance
Božo Jašovič

Administrative & human
Nada Nastran

Market division

Executive director:
Miha Resman

Commercial banking
Katja Božič

Retail banking
Igor Poljšak

Treasury
Mladen Jovandić

Marketing communications
Irena Čebulj

Risk division

Executive director:
Marko Ninčević

Risk management
Robert Kristanc

Risk claim management
Marko Ninčević

Support division

Executive director:
Irena Šest

Accounting & operating support
Irena Šest

Payments & international
Milena Preželj

Information systems
Janez Prešern

Organizational Chart of Gorenjska banka Group

Gorenjska Banka, d.d., Kranj

Subsidiary

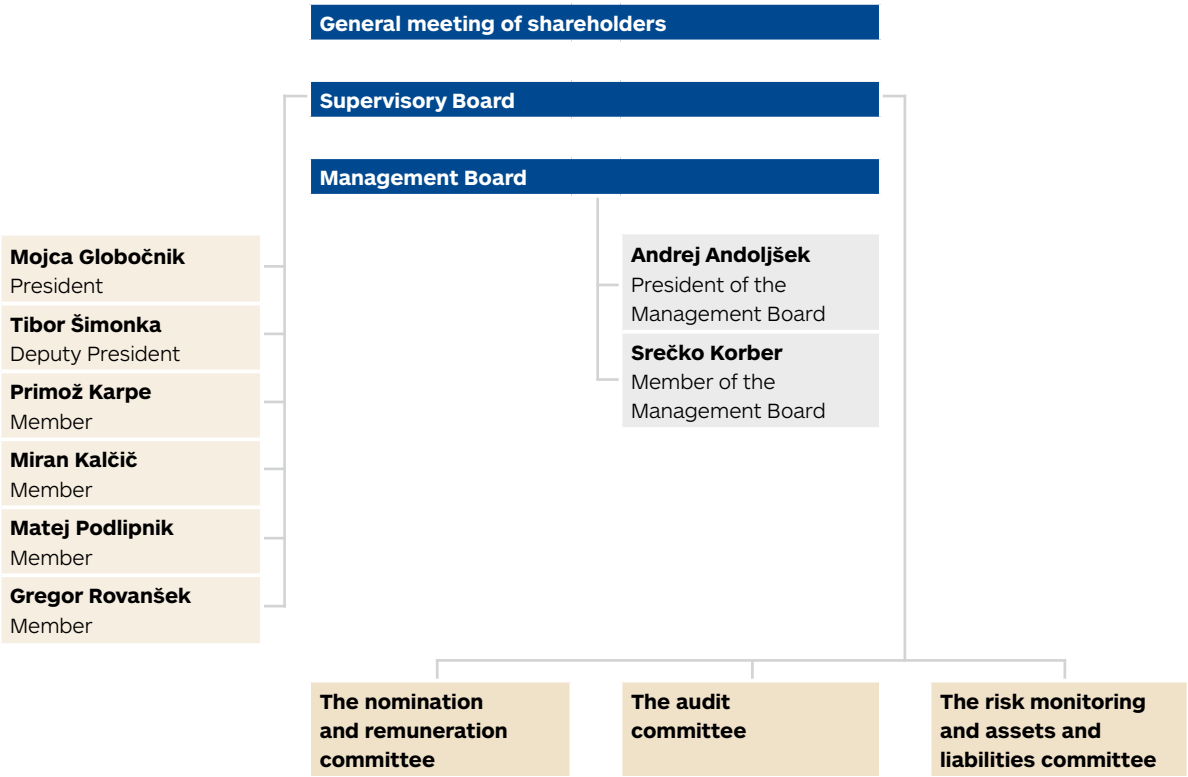
Imobilia-GBK, d.o.o., Kranj, 100 %

Associated company

Skupna, d.d., Ljubljana, 26.0269 %

Top Management Structure

Recent changes in the management structure is valid from 27 January 2014.



Business Network

Gorenjska banka d.d., Kranj		
Bleiweisova cesta 1, PO Box 147 SI - 4000 Kranj President of the Management Board: Andrej Andoljšek	Telephone: + 386 4 208 40 00 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 Telefax: + 386 4 202 17 18 General Manager International: Milena Preželj

Branches

Kranj, Bleiweisova cesta 1	Jesenice, Cesta maršala Tita 8	Radovljica, Gorenjska cesta 16
Telephone: + 386 4 208 40 00 Telefax: + 386 4 208 44 91	Telephone: + 386 4 208 46 01 Telefax: + 386 4 586 45 53	Telephone: + 386 4 208 46 51 Telefax: + 386 4 531 44 85

Agencies

Kranj	Jesenice	Radovljica
1. Kranj, Bleiweisova cesta 1 Telephone: + 386 4 208 40 00 Telefax: + 386 4 208 44 91	**9. Jesenice, Cesta maršala Tita 8** Telephone: + 386 4 208 46 01 Telefax: + 386 4 586 45 53	**12. Radovljica, Gorenjska cesta 16** Telephone: + 386 4 208 46 51 Telefax: + 386 4 531 44 85
2. Kranj, Koroška cesta 4 Telephone: + 386 4 208 45 00 Telefax: + 386 4 252 15 29	**10. Jesenice, Plavž, Cesta Cirila Tavčarja 8** Telephone: + 386 4 208 46 21 Telefax: + 386 4 586 02 57	**13. Bled, Cesta svobode 15** Telephone: + 386 4 208 46 76 Telefax: + 386 4 574 13 69
3. Kranj, Jaka Platiše 18 Telephone: + 386 4 208 45 04 Telefax: + 386 4 233 11 05	**11. Kranjska Gora, Borovška cesta 95** Telephone: + 386 4 208 46 26 Telefax: + 386 4 588 14 30	**14. Bohinjska Bistrica, Trg svobode 2b** Telephone: + 386 4 208 46 83 Telefax: + 386 4 572 10 09
4. Šenčur, Kranjska cesta 4 Telephone: + 386 4 208 45 07 Telefax: + 386 4 251 14 56		**15. Lesce, Alpska cesta 37** Telephone: + 386 4 208 46 72 Telefax: + 386 4 530 23 11
5. Cerklje, Trg Davorina Jenka 10 Telephone: + 386 4 208 45 10 Telefax: + 386 4 252 25 05		**16. Lesce, Rožna dolina 51** Telephone: + 386 4 208 46 68 Telefax: + 386 4 531 65 39
6. Kranj, Cesta Staneta Žagarja 69 Telephone: + 386 4 208 45 16 Telefax: + 386 4 234 40 51		
7. Kranj, Stara cesta 25 b Telephone: + 386 4 208 45 19 Telefax: + 386 4 234 30 48		
8. Koper, Ankaranska cesta 2 Telephone: + 386 4 208 45 60 Telefax: + 386 5 663 31 71		

Branches

Škofja Loka, Kapucinski trg 7	Jesenice, Trg svobode 1	Radovljica, Dalmatinova cesta 4
Telephone: + 386 4 208 41 41 Telefax: + 386 4 512 40 15	Telephone: + 386 4 208 45 28 Telefax: + 386 4 596 34 20	Telephone: + 386 4 208 45 45 Telefax: + 386 1 231 52 68

Agencies

Škofja Loka	Jesenice	Radovljica
17. Škofja Loka, Kapucinski trg 7 Telephone: + 386 4 208 41 41 Telefax: + 386 4 512 40 15	**23. Tržič, Trg svobode 1** Telephone: + 386 4 208 45 28 Telefax: + 386 4 596 34 20	**25. Ljubljana, Celovška cesta 268** Telephone: + 386 4 208 45 52 Telefax: + 386 1 518 75 63
18. Škofja Loka, Mestni trg 16 Telephone: + 386 4 208 41 73 Telefax: + 386 4 512 40 42	**24. Tržič, Bistrica pri Tržiču, Ste Marie aux Mines 36** Telephone: + 386 4 208 45 36 Telefax: + 386 4 596 34 35	**26. Ljubljana, Dalmatinova ulica 4** Telephone: + 386 4 208 45 45 Telefax: + 386 1 231 52 68
19. Gorenja vas, Poljanska cesta 65a Telephone: + 386 4 208 41 70 Telefax: + 386 4 512 40 65		**27. Kamnik, Domžalska cesta 3** Telephone: + 386 4 208 45 55 Telefax: + 386 1 831 16 14
20. Železniki, Na Kresu 26 Telephone: + 386 4 208 41 63 Telefax: + 386 4 514 63 71		

The economic environment and the banking sector

Economic environment

According to the first estimates of the Statistical Office of the Republic of Slovenia, gross domestic product decreased by 2.4% in 2013 owing to the deterioration of the economic activity in 2013. In 2013, exports of goods were higher by 2.6% as compared to 2012, whilst imports rose by 0.3%. The export-to-import ratio was 97.6%.

The value of industrial production was, according to the preliminary data of the Statistical Office of the Republic of Slovenia, on average 0.7% lower in 2013 as compared to the year before. The downward trend in production in the entire industry stopped in the second half of 2013 and is currently positive. Compared to 2012, the value of industrial production rose in 2013 in mining (by slightly more than 3%) and in electricity, gas and steam supply (by 3%); in manufacturing it somewhat dropped (by somewhat more than one percent).

According to the last available data of the Employment Service of Slovenia, the number of registered unemployed persons at the end of December 2013 stood at 124,015, which is 5.0% more as compared to 2012. In 2013, the number of unemployed persons registered with the Employment Service of Slovenia was 119,827, which is 8.8% more than in 2012. In 2013, the number of newly registered unemployed persons was 108,344, which is 1.4% more than in 2012. A total of 102,390 unemployed persons deregistered, of whom 65,054 became employed, which is 11.5% more than in 2012.

Consumer prices rose by 0.7% in 2013, which is by 2.0 percentage points less 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 1.9% in 2013 (in 2012: 2.8%). The prices of food and services contributed most to total inflation. The latter mainly grew because of fiscal and administrative measures. These also caused an increase in core inflation, which remains low and below the average of the euro area.

(E) - estimate

Source: Autumn economic tredns for the year 2013, September 2013, Analysis and Development of the Republic of Slovenia; The Statistical office of the Republic of Slovenia.

	2013	2012	2011
Gross domestic product, in %	(E) (2.4)	(2.5)	0.7
GDP per capita, in EUR, current rate	(E) 16.942	17.172	17.610
Unemployment rate, ILO, in %	(E) 10.7	8.9	8.2
Labour productivity (GDP per hour worked), in %	(E) (0.1)	(1.7)	2.4
Inflation, annual average, in %	1.8	2.6	1.8
Export of goods and services, in %	2.8	0.6	7.0
Import of goods and services, in %	0.7	(4.7)	5.6
Total current account balance payment, in million EUR	(E) 1,731	1.159	146

The key interest rates remained low in 2013: the European Central Bank at 0.25% (last change in November 2013), 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). In 2013, 6-month EURIBOR increased by 6.9 basis points.

The following table illustrates the extent to which various major global stock indices and the Slovenian stock index changed in 2012 and 2013. Most of the major global stock indices recorded a positive growth in 2013.

Index	Valute as at 31 December 2013 (index points)	Change in the year (in %)	
		2013	2012
SBI20 (Slovenia)	655.66	7.8	-30.7
DOW JONES IA (USD)	16,576.66	7.3	5.5
NASDAQ COMPOSITE (USD)	4,176.59	15.9	-1.8
S&P 500 (USD)	1,848.36	13.4	0.0
NIKKEI 225 (Japan)	16,291.31	22.9	-17.3
DAX (Germany)	9,552.16	29.1	-14.7

In 2013, the Fitch rating agency downgraded the credit rating of Slovenia by one grade from A- to BBB+, Moody's by two grades from Baa2 to Ba1, and Standard & Poor's by one grade from A to A-. One of the leading global credit agencies is of the opinion that the first main factor for the decrease in credit rating is the Slovenian banking sector and the high probability that the state will again have to come to the rescue with capital injections. The second reason for downgrading is the government debt. The third reason is the insecurity of the provision of future financing, resulting in a higher risk of Slovenia needing external aid.

Banking environment

In 2013, the operations of the banking system were predominantly influenced by further deleveraging of banks on the wholesale markets and unfavourable economic situation, with a strong impact on the contraction of crediting. Total assets and individual balance sheet categories at the end of 2013, changes in balance sheet structure as well as year-end figures were strongly impacted by the measures adopted in December 2013 by the Government of the Republic of Slovenia and the Bank of Slovenia to stabilise the banking system, chiefly to increase the capital of the Bank and transfer bad debt to the Bank Assets Management Company (BAMC).

According to the most recent available data, total assets of the Slovenian banking system decreased by 12.3% in 2013 and of Gorenjska banka by 12.8%; the market share of Gorenjska banka by total assets decreased by 0.02 percentage point to 3.86%. Banks recorded total losses before tax of EUR 3,338 million. The major reason for the banking system losses was impairments and provisions, which totalled EUR 3,701 million, resulting from the further deterioration of the banks' portfolio quality and the reduction in the value of collaterals. In comparison with the year before, the established impairments and provisions rose by EUR 2,102 million.

Owing to the high share of non-performing receivables in banks and the shrinking of the crediting activity, the income risk of banks increased in 2013. Higher income risk in banks was reflected in persistent decrease of net interest income, dropping by 20%, a 45% fall in net non-interest income and 131% higher costs of impairments and provisions.

After the banks' portfolio quality review and the transfers of non-performing receivables of two largest banks to the BAMC, credit risk reduced in December 2013. Even though credit risk remains concentrated in the corporate segment, there is still the risk of another deterioration of bank asset quality, if the economy does not notably recover.

The capital adequacy of Core Tier 1 remains an important criterion of bank stability. In the first nine months of 2013, the capital adequacy did not significantly change, whereas in December, after the assets quality reviews and stress tests, five banks underwent capital increase to improve capital adequacy.

The year 2014 was decisive for the banks which started the rehabilitation process to customise to the new operating conditions their business models that will ensure them a positive business result and sufficient capacity to internally generate capital. The improved efficiency of banks' operations has to be reflected in a higher net interest margin, which will ensure an appropriate return on invested capital and a suitable evaluation of the risks assumed.

About the Gorenjska banka Group

Composition of the group

In addition to Gorenjska banka, d.d., Kranj, the Gorenjska banka Group (hereinafter: the Group) comprises the following subsidiary: Imobilia-GBK, d.o.o., Kranj and the associated company Skupna pokojninska družba, d. d., Ljubljana. In 2013, the Bank sold the subsidiary Gorenjski glas, d.o.o., Kranj.

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 2013.

Company	Equity holdings (in %)	Nominal amounts (in thousands of EUR)
Imobilia-GBK, d. o. o., Kranj	100	13
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, 56/13, 63/13-ZS-K and 96/13; 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 and extra financial services for which it has the Bank of Slovenia's authorisation.

The Bank's service range includes factoring services, however, the total amount of factoring in 2012 and 2013 was very limited. The bulk of business comprised various loans and bank bonds.

The Bank did not trade in futures or options for its own account or for the account of customers in 2012 and 2013.

There were no requests from customers for the Bank's participation in the issue of securities or for related services during 2012 and 2013. 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 2012 and 2013.

Of investment services and operations, in 2012 and 2013 the Bank performed only services from items 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 on behalf of customers and dealing on own account.

Of ancillary investment services, in 2012 and 2013 the Bank only performed services from item 1 of the first paragraph of Article 10 of ZTFI: the services of keeping accounts of book-entry securities of the clients.

About subsidiary

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. 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);
- management of the securities and shares portfolio.

In 2013, the company had not yet implemented those activities, so the impact of its operations on the statements of the Bank is immaterial.

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 2013, there were 400 companies included in Skupna's voluntary supplementary pension insurance system. Over 61 thousand policyholders were included in the pension plan; the value of the cover of assurance was EUR 216 million on the last day of 2013.

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.

Review of banking operations by key business lines

Obtaining funds

In compliance with the secure operations principles, the Bank provided for adequate liquidity in 2013, as the level of liquidity ratios on the uniform liquidity ladder in the up to 30 days category consistently exceeded 1 as prescribed by the Regulation of the Bank of Slovenia on Minimum Requirements for Ensuring an Adequate Liquidity Position.

The Bank managed its liquidity in the domestic currency mostly bygranting short-term liquidity loans on the interbank monetary market and by placing funds with the ECB, since for the most of 2013 it had excess short-term liquidity. It covered liquidity needs by raising short-term funds on an unsecured interbank monetary market and partly by borrowing through main and long-term refinancing operations of the ECB.

The liabilities of Gorenjska banka to the central bank increased from EUR 80 million as at last day of 2012 to EUR 91 million by the end of 2013. Within these liabilities, a three-year loan of EUR 80 million falls due at the start of 2015 and EUR 10 million under the long--term refinancing operation in March 2014. In 2013, the Bank did not raise any new long-term loans with a domestic or foreign bank. The Bank repaid EUR 31.4 million long-term loans, so that its long-term liabilities to domestic and foreign banks decreased to EUR 170.7 million in 2013.

Short-term indebtedness of Gorenjska banka on the interbank monetary market increased from EUR 28.5 million as at last day of 2012 to EUR 35 million by the end of 2013.

In 2013, the Bank several times decreased interest rates on deposits of corporates, sole proprietors and other civil law entities. In addition to the economic situation, the uncertainty related to resolving the indebtedness on Cyprus and the impact of stress tests with selected Slovenian banks this led to a marked decrease in the Bank's market share in corporate deposits. This market share decreased from 4.17% in 2012 to 3.90% in 2013.

In spite of unfavourable external circumstances, the Bank managed to preserve the share in retail deposits in 2013. After relatively dynamic movement, this share stood at 5.23% at the end of the year. Retail deposits still represent the major source of funds for the Bank and from among all its operations, the Bank holds the highest market share in Slovenia in this segment.

At the end of 2013, the Bank had EUR 203.6 million of ECB eligible marketable assets with the Bank of Slovenia to secure credit operations of the ECB. These assets provide collateral for EUR 95.1 million of ECB receivables as at the last day of 2013. The available funds in the pool amount to EUR 108.5 million. As at 31 December 2013, the Bank assessed the total value of marketable financial assets eligible for collateralising ECB receivables at EUR 356.8 million. The value of the remaining, additional marketable assets is estimated at EUR 87.5 million, while the value of non-marketable assets eligible for collateralising financial instruments of the ECB or the Bank of Slovenia is estimated at EUR 89.7 million.

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. In cooperation with municipalities, regional chambers of craft, and the Slovenian Enterprise Fund the Bank provided them favourableloans at subsidised interest rate. Using long-term funds obtained from SID Bank and the European Investment Bank, the Bank also enabled project financing for the realisation of various development opportunities.

Gorenjska banka ended 2013 with a 5.1-percent market share in corporate crediting. The volume of loans to corporates, which equalled EUR 836.8 million at the end of 2013, decreased by 19.0% as compared to the year before. The reasons for this situation - besides increased repayments by some major borrowers - are the further decrease in the numberof clients with appropriate rating and the lack of suitable development projects. More intensive marketing,

especially to medium-sized enterprises with promising product ranges, did not enable the Bank to compensate for the said decrease.

In the field of retail lending, the trend of growth and rising market share of Gorenjska banka continued also in 2013. Retail loans totalled EUR 122.8 million, up 1.7% over 2012. Besides the competitive offer, this was achieved mostly through efficient marketing communication and continued professional training of credit advisors.

Securities portfolio management

The business policy in the area of securities portfolio management is oriented towards providing a balanced portfolio, with an emphasis on investment security, liquidity, diversification, predictability, profitability, and the possibility of collateralising the ECB operations.

In 2013, the Bank's securities portfolio has shrunk. Gorenjska banka purchased securities worth EUR 96.3 million, debt securities maturing in 2013 equalled EUR 117.2 million and the Bank sold or liquidated equity investments worth EUR 9.5 million.

The Bank performed EUR 0.8 million transactions at the Ljubljana Stock Exchange for its own account. It paid in EUR 57.2 million for bond IPOs, and carried out securities transactions worth EUR 38.6 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 2.6 million in 2013.

In 2013, Gorenjska banka was actively participating also in joint offering of securities of the companies Mercator, d.d., Ljubljana, and Petrol, d.d., Ljubljana. In 2013, Gorenjska banka sold the equity interest, i.e. 82.05-percent interest in Gorenjski glas d.o.o., Kranj, and a 25-percent equity stake in Iskratel d.o.o., Kranj. At 2013 year-end the Bank's 14.7-percent stake in Abanka Vipa d.d., Ljubljana, and the 0.0002-stake in Probanka d.d., Maribor, were disposed based on the Decision of the Bank of Slovenia on extraordinary measures dated 17 December 2013.

Payment services

As concerns payment services in 2013, the negative economic growth, a series of compulsory compositions, bankruptcies and liquidations, a high level of unemployment, weak solvency, and general poor 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 lower than in 2012 by a good 9%. The volume of domestic payment transactions stood at EUR 4.2 billion, while international payment transactions totalled EUR 1.6 billion.

The number of payment orders processed increased in 2013 as compared to the year before. As compared to 2012, the Bank thus processed 4% more payment orders in the field of domestic payment transactions and 7% more payment orders in the field of international payment transactions.

At the end of the year, 5,897 corporates, sole proprietors and other civil law entities had transaction accounts open with Gorenjska banka, which is slightly fewer than the year before and accounts for 2.8% of all transaction accounts open in Slovenia.

However, in 2013 the Bank was more successful in winning new individual clients and increasing the number of personal accounts. In comparison to the year before, the number of personal accounts grew by over one percent, with a marked rise in student accounts. In addition to the improved age structure of clients, this represents a good potential to market all those services that are not in demand from the elderly generation.

The increase in the number of personal accounts was paralleled by the rise in the number of deferred payment cards Activa MasterCard. At the end of 2013, the number of the latter was 1.2% higher than the year before. The number of Link online bank users rose by no less than 21% compared to 2012.

Review of operations through the financial statements

Income statement

In 2013, the Bank incurred EUR 111,518 thousand pre-tax loss, while in 2012 the respective figure was EUR 71,789 thousand. Return on equity before taxes was negative at 41.40% and return on assets before taxes was also negative at 6.59%.

Net interest stood at EUR 35,311 thousand, which is 16.0% less than in 2012. Interest income in the amount of EUR 61,942 thousand fell by 18.3% as compared to 2012, whilst interest expenses in the amount of EUR 26,631 thousand were down 21.1% on 2012.

The decrease in net interest resulted from smaller credit portfolio and lower interest rates with the restructuring of individual clients' debt. The result for 2013 excludes accrued interest in the amount of EUR 19,737 thousand related to clients who were at the end of 2013 in compulsory settlement or bankruptcy proceedings or against which the Bank initiated legal action or execution and no longer expects repayment from collateral liquidation. Interest income in the amount of EUR 3,342 thousand was excluded in a share equal to the underlying receivables.

Interest margin, calculated as the ratio of net interest to average assets, fell from 2.23% in 2012 to 2.09% in 2013. The above is mainly due to the mentioned higher volume of interest income excluded.

Net fees and commissions stood at EUR 9,845 thousand, down 0.6% on 2012. Fee and commissions income equalled EUR 10.518 thousand, 3.7% less as compared to 2012, whilst fee and commissions expense stood at EUR 673 thousand, down 34.2% on 2012.

Dividend income totalled EUR 1,166 thousand, which is a decrease of 55.7% over the year 2012. The Bank received dividends from equity investments in three companies: Petrol, d.d., Ljubljana, Zavarovalnica Triglav, d.d., Ljubljana, SPD d.d., Ljubljana.

The Bank disclosed a loss of EUR 1,619 thousand from financial assets not measured at fair value through P/L (in 2012: EUR 3,754 thousand loss), EUR 4,523 thousand loss from financial assets held for trading (in 2012: EUR 7,424 thousand loss), and EUR 2,020 thousand gains from financial assets recognised at fair value through P/L (in 2012: EUR 6,385 thousand gain).

Other income included EUR 21 thousand net loss from exchange rate differences. Foreign exchange transactions resulted in EUR 189 thousand gains (under gains from financial assets held for trading). Other operating loss in the amount of EUR 1,060 thousand predominantly resulted from tax on total assets and financial services.

Total operating expenses reached EUR 26,752 thousand, which is 1.6% less as compared to 2012. Of these, the biggest share, i.e. 54.9%, is represented by costs of labour, while the costs of material and services accounted for 36.1% and the depreciation and amortisation charge for 9.0%. Labour costs dropped by 5.8% as compared to 2012, the costs of materials and services grew by 1.6%, and depreciation and amortisation were 9.0% higher than in 2012.

The ratio of operating expenses to average assets was 1.58%. In comparison to 2012, the ratio was 0.14 percentage point higher.

Impairment and provisioning costs for the credit and securities portfolios in 2013 exceeded revenues from reversal of provisions and impairments by EUR 125,907 thousand, increasing by 31.0% compared to 2012.

The share of provisions and impairments in classified assets, which includes loans and related receivables, increased from 11.21% at the end of 2012 to 17.95% at the end of 2013.

Total comprehensive income, i.e. net profit and loss and total other comprehensive income after tax was negative in the amount of EUR 123,187 thousand in 2013 (2012: EUR 40,771 thousand loss). It includes EUR 115,600 thousand net loss (income statement) and EUR 9,152 thousand loss from negative revaluation surplus (statement of financial position), EUR 9 thousand of net actuarial gains and EUR 1,556 thousand of tax. The negative surplus from revaluation is due to the decrease in the prices of available-for-sale securities and the transfer to the income statement as well as the transfer of gains and surpluses from revaluation to P/L as a result of the disposal of stakes available-for-sale.

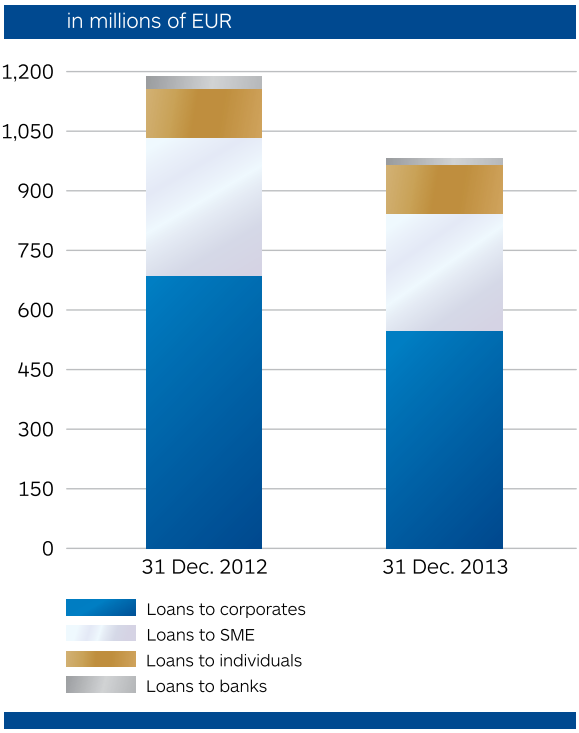
Statement of financial position

In 2013, **the Bank's total assets** were down EUR 229,154 thousand or 11.8%. At the end of December 2013, these assets stood at EUR 1,560,886 thousand.

Cash and balances with the central bank increased by EUR 39,893 thousand or 231.0% in 2013. The share of cash in assets was only 3.7%.

Loans to banks, which also include deposits with banks, fell by EUR 17,190 thousand in 2013 or by 52.3%. At the end of December 2013, their share in assets was 1.0%. The change was mostly related to the decrease in short-term loans (by EUR 20,025 thousand), decrease in long-term loans (by EUR 53 thousand) and increase in short-term deposits (by EUR 2,782 thousand). At the end of December 2013, loans to banks comprised demand deposits and short-term deposits in the amount of EUR 4,781 thousand, EUR 657 thousand of long-term loans to banks and EUR 10,212 thousand of short-term loans to banks.

The figure below shows the structure of loans to customers.



Loans to non-banks fell by EUR 194,278 thousand in 2013 or by 16.8%. They accounted for 61,5% of the Bank's assets at the end of December 2013.

Loans to corporates and loans to individuals accounted for 53.6% and 7.9% of assets respectively. In the structure of loans to non-banks, 58.1% were long-term. In 2013, the Bank succeeded in increasing the amount of retail loans by 1.7%, thus raising its market share from 1.49% to 1.56%.

Investments in securities and equity fell by EUR 48,600 thousand in 2013 or by 9.0%. The balance of securities increased by EUR 96,286 thousand due to purchases of securities. The Bank received EUR 126,753 thousand assets for sold and mature securities. EUR 100 thousand was earmarked for the capital increase of the subsidiary Imobilia-GBK. Deferred interest decreased by EUR 1,778 thousand owing to major payments. The changes in share and bond prices and revaluations resulted in a net decrease of EUR 22,941 thousand in the securities and equity investment portfolio. Sales generated EUR 5,457 thousand of capital gains.

The portfolio mostly comprises bonds of the Republic of Slovenia, bonds and shares of domestic banks, and also foreign securities. At the end of 2013, the share of investments in securities and equity in assets equalled 31.7%. Of the aforementioned securities, 96.7% were available for sale, 2.4% were held for trading and 0.9% were investments in subsidiaries and associates.

At the end of 2013, the Bank held equity investments in one subsidiary, one associated company and fourteen independent companies.

Equity investments:

Company	31 Dec. 2013, in %
Investment in subsidiaries:	
Imobilia-GBK, d. o. o., Kranj	100
Investment in associates:	
Skupna pokojninska družba, d. d., Ljubljana	26.0269
Equity investments:	
Intereuropa d. d., Koper	18.2340
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
Mercator, d. d., Ljubljana	3.7960
NFD Holding, d. d., Ljubljana	3.4097
Sava, d. d. Kranj	2.8140
Zavarovalnica Triglav, d. d., Ljubljana	0.0260
Banka Celje, d. d., Celje	0.0051

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 11,882 thousand or 3.9% in 2013. The share of liabilities to the banking sector accounted for 18.5% of liabilities at the end of December 2013.

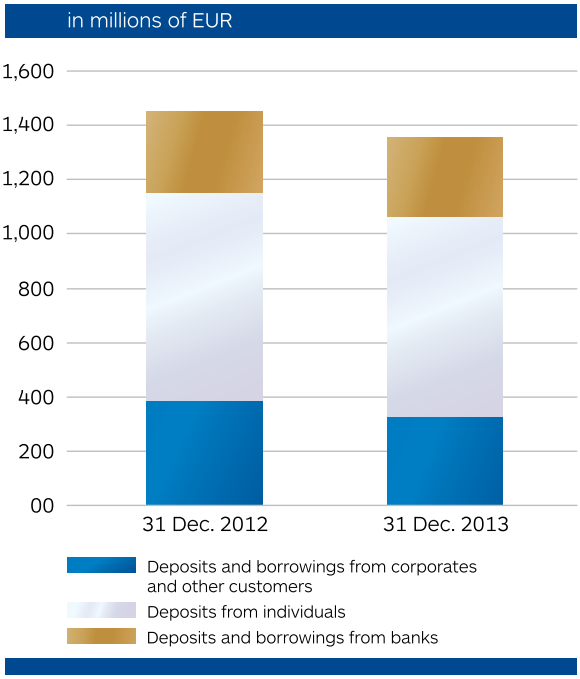
The Bank can utilise central banking liquidity operations, through which it obtains short-term assets required for daily management of inflows and outflows based on pledged securities with the status of suitable financial property. At the end of 2013, the balance of liabilities to the central bank totalled EUR 91,111 thousand, up 13.0% on 2012.

The Bank increased its current liabilities to commercial banks in 2013 by EUR 6,504 thousand, and decreased its long-term liabilities by EUR 28,836 thousand. At the end of 2013, current liabilities to commercial banks included loans raised amounting to EUR 35,003 thousand and deposits amounting to EUR 180 thousand, whilst long-term liabilities included loans raised amounting to EUR 162,572 thousand.

Liabilities to non-banks recorded a drop of 7.4% in 2013, decreasing by EUR 85,285 thousand. They accounted for 68.3% of liabilities in the statement of financial position at the end of 2013.

Deposits held by non-banks mostly comprise retail deposits, which fell by 3.8% (or EUR 28,827 thousand). These deposits account for 47.2% of liabilities; their maturity changed in favour of long-term deposits, which increased by 4.7%. Liabilities to non-banking legal entities accounted for 21.0% of sources of funding at the end of December 2013 and were 14.7% (or EUR 56,458 thousand) lower as compared to the year before. Long-term assets decreased by EUR 72,493 thousand and short-term assets grew by EUR 16,036 thousand.

The figure below shows the structure of due to customers.



Total equity fell by EUR 123,475 thousand or 42.7% in 2013. The figure includes the decrease due to covering of loss from revenue reserves (EUR 115,600 thousand), the negative revaluationof financial assets (EUR 7,587 thousand) and the value adjustment of own shares (EUR 288 thousand).

The book value of one share, calculated based on total equity, amounted to EUR 553.85 at the end of 2013 (as at 31 December 2012: EUR 966.53).

Shareholders information

Shareholders of Gorenjska banka, d. d., Kranj, as at 31 December 2013:

Name of shareholder	Number of ordinary shares	Share in capital, in %	Share in voting rights, in %
Sava, Družba za upravljanje in financiranje, d. d., Kranj *	146,060	44.1	48.8
DUTB, d.d., Ljubljana	14,658	4.4	4.9
Zavarovalnica Triglav, d. d., Ljubljana	13,222	4.0	4.4
Banka Slovenije, Ljubljana	10,414	3.1	3.5
Erste Group Bank AG, Celovec	10,000	3.0	3.3
Iskratel, d.o.o., Kranj	7,533	2.3	2.5
Banka Sparkasse, d. d., Ljubljana	7,500	2.3	2.5
Telekom Slovenije, d. d., Ljubljana	5,351	1.6	1.8
Domel, d. d., Železniki	5,331	1.6	1.8
Aerodrom, d. d., Ljubljana	5,121	1.5	1.7
TOTAL top ten major shareholders	**225,190**	**67.9**	**75.2**
Other shareholders	74,011	22.3	24.7
Gorenjska banka, d. d., Kranj - own shares	32,215	9.7	0.0
TOTAL 481 shareholders	**331,416**	**100.0**	**100.0**

* Of a total of 146,060 shares owned by Sava, d.,d., Kranj, 34,287 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.

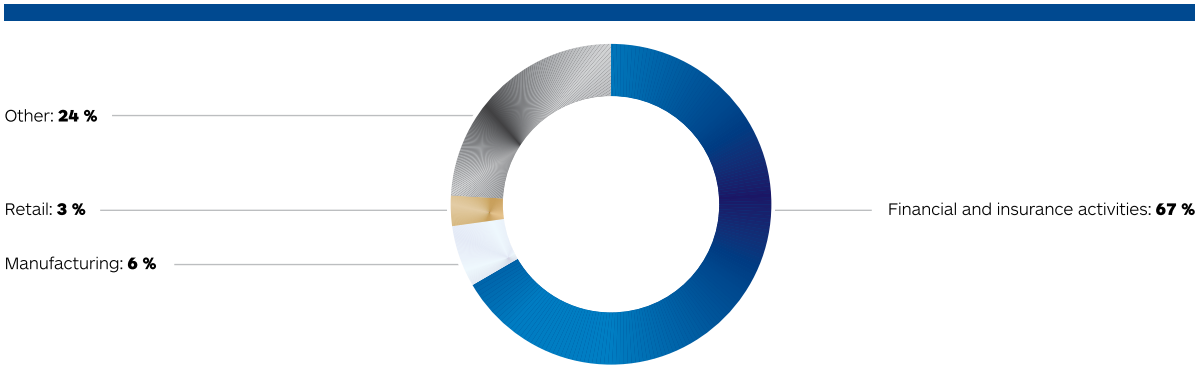
The Bank's share capital at the end of 2013 comprised 331,416 ordinary shares. There were 481 holders of the Bank's shares entered in the shareholders register as at 31 December 2013 (2012: 482). The 10 largest shareholders held 67,9% of the Bank's share capital (2012: 69,8%).

The figure below shows the structure of Shareholders by Sector as at 31 December 2013.

As at 31 December 2013, 67% of shareholders were domestic companies from the finance and insurance sectors, 3% of shareholders were domestic trade companies, 6% were domestic manufacturing companies, while other sectors were represented to a lesser degree.

The Bank's capital adequacy ratio equalled 13.42% at the end of 2013 (as at 31 December 2012: 14.07%), ranging between 13% and 19% during 2013.

Net loss of 2013 in the amount of EUR 115,600 thousand was fully covered by reserves.



Development and innovations

IT upgrades

In 2013, the Bank's development projects in IT support were to a large extent focused on upgrading and modernising the existing solutions and support.

The upgrades related to retail banking support included a series of changes. In addition to introducing Link m mobile bank – the most important change – the Bank also modified the SMS alert service, transferred the printing of savings contracts from passbook to laser printers, optimised a number of various transactions and made changes in relation to the requirements of the institutions such as the TARS, courts, SWC, SISBON.

The Bank continuously adjusted the corporate payment service support to SEPA requirements. Some manual procedures were further automated, namely SEPA DD, and the ISO 20022 format was introduced for the statement printout, containing data about SDD transactions and mass payments.

The CRM system for corporate banking was also upgraded. The first phase of electronic credit files project was completed, enabling the start of their digitalisation and the development of the second phase of the project.

As regards COREP and FINREP reporting, the Bank launched the ITS project as a result of reporting requirements by the EBA (European Banking Authority). The project has to be implemented by April 2014.

In the area of infrastructure, the Novell operating system for workstation network and the Exchange e-mail system were upgraded and modernised. This was accompanied by the upgrade of the BBmon control system, used to detect failures in communication network, ATMs, servers and identification of the causes thereof. The Bank also upgraded the application servers developed with Oracle tools and monitoring of Oracle databases.

Investment projects

In 2013, Gorenjska banka allocated the bulk of investment funds to upgrading security and other operating standards in the branch network.

An important part of the branch network of Gorenjska banka was thus equipped with physical obstacles preventing persons from going over the counter and closed consulting locations were set up, providing the users of bank services an appropriate level of discretion and privacy when talking to clients.

Gorenjska banka has thoroughly rearranged the ground floor of its headquarters in Kranj, where also its main branch is located. The northern part of the branch was renovated, the entire logistics of business access to the Bank was changed and a modern reception area with four separate cubicles has been organised on the ground floor for the reception of and discussion with clients.

Service innovations

Of the service innovations introduced by Gorenjska banka in 2013, it is worth mentioning the upgrade of the Link online bank with the advanced version Link m (online and android version), which is customised for mobile telephones and other mobile devices. In addition to the strictest security standards, Link m boasts simple installation, fast and safe access and use, regardless of the selected mobile phone operator. Link m mobile bank was well received by clients, which is proved by the higher number of online bank users, up 21% compared to the year before.

In 2013, the Bank offered users a series of SMS services, including prompt informing about balance, transactions conducted or other changes, which offer users notably greater security and transparency of operations with bank accounts. This type of bank service was welcomed by users. SMS messages about card transactions were by the end of 2013 opted for by no less than 47% of all Activa MasterCard holders.

As of September 2013, the newly established companies have at their disposal the »one for all« package, which in a prudent and financially efficient manner combines business and personal finance of sole proprietors and their family. By introducing this product the Bank improved its success rate in winning target clients from among new sole proprietors.

Organisational changes

In the scope of enhancing its operational efficiency, Gorenjska banka in 2013 continued rearranging the existing internalorganisation.

The existing organisational units were in a reasonable manner connected into three key areas of business, namely market, risk and support. Thus, the Bank improved the mutual connections and provided more transparent operations. It set up a directorate for complex projects, which is in terms of organisation accountable directly to the Management Board.

In the scope of branch network optimisation process, two branches were abolished in 2013 and partial reorganisation, related also to ensuring greater market efficiency, was carried out in corporate banking.

Human resource management

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 made recruitments only in the areas where needed due to the higher level of risk or exposure of operations.

As at the last day of 2013, Gorenjska banka had 401 employees, 1.8% fewer than at 2012 year-end. The Bank recorded 17 new hires, while 23 employees left the Bank. New hires were carried out with the purpose strengthening the Bank's commercial function and partially also with the purpose of filling the top positions in organisational units that were established anew in 2013.

The average number of employees and educational structure, in 2013:

Level of education	IX	VIII	VII	VI	V	IV	III	Total
Average number of employees	4	40	91	35	229	9	1	409

IThe 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. In 2013, the share grew from 40% in 2012 by a good percent. In 2013 the average age of employees was 45 years.

Education

Gorenjska banka was ensuring employee education and training through organised and systematic 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 2013.

In 2013, all employees of the Bank were included in the system of regular monthly trainings with the objective of internal knowledgetransfer. The focus was on the upgrading of sales techniques by credit advisors for the retail segment, while corporate advisors enhanced knowledge related mainly to business finance and communication skills.

At the same time, employees participated in other training courses in various professional fields, in 2013 related mainly to the novelties in labour law legislation, IT, audit and marketing communication.

New employees at bank counters were in 2013 included in training to obtain the Bank of Slovenia's certificates of qualification for cash handling.

Formal off-the-job training was attended by 18 employees in 2013, at the pre-graduate and post-graduate levels.

Social responsibility

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.

The Bank again earmarked approximately two thirds of sponsorship funds to **sports and recreation** in 2013. The Bank supported 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. Special mention should be made of the efficient long-term sponsorship with the Radovljica Swimming Club, which goes beyond the traditional sponsorship.

Gorenjska banka also acts as a sponsor in projects aimed at promoting **entrepreneurship and educating** the business public. In cooperation with Akademija Finance, the Bank took over the role of the general sponsor of the »Best Entrepreneurial Idea Competition« already for the third year in a row. For the third consecutive year it has also sponsored selected training events in the scope of Planet GV, facilitating access to knowledge for entrepreneurs.

As an important co-creator of the social environment in the wider Gorenjska region, Gorenjska banka was in 2013 also involved in numerous activities intended to provide assistance to socially or otherwise disadvantages people. The volume of **humanitarian donations** was in 2013 again comparable to the scope of sponsorship.

The Bank has a responsible attitude to **employees** as well. In 2013, it provided them a stable internal environment and a firm social standard. It strengthened healthy internal relations through a series of courses which offered new knowledge and skills, improvements of working conditions, free preventive medical examinations and flu vaccinations.

Data and explanations pursuant to Article 70 of the Companies Act

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, 44/13 - Decision of the Constitutional Court and 52/13).

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 holding as stipulated in the Takeovers Act and major holdings in a public company (the Bank, however, is not a public company) as set by the Market in Financial Instruments Act, were in 2012 and 2013 achieved in the Bank by one company, namely Sava, Družba za upravljanje in financiranje, d. d., Kranj. At the end of 2013 it holds 146,060 ordinary shares and thus a 48.8% share of the voting rights (2012: 152,110 ordinary shares, 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 central register of book-entry securities and who notify their participation at a General Meeting of Shareholders by the end of the fourth day preceding the meeting (cut-off date) are entitled to participate and exercise the voting right at the meeting.

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 five year term and may be reappointed. 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 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 28 August 2013 (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 thirteen 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. Thirteenth amendments and supplements to the Articles of Association were entered in the Court Register on 9 September 2013.

Other explanations

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

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 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.

Independent Auditor's Report

Deloitte.

Deloitte Revizija d.o.o.
Dunajska cesta 165
1000 Ljubljana
Slovenija

Tel: + 386 (0)1 3072 800
Fax: + 386 (0)1 3072 900
www.deloitte.si

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 2013, 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 2013, 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 attention to the disclosures made in *Chapter Financial Risk Management - Note 6 Plan of activities to eliminate potential internal capital deficit* to the financial statements which describes actions taken by the management to eliminate potential internal capital deficit based on the Decree of the Bank of Slovenia. There are material uncertainties about the future consequences of economic, political and market risks and the realisation of planned actions which could adversely affect the future operations and financial position of the Bank. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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.

Pursuant to the Regulation on Disclosures by Banks and Saving Banks (Official Gazette No. 60/13, hereinafter: "the Regulation"), the Bank's management has prepared the forms, as presented in the *Appendix: "Disclosure of additional information in accordance with the Regulation (of the Bank of Slovenia) on Disclosures by Banks and Saving Banks"* to these financial statements. These forms and the accompanying reconciliation to the financial statements are the responsibility of the Bank's management, and do not represent components of the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU, but rather a requirement specified by the Regulation. The financial information provided in those forms has been derived from the financial statements of the Bank.

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, 2 April 2014

TRANSLATION ONLY – SLOVENIAN ORIGINAL PREVAILS

Financial Report

Statement of management's responsibilities

On 20 March 2014 the Management Board approved the Financial Statements of Gorenjska banka, d. d., Kranj for the year ended 31 December 2013 and the 2013 Annual Report concluded on 31 December 2013.

The Management Board confirms the financial statements of Gorenjska banka, d. d., Kranj for the year ended 31 December 2013, 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 2013 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, 20 March 2014

President of the Management Board:
Andrej Andoljšek

Member of the Management Board:
Srečko Korber

Income statement

	(in thousands of EUR)	Notes	Year ended 31 December	
			2013	2012
1	Interest and similar income		61,942	75,779
2	Interest expense and similar charges		26,631	33,744
3	**Net interest income (1-2)**	**4.1.**	**35,311**	**42,035**
4	Dividend income	4.2.	1,166	2,634
5	Fee and commission income		10,518	10,925
6	Fee and commission expense		673	1,023
7	**Net fee and commission income (5-6)**	**4.3.**	**9,845**	**9,902**
8	Net losses on financial assets and liabilities not measured at fair value through profit and loss	4.4.	(1,619)	(3,754)
9	Net losses on financial assets and liabilities held for trading	4.5.	(4,523)	(7,424)
10	Net gains on financial assets and liabilities designated at fair value through profit or loss	4.6.	2,020	6,385
11	Exchange differences	4.7.	(21)	(3)
12	Net gains on disposals of assets other than held for sale	4.8.	21	197
13	Other operating net income/loss	4.8.	(1,060)	1,239
14	Administration costs	4.9.	24,345	24,977
15	Depreciation	4.10.	2,406	2,207
16	Provisions	4.11.	**655**	**130**
17	Impairment	4.12.	125,252	95,948
18	Share of profit of associates and joint ventures accounted for using the equity method	4.13.	**-**	**262**
19	**Total loss before tax** (3+4+7+8+9+10+11+12+13-14-15-16-17+18)		**(111,518)**	**(71,789)**
20	Tax	4.14.	4,082	(9,564)
21	**Total loss after tax** (19-20)		**(115,600)**	**(62,225)**
22	**LOSS FOR THE PERIOD** (21)		**(115,600)**	**(62,225)**

The notes on pages 47 to 84 are an integral part of these financial statements.

Statement of comprehensive income

	(in thousands of EUR)	2013	2012
1	**Loss for the period**	**(115,600)**	**(62,225)**
2	**Total other comprehensive gains/losses after tax** (3+4)	**(7,587)**	**21,454**
3	**Items that will not reclassified to profit or loss**	**9**	**-**
3.1.	Actuarial gains on pension schemes recognized in retained profit / loss	9	-
4	**Items that will be subsequently reclassified to profit or loss**	**(7,596)**	**21,454**
4.1	Net gains/losses on financial investments available-for-sale	(9,152)	26,398
4.1.1	Net unrealised gains/losses recognised in other comprehensive income, before tax	(3,502)	9,759
4.1.2	Realised gains/losses reclassified to the income statement from other comprehensive income	(5,650)	16,089
4.1.3	Other reclassification	-	550
4.2	Tax related to items that will be subsequently reclassified to profit or loss	1,556	(4,944)
5	**Total comprehensive income after tax** (1+2)	**(123,187)**	**(40,771)**

The notes on pages 47 to 84 are an integral part of these financial statements.

Statement of financial position

	(in thousands of EUR)	Notes	As at 31 December	
			2013	2012
1	Cash and balances with central banks	5.1.	57,161	17,268
2	Financial assets held for trading	5.2.	11,737	36,218
3	Financial assets designated at fair value through profit or loss	5.3.	43,467	61,436
4	Available-for-sale financial assets	5.4.	434,480	440,291
5	Loans and receivables		980,180	1,191,692
	- Loans and receivables to banks	5.5.	15,650	32,840
	- Loans and receivables to customers	5.6.	959,578	1,153,856
	- Other financial assets	5.7.	4,952	4,996
6	Property and equipment	5.8.	7,762	8,415
7	Investment property	5.9.	564	826
8	Intangible assets	5.10.	2,956	3,090
9	Investments in subsidiaries, associates	5.11.	4,512	4,888
10	Income tax assets	5.20.	17,754	25,615
	- Income tax assets		-	4,019
	- Deferred income tax assets		17,754	21,596
11	Other assets	5.12.	313	301
12	**Total assets** (from 1 to 11)		**1,560,886**	**1,790,040**
13	Due to central banks	5.13.	91,111	80,661
14	Trading liabilities	5.14.	4	-
15	Financial liabilities measured at amortised cost		1,297,683	1,413,352
	- Due to banks	5.15.	180	176
	- Due to customers	5.15.	1,057,094	1,139,720
	- Borrowings from banks	5.16.	197,575	219,911
	- Borrowings from other customers	5.16.	8,759	11,418
	- Debt securities in issue	5.17.	29,802	30,307
	- Other financial liabilities	5.18.	4,273	11,820
16	Provisions	5.19.	2,705	2,221
17	Deferred income tax liabilities	5.20.	1,128	2,443
18	Other liabilities	5.21.	2,543	2,176
19	**Total liabilities** (from 13 to 18)		**1,395,174**	**1,500,853**
20	Share capital		13,830	13,830
21	Share premium		9,381	9,381
22	Revaluation reserves		1,698	9,285
23	Reserves from profit		166,810	282,410
24	Treasury shares		(26,007)	(25,719)
25	**Total equity** (from 20 to 24)	**5.22.**	**165,712**	**289,187**
26	**Total equity and liabilities** (19+25)		**1,560,886**	**1,790,040**

The notes on pages 47 to 84 are an integral part of these financial statements.

Statement of changes in equity

	(in thousands of EUR)	Share capital	Share premium	Revaluation reserves (for available-for-sale financial assets)	Revaluation reserves (actuarial gains on pension schemes)	Profit reserves	Retained earnings (including income from the current year)	Treasury shares	Total equity
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	-	-	-	-	-	-	(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**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1	**1 January 2013**	**13,830**	**9,381**	**9,285**	**-**	**282,410**	**-**	**(25,719)**	**289,187**
2	**Total comprehensive income for the year 2013**	**-**	**-**	**(7,596)**	**9**	**-**	**(115,600)**	**-**	**(123,187)**
3	Sales / purchases of treasury shares	-	-	-	-	-	-	(288)	(288)
4	Covering of net loss for the year	-	-	-	-	(115,600)	115,600	-	-
5	**31 December 2013**	**13,830**	**9,381**	**1,689**	**9**	**166,810**	**-**	**(26,007)**	**165,712**
6	**Profit for appropriation for the year ended 31 December 2013**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The notes on pages 47 to 84 are an integral part of these financial statements.

Cash flow statement

	(in thousands of EUR)	Notes	Year ended 31 December	
			2013	2012
A.	**Operating activities**			
a)	Interest received		62,275	75,935
	Interest paid		(26,631)	(33,744)
	Dividend received	4.2.	1,166	2,634
	Fee and commission receipts		10,522	10,925
	Fee and commission paid	4.3.	(673)	(1,023)
	Realised gains on financial assets not measured at fair value through profit or loss	4.4.	5,987	1,145
	Realised losses on financial assets not measured at fair value through profit or loss		(1,662)	(4,900)
	Net trading incomes		210	403
	Cash payments to employees and suppliers	4.9.	(24,345)	(24,977)
	Other incomes		622	1,616
	Other expenses		(1,684)	(376)
	Cash flows from operating profits before changes in operating assets and liabilities		**25,787**	**27,638**
b)	**(Increase)/decrease in operating assets**		**98,698**	**97,137**
	Decrease in financial assets held for trading		19,793	8,888
	Decrease in financial assets designated at fair value through profit or loss		20,000	-
	(Increase)/decrease in financial assets available for sale		(13,379)	63,124
	Decrease in loans		72,262	25,179
	(Increase)/Decrease in other assets		22	(54)
c)	**Increase/(decrease) in operating liabilities**		**(104,793)**	**(117,598)**
	Increase/(decrease) in advances from central banks		10,450	5,593
	Decrease in financial liabilities held for trading		(21)	(15)
	Decrease in deposits and borrowed funds, measured at amortised cost		(114,920)	(122,685)
	Increase in debt certificates		(504)	-
	Increase/(decrease) in other liabilities		202	(491)
č)	**Cash flow from operating activities (a+b+c)**		**19,692**	**7,177**
d)	**Paid income taxes**		**4,019**	**(2,725)**
e)	**Net cash flow from operating activities (č+d)**		**23,711**	**4,452**
B.	**Investing activities**			
a)	**Cash proceeds related to investing activities**		**481**	**-**
	Cash receipts from the sale of property and equipment		5	-
	Cash receipt from the sale of investments in subsidiaries		476	-
b)	**Cash payments related to investing activities**		**(1,462)**	**(1,838)**
	Cash payment to acquire property and equipment		(707)	(1,274)
	Cash payment to acquire intangible assets		(655)	(564)
	Cash payment to acquire investment in subsidiaries		(100)	-
c)	Net cash flow from investing activities (a-b)		(981)	(1,838)
C.	**Financing activities**			
a)	**Cash proceeds related to financing activities**		**-**	**-**
b)	**Cash payments related to financing activities**		**-**	**-**
c)	**Net cash flow from financial activities** (a-b)		**-**	**-**
D.	Effect of exchange rate changes on cash and cash equivalents		(79)	(69)
E.	**Net increase / (decrease) in cash and cash equivalents** (Ae+Bc+Cc)		**22,730**	**2,614**
F.	**Cash and cash equivalents at beginning of year**		**49,504**	**46,959**
G.	**Cash and cash equivalents at end of year** (D+E+F)	**6.2.**	**72,155**	**49,504**

The notes on pages 47 to 84 are an integral part of these financial statements.

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 27 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 2013, the Bank employed 401 people (2012: 408).
In 2013, the Bank was managed by a two-member Management Board chaired by Mr. Gorazd Trček. As of 27 January 2014, the position of the President of the Management Board has been occupied by Mr. Andrej Andoljšek.
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 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and under the assumption of going concern. 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 chapters »Financial Risk Management« and »Disclosure of additional information«.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. These required financial statements have been compiled to comply with the legal requirements. According to the law, the Company is obligated to have these financial statements audited by an independent auditor. The audit is limited to the required financial statements for general purposes, so that the legal requirement of auditing the required financial statements is met. The audit covers the required financial statements as a whole and gives no assurance as to individual line items, accounts or transactions. The audited financial statements are not intended to be used by any party for deciding on ownership, financing or any specific transactions referring to the Company. As a result, the users of the required financial statements may not rely solely on the financial statements and are obligated to conduct other appropriate procedures before adopting decisions.

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 and Interpretations in 2013

In 2013, the following standards, amendments to the existing standards and interpretations issued by the International Accounting Standards Board (the IASB) and adopted by the EU were in force:

- IFRS 13 "Fair Value Measurement", adopted by the EU on 11 December 2012(effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013);

- Amendments to IFRS 1 "First-time Adoption of IFRS"– Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to IFRS7 "FinancialInstruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, 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, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012);
- Amendments to IAS12 "IncomeTaxes" – Deferred Tax: Recovery of Underlying Assets, 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 the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013);
- Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on 11 December 2012(effective for annual periods beginning on or after 1 January 2013).

Adoption of the above amendments to the existing standards has not led to 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, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were issued but not yet effective as at 31 December 2013:

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"– Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 "Financial instruments: presentation"– Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The Bank decided not to apply these standards, amendments and interpretations 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 2013 have not been validated for use:

- IFRS 9 "Financial Instruments"and subsequent amendments (effective date was not yet determined),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014);
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after 1 January 2014).

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 2013 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 2013 the Bank had one subsidiarie and one associate (2012: two subsidiares, 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 5.11).

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 2013 (for the year 2012: with the Bank of Slovenia and ECB reference rate as published on 31 December 2012). 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 currency are included in the income statement 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 estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values.

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 2008 to 2013. The amount of impairment needed is calculated from the probability that a client will migrate from groups A, B and C into groups D or E in the period of five years. To calculate expected loss the probability of migration to groups D or 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 2012 and 2013 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:

	2013	2012
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 2012 and 2013.

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 initial measurement, less amortisation 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 re-measurement 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.

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 4.3.

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

3.1. 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.

3.2. 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.

3.3. 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. Notes to the income statement

In thousands of EUR

4.1. Net interest income

	2013	2012
Interest and similar income		
Cash and balances with central banks	63	92
Financial assets held for trading	514	1,412
Financial assets designated at fair value through profit or loss	11	18
Available-for-sale financial assets	14,957	16,273
Loans and receivables and other financial assets to banks	143	421
Loans and receivables and other financial assets to customers	46,254	57,563
	61,942	**75,779**
Interest expense and similar charges		
Due to central bank	452	669
Debt securities in issue	1,568	1,575
Deposits from banks	3	34
Due to customers	20,437	25,049
Borrowings from banks	3,945	6,067
Borrowings from customers	226	350
	26,631	**33,744**
Net interest income	**35,311**	**42,035**

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.

4.2. Dividend income

	2013	2012
Financial assets held for trading	-	857
Available-for-sale financial assets	1,166	1,348
Investments in subsidiaries	-	429
	1,166	**2,634**

4.3. Net fee and commission income

In thousands of EUR

	2013	2012
Fee and commission income		
Credit related fees and commissions	974	964
Garantees related fees and commisions	493	415
Payment services related fees and commisions		
Keeping current accounts	2,931	2,658
Debit and credit payments	2,640	2,737
Cash withdrawals at ATMs	1,170	1,165
Card transactions	1,099	1,491
Other services relating to the payment	1,006	1,305
Other fees and commissions	206	191
	10,518	**10,925**

	2013	2012
Fee and commission expense		
Payment services related fees and commisions	437	513
Garantees related fees and commisions	38	297
Other fees and commissions	197	213
	673	**1,023**
Net fee and commission income	**9,845**	**9,902**

Net commission from investment services	2013	2012
Income from commission for investment services for customers		
Commission from orders	68	47
Account maintenance fees	12	13
	80	**60**
Cost of commission		
Commision paid to the Central Clearing Corporation (KDD) and similar institutions	54	54
Commision paid to the stock exchange and similar institutions	42	43
	96	**97**
Net commission from investment services	**(16)**	**(37)**

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

	2013	2012
Gains from available-for-sale financial assets	5,490	1,060
Gains from loans	492	86
Gains from financial liabilities measured at amortised cost	5	-
Losses from available-for-sale financial assets	(5,982)	(2,990)
Losses from loans	(1,623)	(1,909)
Losses from other financial assets and liabilities	-	(1)
	(1,619)	**(3,754)**

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

In thousands of EUR

	2013	2012
Net losses from dealing with equity investments	(4,752)	(7,291)
Net losses from dealing with debt securities	5	(380)
Net gains from dealing in foreign currencies	189	205
Net gains/losses from derivatives	35	42
	(4,523)	**(7,424)**

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

	2013	2012
Gains on debt securities	2,020	6,385
	2,020	**6,385**

4.7. Exchange differences revaluations

	2013	2012
Gains on exchange differences revaluations	3,577	4,015
Losses on exchange differences revaluations	(3,598)	(4,018)
	(21)	**(3)**

4.8. Other operating income

	2013	2012
Net gains on disposals of assets other than held for sale		
Gains on disposals of property and equipment	22	215
Losses on disposals of property and equipment	(1)	(18)
	21	**197**
Other operating net income		
Rental income	210	247
Other operating income	413	1,369
Other operating expense	(1,683)	(377)
	(1,060)	**1,239**
Total	**(1,039)**	**1,436**

4.9. Administration costs

In thousands of EUR

	2013	2012
Staff costs:		
Gross salaries	11,538	12,256
Social security costs	760	798
State pension contribution	969	1,050
Other costs related to gross salaries	71	63
Other employee costs	1,343	1,300
	14,681	**15,467**
Costs of materials and services:		
Other professional services	4,144	5,056
Auditor services	44	47
Advisory services and other unauditor services	1,109	479
Repairs and maintenance expenses	645	646
Other costs of services	2,921	2,379
Costs of materials	802	903
	9,665	**9,510**
Total	**24,346**	**24,977**

The costs of advisory services and other unauditor services included EUR 20 thousand (2012: EUR 2 thousand) charged by the auditing company who audited financial statements.
The number of persons employed by the Bank at 31 December 2013 was 401 (2012: 408).

4.10. Depreciation

	2013	2012
Depreciation for property and equipment	1,520	1,404
Depreciation for investment property	97	88
Depreciation for intangible assets	789	715
	2,406	**2,207**

4.11. Provisions

	2013	2012
Provisions for guarantees and commitments (Note 5.19.)	590	(46)
Employee benefit provisions (Note 5.19.)	65	176
	655	**130**

4.12. Impairment

	2013	2012
Impairment losses on loans and advances to customers (Note 5.6.)	121,473	58.101
Other financial assets (Note 5.7.)	(26)	(18)
Impairment of available-for-sale equity investment (Note 5.4.)	3,805	37,865
	125,252	**95,948**

4.13. Share of profit of associates

	2013	2012
Share of profit of associates	-	262
	-	**262**

In thousands of EUR

4.14. Tax expense related to profit or loss

	2013	2012
Deferred tax (Note 5.20.)	4,082	(9,564)
	4,082	**(9,564)**
Profit before tax	(111.518)	(71,789)
Unrecognised expenditure	4,533	38,752
Exempt income	(46,785)	(20,484)
Tax relief	-	-
Tax base	**(153,770)**	**(53,521)**
Tax expense	**-**	**-**

Owing to establishment and reversal of impairments of securities which represent expenses not recognised for tax purposes, the tax loss is much different than the operating loss.

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%, in 2012 to 18% and in 2013 to 17%.

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.

Deferred tax:	2013	2012
Expense from deferred tax	8,564	5,151
Income from deferred tax	(4,482)	(14,437)
	4,082	**(9,286)**

As at 31 December 2013, obligation for tax on other comprehensive income stood at EUR 1,556 thousand (in 2011: tax claims EUR 4,944thousand).

5. Notes to the statement of financial position

In thousands of EUR

5.1. Cash and balances with central bank

	2013	2012
Cash in hand	11,710	9,305
Balances with central banks	45,451	7,963
	57,161	**17,268**

5.2. Financial assets held for trading

	2013	2012
Securities:		
Debt securities – listed	-	19,691
Equity securities – listed	11,733	16,485
Fair value of derivatives:		
Forwards (currency forwards)	4	-
Other derivatives	-	42
	11,737	**36,218**

In 2012, among the listed bonds are included the bonds in the amount of EUR 19,451 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.

The notional amounts of derivative financial instruments are disclosed in Note 6.1.2.

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

	2013	2012
Debt securities	43,467	61,436
	43,467	**61,436**

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.

5.4. Available-for-sale financial assets

In thousands of EUR

	2013	2012
Debt securities - listed	407,918	395,012
Equity investment		
- Listed	26,062	35,204
- Unlisted	500	10,075
	434,480	**440,291**

Financial instruments in the amount of EUR 487 thousand (2011: EUR 1,075 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.

In 2012, the equity investments include also an investment in company Iskratel, d. o. o., Kranj where the Bank holds a 25% share. On the basis of forward contracts with maturity in 2013, the Bank sold the entire share forward. 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.

At the end of 2013, a fund of ECB eligible financial property that can be pledged for ECB loans contained twentythree bonds. As of 31 December 2013 the fund amounted to EUR 198,347 thousand (2012: EUR 143,783 thousand), the value of free financial property was EUR 103,237 thousand (2012: EUR 59,123 thousand).

In order to comply with the regulation requiring sufficient liquid funds for guaranteed deposits the Bank had as of 31 December 2013 EUR 16,541thousand (2012: EUR 16,714 thousand) (2,2% of the total amount of guaranteed deposits) invested in RS49, RS67 and RS68 bonds.

Due to a long-term and significant decrease in the fair value of shares of Petrol, d. d., Ljubljana, Istrabenz, d. d., Koper, NFD Holding, d. d., Ljubljana, Intereuropa, d. d., Koper and Thermana, d. d., Laško (2012: Petrol, d. d., Ljubljana, Istrabenz, d. d., Koper, 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 Pivovarna Laško, d.d., Laško (2012: 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 PILR shares (2012: 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 (Chapter »Financial Risk Management«, Note 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 following table.

Because of significant financial problems of Banka Celje, d.d., Celje, the BCER shares were impaired to EUR 0. The amount of the impairments is presented in the following table.

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. In 2013 there was no conversion of receivables to equity shares.

Due to the state recapitalisation, the shares of Abanka Vipa, d.d., Ljubljana and Probanka, d.d., Maribor, were deleted. Loss from available-for-sale financial assets totalled EUR 5,943 thousand.

Impairment of available-for-sale equity investment, recognised in income statement:

In thousands of EUR

	2013	2012
Petrol, d. d., Ljubljana shares (PETG)	1,551	1,189
Istrabenz, d. d., Koper shares (ITBG)	155	980
NFD Holding, d. d., Ljubljana shares (NF2R)	30	103
Abanka Vipa, d. d., Ljubljana shares (ABKN)	-	23,241
Pivovarna Laško, d. d., Laško shares (PILR)	1,139	873
Merkur, d. d., Naklo shares (MER)	-	10,098
Intereuropa, d. d., Koper shares (IEKG)	338	1,381
Thermana, d. d., Laško shares (ZDLR)	588	-
Banka Celje, d. d., Celje shares (BCER)	4	-
	3,805	**37,865**

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

	2013	2012
At 1 January	440,291	501,585
Additions	96,286	12,522
Debt / equity swap	-	13,069
Disposals	(87,007)	(75,307)
Interest accrual	(1,105)	(15)
Gains/losses from changes in fair value	(13,985)	(11,563)
At 31 December	**434,480**	**440,291**

Gains/(losses) from available-for-sale financial assets transfer to income statement:

	2013	2012
Gains from available-for-sale financial assets (Note 4.4.)	5,490	1,060
Losses from available-for-sale financial assets (Note 4.4.)	(5,982)	(2,990)
Losses from equity investment - impairment (Notes 4.12.)	(3,805)	(37,865)
	(4,297)	**(39,795)**

5.5. Loans and receivables to banks

	2013	2012
Items in course of collection from other banks	4,781	1,999
Loans and advances to other banks	10,869	30,841
	15,650	**32,840**

In the year 2012 and in the year 2013 the Bank has not pledged any financial instruments. At the end of 2013, loans to banks included EUR 14,994 thousand cash equivalents, i.e. loans with original maturity of less than 90 days of acquisition date (in 2012, EUR 32,236 thousand).

5.6. Loans and receivables to customers

In thousands of EUR

	2013	2012
Individual clients:		
Overdrafts	16,381	16,936
Housing loans	64,728	60,092
Consumer and other loans	44,045	47,247
Corporates and other entities:		
Corporates	644,072	712,407
Small and medium enterprises (SME)	424,483	474,196
Gross loans and receivables	**1,193,709**	**1,310,878**
Less specific provisions for impairment	(234,131)	(157,022)
	959,578	**1,153,856**

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 2013 the accrued received commission amounted to EUR 811 thousand (2012: EUR 992 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 2012	525	2,628	761	3,914
Doubtful debts expense (Note 4.12.)	326	741	917	1,984
Reversal of impairment (Note 4.12.)	(360)	(1,154)	(846)	(2,360)
Balance at 31 December 2012	**491**	**2,215**	**832**	**3,538**
Doubtful debts expense (Note 4.12.)	222	968	771	1,961
Reversal of impairment (Note 4.12.)	(451)	(2,093)	(607)	(3,151)
Balance at 31 December 2013	**262**	**1,090**	**996**	**2,348**

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 2012	63,119	46,417	109,536
Doubtful debts expense (Note 4.12.)	13,091	59,367	72,458
Changing the status of the company	(39,982)	39,982	-
Reversal of impairment (Note 4.12.)	(10,106)	(18,405)	(28,511)
- of that: reversal of impairment due to the write-off	(2,068)	(12,461)	(14,529)
Balance at 31 December 2012	**25,868**	**127,615**	**153,483**
Doubtful debts expense (Note 4.12.)	82,971	43,441	126,412
Changing the status of the company	(2,014)	2,014	-
Reversal of impairment (Note 4.12.)	(4,976)	(43,136)	(48,112)
- of that: reversal of impairment due to the write-off	(1,194)	(39,846)	(41,040)
Balance at 31 December 2013	**101,849**	**129,934**	**231,783**

5.7. Other financial assets

In thousands of EUR

	2013	2012
Items in the course of collection	4,160	4,187
Commissions	341	332
Other financial assets	594	645
	5,095	**5,164**
Provisions for impairment	(143)	(169)
	4,952	**4,996**

Movement in provisions for impairment is as follows:

Balance at 1 January 2012	187
Additional provisions (Note 4.12.)	91
Recovery of amounts previously provided for (Note 4.12.)	(109)
Balance at 31 December 2012	**169**
Additional provisions (Note 4.12.)	96
Recovery of amounts previously provided for (Note 4.12.)	(122)
Balance at 31 December 2013	**143**

5.8. Property and equipment

	Land & buildings	Computers	Motor vehicles and other equipment	Assets under construction	Total
1 January 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	1,635	2	8,604
Additions	742	493	194	22	1,451
Transfer from intangible assets	(183)	-	-	-	(183)
Disposals	(36)	-	(18)	-	(54)
Depreciation charge	(587)	(339)	(477)	-	(1,403)
31 December 2012	**6,542**	**515**	**1,334**	**24**	**8,415**
1 January 2013					
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**
Year ended December 2013					
Opening net book value	6,542	515	1,334	24	8,415
Additions	417	96	117	34	664
Transfer from intangible assets	236	-	-	-	236
Transfer to investment property	(27)	-	-	-	(27)
Disposals	-	-	(5)	-	(5)
Depreciation charge	(663)	(385)	(472)	-	(1,520)
31 December 2013	**6,505**	**226**	**974**	**58**	**7,763**
31 December 2013					
Cost	17,501	6,482	5,449	58	29,490
Accumulated depreciation	(10,996)	(6,256)	(4,475)	-	(21,727)
Net book amount	**6,505**	**226**	**974**	**58**	**7,763**

None of the property and equipment has been pledged as at 31 December 2012 and as at 31 December 2013. In 2012 and 2013 the Bank finances purchases of property and equipment with its own funds and does not finance them with loans. On the 31 December 2013 it has no liabilities arising trom this.

5.9. Investment property

In thousands of EUR

	Apartments	Buildings	Total
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 2011	**14**	**812**	**826**
1 January 2013			
Cost	90	2,683	2,773
Accumulated depreciation	(76)	(1,871)	(1,947)
Net book amount	**14**	**812**	**826**
Year ended December 2013			
Opening net book value	14	812	826
Additions	-	44	44
Transfer from property and equipment	-	27	27
Transfer to property and equipment	-	(236)	(236)
Depreciation charge	(3)	(94)	(97)
31 December 2013	**11**	**553**	**564**
31 December 2013			
Cost	90	1,763	1,853
Accumulated depreciation	(79)	(1,210)	(1,289)
Net book amount	**11**	**553**	**564**

Estimated fair value of investment property is EUR 1,825 thousans (2011: EUR 2,903 thousand) is based on the assessed value of property on the basis of mass real estate valuation of the Surveying and Mapping Authority of the Republic of Slovenia. No external valuer was involved due to insignificance in relation to the whole of the financial statements.

Investment properties generated in 2013 a rental income of EUR 185 thousand (2012: EUR 234 thousand). Direct operating expenses in 2013 were EUR 2 thousand (2012: EUR 8 thousand).

5.10. Intangible assets

In thousands of EUR

	Software licences	Assets under construction	Total
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**
1 January 2013			
Cost	8,780	21	8,801
Accumulated depreciation	(5,711)	-	(5,711)
Net book amount	**3,069**	**21**	**3,090**
Year ended December 2013			
Opening net book value	3,069	21	3,090
Additions	624	31	655
Depreciation charge	(789)	-	(789)
31 December 2013	**2,904**	**52**	**2,956**
31 December 2013			
Cost	9,405	52	9,457
Accumulated depreciation	(6,501)	-	(6,501)
Net book amount	**2,904**	**52**	**2,956**

In 2012 and 2013 the Bank finances purchases of intangible assest with its own funds and does not finance them with loans.

5.11. Investment in associates and subsidiaries

Investment in subsidiaries

In thousands of EUR

2013	Assets	Liabilities	Equity	Loss	Revenue	Interest held, %
Imobilia-GBK, Kranj	12	66	(54)	(121)	63	100

2012	Assets	Liabilities	Equity	Profit/Loss	Revenue	Interest held, %
Imobilia-GBK, Kranj	19	52	(33)	(46)	0	100
Gorenjski glas, Kranj	1,404	614	790	57	3,404	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 2013 investments in subsidiary Imobilia-GBK, d. o. o., Kranj amounted to EUR 113 thousand (2012: 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.

Investment in subsidiaries

	2013	2012
At beginning of year	489	489
Disposal	(476)	-
Increase in capital	100	-
At end of year	**113**	**489**

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

2013	Assets	Liabilities	Equity	Loss	Revenue	% interest held
Skupna pokojninska družba, Ljubljana	235,692	219,985	15,707	(926)	4,571	26.0269

2012	Assets	Liabilities	Equity	Profit	Revenue	% interest held
Skupna pokojninska družba, Ljubljana	263,669	246,751	16,918	3,255	6,269	26.0269

Investment in associates

	2013	2012
At beginning of year	4,399	4,137
Share of results (recognised in income statement)	-	262
At end of year	**4,399**	**4,399**

5.12. Other assets

	2013	2012
Prepaid and deferred expenses or costs	196	197
Stock	113	93
Other assets	4	11
	313	**301**

5.13. Due to central banks

	2013	2012
Due to central banks	91,111	80,661
	91,111	**80,661**

In thousands of EUR

5.14. Trading liabilities

	2013	2012
Fair value of derivatives:		
Forwards (currency forwards)	4	-
	4	**-**

The notional amounts of derivative financial instruments are disclosed in Note 6.1.2.

5.15. Due to banks and to customers

	2013	2012
Due to banks		
– Term deposits	180	176
	180	**176**
Due to customers		
Corporates and other entities		
– Current/settlement accounts	93,277	86,839
– Term deposits	226,494	286,730
Individual clients		
– Current/demand accounts	350,905	349,684
– Term deposits	386,418	416,467
	1,057,094	**1,139,720**
Total	**1,057,274**	**1,139,896**

5.16. Borrowings from banks and from customers

	2013	2012
Borrowings from banks	197,575	219,911
Borrowings from customers	8,759	11,418
Borrowings from banks and from customers	**206,334**	**231,329**

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 2013 the accrued received commission amounted to EUR 115 thousand (2012: EUR 195 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 2013 the accrued received commission amounted to EUR 5 thousand (2012: EUR 10 thousand).

5.17. 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 2013 the bonds amounted to EUR 29,802 thousand (2012: EUR 30,307 thousand).

In thousands of EUR

5.18. Other financial liabilities

	2013	2012
Obligations to the mortgagor of bank's shares (Note 5.22.1)	-	7,069
Due to suppliers	982	1,083
Obligations under card operations	865	422
Salaries and other due to employee	946	1,441
Accrued expenses	63	72
Unexecuted obligations for payment	1,266	1,590
Other financial liabilities	151	143
	4,273	**11,820**

5.19. Provisions

	2013	2012
Provisions for retirement indemnity bonuses	1,266	1,275
Provisions for jubilee benefits	188	124
Provisions for guarantees and commitments	957	367
Other provisions	294	455
	2,705	**2,221**

At the time of retirement the retiring employee who has fulfilled certain conditions is entitled to a lump sum of EUR 6.582 (2012: EUR 4,771). After every ten years period an employee has worked for the Bank, the employee is entitled to an award.

Provisions for severance and jubilee benefits were established on the basis of an actuarial calculation using the following assumptions:

- nominal long-term interest rate of 3.1%;
- expected long-term growth in the amount of jubilee benefits and non-taxable amounts in the calculation is estimated at the level of expected long-term inflation equalling 2.0%;
- the expected mortality of employees according to the Slovenian mortality tables 2000-2002 has been considered;
- provisions are calculated only for full time employees;
- it is assumed that the employees will exercise the right to retirement when reaching retirement age;
- potential massive redundancies due to the Bank's reorganisation are not taken into account.

Movement of provisions:

In thousands of EUR

	Provisions for retirement indemnity bonuses and jubilee benefits	Provisions for guarantees and commitments	Other provisions
At 1 January 2012	1,223	413	645
Use of provisions	-	-	(190)
Provisions made (Note 4.11.)	186	458	-
Recovery of amounts previously provided (Note 4.11.)	(10)	(504)	-
At 31 December 2012	**1,399**	**367**	**455**
Use / reversal of provisions	(9)	-	(161)
Provisions made (Note 4.11.)	65	836	-
Recovery of amounts previously provided (Note 4.11.)	-	(246)	-
At 31 December 2013	**1,454**	**957**	**294**

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.

5.20. Income taxes

Current income taxes

	2013	2012
Income tax assets		
Current income tax	-	4,019
	-	**4,019**

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.

Deferred taxes from tax loss are not recognised in full, but only in the estimated amount considering the possibility of coverage by planned profits in the following ten years. In 2013 tax loss reached EUR 153,770 thousand, while in 2012 in totalled EUR 53,521 thousand. The Bank can claim tax base reduction in the following years for the full amount of tax loss, i.e. EUR 207,291 thousand as at 31 December 2013.

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

	2013	2012
At 1 January	(19,152)	(14,533)
Available-for-sale financial assets	4,742	3,940
Employee benefit provisions	(15)	27
Tax loss	(2,160)	(8,563)
Other liabilities	(41)	(23)
At 31 December	**(16,626)**	**(19,152)**

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

In thousands of EUR

	2013	2012
Deferred income tax liabilities		
Available-for-sale financial assets	1,128	2,443
	1,128	**2,443**
Deferred income tax assets		
Employee benefit provisions	187	172
Other liabilities	193	152
Available-for-sale financial assets	6,651	12,709
Tax loss	10,723	8,563
	17,754	**21,596**

The deferred tax charge in the income statement comprises the following temporary differences (Note 4.14.):

	2013	2012
Employee benefit provisions	(15)	26
Other liabilities	(41)	(23)
Loss	(2,160)	(8,563)
Impairment of securities	6,298	(1,004)
	4,082	**(9,564)**

5.21. Other liabilities

	2013	2012
Prepaid and deferred income	2,042	1,999
Liabilities for taxes, contributions and other benefits	498	161
Liabilities for advances	3	16
	2,543	**2,176**

5.22. Capital

5.22.1. 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 48.8 percent share of voting rights.

At 31 December 2013, 331,416 non-par shares have been authorised (2012: 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 2013 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 2013 the Bank had 32,215 treasury shares (2012: 32,215 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 thousands of EUR

	Number of shares	Nominal share value	Share of ordinary shares
At 1 January 2012	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**
Shares deleted from collateral	(6,500)	(271)	1.96
At 31 December 2013	**926**	**39**	**0.28**

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

Of 7,426 shares pledged as collateral, 6,500 are recorded in the books of account under treasury shares. In 2013, 6,500 own shares were excluded from collaterals (2012: the Bank has received 569 own shares as collateral and 16 own shares were excluded from collaterals).

Under the put option contract and taking into account the substance of financial instrument, 6,500 pledged treasury shares were in 2012 disclosed in the statement of financial position as a decrease in equity and increase in liabilities to the pledgor (Note 5.18.). The put option was exercised in 2013, when shares were excluded from collaterals as liabilities and receivables were settled.

5.22.2. Management 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 one year after 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):

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

Share options at exercise date (year) 2013 had not been exhausted. Option holders waived 2,520 options in 2013.

5.22.3. Reserves and retained earnings

In thousands of EUR

	2013	2012
Reserves from profit:		
Statutory reserves	80,963	87,241
Reserves for treasury shares	26,007	25,719
Legal reserves	59,840	59,840
Other reserves	-	109,610
	166,810	**282,410**
Revaluation reserves	1,698	9,285
	168,508	**291,694**

Movements in reserves were as follows:

	2013	2012
Statutory reserves		
At 1 January	87,241	94,309
Transfer from/(to) reserves for treasury shares	(288)	(7,069)
Covering loss from current year	(5,990)	-
At 31 December	**80,963**	**87,241**
Reserves for treasury shares		
At 1 January	25,719	18,650
Transfer from statutary reserves	288	7,069
At 31 December	**26,007**	**25,719**
Other reserves		
At 1 January	109,610	170,372
Covering loss from current year	(109,610)	(60,762)
At 31 December	**-**	**109,610**
At 1 January	9,285	(12,170)
Available-for-sale financial assets:		
Net (losses)/gains from changes in fair value	(3,502)	9,759
Net losses/gains transferred to net profit	(5,650)	16,089
Effect of change in tax rate	-	550
Actuarial gains on pension schemes	9	-
Deferred income tax	1,556	(4,944)
At 31 December	**1,698**	**9,285**

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.

6. Other notes

In thousands of EUR

6.1. Off-balance sheet business

6.1.1. 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.

	2013	2012
Guarantees	50,600	40,750
Commitments to extend credit	77,275	115,062
Commercial letters of credit	-	7,176
Spot transactions	421	1.252
	128,296	**164,240**
Provisions for guarantees and commitments (Note 5.19.)	(957)	(367)
	127,339	**163,873**

6.1.2. Derivative financial instruments

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

	2013	2012
Forwards (currency forwards)	700	-
Options (equity call options)	13,765	3,240
Other derivatives (GDP-linked Securities)	-	6,300
	14,465	**9,540**

The fair values of derivative financial instruments are disclosed under notes 5.2. and 5.14. The fair value of the options equals zero. On the exchange of Greek bonds, 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).

6.1.3. Court proceedings

The Bank was involved in certain court proceedings in 2012 and 2013, but does not expect any losses arising from these proceedings; therefore, the Bank has not set aside any provisions for unresolved legal actions.

Court proceedings wherein the Bank was a defendant in 2013 that deserve mentioning due to the claimed amount are the disputes with H&R d.d., Spodnja Idrija (assuming the debt of Hidria, d.d., Ljubljana) and G Skupina, d.d., Ljubljana. None of the plaintiffs denies receiving a loan from the Bank, but both claim that the loan agreements are null owing to the alleged fictitiousness.

The plaintiffs claim that loan fictitiousness existed in that the loan was based on agreement with the Bank actually intended for Merfin, d.o.o., Ljubljana, which was consequently the only entity obligated to repay it. The Bank opposes these allegations of the plaintiffs also based on extensive business and contractual documentation as well as established collateral for credit liabilities of the plaintiffs.

6.2. 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:

In thousands of EUR

	2013	2012
Cash and balances with central banks (Note 5.1.)	57,161	17,268
Loans and receivables to banks (Note 5.5.)	14,994	32,236
	72,155	**49,504**

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

6.3. 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 one subsidiary and one associated company (2012: 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 at arm's-length transaction. In 2013 no new loans were granted, balance of loans has only increased for interest in the amount EUR 1,111 thousand. EUR 25,974 thousand loans was reprogrammed from short- to long-term at the average interest rate of 1% (2012: EUR 4,441 thousand new loans, of which EUR 1,941 thousand interest; EUR 4,080 thousand were extended at an average interest rate of 5.5%).

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 arising from a long-term loan. Since then the amount is accruing interest at legal default interest rate. In February 2013, the loan was reprogrammed, so the party no longer has any liabilities to the Bank.

The members of the Management and Supervisory Boards have been granted loans and have taken deposits under the prevalent conditions in the market. In 2012 and 2013 no new loans were granted and no loan agreements made with the Bank.

To key management personnel have concluded loan and deposit agreements under the prevalent conditions in the market. In 2013, an overdraft was approved on the transaction account in the amount of EUR 9 thousand at the legal default interest rate (2012: EUR 70 thousand at an average interest rate of 4.5%).

None of the transactions incorporate special terms and conditions and no guarantees were given or received. Liabilities are usually settled by transfers from transaction and personal accounts.

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

In thousands of EUR

Type of related party	Key management personnel		Shareholders over 20 %		Associates		Subsidiaries	
	2013	2012	2013	2012	2013	2012	2013	2012
Loans :								
Loans outstanding at 1 January	380	5,282	35,934	33,495	-	-	40	-
Loans issued during the year (with interest)	2,118	-	1,111	4,441	-	-	20	40
Elimination due to changes in the membership of Supervisory Board	(277)	(4,845)	-	-	-	-	-	-
Loan repayments (with interest)	(103)	(57)	(10,931)	(2,002)	-	-	(20)	-
Loans outstanding at 31 December	**2,118**	**380**	**26,114**	**35,934**	**-**	**-**	**40**	**40**
Impairment	154	4	17,661	3,909	-	-	-	-
Interest income earned	79	13	622	1,934	-	-	-	-
Deposits								
Deposits at 1 January	520	14,797	197	-	3,938	9,217	587	1,044
Deposits received	3,898	6,286	41,951	44,932	1,032	4,427	281	16,052
Elimination due to changes in the membership of Supervisory Board and Management Board	(204)	(14,511)	-	-	-	-	-	-
Elimination due to sale of share	-	-	-	-	-	-	(569)	-
Deposits repaid	(2,241)	(6,052)	(41,921)	(44,735)	(3,603)	(9,706)	(293)	(16,509)
Deposits at 31 December	**1,973**	**520**	**227**	**197**	**1,367**	**3,938**	**6**	**587**
Interest expense on deposits	23	9	3	1	160	230	-	17
Other revenue – fee income	**1**	**-**	**19**	**9**	**4**	**6**	**1**	**13**
Share options	**240**	**3,240**	**-**	**-**	**-**	**-**	**-**	**-**

Share options at exercise date (year) 2013 had not been exhausted. Option holders waived 2,520 options in 2013.

6.4. Management's, Supervisors', Comittees members' and key management personnel's remuneration

In thousands of EUR

In the year that ended 31 December 2013	Fixed income	Cost reim-bursements	Insurance premiums	Other benefits	Total
Management:					
Gorazd Trček	279.4	-	5.2	9.8	294.4
Srečko Korber	223.1	-	4.6	4.0	231.7
Tilen Zugwitz	129.1	-	2.5	133.1	264.7
Supervisors and Comittees members:					
Andrej Andoljšek	6.7	3.0	-	0.4	10.1
Mojca Globočnik	22.0	7.8	-	0.4	30.2
Miran Kalčič	5.6	2.4	-	0.4	8.4
Primož Karpe	21.3	7.3	-	0.4	29.0
Milan Marinič	8.8	5.8	-	0.0	14.6
Matej Podlipnik	21.2	10.2	-	0.4	31.8
Miha Resman	16.8	8.1	-	0.0	24.9
Gregor Rovanšek	5.6	2.4	-	0.4	8.4
Tibor Šimonka	21.3	4.2	-	0.4	25.9
Stojan Žibert	14.1	5.7	-	0.0	19.8
Mitja Selan	0.0	2.4	-	0.0	2.4
Dino Bolčina	0.0	1.8	-	0.0	1.8
Key management personnel:	1,394.0	-	34.7	0.4	1,429.1
Total	**2,169.0**	**61.1**	**47.0**	**150.1**	**2,427.2**

In the year that ended 31 December 2012	Fixed income	Variable income	Cost reim-bursements	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 and Comittees members:						
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	-	0.0	13.5
Milan Marinič	9.7	-	6.2	-	0.3	16.2
Miro Pinterič	11.0	-	2.3	-	0.0	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	-	0.0	17.0
Tibor Šimonka	9.7	-	3.0	-	0.3	13.0
Drago Štefe	11.1	-	2.2	-	0.0	13.3
Stojan Žibert	9.8	-	3.9	-	0.3	14.0
Marko Hočevar	0.0	-	0.6	-	0.0	0.6
Key management personnel:	1,339	24	0	36	0	1,399
Total	**2,192**	**75**	**51**	**48**	**23**	**2,389**

Management's and key management personnel's remuneration is disclosed within staff cost (Note 4.9.).

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

On 19 March 2014, Gorenjska banka, d.d., Kranj, received the Order of the Bank of Slovenia, whereby the implementation deadline for the "Plan of activities to eliminate potential internal capital deficit" was extended from the original 30 June 2014 until the end of 2014. The decision on the extension of the deadline was adopted also by the Government of the Republic of Slovenia on 19 March 2014, when discussing the further implementation of measures to strengthen the stability of banks.

In thousands of EUR

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

6.6. Changes in equity

Changes in items of equity in 2013 are a consequence of:

a) Covering of net loss for the year 2013 in the amount of EUR 115,600 thousand from reserves;
b) Increase in own shares for EUR 288 thousand from the accounting treatment of treasury shares in connection with the put option contract;
c) decrease of revaluation reserve for financial instruments available for sale in amount EUR 7,596 thousand;
d) increase of ravaluation reserve for actuarial gains in amount EUR 9 thousand.

6.7.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 2013 in the amount of EUR 115,600 thousand was fully covered from reserves.

b) Retained earnings	-
a) Loss for the year 2013	(115,600)
c) Covering of net loss for the year 2013 from reserves	115,600
d) Profit for appropriation 2013 (a + b + c)	**-**

6.8. The classification of securities according to the listing

In thousands of EUR

As at 31 December 2013	Listed		Unlisted	Total
	Ljubljana Stock Exchange	Other stock exchange		
Equity securities held for trading	11,733	-	-	11,733
Debt securities designated at fair value through profit or loss	-	43,467	-	43,467
Equity securities, designated at fair value, available-for-sale	26,062	-	-	26,062
Equity securities, designated at nominal valute, available-for-sale	-	-	500	500
Debt securities available-for-sale	254,048	153,870	-	407,918
Total	**291,843**	**197,337**	**500**	**489,680**

As at 31 December 2013	Listed		Unlisted	Total
	Ljubljana Stock Exchange	Other stock exchange		
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**

6.9. Agency business

	2013	2012
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**

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 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.

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.

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 sole proprietors 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 and sole proprietors 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 84,855 thousand (2012: EUR 88,157 thousand) retail loans insured with Zavarovalnica Triglav, d. d., Ljubljana, in 2013 the Bank cashed in insurance policies of EUR 319 thousand (2012: EUR 378 thousand).

In 2013, the Bank liquidated EUR 12,770 thousand of collaterals (2012: EUR 5,636 thousand) for unpaid loans of clients other than banks. It liquidated mortgage collaterals in the amount of EUR 2,154 thousand (2012: 0), pledges on movable property in the amount of EUR 848 thousand, pledges on securities totalling EUR 6,651 thousand (2012: EUR 1,390 thousand), it recovered EUR 594 thousand (2012: EUR 597 thousand) from assigned receivables, gained EUR 1,620 thousand from guarantees and debt assumption (2012: EUR 278 thousand) and EUR 903 thousand (2012: EUR 114 thousand) from other sold collaterals.

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)	2013	2012
Credit risk exposures relating to on-balance sheet assets are as follows:		
Financial assets held for trading – debt securities and derivatives	4	19,734
Financial assets designated at fair value through profit or loss	43,467	61,436
Available-for-sale financial assets – debt securities	407,918	395,012
Loans and receivables to banks	15,650	32,840
Loans and receivables to customers		
Corporates and other entities		
Corporates	542,223	686,537
Small and medium enterprises (SME)	294,549	346,582
Individual clients		
Overdrafts	16,119	16,446
Housing loans	63,732	59,259
Consumer and other loans	42,955	45,032
Other financial assets	4,952	4,996
Other assets	313	301
	1,431,882	**1,668,175**
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	50,600	40,750
Commitments to extend credit	77,275	115,062
Commercial letters of credit	-	7,176
	127,875	**162,988**
Total exposure as at 31 December	**1,559,757**	**1,831,163**

As shown above, 61.5% of total maximum exposure is derived from loans and receivables to customers (2012: 63.0%); 26.2% represents available-for-sale debt securities (2012: 21.6%).

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 2013, the Bank's prudent investment policy and efficient risk management led to the following achievements:

- in 2013 the share of impaired loans to clients other than banks in total loans was 19.4% (2012: 11.7%),
- 34.0% of the loans are individually impaired (2012: 25.7%),
- the share of the loans past due has increased to 30.8% (2012: 34.3%).

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 and for off-balance sheet is included. Inadequate collaterals and collaterals of securities investments are excluded.

(in thousands of EUR)	2013	2012
Mortgages	768,081	793,751
Accession to obligations	61,678	70,661
Securities and equity investments pledged	98,617	136,570
Guarantees by companies	10,392	18,933
Insurance of loans and contingent claims to individuals by the insurance company	84,855	88,157
State guarantees	28,279	30,584
Insurance policies SID Bank	20,813	16,647
Pledged deposits	6,460	13,075
Other collateral	7,976	7,468
Total amount of collateral received	**1,087,151**	**1,175,846**

The table below presents the amount of collateral received for the credit portfolio in comparison to the carrying amount of loans.

As at 31 December 2013

(in thousands of EUR)	Fully/over collateralised loans		Under-collateralised loans	
	Carrying value of loans	Fair value of collateral	Carrying value of loasn	Fair value of collateral
Loans to corporates	240,304	314,506	403,768	117,456
Loans to SME	310,776	383,353	113,707	24,481
Loans to individuals				
Overdrafts	12,308	17,804	4,073	2,789
Housing loans	62,291	145,736	2,437	572
Consumer loans	38,676	46,475	5,369	862
Total	**664,355**	**907,874**	**529,354**	**146,160**

As at 31 December 2012

(in thousands of EUR)	Fully/over collateralised loans		Under-collateralised loans	
	Carrying value of loans	Fair value of collateral	Carrying value of loasn	Fair value of collateral
Loans to corporates	193,894	323,630	518,513	166,472
Loans to SME	166,203	324,585	307,992	122,441
Loans to individuals				
Overdrafts	15,339	21,026	1,597	-
Housing loans	57,557	129,557	2,535	413
Consumer loans	39,978	46,836	7,270	926
Total	**472,971**	**845,634**	**837,907**	**290,252**

1.3 Loans and receivables

Loans and receivables are summarised as follows:

As at 31 December 2013

(in thousands of EUR)	Loans to individual clients			Loans to corporates and other entities		Loans to banks	Total
	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME		
Neither past due nor impaired	-	-	563	28,302	1,596	15,650	46,111
Not past due but group impaired	13,217	62,615	41,211	400,790	164,327	-	682,160
Past due and group impaired	3,164	2,113	2,271	18,163	43,827	-	69,538
Not past due but individually impaired	-	-	-	99,608	9,501	-	109,109
Past due and individually impaired	-	-	-	97,209	205,232	-	302,441
Gross	**16,381**	**64,728**	**44,045**	**644,072**	**424,483**	**15,650**	**1,209,359**
Less: allowance for impairment	(262)	(996)	(1,090)	(101,849)	(129,934)	-	(234,131)
Net	**16,119**	**63,732**	**42,955**	**542,223**	**294,549**	**15,650**	**975,228**
Fair value of collateral	20,593	146,308	47,337	431,962	407,834	-	1,054,034

As at 31 December 2012

(in thousands of EUR)	Loans to individual clients			Loans to corporates and other entities		Loans to banks	Total
	Overdrafts	Housing loans	Consumer loans	Loans to corporates	Loans to SME		
Neither past due nor impaired	-	-	476	37,000	1,595	32,840	71,911
Not past due but group impaired	16,437	59,032	43,918	474,077	174,542	-	768,006
Past due and group impaired	499	1,060	2,854	87,105	66,542	-	158,060
Not past due but individually impaired	-	-	-	43,096	-	-	43,096
Past due and individually impaired	-	-	-	71,129	231,516	-	302,645
Gross	**16,936**	**60,092**	**47,248**	**712,407**	**474,195**	**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**	**686,538**	**346,581**	**32,840**	**1,186,696**
Fair value of collateral	21,026	129,970	47,762	490,102	447,026	-	1,135,886

The total impairment provision for loans was EUR 234.1 million (2012: EUR 157.0 million) and comprises EUR 206.6 million (2012: EUR 137.0 million) of individually impaired loans and EUR 27.5 million (2012: EUR 19.9 million) of group provisions. Further information of the impairment allowance is provided in Note 2.11.

At the end of 2012, the Bank had EUR 302,645 thousand individually impaired loans past due, at the end of 2013 they amounted to EUR 302,441 thousand. Among the most important reasons for individual impairments were worsening of the credit rating of the debtors or the introduction of insolvency proceedings and delayed repayments of liabilities, as well as poor and inadequate collateral that has decreased in value in the last year.

1.3.1. Loans and receivables neither past due nor impaired

As at 31 December 2013

(v tisoč EUR)	Loans to individual clients	Loans to corporates and other entities		Loans to banks	Total
		Loans to corporates	Loans to SME		
Banks	-	-	-	15,650	15,650
Corporates	-	28,302	1,596	-	29,898
Individual clients	563	-	-	-	563
Total	**563**	**28,302**	**1,596**	**15,650**	**46,111**
Fair value of collateral	1,261	28,279	1,901	-	31,441

As at 31 December 2012

(v tisoč EUR)	Loans to individual 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	1,595	-	38,595
Individual clients	476	-	-	-	476
Total	**476**	**37,000**	**1,595**	**32,840**	**71,911**
Fair value of collateral	1,161	37,929	1,815	-	40,905

1.3.2. Loans and receivables not past due but group impaired

As at 31 December 2013

(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	13,217	62,356	41,013	167,273	68,369	352,228
Group B	-	-	-	64,442	57,304	121,746
Group C	-	260	198	169,075	37,482	207,015
Group D	-	-	-	-	970	970
Group E	-	-	-	-	201	201
Gross	**13,217**	**62,616**	**41,211**	**400,790**	**164,326**	**682,160**
Less: allowance for impairment	(132)	(689)	(460)	(14,231)	(4,617)	(20,129)
Net	**13,085**	**61,927**	**40,751**	**386,559**	**159,709**	**662,031**
Fair value of collateral	17,801	140,193	43,553	275,106	228,609	705,262

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	16,437	59,032	43,918	214,527	79,259	413,173
Group B	-	-	-	111,413	63,739	175,152
Group C	-	-	-	147,082	30,785	177,867
Group D	-	-	-	1,055	752	1,807
Group E	-	-	-	-	7	7
Gross	**16,437**	**59,032**	**43,918**	**474,077**	**174,542**	**768,006**
Less: allowance for impairment	(164)	(592)	(439)	(6,906)	(2,286)	(10,387)
Net	**16,273**	**58,440**	**43,479**	**467,171**	**172,256**	**757,619**
Fair value of collateral	20,921	127,398	44,675	314,436	240,613	748,043

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

In year 2014 the Bank will align the definition of non-performing exposures with the definition of EBA (The European Banking Authority), which considers non-performing exposures as all exposures that have been found impaired, all clients in groups D or E, and all material exposures which are more than 90 days past-due.

1.3.3. Loans and receivables past due and group impaired

As at December 2013

(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	
Past due up to 30 days	2,948	-	32	3,928	2,472	9,380
Past due 30 – 60 days	99	1,327	1,142	7,987	2,582	13,137
Past due 60 – 90 days	27	615	473	2,455	82	3,652
Past due over 90 days	90	170	624	3,793	38,692	43,369
Gross	**3,164**	**2,112**	**2,271**	**18,163**	**43,828**	**69,538**
Less: allowance for impairment	(130)	(307)	(630)	(751)	(5,559)	(7,377)
Net	**3,034**	**1,805**	**1,641**	**17,412**	**38,269**	**62,161**
Fair value of collateral	2,792	6,115	2,523	19,135	60,741	91,306

As at 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	
Past due up to 30 days	-	73	311	20,138	23,152	43,674
Past due 30 – 60 days	171	570	605	4,260	9,044	14,650
Past due 60 – 90 days	15	313	296	-	5,722	6,346
Past due over 90 days	313	104	1,642	62,707	28,624	93,390
Gross	**499**	**1,060**	**2,854**	**87,105**	**66,542**	**158,060**
Less: allowance for impairment	(326)	(241)	(1,777)	(2,647)	(4,608)	(9,599)
Net	**173**	**819**	**1,077**	**84,458**	**61,934**	**148,461**
Fair value of collateral	105	2,572	1,926	60,717	85,184	150,504

The amount of the loans past due has increased in 2013 to 30.8% of all loans (2012: 34.3%).

The amount of past due and individually not impaired assets was as of 31 December 2013 EUR 69,538 thousand (31 December 2012: EUR 158,060 thousand). Amounts past due comprise the gross amount of the full loan more than one day past due (more information about the due amounts is provided in the Chapter "Disclosure of Additional Information" in Note 6.1. "A definition of past due and impaired items for accounting purposes").

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.

1.3.4. Loans and receivables individually impaired

As at 31 December 2013

(in thousands of EUR)	Loans to corporates	Loans to SME	Total loans to customers
Not past due	99,608	9,501	109,109
Past due	97,209	205,232	302,441
Gross	**196,817**	**214,733**	**411,550**
Less: allowance for impairment	(86,867)	(119,758)	(206,625)
Net	**109,950**	**94,975**	**204,925**
Fair value of collateral	109,442	116,583	226,025

As at 31 December 2012

(in thousands of EUR)	Loans to corporates	Loans to SME	Total loans to customers
Not past due	43,096	-	43,096
Past due	71,129	231,516	302,645
Gross	**114,225**	**231,516**	**345,741**
Less: allowance for impairment	(16,316)	(120,720)	(137,036)
Net	**97,909**	**110,796**	**208,705**
Fair value of collateral	77,020	119,414	196,434

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.

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

1.4.1. Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as. 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 – derivatives	4	-	-	4
Financial assets designated at fair value through profit or loss	-	-	43,467	43,467
Available-for-sale financial assets – debt securities	260,845	133,225	13,848	407,918
Loans and receivables to banks	4,727	9,838	1,085	15,650
Loans and receivables to customers				
Corporates and other entities				
Corporates	501,276	19,765	21,182	542,223
Small and medium enterprises (SME)	286,931	6,319	1,299	294,549
Individual clients				
Overdrafts	16,117	2	-	16,119
Housing loans	63,729	3	-	63,732
Consumer and other loans	42,902	46	7	42,955
Other financial assets	4,857	22	73	4,952
Other assets	313	-	-	313
As at 31 December 2013	**1,181,701**	**169,220**	**80,961**	**1,431,882**
As at 31 December 2012	1,425,917	142,951	99,307	1,668,175

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

1.4.2. 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.

(in thousands of EUR)	Public administ. and defence, comp.soc.sec.	Financial inter-mediation	Manufacturing	Real estate, renting, business activities	Wholesale, retail	Other sectors	Individuals	Total
Financial assets held for trading derivatives	-	-	-	-	4	-	-	4
Financial assets designated at fair value through P&L	-	43,467	-	-	-	-		43,46-7
Available-for-sale financial assets - debt securities	351,379	21,602	-	-	9,340	25,597	-	407,918
Loans to banks	-	15,650	-	-	-	-	-	15,650
Loans to customers								
Corporates and other entities								
Corporates	-	50,688	236,118	34,330	95,930	125,157	-	542,223
SME	1,190	40,016	66,979	43,420	25,284	117,660	-	294,549
Individual clients								
Overdrafts	-	-	-	-	-	-	16,119	16,119
Housing loans	-	-	-	-	-	-	63,732	63,732
Consumer and other loans	-	-	-	-	-	-	42,955	42,955
Other financial assets	19	118	113	30	128	242	4,302	4,952
Other assets	2	289	-	16	1	5	-	313
As at 31 December 2013	**352,590**	**171,830**	**303,210**	**77,796**	**130,687**	**268,661**	**127,108**	**1,431,882**
As at 31 December 2012	352,031	301,042	369,538	80,151	146,680	293,837	124,896	1,668,175

1.5. Debt securities

The table below presents an analysis of debt securities (included in Notes 5.2., 5.3. and 5.4.) by rating agency rating, based on FitchRatings and Moody's Investor Service.

As at December 2013

(in thousands of EUR)	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Total
AAA	-	41,511	41,511
A- to A+	43,467	42,578	86,045
Lower than A-	-	307,649	307,649
Unrated	-	16,180	16,180
Total	**43,467**	**407,918**	**451,385**

As at 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**

Portfolio of structured securities has been measured at fair value through profit and loss.

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 backup work done in the accounting sector.

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 2013				
Assets				
Cash and balances with central banks	63	259	56,839	57,161
Financial assets held for trading	-	-	11,737	11,737
Financial assets designated at fair value through profit or loss	-	-	43,467	43,467
Available-for-sale financial assets	-	-	434,480	434,480
Loans and receivables to banks	7,284	7,569	797	15,650
Loans and receivables to customers	2,582	609	956,387	959,578
Other financial assets	-	-	4,952	4,952
Other assets	-	-	313	313
Total assets	**9,929**	**8,437**	**1,508,972**	**1,527,338**
Liabilities				
Financial liabilities held for trading	-	-	4	4
Due to banks	-	-	180	180
Due to customers	9,279	8,704	1,039,111	1,057,094
Borrowings from banks	-	-	288,686	288,686
Borrowings from customers	-	-	8,759	8,759
Other financial liabilities	562	-	3,711	4,273
Debt securities in issue	-	-	29,803	29,802
Other liabilities	-	-	2,543	2,543
Total liabilities	**9,841**	**8,704**	**1,372,796**	**1,391,341**
Net on-balance sheet financial position	**88**	**(267)**	**136,176**	**135,997**
Credit commitments	**89**	**40**	**127,746**	**127,875**
31 December 2012				
Total assets	**13,490**	**10,617**	**1,723,099**	**1,747,206**
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**

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 amounts 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 2013 VaR value is EUR 1.18 thousand (2012: EUR 1.75 thousand).

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 444,182 thousands (2012: EUR 436,523 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 2013							
Assets							
Cash and balances with central banks	45,449	-	-	-	-	11,712	57,161
Financial assets held for trading	-	-	-	-	-	11,737	11,737
Financial assets designated at fair value through profit or loss	-	-	-	43,467	-	-	43,467
Available-for-sale financial assets	-	7,448	117,956	171,242	102,510	35,324	434,480
Loans and receivables to banks	12,956	-	2,036	-	600	58	15,650
Loans and receivables to customers	568,688	101,728	220,305	34,953	22,166	11,738	959,578
Other financial assets	-	-	-	-	-	4,961	4,961
Other assets	-	-	-	-	-	313	313
Total assets	**627,093**	**109,176**	**340,297**	**249,662**	**125,276**	**75,834**	**1,527,338**
Liabilities							
Due to banks	-	180	-	-	-	-	180
Due to customers	561,986	200,079	254,869	32,777	895	6,488	1,057,094
Borrowings from banks	34,500	164,500	82,434	5,556	-	1,696	288,686
Borrowings from customers	-	-	8,725	-	-	34	8,759
Other financial liabilities	632	-	-	-	-	3,641	4,273
Debt securities in issue	-	-	29,500	-	-	302	29,802
Other liabilities	-	-	-	-	-	2,547	2,547
Total liabilities	**597,118**	**364,759**	**375,528**	**38,333**	**895**	**14,708**	**1,391,341**
Interest sensitivity gap	29,975	(255,583)	(35,231)	211,329	124,381		
31 December 2012							
Total assets	**782,707**	**111,732**	**355,630**	**267,817**	**128,707**	**100,613**	**1,747,206**
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		

On the assumption that the Bank investments and liabilities remain unchanged on 31 December 2013 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 0.75 million (2012: EUR 2.93 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 4.8 million (2012: EUR 7.4 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.

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 2013 the maximum amount the Bank might lose (with 99% probability) has amounted to EUR 1,597 thousand (31 December 2012: EUR 2,112 thousand).

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 and with foreign central banks 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. The Bank holds the authorisation of the Bank of Slovenia to place in the fund of eligible assets the appropriate bank loans within regular collateral, ACC collateral or ELA (NSPS) collateral.

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 2013						
Liabilities						
Due to banks	-	180	-	-	-	180
Due to customers	563,179	202,440	262,627	35,285	1,022	1,064,553
Borrowings from banks and central banks	21,997	23,010	54,221	162,203	34,616	296,047
Borrowings from other customers	-	-	4,093	4,869	-	8,962
Debt securities in issue	-	-	31,050	-	-	31,050
Other liabilities	3,508	12	116	-	-	3,636
Total liabilities (contractual maturity dates)	**588,684**	**225,642**	**352,107**	**202,357**	**35,638**	**1,404,428**
Assets held for managing liquidity risk (contractual maturity dates)	296,112	87,995	425,490	525,197	256,605	1,591,399
Liquidity gap	**292,572**	**137,647**	**(73,383)**	**(322,840)**	**(220,967)**	
31 December 2012						
Liabilities						
Due to banks		-		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
Liquidity gap	**248,569**	**40,180**	**(63,255)**	**(220,465)**	**(280,814)**	

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.

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	1-3 months	Total
31 December 2011			
Foreign exchange derivatives	1	3	4
Total	**1**	**3**	**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 2013					
Commitments to extend credit	75,960	385	735	195	77,275
Guarantees	50,600	-	-	-	50,600
Total off-balance sheet items	**126,560**	**385**	**735**	**195**	**127,875**
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**

4. Estimated fair value of financial assets and liabilities

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	
	2013	2012	2013	2012
Financial assets				
Loans to banks	15,650	32,840	15,839	32,896
Loans to customers	959,578	1,153,856	1,149,344	1,154,076
Financial liabilities				
Due to banks	180	176	179	177
Due to customers	1,057,094	1,139,720	1,059,663	1,142,918
Borrowings from banks and from other customers	206,334	231,329	206,515	231,853
Debt securities in issue	29,802	30,307	29,802	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.

4.1.1. 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.

4.1.2. 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.

4.1.3. 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.

4.2. 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.

4.3. 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 parameters 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.

4.3.1. Assets and liabilities measured at fair value

(in thousand of EUR)	Level 1	Level 2	Level 3	Total
31 December 2013				
Financial assets held for trading				
- Equtiy securities	11,733	-	-	11,733
- Derivatives	-	4	-	4
Financial assets designated at fair value				
- Debt securities	-	43,467	-	43,467
Available-for-sale financial assets				
- Investment securities - debt	326,078	30,159	51,681	407,918
- Investment securities - equity	19,878	500	6,184	26,562
Total assets	**357,689**	**74,130**	**57,865**	**489,684**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	4	-	4
Total liabilities	**-**	**4**	**-**	**4**
31. december 2012				
Total assets	**424,084**	**100,595**	**13,266**	**537,945**
Total liabilities	**-**	**-**	**-**	**-**

In 2012, the Bank applied a valuation model (Level 3) to measure the fair value of shares of Abanka Vipa, d. d., Ljubljana and Pivovarna Laško, d. d., Laško. 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 2013, the Bank applied a valuation model only to the shares of Pivovarna Laško, d.d., Laško, while the shares of Abanka Vipa, d.d., Ljubljana, were deleted due to the state recapitalisation.
No trading has been made as yet with treasury bills and commercial papers, which the Bank subscribed in 2013 (EUR 51,681 thousand), so the value is set based on the purchase price (Level 3).

4.3.2. Presentation of valuation models

In 2012, the Bank applied valuation models to measure the fair value of shares PILR (2012: ABKN, PILR). The model wes 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 those model.

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

At the end of 2012 and 2013, the Bank owned 542,448 PILR shares or 6.2 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 2,312 thousand at the end of 2013 (2012: EUR 986 thousand), which accounted for 0.59% (2012: 0.27%) of total transactions and 0.77% (2012: 0.33%) of total transactions with shares. The number of transactions was 969 (2012: 942) and the total volume of lots was 479,355 (2012: 142,793 lots).

In 2013, the price of PILR shares fell by 42.6 % (2012: by 36.6%), from EUR 6.99 to EUR 4.01. 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 2013 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 %	9.3	8.0	11.0
Market method	25 %	17.4	16.8	19.0
Estimated value of share		**11.4**	**10.2**	**13.0**

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**

In order to measure the fair value of the 6.2-percent equity stake in Pivovarna Laško, d. d., Laško as at 31 December 2013 based on weighted mean of assessments obtained using the above-mentioned valuation models, the Bank applied the price of EUR 11.4 (2012: EUR 13.5) per share instead of the market price of EUR 4.01 (2012: EUR 6.99) per share, which is in the value range between EUR 10.20 and EUR 13.00 (2012: EUR 11.70 and 16.50 per share). The carrying value amounted to EUR 6,184 thousand, at EUR 11.40 per share (2012: EUR 7,323 thousand, at EUR 13.50 per share).

The bases of the discounted cash flow method, for the year 2012 and 2013:

- 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 13.91% (2012: 15.86%).
- The discount rate is defined as the WACC (weighted average cost of capital) and has been assessed at the level of 11.88% (2012: 14.26%).
- 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% (2012: 20%) discount rate for minority owner has been applied.
- A 15% (2012: 15%) 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 2012 and 2013:

- 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 (IQ Capital, Damodaran, FT), based on industry analyses and operational characteristics.
- The multiplier calculation took into account share prices as at 31 December 2013 (2012: 31 December 2012) and operating results of these companies from 2012 (2012: from 2011). The following multipliers were applied: MVIC / sales: 2.59 (2012: 3.05) and MVIC / EBITDA: 11.09 (2012: 11.41).
- A 15% (2012: 15%) 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 bank Abanka Vipa, d. d., Ljubljana, with the code ABKN

At the end of 2012, the Bank owned 1,061,220 ABKN shares or 14.74-percent equity stake in Abanka Vipa, d. d., Ljubljana. In 2013, the ABKN shares were deleted due to the state recapitalisation.

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

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 per share instead of the market price of EUR 4.01 per share, which is in the value range between EUR 5.00 and EUR 6.20 per share. The carrying value amounted to EUR 5,943 thousand, at EUR 5.60 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.

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.

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

(in thousands of EUR)	2013	2012
Original own funds (Tier 1)		
Paid up capital	13,830	13,830
(-) Treasury shares and treasury shares received in pledge *	(26,729)	(26,441)
Share premium	9,381	9,381
Reserves and retained earnings	166,810	227,113
(-) Intangible assets	(2,956)	(3,090)
Total core capital (Tier 1)	**160,335**	**220,792**
Additional own funds (Tier 2)		
Revaluation reserve from equity investments AFS	74	64
Total additional own funds (Tier 2)	74	64
Deductible items		
(-) Holdings in other credit and financial institutions amounting to more than 10% of their capital	-	(5,943)
(-) Participations hold in insurance undertakings	(4,399)	(4,399)
Total deductible items from original own funds	(4,325)	(10,278)
Total deductible items from additional own funds	**(74)**	**(64)**
Total Tier 1 capital (for capital adequacy ratio)	**156,011**	**210,515**
Total capital (for capital adequacy ratio)	**156,011**	**210,515**
Capital requirements		
Capital requirement for credit risk and counterparty credit risk:		
Regional governments or local authorities	18	3
Public sector entities	166	219
Institutions	2,953	5,692
Corporates	51,694	60,425
Retail	9,836	10,008
Past due items	8,502	16,231
Items belonging to regulatory high-risk	7,709	11,860
Other items	2,790	3,073
Capital requirement for market risk	1,877	2,976
Capital requirement for operational risk	7,487	9,243
Total capital requirement	**93,032**	**119,730**
Capital adequacy ratio	**13.42%**	**14.07%**

6. Plan of activities to eliminate potential internal capital deficit

On 20 December 2013, Gorenjska banka d.d., Kranj, was issued a decree of the Bank of Slovenia (hereinafter: the Decree) on the abolition of violation of Article 125 of the ZBan-1 due to inadequate provision of internal capital given the current and potential future risks that the Bank could be exposed to. Based on comprehensive asset quality review and stress test anticipating unlikely adverse macroeconimic scenario, Bank of Slovenia issued a decree regarding potential capital shortfall of EUR 328 million. Estimated potential capital shortfall was based on expected losses between 2013 and 2015 in case that unlikely adverse macroeconomic scenario would actually occur. Bank was given time till 30 June 2014 to implement all measures needed to secure sufficient capital adequacy increase.

In order to eliminate the potential internal capital deficit based on the Decree of the Bank of Slovenia, the Bank prepared an extensive »Plan of activities to eliminate potential internal capital deficit«, reflecting the existing changes in the macroeconomic environment and the measures by means of which it will be prepared for a potential stress scenario. The purpose of the plan was to ensure long-term profitable business of the Bank, with the main goals being:

- ensuring higher loss absorption capacity and capital strength of the Bank and
- improving the quality of assets and risk profile of the Bank.

The measures for streamlining operations and increasing the absorption capacity are crucial:

- measures to reduce or cover the capital deficit by 2015, including the restructuring with own funds and assessing the effects of some measures:
  - measures to rationalize the operations with the existing capital,
  - measures to increase the absorption capacity of the Bank,
  - measures to reduce the risk arising from the credit portfolio,
  - measures in securities operations,
  - other measures,
- measures to increase share capital or issue other instruments which are in line with the ZBan-1 considered in the calculation of the Bank's capital.

On 19 March 2014, Gorenjska banka, d.d., Kranj, received the Decree of the Bank of Slovenia, whereby the implementation deadline for the »Plan of activities to eliminate potential internal capital deficit« was extended from the original 30 June 2014 until the end of 2014. The decision on the extension of the deadline was adopted also by the Government of the Republic of Slovenia on 19 March 2014, when discussing the further implementation of measures to strengthen the stability of banks.

After considering Bank's "Plan of activities to eliminate potential internal capital deficit", Bank of Slovenia has stated in new Decree that capital shortfall of the Bank as per 31 December 2013 is EUR 201 million. Decreased capital shortfall is consequence of already booked additional risk provisions in the total volume of EUR 127 million in year 2013. Bank of Slovenia also stated, that measures for streamlining operations and increasing loss absorption capacity presented in "Plan of activities to eliminate potential internal capital deficit" are viable and will decrease potential capital shortfall in period 2014-2015 by additional EUR 87 million. Additional capital needed to secure capital adequacy of the bank in case of adverse macroeconomic scenario in the amount of EUR 114 million needs to be drawn by recapitalization of the bank.

Disclosure of additional information in accordance with the Regulation (of the Bank of Slovenia) on Disclosures by Banks and Saving Banks

List of required disclosures under aricles of the Regulation on Disclosures by Banks and Saving Banks

Article	Required disclosure	Number of disclosure
10.	**Risk management objectives and policies:**	
	a) the strategies and processes for managing risks	1.1
	b) the structure and organisation of the relevant risk management function or other appropriate arrangements	1.2
	c) the scope and nature of internal risk reporting and risk measurement systems	1.3
	d) the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	1.4
11.	**Information on entities included in disclosures:**	
	a) the name of the bank obliged to make disclosures pursuant to the regulation	2.1.
	b) an outline of the differences in the basis of consolidation for accounting and prudential purposes	2.2.
	c) any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	2.3.
	d) the aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries	2.4.
12.	**Own funds:**	
	a) key information on the terms and conditions of the main features of all own funds items and components thereof	3.1.
	b) the amount of the original own funds, with separate disclosure of all positive items and deductions of Tier 1	3.2.
	c) the total amount of additional and ancillary own funds as can be taken into consideration in the calculation of the bank's own funds	3.2.
	d) deductions from original and additional own funds I	3.2
	e) the amount of own funds	3.2
13.	**Minimum capital requirements and process of estimating necessary internal capital:**	
	a) a summary of the bank's approach to assessing the adequacy of its internal capital to support current and planned activities	4
	b) the amount of the capital requirement for all categories of exposure under the standardised approach	3.2
	c) the amount of capital requirement for credit risk under the IRB approach	Not relevant
	d) the amount of capital requirement for market risks	3.2
	e) the amount of capital requirement for operational risk	3.2
14.	**Counterparty credit risk (CCR)**	5
15.	**Credit risk and dilution risk:**	
	a) a definition of past due and impaired items for accounting purposes	6.1
	b) a description of the methodology for making value adjustments to items and provisions	6.2
	c) the total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount in the reporting period, broken down by category of exposure	6.3
	d) the geographic distribution of exposures, broken down by material category of exposure	6.4
	e) the distribution of exposures by institutional sector or counterparty type, broken down by category of exposure	6.5
	f) a breakdown of all categories of exposure into residual maturities of up to one year and more than one year	6.6
	g) for significant institutional sectors or counterparty types as at the end of the reporting period: - the amount of past due exposures, and within this the amount of impaired exposures - the amount of value adjustments due to impairments and provisions - the amount of eliminated/formed value adjustments due to impairments and provisions during the reporting period	6.7
	h) for significant geographical areas the amount of past due exposures, and within this the amount of impaired exposures, including the amounts of impairments and of provisions related to each geographical area	6.8
	i) for impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions	6.9
16.	**Additional disclosures by a bank using the standardised approach**	
	a) the business names of the nominated external credit assessment institutions (hereinafter: ECAI) or export credit agencies (hereinafter: ECA), and the reasons for any replacements	7.1
	b) an indication of the ECAI or ECA whose credit assessments are used for a particular category of exposure	7.2
	c) a general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments	7.3
	d) an indication of the mapping of the credit assessments of a particular nominated ECAI or ECA to the credit quality steps specified in the standardised approach egulation, if it is a mapping not published by the Bank of Slovenia	Not relevant

Article	Required disclosure	Number of disclosure
	e) the exposure values and the exposure values allowing for the effects of credit protection, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on Credit Protection, and the values of capital deduction items	7.4
17.	**Additional disclosures by a bank using the IRB approach**	Not relevant
18.	**Breakdown of market risk capital requirements**	8
19.	**Additional disclosures by bank using internal models to calculate market risk capital requirements**	Not relevant
20.	**Operational risk**	
	a) the approach that it uses to calculate operational risk capital requirements	9
	b) a description of the advanced measurement approach methodology, if the bank uses it	Not relevant
21.	**Investments in equities not included in trading book:**	
	a) the accounting techniques and valuation methods used with regard to the purpose of the investments, including for capital gains relationships and strategic reasons, and any changes in accounting practices	10
	b) the balance sheet value and the fair value of investments, and, for exchange-traded securities, a comparison with the market price where it is materially different from the fair value	10
	c) the types, nature and amounts of exposures from exchangetraded securities, exposures from private equity if sufficiently diversified, and other exposures	10
	d) the cumulative realised gains and losses from the sale of investments in equities in the reporting period	10
	e) the total amount of unrealised gains and losses, and any of these amounts that the bank includes in the original capital or Tier I additional capital	10
22.	**Interest-rate risk from items not included in trading book:**	
	a) the nature of the interest-rate risk and the key assumptions (including ssumptions about the early repayment of loans and the movement of sight deposits), and the frequency of the measurement of interest-rate risk	11.1
	b) the effect on earnings or any other measurement of value used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies	11.2
23.	**Securatisation**	Not relevant
23.a	Liquidity risk:	
	a) methodologies for managing liquidity risk	12.1
	b) mitigation of liquidity risk	12.2
	c) measures for preventing and removing the causes of liquidity shortages	12.3
23.b	Remuneration system:	
	a) a description of the decision-making process used to determine the bank's remuneration policy	13.1
	b) an explanation of the impact of the performance of an employee, an empoloee's organisational unit and the general operting result of the bank on an employee's remuneration	13.2
	c) the most important contextual characteristics of the remuneration policy	13.3
	d) performance criteria, based on which an employee is entitled to shares, options and other forms of variable remuneration, and the main parameters and rationale for using any form of variable remunertion and other non-cash benefit for employees	13.4
	e) information regarding the aggregate amount of remuneration paid in the previous financial year, broken down by business area	13.5
	f) information regarding the aggregate amount of remuneration paid for the previous financial year, broken down by employee category	13.6
23.c	Significant business contact	
	Information regarding direct and indirect significant business contract that exist between a member of the management board or supervisory board or a member of his or her immediate family and a bank or its subsidiary	14
23.d	Compliance with regulation governing conflicts of interest of the members of management and supervisory bodies of subsidiares with a registred office outside the Republic of Slovenia	Not relevant
24.	**IRB approach**	Not relevant
25.	**Credit protection:**	
	a) the policies and processes for using balance-sheet netting, and the extent of use of this type of protection	Not relevant
	b) the policies and processes for collateral valuation and management	15.1
	c) a description of the main types of collateral taken by the bank	15.2
	d) the major types of personal guarantor and counterparties in credit derivatives transactions, and their creditworthiness	15.3
	e) information about market or credit risk concentrations within the credit protection taken	15.4
	f) the total exposure value (after balance sheet netting, if used) that is covered by collateral, after the application of volatility adjustments, for each category of exposure	15.5
	g) the total exposure value (after balance sheet netting, if used) that is covered by personal guarantees or credit derivatives for each category of exposure	15.6
26.	**Operational risk – advanced measurement approach**	Not relevant

1. Risk management objectives and policies

1.1. The strategies and processes for managing risk
(article 10.a of the Regualtion on Disclosures by Banks and Saving Banks)

Gorenjska banka is a universal bank providing high-quality financial services to its clients. The Bank's vision is to remain a stable, reliable and trustworthy financial institution, strong in capital terms, which will offer its clients services of the highest quality at competitive prices. The Bank will keep the position of a mid-sized Slovenian universal bank renowned for excellent and trustworthy bankers through flexible solutions, quality services and individual approach.
The Bank's development objectives are, based on many years of tradition and taking into account changes in the environment, oriented towards ensuring competitiveness of operations, rationalisation and modernisation of operations, development of banking products and sales channels and to enhancing recognition.

The fundamental values the Bank pursues in its operations are:
- quality services,
- operational stability, and
- business correctness.

Activities aimed at implementing the Bank's business policy take into account expected macroeconomic trends in the domestic and international environments, the projected banking development, increasing competition and European trends stemming from the integration processes in which Slovenia is engaged. Of crucial importance is the fast and extensive changing of the regulatory environment.

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 is given to the comprehensive management of the risks that arise from banking operations and the management of operating costs.

Risk identification, assumption, measurement and management has become an important element of the Bank's strategy owing to the development and characteristics of the financial system and crucial changes in the economy and environment. Risk is more specifically regulated by the following:
- Banking Act (ZBan),
- Regulations of the Bank of Slovenia adopting Basel II and the adopted European directives related to risks,
- International Financial Reporting Standards,
- Minimum standards for the trading activity in banks, adopting the good practice rules with the mandatory division into market sectors concluding transactions and assuming risks, the back offices that monitor and manage transactions and the functions of risk measurement and management.

The Bank divides risks into:
- measurable risks, which include credit, market, currency, interest rate, operational, capital and profitability risks,
- non-measurable, which include strategic and reputation risks.

The strategy for undertaking and managing risks reflects the fundamental attitude of the Bank to risks in the scope of operations and comprises:
- goals and general principles and guidelines for risk assumption and management,
- approach to managing individual types of risk,
- approach to the implementation of the process of assessing appropriate internal capital, and
- plan of major business activities and changes in the Bank's strategy.

The Bank will manage its interest rate policy and fees for services in accordance with the changes in the environment and with the goal of increasing the competitiveness of operations. Both the level of interest rates and fees for services will also depend on the credit ratings and negotiating power of our clients.

Appropriate organisational structure, motivation and satisfaction of our professionally qualified employees are the basis for achieving the Bank's strategic objectives.

The Bank is profiled as a safe and stable bank, which refers to safety of bank deposits, but on the other hand requires careful business policy when taking and managing risks. The Bank is mostly oriented towards traditional banking services and has a low to moderate risk appetite.

The key portion of its business activities is the provision of stable sources and credit portfolio management, where the Bank primarily pursues the goals of safety, placing them before profitability, but not neglecting the latter. For the Bank, trading items represent a small part of investments. The Bank will maintain its exposure to interest-rate risk and currency risk at a relatively low level and to a high degree regularly hedge and/or close any exposure arising from ordinary activity.

1.2. The structure and organisation of the relevant risk management function (article 10.b of the Regualtion on Disclosures by Banks and Saving Banks)

The Bank's orientation towards an active and prudent risk management is supported with an adequate organisational structure that ensures a secure and equitable approach to risk management.

The rules of organisational structure and competencies of individual organisational units are defined in the internal act specifying the Bank's organisation. This act in detail defines the professional competencies of individual organisational units. In addition, within the Bank there are several bodies that adopt decisions on risk taking and management. They include the Key Board, Credit Committee, Investment Committee, Liquidity Committee and the ALCO. The decisions related to risks of significant scope are always adopted based on the decision of the said bodies, which ensures minimisation of the conflicts of interest and the separate competence for risk assumption and management up to the level of the Bank's Management Board, which participates in the functioning of these bodies.

The central activities of risk management are conducted by the Risk Management Department. The latter is independent of divisions and departments for investments, which conclude deals and take risks, and from the back office, which monitors and manages transactions and answers directly to the Management Board and its President. The central role in risk management at the highest level in the Bank is that of the Assets and Liabilities Committee, the Credit Committee and the Investment Committee.

The Bank has a Compliance Department, of which the basic function is to apply targeted organisational measures to prevent the realisation of risks due to non-compliance to which the Bank could be exposed. This involves the risk of legal or regulatory sanctions, major financial losses or the loss of the Bank's reputation as a result of its operations being non-compliant with the relevant regulations and standards of good practice.

The Management Board and the entire senior management (Director of the Directorate, executive directors, department and division directors) are actively involved in the risk management process in the scope of developed internal reporting, discussion and adoption of decisions by various bodies of the Bank. The Bank wishes to respond quickly and effectively to external changes through a sound risk management system in order to meet the clients' needs and ensure long-term financial and capital stability. Risk management is thus directly monitored by:

- Risk Management Department, which monitors, measures and manages all risks,
- Credit Committee meetings twice a week, when credit risk is monitored,
- Investment Committee meetings, when credit risk and securities risk are monitored,
- daily Liquidity Committee meetings, when liquidity risk is monitored,
- monthly by the ALCO, when the operating result and the Bank's position in the Republic of Slovenia are monitored in addition to the market situation and projections, credit risk (credit portfolio, NPLs, exposures and collateral, concentration risk, RWA, large exposures, watch list), maturity (liquidity) risk (structural liquidity, liquidity ratios, deposit concentration, the coverage ratio of deposits by non-bank clients, discussion of stress scenarios), interest-rate risk, currency risk (open FX position), market risk, operational risk, compliance of operations with regulatory requirements and legislative amendments, the calculation of capital requirements and capital adequacy of the Bank, the ICAAP calculation,
- the Management Board or board of the Bank, when strategic and reputation risks are monitored,
- the Supervisory Board, when all risks to which the Bank is exposed are dealt with.

1.3. The scope and nature of internal risk reporting and risk measurement systems

(article 10.c of the Regualtion on Disclosures by Banks and Saving Banks)

The policies for risk assumption and management in greater detail define the procedures for risk assessment in the conclusion of transactions in the Bank, the procedures for estimating exposure to risks during transactions and determining of the necessary internal capital, the procedures for internal reporting and internal control mechanisms in conducting business.

The policies also include more specific definitions related to risk profile assessment of the Bank, internal capital assessment and the aggregation of capital requirements for all risks. The Bank's risk profile reflects its risk, identifies risks to which the Bank is exposed and reveals the Bank's appetite for assuming individual risks. Due to the Bank's specifics, its internal capital can be different from regulatory capital and serves to cover the risks to which the Bank is exposed; the scope of these risks is assessed by the Bank (as opposed to the methodology prescribed in the first pillar of capital regulations). The Bank's internal capital is used to cover all risks of the Bank, requiring the aggregation (summation) of capital requirements for internal capital for all risks. The policies also define the procedures and requests in the introduction of new products, the rules on outsourcing, the management of information system risks and the involvement of the internal audit in the risk management process.

When preparing the annual business plan, the Bank every year assesses the appropriateness of the risk management strategies and policies and in line with the procedures defined in risk management policies assesses its risk bearing capacity. Once a year the Bank submits the Rules on Risk Management Strategy and Internal Capital Adequacy Assessment Process to the Supervisory Board for approval.

Gorenjska banka's system of strategies and policies includes the following:

- Credit Risk Management Policy (including concentration risk);
- Market Risk Management Policy (position, interest rate, currency);
- Operational Risk Management Policy;
- Liquidity Risk Management Policy;
- Capital Management Policy;
- Securities Investment Policy;
- Equity Investment Management Policy;
- Framework Security Policy.

In the course of its business, the Bank assumes a variety of risks that to a large extent depend on the Bank's risk appetite. Gorenjska banka has adopted a traditional conservative approach to risks. As a result, the risk assumed is relatively low, since safety and stability of operations are the Bank's priorities. The risk profile reflects the risk appetite, which is rather low in Gorenjska banka.

The key elements of risk profile assessment are the level of assumption and exposure to individual risks in various business areas and especially any changes in the Bank's attitude to risks in individual business areas. The Bank assesses the risk profile by using a methodology applied by the Bank of Slovenia to the assessment of risk profile of banks, as defined in the Process of Risk Assessment in the Scope of Supervisory Disclosures of the Bank of Slovenia.

Besides defining and assessing risks, a component of risk profile assessment is the control environment assessment by business area. The risk profile assessment is made on an annual basis. The risk profile defines the relevance of business areas and the exposure thereof to individual types of risks. It comprises the assessments of risks and the control environment by business area.

Based on the Bank's risk profile assessment, reflecting its risk appetite in various business areas, and based on the actual risk assumption, it is estimated that the Bank is mainly exposed to traditional banking risks. As a result, the internal capital of the Bank covers known bank risks that are included in the first pillar of the capital regulation and the risks which the Bank identified when preparing its risk profile. Thus, the risks dealt with by the Bank in the scope of the internal capital adequacy assessment process are the following:

- credit risk (standardised approach) and concentration risk (mark-up on capital requirement for credit risk calculated based on the concentration ratio),
- market risk (maturity-based approach and calculation on the basis of stress tests),
- interest-rate risk (BS methodology based on stress test of yield curve shift by +- 200 basis points),
- operational risk (simple approach),
- profitability risk arising from interest rates on deposits (BS methodology),
- market liquidity risk (calculation based on stress test),
- liquidity risk, strategic risk, reputation risk and capital risk.

Credit risk

Credit risk is the risk or probability that the client will not settle its obligations in full and by the agreed deadline for any reason. The Bank is managing credit risk both at the level of an individual client and transaction as well as at the level of the entire portfolio, since efficient and comprehensive credit risk management is crucial for the integrated approach to bank risk management and securing long-term successful operations of the Bank. Credit risk, existing and potential, is monitored throughout the business relation with a client, since the receipt of the application and other documents for loan approval until granting and final repayment.

The Bank particularly monitors the exposure to entities in special relationship with the Bank. Owing to the existence of important business contact, new transactions with entities in special relationship with the Bank have to be approved by the Supervisory Board of the Bank.

The Bank has an established system for continuous management of its credit portfolio. This involves constant monitoring of exposure to individual clients and assessment of debtors' financial standing. The Bank daily follows the fulfilment of the conditions stipulated in loan agreements, especially if liabilities are settled on time.

During the loan term, the Bank continuously monitors the debtor's operations, paying special attention to the risk of a debtor and/or exposure, and assesses the suitability of the assessed credit rating and the expected payment of contractual obligations. It thus also verifies the adequacy and value of potential collateral.

The results of such monitoring enable timely identification of bad debt and any changes in classification, the establishment of additional impairments and provisions, the need to disinvest, the requirements for additional collateral, the transfer of account management between the Commercial Banking Division and the Risk Claims Management Department, etc. The timely identification of increased credit risk is ensured by a series of early warning signs (EWS) and increased credit risk indicators. For the monthly discussion of bad debt by the ALCO, the Risk Management Department prepares a selection of clients for whom it proposes that account management be transferred from the Commercial Banking Division to the Risk Claims Management Department, while the actual transfer of credit files is carried out by the adoption of an appropriate resolution by the Bank's Credit Committee.

The entire portfolio of the Bank is checked against the criteria laid down in the Financial Operations of Companies Act, namely in terms of capital adequacy (on the basis of the data from the annual statement of financial position and income statement) and against the solvency criterion (based on the data from the balance sheet after the year-end account and quarterly based on the data of account freezing). The aggregate information about the fulfilment of these criteria is discussed by the Credit Committee together with the proposed measures and policy of the Bank on further banking with debtors who entail risk according to the Financial Operations of Companies Act.

The Bank is mainly managing its credit portfolio by amending and adjusting its crediting policy and by adapting limits to ensure appropriate management and monitoring of the concentration risk.

Monitoring exposure to credit risk, compliance with limits and the adoption of various measures to mitigate exposure to credit risks are carried out by means of analyses and reports submitted to top management and various bodies of the Bank (Credit Committee, ALCO). The exposure to individual debtors and groups of related persons as well as past due receivables are monitored on a daily basis (Risk Management Department, Commercial Banking Division, Risk Claims Management Department) via the CRM application, whereas the reports on the overall credit portfolio, including the reports on received credit collaterals, are produced monthly.

More information about credit risk and its management is provided in Chapter »Financial Risk Management« in Note »1. Credit risk«.

Market risks

Gorenjska banka is managing market risks within its Risk Management Department. Market risk management at the Bank's balance sheet level is provided based on reports on market risks, which include analyses of exposures to market risks and measures aimed at managing identified and measured risks (the use of instruments to manage the balance sheet of the Bank, such as the introduction of new or change of existing limits, the use of derivative financial instruments as hedging against market risks, etc.).

The operational implementation of measures to manage market risks, proposed by the Risk Management Department in the scope of the set limits, and the implementation of the ALCO resolutions are the responsibility of the Treasury Division on the basis of the trading policy and market risk management policy.

Market risks are managed by Gorenjska banka based on the limits applicable to:
- currency risk – open FX position,
- credit risk arising from trading, and
- risk from money market transactions.

Currency risk

As regards the exposure to currency risk, the Bank has set the absolute limit for the total FX position, at which long and short positions in foreign currencies are offset. With the exception of exposures in USD, CHF and GBP, where the exposure limit is EUR 100 thousand, the limit set by the Bank for BAM is EUR 70 thousand owing to the special HRK exchange rate in the summer, and the counter value of EUR 50 thousand for other currencies.

More information about currency risk and its management is provided in Chapter »Financial Risk Management« in Note »2.1. Currency risk«.

Interest-rate risk

Interest-rate risk represents the risk of changes in interest rate and refers to the Bank's exposure to risk arising from unfavourable movements in market interest rates. This risk impacts the Bank's profit and the economic value of its receivables, liabilities and off-balance sheet instruments.

More information about interest-rate risk and its management is provided in Chapter »Financial Risk Management« in Note »2.2. Interest rate risk«.

Liquidity risk

Liquidity risk constitutes the risk that the Bank will in a short period not be able to settle all due liabilities or that it will be forced to obtain funds at significantly higher cost. Market liquidity risk is the risk arising from the Bank's inability to sell positions in financial instruments or replace them in a short period without a major impact on market price.

The Bank has established procedures for continuous monitoring and ensuring the adequacy of funds and the possibilities for their timely availability, both in relation to existing and structural liquidity on the daily level, along with the calculation of the prescribed liquidity ratios, which are regularly monitored and forecast upon the conclusion of transactions. Liquidity management procedures minimise liquidity risk.

The Bank's priority is to ensure sufficient liquidity for managing assets and liabilities. The goals of liquidity management of the Bank are the following:
- daily fulfilment of all obligations related to cash outflows;
- avoiding the acquisition of funds at a price higher than the market price or by forced sale of assets below the market value;
- ensuring conditions for permanent – long-term liquidity of the Bank (solvency); and
- compliance with the regulations governing liquidity and minimum reserves.

For the purpose of monitoring liquidity risk, the Accounting & Operating Support Division daily calculates the receivable to liability ratio for both classes of investments according to the decision of the Bank of Slovenia and daily reports to the Bank's management. The Treasury Division makes substance checks of the liquidity ratio calculations and reports to the Bank of Slovenia. Monitoring of the liquidity risk comprises the internal control system, the system of internal and external reports, the checking of the limit system and the system of reporting in case of detected violations. Limits and targets of liquidity risk management are prepared by the Risk Management Department when drafting stress scenarios for liquidity risk, which are approved by the Management Board.

More information about liquidity risk and its management is provided in Chapter »Financial Risk Management« in Note »3. Liquidity risk«.

1.4. The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants (article 10.d of the Regualtion on Disclosures by Banks and Saving Banks)

Risk management policies of the Bank are defined in the following umbrella documents:
- Credit Risk Management Policy (including concentration risk);
- Market Risk Management Policy (position, interest rate, currency);
- Operational Risk Management Policy;
- Liquidity Risk Management Policy;
- Capital Management Policy;
- Securities Investments Policy;
- Equity Investment Management Policy.

Credit risk, market risk (currency, interest) and liquidity risk are in detail discussed in Chapter »Financial Risk Management« and in item »1.3. The scope and mature of internal risk reporting and risk measurement systems« of the disclosures. Below we provide an explanation of other risks.

The risk arising from trading in equity securities from the trading portfolio

The risk arising from trading in equity securities from the trading portfolio is evident in the Bank as the risk arising from the impact of changes in market prices of equity securities in the trading portfolio on the Bank's performance result.

The calculation of exposure arising from trading in equity securities of the trading portfolio is based on the maximum loss expected at 99-percent statistical confidence level and 10-day investment horizon based on a 5-year series of data.

Operational risk

Operational risk is the risk of losses resulting from:
- inadequate or unsuccessful implementation of internal processes,
- human action,
- system functioning,
- external factors.

The Bank manages operational risk mainly by efficient internal controls and the delimitation of competencies in all procedures, by appropriate supervision of all processes, suitable hedging, defined procedures for exceptional situations and last but not least hedging against certain risks. The Bank has an established system for monitoring operational risk and loss events resulting from this risk.

Operational risk management is gradually implemented at all levels of the Bank's organisation and increases the awareness of the main aspects of operational risk as a special type of risk that has to be managed.

The Bank has an established system for monitoring operational risk and loss events arising from operational risks, and keeps a register of operational risks, including an overview of the major operational risks at the Bank.

Securities Investments Policy

The goal of the Bank's Securities Investments Policy is to achieve maximum value or return on the portfolio of securities considering the external limitations, the defined acceptable risk and the required liquidity level of these investments. The Treasury Division is responsible for monitoring and analysing the movement in the relevant indicators on the domestic and foreign financial markets based on the calculated income and liquidity effects for preparing proposals, in relation to financial instruments in the bank portfolio and in line with the respective adopted business strategy of the Bank. Investments in securities are monthly monitored by the Management Board and internally, by a member of the Management Board, the Director of the Treasury Division and the coordinator for treasury operations from the Accounting & Operating Support Division.

Equity Investment Management

Equity Investment Management policy comprises the acquisition of equity investments, the disposal of equity investments and the exercise of rights of a shareholder or a partner. Equity investments are managed by the Bank according to the principle of transparency, economy and responsibility. The Bank's Management Board annually adopts the strategy on equity investments, dividing investments into strategic and non-strategic. In the latter, the Bank mainly pursues economic goals and is prepared to divest and sell them at an appropriate price. The Bank's strategy defines activities to be conducted for every investment in the future period. Equity investments are monthly monitored by the Management Board and internally, by a member of the Management Board, the Director of the Treasury Division and the coordinator for treasury operations from the Accounting & Operating Support Division.

Strategic risk

Strategic risk is the risk arising from inappropriate business decisions or too slow responsiveness or identification of trends in the banking sector or the adoption of wrong decisions based on these trends. This can result in important business decisions, which may turn out to be inappropriate and unsuitable for the achievement of long-term business goals of the Bank and are difficult or impossible to remedy.

The fundamental goal of strategic risk management is to ensure compliance between strategic orientations and goals and the Bank's business strategy for the implementation of policies, the funds allocated and the quality of implementation.

Management of the strategic risk falls within the competence of the Bank's Management Board, which in cooperation with the Supervisory Board determines the Bank's position in terms of risk and its strategic orientations.

Strategic risk is mainly assessed by qualitative methods. That is why the Bank continuously monitors the domestic and foreign financial markets and to these it tailors its strategic orientations in the scope of the continuous change process.

The Bank's Management Board regularly checks the appropriateness of the adopted business strategy in the framework of long-term planning of operations. Thus, the Bank can appropriately react to the changes in the environment by adjusting its business model or operational processes.

Profitability risk

Profitability risk means risk that the Bank will not be able to provide an adequate level of profitability over a long period, which would prevent or hinder its development.

Profitability risk management is a component of managing the Bank and is supervised by the Bank's Management Board. The key element of profitability risk management is ensuring of appropriate structure of the Bank's balance sheet, ensuring the creation of a suitable level of profit over a longer period. So as to avoid profitability risk, the Bank regularly monitors its operations and its Management Board analyses performance results on a regular basis. The Bank applies conservative approaches to the valuation of individual items in its financial statements, ensuring that it appropriately evaluates its assets and liabilities.

Compliance risk in relation to reputation risk

Compliance risk is the risk of statutory or regulatory sanctions, major financial losses or the loss of the Bank's reputation owing to the Bank's non-compliance with the relevant regulations and standards of good practice. The reputation risk is the risk of a loss due to negative image of the Bank among its clients, business partners, owners or supervisors.

In terms of capital requirements, compliance risk is dealt with in the scope of the first pillar (as operational risk), whereas the part referring especially to reputation risk falls within the second pillar. Compliance risk management comprises identification, measurement, assessment, control and monitoring of compliance risk, including reporting on compliance risk, to which the Bank is or could be exposed in the course of its operations.

The Management Board is responsible for establishing a permanent and efficient compliance function, whereby it demonstrate its diligence to ensure that its operations are compliant. In relation to compliance, the Management Board is exercising its powers by adopting appropriate internal acts, which are submitted to the Supervisory Board for assessment and the issue of appropriate approval. The Rules on Compliance Function of Gorenjska banka d.d., Kranj, represent the basis for defining the compliance function in the Bank.

2. Information on entities included in disclosure

(article 11. of the Regualtion on Disclosures by Banks and Saving Banks)

2.1. The name of the bank obliged to make disclosures pursuant to the regulation

(article 11.a of the Regualtion on Disclosures by Banks and Saving Banks)

Information on the name of the bank obliged to make disclosures is provided in Chapter »Notes to financial statements«, Note »1. General information«.

2.2. An outline of the differences in the basis of consolidation for accounting and prudential purposes

(article 11.b of the Regualtion on Disclosures by Banks and Saving Banks)

Gorenjska banka, d.d., Kranj, is not a member of a financial or banking holding and does not prepare consolidated financial statements for supervision on consolidated basis.

The information about the Group and consolidation is provided in Chapter »Notes to financial statements«, Note »2.2. Associates and subsidiaries«.

2.3. Any current or foreseen practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries

(article 11.c of the Regualtion on Disclosures by Banks and Saving Banks)

The Gorenjska banka Group has no actual or legal impediments for the transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

2.4. The aggregate amount by which the own funds are less than the required minimum in all subsidiaries not included in the consolidation, and the name(s) of these subsidiaries

(article 11.d of the Regualtion on Disclosures by Banks and Saving Banks)

All subsidiaries in the Gorenjska banka Group which are not included in consolidation under the Regulation on Supervision of Banks and Saving Banks on Consolidated Basis fulfil the required minimum capital. The total capital deficit is 0 euros. It refers to the companies:

- Imobilia-GBK, promet z nepremičninami in hipotekarnimi posli, d.o.o., Kranj,
- Skupna pokojninska družba, d.d., Ljubljana.

3. Own funds

3.1. Key information on the terms and condition of the main features of all own funds items and components there of

(article 12.a of the Regualtion on Disclosures by Banks and Saving Banks)

The Bank's capital is divided into three categories: Core Tier 1, Tier 2 and Tier 3. It is calculated as the sum of these three categories, taking into account deduction items, which are deducted from individual capital categories, with consideration of the relations between the categories and own funds components and the purpose thereof.

Core Tier 1 and Tier 2 can be used to fulfil capital requirements for credit, operational and market risks, whereas Tier 3 can only be used for meeting the capital requirements for market risks, with the exception of capital requirements for settlement risk and counterparty credit risk.

The Bank complies with the required ratios and limits between own funds components.

The Bank considers the following components in Core Tier 1:
- subscribed Tier 1 and share premium;
- revenue reserves in the part that is envisaged as remaining an own funds item and not being distributed;

reduced by the following deduction items:
- treasury shares;
- intangible long-term assets.

In Tier 2 the Bank considers 80% of gains from the revaluation surplus associated with equities available for sale and valued at fair value.

The Bank does not have Tier 3.

The Bank has no hybrid instruments. Subscribed Tier 1 and share premium meet the prescribed conditions for Core Tier 1 components.

3.2. Elements of calculation of capital adequacy

(articles 12.b, c, d, e and 13.b, d, e of the Regualtion on Disclosures by Banks and Saving Banks)

The Bank applies the standardised approach to the calculation of capital requirement for credit risk. The capital requirement for credit risk is calculated at 8% of risk-weighted exposures computed in accordance with Article 5 of the Regulation on Capital Requirement Calculation for Credit Risk According to the Standardised Approach for Banks and Savings Banks (hereinafter: the Regulation).

The risk-weighted amount of exposure is calculated by individual category of exposure as the product of exposure amount and risk weight. The amount of exposure arising from an asset item equals its carrying amount, whereas the amount of exposure arising from an off-balance sheet item is calculated according to conversion factors which depend on risk. The risk weight for an exposure is determined based on the category of exposure and the credit quality step.

The Bank meets the prescribed ratios and limits between own funds categories or components. Its Tier 2 does not exceed Core Tier 1. The Bank has no hybrid instruments and Tier 3.

A table with own funds components, capital requirements and capital adequacy ratio is provided in Chapter »Financial Risk Management«, Note »5. Capital management«.

4. A summary of the bank's approach to assessing the adequacy of its internal capital

(article 13.a of the Regualtion on Disclosures by Banks and Saving Banks)

Capital management is a continuous process of determining and maintaining a sufficient volume and quality of capital. The Bank must ensure that it always has available adequate capital, with respect to the extent and types of services it provides and of risks to which it is exposed in the provision of these services. The Bank has to operate so that the risks to which it is exposed in individual or all types of transactions it performs never exceed the prescribed limits.

Capital restrictions or requirements are on the one hand prescribed by law and on the other hand internally set by the Bank and are above the legally prescribed figures. Internally set restrictions will be considered by the Bank so as to provide secure operation in accordance with the legal framework.

Capital represents the basis for ensuring safety and stability of operations. Only on the basis of a strong capital base can the Bank conclude transactions and assume bank risks. Gorenjska banka is strong in capital terms, providing its clients trust in its safety and stability.

Internal capital adequacy assessment was mainly introduced in order to ensure adequate capital of banks in view of the actual risks assumed or exposed to by banks and to give assurance that capital will remain adequate in the future given the plans of business development of the Bank. The internal capital adequacy assessment process is defined by two variables. On the one hand the risks to which the Bank is exposed and which exceed the framework covered by the first pillar of capital requirements and on the other hand the capital which the Bank has for covering risks and potential losses arising therefrom.

Capital regulations enable smaller and less complex institutions to use simpler methods in the internal capital adequacy assessment process, proportionate to their size and even more so to the complexity of their operations, both in risk identification and internal capital assessment.

Given the fact that the Bank mainly performs classic banking business, it can adopt a less complex approach to the internal capital adequacy assessment process.

The Risk Management Department is in charge of monitoring the implementation of capital management goals. It monthly prepares the report on capital and capital requirements, which is discussed by the ALCO. In the scope of preparing the annual report, the Risk Management Department at least once a year assesses the adequacy of the internal capital adequacy assessment process and the allocation of internal capital. Re--assessment is made upon every major change of exposure to risks.

Assessment of the Bank's internal capital

The Bank calculates and assesses internal capital by taking into account the components that would in the event of unexpected losses be used to cover these losses and provide investors safety. Depending on its characteristics, the internal capital of the Bank is the entire capital, that is Tier 1, all reserves, equity revaluation adjustment and retained profit. The Bank's capital also encompasses subordinated debt and hybrid and innovative instruments if they fulfil the conditions to be included in the capital in the scope of the first pillar of the capital regulation, as defined in the Regulation on the Calculation of Capital of Banks and Savings Banks.

The Bank calculates internal capital based on the value of equity calculated under the first pillar, increased by other reserves of the Bank and retained profit which are not included in capital calculation according to the first pillar. The internal capital of the Bank is reduced by the difference between the market and model assessment of securities investments the value of which the Bank assessed under the internal valuation model.

Assessing adequate internal capital

Based on the Bank's risk profile assessment, reflecting its risk appetite in various business areas, and based on the actual risk assumption, it is estimated that the Bank is mainly exposed to traditional banking risks. As a result, the internal capital of the Bank covers known bank risks that are included in the first pillar of the capital regulation and the risks which the Bank identified when preparing its risk profile. Thus, the risks dealt with by the Bank in the scope of the internal capital adequacy assessment process are the following:

- credit risk,
- concentration risk,
- market risk,
- interest-rate risk,
- liquidity risk,
- operational risk,
- market liquidity risk,
- strategic risk,
- reputation risk,
- capital risk,
- profitability risk.

Considering the relatively high internal capital in view of the said risks, the Bank estimates that in the event of losses resulting from other risks, the internal capital would suffice for covering these losses.

For the purpose of the ICAAP (Internal Capital Adequacy Assessment Process) the Bank conducts stress tests based on the Bank of Slovenia's methodology and the guidelines of the CEBS (Committee of European Banking Supervisors). On the basis of their results, the Bank obtains a better overview of the exposure to individual risks, a better understanding of its own risk profile and has less difficulty assessing the impact of various exceptional situations on the changes in expected income. From this aspect, stress tests allow the Bank to comply with the principle of looking forward, as it can compare the influence of their results on the business plan and adopt appropriate measures on this basis.

Credit risk

The Bank assesses the internal capital adequacy for credit risks based on the approach defined in the Regulation on Capital Requirement Calculation for Credit Risk According to the Standardised Approach together with the use of credit collaterals defined in the Regulation on Credit Collateral.

For covering the expected losses based on past experience and expectations, the Bank makes impairments and provisions. Capital is intended for covering unexpected losses assessed using the said methodology.

In addition to the capital requirement for credit risk in the sense of default risk, the Bank has introduced procedures for monitoring the concentration of credit risk.

Risk arising from the use of collateral to reduce exposure to credit risk

The Bank is intensively using various forms of collateral in managing credit risk. Collateral of loans and guarantees is verified throughout the loan repayment period or guarantee term. The Bank regularly checks the quality of collateral for all long-term loans and guarantees and assesses its adequacy. If collateral is not adequate, it proposes measures for additional collateral. The aggregate information about verifying the quality of the collateral for the entire portfolio and potential measures for arranging additional collateral is discussed by the Credit Committee of the Bank.

Since the Bank applies a conservative loan approval policy and such attitude to the use of collateral to reduce exposure to credit risk, it assesses that additional capital for covering the risks arising from the use of collateral is not necessary. In assessing expected losses from credit risk, the Bank considers collateral to a smaller extent.

Concentration risk

The Bank is exposed to the risk of concentration in its credit portfolio. In the scope of the first pillar the capital requirements are based on a diversified and not very correlated portfolio which can in specific cases differ from the actual status. Owing to the above, the Bank assesses also the capital requirement for concentration risk.

The concentration risk is identified and measured based on the Herfindahl-Hirschman index, calculated by squaring the market share of exposures to legal persons and sole proprietors.

The Bank makes the internal assessment of capital requirements for the concentration risk on the basis of a simplified method, which defines the capital requirement assessment for the contraction risk as the mark-up on the capital requirement for credit risk, as defined in the Instructions for completing and submitting the ICAAP report to the Bank of Slovenia.

Market risk

The Bank calculates the capital requirement for market risks of the trading book items using the method which is prescribed by the Bank of Slovenia in the Regulation of capital requirement for market risk in the scope of the first pillar of capital supervision. More information about the capital requirement for market risk is provided in item 8 of disclosures.

Such approach is also suitable due to a relatively small volume of trading and the non-complexity of the deals in the trading book.

The Bank has very low limits established for currency risk, which restrict the open position to such a low level that it is not necessary to calculate adequate internal capital nor is it necessary to calculate the capital requirement in the scope of the first pillar of the capital regulation.

Interest-rate risk

Interest-rate risk as the most important market risk is dealt with separately due to its significance.

The Bank establishes exposure to interest-rate risk at the level of its balance sheet, both for the trading and banking book. Since interest-rate risk for trading is already included in market risk, such approach is somewhat more conservative.

The Bank calculates adequate internal capital based on the unfavourable impact of the yield curve shift by 200 basis points on the economic value of the Bank's capital.

Liquidity risk

The Bank has established procedures for continuous monitoring of existing and structural liquidity on the daily level, along with the calculation of the prescribed liquidity ratios, which are regularly monitored and projected upon the conclusion of transactions.

According to the recommendations, the Bank does not calculate adequate internal capital, since the liquidity management procedures minimise liquidity risk.

Operational risk

The Bank calculates the capital requirement for operational risks according to the simple method which is prescribed by the Bank of Slovenia in the Regulation of capital requirement for operational risk in the scope of the first pillar of capital supervision.

The Bank has established procedures for monitoring and collecting data about loss events resulting from operational risk.

Market liquidity risk

Market liquidity risk is the risk of the Bank not being able to sell or replace, in a short period, the desired quantity of liquid investments without a significant impact on market price, either due to insufficient market depth or market imbalance.

For the Bank, trading items represent a small part of investments. The Bank estimates that the disposal or replacement of positions, considering their amount, would not significantly influence the market price. In line with its conservative policy for the adoption of risks for the purpose of assessing capital requirement for market liquidity risk, the Bank is using a stress test that envisages a 10% reduction in the value of securities in the trading book and equity securities available for sale.

Profitability risk

Profitability risk is the risk that owing to excessive concentration or specific structure of income, the Bank will not be able to ensure permanent and sustainable level of profitability.

In view of its operations, which mainly focus on classic, traditional banking business, the Bank has a stable structure of income, with net interest income being crucial for the Bank's profitability. The Bank is supervising the level of net interest income by continuous monitoring of interest-rate risk, which is because of a relatively large volume of sight deposits and capital relatively small in terms of influence on net interest income.

The Bank assesses the capital requirement for profitability risk arising from interest rates on deposits based on the instructions of the Bank of Slovenia for completing and submitting the ICAAP report, namely based on the volume of new deposits and the difference by which the average achieved interest rate on deposits exceeds the upper limit prescribed by the Bank of Slovenia.

Other risks

Other risks (strategic risk, reputation risk and capital risk) are managed by the Bank through a comprehensive approach to the operations and by the internal control and reporting system. As regards capital coverage of these risks, the Bank estimates that they are adequately covered by the early warning signal (90-percent capital utilisation), which represents the »reserve« in internal capital.

The Bank is profiled as a safe and stable bank, which requires a careful business policy when taking and managing risks. The Bank is mostly oriented towards traditional banking services based on which it assesses that the risks it assumes are appropriately covered by the capital requirement.

Strategic risk

Strategic risk refers to negative effects on capital and the Bank's income, resulting from business decisions, changes in the economic environment, incorrect or incomplete implementation of adopted decisions or unsuccessful adjustment to changes in the economic environment.

Reputation risk

The reputation risk refers to the risk of negative effects that can arise due to the change in the current Bank's reputation. The Bank's reputation is defined as its position as perceived by the interested public (investors/owners, creditors, employees, clients, etc.) in terms of its safety, reliability, competence and integrity.

The Bank is managing its reputation risk by its approach to operations and with the entire internal control system.

Capital risk

Capital risk arises from an unbalanced structure of the Bank's capital in view of the nature of its business and size or from potential problems in ensuring additional capital if necessary.

External environmental factors

On the basis of various stress tests the Bank makes internal assessment of capital requirements also for specific risks arising from the factors of the external environment. In order to cover these risks, the Bank is using an additional capital requirement calculated based on the general stress test with the key assumptions being the impacts of the external environment (decrease in economic activity, drop in real estate prices, reduction in the prices of securities and similar). The Bank considers that this is an alternative component of capital, the purpose of which is to be used in crisis situations. The stress scenario for the calculation of additional capital requirement for specific risks arising from the factors of the external environment is prepared by the Bank once a year on the basis of a stress scenario proposed by the Bank of Slovenia.

Additional capital requirements

In the calculation, the Bank also takes into account other requirements according to the requirements of the Bank of Slovenia prescribed for the Bank in the scope of the internal capital adequacy assessment process, namely:

- reduction in capital requirement based on consistency or comparability between banks, since banks' capital requirements must be the same as assessed by the supervisor with the same risk profile;
- additional capital requirement in view of the quality of the internal governance of the Bank.

Aggregation of adequate internal capital

Considering the fact that the Bank mainly performs classic banking services and the correlation between risks is practically impossible to determine, while at the same time different risks are present with relatively small correlation, the aggregate risk assessment and the assessment of adequate internal capital for these risks are made by the Bank by summing the adequate internal capital for each individual risk. Such assessment is exceptionally conservative, because it implies a complete correlation between various risks, which is an extremely conservative assumption.

Early warning system

For monitoring adequate internal capital the Bank sets a signal point at which the Risk Management Department specifically analyses the status and in cooperation with other organisational units proposes measures to prevent the Bank's capital from falling below the necessary level. The Bank set this limit at 90-percent internal capital utilisation, namely when the adequate internal capital exceeds 90% of the Bank's internal capital.

5. Counterparty credit risk (CCR)

(article 14 of the Regualtion on Disclosures by Banks and Saving Banks)

Since Gorenjska banka, d.d., Kranj, is mainly performing classic bank services and because transactions in derivative financial instruments represent a negligible part of the Bank's operations, the Bank will for now not in detail disclose counterparty credit risk according to Article 7, paragraph 3 of the Regulation on Disclosures by Banks and Saving Banks (Official Gazette of the RS, nos. 135/06, 42/09, 85/2010, 62/11, 100/11, 60/13).

The Bank has an established system of limits whereby it restricts exposures to counterparty credit risk and daily monitors their observance. The limit depends on the counterparty credit rating and the type of financial instrument.

The Bank calculates counterparty risk for derivative financial instruments, namely equity financial instruments and foreign currency (forward purchase and sale for own account) and options. For calculating the exposure, the Bank is using the current exposure method as follows:

a) calculation of the replacement costs for positive-value contracts by revaluating all contracts to the current market values by using current prices; for negative-value contracts the current exposure equals zero;
b) the potential future credit exposure is calculated for the time remaining until the contract due date, so that the nominal values or the values of basic financial instruments are multiplied by appropriate conversion factors considering the residual maturity (6% up to one year, 8% from one to five years and 10% over five years);
c) the value of exposure is the sum of replacement costs and the potential future credit exposure.

On 31 December 2013 the Bank's portfolio included no repurchase contracts in securities at pre-determined forward sale price (2012: the contractual value of these transactions was EUR 8,016 thousand and the credit replacement value was EUR 3,738 thousand). The transactions do not meet the requirements to be considered, for the purpose of calculating capital requirement, as granted or raised loans based on securities pledge, so the Bank treats them as transactions comprising spot purchase/sale of securities on the one side and forward sale/purchase on the other.

The Bank is also concluding transactions in foreign-currency derivative financial instruments. On 31 December 2013, the contractual value of these transactions was EUR 700 thousand and net credit exposure was EUR 6 thousand (2012: no such transactions).

The total value of exposures from derivative financial instruments arising from counterparty credit risk was EUR 6 thousand on 31 December 2013 (2012: EUR 3,738 thousand). When dealing with derivative financial instruments, the Bank did not have agreements on collateralisation with assets nor agreements on offset. Capital requirement was EUR 0.5 thousand (2012: EUR 299 thousand).

The contractual values of all derivative financial instruments are disclosed in Chapter »Notes to financial statements« in Note »6.1.2. Derivative financial instruments«.

The Bank does not conclude transactions in credit derivative financial instruments.

6. Credit risk and dilution risk

6.1. A definition of past due and impaired items for accounting purposes
(article 15.a of the Regualtion on Disclosures by Banks and Saving Banks)

The Bank treats as past due items all items and exposures for which the counterparty did not pay its contractual obligations on time and within the contractually agreed scope and according to agreed conditions.

Past due exposure for accounting purposes is individual exposure where the debtor is one day or more late in paying total exposure or its part. Past due exposures comprise total exposure under an agreement and not just the part which is late in payment. Other exposures to the same debtor under other agreements which are late in payment are not classified as past due exposures. The overview of credit portfolio in terms of due date and impairments is presented in Chapter »Financial Risk management« in Note »1.3. Loans and receivables«.

Under the Regulation on Capital Requirement Calculation for Credit Risk According to the Standardised Approach, the category of past due items includes individual exposures to a debtor where the debtor is more than 90 days late in paying the entire exposure or its part exceeding EUR 200. The exception is the exposures that fulfil these criteria, but are classified in regulatory high-risk categories. Other past due exposures which are less than 90 days past due and those more than 90 days past due but below EUR 200 are included also in other exposure categories. Exposures under the Regulation on Capital Requirement Calculation for Credit Risk According to the Standardised Approach are presented in items 6.3., 6.4., 6.5. and 6.6. of the disclosures.

Past due exposures considered only in the amount past due, where delay is considered from the first day onward, are presented in items 6.7. and 6.8. of disclosures.

6.2. A description of the merhodology for making value adjustments to items and provisions
(article 15.b of the Regualtion on Disclosures by Banks and Saving Banks)

Financial assets measured at amortised cost

The Bank assesses at each balance sheet 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 and that loss event has an impact on the estimated future cash flows.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:
- default on contractual payments of principal or interest;
- financial problems of the borrower;
- breach of contractual covenants or conditions;
- initiation of bankruptcy or compulsory settlement proceedings;
- deterioration of the borrower's competitive position.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, i.e. which are part of exposure to a borrower that exceeds EUR 650 thousand or 0.5% of the Bank's capital.

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

If there is objective evidence that an impairment loss on loans or held to maturity financial assets has been incurred, the amount of the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, which is discounted under the IFRS 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.

Impairments of collateralised financial assets are calculated by taking into account the expected cash flows from the liquidation of prime and equitable collateral as well as pledges and mortgages, if the Bank disposes with all the necessary documentation (a market must exist for real estate and real estate has to be saleable in a reasonable period), which is assessed by taking into account the time for liquidation of an individual form of collateral, i.e. four years for mortgage property, three years for pledged non-marketable securities and equity interest, two years for pledged marketable securities and movable property. For the purpose of simplification and usually cross collateralisation, cash flows from collateralisation of various receivables due from a client are summed up and discounted at the average effective interest rate on all receivables.

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 the financial position of the client, its ability to generate adequate cash flow to regularly service the liabilities to the Bank in the future, the type and scope of the collateral for the financial asset and the liabilities assumed under off-balance sheet items in respect of an individual debtor as well as the fulfilment of the debtor's liabilities to the Bank in the past.

The necessary impairments for a group of financial assets are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. The Bank regularly verifies the appropriateness of the methodology applied and the estimates used to determine future cash flows.

The assessment of losses is based on one-year matrices of the actual transitions between groups (from A to E) for the period from 2008 to 2013, where the calculation includes all clients with exposure over EUR 1,000. One-year transition matrices for a ten-year period are used to calculate the average transition matrix, which indicates average probability of client transitions between groups. Losses are estimated under the assumption that the Bank suffers a loss if a client is classified into D or E, so it calculates the probability of transition of clients from A, B and C into D and E.

In 2013, the Bank adopted a more conservative model for forming collective impairments by shortening the time series of transition matrices based on which it calculated the PD factor, so that instead of a 10-year average of the estimated probability of default the Bank considers a 5-year average in its calculations.

On the basis of five-year matrices upon subsequent approval by Deloitte, the Bank set the following PD values for client classification: A: 1.56%, B: 3.69%, C: 15.48%, D: 75.40% and E: 98.30%.

In addition to the transition matrix, the Bank also uses the share of D and E-graded receivable repayment for calculating the percentage of the necessary impairments and provisions. The loss given default is deemed to be the unpaid part of the receivable in five years since the client was classified into D or E. Potential repayments outside this time frame are not taken into account when the receivable repayment rate is calculated. For receivables, for which the five-year period of regular collection since classified into D or E has not yet expired, the loss given default is considered to be the estimated percentage of impairments and provisions. For the period from 1 January 2002 to 31 December 2012, loss given default (LGD) of the Bank was, as an exception, set by the Bank of Slovenia, which in the Order no. PBH-24.10-004/12 prescribed LGD of 45%. On the basis of this Order, the Bank re-assessed the loss given default and established the model for monitoring. The Bank submitted the PD and LGD calculation for assessment and verification to the external institution Deloitte, which based on data from the bank base validated the data, conducted backtesting and ultimately set the calculated PD and LGD. Thus, in 2013, instead of using the regulatory LGD factor of 45%, the Bank based on data about losses for 2006–2012 assessed its LGD factors by key portfolio segment; since a considerable part of the collection procedures has not yet been completed, the Bank made loss assessment by taking into

account also the volume of the established individual impairments. The individual impairments made in 2013 influenced the calculated LGD factor and contribute to a more conservative model of collective impairments.

According to the above, in the calculation of collective impairments as of and including December 2013 (for the period from 1 January 2006 to 31 December 2013) the Bank is using LGD assessments of:

- LGD for corporate segment (medium-sized and large companies) 49.79%,
- LGD for SME segment (micro and small companies, sole proprietors) 47.54%,
- LGD for RED segment (real estate financing) 37.18%,

which means that the average weighted LGD for the portfolio of exposures to corporates and sole proprietors, which is the subject of collective assessment, is 48.20%.

Otherwise, LGD is expressed as the average percentage of losses of individual debtors, weighted by size of exposure to a debtor during the transition into D or E.

The percentage of potential loss or the necessary collective impairments and provisions is the sum of probability of transition of clients from A, B, C into D and E (PD) and the expected loss given default (LGD). If the loss amount is later decreased due to an event after impairment, the impairment is reversed or decreased.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Uncollectible receivables are written off after all the collection options have been exhausted and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised through the income statement.

Financial assets measured at fair value

Every reporting period the Bank checks the available-for-sale financial assets for signs of impairment. In the case of an equity instrument, a significant or prolonged decline in the fair value below its cost can be objective evidence of impairment. If there is objective evidence of impairment of a financial asset available for sale, the accumulated loss disclosed in other comprehensive income is transferred to the income statement. The impairment of an equity instrument is not reversed through the income statement, but rather the subsequent increase in fair value is recognised directly in equity. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

Provisions for liabilities and costs

The Bank recognises provisions for liabilities and costs when present obligations (legal or constructive) exist as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of obligation can be estimated reliably.

6.3. The total amount of exposures, minus impairments and provisions, without taking the effects of credit protection into consideration, and the average exposure amount in the reporting period, broken down by category of exposure
(article 15.c of the Regualtion on Disclosures by Banks and Saving Banks)

The table below includes the exposure less impairments or provisions, without considering the effects of credit collaterals and the average amount of these exposures in the year, broken down into categories of exposure. The average exposure amount is calculated as the arithmetic average of quarterly data.

As at 31 December 2013

(in thousands of EUR)	Net value of exposure (31 Dec. 2013)	Net value of exposure (average 2013)
Central governments or central banks	369,136	370,522
Regional governments or local authorities	1,095	625
Public sector entities	4,472	5,092
Institutions	18,309	27,784
Corporates	779,094	848,240
Retail	225,911	227,384
Past due items	89,729	118,779
Items belonging to regulatory high-risk	88,921	114,802
Other items	92,057	79,472
Total exposure	**1,668,724**	**1,792,700**
Of which:		
- from balance sheet items	1,541,795	1,651,364
- from off-balance sheet items	126,918	139,832
- from derivatives	11	1,504

As at 31 December 2012

(in thousands of EUR)	Net value of exposure (31 Dec. 2012)	Net value of exposure (average 2012)
Central governments or central banks	379,979	388,783
Regional governments or local authorities	177	251
Public sector entities	5,469	8,219
Institutions	56,770	49,986
Corporates	894,341	924,806
Retail	231,485	230,763
Past due items	152,236	142,919
Items belonging to regulatory high-risk	122,866	152,521
Other items	55,682	54,763
Total exposure	**1,899,005**	**1,953,010**
Of which:		
- from balance sheet items	1,732,647	1,793,726
- from off-balance sheet items	162,621	157,608
- from derivatives	3,738	1,677

6.4. The geographic distribution of exposures, broken down by material category of exposure

(article 15.d of the Regualtion on Disclosures by Banks and Saving Banks)

The table below includes the exposure less impairments or provisions, without considering the effects of credit collaterals, as categorised by geographical region, broken down into categories of exposure.

As at 31 December 2013

(in thousands of EUR)	Slovenia	Other European union countries	Other countries	Total
Central governments or central banks	251,946	117,190	-	369,136
Regional governments or local authorities	1,095	-	-	1,095
Public sector entities	4,472	-	-	4,472
Institutions	6,547	10,682	1,080	18,309
Corporates	663,859	37,276	77,959	779,094
Retail	225,189	713	9	225,911
Past due items	87,166	653	1,910	89,729
Items belonging to regulatory high-risk	86,194	2,727	-	88,921
Other items	92,057	-	-	92,057
Total exposure	**1,418,525**	**169,241**	**80,958**	**1,668,724**

As at 31 December 2012

(in thousands of EUR)	Slovenia	Other European union countries	Other countries	Total
Central governments or central banks	278,377	101,602	-	379,979
Regional governments or local authorities	177	-	-	177
Public sector entities	5,469	-	-	5,469
Institutions	32,723	22,924	1,122	56,770
Corporates	802,683	16,551	75,107	894,341
Retail	231,399	23	63	231,485
Past due items	129,088	1	23,147	152,236
Items belonging to regulatory high-risk	119,991	2,875	-	122,866
Other items	55,682	-	-	55,682
Total exposure	**1,655,589**	**143,978**	**99,438**	**1,899,005**

6.5. The distribution of exposures by institutional sector or counterparty type, broken down by category of exposure

(article 15.e of the Regualtion on Disclosures by Banks and Saving Banks)

The table below includes the exposure less impairments or provisions, without considering the effects of credit collaterals, as categorised by client type, broken down into categories of exposure.

As at 31 December 2013

(in thousands of EUR)	Corporates and other entities	Individuals	Banks	Total
Central governments or central banks	369,136	-	-	369,136
Regional governments or local authorities	1,095	-	-	1,095
Public sector entities	4,472	-	-	4,472
Institutions	0	-	18,309	18,309
Corporates	779,094	-	-	779,094
Retail	40,225	185,686	-	225,911
Past due items	89,729	-	-	89,729
Items belonging to regulatory high-risk	88,921	-	-	88,921
Other items	72,226	11,828	8,003	92,057
Total exposure	**1,444,898**	**197,514**	**26,312**	**1,668,724**

As at 31 December 2012

(in thousands of EUR)	Corporates and other entities	Individuals	Banks	Total
Central governments or central banks	379,979	-	-	379,979
Regional governments or local authorities	177	-	-	177
Public sector entities	5,469	-	-	5,469
Institutions	0	-	56,770	56,770
Corporates	894,341	-	-	894,341
Retail	45,620	185,865	-	231,485
Past due items	152,236	-	-	152,236
Items belonging to regulatory high-risk	122,862	-	4	122,866
Other items	37,680	9,315	8,687	55,682
Total exposure	**1,638,365**	**195,180**	**65,461**	**1,899,005**

6.6. A breakdown of all categories of exposure into residual maturities of up to one year and more than one year

(article 15.f of the Regualtion on Disclosures by Banks and Saving Banks)

The table below includes the exposure less impairments or provisions, without considering the effects of credit collaterals, as categorised by residual maturity, broken down into categories of exposure.

As at 31 December 2013

(in thousands of EUR)	Up to one year	More than one year	Total
Central governments or central banks	134,834	234,302	369,136
Regional governments or local authorities	2	1,093	1,095
Public sector entities	698	3,774	4,472
Institutions	15,610	2,699	18,309
Corporates	358,286	420,808	779,094
Retail	104,810	121,101	225,911
Past due items	51,947	37,782	89,729
Items belonging to regulatory high-risk	82,239	6,682	88,921
Other items	77,232	14,825	92,057
Total exposure	**825,658**	**843,066**	**1,668,724**

As at 31 December 2012

(in thousands of EUR)	Up to one year	More than one year	Total
Central governments or central banks	102,031	277,948	379,979
Regional governments or local authorities	1	175	177
Public sector entities	338	5,131	5,469
Institutions	53,240	3,530	56,770
Corporates	400,016	494,326	894,341
Retail	108,598	122,886	231,485
Past due items	123,649	28,587	152,236
Items belonging to regulatory high-risk	112,878	9,989	122,866
Other items	48,736	6,946	55,682
Total exposure	**949,488**	**949,517**	**1,899,005**

6.7. Amount of past due exposures, and within this the amount of impaired exposures, the amount of value adjustments due to impairments and provisions, the amount of eliminated/formed value adjusments due to impairments and provisions during the reporting period – by counterparty types
(article 15.g of the Regualtion on Disclosures by Banks and Saving Banks)

The table below summarises the data about past due exposures and in this scope the amounts of default and the amount of established impairments per client type. All past due items are impaired individually or collectively.

As at 31 December 2013

(in thousands of EUR)	Carrying value of loans	Amount in delay	Amount of established impairments
Loans to corporates	115,372	61,246	41,116
Loans to SME	249,059	212,160	122,047
Overdrafts	3,164	192	130
Housing loans	2,113	87	307
Consumer and other loans	2,271	440	630
Total	**371,979**	**274,125**	**164,230**

As at 31 December 2012

(in thousands of EUR)	Carrying value of loans	Amount in delay	Amount of established impairments
Loans to corporates	158,234	114,075	12,726
Loans to SME	298,058	236,061	125,328
Overdrafts	499	339	326
Housing loans	1,060	123	240
Consumer and other loans	2,854	1,190	1,777
Total	**460,705**	**351,788**	**140,397**

6.8. For significant geographical areas the amount of past due exposures, and within this the amount of impaired exposures, including the amounts of impairments and of provisions related to each geographical area
(article 15.h of the Regualtion on Disclosures by Banks and Saving Banks)

Past due exposures in the amount of EUR 371,979 thousand, for which impairments have been made totalling EUR 164.230 thousand (2012: EUR 460,705 thousand of past due exposures, EUR 140,397 thousand of impairments) mostly refer to the area of Slovenia.

6.9. For impaired exposures an illustration of the changes in value adjustments and an illustration of the changes in provisions
(article 15.i of the Regualtion on Disclosures by Banks and Saving Banks)

The changes in value adjustments for impaired exposures and the changes in provisions are presented in Chapter "Notes to financial statements" in Note "5.6. Loans and receivables to customers", "5.7. Other financial assets" and "5.19. Provisions".

7. Additional disclosures by a bank using the standardised approach

7.1. The business names of the nominated external credit assessment institutions (hereinafter: ECAI)

(article 16.a of the Regualtion on Disclosures by Banks and Saving Banks)

In line with the provisions of the Regulation on Capital Requirement Calculation for Credit Risk According to the Standardised Approach for Banks and Savings Banks (Official Gazette of the RS, nos. 135/06, 104/07, 85/10, 97/10, 62/11, 100/11, 22/12, 100/12, 60/13), the Bank appointed the rating agency Fitch Ratings to determine the risk weight for the calculation of capital requirement for credit risk.

The basic credit assessments are compared to the credit quality steps according to the comparison published on the website of the Bank of Slovenia.

7.2. An indication of the ECAI whose credit assessments are used for a particular category of exposure

(article 16.b of the Regualtion on Disclosures by Banks and Saving Banks)

When classifying exposures into exposure categories, the Bank in 2013 applied the method based on the central government risk weight based method. When determining the risk weight for the calculation of capital requirement for credit risk for the category of exposures to the central government and central banks, the Bank applies the assessments of the appointed external credit assessment institution (ECAI), which the Bank of Slovenia estimated as suitable.

When determining risk weights for exposures where the weight depends on the quality grade, the Bank considers the risk weight of the country where the debtor is based.

The Bank is using only long-term credit assessments for determining risk weights.

Data about country ratings (considering the ratings of the external rating agency Fitch Ratings) are monthly verified by the Risk Management Department.

When calculating the credit requirement for credit risk according to the standardised approach as at 31 December 2012, the Bank applied the credit assessments of Fitch Ratings and Moody's Investors Service for exposures to institutions and companies.

7.3. A general description of the process for determining the risk weights for individual exposures on the basis of the credit assessments available for the obligor and its financial instruments

(article 16.c of the Regualtion on Disclosures by Banks and Saving Banks)

When determining the risk weight on the basis of the credit assessments available for the debtor and its financial instruments, the Bank complies with the provisions of the Regulation on Capital Requirement Calculation for Credit Risk According to the Standardised Approach for Banks and Savings Banks. The Bank is using risk weights as stated in the above Regulation for all available credit assessments.

7.4. The exposure values and the exposure values allowing for the effects of credit protection, broken down by credit quality step in accordance with the standardised approach regulation and the Regulation on Credit Protection, and the values of capital deduction items

(article 16.e of the Regualtion on Disclosures by Banks and Saving Banks)

The Bank compares the assessments of external credit assessment institutions with the credit quality steps from 1 to 6. In 2013, it considered the credit assessments of the appointed external credit assessment institutions only in receivables in the category of exposures to central government, but due to the compliance with Article 7 of the Regulation on Capital Requirement Calculation for Credit Risk According to the Standardised Approach for Banks and Savings Banks (hereinafter: the Regulation), all exposures were assigned the risk weight 0% (2012: credit assessments of appointed external credit assessment agencies were considered only for receivables in two exposure categories).

Pursuant to Article 7 of the Regulation, the exposures to central government or central bank which are denominated and financed in the domestic currency are assigned a 0% risk weight, even though according to Article 6 of the Regulation they are attributed a higher weight given the available long-term credit assessment by ECAI compared with credit quality steps.

The table below summarises the value of exposures where the assessments of appointed external credit assessment institutions were considered at the end of 2012, broken down by credit quality step. None of the values is secured by appropriate credit collateral.

As at 31 December 2012

(in thousands of EUR)	Net value of exposure					
	CQ 1	CQ 2	CQ 3	CQ 4	CQ 5	CQ 6
Corporates	3,032	-	5,824	-	-	-
Institutions	842	3,265	25,246	20,961	7	5,016
Total exposure	**3,873**	**3,265**	**31,069**	**20,961**	**7**	**5,016**

The Bank reduced the capital by the following deduction items:

(in thousands of EUR)	2013	2012
Treasury shares	26,729	26,441
Intangible assets	2,956	3,090
Holdings in other credit and financial institutions amounting to more than 10% of their capital	-	5,943
Participations hold in insurance undertakings	4,399	4,399
Deductible items from own funds	**34,084**	**39,873**

8. Breakdown of market risk capital requirements

(article 18. of the Regualtion on Disclosures by Banks and Saving Banks)

Capital requirements for market risks are calculated by the Bank for all positions held for trading. These are the positions that the Bank plans to sell in a short period and/or the purpose of which is to gain from actual or expected short-term changes between the buy and sell price or other price or interest rate changes. The values applied for each of the positions from the trading book appropriately reflect the current market value.

The capital requirement for market risks equals the sum of all capital requirements calculated for the trading book items:

- for position risk,
- for the risk of exceeding maximum permitted exposures based on trading,

and capital requirements calculated for the items of the banking and trading books:

- for currency risk,
- for settlement risk,
- for commodity risk.

The Bank calculates the capital requirement for position risk for debt and equity financial instruments. It is calculated as the sum of capital requirements for specific and general position risk. Specific position risk is the sum of weighted long and short net positions in financial instruments. Weights differ between debt and equity financial instruments and mainly depend on the credit assessment, maturity and issuer. The Bank calculates the general position risk by applying the maturity-based approach.

The table below presents the capital requirement for position risk.

(in thousands of EUR)	2013	2012
Capital requirement por position risk of debt financial instruments		
- general risk	-	122
- special risk	-	694
Capital requirement por position risk of equity financial instruments		
- general risk	939	1,058
- special risk	939	1,058
- other non-delta risks for options	-	42
Total capital requirements for position risk	**1,878**	**2,976**

The capital requirement for the risk of exceeding maximum permitted exposures based on trading (in 2012 and 2013 the capital requirement did not exist) is a country-specific capital requirement. It is calculated on the basis of those exposures from the trading book items to individual persons for which the Bank has to calculate the maximum capital requirement for specific position risk and the sum of which equals the amount of exceeded exposures from trading book items. It is calculated as the sum of capital requirements for specific position risk multiplied by a suitable factor based on whether the exposure was exceeded for up to 10 days or more and considering the amount of exceedance in terms of capital.

Since the total net FX position does not exceed 2% of the Bank's capital, the Bank does not need to calculate capital requirement for currency risk.

The Bank has no unsettled transactions in the trading and banking books, and therefore does not calculate capital requirement for settlement risk.

The Bank's portfolio includes no commodity to be traded in and the Bank thus does not calculate the capital requirement for commodity risk.

The Bank has no trading portfolio with correlation, namely the positions in securitisation and credit derivative

9. Operational risk

(article 20.a of the Regualtion on Disclosures by Banks and Saving Banks)

In view of its size, organisation and scope of operations, the Bank is calculating the capital requirements for operational risk using the simple approach.

The capital requirement calculated according to the simple approach equals 15% of the average over three years of the sum of net interest income and net non-interest income. As at 31 December 2013 it stood at EUR 7,487 thousand (2012: EUR 9,243 thousand).

The Bank's purpose is to not only ensure the minimum capital requirement under the simple model, but to manage operational risk more systematically. This means that the Bank will establish a framework for operational risk management, recording of data on loss events and ensuring resources for the processes of identification, assessment, reduction and reporting on operational risk.

The Bank approaches operational risk management primarily by efficient internal controls and the delimitation of competencies in all procedures, appropriate supervision of all processes, adequate hedging, defined procedures for stress situations and last but not least collateral for certain risks. The report on the operational risk is dealt with by the ALCO, which monthly discusses also the report on losses arising from operational risk in a given month.

The Bank has an established system for monitoring operational risk and loss events resulting from this risk.

Operational risk management is gradually implemented at all levels of the Bank's organisation and increases the awareness of the main aspects of operational risk as a special type of risk that has to be managed.

10. Investments in equities not included in trading book

(articles 21.a, b, c, d of the Regualtion on Disclosures by Banks and Saving Banks)

At the end of 2013, the Bank participated in the capital of eleven companies (2012: thirteen companies), of which investments in equity securities (shares) were not included in the trading book. The carrying amount of these investments was EUR 30,779 thousand as at 31 December 2013, representing 1.9% of total assets (2012: EUR 40,512 thousand or 2.3% of total assets). In 2013 a 14.7-percent stake in Abanka Vipa d.d., Ljubljana, and the 0.0002-stake in Probanka d.d., Maribor, held by Gorenjska banka d.d., Kranj, were disposed based on the Decision of the Bank of Slovenia on extraordinary measures dated 17 December 2013 (2012: the Bank acquired the shares of Merkur, d. d., Naklo, and Intereuropa, d.d., Koper).

The Bank's investments in publicly and non-publicly traded companies were classified under available-for-sale financial assets, as it plans to hold them for an undefined period and might sell them at any time.

The shares of NFD Holding, d.d., Ljubljana, Pivovarna Laško, d.d., Laško, Zavarovalnica Triglav, d.d., Ljubljana, Istrabenz, holdinška družba, d.d., Koper, Petrol, d.d., Ljubljana, and Intereuropa, d.d., Koper, are listed on the regulated market. With the exception of the shares of Pivovarna Laško, d.d., Laško (2012: the shares of Abanka Vipa, d.d., Ljubljana, and the shares of Pivovarna Laško, d.d., Laško), the fair value of which was measured by the Bank according to the model, all shares are valued at market price listed on the Ljubljana Stock Exchange (Ljubljanska borza, d.d., Ljubljana) at the balance sheet date. Gains and losses from valuation at fair value are disclosed in equity and transferred to the income statement upon disposal or impairment. At that time, any cumulative gains or losses previously included in equity are recognised in the income statement. In the event of impairment, the negative effects are transferred from equity to the income statement. In 2013, the Bank made impairments of shares of seven companies in the total amount of EUR 3,805 thousand (2012: seven companies totalling EUR 37,865 thousand) and disclosed EUR 5,943 thousand among loss from financial assets available for sale arising from the deletion of two banks' shares.

The holding in the associate Skupna, d.d., Ljubljana, is treated in the statements of account according to the equity method and was recognised at cost upon acquisition. According to this method, the proportionate participation of the Bank in gains or losses after acquisition is stated in the income statement and the Bank's share in equity changes after the acquisition is disclosed in its equity. Cumulative changes after acquisition are reflected in the value of the asset.

Financial assets comprising equity securities of other non-publicly traded companies (Banka Celje, d.d., Celje, Peko, d.d., Tržič, Thermana, d.d., Laško, and Merkur, d.d., Naklo) are first recorded at cost. The Bank only considers the potential income from net profit distribution of the investee after the acquisition of financial asset.

The carrying amount of equity securities of the banking book equals the fair value of these assets. The Bank carries equity securities (shares) traded on the stock market at the market price as at the balance sheet date, which is why the market value equals the book value. The exception is the shares of Pivovarna Laško, d.d., Laško, with the ticker symbol PILR, which were valued according to the model (2012: the shares of Abanka Vipa, d. d., Ljubljana, and the shares of Pivovarna Laško, d. d., Laško).

The carrying amount of equity securities excluded from the trading book:

*At the end of 2013, the Bank participated in four joint stock companies (2012: in five), whose shares are not listed on the stock exchange. The table presents only two companies (2012: two companies), since the carrying amounts of securities of other companies are small and therefore irrelevant for publication.

(in thousands of EUR)	2013	2012
Securities traded on the stock exchange:		
Petrol, d. d., Ljubljana (PETG)	18,377	19,928
Pivovarna Laško, d. d., Laško (PILR)	6,184	7,323
Intereuropa, d. d., Koper (IEKG)	1,350	1,688
Istrabenz, d. d., Koper (ITBG)	35	189
Zavarovalnica Triglav, d. d., Ljubljana (ZVTG)	112	98
NFD Holding, d. d., Ljubljana (NF2R)	4	35
Probanka, d. d., Maribor (PRBP)	-	0,02
	26,062	**25,204**
Securities which ane not traded on the stock exchange*:		
Skupna, d. d., Ljubljana (SPDR)	4,399	4,399
Thermana, d. d., Laško (ZDRL)	318	906
Other securities	-	4
	4,717	**5,309**
Total	**30,779**	**40,513**

In the years 2012 and 2013 the Bank did not sell any shares.

The Bank's Tier 2 includes 80% of gains from the revaluation reserves associated with shares available for sale and valued at fair value. In 2013, the Bank included in Tier 2 EUR 74 thousand gains from the shares of Zavarovalnica Triglav, d.d., Ljubljana, and SWIFT Belgium (2012: EUR 80 thousand gains from the shares of Zavarovalnica Triglav, d.d., Ljubljana, and SWIFT Belgium).

In 2012 and 2013 there were no negative effects from the surplus of revaluation of shares available for sale and carried at fair value that would require the Bank to decrease Core Tier 1.

At the end of 2013, the Bank held stakes in companies that facilitate its provision of services (Bankart, d.o.o., Ljubljana, Sisbon, d.o.o., Ljubljana, Swift Belgium) or represent long-term interest in the capital of subsidiaries (Imobilia-GBK, d.o.o., Kranj).

The carrying amount of equity stakes excluded from the trading book:

(in thousands of EUR)	2013	2012
Iskratel, d. o. o., Kranj	-	8,983
Bankart, d. o. o., Ljubljana	150	150
Kreditni biro SISBON, d. o. o., Ljubljana	19	19
SWIFT, La Hulpe, Belgija	13	13
Gorenjski Glas, d. o. o., Kranj	-	476
Imobilia-GBK, d. o. o., Kranj	113	13
	295	**9,654**

More information about equity securities and the models of valuation thereof is provided in Chapter "Notes to financial statements" in Note "5.4 Available-for-sale financial assets ", "5.11. Investments in associates and subsidiaries" and in Chapter »Financial Risk Management« in Note "4.3.2. Presentation of valuation models".

11. Interest-rate risk from items not included in trading book

Interest-rate risk in the Bank represents the risk of changes in interest rates on net interest income of the Bank and the risk of interest rate changes influencing the fair value of financial instruments at fixed interest rate. The changes in interest rates also influence the economic value of the Bank's equity, because the present value of future cash flows from bank assets, liabilities and off-balance sheet positions is changing. Some financial instruments, e.g. equity investments are not directly exposed to interest-rate risk.

Interest-rate risk arises when interest-sensitive assets have different maturities or dynamics of changing variable interest rates than the corresponding liabilities. The Bank controls and monitors interest-rate risk exposure on the basis of interest rate gap methodology and stress test regarding different interest rate movements scenarios. The Bank performs stress testing for interest-rate risk for shift of yield curve by 1 percentage point for impact on net interest income and for shift for 2 percentage points for impact on economic value of the Bank's equity, which is in line with recommendations of Banking Supervision Committee at the Bank for International Settlements (BIS).

The Bank's objective in managing interest-rate risk is to minimise the volatility of net interest margins arising from the changes in market interest rates. The Bank's interest-rate risk exposure is monitored and managed by using the methodology of interest spreads. Those reports contain interest rate sensitivity analysis by time bands for both balance and off-balance sheet items which are monitored by type of interest rate and by time bands depending on their maturity or the next date of determining interest rates. In order to monitor the interest rate changes sensitivity, the Bank uses techniques designed to track market values and interest income (by measuring interest 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 monitoring system in place to ensure the adequate net interest 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 income and the Bank's capital.

The Risk Management Department prepares monthly analysis of exposure to interest-rate risk, which it submits to the Bank's Management Board and the ALCO. The latter also discusses it. The 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 income and on economic value of equity.

Interest-rate risk management is based on interest-rate risk exposure limits. The Bank has a limit for the stress test effect 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 which reach maturity in a particular time period.

Assumptions of early loan repayments and the movement in sight deposits

Long-term loans to natural and legal persons that are linked to variable interest rate are classified into time bands based on re-determining of interest rates, since they are linked to 3- or 6-month Euribor and in many cases interest rate is re-determined every month. In terms of exposure to interest rate changes, these loans are discussed as short-term, so the probability of early repayment before the change in interest rates is small. At the same time, upon classification based on expected early repayment, these loans would be included in equal or very similar time bands.

The Bank assessed that sight deposits are stable. Considering the fact that interest rates on sight deposits are not changed in the same scope or ratio as other market interest rates, it would be justified for the Bank to classify sight deposits into the longest time band when treating interest-rate risk. Given the conservative approach of the Bank and the theoretical possibility of change in the trend of sight deposit movements, the Bank adopted a more conservative approach to classification and classified sight deposits into longer time bands.

The percentages of including sight deposits (SD) by time band

Time band	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years
SD percentage	2%	3%	5%	10%	20%	20%	20%	20%

The utilisation of overdrafts in transaction accounts was estimated as stable, while it has no impact in terms of the interest-rate risk, since these are the items whose interest rate changes in a very short period or which fall due before interest rate change. In terms of interest-rate risk they are classified into similarly short time bands regardless of whether and when they fall due.

11.2. The effect on earnings or any other measurement of value used in the management of interest-rate risk in the event of upward or downward shocks in interest rates on major currencies

(article 22.b of the Regualtion on Disclosures by Banks and Saving Banks)

Under the assumption that the Bank's assets and liabilities as at 31 December 2013 remain unchanged and in the Bank's possession upon maturity and that the Bank would not actively intervene in the structure of assets and liabilities with the aim of changing the exposure to interest-rate risk, a decrease in market interest rates by 1 percentage point for all time bands would represent a decrease in net interest income of EUR 0.75 million over a one-year period (2012: EUR 2.93 million).

The Bank also assesses the influence of interest rate changes on the economic value of equity. A drop in market interest rates by 2 percentage points for all time bands would represent a decrease in the economic value of equity in the amount of EUR 4.8 million (2012: EUR 7.4 million). This too is a theoretical drop, since a 2 percentage-point drop in interest rates is not realistic.

In the event of changes smaller or greater than those considered in above scenarios, the impact on the Bank's result or capital would be proportionately greater or smaller.

12. Liquidity risk

12.1. Methodologies for managing liquidity risk
(article 23.a.a of the Regualtion on Disclosures by Banks and Saving Banks)

According to the Rules on Liquidity Risk Management, the Bank has an established methodology for the distribution of costs, benefits and risks in ensuring liquidity (the methodology of internal transfer prices), which comprises all relevant items of assets and liabilities, off-balance sheet items and all costs related to liquidity. The methodology includes appropriate incentives given the contribution of individual business areas to liquidity risk. The performance of individual business areas is calculated by the Accounting & Operating Support Division in the Controling-MIK application.

The methodology for determining, measuring, controlling and monitoring liquidity enables the Bank to harmonise actual and potential sources of liquidity with the actual and potential use of liquid funds in the same period. For this purpose, liquidity management enables that the actual and planned major cash flows arising from assets, liabilities, off-balance sheet items, including contingent liabilities, are taken into account.

For liquidity risk management, the Accounting & Operating Support Division daily calculates the ratio between assets and liabilities for both classes (1st class up to 30 days, 2nd class 0-180 days), while the Treasury Division daily reports to the Bank's management and the Bank of Slovenia on achieved liquidity ratios.

The Accounting & Operating Support Division prepares the basic orientations and the schedule of activities for the drafting of planning documents that contain the fundamental orientations of the financial plan and the target performance indicators for the following year. On the basis of approved planning documents the Bank carries out various operational actions.

The Bank carries out the following operational actions for liquidity management and monitoring:
- Annual Plan of the Bank's operations;
- Monthly Liquidity Plan;
- Daily Liquidity Planning (Minimum reserve);
- Daily Liquidity Committee;
- Credit Committee of the Bank;
- Investment Committee;
- Assets and Liabilities Committee of Gorenjska banka, d.d., Kranj (ALCO).

Monitoring of liquidity includes the internal control system, the system of external and internal reports, checking of the limit system and reporting system in case of violations, the supervision by the Internal Audit Department and taking action based on its recommendations. Through a specifically defined reporting system, where numerous regular and extraordinary reports are produced and via authorisations given to individual decision-making levels, the Bank has ensured monitoring and control of measures for liquidity risk management.

12.2. Mitigation of liquidity risk
(article 23.a.b of the Regualtion on Disclosures by Banks and Saving Banks)

Liquidity risk represents the risk that in a certain period the Bank will not be able to settle due obligations because it will lack appropriate liquidity funds.

Gorenjska banka employs various methods for reducing liquidity risk, including an established and regularly reviewed system of limits for restricting exposure to liquidity risk, an appropriate scope of liquidity reserves in case of potential liquidity crisis, deposit concentration limits and appropriately dispersed structure of liquidity sources and access to these sources. At the same time, the Bank calculates the LTD ratio as the ratio between net loans (gross loans less impairments) and the balance of deposits of the non-banking sector (excluding government deposits), the GLTD ratio as the ratio between gross loans and deposits of the non-banking sector, the GLTDF ratio as the ratio between the changes in gross loans and deposits of the non-banking sector according to quarterly data, the K1 ratio as the ratio between average liquidity funds and average balance of short-term deposits of the non-banking sector, the K2 ratio as the ratio between the average balance of liquid funds and the average assets, and the K3 ratio as the ratio between liquid funds increased by 80% of debt securities and short-term deposits of the non-banking sector (20 % SD).

The Bank is using the limit system and target values of liquidity risk management to ensure the level of maximum open short positions which it can close without additional costs and at the same time provide the level of maximum long positions where it would not incur significant opportunity damage. The Risk Management Department prepares the limits of liquidity risk management to be approved by the Management Board based on stress scenarios for liquidity risk; the ALCO at its monthly meetings discusses the stress scenarios and monitoring and observance of limits.

The Bank has an appropriately formulated annual plan and a suitable monthly plan of inflows and outflows in its settlement account. In addition to annual and monthly planning, the Bank is still optimally managing the compliance with minimum reserve as prescribed by the ECB to reduce liquidity risk and maintain minimum reserves and achieve primary reserves.

The Bank deems that the priority liquidity gap is the gap calculated as the difference between total receivables and liabilities defined in the liquidity ladder methodology in the class with up to 30-day residual maturity. Liquidity reserves enable the Bank to settle past due liabilities in a shorter period, when the usual sources are not available or do not provide sufficient liquidity, even during crisis liquidity situation. The Bank determines the necessary liquidity reserves based on stress scenarios for at least one-month survival period, relying on the report in its liabilities in the following 30 days (liabilities of the first class liquidity ratio) with the difference that the calculation does not exclude only 45% of sight deposits by the non-banking sector, but the full 100%. The assumption is that in a one-month survival period the Bank loses 30% of past due liabilities. At the same time, within the one-month survival period, the Bank determines a weekly period of the most difficult liquidity situation for which it has to ensure liquidity reserves in the form of cash and assets that are highly liquid on private markets and at the same time eligible for collateralising Eurosystem receivables. To maintain adequate liquidity reserves, the Bank has funds in the accounts with the Bank of Slovenia and correspondence banks abroad as well as high liquid funds in the form of ECB-eligible securities (domestic and foreign securities) and foreign securities which are ECB non-eligible, but have high liquidity, and structured securities for which there is an official market maker and for which the Bank checks liquidity and listed price at least once a year.

12.3. Measures for preventing and removing the causes of liquidity shortages
(article 23.a.c of the Regualtion on Disclosures by Banks and Saving Banks)

In order to assess liquidity requirements, the Bank considers various scenarios, which it prepared based on past experience, knowledge of the market situation and the current liquidity position.

Gorenjska banka has defined appropriate measures to prevent and eliminate the causes of liquidity shortages, including:
- the implementation of various scenarios;
- the adopted crisis plan for potential liquidity crisis;
- a crisis plan for the most pessimistic liquidity scenario; and
- the calculated volume of the necessary liquidity reserves and the method of covering them.

A crisis plan is a collection of procedures to prevent and eliminate the causes of liquidity crises, to overcome and curb the circumstances of occasional and long-term crises and measures to improve the Bank's liquidity position. The key element of the crisis plan is the system for monitoring liquidity indicators and ratios which prevent the occurrence of a liquidity crisis. Early identification of a crisis is provided by regular daily monitoring of the Bank's liquidity position with the projection of liquidity ratios. Below we describe the situations when actions are implemented to handle a liquidity crisis and we specify the persons in charge of identifying crisis situation as well as the persons who are informed thereof.

In order to efficiently manage and control liquidity risk the Bank has developed appropriate control procedures and information system, enabling it to daily fulfil all obligations and comply with the regulations on liquidity. The Bank is using the following liquidity ratios to identify and avoid liquidity crises:
- Liquidity ratio of the Bank (from the Regulation on the Minimum Requirements for Ensuring an Adequate Liquidity Position of Banks and Savings Banks);
- Future liquidity ratio of the Bank;
- The ratio between loans and deposits to the non-banking sector on gross and net basis, and changes of annual balance;
- Minimum reserve;
- Open FX position;
- Short-term debt on the interbank monetary market, with the ECB and the MF;
- Long-term debt with foreign banks and SID Bank.

If the competencies and responsibilities of the Liquidity Committee, the Credit Committee and the Investment Committee are not sufficient in a specific liquidity crisis, the Management Board of Gorenjska banka, d.d., Kranj, adopts additional competencies and responsibilities for handling liquidity crisis on the proposal of department directors.

13. Remuneration system

13.1. A description of the decision-making process used to determine the bank's remuneration policy

(article 23.b.a of the Regualtion on Disclosures by Banks and Saving Banks)

The Bank has an adopted Remuneration and Bonus Policy, which is consistent with its business strategy, goals, organisational structure, long-term interests and measures to prevent conflicts of interest. The Policy was adopted by the Supervisory Board of Gorenjska banka, d.d., Kranj, on the proposal of the Nomination and Remuneration Committee. The latest revisions were adopted by the Supervisory Board at its meeting on 14 March 2013. The goal of the Remuneration and Bonus Policy is to transparently define the types of income, criteria and rules based on which individual employees are remunerated.

The Committee has the following authorisations and tasks:

- preparing proposals for the Supervisory Board about the candidates for the Bank's Supervisory Board;
- conducting procedures and preparing proposals for the Bank's Supervisory Board to appoint the President and members of the Management Board;
- preparing and determining proposed criteria and content of the employment contracts, concluding employment contracts, deciding on annual bonuses, incentive, participation in profit and other working conditions of the President and members of the Management Board;
- performing other tasks related to human resources and organisation under the authorisation of the Supervisory Board, if they are decided on or discussed by the Supervisory Board;
- preparing proposed amendments to the Resolution on the work of the Management Board, which are submitted to the Supervisory Board;
- preparing proposals for general principles of remuneration policies, including formulation of stances about individual aspects of these policies;
- assessing the appropriateness of the established methodologies based on which the remuneration system promotes adequate risk, capital and liquidity management;
- preparing reports for the Supervisory Board about the implementation of remuneration policies;
- preparing proposed decisions about employee remuneration, including those impacting risks and risk management at the Bank;
- reviewing the appropriateness of the external consultant whose services were used by the Supervisory Board in determining the remuneration policies of the Bank;
- revising the adequacy of general principles of the remuneration policies and their implementation;
- checking the consistency of the remuneration policies with the Bank's business policy over a long period;
- directly supervising the remuneration of the employees with specific nature of work, operating in the scope of internal control functions and other control functions (Internal Audit Department, Risk Management Department).

The Policy is based on the Regulation on the Diligence of Members of the Management and Supervisory Boards of Banks and Savings Banks and the Regulation on Risk Management and Implementation of the Internal Capital Adequacy Assessment Process for Banks and Savings Banks. No external member participated in the drafting of the Remuneration and Bonus Policy of Gorenjska banka d.d., Kranj.

13.2. An explanation of the impact of the performance of an employee, an empoloee's organisational unit and the general operting result of the bank on an employee's remuneration

(article 23.b.b of the Regualtion on Disclosures by Banks and Saving Banks)

The Remuneration Policy ensures that the ratio between the fixed and variable part of income is balanced, so that the full employee remuneration does not materially depend on the variable part. At the same time, the Policy effectively promotes employees to achieve and exceed the planned performance results. The fixed part of income represents a sufficiently high share in total employee income so that the Bank can implement a flexible policy of variable pay, including the possibility of non-payment of such pay. The amount of variable pay depends on the fulfilment of the set business objectives as specified in the business plan, mainly on: ensuring adequate liquidity of the Bank, generating the planned profit, preserving the value of equity, the share of profit compared to other banks, the share of ROE, deposits with maturity over 5 years, the Bank's exposure to risks.

The bases for remuneration of employees employed under the collective agreement are specified in the Collective Agreement for Banks and Savings Banks in Slovenia and the general internal act of the Bank, defining key employee performance assessment criteria, namely the quality and quantity of the work performed, economy and relations with co-workers.

13.3. The most important contextual characteristics of the remuneration policy

(article 23.b.c of the Regualtion on Disclosures by Banks and Saving Banks)

The Remuneration and Bonus Policy specifies the employees with specific nature of work who may in the scope of their tasks and activities significantly influence the Bank's risk profile. Employees with specific nature of work are defined as members of the Management Board, senior management and compliance consultant.

In view of the principle of proportionality at the level of the Bank and employees with specific nature of work, the Bank need not apply the Remuneration Policy principles related to the time lag in the payment of the variable part. In case of under-performance or negative business result the Bank reduces variable pay based on the decision of the Supervisory Board on the proposal of the Nomination and Remuneration Committee.

The Policy also pursues the possibility of deferring the payment of variable part for a specific business year. In this case the variable pay equalling at least 40% is paid during the deferment period which starts after the end of the accounting period and lasts for 3 years minimum. During the deferment period, the variable pay is paid in proportionate part considering the duration of deferment, but no oftener than once a year or in a single amount at the end of the deferment period.

The variable pay of the employees with specific nature of work depends on performance and the level of risk assumed at the Bank.

The volume of risk assumed at the Bank is measured in terms of the utilisation of internal capital in the scope of the internal capital adequacy assessment process. The basis for remuneration is the ratio between the internal assessment of capital requirements and the internal capital assessment. The variable pay is determined according to the table below:

Ratio between the internal assessment of capital requirements and the internal capital assessment	Part of the paid variable pay
<85 %	100 %
<90 %	90 %
<95 %	75 %
<100 %	50 %
>=100 %	0 %

13.4. Performance criteria, based on which an employee is entitled to shares, options and other forms of variable remuneration, and the main parameters and rationale for using any form of variable remunertion and other non-cash benefit for employees

(article 23.b.d. of the Regualtion on Disclosures by Banks and Saving Banks)

Performance criteria, based on which an employee is entitled to shares, options and other forms of variable remuneration are specified in the employment contract and annexes thereto. Performance criteria are the following:

- realisation of the planned tasks, implementation of business plans, achievement of business policy objectives;
- maintenance of adequate liquidity;
- preservation of the value of equity;
- operating at a profit;
- generating the share of profit increased by provisions, write-offs, interest in suspense, accrued costs, receivable allowance in terms of equity, which is relatively higher than the interest rate applied by the Bank on deposits with over five-year maturity or relatively higher than the average of similar and comparable banks in Slovenia.

The eligibility to buy shares for a respective business year is approved by the Supervisory Board based on the proposal of the Nomination and Remuneration Committee under the conditions laid down in the Option Plan.

13.5. Information regarding the aggregate amount of remuneration paid in the previous financial year, broken down by business area

(article 23.b.e of the Regualtion on Disclosures by Banks and Saving Banks)

The Bank is not trading in debt or equity instruments on a public market and therefore does not apply IFRS 8 – Operating Segments to disclose information about operating segments. As a result, it does not disclose the information about the total amount of remuneration broken down by operating segment.

13.6. Information regarding the aggregate amount of remuneration paid for the previous financial year, broken down by employee category

(article 23.b.f of the Regualtion on Disclosures by Banks and Saving Banks)

The amounts of remuneration broken down by category of employees with specific nature of work (members of the Management Board, key management personnel) are disclosed in Chapter »Notes to financial statements«, Note »6.4 Management's, Supervisors' and key management personnel's remuneration«.

All variable pay and payments from severance of employees with specific nature of work are pre-determined based on contract. In 2012 and 2013 there was no deferred variable pay or severance paid.

The Bank remunerates the members of the Management Board also in the form of granted share options. More information about share options is disclosed in Chapter »Notes to financial statements« in Note »5.22.2. Management share options«.

14. Significant business contact

(article 23.c of the Regualtion on Disclosures by Banks and Saving Banks)

Below we provide the information about significant business contacts between members of the Management Board or Supervisory Board or his/her close family member and the Bank or its subsidiary in 2012 and 2013. Business contacts can be either direct or indirect.

A direct business contact (actual conflict of interest) represents every contractual or other business relationship between a member of the Management Board or Supervisory Board or a member of his/her immediate family and the Bank, if:

a. an agreement has been concluded between the said parties on the supply or goods or rendering of services, including financial and consulting services;
b. a member of the Management Board or Supervisory Board or a member of his/her immediate family is, as the user of banking or other services provided by the Bank, subject to treatment that is not in line with the adopted business policy or usual practices of the Bank; and
c. a member of the Management Board or Supervisory Board or a member of his/her immediate family transacts with or is a member of an organisation that receives contributions in the form of donations, sponsorships or other assistance from the Bank, if the aggregate amount of those contributions exceeds EUR 1,000 annually.

An indirect business contact exists if a member of the Management Board or Supervisory Board or a member of his/her immediate family is a business partner, holder of a qualifying holding, managing director or member of the management staff of a company or organisation that has a significant business contact with the Bank.

The Bank identifies significant indirect and direct business contacts with members of the Management Board or Supervisory Board or members of their immediate family, companies and organisations in which the members of the Management Board or Supervisory Board or members of their immediate family are business partners, holders of a qualifying holding, managing directors or members of the management staff.

The Bank deals with an indirect and direct significant business contact in the scope of requirements under the applicable regulations and the established Policy of Professional and Ethical Standards for the Members of the Management Board and Supervisory Board of Gorenjska banka, d.d., Kranj, the Policy for Assessing the Suitability of the Members of the Management Board and Supervisory Board and Holders of Key Functions at Gorenjska banka, d.d., Kranj (hereinafter: the Policy) and the Protocol for Employee Conduct of Gorenjska banka, d.d., Kranj in case of a conflict of interest (hereinafter: the Protocol).

In 2013, the Bank concluded two agreements on the supply of goods or rendering of services (item a) with the companies or organisations in which a member of the Management Board or Supervisory Board or a member of his/her immediate family is a business partner, holder of a qualifying holding, managing director or member of the management staff. In 2012, there were no such agreements.

* Sava turizem, d.d., Ljubljana was selected as the more favourable of the two providers who are the only ones in our geographical area that have sufficient capacities for organising the planned meeting.

Persons under a	Andoljšek Andrej – Chairman of the Supervisory Board (in 2013)
Position in the Company	Member of the Management Board of Sava, d.d., Ljubljana, which is through capital associated with Sava turizem, d. d., Ljubljana
Company	Sava turizem, d.d., Ljubljana *
First agreement	
Date of conclusion	8 July 2013
Type of service	Advertisement in the »Blejska promenada« brochure
Amount of funds	EUR 73
Second agreement	
Date of conclusion	11 December 2013
Type of service	Food and beverage services and rental of a conference room for employee meeting
Amount of funds	EUR 6,631

Business contacts that the Bank has with the companies or organisations in which a member of the Management Board or Supervisory Board or a member of his/her immediate family is a business partner, holder of a qualifying holding, managing director or member of the management staff and which refer to the use of banking or other services were dealt with according to the applicable Policy, Protocol and usual practices of the Bank (item b).

According to its business policy the Bank allocates certain funds for sponsorships and donations. In 2013 only one club was provided more than EUR 1,000 of sponsorship funds, members of which are a former member of the Bank's Management Board, a member of the Supervisory Board and a member of her immediate family, namely the Gorenjska banka Radovljica Swimming Club, which has concluded a sponsorship agreement with the Bank (item c).

Persons under c	**Tilen Zugwitz – member of the Bank's Management Board until 30 June 2013** **Mojca Globočnik – Chairwoman of the Supervisory Board** **Ciril Globočnik – member of immediate family of the Chairwoman of the Supervisory Board**
Position in the organisation	Members
Organisation	Gorenjska banka Radovljica Swimming Club
Date of conclusion of the agreement	18 January 2013
Type of funds	Sponsorship funds
Amount of funds	EUR 36,000

In 2012 two clubs received more than EUR 1,000 of contributions, members of which are a member of the Management Board, a member of the Supervisory Board and members of their immediate family (item c).

Persons under c	**Tilen Zugwitz - member of the Management Board** **Mojca Globočnik – member of the Supervisory Board** **Ciril Globočnik – member of immediate family of the member of the Supervisory Board** **Matej Globočnik – member of immediate family of the member of the Supervisory Board**
Position in the organisation	Members
Organisation	Gorenjska banka Radovljica Swimming Club
Date of conclusion of the agreement	7 December 2009 (valid for 4 years)
Type of funds	Sponsorship funds
Amount of funds	EUR 36,000

Person under c	**Stojan Žibert – member of the Supervisory Board**
Position in the organisation	Member
Organisation	Golf & Country Club, Kranj
Date of conclusion of the agreement	15 May 2012
Type of funds	Donations
Amount of funds	EUR 1,500

Subsidiaries of the Bank (Gorenjski glas, d.o.o., Kranj, owned by the Bank until 25 March 2013 and Imobilia-GBK, d.o.o., Kranj) had no significant business contacts in 2012 and 2013.

15. Credit protection

15.1. The policies and processes for collateral valuation and management
(article 25.b of the Regualtion on Disclosures by Banks and Saving Banks)

The framework documents regulating collateral in the Bank are the Rules on Forms of Loan Collateralisation and the Rules on Collateral Valuation, presenting all forms of loan collateral as well as the basic foundations that have to be considered in acceptance of collateral.

The Bank has an established analytical monitoring of all collateral received. According to legal requirements, the Bank monitors and reports collateral instruments at fair value.

The fair value of collateral equals:
- the market or estimated price (according to the model) of financial assets provided as collateral;
- the amount of the collateralised receivable when the receivable is provided as collateral,
- 100% value of insurance guarantee, bank bonds, government and municipal warranties;
- the value of mortgaged real property based on the available data and an expert assessment of an appraiser, determined by means of the following methods:
  - contractual value of the real property which is the subject of purchase/sale;
  - the valuation by the Surveying and Mapping Authority of the Republic of Slovenia;
  - the value obtained based on the appraisal of an independent external appraiser;
  - comparable transaction;
  - the value based on the table of internal prices of Gorenjska banka.

The Bank has established monitoring of collateral values for all types of collateral. As a rule, the value of accepted collateral is higher than the collateralised exposure, whereby the Bank prevents potential negative consequences in the event of major fluctuations in market prices of the pledged assets. The Bank also requires the borrowers to provide additional collateral if their financial position deteriorates.

The type of collateral depends on the type of transaction, the activity and the credit rating of the borrower. For individual forms of collateral the Bank considers the Loan-to-Value Ratio (LTV).

For transactions other than loans and guarantees the Bank usually does not acquire collateral. These transactions comprise bonds, treasury bills and similar.

According to the policy of collateral liquidation and collection in the event of default, the Bank immediately starts collection and liquidation of collateral.

15.2. A description of the main types of collateral taken by the bank
(article 25.c of the Regualtion on Disclosures by Banks and Saving Banks)

The main types of collateral accepted by the Bank in the form of assets are:
- mortgage on residential and business property;
- pledge on business assets, such as equipment, inventory and receivables;
- pledged securities;
- insurance with an insurance company ;
- pledge of bank deposit.

The Bank strives to have maximum adequate collateral for its investments. Mortgage collateral is the most common form of collateral for loans to legal and natural persons.

15.3. The major types of personal guarantor and counterparties in credit derivatives transactions, and their creditworthiness

(article 25.d the Regualtion on Disclosures by Banks and Saving Banks)

Personal guarantee or personal collateral is a method for reducing credit risk whereby a third party undertakes to pay the debt in case of the primary debtor's default (borrower).

The major types of acceptable personal guarantors are:
- guarantees by the central government units;
- guarantees by institutions.

The institutions that the Bank considers as providers of personal guarantees in acceptance of personal loan collateral in the calculation of capital requirement for credit risks do not have an assessment by an eligible ECAI, but rather the exposures are assigned a 50% weight due to the country in which these institutions are based (Regulation on the Calculation of Capital Requirements for Credit Risk Under the Standardised Approach for Banks and Savings Banks).

The central government units that the Bank considers as providers of personal guarantees in acceptance of personal loan collateral in the calculation of capital requirement for credit risks are the units from EU Member State, denominated and financed in the domestic currency, and are therefore assigned a 0 % weight (Regulation on the Calculation of Capital Requirements for Credit Risk Under the Standardised Approach for Banks and Savings Banks).

The Bank does not transact in credit derivative financial instruments.

15.4. Information about market or credit risk concentrations within the credit protection taken

(article 25.e of the Regualtion on Disclosures by Banks and Saving Banks)

As regards collateral in the form of securities, the Bank is faced with market risk, specifically the risk of a change in the price of securities on capital markets. Collateral in the form of warranties and guarantees entails credit risk on the part of the provider of collateral, which is why the Bank includes the amount of the guarantee received in the upper debt ceiling of the guarantor.

Of primary importance in the approval of credit is the counterparty risk, collateral is only the secondary source of recovery of liabilities. Collateral has an important role if the client's credit rating deteriorates. In order to avoid the effect of risks resulting from various forms of collateral, the Bank has prescribed minimum ratios between the value of collateral and credit. These reflect the risk arising from individual collateral instrument and client and are determined based on the Bank's experience and regulatory guidelines. They are prescribed by the Rules on Forms of Loan Collateralisation.

A high share of collateral instruments of the Bank is accounted for by real property, since in the past this form of collateral was considered reliable and high-quality, however, as the real estate market liquidity deteriorated and the real property market prices decreased, this type of collateral lost the said characteristics. As a result, the Bank's bad debt collateralised by real property requires additional impairments and provisions based on assessed discounts of real property value in the process of sale, taking into account also the costs related to the sale.

The Bank does not restrict the scope of collateral that includes market or credit risk, but regularly monitors it both in terms of scope and value.

15.5. The total exposure value that is covered by collateral
(article 25.f of the Regualtion on Disclosures by Banks and Saving Banks)

In the calculation of capital requirement for credit risk, the Bank is using the following material collateral instruments in the form of financial assets:

- bank deposits at the bank or cash assimilated instruments held by the Bank (including the deposits with maturity equal or longer than the credit exposure due date);
- debt securities issued by central government units or central banks (with a credit assessment by an eligible ECAI that corresponds to a minimum of credit quality step 4);
- debt securities issued by institutions (with a credit assessment by an eligible ECAI that corresponds to a minimum of credit quality step 3);
- debt securities issued by other entities (with a credit assessment by an eligible ECAI that corresponds to a minimum of credit quality step 3);
- debt securities with a short-term credit assessment by an eligible ECAI (that corresponds to a minimum of credit quality step 3);
- equities and convertible bonds included in a main index;
- gold.

In practice, the Bank does not use collateral in the form of gold. Due to the restrictions under the Regulation on Credit Collateral, the calculation of the capital requirement for credit risk does not consider investment fund units as collateral. The Bank did not consider bank deposits in the calculation of capital requirement for credit risk in 2012 and 2013 due to immateriality.

In 2012 and 2013, the Bank did not have debt and equity securities received as collateral that would meet the criteria for the recognition of eligible collateral in the form of financial assets according to the Regulation on Credit Collateral.

15.6. The total exposure value that is covered by personal guarantees or credit derivatives
(article 25.g of the Regualtion on Disclosures by Banks and Saving Banks)

As at 31 December 2013, personal guarantees were provided as collateral for EUR 110,894 thousand (2012: EUR 101,525 thousand) of exposure to corporate clients, EUR 1,816 thousand (2012: EUR 11,975 thousand) past due exposures and EUR 156 thousand of exposures from retail banking.

The Bank did not have exposures collateralised by credit derivative financial instruments.

Gorenjska banka, d.d., Kranj

Slovenija
4000 Kranj
Bleiweisova cesta 1, PO Box 147

Telephone: +386 4 208 40 00
Telefax: +386 4 202 15 03
BIC: GORE SI 2X

E-mail: info@gbkr.si
Website: http://www.gbkr.si

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