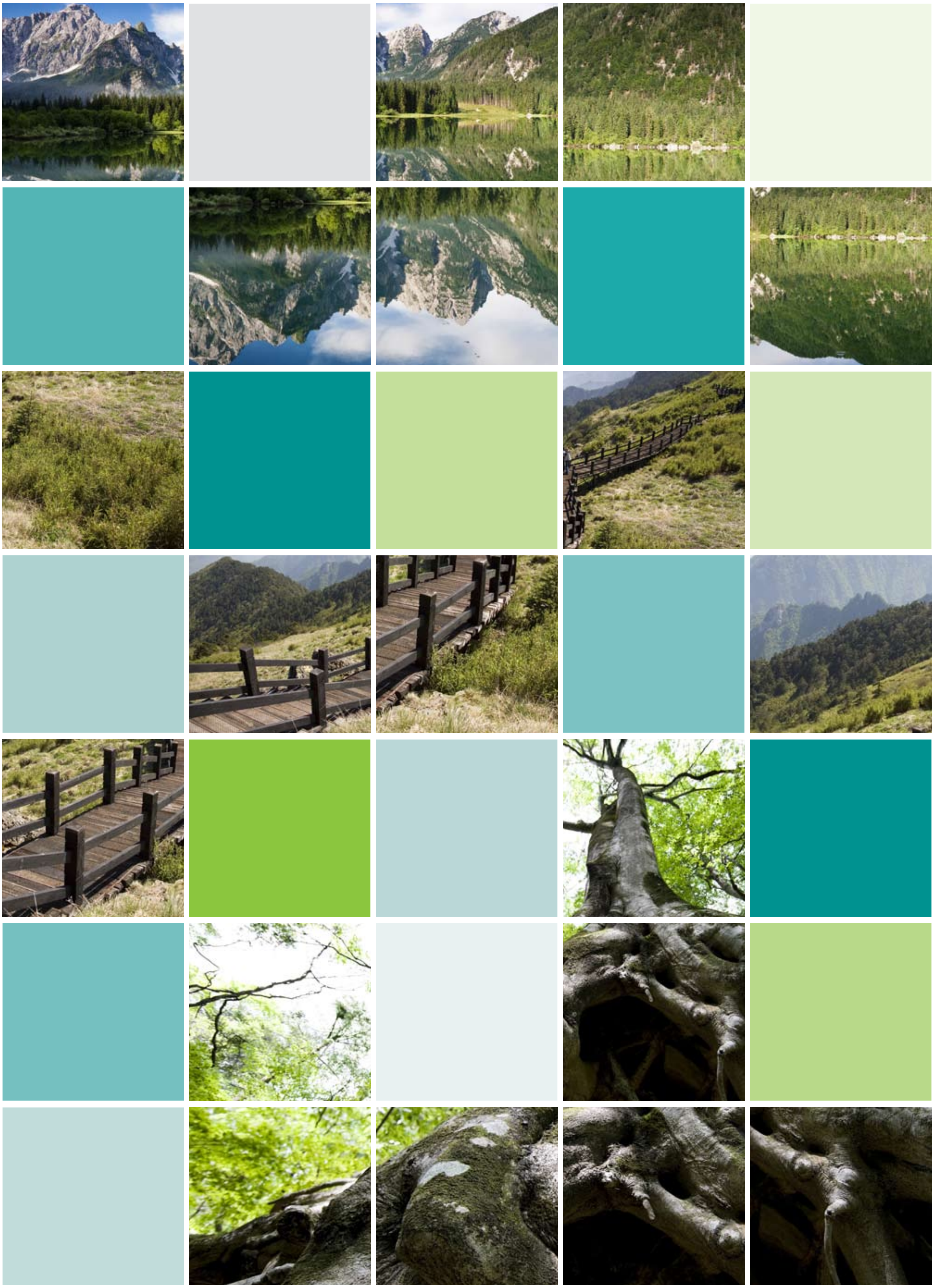
ABANKA
ANNUAL REPORT 2009





ANNUAL REPORT 2009

There are at least two preconditions for success: **solid foundations and a clear vision.**

We started 2009 well prepared. Aware of our solid and sound foundations and good performance over previous years, we relied primarily on our knowledge and experience. On these foundations we built up to the peak, where we can clearly see future challenges on the horizon.

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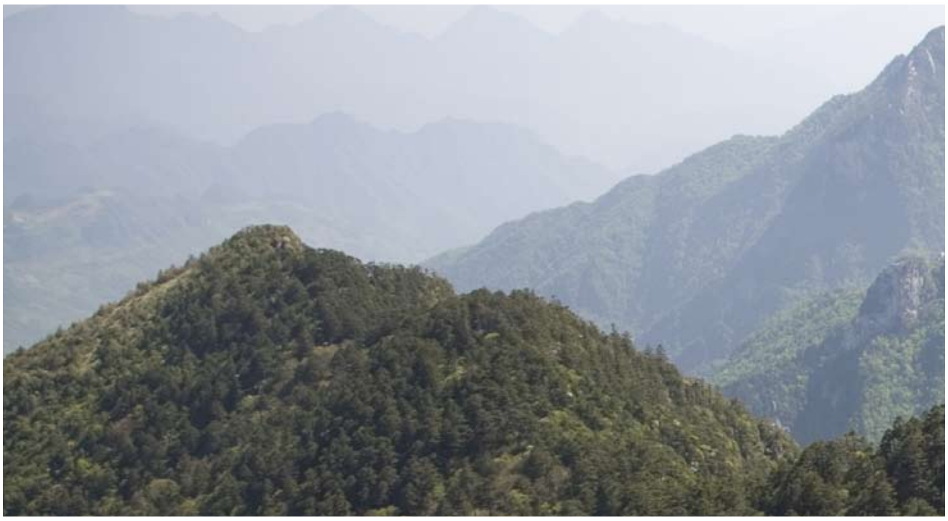


BUSINESS REPORT

A combination of right decisions **paves the way to success.**

Faced with economic instability and a precarious situation, we were peering at an uncertain future. But we took the right business decisions at the right time and concluded the year with success and optimism.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS - THE ABANKA GROUP

STATEMENT OF FINANCIAL POSITION *(EUR thousands)*	**31 Dec., 2009**	**31 Dec., 2008**	**31 Dec., 2007**
Total assets	**4,557,476**	3,883,003	3,517,074
Total deposits from non-bank customers	**2,167,284**	1,918,527	1,724,689
Total loans to non-bank customers	**2,905,301**	2,774,544	2,384,788
Total equity	**360,277**	336,756	353,182

INCOME STATEMENT *(EUR thousands)*	**2009**	**2008**	**2007**
Net interest income	**77,626**	78,786	67,182
Net non-interest income	**39,974**	19,492	49,193
Labour costs, general and administration costs	**(51,597)**	(50,684)	(50,584)
Depreciation	**(5,891)**	(6,857)	(6,659)
Impairments and provisions	**(31,854)**	(14,695)	(11,420)
Profit or loss from ordinary and discontinued operations before tax	**28,258**	26,042	47,712
Corporate income tax on ordinary and discontinued operations	**(6,139)**	(5,644)	(10,902)

Notes:
In 2009 the Group started recognising part of the income from card products as fee and commission income. This involves payment card membership fees, fees on card product cash withdrawals and electronic banking access fees which had previously been posted as other net operating income. The Group adjusted comparative figures for 2008 accordingly so that income from fees and commissions is higher and other operating income lower by EUR 2,442 thousand.

In 2009 the Group started recognising card processing costs as fee and commission expenses which is why comparative administration costs for 2008 were EUR 1,827 thousand lower. Fee and commission expenses include part of interchange fees on cash withdrawals, which had previously been carried as other operating expenses. Consequently, the comparative figures for other operating expenses were EUR 563 thousand lower.

In 2009 the Group changed the accounting policies in respect of the recording of factoring operations. Factoring operations are recorded according to the net principle. Changed accounting for factoring transactions resulted in the following main modifications:
– in factoring with recourse receivables from factored invoices and liabilities to clients are treated as off-balance sheet items and not as balance-sheet items as before;
– in factoring with recourse interest receivables from prefinancing and factoring fees may be offset against the factor's liability to the client only after the receivable is paid;
– receivables from prefinancing from factoring without recourse are directly deducted from liabilities to the clients.

Due to changes in the accounting policies resulting from the introduction of the net principle, in the statement of financial position for 2008 the comparative figures for the following items were adjusted: loans to non-bank customers, other assets and other liabilities. As a result of transfers from other assets, loans to non-bank customers are EUR 750 thousand higher. Gross loans to corporate entities are EUR 1,183 thousand higher and the related allowances are EUR 433 thousand higher. Other assets are EUR 28,743 thousand lower (EUR 750 thousand due to the transfer to loans to non-bank customers and EUR 27,993 thousand due to the transfer to off-balance-sheet items). As a result, other liabilities are also lower - by EUR 27,993 thousand due to the transfer to off-balance-sheet items. The Group's total assets for 2008 are therefore EUR 27,993 thousand lower.

INDICATORS	2009	2008	2007
Capital adequacy	12.3%	12.3%	10.7%
Performance (in %)			
· return on assets after tax[1]	**0.5**	0.5	1.1
· return on equity after tax[2]	**6.4**	5.9	11.1[3]

Notes:
Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Accounting Records and Annual Reports of (Savings) Banks.

(1) The indicator equals the ratio **profit after tax/average assets**. Average assets have been calculated as the average amount of assets as at the last day of each quarter, including the amount of assets as at the last day of December of the previous year. The indicator for 2008 equals the average amount of assets as at the last day of December of the current year and as at the last day of December of the previous year. The indicator for 2008 calculated according to the same method as the indicator for 2009 equals 0.6%.

(2) The indicator equals the ratio **profit after tax/average equity**. Average equity has been calculated as the average amount of equity as at the last day of each quarter, including the amount of equity as at the last day of December of the previous year. The indicator for 2008 equals the average amount of equity as at the last day of December of the current year and as at the last day of December of the previous year. The indicator for 2008 calculated according to the same method as the indicator for 2009 equals 5.6%.

(3) The average equity of the Group for 2007 equals the sum of average equity as at the last day of December 2007 and the last day of December 2006 plus the average innovative instrument calculated as the average of the innovative instrument over the last 13 months as at the last day of each month, including the amount of the innovative instrument as at the last day of December of the previous year. Excluding the described adjustment, the indicator return on equity after tax for the Group would be 13.0%, because the innovative capital has been an equity item since the statement of financial position of 31 January, 2007 and consequently would not be accounted for in annual average equity.

FINANCIAL HIGHLIGHTS AND PERFORMANCE INDICATORS – ABANKA

STATEMENT OF FINANCIAL POSITION *(EUR thousands)*	31 Dec., 2009	31 Dec., 2008	31 Dec., 2007
Total assets	**4,510,472**	3,823,336	3,439,007
Total deposits from non-bank customers	**2,171,108**	1,929,650	1,735,777
· corporate	**1,151,896**	973,298	872,188
· retail	**1,019,211**	956,352	863,589
Total loans to non-bank customers	**2,904,023**	2,736,680	2,365,057
· corporate	**2,442,609**	2,313,641	1,990,589
· retail	**461,415**	423,039	374,468
Total equity	**363,577**	339,458	353,233
Impairment of financial assets at amortised cost and provisions	**171,038**	148,510	140,816
Off-balance sheet items	**1,085,621**	1,276,882	1,180,726

INCOME STATEMENT *(EUR thousands)*	2009	2008	2007
Net interest	**75,004**	76,756	66,066
Net non-interest income	**37,230**	17,046	44,419
Labour costs, general and administration costs	**(47,847)**	(46,745)	(46,743)
Depreciation	**(5,190)**	(6,094)	(5,931)
Impairments and provisions	**(30,154)**	(13,382)	(11,139)
Profit or loss before taxes from ordinary and discontinued operations	**29,043**	27,581	46,671
Corporate income tax from ordinary and discontinued operations	**(6,118)**	(5,348)	(10,108)

NUMBER OF EMPLOYEES	31 Dec., 2009	31 Dec., 2008	31 Dec., 2007
	877	878	871

SHARES	31 Dec., 2009	31 Dec., 2008	31 Dec., 2007
Number of shareholders	**1,142**	1,142	1,053
Number of shares	**7,200,000**	7,200,000	5,500,000
Book value per share (in EUR)	**50.56**	47.21	64.36

Notes:
In 2009 Abanka started recognising part of the income from card products as fee and commission income. This involves payment card membership fees, fees on card product cash withdrawals and electronic banking access fees which had previously been posted as other net operating income. Abanka adjusted comparative figures for 2008 accordingly so that income from fees and commissions is higher and other operating income lower by EUR 2,442 thousand.

In 2009 Abanka started recognising card processing costs as fee and commission expenses which is why comparative administration costs for 2008 were EUR 1,827 thousand lower. Fee and commission expenses include part of interchange fees on cash withdrawals which had previously been carried as other operating expenses. Consequently, the comparative figures for other operating expenses were EUR 563 thousand lower.

INDICATORS	2009	2008	2007
Capital adequacy	**12.2%**	12.6%	10.5%
· own funds (in EUR thousand)	**441,509**	432,380	312,540
Asset quality (in %)			
Impairment of financial assets at amortised cost and provisions	**4.43**	4.29	4.03
Performance (in %)			
· interest margin[(1)]	**1.82**	2.15	2.12
· financial intermediation margin[(2)]	**2.73**	2.68	3.54
· return on assets before tax[(3)]	**0.71**	0.77	1.50
· return on equity before tax[(4)]	**8.33**	7.81	13.88
· return on equity after tax[(5)]	**6.58**	6.30	10.88
Operational costs *(in %)*			
· operational costs/average assets	**1.29**	1.53	1.69
Liquidity (in %)			
· liquid assets/short-term deposits from non-bank customers[(6)]	**38.10**	8.72	7.01
· liquid assets/average assets[(7)]	**16.21**	3.97	3.23

Notes:
Data and performance indicators have been calculated according to the Indicator Methodology Calculation which the Bank of Slovenia set out its Decision on the Accounting Records and Annual Reports of (Savings) Banks.

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

(2) The indicator equals the ratio **net interest/net non-interest income**.

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

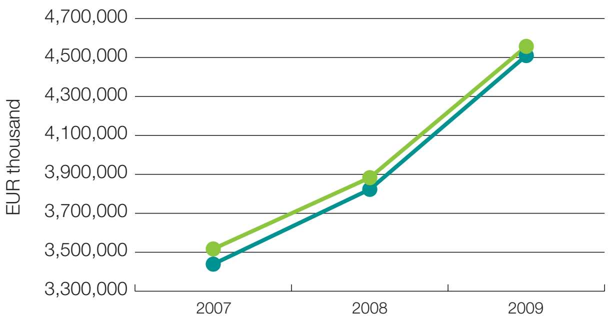
(4) The indicator equals the ratio **profit before tax/average equity**. Average equity has been calculated as the average amount of equity over the last 13 months as at the last day of each month, including the amount of equity as at the last day of December of the previous year.

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

(6) In 2009 the indicator calculation methodology was changed. The indicator for 2008 calculated according the methodology applicable for 2009 equals 37.81%.

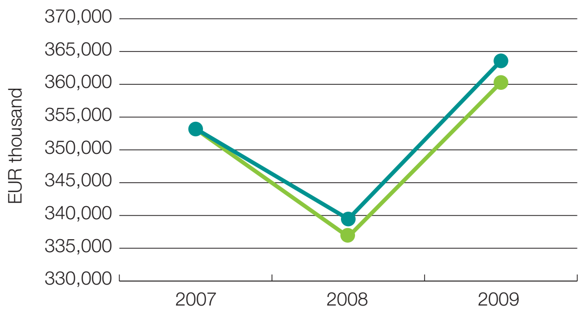
(7) In 2009 the indicator calculation methodology was changed. The indicator for 2008 calculated according the methodology applicable for 2009 equals 17.20%.

TOTAL ASSETS



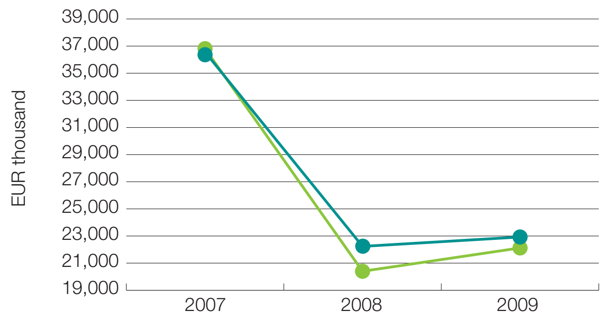
	2007	2008	2009
Abanka	3,439,007	3,823,336	4,510,472
Abanka Group	3,517,074	3,883,003	4,557,476

TOTAL EQUITY



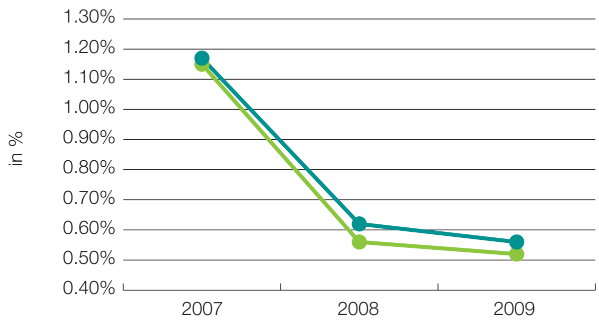
	2007	2008	2009
Abanka	353,233	339,458	363,577
Abanka Group	353,182	336,756	360,277

PROFIT AFTER TAX



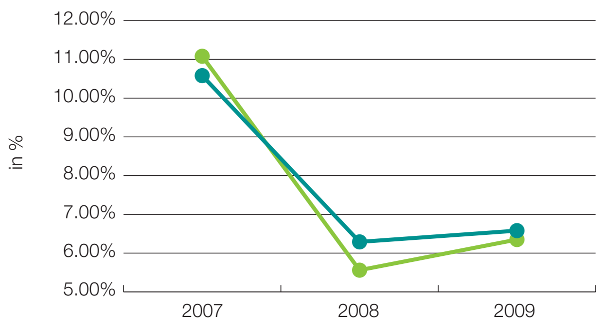
	2007	2008	2009
Abanka	36,563	22,233	22,925
Abanka Group	36,810	20,398	22,119

RETURN ON AVERAGE ASSETS (net ROAA)



	2007	2008	2009
Abanka	1.17%	0.62%	0.56%
Abanka Group	1.15%	0.56%	0.52%

RETURN ON AVERAGE EQUITY (net ROAE)



	2007	2008	2009
Abanka	10.85%	6.29%	6.58%
Abanka Group	11.08%	5.56%	6.35%

COST TO INCOME RATIO (CIR)

	2007	2008	2009
Abanka	47.66%	57.41%	47.25%
Abanka Group	49.19%	58.55%	48.88%

MANAGEMENT

MANAGEMENT BOARD OF THE BANK

Gregor HUDOBIVNIK	Aleš ŽAJDELA, M.Sc.	Radovan JEREB, M.Sc. Econ.
Member of the Management Board	President of the Management Board	Member of the Management Board

Report of the Management Board

Thanks to the right business decisions being taken at the right time, Abanka started 2009 as a safe and stable bank. In accordance with its business decisions and taking the uncertain conditions into account, in 2009 Abanka continued to pursue the same goals – the stability and safety of operations. Although Abanka's business results are not comparable to those before the crisis, they are excellent in view of the challenging market situation and they fill us with pride. The conclusion of a syndicated loan agreement and a bond issue laid good foundations for our business operations in 2010 which, according to the latest forecasts, will still not see the final recovery of financial markets and the economy.

We are achieving our objectives thanks to the trust of our customers, the confidence of our shareholders in our work, our highly competent employees, the comprehensive range of financial-insurance products, along with our extensive branch network, information capital and modern sales channels. Abanka is more than a bank, it is a banking group. In addition to the Bank, the Group includes an investment fund management company, an investment management company, a leasing company, a factoring company, a project financing company, a mutual fund, an associated company and a joint venture company abroad. It gives us great satisfaction that Abanka's reputation is spreading across the borders of Slovenia. In Bosnia and Herzegovina Abanka successfully launched ASA Abanka leasing and in Serbia Afaktor established a subsidiary named Afaktor-faktoring finansiranje.

In 2009 the Abanka Group generated pre-tax profits of EUR 28,258 thousand and Abanka alone posted EUR 29,043 thousand in pre-tax profits. Profits earned by Abanka in the reporting year were 5.3% above the 2008 level, which is an excellent result in view of the financial situation in 2009. The pre-tax profits of EUR 29,043 thousand resulted in a return on equity of 8.3%. After-tax profits of EUR 22,925 thousand meant a return on equity of 6.6%. The total assets of the Abanka Group and Abanka at the end of 2009 totalled EUR 4,557,476 thousand and EUR 4,510,472 thousand, respectively. Compared to 2008, Abanka's total assets grew by 18.0%. At the end of 2009 Abanka held 8.8% of the market and was the third strongest bank in the Slovene banking sector. Total equity amounted to EUR 363,577 thousand at the end of December 2009, which was 7.1% higher than at the end of 2008.

At the end of 2009 the Bank's top shareholders were: Zavarovalnica Triglav d.d., Sava d.d., Gorenjska banka d.d. and Delniški vzajemni sklad Triglav Steber I, holding two-thirds of all shares.

Among the most rewarding business achievements last year were a loan syndication with a syndicate of selected foreign banks and a bond issue. In August 2009 a syndicated loan agreement amounting to EUR 80 million was signed – one of the very few new syndications in Europe at that time. In September 2009 Abanka issued bond worth EUR 500 million and guaranteed by the Republic of Slovenia. Investors' excess demand was proof of the great confidence in the Slovene banking system as well as Abanka's visibility and reputation in the international capital market.

It should be noted that we actively co-operated with the Slovene regulatory authorities and catered for the Slovene economy. This was best illustrated by Abanka's participation in the Enterprise Finance Guarantee Scheme as it was the only bank in 2009 to fully use up the funds allocated in this framework and our market share in lending was over 33% both in terms of number and volume.

Ratings by credit rating agencies proved that our decisions and activities last year were right. In July, the credit rating agency Fitch Ratings confirmed its existing long-term credit rating BBB, but downgraded its outlook from stable to negative due to the deterioration of the general economic environment in which Abanka operated. Among other positive factors, Fitch Ratings emphasised Abanka's good visibility, reduced exposure to credit risks arising from equity financial instruments and sufficient capital base. Moody's rating report on Abanka published in October fully confirmed that agency's credit ratings published in April. Abanka's credit rating outlook was negative, for the same reasons as given by Fitch Ratings and the Bank's long-term rating remained A3.

We are particularly proud of two awards Abanka received in 2009 for its achievements.

In November, Abanka received the award for the best annual report for 2008 in terms of communication among financial companies from Poslovna akademija Finance. Abanka's entire operations are based on honesty and trust, namely the guidelines followed by the Bank when preparing its annual report. Quality and transparent information for shareholders and other stakeholders of the Group is crucial to us. Publishing annual reports in e-format shows Abanka's ecological awareness and conveys its position. In December, Abanka won "Bank of the Year Award" for 2009 as the best bank in Slovenia from the UK magazine The Banker.

Our strategy, which was recast in 2009, states that Abanka wants to remain: a provider of quality banking services in Slovenia, one of the three biggest domestic banks, the largest private bank in the country and a well-recognised banking partner in South-east Europe.

According to the forecasts 2010 will also be a year of uncertainty. Signs of recovery are visible, though weak.

The main concern will continue to be the safety of the Bank's operations and stability. We will very carefully follow developments in international and domestic financial markets in order to quickly respond to demand by offering adequate services in both Slovenia and South-east Europe. After a year of moderate growth in lending, caused by difficulties in financial markets and the real economy, the volume of lending planned for 2010 is higher than for the previous year since the Bank has provided sources of financing and the outlook for 2010 is slightly more optimistic. In corporate banking, the focus in 2010 will be on intensifying lending to small and medium-sized enterprises.

In 2010 we will continue with active lending to corporate and retail customers in the framework of the Finance Guarantee Scheme of the Republic of Slovenia. Important goals include caring for the existing customer base and attracting new customers by offering them a broader and deeper range of services. A lot of emphasis will be put on non-interest-bearing services and special attention will be paid to further consolidation of the Bank's market position in payment transactions, documentary operations and card transactions. We will encourage domestic regulators to follow the measures taken by other countries around the world to mitigate the consequences of the crisis. We will provide safe investment opportunities and actively market interest rate and currency risk hedging products, trade finance products and a range of private banking services. Inter-company co-operation within the Abanka Group will be advanced further.

In 2009 we did everything to keep the promises given to you, our business partners, shareholders and employees. We assure you that we will endorse our promises and once again justify your trust and confidence in 2010.

The Management Board hereby thanks the Supervisory Board members for monitoring its work and offering ideas and proposals on how to improve operations, as well as all the employees who, through their dedicated work and positive attitude, contributed to the business results achieved in 2009.

Gregor HUDOBIVNIK
Member of the Management Board

Radovan JEREB, M.Sc. Econ.
Member of the Management Board

Aleš ŽAJDELA, M.Sc.
President of the Management Board

SUPERVISORY BOARD

Janez BOHORIČ	Sava d.d.
Branko PAVLIN, M.Sc.	Dnevnik d.d.
Miha DOLINAR	Sava d.d.
Simon ZDOLŠEK	Zvon Ena Holding d.d.
Vladimir Mišo ČEPLAK, M.Sc.	Zavarovalnica Triglav d.d.
Slaven MIĆKOVIĆ, Ph.D.	Ministry of Finance
Uroš ROŽIČ, M.Sc.	T-2 d.o.o.

Report of the Supervisory Board

The Supervisory Board of Abanka has seven members. In 2009 the composition of the Supervisory Board changed. Before the General Meeting of Shareholders its members were: Tomaž Toplak, Chairman, Miha Dolinar, Deputy Chairman and members: Simon Zdolšek, Janez Bohorič, Irena Vodopivec Jean, Niko Trošt, M.Sc., and Uroš Rožič, M.Sc.

The General Meeting of Shareholders, held on 28 May 2009, was informed about the resignations of Niko Trošt, M.Sc., and Irena Vodopivec Jean from the Supervisory Board. On the same date, the General Meeting of Shareholders recalled the following Supervisory Board members: Tomaž Toplak, Simon Zdolšek and Uroš Rožič, M.Sc. The following Supervisory Board with a four-year term of office as of 29 May 2009 was appointed: Simon Zdolšek, Uroš Rožič, M.Sc., Branko Pavlin, M.Sc., Slaven Mićković, Ph.D., and Vladimir Mišo Čeplak, M.Sc.

Janez Bohorič was elected Chairman of the Supervisory Board and Branko Pavlin, M.Sc., Deputy Chairman, while the following people were appointed members: Simon Zdolšek, Miha Dolinar, Slaven Mićković, Ph.D., Uroš Rožič, M.Sc., and Vladimir Mišo Čeplak, M.Sc. The Supervisory Board members are independent. No conflicts of interest exist.

Before the new Supervisory Board took office, the Audit Committee was composed of Tomaž Toplak as Chairman and Miha Dolinar, Simon Zdolšek and Vinko Perčič as members. Once the new Supervisory Board took office, the composition of the Audit Committee changed accordingly. The new term of office of the Audit Committee started with the following composition: Vladimir Mišo Čeplak, M.Sc., as the Chairman and Miha Dolinar, Simon Zdolšek and Uroš Rožič, M.Sc., as members. On 31 August 2009 Tina Cvar was appointed the fifth member of the Audit Committee. The Audit Committee held six meetings in 2009.

The self-assessment of the Supervisory Board in 2009 was positive and in accordance with expectations. The assessment of the Supervisory Board's work is based on the findings that the composition of the Supervisory Board is appropriate in that it represents a competent group of experts. The organisation and functioning of the board's members as a team is effective as it facilitates the on-going monitoring and supervision of the Bank's business and the communication of initiatives and guidelines for its continuation. All individual members are regarded as functioning effectively. The Supervisory Board established co-operation with the Audit Committee. The Supervisory Board's self-assessment positively affected and stimulated its work as well as reconfirmed the appropriate performance of the Supervisory Board's activities.

Review of the Supervisory Board's activities in 2009

In accordance with the competencies and obligations defined in the Banking Act, the Companies Act, the Decision on the Diligence of Members of Management and Supervisory Boards of (Savings) Banks and the Bank's Articles of

Association, the Supervisory Board operated pursuant to the principles of modern corporate governance and thus, through its supervisory function, contributed to the efficiency and transparency of the Bank's operations. In its work, the Supervisory Board considered the interests of shareholders, customers and employees.

In 2009, the Supervisory Board held the constitutive session, five regular sessions and one extraordinary session. Full attendance was achived at all Supervisory Board sessions, with the exception of only one justified absence (Janez Bohorič at the 22nd regular session held on 2 March 2009).

At its sessions in 2009, the Supervisory Board:
- approved Abanka Vipa's 2008 Annual Report together with PricewaterhouseCoopers' audit report;
- approved the proposed distribution of audited net profits of Abanka Vipa d.d. for the 2008 financial year and the proposed distribution of distributable profit of Abanka Vipa d.d. for the 2008 financial year and forwarded these proposals to be adopted by the General Meeting of Shareholders;
- approved the proposed agenda and resolutions of the Bank's 21st General Meeting of Shareholders;
- considered reports on the financial operations of Abanka in 2009 and reports on implementation of the Bank's financial budget and strategy;
- adopted the internal audit reports, took note of the follow-up report on implementation of the recommendations and requirements of the Internal Audit Department, gave its opinion on the 2008 Internal Audit Report and adopted the Internal Audit Department's work plan for 2010;
- was informed about activities concerning the potential merger by the acquisition of Abanka Vipa d.d., Ljubljana, and Gorenjska banka d.d., Kranj, and gave the required authorisations to start with merger-related procedures;
- authorised the issue of Abanka's bonds with a guarantee of the Republic of Slovenia and a total issue nominal value up to EUR 750 million;
- adopted the new Rules of Procedure of the Supervisory Board;
- approved the Bank's financial plan and business policy for 2010 as well as the 2011-2015 Medium-Term Strategy of Abanka Vipa d.d.; and
- discussed other matters.

Based on material duly prepared by the Management Board, reports by internal experts and its own findings, the Supervisory Board responsibly monitored the Bank's operations and the work of the Internal Audit Department, while also supervising the management of the Bank. The Supervisory Board has concluded that Abanka's operations are regularly and comprehensively monitored and are geared to the best decisions. The appropriate supervision of the Bank's management contributes to good results and the achievement of the established strategic objectives.

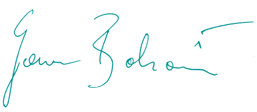
2009 Annual Report

At its session of 12 April 2010, the Supervisory Board discussed the 2009 Annual Report of the Abanka Vipa d.d. together with PricewaterhouseCoopers' audit report and the Management Board's proposal for the distribution of profits. The Supervisory Board confirmed that the annual report truly and fairly reflects the Bank's position, gives a comprehensive view of operations in 2009 and adds to the information it received during the financial year. Comparing the annual report with the audited financial statements for the 2009 financial year, the Supervisory Board established that the financial results presented in the annual report were in accordance with the audit report. The Supervisory Board is of the opinion that the Management Board and the Supervisory Board itself have fulfilled all legal requirements during the 2009 financial year. Based on regular monitoring of the Bank's operations and the aforementioned reviews, the Supervisory Board approves the annual report of the Bank for 2009.

The Supervisory Board hereby establishes that the certified external auditor, in its report, issued a positive opinion of the financial statements which present a true and fair view of the Bank's financial position in all material aspects. The Supervisory Board has no comments on PricewaterhouseCoopers' audit report and believes the Bank's operations in 2009 were carried out in accordance with regulations, thus confirming the appropriate management of the Bank's business by the Management Board. Based on its knowledge of the Bank's operations during the year and following a careful examination of the audited annual report and the positive opinion issued by the certified auditor in its audit report, the Supervisory Board hereby approves and adopts the Annual Report of Abanka Vipa d.d. for the 2009 financial year. The Supervisory Board has also studied the proposal for the distribution of profits earned in the 2009 financial year, subject to the final approval of the General Meeting of Shareholders and gives its full consent to the relevant Management Board proposal. The Supervisory Board confirms that Abanka's performance in 2009 was good given the crisis situation whose impact Abanka mitigated by quickly responding to the unfavourable market conditions, achieved excellent results and met the majority of objectives set for the year.

The Supervisory Board hereby thanks the Management Board and all the employees for the successful conclusion of the 2009 financial year.

Janez BOHORIČ
Chairman of the Supervisory Board



PRESENTATION OF THE GROUP AND ITS ENVIRONMENT

ABOUT THE BANK

Abanka Vipa d.d. is a bank with a long tradition in the Slovene banking sector. The origins of Abanka d.d. date back to 1955 when the bank operated as a branch of the Yugoslav Bank for Foreign Trade. In 1977, the branch was renamed Jugobanka – Temeljna banka Ljubljana. Abanka began using its current name on 1 January 1990 when it was transformed into a joint-stock company. On 31 December 2002, Banka Vipa merged with Abanka. Since that time, the Bank has operated under the name Abanka Vipa d.d., abbreviated to Abanka d.d. (hereinafter: Abanka). Following the merger with Banka Vipa, Abanka's market share rose by 1.7 percentage points to 8.5%, making it the third largest bank in Slovenia. In October 2008, the shares of Abanka were listed on the Ljubljana Stock Exchange. Abanka ended 2009 as the third largest bank in terms of total assets and its market share as at 31 December 2009 was 8.8%.

Abanka is the third largest bank in the Slovene banking system with its shares listed on the Ljubljana Stock Exchange.

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

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

Abanka's range of services is further supplemented by the factoring, leasing and asset management provided by its subsidiaries: Abančna DZU d.o.o., Argolina d.o.o., Afaktor d.o.o., Aleasing d.o.o., Analožbe d.o.o., the associated company in Slovenia Abančna DZU Delniški Evropa and the associated company, KDSPV1 B.V., in the Netherlands, as well as the joint venture company, ASA Abanka leasing d.o.o., in Bosnia and Herzegovina.

8.8%

MARKET SHARE OF ABANKA AT THE END OF 2009

SERVICES OF THE BANK

As at 31 December 2009 Abanka was authorised to provide the following mutually recognised financial services in accordance with Article 10 of the Banking Act (ZBan-1):

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

Abanka is also authorised to provide the following other financial services under Article 11 of the Banking Act (ZBan-1):

SERVICE YES or NO – not provided or NO – not provided yet	
1. Insurance brokerage in accordance with the law governing the insurance business;	YES
2. Payment system management services in accordance with the Payment services and systems Act (ZPlaSS);	NO – not provided
3. Pension fund management in accordance with the law governing pension and disability insurance;	YES
4. Custodian services to be provided by banks according to other laws and services related to such custodian services;	YES
5. Credit brokerage in consumer and other loans; and	NO – not provided
6. Other services or operations that have similar characteristics as mutually recognised financial services from points 1 to 5 of this paragraph regarding the method of performance and risks to which the banks are exposed in their performance.	NO – not provided yet (procedure started for acquiring a licence for leasing brokerage)

BANK PROFILE

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

Registered office:
Slovenska cesta 58, 1517 Ljubljana

Transaction account:
SI56 0100 0000 0500 021

SWIFT:
ABANSI2X

VAT identification no.:
SI68297530

Company registration number:
5026024

Share capital:
EUR 30,045,067.60

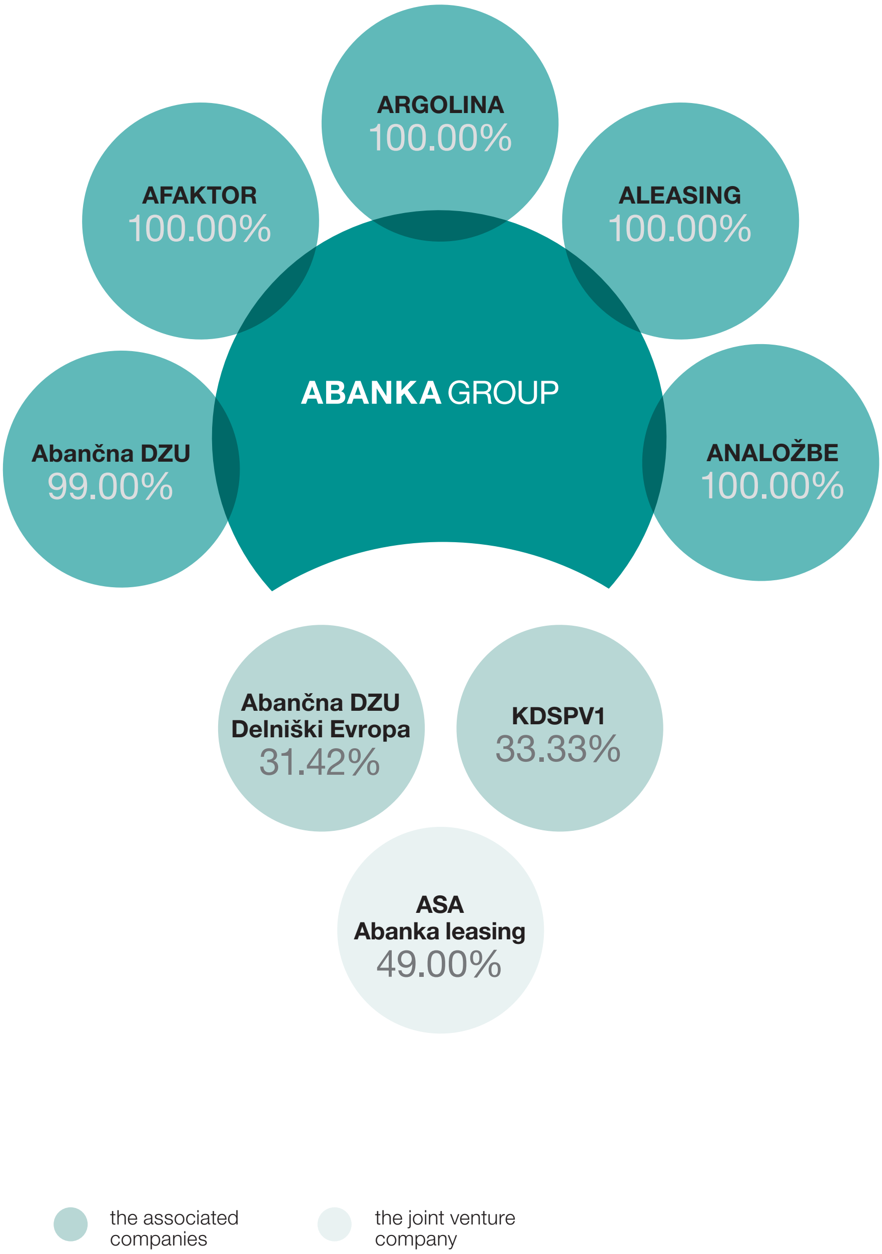
Telephone:
(+386 1) 47 18 100

Fax:
(+386 1) 43 25 165

Website:
http://www.abanka.si

E-mail:
info@abanka.si

ABOUT THE GROUP



Structure as at 31 December 2009.

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

- subsidiaries: Abančna DZU d.o.o., Afaktor d.o.o., Argolina d.o.o., Aleasing d.o.o., Analožbe d.o.o.;
- the associated companies: Abančna DZU Delniški Evropa and KDSPV1 B.V. and
- the joint venture company: ASA Abanka leasing d.o.o.

In addition to Abanka, the Abanka Group includes five subsidiaries, two associated companies and a joint venture company.

The following table indicates the year the subsidiaries, associated companies and joint venture company were included in the Abanka Group, their activities and Abanka's equity shareholding as at 31 December 2009.

COMPANY	INCLUDED IN ABANKA GROUP	ACTIVITY	EQUITY SHARE-HOLDING
Abančna DZU d.o.o.	1994	investment fund ma-nagement	99.00%
Afaktor d.o.o.	2002	factoring	100.00%
Argolina d.o.o.	2003	project financing	100.00%
Aleasing d.o.o.*	2003	leasing	100.00%
Analožbe d.o.o.	2006	investment management	100.00%
Abančna DZU Delniški Evropa	2006	mutual fund	31.42%
KDSPV1 B.V.	2006	investing in the KD Private Equity Fund	33.33%
ASA Abanka leasing d.o.o.	2007	leasing	49.00%

***Note:** Merger by the acquisition of Vogo leasing d.o.o. by Aleasing d.o.o. on 1 July 2009.

Activities of subsidiaries, associated companies and the joint venture company

Subsidiaries

Abančna DZU d.o.o.

Abančna DZU, družba za upravljanje investicijskih skladov d.o.o. (short company name: Abančna DZU d.o.o.) was established in May 1994. The company is based in Ljubljana.

As at the end of 2009, it was owned by:
– Abanka Vipa d.d. – 99%; and
– Mateja Gubanec – 1%.

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

As at the end of 2009, Abančna DZU d.o.o. was managing the following mutual funds:

– seven equity subfunds:
- Abančna DZU DELNIŠKI AKTIVNI – no investment limits by region or industry;
- Abančna DZU DELNIŠKI SVET – a global fund with investment limits by region and without investment limits by industry;
- Abančna DZU DELNIŠKI EVROPA – limits by region, no limits by industry;
- Abančna DZU DELNIŠKI ZDA – limits by region;
- Abančna DZU DELNIŠKI AZIJA – limits by region;
- Abančna DZU DELNIŠKI PASIVNI BALTINORD – a passive mutual fund with limits by region; and
- Abančna DZU DELNIŠKI BALKAN – limits by region;

– a mixed subfund:
- Abančna DZU MEŠANI – no investment limits by region or industry;

– a balanced mutual fund:
- Abančna DZU URAVNOTEŽENI – no investment limits by region or industry;

– a bond subfund:
- Abančna DZU OBVEZNIŠKI – no investment limits by region or industry; and

– a cash subfund:
- Abančna DZU DENARNI EURO – no investment limits by region or industry.

The net value of all subfunds under the umbrella fund of Abančna DZU as at 31 December 2009 was EUR 72,432 thousand. The umbrella fund was created on 1 April 2009. The net value of all mutual funds managed by Abančna DZU as at 31 December 2008 was EUR 69,197 thousand.

In 2009 the company focused on converting mutual funds into the umbrella fund (Krovni sklad Abančna DZU) and amending the operational procedures of the umbrella fund. Most activities concerned the setting up of tax records and harmonising them with the new legal requirements. A lot of attention was paid to the development of e-business to support the umbrella fund entering.

In view of the situation in 2009 and in line with the planned streamlining, the company took measures to improve business operations and adopted an action plan to increase sales through Abanka's branch network.

The company's goals are to: achieve a competitive market position and adequate capital strength, maintain high quality services and, foremost, gain and keep investor confidence. The company has set itself maintenance of the capital base as the main goal in times of crisis i.e. a good operating profit and an adequate return on financial assets.

The objective pursued by Abančna DZU is to become a broadly visible company offering products with highly competitive returns and a varied product range catering to different investor segments. It strives to provide an innovative and uniquely structured range of banking, insurance and other investment products. Abančna DZU believes that in 2010 it will only with difficulty be able to keep investor confidence in equity investments, the capital market and consequently equity mutual funds, with the latter being the predominant investment product both in its range and in the market. The company will strive for this goal by using its advice point, organising in-house workshops for investors and by taking a creative approach to institutional investors. First, the company will specifically address the existing investors and improve the way it communicates its range of products and services. Parallel to this, it will try to contact those investors who are familiar with mutual funds and find equity market risks acceptable for part of their investment portfolios. Abančna DZU will put greater emphasis on customer segmentation and more direct management of the existing customer base. It will also engage in e-operations to bring itself closer to investors. Whilst brand name maintenance remains its first priority, the company will strive to achieve competitive yields in comparison with similar funds and for the distinct quality of its asset management and other services.

Afaktor d.o.o.

Afaktor, finančna družba za faktoring, d.o.o. (short company name: Afaktor d.o.o.) is a 100%-owned subsidiary of Abanka Vipa d.d. and is based in Ljubljana.

The core activities of Afaktor d.o.o. Ljubljana are:
– factoring – the sale of accounts receivable with or without recourse;
– financing commercial transactions and lending; and
– agency services in credit transactions.

In December 2007, Afaktor established a company in Serbia. Under the name AFAKTOR - faktoring finansiranje d.o.o. Belgrade it opened for business in early 2008.

International factoring operations (factoring of domestic companies' receivables from foreign companies) are only carried out by Afaktor Ljubljana, the parent company, in accordance with the system and rules of the largest association of factoring companies in the world, FCI (Factors Chain International), which it has been a member of since 2007. In this framework, Afaktor provides not only the financing of accounts receivable but also default risk insurance and collection of receivables from foreign debtors.

Given the condition of the markets in 2009, factoring also potentially became an opportunity for those companies previously not interested in such services and which financed their operations primarily with bank loans. On the other hand, 2009 witnessed a decline in the number of factoring operations for traditional users of factoring services (mostly construction and construction-related companies).

The crisis of the construction industry has had a huge impact on the volume of operations in Slovenia as business with construction companies had to be decreased, mainly with constructors themselves and their subcontractors which experienced serious difficulties due to overindebtedness and oversized property development projects. On top of the construction industry crisis, the sales and volume of operations also dropped with some customers from the metal processing branch, which further reduced the volume of business of the Afaktor Group. The solution was to take on board new customers and businesses in other industries and seek new opportunities with exporters. Due to the economic crisis and credit crunch of banks, large companies created demand for factoring. Both in Slovenia and in Serbia big companies started to show interest in factoring services. Thus, both factoring companies of the Group restructured their portfolios by raising the number of big corporates.

Even though exports from Slovenia decreased compared to previous years, the Group did attract export companies as new customers and substantially increased the volume of its international factoring business. In terms of international factoring, the Group is to a great extent involved in factoring under bilateral arrangements in the framework of FCI. As a result, in 2009 it registered the highest growth rates in the volume of international factoring and the total number of factors in Slovenia.

The profit earned by the Afaktor Group is below the planned level, primarily due to the smaller volume of operations and subsequently lower income. In addition to the abovementioned shrinkage of business with the construction industry, which still generated an above-average factoring income, lower interest rates, caused by the falling EURIBOR as the base rate, reduced income even more.

In 2009, the Afaktor Group continued to operate and function according to the guidelines and criteria which Abanka, as the parent company, has defined for its subsidiaries. Opening and launching a subsidiary in Serbia was a major project of the Afaktor Group in 2009. For 2010 further expansion to South-east Europe is envisaged, where new subsidiaries are planned to be opened in the most promising markets for factoring. The strategy is based on further rises in the volume of international operations, the robust growth of business in Serbia and conquering of new markets.

Argolina d.o.o.

Argolina, investicijski inženiring, d.o.o. (short company name: Argolina d.o.o.) was established in July 2003 as a co-investor in construction of the business and residential complex Argolina, at the site of the former Argo factory in Izola. Once the construction has been completed the company is designed to continue working as a building manager until another one is selected by new owners. The company's registered office is in Ljubljana.
Argolina was founded by three partners:
– Abanka Vipa d.d. (25.1%);
– MPM Engineering d.o.o. (49.9%); and
– Relax d.o.o. (25.0%).

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

Further development of the subsidiary's business primarily depends on the urban development policy of the municipal authorities and decision-making bodies in Izola.

Aleasing d.o.o.

Aleasing, financiranje, svetovanje, trženje, d.o.o. (short company name: Aleasing d.o.o.) opened for business on 11 February 2000, based in Slovenj Gradec. At the time, it operated in the Slovene market under the name Eurofin Leasing. After Abanka Vipa d.d. became its majority owner, Eurofin Leasing was renamed Aleasing on 1 April 2004. The registered office was moved to Celje in May 2007. This 100%-owned subsidiary of Abanka is mainly a financial leasing company, duly licensed by the Consumer Protection Office.

The most important event for Aleasing in 2009 was its merger with Vogo leasing. The intention and purpose of merging the two independent leasing companies, both 100%-owned by Abanka, was to create a stronger leasing provider able to increase its market share and establish itself as a visible leasing company in the Slovene market. Given the market conditions, it was no longer sensible for the Abanka Group to keep two subsidiaries with the same core business in terms of performance and costs. Commercially speaking, in the past they even intentionally competed with each other. The merger was entered in the Court Register on 1 July 2009. On that day the acquired company Vogo ceased to exist as a legal entity, which did not require its liquidation. Aleasing, as the acquiring company, entered all the legal transactions in which Vogo leasing had been involved in the capacity of its legal successor. Aleasing is based in Celje and has business units in Koper, Šempeter pri Gorici and Ljubljana.

Aleasing actively markets the financial leasing of real property and movables to corporate and retail customers. It also offers operating leasing of vehicles to corporate customers. In business terms, 2009 was more than challenging. The harsh economic conditions had a negative impact on the state of the economy and consumption, which was most reflected in the car and construction industries.
Major business events in 2009:
– 1 July - the merger by acquisition of Vogo leasing d.o.o. by Aleasing d.o.o.;
– new management: Marko Logonder, President of the Management Board and Anita Ana Erjavec, Member of the Management Board;
– standardisation of work procedures in all business units;
– active implementation of market activities;
– additional capital raised by Abanka in December; and
– the purchase of a stake in ASA Abanka leasing in Sarajevo.

The corporate policy of Aleasing is based on its development strategy that is founded on growth, expansion, streamlining and a search for synergies within the Abanka Group. The company focuses on maintaining and upgrading its range of services so as to optimally tailor them to its customers' needs. The company's goals are to:

– increase the volume of investments and market share;
– make the company more visible in the Slovene leasing market;
– control operating costs;
– ensure returns on equity in accordance with the Abanka guidelines;
– become a customer-centred leasing company;
– provide training to the staff;
– maintain a creative and stimulating working environment which boosts the staff's loyalty to the company and the Abanka Group; and
– actively consolidate the values of the Abanka Group.

Analožbe d.o.o.

Analožbe, upravljanje z naložbami d.o.o. (short company name: Analožbe d.o.o.) was established in accordance with its Articles of Association on 26 October 2006 for the purpose of providing financial intermediation in both Slovenia and abroad. In its first two years the company's core business was crediting foreign investment institutions and forward dealing in the domestic market. In 2009, Analožbe expanded its operations to precious metal dealing at the retail level. For that purpose, it started business co-operation with the internationally renowned Swiss refiner, Valcambi, which meets the Good Delivery standard – an international standard for bullion.

Associated companies

Abančna DZU Delniški Evropa mutual fund

On 31 December 2009, Abanka had 883,373 units in Abančna DZU Delniški Evropa accounting for 31.4% of the units in issue. The fund is managed by Abančna DZU, a company controlled by Abanka.

KDSPV1 B.V.

In 2009, the KD Private Equity Fund B.V. was liquidated and Abanka impaired fully the investment in KDSPV1 B.V.

Joint venture company

ASA Abanka leasing d.o.o.

In the reporting year ASA Abanka leasing carried out some major changes and activities, making its operations more transparent and significantly improving its risk management capabilities. These include:

– changing the management;
– compliance with the new regulatory framework governing leasing in Bosnia and Herzegovina in force since 1 January 2010;
– a systematic approach to risk management through organisational harmonisation and adoption of relevant rules (e.g. Rules of Authorisation, Rules of Impairment Allocation); and
– consistent adherence to the guidelines set by the Supervisory Board.

In December 2009, instead of Abanka, Aleasing acquired a shareholding in ASA Abanka leasing. However, Abanka kept the key rights and obligations arising from the underlying joint venture agreement it entered into with ASA Holding d.o.o. Sarajevo in 2007.

ABANKA'S VISION AND MISSION

Abanka is a provider of quality banking services in Slovenia. It is one of the three largest banks in Slovenia and the largest private bank in the country as well as a recognised banking partner in South-east Europe.

We are a bank with a clear-cut vision. Abanka pursues its vision in relations with its customers, shareholders and employees.

Abanka is a bank which:
– maintains clear-cut values;
– builds long-term partnerships with customers;
– provides quality services;
– guarantees its own stability and the security of customers;
– provides long-term shareholder satisfaction based on above-average returns and reputation; and
– ensures the long-term development, safety and satisfaction of its employees.

Abanka pursues this vision in its relations with customers, shareholders and employees. Above-average returns, quality services and a positive image guarantee satisfaction and create confidence in the realisation of business objectives.

Abanka recognises the importance of responsible community involvement. Therefore, it transmits its high business values to the wider society in which it operates.

ABANKA'S STRATEGY

In 2009 Abanka also had to revise its medium-term strategy. A new medium-term strategy was redefined for a period up to 2015 on the basis of information on the economic environment and forecasts for the future available at the time.

In 2009 we updated our medium-term strategy and strategic objectives.

Abanka's strategic goals are to:
– maintain an above-average quality of services;
– provide above-average returns;
– hold an adequate market share in Slovenia; and
– consolidate its presence in the markets of former Yugoslavia.

The Abanka strategy is based on the assumption that a stronger recovery of financial markets and the real economy will begin towards the end of 2011. This positive trend is expected to take off in 2012. The 2011-2015 Medium-Term Strategy of Abanka for the period up to 2012 foresees a moderate increase in total assets, a focus on raising primary sources of funds, the higher growth of retail deposits and borrowing in the international inter-bank market.

Starting with 2013 it is expected that the economy and financial markets will recover at an accelerated pace. As a consequence, the objectives between 2013 and 2015 are to achieve higher growth rates of total assets, concentrate more on lending to non-bank customers, reduce the proportion of interest-bearing securities in total assets and keep the focus on primary sources of funds.

On this basis, the following financial objectives were set for 2015:
– 12.7% ROE after tax;
– 1.14% ROA after tax; and
– 41.4% cost-to-income ratio.

FINANCIAL PLAN FOR 2010

Total assets grew by 18.0% in 2009, also thanks to a EUR 500 million bond issue. The growth rate of total assets in 2009 was considerably higher than planned. Rather than focusing on raising total assets, Abanka's activities in 2010 will be aimed at increasing the volumes of key business segments. Abanka envisages very ambitious growth rates in lending to the non-banking sector, including both corporate and retail customers. These plans entail increasing the volumes of lending to the levels recorded in 2008, i.e. before the financial crisis.

Intense crediting of the non-bank sector is our primary goal in 2010.

High growth rates are planned for raising primary sources of funds from retail customers. Given such ambitious lending objectives, Abanka also plans to borrow internationally in 2010.

The plan includes the following objectives for 2010:
– EUR 36,384 thousand in profit before tax;
– EUR 29,107 thousand in profit after tax;
– 7.7% ROE after tax;
– 50.47% cost-to-income ratio;
– 11.8% capital adequacy ratio; and
– 10.3% Tier 1 capital ratio.

MAJOR BUSINESS EVENTS IN 2009 AND 2010

Major Business Events and Achievements in 2009

Major business events and achievements in 2009:

- **Shares with the designation ABKN included in the leading index of the Ljubljana Stock Exchange, the SBI 20:**
  - since 1 April 2009 shares with the designation ABKN have been included in the SBI 20.
- **Abanka twice received international recognition for payment transactions:**
  - in June, Deutsche Bank, based in Frankfurt am Main, gave Abanka an STP Excellence Award for 2008 (given to banks with the highest percentage of STP – Straight Through Processing); and
  - in June The Bank of New York Mellon Corporation, a leading global financial institution, paid officially recognised Abanka for its 98% share of STP payments.
- **Merger by the acquisition of Vogo leasing d.o.o. by Aleasing d.o.o.:**
  - on 1 July the merger by acquisition of Vogo leasing d.o.o. by Aleasing d.o.o. was entered in the Court Register.
- **Credit rating by Fitch Ratings:**
  - in July the credit rating agency Fitch Ratings released a new credit rating report on Abanka, confirming its existing long-term credit rating BBB, short-term credit rating F3, individual financial strength C and the prospect of external support BB+;
  - the Bank's outlook was downgraded from stable to negative, mostly due to the deterioration of the general economic environment in which Abanka operates and which impacts on its performance and quality of placements; and
  - among other positive factors, Fitch Ratings emphasised Abanka's good visibility, reduced exposure to credit risks arising from equity financial instruments and sufficient capital base.
- **Letter of intent on a capital alliance between Abanka Vipa d.d. and Gorenjska banka d.d.:**
  - at the end of July Zavarovalnica Triglav d.d., Sava d.d., Zvon Ena Holding d.d. and Merkur d.d. as the major shareholders of both Abanka Vipa d.d. and Gorenjska banka d.d. signed a letter of intent in support of the intention of the two banks' Management Boards to start procedures aimed at forging a capital alliance between Abanka Vipa d.d. and Gorenjska banka d.d. and their merger to form one bank.

- **Signing of a syndicated loan agreement:**
  - in August Abanka signed a syndicated loan agreement with a syndicate of selected foreign banks amounting to EUR 80 million for a term of 1 year;
  - this was one of the very few new syndicated loans in Europe last year; and
  - was granted for financing general business needs, mainly the financial needs of Abanka's customers.
- **Bond issue with a guarantee of the Republic of Slovenia:**
  - in September Abanka issued its first bond backed by the Government of the Republic of Slovenia and placed it on the international market;
  - the bond issue amounted to EUR 500 million, with a floating coupon rate equalling 3-month Euribor plus 100 bp; and
  - investors' excess demand was proof of the great confidence in the Slovene banking system as well as Abanka's visibility and reputation in the international capital market.
- **Abanka's online bank for retail customers positioned 2nd:**
  - in October the magazine Kapital positioned Abanka's online bank for retail customers 2nd out of 10 Slovene banks.
- **Credit rating by Moody's:**
  - Moody's rating report on Abanka published in October fully confirmed the previous credit rating for Abanka that this agency published in April of the same year; and
  - Abanka's long-term rating remained A3, short-term rating Prime-2, financial strength rating D+ and credit rating outlook negative. Moody's assessed that Abanka's financial strength was good; however, risk was perceived due to the unstable macroeconomic situation.
- **Award for the best annual report for 2008 in terms of communication among financial companies:**
  - in November Abanka received the award for the best annual report for 2008 in terms of communication among financial companies from Poslovna akademija Finance.
- **Bank of the Year Award for 2009, Slovenia**
  - in December Abanka won the "Bank of the Year Award" for 2009 as the best bank in Slovenia from the UK magazine The Banker in recognition of its excellent business results in challenging circumstances in financial markets and technological development in electronic banking.
- **2011-2015 Strategy of Abanka**
  - in December 2009, the Supervisory Board approved the Bank's financial plan and business policy for 2010 as well as the 2011-2015 Medium-Term Strategy of Abanka.
- **"Family-Friendly Company" certificate acquired:**
  - in December Abanka became the first bank in Slovenia to have received the "Family-Friendly Company" certificate, by which we want to help our staff reconcile their professional and family lives.
- **"Reputable Employer" certificate acquired:**
  - in the framework of the employer reputation monitoring project at the jobs vacancy website MojeDelo.com, Abanka received the "Reputable Employer" certificate for 2009; and
  - in a group of 20 was rated the 11th most reputable employer in Slovenia.

Major Business Events in 2010

No events have occurred after the date of the statement of financial position that have affected the financial statements for 2009.

ECONOMIC AND BANKING ENVIRONMENT IN 2009 AND OUTLOOK FOR 2010

Economic Environment in 2009

According to the estimation by the Statistical Office of the Republic of Slovenia, in 2009 in Slovenia gross domestic product (hereinafter: GDP) in real terms fell by 7.8%, which represents the first decrease in real terms since 1992. GDP in current prices totalled EUR 34,894 million (or EUR 17,092 per capita) according to the first estimates, which means that compared to 2008 it was lower by 6.0% in nominal terms. In the last quarter of 2009 compared to the last quarter of 2008 GDP was in real terms lower by 5.5% (this smaller decrease in GDP was primarily due to a smaller drop in exports, whilst a heavy fall in gross capital formation continued).[1]

Harsh economic conditions had a negative impact on the labour market: compared to the previous year total employment in 2009 dropped by 2.2%, and in the last quarter of 2009 the year-on-year decrease was 4.0% (11.7% in manufacturing and 7.5% in construction).[2] The number of the unemployed continued to grow persistently since September 2008 and in 2009 reached 30,433 persons. In December the number of unemployed persons rose to 96,672, which represented a 45.9% year-on-year increase.[3]

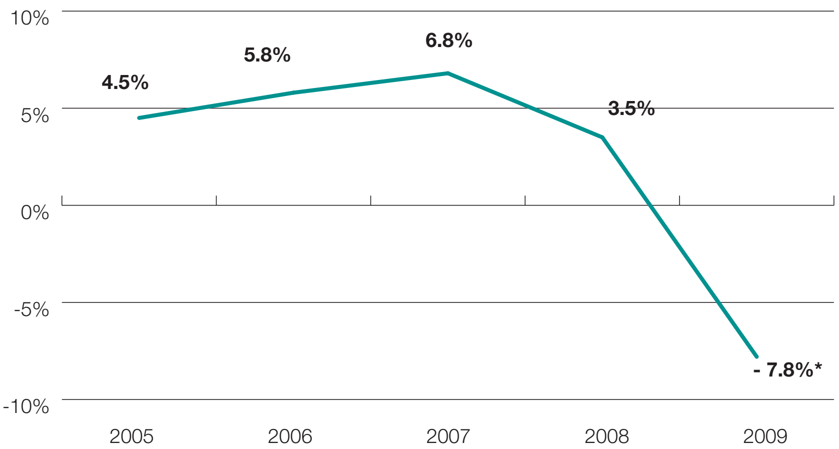
Towards the end of 2009 short-term indicators were already showing that the economy was slowly recovering, but credit crunch persisted and conditions in the labour market continued to deteriorate both in Slovenia and the entire euro area.[4]

MAJOR MACROECONOMIC INDICATORS

	2005	2006	2007	2008	2009
GDP growth, %	4.5	5.8	6.8	3.5	–7.8*
GDP, EUR million (current prices, current exchange rates)	28,750	31,055	34,568	37,135	34,894*
GDP per capita, EUR (current prices, current exchange rates)	14,369	15,467	17,123	18,366	17,092*
Unemployment (ILO methodology), %	6.5	6.0	4.9	4.4	5.7**
Labour productivity, %	4.7	4.2	3.7	0.7	–5.0**
Inflation (year-end), %	2.3	2.8	5.6	2.1	1.8
Inflation (average), %	2.5	2.5	3.6	5.7	0.9

Note: *estimation
Note: **forecast
Source: Slovenian Economic Mirror, January 2010. Ljubljana: IMAD, February 2010, and Statistical Office of the Republic of Slovenia

GROSS DOMESTIC PRODUCT REAL GROWTH RATES IN THE 2005–2009 PERIOD



Note: *estimation
Source: Statistical Office of the Republic of Slovenia

1 Gross domestic product, Slovenia, 4th quarter 2009. Ljubljana: Statistical Office of the Republic of Slovenia, March 2010.

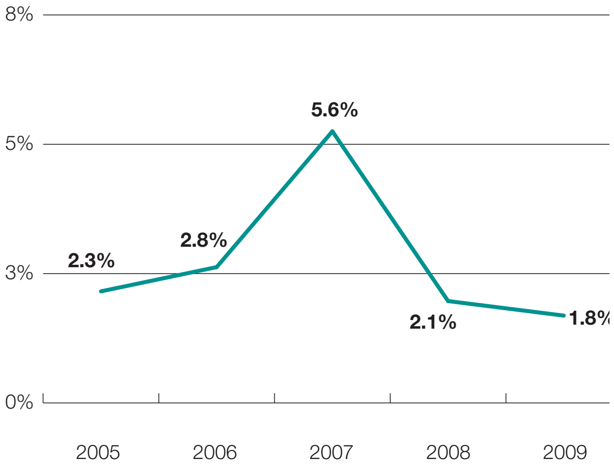
2 Gross domestic product, Slovenia, 4th quarter 2009. Ljubljana: Statistical Office of the Republic of Slovenia, March 2010.

3 Monthly Bulletin, January 2010. Ljubljana: Bank of Slovenia, February 2010.

4 Slovenian Economic Mirror, December 2009. Ljubljana: IMAD, January 2010.

In Slovenia consumer prices in 2009 increased by 1.8% and inflation rate was among the highest growth rates in the euro area, mainly resulting from higher prices of services and economic policy measures. In 2009, consumer prices increased primarily due to higher prices of oil, weak economic activity and higher prices of services, as a consequence of fiscal policy measures.[5]

CUMULATIVE INFLATION IN THE 2005–2009 PERIOD



Source: Statistical Office of the Republic of Slovenia

Financial Markets and the Banking Environment in 2009

The deepening of the financial crisis in 2009 entailed reduction in the sources of funds available to banks. Banks restructured their funding in various ways. Government deposits to a large extent increased through issues of securities. Banks obtained additional funds through one-year Eurosystem borrowing. For the first time since the onset of the financial crisis two Slovene banks issued long-term bonds with a government guarantee. As banks were able to raise primarily short-term funds, the lack of long-term funds led them to tighten lending standards, grant mainly short-term loans, increase risk premiums and increase the share of the credit products at a fixed interest rate. Most of the described consequences moderated credit growth. Corporate lending came to a standstill as a result of reduced creditworthy demand, arising from relatively high indebtedness of non-financial companies or higher financial leverage. Deteriorating economic conditions in the Slovene banking industry considerably raised the banks' impairment and provisioning costs.[6]

Outlook for 2010

The most recent data show that the economic activity in the euro zone continued to improve at the turn from 2009 to 2010. The key positive factors were the turnaround in the inventory cycle and exports recovery combined with substantial macroeconomic incentives and measures taken to re-launch the functioning of the financial system. As these incentives will be gradually phased out, the economic activity will probably be weakened by the budgetary adjustment process, whilst underexploited capacities are likely to hinder investment. The unemployment in the euro zone is expected to slightly increase, which will in turn affect consumption growth. Due to these factors, the forecast is that in 2010 the euro zone economy will grow rather slowly and the recovery process will be uneven.[7]

In view of the available data and developments in the economy an improvement of economic activity can be expected in 2010. Labour market conditions are forecast to deteriorate further and the re-launching of credit activity will be crucial for the normalisation of operations.[8]

Capital adequacy and/or risk absorption capacity are increasingly important factors for the stability of the Slovene banking system, given the rising credit risks and falling profits. The increased share of more expensive funding led to greater differences among banks' funding structures and additional pressure to bank business.[9]

In January the International Monetary Fund forecasted for 2010 a GDP growth in the euro zone and the USA of 1.0% and 2.7% respectively.[10]

5 Slovenian Economic Mirror, December 2009. Ljubljana: IMAD, January 2010.
6 Slovene Banking System Stability, December 2009 Ljubljana: Bank of Slovenia, December 2009.
7 ECB Monthly Bulletin, Editorial, February 2010. Ljubljana: Bank of Slovenia, February 2010.
8 Slovenian Economic Mirror, December 2009. Ljubljana: IMAD, January 2010.
9 Slovene Banking System Stability, December 2009 Ljubljana: Bank of Slovenia, December 2009.
10 Monthly Bulletin, January 2010. Ljubljana: Bank of Slovenia, February 2010.

FINANCIAL RESULTS OF THE GROUP AND THE BANK

The consolidated financial statements of the Abanka Group for 2009 include the subsidiaries Argolina, Abančna DZU, Afaktor, Aleasing and Analožbe alongside Abanka as the parent bank. The participation in the associate KDSPV1 and the joint venture ASA Abanka leasing are also consolidated under the equity method. The assets in the associated company Abančna DZU Delniški Evropa are recognised at fair value in accordance with the IAS 39. The fund does not prepare financial statements in accordance with the IFRS, but according to the Slovene Accounting Standards.

The merger by acquisition of Vogo leasing d.o.o. by Aleasing d.o.o. took place in 2009. The KD Private Equity Fund B.V. was liquidated and Abanka impaired fully the investment in KDSPV1 B.V.

The consolidated financial statements for 2008 included the subsidiaries Argolina, Abančna DZU, Afaktor, Aleasing, Vogo leasing and Analožbe alongside Abanka as the parent bank. The participation in the associate KDSPV1 and the joint venture ASA Abanka leasing are also consolidated under the equity method. The assets in the associated company Abančna DZU Delniški Evropa (the former Delniški Evropa Vipa Invest) are recognised at fair value in accordance with the IAS 39. The fund does not prepare financial statements in accordance with the IFRS, but according to the Slovene Accounting Standards.

In 2009 the Group started recognising part of the income from card products as fee and commission income. This involves payment card membership fees, fees on card product cash withdrawals and electronic banking access fees which had previously been posted as other net operating income. The Group adjusted comparative figures for 2008 accordingly so that income from fee and commissions is higher and other operating income lower by EUR 2,442 thousand.

In 2009 the Group started recognising card processing costs as fee and commission expenses which is why comparative administration costs for 2008 were EUR 1,827 thousand lower. Fee and commission expenses include part of interchange fees on cash withdrawals which had previously been carried as other operating expenses. Consequently, the comparative figures for other operating expenses were EUR 563 thousand lower.

In 2009 the Group changed the accounting policies in respect of the recording of factoring operations. Factoring operations are recorded according to the net principle. Changed accounting for factoring transactions resulted in the following main modifications:

– in factoring with recourse receivables from factored invoices and liabilities to clients are treated as off-balance sheet items and not as balance-sheet items as before;
– in factoring with recourse interest receivables from prefinancing and factoring fees may be offset against the factor’s liability to the client only after the receivable is paid;
– receivables from prefinancing from factoring without recourse are directly deducted from liabilities to the clients.

Due to changes in the accounting policies resulting from the introduction of the net principle, in the statement of financial position for 2008 the comparative figures for the following items were adjusted: loans to non-bank customers, other assets and other liabilities. As a result of transfers from other assets, loans to non-bank customers are EUR 750 thousand higher. Gross loans to corporate entities are EUR 1,183 thousand higher and the related allowances are EUR 433 thousand higher. Other assets are EUR 28,743 thousand lower (EUR 750 thousand due to the transfer to loans to non-bank customers and EUR 27,993 thousand due to the transfer to off-balance-sheet items). As a result, other liabilities are also lower - by EUR 27,993 thousand due to the transfer to off-balance-sheet items. The Group’s total assets for 2008 are therefore EUR 27,993 thousand lower.

PERFORMANCE AS VIEWED THROUGH THE INCOME STATEMENT

In 2009, **the Abanka Group** generated a **profit before tax** of EUR 28,258 thousand. **Consolidated profit after tax** in 2009 amounted to EUR 22,119 thousand and was 8.4% above the level reported for 2008. The Abanka Group posted a return on equity after tax of 6.4%.

6.4%

ROE AFTER TAX OF THE ABANKA GROUP IN 2009

Abanka alone reported EUR 29,043 thousand in **profit before tax** and a return on equity of 8.3%. **The Bank's profit after tax** in 2009 totalled EUR 22,925 thousand, which was 3.1% higher than the year before. Abanka's return on equity after tax was 6.6%.

In 2009 the **Abanka Group** recorded **interest income** of EUR 187,007 thousand, down 12.5% on the previous year. The **Group's interest expenses** amounted to EUR 109,381 thousand or 19.0% less than in 2008. The **Abanka Group's interest margin** was EUR 77,626 thousand or 1.5% below the amount reported for 2008.

Abanka's interest income in 2009 was EUR 182,233 thousand, a decrease of 12.3% compared to the previous year, whilst its **interest expenses** totalled EUR 107,229 thousand, namely 18.2% lower than those incurred in 2008. Abanka's **interest margin** amounted to EUR 75,004 thousand, which was 2.3% below the 2008 level.

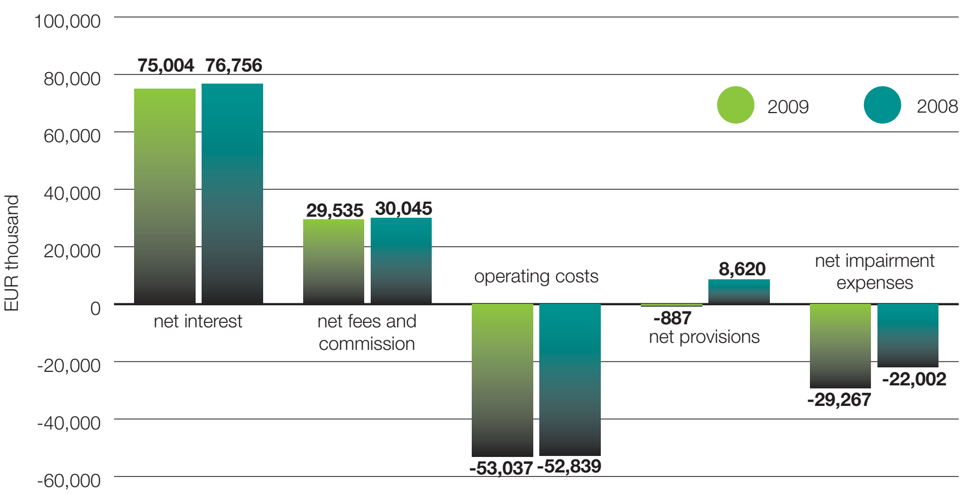
For 2009 the **Abanka Group** posted EUR 30,915 thousand in **net fees and commissions** or 3.0% less than the year before. **Abanka** contributed EUR 29,535 thousand to **net fees and commissions**, which was 1.7% less than in 2008.

Other net non-interest income (excluding net fees and commissions) of the **Abanka Group** in 2009 were positive and amounted to EUR 9,059 thousand as opposed to the negative figure of EUR 12,381 thousand reported for 2008. Other net non-interest income of **Abanka** in 2009 was positive and amounted to EUR 7,695 thousand as opposed to 2008 when it was negative and equalled EUR 12,999 thousand due to the situation facing financial markets.

The Abanka Group's operating costs totalled EUR 57,488 thousand in 2009 and were 0.1% lower than in 2008. Labour costs of EUR 32,949 thousand were 6.0% higher than in 2008 and general and administrative expenses fell by 4.8% to EUR 18,648 thousand. Depreciation expenses in 2009 amounted to EUR 5,891 thousand and were 14.1% lower than in the year before. **Abanka's operating costs** in 2009 were EUR 53,037 thousand in total and 0.4% higher than in 2008. Compared to the year before, labour costs were 7.2% higher and totalled EUR 30,770 thousand, whereas general and administrative expenses equalled EUR 17,077 thousand and were 5.3% below the amount reported for 2008. Depreciation expenses of EUR 5,190 thousand were 14.8% lower than in 2008. At 58,0%, labour costs represented the largest proportion of total expenses, followed by general and administrative expenses with 32.2% and depreciation expenses which accounted for 9.8% of the total.

In 2009 **the Abanka Group** incurred EUR 31,854 thousand of **net provisioning and impairment expenses**, of which net impairment expenses accounted for EUR 30,884 thousand. **Abanka's net provisioning and impairment expenses** were EUR 30,154 thousand; in this **net impairment Abanka's expenses** were EUR 29,267 thousand, which represents an increase of EUR 7,265 thousand or 33.0% more than in the previous year.

NET INTEREST, NET FEE AND COMMISSION INCOME, OPERATING COSTS AND PROVISIONS AND IMPAIRMENTS OF ABANKA IN 2009 COMPARED TO 2008



PERFORMANCE AS VIEWED THROUGH THE STATEMENT OF FINANCIAL POSITION

Consolidated total assets as at 31 December 2009 amounted to EUR 4,557,476 thousand, which was EUR 674,473 thousand or 17.4% above the level posted at the end of 2008. The combined balance sheet assets of consolidated subsidiaries, which equalled EUR 181,060 thousand, accounted for 4.0% of consolidated total assets (vs. 5.0% in 2008). After the elimination of inter-company transactions, the consolidated total assets of the Abanka Group exceeded Abanka's total assets by 1.0% or EUR 47,004 thousand.

17.4%

GROWTH OF TOTAL ASSETS OF THE ABANKA GROUP IN 2009

Abanka's balance sheet total at the end of 2009 stood at EUR 4,510,472 thousand, having increased over the previous year's end by EUR 687,136 thousand or 18.0%. Abanka's market share as at 31 December 2009 was 8.8%, which again made it the third largest bank in the Slovene banking industry.

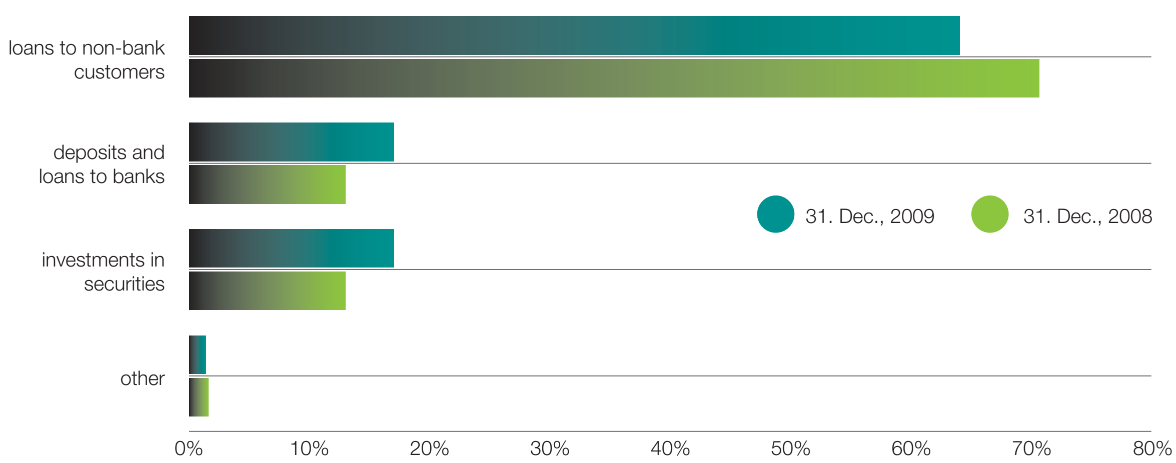
Loans and receivables to non-bank customers accounted for the largest proportion of consolidated balance sheet assets, amounting to EUR 2,905,301 thousand at the end of 2009, or 63.7% of the total consolidated amount. Lending to non-bank customers in 2009 was up 4.7% on the year earlier. As at the end of 2009, Abanka's loans and receivables to non-bank customers totalled EUR 2,904,023 thousand and accounted for 64.4% of its total balance sheet assets. Compared to 2008, this represents 6.1% growth or EUR 167,343 thousand in nominal terms. This nominal increase was the result of more loans being made to domestic and foreign corporate entities and sole proprietors who, with a share of 75.9%, represented the largest proportion of lending to non-bank customers, followed by loans to domestic and foreign retail customers with 15.9% and lending to the public sector with 8.2%.

As at 31 December 2009 deposits, loans and receivables to banks by the Abanka Group totalled EUR 791,835 thousand and represented 17.4% of consolidated balance sheet assets. Compared to 2008 they increased by 55.0%. Deposits, loans and receivables to banks by Abanka amounted to EUR 765,585 thousand as at the end of 2009 and accounted for 17.0% of total balance sheet assets, after having risen by 51.9% over the end of 2008. Cash and cash balances with central bank rose from EUR 229,417 thousand as at the end of 2008 to EUR 252,599 thousand one year later. In the same period, loans and receivables to banks grew from EUR 274,446 thousand to EUR 512,986 thousand, mostly as a result of higher short-term placements with foreign banks.

As at 31 December 2009, investments by the Abanka Group in securities amounted to EUR 777,546 thousand, after having risen by 52.3% or EUR 267,090 thousand compared to the end of 2008. Their share in consolidated balance sheet assets grew from 13.1% at the end of 2008 to 17.1% one year later. At the end of 2009, investments by Abanka in securities totalled EUR 776,073 thousand and accounted for 17.2% of balance sheet assets. Compared to the end of 2008 they rose by EUR 267,098 thousand or 52.5%. Equity securities, with a total value of EUR 86,537 thousand, represented 11.2% of total securities held by Abanka. They experienced a year-on-year increase of 87.0% or EUR 40,257 thousand in nominal terms. Debt securities amounted to EUR 689,536 thousand and were 49.0% or EUR 226,841 thousand higher in comparison with the end of 2008.

Abanka's equity investments in subsidiaries, associated companies and the joint venture company at the end of 2009 totalled EUR 10,133 thousand and accounted for 0.2% of total assets. Significant changes in 2009 included a share capital increase of Aleasing d.o.o. by EUR 1,002 thousand and an initial increase and subsequent decrease of the stakeholding in KDSPV1 B.V in the amount of EUR 74 thousand.

ASSET STRUCTURE AS AT 31 DEC., 2009 AND 31 DEC., 2008



As at 31 December 2009, **consolidated balance sheet liabilities** were composed of 92.1% of total liabilities (EUR 4,197,199 thousand) and 7.9% of total equity (EUR 360,277 thousand). As at the balance sheet date, **the Bank's balance sheet liabilities** were made up of 91.9% of liabilities (EUR 4,146,895 thousand) and 8.1% of total equity (EUR 363,577 thousand).

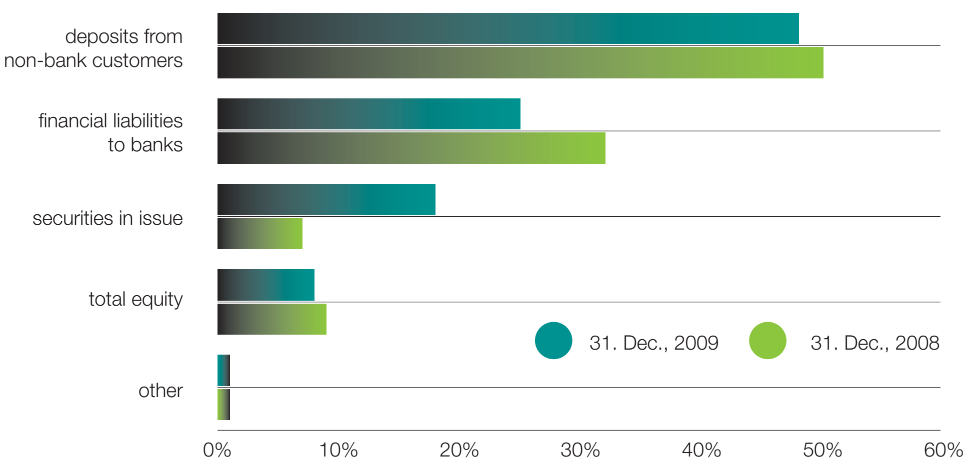
Deposits from non-bank customers of the Abanka Group represented the bulk of total liabilities. By the end of 2009 these rose by 13.0% or EUR 248,757 thousand and reached EUR 2,167,284 thousand. As at the end of 2009, deposits from non-bank customers in Abanka amounted to EUR 2,171,108 thousand, after having increased by 12.5% or EUR 241,458 thousand compared to the end of 2008. Deposits from the public sector grew by 45.2%, deposits from retail customers increased by 5.0%, whilst deposits from domestic and foreign corporate customers and sole proprietors dropped by 1.8% over 2008. In total deposits from non-bank customers the largest share was accounted for by domestic and foreign retail customers (48.7%), followed by deposits from the public sector (29.5%) and deposits from domestic and foreign corporate customers and sole proprietors (21.7%).

Financial liabilities to banks of the Abanka Group amounted to EUR 1,166,476 thousand as at the end of 2009, which was 10.1% less than the year before. Financial liabilities to banks of Abanka as at the end of 2009 totalled EUR 1,114,890 thousand and were 9.2% lower than at the end of the previous year. This had an impact on their proportion in total liabilities which decreased from 32.1% at the end of 2008 to 24.7% at the end of 2009.

Securities in issue of the Abanka Group equal those of Abanka. In 2009 they rose by EUR 536,850 thousand and by the end of the year reached EUR 819,171 thousand. Subordinated liabilities in the amount of EUR 145,808 thousand fell in 2009 by 9.1% or EUR 14,643 thousand in nominal terms as the issued bond's coupon fell due. Debt securities amounted to EUR 673,363 thousand and were EUR 551,493 thousand higher than at the end of 2008. In September 2009 Abanka issued bond worth EUR 500 million that were guaranteed by the Republic of Slovenia. As at the end of 2009, securities in issue represented 18.2% of total liabilities, having increased from 7.4% as at the end of 2008.

The total equity of the Abanka Group at the end of the reporting year equalled EUR 360,277 thousand, which was 7.0% more compared to the end of 2008, whereas the total equity of Abanka amounted to EUR 363,577 thousand and rose in the same period by 7.1%.

STRUCTURE OF LIABILITIES AS AT 31 DEC., 2009 AND 31 DEC., 2008



PERFORMANCE OF THE GROUP IN 2009

Corporate Banking

Corporate banking covers banking operations with domestic and foreign corporates, the public sector and sole proprietors.

5.6%
GROWTH OF CORPORATE LENDING IN 2009

The global financial crisis which started in mid-2007 in the USA triggered a liquidity and economic crisis in both Europe at large and Slovenia. Its impact gradually strengthened and became more obvious in 2009. The economy was confronted with mounting difficulties in 2009, both in terms of decreasing business activities and a great fall in the volume of investments. As a result, corporate lending in Abanka experienced moderate growth for the most part of 2009. Customers mostly sought the rescheduling of existing short-term loans into longer-term arrangements, but there was no demand for investment loans. Those companies which were involved in a strong investment cycle and therefore more indebted, before the recession faced additional problems. All these factors contributed to poorer business results compared to the period before the crisis due to lower volumes of operations and companies' inability to adapt, mostly on the expense side.

In recession small and medium-sized enterprises have been under additional pressure, caused by their dependence on their co-operation with large companies which, as a rule, decreased their orders due to lower volumes of operations and stock rationalisation. One of the reasons SMEs obtained less orders was that large companies again started themselves to perform some of the activities they had previously outsourced to SMEs and were in this way able to maintain jobs. The most pressing problem for SMEs was liquidity as large companies imposed substantially longer payment periods, whereas SMEs were unable to agree on the same with their suppliers. In spite of the limiting factors described above, in 2009 Abanka continued with its active SME policy: its attracted new customers and with the existing SME customer base it even managed, despite the difficult situation, to increase volumes i.e. improve the sales of certain products. The business policy of the Bank concerning the SME segment in 2009 was focused on intensifying Abanka's promotion in the media and improving its visibility for this segment. In addition, the Bank organised professional events for customers and launched special packages of products aimed at bringing them closer to SMEs.

In the last quarter of 2009 the state of the economy gradually improved, which led to more orders and stronger demand for financing. The need for financing was also created as a result of generally longer payment periods, a trend continuing since the beginning of the crisis. All of this boosted lending in the last quarter of 2009. In 2009 lending still grew on a conservative basis and depended, even more than in the past, on other forms of customers' banking with Abanka. Emphasis was put on SMEs, whilst loans for financial investments and real-estate projects continued to drop. As always, also in 2009 Abanka paid special attention to the quality of its services and technological improvements. It specially considered the complex management of relationships with corporate customers, which in the past proved to be one of the key drivers of customer satisfaction.

In 2009, corporate banking growth rates were moderate. In the last quarter credit activity was stronger.

With the bond issue Abanka ensured a long-term additional source for financing corporate customers. It also strengthened its co-operation with institutions and funds which support and have followed the development of the small business segment (SMEs). Abanka also participated with great success in the Enterprise Finance Guarantee Scheme of the Republic of Slovenia. By the end of 2009 Abanka had used up the entire allocation of guarantees by the Republic of Slovenia and granted 118 loans to companies, i.e. it placed the entire available credit potential of EUR 179 million, which in terms of both number and volume of loans accounted for more than 33% of total loans extended under the Enterprise Finance Guarantee Scheme in 2009.

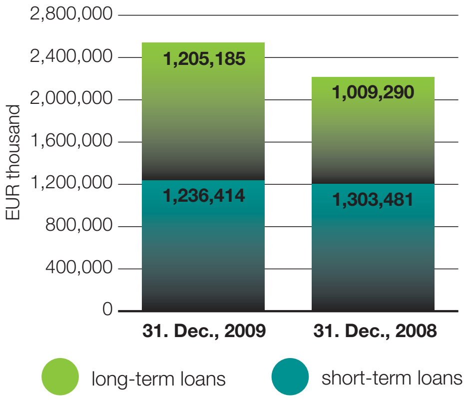
33.6%
ABANKA'S MARKET SHARE IN LOANS GRANTED UNDER THE ENTERPRISE FINANCE GUARANTEE SCHEME OF THE REPUBLIC OF SLOVENIA

Due to the difficult situation in which companies found themselves in 2009, Abanka strongly intensified its individual approach to corporate customer treatment: it monitored their liquidity, followed the volumes of orders they received on a monthly basis and regularly monitored their business results against plans. In 2009, significant attention was paid to the adequate collateralisation of loans granted.

Loans to corporate customers of the Abanka Group at the end of 2009 amounted to EUR 2,412,959 thousand. **Abanka's loans to corporate customers** at the end of 2009 amounted to EUR 2,441,599 thousand, after having gone up by EUR 128,828 thousand or 5.6% at the end of the previous year. The market share of loans to corporate customers rose from 8.7% at the end of 2008 to 9.2% at the end of 2009. The share of loans to corporate customers in total assets decreased from 60.5% at the end of 2008 to 54.1% at the end of 2009. The maturity structure of corporate lending in 2009 changed so that the share of long-term loans since 2008 grew by 5.8 percentage points and accounted for 49.4% of the Bank's total corporate lending in 2009. This rise in long-term loans was primarily achived by granting longer term loans under the Enterprise Finance Guarantee Scheme. Loans to corporate customers in 2009 rose by 6.9% or EUR 127,325 thousand, loans to the public sector grew by 1.3% or EUR 3,015 thousand and loans to sole proprietors went up by 7.2% or EUR 2,418 thousand, whereas loans to foreign corporate customers went down by 2.1% or EUR 3,930 thousand in nominal terms.

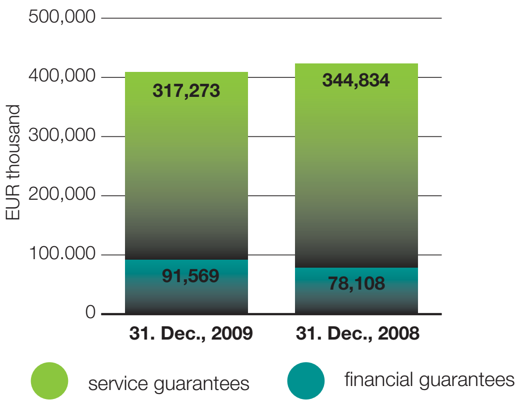
9.2%
MARKET SHARE OF CORPORATE LOANS AT THE END OF 2009

CORPORATE LOANS



Guarantees issued by Abanka stood at EUR 408,842 thousand at the end of 2009 and were 3.3% below the amount reported at the end of 2008. Service guarantees in 2009 decreased by 8.0%, whilst financial guarantees increased by 17.2%, which meant that at the end of 2009 the share of service guarantees in total guarantees was 77.6% compared to 81.5% at the end of 2008.

GUARANTEES FOR CORPORATE CLIENTS

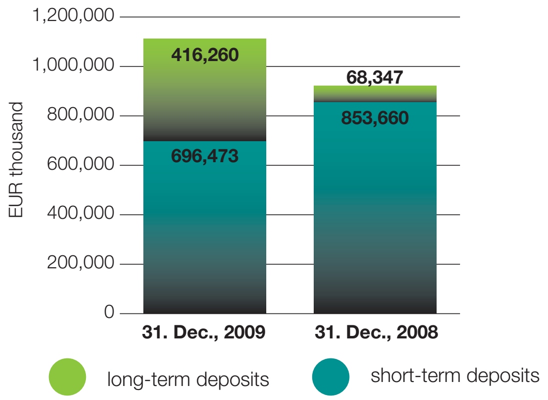


In 2009, even though long-term primary sources of funds were increased with the new bond issue, raising primary sources of funds remained one of the Bank's top priorities.

Deposits from corporate customers in the Abanka Group stood at EUR 1,108,909 thousand at the end of 2009. **Deposits from corporate customers in Abanka** at the end of 2009 totalled EUR 1,112,733 thousand and were 20.7% or EUR 190,726 thousand more than at the end of 2008. The market share of deposits from corporate customers fell from 12.6% at the end of 2008 to 11.6% by the end of 2009, which represents a decrease despite the nominal growth.

In deposits from corporate customers, increases were recorded in deposits from the public sector, sole proprietors and foreign corporate customers which together grew by 43.6% or EUR 202,172 thousand. On the other hand, a decrease of 2.5% or EUR 11,446 thousand was registered in deposits from the corporate sector. In total balance sheet liabilities, the share of deposits from corporate customers by the end of 2009 grew to 24.7% from 24.1% one year earlier. The currency structure of deposits from corporate customers changed in favour of foreign-currency deposits which by the end 2009 accounted for 3.2% of the total, compared to 1.6% at the end of 2008. The maturity structure of deposits from corporate customers changed dramatically: at the end of 2009 the proportion of short-term deposits was 62.6%, whilst at the end of 2008 it was as much as 92.6%.

DEPOSITS BY CORPORATE CLIENTS



Retail Banking

Retail banking comprises operations with domestic and foreign individuals.

9.1%

GROWTH OF
RETAIL LENDING IN 2009

With its broad range of services including classical banking and other financial products, the Abanka Group provides integrated personal finance management to its customers. At all times it caters to customers through modern sales channels and, thanks to its universal presence in all Slovene regions, brings personal advice to all those who wish to deal with their financial affairs in a banking outlet.

As in previous years, in 2009 we also focused on growth, development of services, rationalisation of processes and modernisation of the entire range of our products and services. We further worked on identifying the needs of different customer segments and target groups in respect to bundled products. The demanding retail customers already using personal banking services were offered private banking products, which provided them with first-class products and services.

The existing range was in 2009 expanded by private banking products and services.

Abanka's widespread branch network with 41 outlets covers all Slovene regions. In order to improve operating conditions and security for Bank customers, employees and assets, in 2009 Abanka renovated and refurbished some of its outlets. According to a standardised modern concept we redesigned our outlet in the Smelt Building in Ljubljana, which offers not only our standard broad range of financial services but also caters to the most sophisticated private banking customers. We also renovated and equipped with modern furnishings the outlet in Logatec and added a room to the outlet in Kobarid which improved the functionality of the space.

In 2009, we paid more attention to improving our market visibility. By enhancing the quality and safety of its products, Abanka once again proved to be a trustworthy bank with a long tradition and perceived as a friendly bank by the public at large.

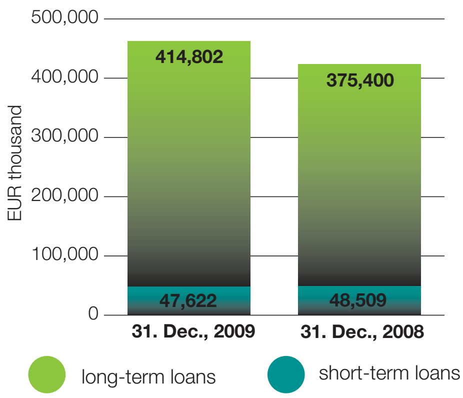
In retail lending we consistently responded to market needs. In view of the economic situation, Abanka stepped up verifications of loan seekers' creditworthiness and of the adequacy of collateral offered. Abanka also participated in a guarantee scheme for retail customers.

Loans to retail customers by the Abanka Group at the end of 2009 totalled EUR 492,342 thousand. **Loans to retail customers by Abanka** at the end of 2009 totalled EUR 462,424 thousand, in which the major part was loans to domestic retail customers. In 2009 retail loans increased by 9.1% or EUR 38,515 thousand nominally, whereas their share in balance sheet assets dropped from 11.1% at the end of 2008 to 10.3% one year later.

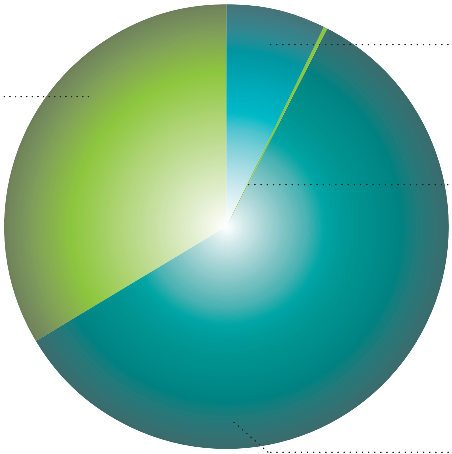
The market share of retail lending climbed from 6.4% at the end of 2008 to 6.5% at the end of 2009.

The percentage of short-term loans at the end of 2009 was 10.3%. Only 2.9% of all total retail lending was in foreign currencies.

LOANS TO RETAIL CLIENTS



ACCOUNT STRUCTURE AS AT 31 Dec., 2009

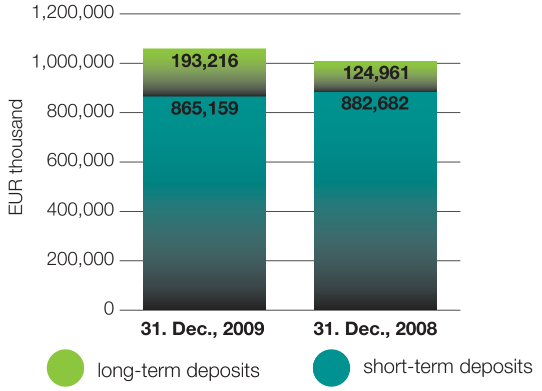


Note: *Long-term loans in foreign currencies are housing loans.

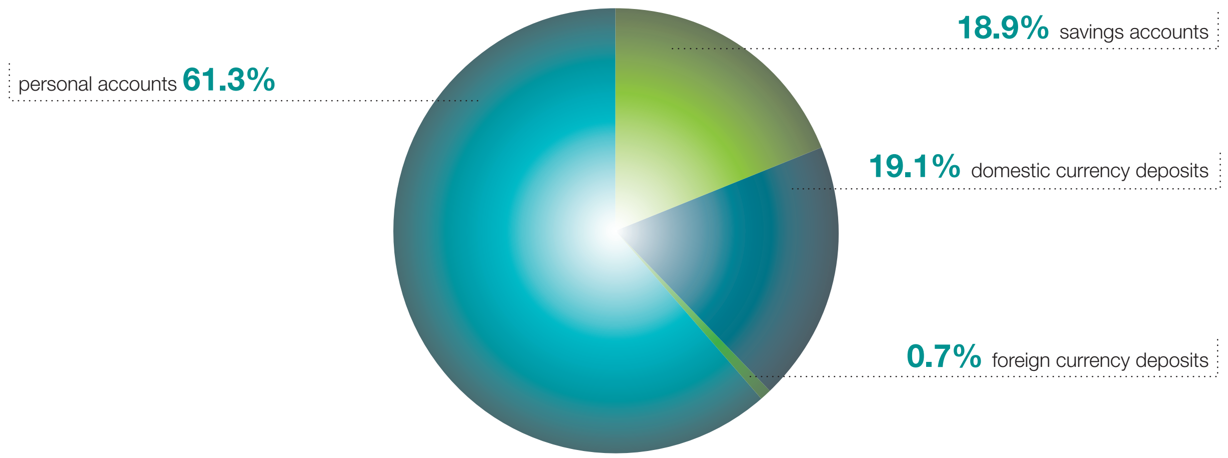
Deposits from retail customers in the Abanka Group and in Abanka at the end of 2009 stood at EUR 1,058,375 thousand, of which deposits from foreign retail customers amounted to only EUR 39,101 thousand. In 2009 deposits from retail customers grew by 5.0% in total, with those from domestic customers increasing by 6.6% (EUR 62,853 thousand) and foreign customers decreasing by 23.7% (EUR -12,121 thousand).

By launching special offers particular attention was paid to increasing the volume of deposits. Customers were mostly interested in longer term savings deposit products. Gold Annuity Savings Scheme, an innovative marketing camping in which depositors were rewarded with 1 gram gold bullion bars, met with great success. The market share of deposits from retail customers was 7.6% at the end of 2009, the same as the year earlier. As at the end of 2009 deposits from retail customers represented 23.5% of total balance sheet liabilities, after having decreased from 26.4% as at the end of 2008. Their currency structure remained practically unchanged as domestic customer deposits in the domestic currency rose from 96.9% at the end of 2008 to 97.0% at the end of the reporting year. The maturity structure of deposits from retail customers did change in favour of long-term deposits, which accounted for 18.3% as at 31 December 2009, as shown in the following graph.

DEPOSITS BY RETAIL CLIENTS



ACCOUNT STRUCTURE AS AT 31 DEC., 2009



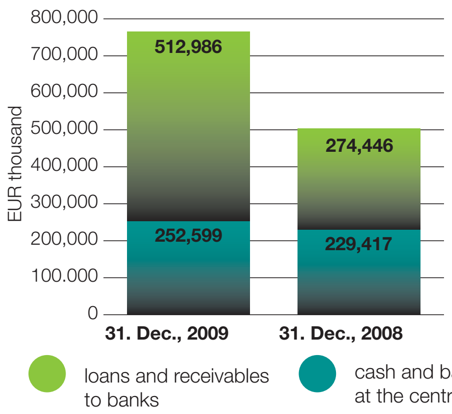
Abanka continually upgrades the functionalities of its electronic sales channels and pays particular attention to their safety. Abanet, Abanka's online bank, was upgraded in 2009 so as to enable all users to view and manage their authorised accounts. Abanka was one of the first banks in Slovenia to introduce the e-invoice as a new service, i.e. the electronic payment of invoices.

In 2009 the Bank devoted major effort to the security of customers' operations, mostly by supervising all the performed transactions and timely detecting potential fraud. AbaSMS, a mobile phone alert system, provides personal account holders with information on each transaction performed with payment cards or based on orders processed through the Abanet online bank.

Operations with other Banks

Loans and receivables to banks and cash and balances with central bank of the Abanka Group amounted to EUR 791,835 thousand at the end of 2009, whilst those of **Abanka** alone totalled EUR 765,585 thousand, up by 51.9%, predominantly due to higher loans to banks (86.9%), whilst balances with the central bank increased by a mere 10.1%. The share of loans and receivables to banks in total balance sheet assets at the end of 2009 was 11.4%, having risen from 7.2% one year earlier. This was primarily the result of higher short-term loans and receivables to foreign banks.

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

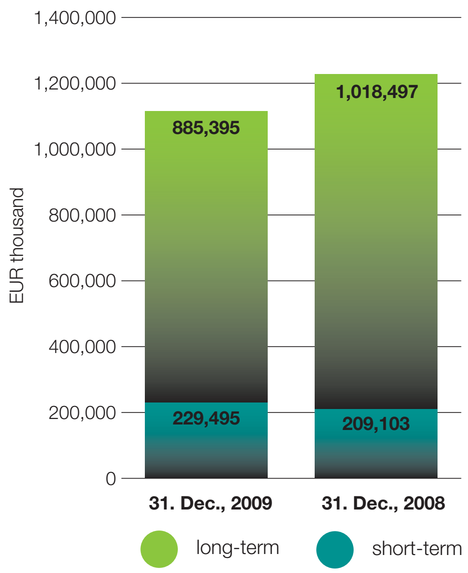


At the end of 2009, **financial liabilities to banks of the Abanka Group** amounted to EUR 1,166,476 thousand **and those of Abanka** to EUR 1,114,890 thousand. The latter were 9.2% or EUR 112,710 thousand lower compared to the end of 2008. At the end of 2009, financial liabilities to banks represented 24.7% of total balance sheet liabilities, after having decreased from 32.1% at the end of 2008. Short-term financial liabilities to banks in the reporting year rose by EUR 20,392 thousand or 9.8%, whilst long-term ones fell by EUR 133,102 thousand or 13.1%. As a result, long-term financial liabilities to banks in total liabilities decreased from 83.0% at the end of 2008 to 79.4% at the end of 2009. In August 2009, Abanka signed a syndicated loan agreement with a syndicate of selected foreign banks amounting to EUR 80 million. This was one of the very few new syndicated loans granted in Europe at that time.

EUR 80 MILLION

RAISED WITH A SYNDICATED LOAN

ABANKA'S FINANCIAL LIABILITIES TO BANKS



Securities

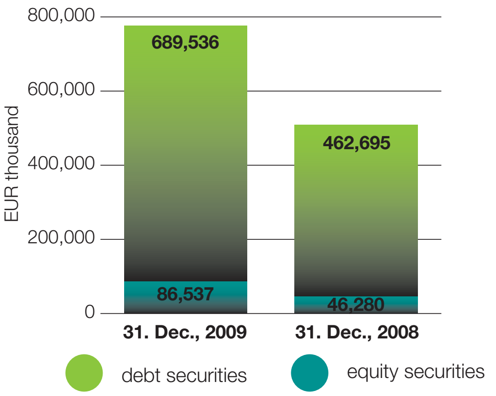
At the end of 2009, the value of **the Abanka Group's investments in securities** was EUR 777,546 thousand and exceeded that of **Abanka** by EUR 1,473 thousand (investments in securities of Abančna DZU and Analožba amounted to EUR 1,450 thousand and EUR 23 thousand, respectively).

At the end of 2009 investments in securities of Abanka stood at EUR 776,073 thousand and were 52.5% higher than at the end of 2008. Taking into account the increase in total balance sheet assets, they represented 17.2%, which is more than the 13.3% recorded at the end of 2008. The securities portfolio included both equity and debt securities.

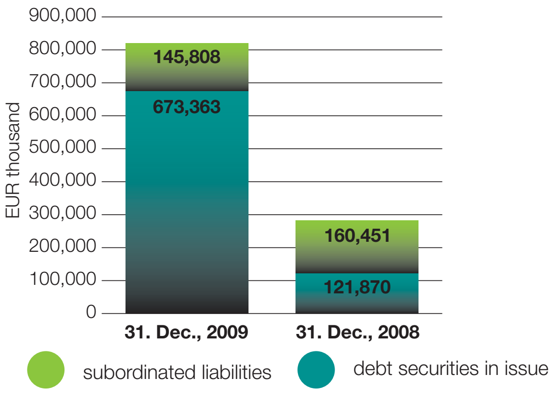
At the end of 2009 the equities portfolio of Abanka stood at EUR 86,537 thousand and was 87.0% or EUR 40,257 thousand higher than at the end of 2008.

The debt securities portfolio of Abanka as at the end of the reporting year totalled EUR 689,536 thousand and represented 88.8% of the total securities held by the Bank. Compared to the end of 2008, debt securities rose by 49.0% or nominally by EUR 226,841 thousand.

ABANKA'S INVESTMENTS IN SECURITIES



ABANKA'S SECURITIES IN ISSUE



EUR 500 MILLION

GOVERNMENT-GUARANTEED BOND ISSUED

Securities in issue of the **Abanka Group equalled those of Abanka**. They included debt securities in issue (i.e. bonds, certificates of deposit) and subordinated liabilities. Total securities in issue at the end of 2009 amounted to EUR 819,171 thousand, which was 190.2% or nominally EUR 536,850 thousand more compared to the year before. In total balance sheet liabilities their share rose from 7.4% at the end of 2008 to 18.2% one year later. Certificates of deposit at the end of 2009 amounted to EUR 108,194 thousand, having increased by 96.9% or EUR 53,247 thousand in nominal terms over the previous year. In 2009, subordinated liabilities fell by EUR 14,643 thousand EUR in nominal terms as the issued bond's coupon fell due, whilst bonds in issue, bills and certificates in issue increased by EUR 498,246 thousand. The main reason for this increase was the fact that in September Abanka issued bond worth EUR 500 million with a guarantee by the Republic of Slovenia and placed it on the international capital market.

Equity Investments

Equity investments in subsidiaries, associated companies and the joint venture company amounted to EUR 10,133 thousand at the end of 2009. In 2009, investments rose by 10.1% or EUR 928 thousand in nominal terms. Two major changes in 2009 were that Aleasing d.o.o. raised EUR 1,002 thousand of additional capital, with an increase in equity investment of EUR 34 thousand and due to the liquidation of KD Private Equity Fund B.V. the relevant equity investment was impaired by EUR 108 thousand and fully written off.

The share capital of Aleasing was increased by EUR 1,002 thousand.

EQUITY INVESTMENTS *(in EUR thousand)*

	31 Dec.,2009	Structure	31 Dec.,2008	Structure	09/08 index
subsidiaries	9,131	90.1%	8,129	88.3%	112
associated companies	0	0.0%	74	0.8%	0
joint venture company	1,002	9.9%	1,002	10.9%	100
TOTAL	**10,133**	**100.0%**	**9,205**	**100,0%**	**110**

Payment Transactions

Payment transactions remain our comparative advantage.

Abanka's competitive advantages in payment transactions are its sophisticated online bank as well as its reliable and quality processing of payments. Once again in 2009 Abanka received the STP Excellence Award from Deutsche Bank, Frankfurt, in recognition of its high-quality performance with international payment transactions. This involves the highly automated processing of payment orders, lower costs and better quality services for customers. Since January 2008 Abanka has been executing SEPA credit transfers.

Abanka received international recognition for payment transactions twice: Deutsche Bank, based in Frankfurt am Main, awarded to Abanka STP Excellence Award for 2008 (given to banks with the highest percentage of STP-Straight Through Processing); the Bank of New York Mellon, a leading global financial institution, gave recognition to Abanka for its 98% share of STP payments.

In 2009, Abanka recorded international payment transactions worth EUR 4,076,159 thousand and its 11.4% market share placed it third among banks in Slovenia. (Payment transaction data only include international and cross-border payments of sums above EUR 50,000). Incoming and outgoing payments accounted for 48.3% and 51.7% of the total, respectively.

As regards domestic payment transactions, in 2009 Abanka processed 42,901 orders in the Target system worth EUR 48,637,509 thousand, which accounted for 15.6% of the market, as well as 4,539,395 orders in the SEPA low-value payment system amounting to EUR 4,234,416 thousand and representing a market share of 11.0%. In terms of the number of processed orders its market share was 8.5% in the Target system and 9.2% in the SEPA low-value payment system.

Card Operations

Abanka's wide range of card products allows it to offer the most suitable cards to different customer segments. In addition to domestic card products, the Bank issues the most popular cards such as Visa and Mastercard. Abanka's range includes the following cards:

- BA Maestro – debit: standard, student, children's and business cards;
- Visa: standard, gold, business cards;
- Visa Electron: debit and credit cards;
- Karanta; and
- MasterCard: standard and business cards.

At the end of 2009, 231,673 cards had been issued, 1.9% more than one year earlier. The bulk in nominal terms is BA Maestro which also functions as a personal account card (145,190 cards) and for the second consecutive year the biggest growth was recorded with the Visa Electron card, the number of which rose by as much as 19.1% (36,371 cards). All cards produced by Abanka are smart cards (EMV), which will become the required standard for SEPA payments by 2012.

In 2009 there were 12.3 million POS terminal transactions with Abanka-issued cards, which was 2.0% more than the year before. The total amount of these transactions reached EUR 658,394 thousand, which represents annual growth of 2.3%. In addition to POS terminal transactions, cardholders made 3.6 million ATM cash withdrawals worth EUR 430,434 thousand, which represents a 3.1% fall compared to 2008.

NUMBER AND VOLUME OF POS TRANSACTIONS WITH ABANKA CARDS IN 2008 AND 2009

	Number of pos transactions		Structure		Volume of pos transactions *(EUR thousand)*		Structure	
	2009	2008	2009	2008	2009	2008	2009	2008
Ba Maestro	9,319,937	9,202,053	75.9%	75.9%	501,421	500,824	76.2%	76.9%
Visa – standard	1,636,748	1,746,708	13.3%	14.4%	65,184	67,945	9.9%	10.4%
Visa Electron – debit	598,761	465,556	4.9%	3.8%	52,903	43,629	8.0%	6.7%
Mastercard – standard	415,313	392,783	3.4%	3.2%	15,268	14,518	2.3%	2.2%
Visa – gold	178,637	186,176	1.5%	1.5%	13,175	13,624	2.0%	2.1%
Mastercard – business	52,733	49,836	0.4%	0.4%	4,329	4,156	0.7%	0.6%
Visa Electron – credit	52,188	42,298	0.4%	0.3%	3,190	2,501	0.5%	0.4%
Visa – business	27,981	32,484	0.2%	0.3%	2,806	3,608	0.4%	0.6%
Visa – AMZS co-branded	-	5,650	-	0.05%	-	219	-	0.03%
Karanta	4,466	4,793	0.04%	0.04%	118	131	0.02%	0.02%
TOTAL	**12,286,764**	**12,128,337**	**100.0%**	**100.0%**	**658,394**	**651,155**	**100.0%**	**100.0%**

Note: Abanka stopped issuing the co-branded Visa AMZS card in 2007 and all of these cards expired in 2008.

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ATMS OWNED BY ABANKA
AT THE END OF 2009

Abanka has an extensive network of points of sale. At the end of 2009, cards of all brands were accepted at 15,797 points of sale – with Visa being accepted at 6,634, BA at 2,238, Karanta at 2,428, MasterCard at 2,285 and Maestro at 2,212 points of sale. All points of sale are equipped with POS terminals owned by Abanka. In 2008 all POS terminals were upgraded to the EMV standard (smart cards). At the end of 2009, Abanka had 3,317 POS terminals in total, which was 15.0% more than one year before. The market share of Abanka was 33.4% at the end of 2009. At Abanka's points of sale 7.2 million transactions were recorded in 2009 or 28.8% more than in the previous year, which nominally amounted to EUR 410,128 thousand or EUR 30.7% more than in 2008.

Abanka started operating multifunctional ATMs.

The extensive ATM network is one of Abanka's modern sales channels. The number of bank-owned ATMs rose from 217 at the end of 2008 to 234 one year later. Among these there are 19 new multi-functional machines which, in addition to standard cash withdrawals, enable the automated payment of special payment orders and automated cash deposits to personal accounts processed in real time. Abanka was the first bank in Slovenia to offer this service. In 2009, 5.2 million transactions were processed by Abanka's ATMs worth EUR 444,710 thousand. ATM transactions increased by 6.4% in number and the value of withdrawals grew by 10.7%. Thanks to the acquisition of new ATMs in 2009, the market share grew to 13.2%, compared to 12.6% the year earlier.

Investment Brokerage

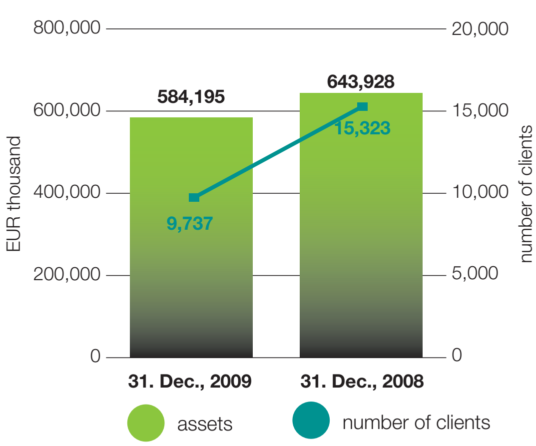
Unfavourable conditions on the financial markets had a strong impact on the volume of domestic brokerage transactions.

The total volume of trading generated by members of the Ljubljana Stock Exchange in 2009 was EUR 1,808,042 thousand. Abanka contributed EUR 128,188 thousand to this, the fourth highest volume of trading among stock exchange members. Abanka contributed 10.5% or EUR 956,503 thousand to the trading volume, excluding blocks, which made it the second biggest trader.

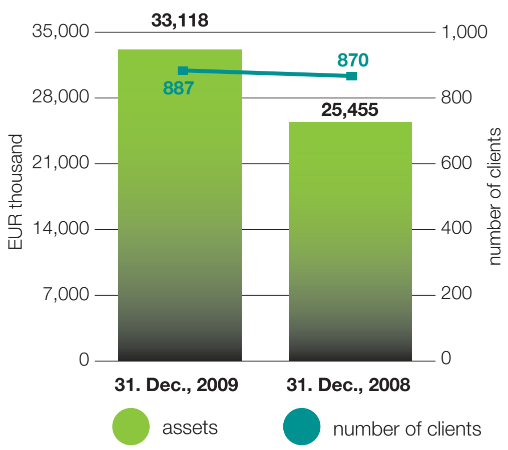
At the end of 2009 there were 9,737 customers using brokerage services in the domestic market while in foreign markets brokerage services were provided to 887 domestic corporate and retail customers. Customers' assets in domestic and foreign capital markets at the end of 2009 amounted EUR 584,195 thousand and EUR 33,118 thousand, respectively. In 2009, 5.3% of total brokerage customer assets were in foreign markets, compared to 3.8% at the end of the previous year.

At the end of 2009 the financial instrument portfolio under management was worth EUR 20,442 thousand or 7% more than one year earlier. The unfavourable and unpredictable conditions in capital markets considerably diminished the demand for portfolio management in the first half of 2009. As the capital market trends turned around in the second half of the year, demand for portfolio management services increased accordingly. The rise in assets under management was in part due to positive net inflows of customer assets and in part to higher securities prices. The number of portfolio management customers slightly decreased in 2009, again due to the generally known negative trends and instabilities in both domestic and international capital markets.

INVESTMENT BROKERAGE ON THE DOMESTIC MARKET



INVESTMENT BROKERAGE ON FOREIGN MARKETS



AIII VPS Mutual Pension Fund

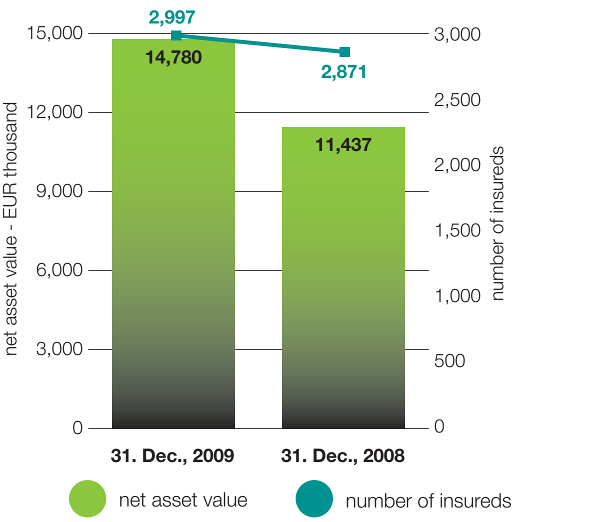
In 2009 the volume of funds and the number of insured persons in the mutual pension fund grew.

2009 was successful for the AIII VPS mutual pension fund. Compared to the previous year the total number of active insured persons grew substantially. At the end of 2009, AIII VPS counted 2,997 active insured persons, of whom 2,607 were under collective and 390 under individual insurance policies. In 2009, 48 insured persons decided to retain their entitlements, all of whom were insured under a collective voluntary additional pension insurance scheme. The retention of entitlements was caused by employer changes. The first bankruptcy of an employer in the AIII VPS scheme, which had financed additional pension insurance for its employees, occurred in 2009.

The net asset value of the fund as at 31 December 2009 was just above EUR 14,780 thousand or 29.2% more than one year earlier. The annual return on equity was 7.7%, making AIII VPS the third most successful mutual pension fund in Slovenia. In terms of the three-year growth rate and five-year return it is still the leading mutual pension fund in the country.

In 2009 both the volume of assets of AIII VPS and the number of insured persons increased, as shown by the graph below.

NUMBER OF INSUREDS AND NET ASSET VALUE OF AIII VPS MUTUAL PENSION FUND



Custody and Administrative Services

In 2009 Abanka remained the leading Slovene bank in custody and administrative services for investment funds.

In Slovenia Abanka is a market leader in custody and administrative services for investment funds.

In providing custody and administrative services the Bank successfully follows its long-term strategy of consolidating its position as the leading provider of both types of services in Slovenia and also developing administrative services for long-term business funds of insurance companies and assets backing the liabilities of pension companies. Abanka is actively involved in co-operation with EU institutions which regulate investment funds and custodian banks.

It is the only provider to use its own-developed IT for administrative services. Certified IT auditors every year have confirmed that the software used is in compliance with the regulations.

Bancassurance

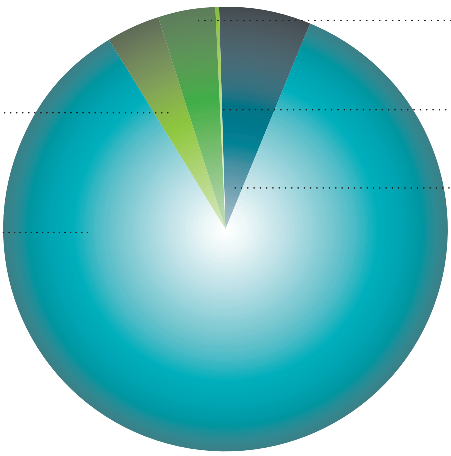
Abanka pursues a policy of strategic partnership with Zavarovalnica Triglav, whose synergies allow it to develop its profile in the financial intermediation market as a provider of bancassurance products.

Abanka is also an agent in the insurance market.

Abanka has acted as an agent in the insurance market since 2003. In conjunction with Zavarovalnica Triglav we offer the following banking/insurance products:
– accident insurance as a supplementary facility for holders of regular personal accounts and Akeš personal accounts;
– traditional life insurance: a combination of insurance with three types of savings products;
– unit-linked life insurance which combines life insurance and investment linked to the unit prices of selected mutual funds;
– single premium unit-linked life insurance which combines life insurance and investment elements, linked to the unit prices of selected mutual funds, with the insurance premium being paid in a lump sum when the policy is taken out;
– Fleks investment insurance – FLEKS unit-linked life insurance for young adults and FLEKS unit-linked life insurance for adults – is a combination of life insurance and

investment linked to investment funds; the policyholders assume the investment risk but at the same time have a choice among different investment strategies;
– ABC life insurance which is in essence similar to all unit-linked life insurance products, but offers lower premiums and an open-ended term of insurance;
– mortgage life insurance which is taken out in combination with a housing or consumer mortgage loan (with a term above 2 years) and provides a diminishing payout in the event of death, with the payout reaching zero when the policy expires;
– top-up health insurance in conjunction with Triglav Zdravstvena Zavarovalnica which is voluntary health insurance available to holders of personal and savings accounts with Abanka who are covered by compulsory health insurance and obliged to make top-up payments; and
– fire insurance.

BREAKDOWN OF LIFE INSURANCE BY NUMBER OF POLICIES AS AT 31 DEC., 2009



Total Equity and Ownership Structure

As at 31 December 2009, the total equity of the **Abanka Group** and **Abanka** amounted to EUR 360,277 thousand and EUR 363,577 thousand, respectively. In 2009, the Bank's capital rose by 7.1% or EUR 24,119 thousand over the previous year and accounted for 8.1% of total balance sheet liabilities.

7%

GROWTH OF THE ABANKA GROUP'S EQUITY

The share capital increase recorded by Abanka in 2009, compared to 2008, resulted from a capital revaluation surplus (EUR 8,424 thousand), higher reserves from profit (EUR 11,566 thousand) and remaining net profit (EUR 4,129 thousand). In accordance with a decision by the Management Board, confirmed by the Supervisory Board, 50% of the remaining net profit for 2008, equalling EUR 8,252 thousand, was allocated to other reserves from profit. Based on a resolution of the General Meeting of Shareholders, other reserves from profit were increased in 2009: by EUR 989 thousand as a result of the distribution of distributable profit of 2008 and by EUR 33 thousand arising from unpaid dividends which became due more than five years before. In accordance with the Articles of Association, EUR 2,292 thousand of net profit earned in 2009 was allocated to statutory reserves.

The share book value was EUR 50.56 as at 31 December 2009, calculated on the basis of 7,200,000 shares and excluding treasury shares.

The ten largest shareholders of Abanka at the end of 2009 are shown below, along with their equity holdings, compared to the end of 2008.

TEN LARGEST SHAREHOLDERS OF THE BANK

	31 Dec., 2009			31 Dec., 2008		
	Number of shares	Holding in %	Rank	Number of shares	Holding in %	Rank
ZAVAROVALNICA TRIGLAV D.D.	1,843,377	25.6	1	1,843,377	25.6	1
SAVA D.D.	1,715,841	23.8	2	1,715,841	23.8	2
GORENJSKA BANKA D.D.	719,031	9.9	3	31	0.0	695
DELNIŠKI VZAJEMNI SKLAD TRIGLAV STEBER I	527,258	7.3	4	527,258	7.3	4
HIT D.D.	442,705	6.1	5	442,705	6.1	5
BPT D.D.	342,189	4.8	6			
VIPA HOLDING D.D.	266,896	3.7	7	148,396	2.1	8
DAIMOND D.D.	255,907	3.6	8	255,907	3.6	6
ZVON ENA HOLDING D.D.	174,331	2.4	9	1,235,520	17.2	3
SLOVENSKA ODŠKODNINSKA DRUŽBA D.D.	161,120	2.2	10	161,120	2.2	7
Ten largest	6,448,655	89.5		6,582,048	91.4	
Other shareholders	751,345	10.5		617,952	8.6	
All shareholders	**7,200,000**	**100.0**		**7,200,000**	**100.0**	

At the end of 2009, the ten largest shareholders held 6,448,655 shares or 89.5% of Abanka's share capital, whilst one year earlier this proportion was 91.4%. At the end of the reporting year Zavarovalnica Triglav d.d. participated in Abanka's equity with 25.6%, Sava d.d. with 23.8%, Gorenjska banka d.d. with 9.9% and Delniški vzajemni sklad Triglav Steber I with 7.3%.

At the end of 2009, the same as one year earlier, the Bank held 9,213 redeemed own shares (i.e. treasury shares), which accounted for 0.1% of its share capital. The Bank established a treasury share fund for redeemed own shares.

THE BANK'S DEVELOPMENT AND ITS GOALS

DEVELOPMENT AND MARKETING COMMUNICATIONS IN 2009

Market conditions became tougher in 2009, influencing the development of Abanka's banking services and its business policies. The Bank reacted quickly to these market developments by duly **adapting the development of its new activities and priorities**. It paid greater attention to raising its primary sources of funds and increasing its non-interest income. In order to ensure the more effective distribution of funds to development projects and more efficient setting of development project priorities, a Development Committee was set up in early 2009 in charge of directing and supervising the Bank's development projects portfolio. The Development Committee's operational body is the Development Board, with both being assisted by the Project Office.

Special attention has been given to the **modernisation and streamlining** of operations. In this framework, the Bank continued redesigning some key processes including retail loans and bad debt management while it also completed the first phase of re-engineering deposit operations and the migration of Visa card processing to the Bankart processing centre.

As in previous years the Bank's development was again subject to **legislative changes**. In 2009 a lot of attention was paid to legal compliance adjustments in payment transaction services as set out in the new Payment Services and Systems Act that was implemented in accordance with European law. Changes in the legislation influenced Abanka's execution of payments for all payment instruments and its transaction account operations. Parallel to the required adjustments the Bank introduced and implemented certain upgrades to its range of transaction payment services. In 2009 much attention was dedicated to further modernisation of payment systems (Single Euro Payments Area – SEPA, Small Value Payment System – SIMP) and upgrading SISBON – the Slovene credit bureau.

Marketing communications in 2009 were adjusted to the market conditions which caused changes in customer expectations. The position of Abanka's nature-based brand positioning was re-evaluated. It was established that it is equally suitable also in the tougher market conditions, which led to a change in the selection of services which were communicated. Marketing communications were focused primarily on the promotion of already established financial products and thus directly on boosting sales. The range of products and services was tailored to the needs of Abanka's existing and potential customers in corporate and retail banking in the market situation. Significant attention was paid to maintaining and upgrading the Abanka website, which is an ever more important and visible source of information on the range of Abanka's products and services. To cater to affluent customers we introduced the Premium Package, which enables an integrated approach to these customers' specific needs.

In terms of research, we proceeded with continuous service quality measurements in the branch network using the mystery shopping methodology. A user experience analysis of the Abanet e-banking and the www.abanka.si webpage was performed. The results of the latter study and analyses of competitor websites were used to upgrade our e-banking services. We continuously observed the activities of the competition.

Corporate Banking

In 2009 Abanka developed and offered **a new debit card for corporate customers – the Business BA card**. The new card enables corporate customers to more easily perform transactions and withdrawals as well as to make direct cash deposits in EUR in transaction accounts via ATMs. In compliance with the Payment Services and Systems Act, Abanka changed its General Terms and Conditions on Transaction Account Operations and Payment Transaction Services for corporate customers in October 2009.

A **new form of trust account** for lawyers and legal firms complying with the amended Attorneys Act was developed and offered.

In 2009 great progress was achieved in the development of electronic banking since Abanka was among the first to enable **the issuing of invoices in electronic format** (E-invoice Service) **between the Bank's customers**. Abanka's Abacom e-banking offers large invoice issuers a fully automated procedure for issuing e-invoices. Smaller issuers have the option of a manual e-invoice entry.

Throughout 2009 we were responding to market conditions and customer needs by introducing **special offers and packages**, including special offers for e-invoice issuers, business packages for corporate customers and farmers, a business package for accounting service companies and special offers for corporate customers regarding deposits and short-term loans. The Bank also introduced special offers for members of technology parks, business incubators, development agencies and other business centres. We also successfully participated in the Enterprise Finance Guarantee Scheme.

In marketing aimed at corporate customers special attention was placed on **small business**. Abanka responded to customer needs and market conditions with favourable packages and special offers, which enabled it to strengthen its co-operation with existing customers and attract new ones. Our marketing communication activities in 2009 focused mainly on transaction accounts, e-banking, loans and deposits for retail and corporate customers. We also marketed products and services offered by our subsidiaries.

To achieve greater visibility Abanka **took part in different events**, including Enterprises of Slovenia in Maribor, Ljubljana and Šempeter pri Gorici, the 6th Microcop conference 2009 in Brdo pri Kranju, the BHS mechanics meeting in Vransko, the Congress of Accounting Service Companies in Portorož, the Days of Slovenian Lawyers in Portorož and the 1st Business Conference of Mayors, Managers and Business People in Ljubljana. Moreover, Abanka itself organised events for its customers such as Sources of Funding and Collateralisation in Ljubljana, Nova Gorica and Celje. Special emphasis in market communication was given to the Bank's new products and services in 2009, the e-account and the business BA Maestro card.

Different forms of marketing communication (such as advertising in printed media and on the Internet, providing information to customers on the reverse side of business debit card statements, direct mail, sending announcements via Internet banking, publishing business news online, issuing an e-Bulletin for corporate customers) were used to build up Abanka's image as a reliable partner in financial operations.

Retail Banking

The Bank's range was broadened in the segments of savings, lending and bancassurance products, e-banking, ATMs and the branch network.

The new legal framework regulating payment transaction services (**Payment Services and Systems Act**) required the most adjustments in the field of consumer products and services. The Bank now offers users more transparent additional information on the terms of payment transaction services before and after the execution of an individual payment transaction. Most of the additional information for users is provided through the amended General Terms and Conditions for Retail Transaction Accounts, which includes information on prices, business hours and instructions on filling in payment orders. Extra information on payment transactions demanded by users is available in the statement of account. In amending the Terms and Conditions for Payment Transaction Services the Bank acted in line with its ecological awareness and enabled Abanet users to access account statements online instead of sending out paper versions.

In addition to complying with the new legal requirements, individual products and services in our range were upgraded, including: the manner of determining and managing default retail account limits, the range of payment instruments available for each type of retail account and the names of different retail accounts.

Abanka continued with the **comprehensive re-engineering of its lending operations**, which will enable greater flexibility, adaptability and speed in developing and launching new credit products in the future. In 2009 interest rate calculation methods were amended in accordance with recommendations of the Bank of Slovenia. We joined the first **finance guarantee scheme for individuals** which includes loans to young families, employees on temporary contracts, individuals dealing with a housing problem for the first time and loans to the unemployed. A top-up unemployment, death or permanent disability insurance coverage was added to our range of products and services. Special offers were added to the existing range of credit products and services in line with market conditions and the goals of asset and liability management. The Bank launched special credit packages linked to long-term savings products and the opening of personal accounts.

The recently introduced **Gold Annuity Savings Scheme** offers customers and non-customers paying monthly down payments a goal-oriented savings product for financing an individual's future needs. Interest rate charging and communication methods for savings products were also upgraded. The existing range of products and services was upgraded by special product packages linked to other services (personal account, loans, payment cards).

In the area of card operations, the **migration of Visa card processing to the Bankart processing centre** was completed, resulting in streamlining and reduced staffing levels involved in authorisations aimed at preventing fraud. After the migration many **additions were made to card operations**. The AbaSMS service was enabled for VISA payment cards and activities were initiated to enable safe online purchases with cards issued by Abanka. Within the scope of the private banking Premium Account, a new payment card – the Gold Debit BA Card – was developed and launched. Since 2009 the Bank offers misuse and theft insurance for cards and other belongings. The sale and use of payment cards were encouraged by special offers linked to personal accounts and other products as well as by marketing campaigns offering prizes.

In the scope of insurance brokerage, new insurance products were launched 2009 in **co-operation with Zavarovalnica Triglav**: ABC life insurance; unit-linked life insurance; top-up accident insurance for children and unit-linked life insurance for young adults.

In 2009 Abanka took a big leap forward in its development by introducing the option of receiving and paying e-invoices for Abanet e-bank users. New services were introduced to the Abanet e-bank, such as an order to open a savings account and on-line application form for the Abančna DZU Umbrella Fund through the Abanet e-bank. An overview of an authorised account was introduced, the daily statements overview was amended and additional control mechanisms were embedded for the correct communication of payment processing hours for Abanet users. The Bank established the basis to launch the Aleasing user helpdesk for business partners.

Concerning **the sales network of card products**, the Bank made best use of new communication links and, together with the processing centre, enabled the option of connecting POS terminals using Internet telephony (IP) resulting in lower expenses for merchants. Similarly, GPRS POS terminal connections were introduced.

In the area of **ATM operations**, the Bank expanded its ATM network by adding multifunctional ATM automated payment order execution and automated cash deposits. The option of automated cash deposits at ATMs was first introduced in Slovenia by Abanka and in 2009 we were the only bank offering this service via its ATMs. Also in the scope of ATM operations we provided for the safe installation of keys according to the PCI standards required by the Visa and MasterCard card systems.

At the end of 2009 the Logatec outlet moved to new premises.

Our **marketing communication campaigns** in the media directed to retail customers focused on promoting short- and long-term consumer loans, savings products and consequently on attracting new holders of personal accounts and encouraging the use of payment cards issued by Abanka. Consumer loans were encouraged in different ways. In spring, Abanka promoted fixed interest rate loans, before summer Abanka's vacation loan offer included a gift for customers – a hammock – and surpassed all expectations, while in autumn the "Good things attract" marketing campaign with a strong media presence considerably raised Abanka's brand recall.

The most resounding marketing campaign was the promotion of the Gold Annuity Savings Scheme – "1000 golden opportunities, 1000 wishes granted". Due to lower interest rates, deposits were less attractive in 2009 and were not heavily promoted. The launching of a new product for affluent customers – "the Premium Package" – was supported by an overall promotion including promotional materials, web presentation and the introduction of the new Gold BA Maestro Card. Despite fluctuations and unfavourable trends in capital markets, we carried out the promotion of investment banking products and, by the end of the year, a special promotion of Abanka's mutual pension fund – AIII.

The Bank rounded off the year 2009 with a visible campaign for boosting the use of Abanka bank cards with deferred payment linked to the "Year-long free shopping ticket" prize winning game, which ended in January 2010. The changes in legislation required the sending out of more information to customers via direct mail or other communication channels.

Financial Markets

With the launching of private banking we completed the range of products and services available to customers in both commercial and investment banking as well as asset management.

For the purpose of asset and liability management, Abanka developed a data framework for acquiring the data needed for appropriate and effective business decisions in this field and successfully completed the process of introducing bank loans to be used as Eurosystem collateral. In 2009 Abanka launched several new trading instruments for customers (e.g. cap, floor, swaption, callable swap) and finalised the introduction of some additional products (e.g. futures contracts), which the Bank uses for balance sheet management and for active trading for its own account and marketing to its customers.

Abanka co-underwrote the first and third bond issues by the Ministry of Finance placed in international markets. At the second auction of the Republic of Slovenia in April 2009, Abanka Vipa d.d. for the first time acquired the status of one of the four lead-managers in the Republic of Slovenia government bond issue and, together with BNP Paribas, Deutsche bank and Dresdner Kleinwort, successfully completed the issue in the amount of EUR 1,500,000 thousand.

DEVELOPMENT, MARKETING COMMUNICATIONS AND GOALS IN 2010

Introduction

The leverage needed for a bank's good performance is its development orientation which serves as a platform for constantly improving the quality of existing products, developing new products and sales channels, strengthening the efficiency and quality of marketing communications and boosting sales. To achieve this, Abanka is constantly adapting its development activities to customers' fast changing needs as well as to the financial industry's development. The combination of all these elements enables the bank to achieve the desired growth targets in the volume of operations, provide higher returns and consolidate its competitive position. Abanka will strive towards building and maintaining stable, long-term relationships with its customers based on the provision of products tailored to individual customer segments and applying methods best suited to them. Therefore, a lot of attention will be placed on gaining a thorough understanding of the needs of customers, legal entities and institutions, which shall serve as the basis for creating development guidelines and efficiently adapting operations to changes in the environment.

In 2010 our focus is on the development of new products and sales channels.

In order to maximise the effectiveness of development tasks, in 2010 the Bank will focus on **upgrading its project work** and **introducing project portfolio management** as a tool for supporting its strategy. Due attention will be given to **redesigning business processes** to lower costs, raise productivity and enhance quality. The Bank will concentrate on the process of developing new products and services, collection procedures and sales.

Within the scope of **Marketing and Public Relations**, Abanka will **in 2010 continue to apply its "One Voice"** strategy which is used to enable high-quality, integrated, innovative and effective communication between target groups and Abanka through different contact points, with the aim to achieve value for money in optimising communication effects. Regarding communication, we will create the highest possible value for Abanka and search for synergetic effects between marketing and corporate communication. Target groups, competitors and modern public communication methods will be actively analysed.

Modern integrated communication activities for 2010 will support Abanka in reaching different target groups and achieving the commercial objectives of its divisions. At the same time, it is necessary to systematically and efficiently maintain and further develop Abanka's positive image by using corporate communication. Our attention and resources will be focused on trademark management (corporate communication) and business-building activities (marketing communication). A lot of attention will be placed on connecting the Marketing and Public Relations Department with other divisions of the Bank.

Abanka's Main Development Activities in 2010

Abanka's main development activities planned for 2010 are presented below.

In the framework of its most important **commercial banking** projects (comprising corporate and retail banking) Abanka will: finalise re-engineering its retail lending operations; begin the process of upgrading the banking services offered in its branches; begin the process of upgrading the trade finance operations application; streamline the collection process; and begin redesigning sales process and developing product architecture support. The goal of the latter two elements is to simplify the technological support, optimise work processes and at the same time create a flexible basis for the prompt and effective introduction of new products.

In **corporate banking**, the centralised collateral registry will be expanded with new forms of collateral, new documents will be added to the computerised system of work tasks and new offers will be tailored to various customer segments. The upgrading of the ABACOM electronic bank will be intensified through the introduction of new e-documents and the support of SEPA direct debits will be put in place. Direct debiting of corporate accounts for Abanka charges will be further automated.

In **retail banking**, credit applications for retail customers will be expanded and new savings products launched. Procedures and application support for the retail loan process will be upgraded in accordance with the new legal requirements concerning retail loans. Special product packages will be prepared, tailored to the needs of individual customer segments, so as to reflect customers' needs for daily banking operations to the maximum extent. The online bank will be further automated regarding working procedures and the support of additional banking products (quick loans).

With respect to **payment services**, activities to adjust payment processing to the new SEPA rules will be continued in 2010. Abanka will offer the possibility of retail and corporate cross-border direct debits according to SEPA rules and thus also offer a domestic payment instrument of direct debits in cross-border payments. In addition to the transfer of domestic payments from the giro clearing system to the SEPA infrastructure for retail payments – the internal credit transfers system (SIMP ICT) – carried out in 2009, the migration will continue in 2010. The standing orders migration is planned for the first half-year of 2010. In that period, a new paper payment order – "the universal payment order" will become available. It will gradually replace the current special payment order and the BN02 payment order.

In the area of **financial markets**, Abanka will start replacing the AIII mutual pension fund application support and complete the automation of liquidity management support. Support for funds in the area of custody will be further developed. Special attention will be paid to the development of new products for financial markets.

In the **Finance and Process Support Division**, emphasis will be paid to the implementation of reporting for ECB purposes in line with the Bank of Slovenia's requirements, the start of application support upgrading for calculating and reporting liquidity ratios, the automation of card ordering in the Bankart processing centre, continuation of the common code list of the securities project with applications linked to the code list, as well as further adjustments to the SEPA rules.

To achieve even more efficient **risk management** in 2010 Abanka will upgrade the risk management IT support and automate certain procedures linked to risk management.

Introducing new **unified communication technologies** in 2010 will enable the Bank to achieve faster and simpler communication and task co-ordination, which will result in more efficient use of working time and higher team work quality.

GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Code

The Bank signed a statement of support for the **Corporate Governance Code** (hereinafter: the Code) adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 18 March, 2004 and amended on 14 December, 2005 and 5 February, 2007. The Code is also available on the website of the Ljubljana Stock Exchange (**http://www.ljse.si/**) in Slovene and English.

Abanka abides by the Code in its operations, with the exceptions and differences disclosed in the **Statement of Compliance with the Corporate Governance Code** of 10 March, 2010, contained in this Annual Report. This statement shows all the information on governance, going beyond the requirements of the Companies Act. The governance practice of Abanka is accessible at its website: (**http://www.abanka.si/**).

Description of the main features of internal controls and risk management in the Bank in connection with the accounting reporting procedure

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

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

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

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

- **Holdings of the Bank's shares in terms of achieving the qualified holding according to the Takeover Act**
  As at 31 December, 2009 the following shareholders had a qualified holding:

Company	Number of shares	%
Zavarovalnica Triglav d.d.	1,843,377	25.6
Sava d.d.	1,715,841	23.8
Gorenjska banka d.d.	719,031	9.9
Delniški vzajemni sklad Triglav Steber I	527,258	7.3
HIT d.d.	442,705	6.1

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

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

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

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

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

- **Authorisations of the management, especially share purchase and share issuing options**
  Subject to the prior approval of the Supervisory Board, the Management Board is authorised in the period of five years, following the entry of relevant amendment to Articles of Association in the Companies Register, to raise the share capital of the Bank by issuing new ordinary shares payable in cash up to EUR 15,022,533.80 (authorised capital). The amendment to the Articles of Association was entered in the Companies Register on 13 June, 2008.

Functioning of the General Meeting of Shareholders, Its Key Competencies and Description of Shareholders' Voting Rights with the Way They Are Exercised

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

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

Only those shareholders holding ordinary shares who were entered in the Shareholders Register 10 days prior to the holding of the General Meeting of Shareholders and who announced their attendance to the Management Board at least 3 days in advance are entitled to participate in and vote at the General Meeting of Shareholders. Shareholders may exercise their rights at the General Meeting of Shareholders in person or through a proxy. A quorum of the General Meeting of Shareholders is constituted if shareholders with the right to vote present at the meeting account for at least 1/3 of the share capital. Should the General Meeting of Shareholders fail to constitute a quorum, a new General Meeting of Shareholders is convened within 15 days which is able to adopt valid decisions regardless of the provisions on the quorum.

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

The General Meeting of Shareholders on 28 May, 2009 adopted the Abanka Vipa d.d. Annual Report 2008 and the Supervisory Board report, passed a resolution on the distribution of balance-sheet profits, granted a discharge to the Management and Supervisory Board members for 2008, adopted the 2008 Internal Audit Report including the opinion of the Supervisory Board, discharged Tomaž Toplak, Simon Zdolšek and Uroš Rožič, M.Sc., from the Supervisory Board and appointed Simon Zdolšek, Uroš Rožič, M.Sc., Branko Pavlin, M.Sc., Slaven Mićković, Ph.D., and Vladimir Mišo Čeplak, M.Sc., to the Supervisory Board. It appointed PricewaterhouseCoopers d.o.o., Ljubljana, as auditors of Abanka's Annual Report for 2009 and took note of the Management Board's report on the acquisition of own shares. The General Meeting did not adopt the authorisation to the Management Board for the purchase of its own shares.

Composition and functioning of management or supervisory bodies and their committees

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

Management Board

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

The Management Board has no less than three and no more than six members, of whom one acts as its President. The number of Management Board members is determined by the Supervisory Board. Presently the Management Board is composed of:
- Aleš Žajdela, M.Sc., President, term of office starting on 1 September, 2005 and expiring on 1 September, 2010;
- Radovan Jereb, M.Sc. Econ., member, term of office starting on 28 September, 2005 and expiring on 28 September, 2010; and
- Gregor Hudobivnik, member, term of office starting on 28 September, 2005 and expiring on 28 September, 2010.

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

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

The Rules of Procedure of the Management Board stipulate the methods of its work and distribute the areas of work and tasks among its members. The Management Board assigns individual organisational units of the Bank to its members and makes them responsible for their management and co-ordination.

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

- **Assets and Liabilities Management Committee**
  The committee manages the Bank's liquidity, currency, interest, market and credit risks, manages capital and capital adequacy, follows financial results and business volumes, manages other operating risks, sets transfer interest rates and charges, manages property rights of the Bank, decides on write-offs and on special terms for certain customers and considers other matters. The committee meets once a month. It has seven to nine members, subject to a decision by the Management Board. There were nine members at the end of 2009. The Management Board appoints the Chairman and Deputy Chairman of the committee from amongst its members. Other members appointed to the committee are employees of senior management.
- **Credit Committee**
  The committee decides on credit to customers who are legal entities, sole proprietors and individuals engaged in gainful activity, decides on syndicated loans, approves limits on credit and forward transactions involving equity securities, discusses the restructuring and financial reorganisation programmes of customers, discusses proposals regarding bad debt, decides on accepting syndicated loan agent services, project financing and other financial services, manages credit risks, monitors how authorisations for individual decision-making are exercised by the senior management and other employees set out in the Management Board's decisions on individual authorisations, approves the credit rating classification of customers, decides on the credit rating classification of receivables and approves exposure limits to foreign banks. The Credit Committee has a regular meeting once a week. It may have between five and seven members, the exact number being decided by the Management Board. At the end of 2009 there were seven members of the Credit Committee.
- **Liquidity Commission**
  The commission maps out the current liquidity, exchange and interest policies of the Bank. The commission has regular meetings twice a week. At the end of 2009 there were seven members of the commission.
- **Credit Commission**
  The commission decides on credit up to EUR 300,000 to customers who are individuals, sole proprietors, individuals having the status of farmer and other individuals engaged in gainful activity; monitors how authorisations for individual decision-making are exercised by the senior management and other employees set out in Management Board decisions on individual authorisations and monitors the credit rating of receivables from the above customers. The Credit Commission has regular meetings once a week. It may have between three and five members, the exact number being decided by the Management Board. At the end of 2009 there were five members of the Credit Commission.
- **Operational Risk Committee**
  In the scope of operational risk management the Committee discusses and adopts incurred loss events reports, discusses in detail large loss events and adopts measures if they occur, discusses and adopts operational risk profiles for organisational units of the Bank and the Bank as a whole, puts forward proposals and requirements for reducing, preventing and managing operational risks, puts forward proposals and requests for amending operational risk management processes, discusses the operational risk management policy and adopts other internal documents on operational risk and its management; monitors the implementation of the operational risk management policy and other internal acts linked to operational risk and its management; discusses the Internal Audit Department's reports and recommendations linked to operational risk; examines safety in a broad sense, including protection policy, protection system roles and responsibilities, processes and procedures in the scope of protection, adopts internal acts on protection, discusses compliance and anti-money-laundering reports and if necessary carries out other activities linked to operational risk. Regular meetings of the committee are convened quarterly. It may have between ten and twelve members, the exact number being decided by the Management Board. At the end of 2009 there were eleven members of the Operational Risk Committee.
- **Development Committee**
  The committee is a collective decision-making body in charge of directing and supervising the development and capacity building of the Bank. Regular meetings of the committee are convened quarterly. It may have up to fifteen members and forty in an extended composition, the exact number being decided by the Management Board. At the end of 2009 there were twenty members of the Committee.
- **Bad Debt Management Committee**
  The committee is an advisory board which deals with bad debt collection. It holds regular monthly meetings. It may have between five and six members, the exact number being decided by the Management Board. At the end of 2009 the Committee had five members.
- **Groups for the supervision of subsidiary and associated companies of Abanka**
  Supervision groups are co-ordination and consultation bodies in charge of the monitoring, co-ordination and supervision of operations and risk exposures in individual subsidiary and associated companies of the Bank, which makes them responsible for a more integrated and effective risk management system at the level of the Abanka Group. Groups have regular meetings on a monthly or quarterly basis, depending on the nature of the work of an individual subsidiary or associated company. There are the Group

for the Supervision of Aleasing d.o.o., the Group for the Supervision of Afaktor d.o.o. and the Group for the Supervision of ASA Abanka leasing d.o.o. Each group has three to seven members, the exact number being decided by the Management Board. At the end of 2009 each of the Groups had four members.

- **ICAAP Forum**
  The Forum is responsible for assessing the concept adequacy of the Internal Capital Adequacy Assessment (ICAAP) in the Bank in terms of its range, methodology, goals and its effective administration in the Bank. Regular meetings of the Forum are convened quarterly. The Forum may have between eight and twelve members, the exact number being decided by the Management Board. At the end of 2009 there were nine members of the Forum.

Supervisory Board

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

The Supervisory Board decides on the appointment and dismissal of Management Board members and their remuneration; decides on granting loans to Management Board members and other persons stipulated by law; approves the agreements between Supervisory Board members and the Bank; decides on granting loans to Supervisory Board members; reviews and gives a written opinion on the Annual Report and the profit distribution to the General Meeting of Shareholders; adopts the Annual Report; reviews and gives opinions on financial and other reports by the Management Board, supervises the adequacy of procedures by the internal audit department and control of the Bank; proposes nominees to the General Meeting of Shareholders for the Supervisory Board; submits proposals to the General Meeting of Shareholders for the appointment of the auditor; together with the Management Board proposes a profit distribution to the General Meeting of Shareholders; gives an opinion on the annual internal audit report to the General Meeting of Shareholders; reports on the annual audit and auditing costs of the Bank to the General Meeting of Shareholders; approves the operations of the Bank if such approval is required in the Articles of Association; decides on amendments of the Articles of Association but only to the extent to adjust the wording of the Articles of Association to the validly adopted decisions; passes its own Rules of Procedure and has other competencies determined by the law or Articles of Association.

The Supervisory Board gives its approval to the Management Board regarding a strategic equity investment in other legal entities exceeding 1% of the Bank's Tier 1 capital, strategic business alliances, the Bank's corporate policy, the Bank's budget, organisation of an internal control system, draft annual work programme of the Internal Audit Department, rules of the Internal Audit Department, conclusion of a legal transaction that in consideration of the overall exposure of the Bank would result in the Bank's large exposure to an individual customer, conclusion of a legal transaction because of which the large exposure of the Bank to an individual customer would rise to, equal or exceed 15% or 20% of the Bank's own funds, conclusion of a legal transaction which would result in the Bank's exposure to the Management Board, members of the Supervisory Board, procurators of the Bank and parties related to these persons as well as other matters stipulated by law or the Articles of Association.

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

The Supervisory Board is composed of:
- Janez Bohorič, Chairman, term of office starting on 29 May, 2008 and expiring on 29 May, 2012;
- Branko Pavlin, M.Sc., Deputy Chairman, term of office starting on 29 May, 2009 and expiring on 29 May, 2013;
- Simon Zdolšek, member, term of office starting on 29 May, 2009 and expiring on 29 May, 2013;
- Miha Dolinar, member, term of office starting on 20 June, 2007 and expiring on 20 June, 2011;
- Uroš Rožič, M.Sc., member, term of office starting on 29 May, 2009 and expiring on 29 May, 2013;
- Slaven Mićković, Ph.D., member, term of office starting on 29 May, 2009 and expiring on 29 May, 2013;
- Vladimir Mišo Čeplak, M.Sc., member, term of office starting on 29 May, 2009 and expiring on 29 May, 2013.

Supervisory Board Committee
- **Audit Committee**
  It is composed of three Supervisory Board members (Vladimir Mišo Čeplak, M.Sc., acting as president and Miha Dolinar and Simon Zdolšek as members) and two outsourced experts (Vinko Perčič and Tina Cvar). Its main purpose is to assist the Supervisory Board in discharging its supervision duties regarding the reliability of financial statements, financial reports and other financial information which the Bank send to its shareholders and other public concerning the qualifications, effectiveness and independence of the external auditor, functioning of the internal audit system and compliance of the Bank with legal requirements.

RISK MANAGEMENT

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

The basic tenets of the Group's risk management are officially set out in the Risk Management Strategy. It represents a formal basis for other internal documents which define the processes of assuming and managing different types of risks (including organisational rules on risk management processes and rules on internal control systems) in greater detail and enable the assessment of risk bearing capacity. The Risk Management Strategy defines individual risk types and objectives in terms of risk management and risk bearing.

In order to ensure the long-term stability of operations, a good performance and to meet other objectives set out in the business strategy, the Group employs proactive and effective processes of risk management and risk taking within its risk bearing capacity. The Group manages all risks which have, will have or might have a material impact on its operations, maintains sufficient capital to cover all material risks and keeps a balanced ratio between gains and risks.

It is the Management Board's responsibility to approve the risk management strategy and policies – as well as to update them, depending on changes in the internal and external environment – to monitor and regularly assess the effectiveness of the risk management system and progress in setting up the targeted risk management system in order to provide a transparent and documented process of monitoring important decisions, the clear segregation of competencies and duties along with the consistency of internal decisions and processes.

In the risk management area the senior management is responsible for:

– drafting and implementing the risk management strategy and policy by setting up the processes of risk identification, measuring, monitoring, control and management for all banking activities;
– informing management and supervisory bodies of all material risks assumed by the Group in the course of business;
– setting up and maintaining a risk management system;
– defining procedures, instructions and guidelines for the business process; and
– setting and controlling risk exposure limits.

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

Effective risk management is the key to safety and successful operations.

Risk management is not only carried out by the Risk Management Department but also by other organisational units and collegiate decision-making or consultative bodies.

In 2009 the Group continued with prudent risk taking and risk management policies along with updating and improving risk management processes. The business environment in which the Group operates was still relatively unfavourable in 2009, despite some signs of stabilisation. The Group assesses that in 2009 it was most exposed to credit risk and its profit may, despite the normalisation of financial markets, still be negatively affected by unfavourable securities price movements and losses due to loss events arising from operational risk, such as abuses and frauds, which are more pronounced in times of an economic crisis.

In addition to standard measuring methods applied to major risks, the Group regularly performed stress tests with which it identified a hypothetical stress event, assessed the impact on its profit and the adequacy of its capital base. When launching new products the Group paid due attention to risk analysis, which identified all the material risks that arise upon the introduction of new products and on whose basis relevant cost-efficient risk management measures were taken.

The accounting part of the Annual Report contains a detailed description of risk management, while this part includes the following summary of the key elements of major banking risks – credit, operational, market, interest and liquidity risk and implementation of the ICAAP process.

CREDIT RISK

Credit risk is the risk that a debtor or counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk includes: country risk, concentration risk, dilution risk, residual risk and securitisation credit risk. The Group is not exposed to securitisation risk.

The Group established an adequate credit process which includes a credit granting process, credit monitoring process, process of early detection of increased credit risk and credit rating process. The internal credit risk assessment methodologies are regularly updated. They enable exposures and borrowers to be assigned a credit rating according to their creditworthiness. Before a loan is granted every borrower is classified into relevant credit rating group and after the credit approval the borrower's transactions are regularly monitored. The Group primarily mitigates credit risk by accepting appropriate forms of collateral and an adequate system of credit exposure limits. The Group also regularly evaluates the level of expected credit losses and creates the necessary impairments and provisions.

In 2009 a default probability model was developed for corporate customers. Further, the credit risk management process used for loans was collateralised with securities was upgraded.

During the economic crisis credit risk management gained in importance.

Due to the deepening recession which deteriorated counterparties' creditworthiness, with respect to credit risk the Group, as actively as in 2008, continued implementing the measures to mitigate the consequences of the tough economic situation. At the Group level great attention is paid to maintaining stringent credit standards, primarily through credit rating process, customer monitoring and a stricter credit protection policy based on the adequate quality and scope of credit protection, credit exposure limit system adjustments and effective bad debt collection. Despite the worse economic conditions, adequate credit risk management helped significantly reduce negative impacts on the quality of the credit portfolio.

OPERATIONAL RISK

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

Unfavourable economic climate, predominating in 2009, dictated integrated and proactive operational risk management.

The Group regularly identificates and qualitatively assesses the operational risk while also taking stock of preventive and corrective measures in case of potential loss events. The system of reporting on occurred loss events enables a quick reaction in the case of problems as the Management Board and senior management are involved in reporting if necessary. The occurrence and frequency of loss events are discussed by the Operational Risk Committee, which is a collective decision-making body responsible for directing and controlling operational risk management. The Committee takes the necessary risk management measures, monitors their implementation and discusses operational risk profiles. The Group has both business continuity plans, which are regularly updated and tested, and disaster recovery plans for the most critical activities. Such plans are gradually being prepared for all of the Group's activities.

In 2009 the Group upgraded its proactive integrated operational risk management system, which was monitored by the Operational Risk Committee. Special emphasis was laid on operational risk management in extreme circumstances and crises. A database of loss events which occurred in 2009 was created and operational risk profiles were made for the Bank's organisational units. Additional disaster recovery plans were prepared for the unusual critical events.

MARKET RISKS

Market risk is the uncertainty that an adverse movement of risk factors including interest rates, exchange rates and prices of financial instruments may unfavourably affect the value of a financial instrument and consequently lead to a loss. The Group separately monitors its market risk exposure according to its trading and banking book.

On-going adaptations to the financial market situation and adequate adjustments of the limit systems.

The Group performs the procedures of market risk identification and measurement at the level of:
- individual transactions (maximum loss limits, a trader's personal limits);
- portfolios (VaR calculations, stress calculations, limits for financial instrument types, credit ratings, the issuer's industry etc.); and
- trading units (limits).

With regard to market risks in 2009, we contemporaneously adjusted limit systems in view of the financial situation and suitably upgraded them to accommodate new products. The required procedures were set up for new products enabling the integrated monitoring and control of market risks. The existing methodologies of market risk measurement and monitoring as well as internal models of valuating non-tradable equity and debt securities were upgraded, supplemented and adjusted while new ones were developed. Abanka introduced the Avantgard® system which allows for the integrated management of market risks arising from financial instrument transactions in the Treasury Division. The application for calculating market risk capital requirements was upgraded.

INTEREST RATE RISK

Interest rate risk is the risk arising from the exposure of the Group's financial position to unfavourable changes in interest rate levels in the market. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its fair value and cash flows. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As a consequence of these changes, interest margins and income change as well.

Slumping interest rates required active interest rate risk management.

The Group monitors interest rate risk arising from trading in the framework of global market risks control and uses the Value-at-Risk method, stress testing and sensitivity analysis to measure them. The interest rate risk arising from mismatches in the banking book is measured by means of gap analyses. Interest rate gaps show the difference between cash flows of interest-sensitive assets and liabilities by time bucket. All balance sheet and off-balance sheet items are classified by time buckets, categorised by the earlier of contractual repricing or maturity dates.

The Group prepares various liquidity stress tests for measuring interest rate risk arising from fluctuations in interest rates. The basic risk arising from various types of interest rates and the risk of embedded options are also taken into account. The Group regularly calculates the effect of interest rate fluctuations on its profit before tax and equity.

Significant changes in interest rates in 2009 were reflected on the Group's interest rate risk management. The plummeting interest rates affected the interest income and expense of the Group. The Group adapted to these changes by reducing the interest rate gaps and by actively adjusting interest rates to market conditions. Due to the situation in the Slovene market, euro interest rates fell less than in other countries of the euro zone.

LIQUIDITY RISK

Liquidity risk is the risk that the Group might not be able to meet its payment obligations associated with its financial liabilities and contractual obligations arising from lending. The consequence may be a failure to meet obligations to repay depositors and fulfil lending commitments.

In 2009 adequate liquidity reserves were provided.

The liquidity risk management process consists of:
- the planning and monitoring of future cash flows, which include day-to-day funding, with a view to ensuring that requirements are met and funds replenished as they mature;
- maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen cash flow trends;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

As a consequence of the difficult situation in financial markets in 2009, particular attention was dedicated to liquidity risk management. Current business decisions in the Bank were always taken into consideration regarding the maintaining of adequate liquidity levels. By taking the right measures the Group formed a sufficient liquidity reserve in case refinancing conditions were to deteriorate significantly.

In 2009 the Group placed a (three-year) government-backed bond on the international capital market and sold the entire issue, with investors' demand considerably exceeding the volume of bonds on sale.

THE ICAAP PROCESS

In 2009, the Group upgraded its **Internal Capital Adequacy Assessment Process (ICAAP)**, one of the main pillars of the applicable capital regulatory framework.

The Group already started preparing its Internal Capital Adequacy Assessment Process in 2007 by defining the Group's risk profile and making a risk profile matrix. In 2009 this mechanism was applied to identify the material risks that arise from the Group's core business and to set up controls with the purpose of risk mitigation. Risk profile monitoring over time facilitates the timely identification of key movements in the Group's risk profile and represents the basis for taking necessary measures.

In 2009 the Group regularly evaluated the adequacy of capital levels and quality in relation to its risk profile by assessing internal capital needs. This calculation not only took the capital requirements for credit, market and operational risks (calculated according to the applicable rules set out in Pillar 1 of the Basel II banking accord) into account, but also identified capital needs to support all other risks (e.g. concentration risk, interest rate risk, liquidity risk, reputational risk, strategic risk etc.). The Group started comparing its risk profile with the assessed risk bearing capacity in 2009 according to its own methodology.

Due to tougher economic conditions in 2009, the Group started calculating its internal capital needs assessment within the framework of the ICAAP more often – i.e. at least on a quarterly basis.

In the framework of the ICAAP the Bank carried out the regular annual risk survey. On that basis the Group identified the following risks as being the most prominent in 2010:
- credit risk, which will increase in 2010 as a result of the deteriorated macroeconomic situation and reduced creditworthiness of (both corporate and retail) customers;
- the Bank's operational risk, due to the increased likelihood of external fraud, thefts and abuses of payment instruments; and
- market risk – which the Group also assessed as potentially dangerous due to possible negative price movements in financial markets.

CORPORATE RESPONSIBILITY

RELATIONS WITH EMPLOYEES

Personnel Policy and Employee Educational Structure

Motivated and satisfied employees are the key producers of added value. Confidence, transparency and excellence in operations are the guiding principles for achieving the Bank's strategic and business goals. We are developing activities which enable employees to effectively use their knowledge and skills. The Bank is striving to recruit the most appropriate staff and is accelerating the flow of information important for achieving the Bank's business goals through different communication tools.

In 2009 **Abanka's recruitment and personnel policy was adapted to the tough operating conditions**. At the end of 2009, the Bank had 877 employees, one less than at the end of 2008.

The Bank continued its **human resources restructuring – upgrading the educational structure of employees**. In 2009 an average of 54% of employees had an education ranging from vocational collage to a PhD degree, 41% had a secondary school degree and only less than five percent of employees had an education lower than secondary school. The Bank substituted for co-workers who were absent for a longer period of time by hiring part-time staff through an authorised agency and by recruiting students. Compared to the previous year, the amount of such work declined. Our well-organised personnel policy of previous years allowed us to fill key positions in the Bank with the most suitable employees – either by new recruitments or by internal reassignments. This enabled the Bank to achieve a successful performance even in the demanding and unpredictable conditions.

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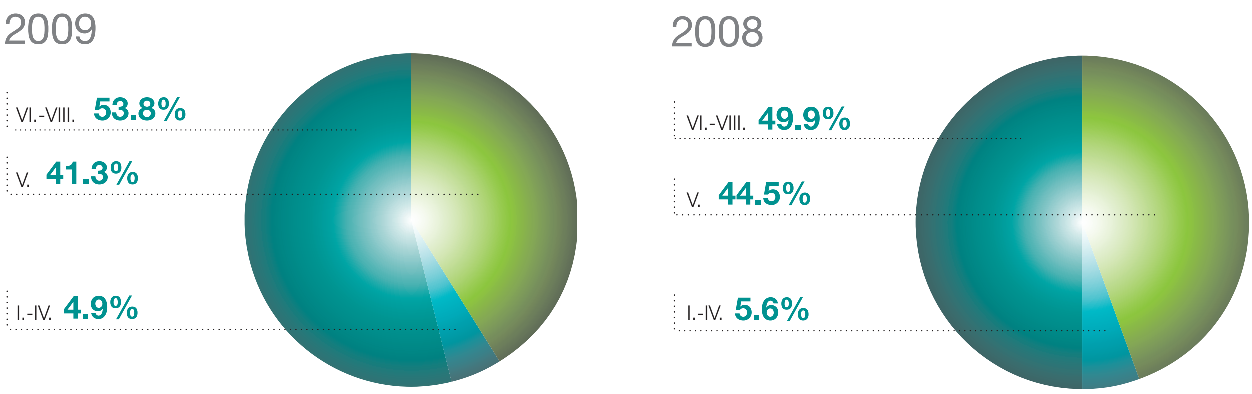
EMPLOYEES AT THE END OF 2009

EMPLOYEE EDUCATIONAL STRUCTURE IN ABANKA IN 2008 AND 2009



Staff Training and Development

Employee education and development are Abanka's permanent concerns, receiving its continuous special attention. We are aware that investing in employees is especially important in times of crisis and uncertainty. Only employees, who are aware that they are the most important performance factor, are able to devote themselves to their work more than expected.

Over 80% of all training is in-house.

In 2009 Abanka continued with its **training programmes**: a marketing training was carried out; managers were trained in communication and managerial skills; the Bank continuously followed the development of new products and technological solutions. More than 80% of training is provided in-house, thus guaranteeing more efficient working methods and training contents relevant to banking operations.

Each employee of the Bank **is offered the possibility to develop professionally**. Managers are responsible for the development of individual employees. They hold annual personal meetings with employees where they discuss each employee's future seminar trainings and learning in the work place. At the level of the Bank we systematically determine our most successful employees' development potential and plan and follow their development. Employees for key managerial and professional positions are recruited from a group of almost eight percent of employees which we follow carefully. Thus we maintain our own human resource pool to meet Abanka's key human resource needs.

Staff Remuneration

The Bank is continuously striving to **identify and reward top performance**. We follow the employees' performances and reward them through a performance-related pay component. Top achievers have the possibility to be promoted within their position as well as to other positions. Each year executive directors award their subordinates for top achievement with special bonuses. At the end of the year, eight top achievers receive such special bonuses: four employees with the best sales results and the four most co-operative employees from other organisational units. In presenting rewards the following criteria are used:
- performances which enable the Bank to reach its strategic goals through the synergy of all employees;
- exceptional work performance, taking into account the results and manner of achieving them; and
- excellent co-operation with co-workers within and outside their organisational units, in work teams and project groups.

Abanka actually rewards well done work.

The Bank awards special certificates of commendation and acknowledgement, e.g. to all employees who successfully worked on projects and shared their knowledge with other co-workers within the Bank. These awards are not of a financial nature. They serve to build a culture of co-operation and stimulate the performance of tasks which are not directly connected to an employee's job, but nevertheless important for the Bank as a whole.

Organisational Development

Organisational development comprises all activities intended to enhance the Bank's values and its culture, which is specific and which we wish to develop and encourage. In the framework of the SiOK project (Slovene Organisational Climate), we **measure the climate and employee satisfaction** and use the results to plan and implement measures for improving the Bank's organisational climate. Carefully planned activities have been effective. The Bank's results are namely above the average of Slovene companies and above the average of Slovene banks participating in the project. We will continue to strive to improve our results from year to year.

Abanka was the first bank in Slovenia to have received "Family Friendly Company" certificate.

Family values are important to the Bank's employees. We therefore joined the family-friendly enterprise project and were the first bank in Slovenia to be awarded the **"Family-Friendly Enterprise" certificate**. Measures taken by the Bank will enable our employees to reconcile their family and professional life more easily.

In the framework of the employer reputation monitoring project on the MojeDelo.com jobs vacancy portal, Abanka was rated the 11th **most reputable employer in Slovenia**. Thus Abanka earned the right to use the "Reputable Employer Certificate" and establish itself in the minds of job-seekers as a strong employer brand, which will enable it to attract the most qualified job-seekers in its future recruitments.

Internal Communication

With **internal communication** the Bank implements its transparent and fair operation and personal relationship strategy. It uses different tools to enable open communication and unify employee values with the values of the Bank.

The E-view internal newsletter offers employees information and educational articles on all areas of the Bank's operation. The newsletter is a vehicle for effectively communicating information on events important to all employees, informing co-workers of operations in different areas of the Bank and strengthening the belief in common values and strategic goals.

The internal newsletter is published on certain dates. To disseminate information on events requiring a fast response, the Bank uses a system of **e-mail notifications for the internal public**. This type of communication is especially important in times of tough economic conditions like those seen in 2009.

Internal communications is extremely important in the times of crisis.

Personal communication between employees and the management was strengthened with various events. Several meetings with the Management Board members were organised as an incentive for top achievers. An event connecting employees writing for the internal newsletter with employees sharing their knowledge with co-workers in the form of lectures was an opportunity to acquire knowledge and skills concerning public performance. An introductory training session for new recruits is organised twice a year with directors giving presentations on the Bank's business divisions. Moreover, after the business conference the directors hold presentations on the strategic plans for the following year for their employees. The purpose of all personal meetings is disseminating information as well as strengthening the Bank's corporate values.

COMMUNICATION WITH THE MEDIA

Regarding **media relations**, the Bank maintains a flow of information which it is allowed to disclose as a listed company. The legal requirement of publishing information on the Ljubljana Stock Exchange's website reduced the number of direct press releases. However, the number of questions from journalists has been rising: in 2009 there were over 430, almost twice as many as in the year before. In 2009 there were 2,676 media publications concerning Abanka in printed and electronic media and more than 96 percent were positive.

The number of journalists' questions and press releases in paper and electronic media are on the increase.

ENVIRONMENTAL AWARENESS

Abanka is committed to **responsible environmental behaviour** and applies environmental principles when conducting its operations.

The first prize Abanka got for its Annual Report for 2008 proves a high degree of its environment responsibility.

In 2009 we received the Finance Business Academy Award for the Best Annual Report in terms of communication among financial companies. The electronic version of the Annual Report enables a fast and simple information search and is an example of Abanka's concern for the environment. Among our products and services are environmental loans and a wide array of electronic services which contribute to reducing the environmental load. In 2010 activities in the scope of environmentally-friendly behaviour will be further incorporated into our daily operations.

SPONSORSHIPS AND DONATIONS

Through **sponsorships** Abanka stimulates good mutual relations, supports the development of various sporting, cultural and educational associations and organisations and provides opportunities for the organisation of different events. In this way, Abanka carries out its mission, realises its values and implements the vision of long-term partnership relations.

In 2009 most of the sponsorship resources were allocated in support of sporting and cultural activities. Among sports clubs Abanka made financial investments in the Krka women's handball club, Radeče handball club, Perutnina Ptuj cycling club, Trebnje men's handball club, Kranjska Gora basketball club and others. The Bank supported the Ljubljana Marathon event.

To support cultural activities financial resources were donated to the Veronika's Nights Festival in Celje, the Night on the Lake Festival, Dalmatian Harmony Singing Groups Festival and other different folk dance, vocal and dance groups. The Bank also supported the publishing of the books Viharnik na razpotju časa (Storm Weathered Tree at the Crossroads of Time) and Okusi krasa (Flavours of Carso).

Through sponsorships Abanka supports the development of various sporting, cultural and educational associations and organisations and through humanitarian donations assists several health and educational institutions.

As a humanitarian contribution, Abanka **donated** resources to different health and education institutions. At the beginning of December Abanka financially supported the recording of a CD with Christmas songs. The funds raised with the CD were used to finance the Beli obroč organisation's (White Ring) main activity – providing and equipping safe rooms and helping victims of crime. Our New Year's humanitarian donation called MetuljČek (Butterfly Check) was also presented to the Beli obroč organisation for their activities to help victims of crime find employment and reintegrate into society. As is traditional at Abanka, at the New Year's business event a humanitarian donation was made for the "Gifts to Lift the Spirit" programme.

INTERNAL AUDITING

ORGANISATIONAL POSITION OF THE INTERNAL AUDIT DEPARTMENT

The Internal Audit Department (IAD) performs constant and **overall control over the Bank's operations and operations of subsidiaries** in relation to: controlling and evaluating the efficiency of risk management systems and the internal control system; evaluation of the process of assessing the necessary internal capital regarding its own assessment of the Group's risk exposure; assessment of the accuracy of the information technology system; assessment of the accuracy and reliability of accounting records and financial reports; verification of compliance of the Group's reporting and operations with regulations.

The IAD is organised as an **independent department** directly accountable to the Management Board. Its authorisations, responsibilities, tasks and methods of operations are defined in detail in the Rules of the Internal Audit Department which were adopted by the Management Board with the consensus of the Supervisory Board/the Audit Comittee. In the Medium-Term Strategy of the Bank 2011-2015 the Management Board also included guidelines for the work of the IAD. The IAD's annual audit plan is approved each year by the Management Board with the consensus of the Supervisory Board, based on a global assessment of the risk profile of auditing environment in the Group. To provide better efficiency and effectiveness of its work the IAD designated additional internal documents (Internal Auditing Manual, Methodology of Risk Assessment Based Work Planning, Quality Assurance and Enhancement Programme).

The IAD employs seven **internal auditors with long-term experience** in different banking operations. Three of them are licensed as "certified internal auditor" or "auditor" by the Slovenian Institute of Auditors. In 2009, the number of employees in the IAD was increased following the recruitment of an information system auditor. In addition the information system audits performed by the IAD include also outsourced certified information system auditors.

OPERATIONS AND CONTROL OF THE GOVERNANCE SYSTEM

In the reporting year the IAD followed the adopted Annual Audit Plan for 2009, which was amended in line with strategic plans and the additional requirements by regulatory bodies and the Management Board.

Through audits the IAD verified **the adequacy and effectiveness of risk management systems and internal control systems**. As a result it gave recommendations for improvement, aimed at achieving strategic goals, effective and efficient operations, reliable and credible reporting as well as compliance with internal and external rules and regulations.

In 2009, the IAD:
- audited some major business functions, including financial instrument trading, retail and corporate lending, management of safe deposit boxes, business with credit brokers, cash and ATM transactions in the branch network and card operations;
- audited the Development Division of the Bank and the subsidiaries Afaktor and Aleasing;
- audited the system of technical, physical and IT protection as well as some major business support software applications;
- controlled contractual exchange offices;
- audited the launching of new products and services and provided an opinion on risk management adequacy;
- monitored compliance with recommendations resulting from previous audits and adherence to the requirements of external auditors and supervisors;
- audited the management of key projects;
- assessed the quality of the control environment of the Group for calculating risk profile as part of the internal capital assessment process (ICAAP);
- carried out preparations for an additional audit of compliance with risk management rules in accordance with the Bank of Slovenia's regulations,
- participated in work groups for launching new products and services and for compliance with new regulatory requirements as well as provided advice and assistance in work processes, procedures and internal instructions.

REPORTING ON PERFORMED WORK

All management levels, including the Management Board, **were informed in writing about the findings of the audits performed** by the IAD. A summary of all major audit findings and recommendations as well as the realisation of the Annual Audit Plan for 2009 were reported to the Management and Supervisory Boards/the Audit Comittee on a quarterly basis. The IAD also double checked and monitored the implementation of corrective measures based on relevant follow-up reports and reported on to the Management and Supervisory Boards/the Audit Comittee.

INTERNAL AUDITING QUALITY

In February 2009, an independent **external auditor produced its report** on the work of the IAD. The audit covered the internal auditing activities in 2008 and examined compliance with directly transposed International Standards for the Professional Practice of Internal Auditing, Code of Ethics of Internal Auditors and Code of International Auditing Principles.

The final audit report states that in all material aspects the IAD activities **generally complied with standards**.

In accordance with the external auditors' report and its internal audits, the IAD in 2009 planned and implemented measures aimed at improving the quality of internal auditing.

INFORMATION TECHNOLOGY

The Information Technology Division covers three areas: business software development and support, information technology with all general services and IT system security. The role of the Information Technology Division in Abanka is to continually provide available, integrated, safe and user-friendly information and technological support for the Bank's operations at minimum cost and with maximum reliability. It is also in charge of maintaining the property of the Bank, facilitating investments and general services and providing for the safety of the IT system. We strive to build an IT system which will cover all of Abanka's business needs, which will be safe and simultaneously flexible as well as easy to operate in terms of managing constant changes.

Information technology remains an important factor for the success of the Bank. Our aim is to set up a secure, flexible and manageable IT system, fully catering to the needs of Abanka.

Abanka's mainframe IT system is developed and maintained in-house, whereas mainframe sub-systems are provided primarily by Slovene suppliers. If a product is not available in the Slovene market we purchase foreign application software.

In 2009 the **development of business software solutions** was focused on three major projects: the merger of national and international payment transactions to a common platform, the migration of Visa processing to the Bankart processing centre, the development of a new system for Visa processing and the start of a new retail loan application development.

In 2009 a lot of resources were allocated to **regulatory projects**, including: the SEPA project (Rulebook 3.2 implementation, the SEPA ECT (external credit transfers) processing migration from the Bank of Slovenia to Bankart; the SEPA ICT implementation via Bankart; abolition of the giro clearing system); implementation of the Payment Services and Systems Act; expansion of the SISBON system and changes in money laundering monitoring; disclosures, where Abanka continued to develop a system, based on amortised costs and fair value calculation. In this framework, the Bank developed a reporting system, a retail loan fee splitting system, the automatic calculation of impairment (ACI) used to determine the size of impairment of individually impaired assets on the basis of amortised costs.

Most of the attention in the 2009 **business projects** centred on developing a private banking support system, expanding the range of E-banking services (Abacom, Abanet and AbaSMS) – with the most important addition in 2009 being the introduction of the E-account. Upgrades were administered to the E-order system, the new retail deposit system, the transaction account system (Premium account, integrated system support with the Arhiviraj.si online document archiving) and the card business, in the scope of which the Bank developed a new system for Visa management, a business card support system and upgraded its ATM network. Moreover, Abanka was engaged in developing a new retail loan system in whose framework it continued upgrading most of its internal central systems.

In the scope of the main **internal projects** in 2009, Abanka: connected the Avantgard Quantum Treasury System to the Bank's information system; expanded the data warehouse for bank monitoring; amended the payment transaction services; upgraded the system for court ordered recoveries; expanded the Central Registry Systems; upgraded the collateral management; expanded and upgraded the AAS (analytical accounting system) and expanded the reporting system.

In 2009, the **Information System Administration Department** focused on the development and functioning of the following systems: the Bank's portal, Abanet, Abacom, AbaSMS, 123-plačam ("I Pay 123" mobile phone payment facility), E-banking operations assessment, date warehouse (DWA), AIII Mutual Pension Fund, IBI master software and IBI brokerage services office systems, credit rating and risk systems, E-expenses, AvantGard Quantum and Risk. In this framework, the Bank implemented an integrated support for custody and administrative services and the subsidiary Abančna DZU as well as information system co-ordination for the Vogo leasing and Aleasing subsidiaries.

The main responsibility of **information technology** is to assure an available, integrated and secure information system. In 2009 the most important activities in this area included: setting up the Oracle Audit Vault system for monitoring access and operations; setting up the MS SQL central system (for external applications and systems); replacing ESX servers and hardware for Oracle database; implementing a new backup storage system; implementing a new production and testing environment and backup for the Abacom system; upgrading DNS servers; selecting and replacing antivirus software on all servers and work stations; completing the SWIFT system migration to CIS; ensuring backup for the main connection between Ljubljana and Nova Gorica; upgrading MS Office XP to MS Office 2007.

In 2009 Vogo leasing was linked to the Abanka network and the equipment of the subsidiaries Vogo leasing and Aleasing was merged. The IT infrastructure of the Abančna DZU and Aleasing subsidiaries was monitored and managed.

The area of technical support and general services in 2009 focused on internal user assistance requests as well as newly installed hardware and software including new ATMs, maintained and activated other equipment, maintained office buildings, provided physical protection of office buildings, leased, acquired, sold business premises and provided construction and renovation projects for the existing ones as well as managed the post room and print shop of the Bank.

In the area of the information system's protection and safety, Abanka continued implementing an electronic training system for personnel, prepared methodology and performed IT risk analyses and risk analyses in associated companies, took part in IT audits and inspections, implemented more extensive controls over the functioning of security mechanisms and participated in planning and implementing modifications of the Bank's information system security architecture. Other tasks in this field were incident management and co-operation with external institutions (Bank Association of Slovenia), associations (Slovenian Institute of Auditors) and other banks in the promotion and advancement of the information security.

In accordance with business divisions' needs, financial resources and annual plans, the Bank continued to add information resources to the Disaster Recovery Centre in Nova Gorica in compliance with the latest information safety requirements. The adding of information resources will continue in 2010. The Disaster Recovery Centre covers all vital elements of the information system.

ORGANISATION

ORGANISATIONAL CHART AS AT 31 DECEMBER 2009

- MANAGEMENT BOARD
  - MARKETING AND PUBLIC RELATIONS
  - RISK MANAGEMENT
  - INTERNAL AUDIT
  - CUSTODY AND ADMINISTRATIVE SERVICES
  - LEGAL AND COMPLIANCE
  - PERSONNEL
  - DEVELOPMENT DIVISION
    - DEVELOPMENT AND BANKING TECHNOLOGY
    - ORGANISATION AND PROCESS MANAGEMENT
  - COMMERCIAL BANKING DIVISION
    - LARGE CORPORATE CLIENT
    - SME CLIENT
    - RETAIL COORDINATION
    - CORPORATE OPERATIONS
    - LJUBLJANA REGIONAL OFFICE
    - MARIBOR REGIONAL OFFICE
    - NOVA GORICA REGIONAL OFFICE
    - KRANJ REGIONAL OFFICE
    - KOPER REGIONAL OFFICE
    - CELJE REGIONAL OFFICE
    - NOVO MESTO REGIONAL OFFICE
  - FINANCIAL MARKETS DIVISION
    - TREASURY
    - INVESTMENT BANKING
    - INTER-BANK RELATIONS
  - FINANCE AND PROCESS SUPPORT DIVISION
    - ACCOUNTING
    - FINANCIAL CONTROLLING AND REPORTING
    - CENTRAL BACK OFFICE
    - BANKING OPERATIONS
    - TREASURY AND INVESTMENT BANKING MIDDLE OFFICE
  - INFORMATION TECHNOLOGY DIVISION
    - INFORMATION TECHNOLOGY DEVELOPMENT
    - INFORMATION TECHNOLOGY AND GENERAL SERVICES
    - INFORMATION TECHNOLOGY SYSTEM ADMINISTRATION

SENIOR MANAGEMENT

MANAGEMENT BOARD	Aleš Žajdela, M.Sc.	President of the Management Board
	Gregor Hudobivnik	Member of the Management Board
	Radovan Jereb, M.Sc. Econ.	Member of the Management Board
Marketing and Public Relations Department	Nina Intihar	Director of the Marketing and Public Relations Department
Internal Audit Department	Klavdija Markič	Director of the Internal Audit Department
Risk Management Department	Kristijan Hvala, M.Sc.	Director of the Risk Management Department
Custody and Administrative Services Department	Jasmin Furlan, M.Sc.	Director of the Custody and Administrative Services Department
Legal and Compliance Department	Tomaž Marinček	Director of the Legal and Compliance Department
Personnel Department	Alenka Sabadin, M.Sc.	Director of the Personnel Department
DEVELOPMENT DIVISION	Franc Bračun, Ph.D.	Division Executive Director
	Andrej Grobler, M.Sc.	Director of the Organisation and Process Management Department
COMMERCIAL BANKING DIVISION	Vanja Jeraj Markoja	Division Executive Director
	Barbara Jagodič	Director of the Large Corporate Client Department
	Zvonka Črmelj	Director of the SME Client Department
	Julija Šušmelj Stevanovič	Director of the Retail Co-ordination Department
	Nataša Velunšek Golčer	Director of the Business Operations Department
	Eva Janžek	Director of the Ljubljana Regional Office and Assistant to the Executive Director
	Janja Podvršnik Vrabič	Director of the Maribor Regional Office
	Davorina Mrevlje	Director of the Nova Gorica Regional Office
	Tatjana Ahačič	Director of the Kranj Regional Office
	Branko Hočevar	Director of the Koper Regional Office
	Nada Jurko	Director of the Celje Regional Office
	Janja Horvat Jaklič, M.Sc.	Director of the Novo mesto Regional Office
FINANCIAL MARKETS DIVISION	Boštjan Herič, M.Sc.	Division Executive Director
	Sabina Župec - Kranjc, M.Sc.	Director of the Treasury Department
	Uroš Vejnović	Director of the Investment Banking Department
	Štefan Volk, M.Sc.	Director of the Interbank Relations Department
FINANCE AND PROCESS SUPPORT DIVISION	Nada Mertik	Division Executive Director
	Alenka Plut, M.Sc.	Assistant to Executive Director, Head of the Financial Controlling and Reporting Department
	Marko Zabukovec, M.Sc.	Director of the Central Back Office
	Marija Kordiš	Director of the Banking Operations Department
	Irena Drčič Rojc	Director of the Accounting Department
	Boštjan Rupar	Director of the Treasury and Investment Banking Middle Office
INFORMATION TECHNOLOGY DIVISION	Simona Kogovšek	Division Executive Director
	Matej Jereb	Director of the Information Technology and General Services Department
	Liljana Torkar Kogovšek	Director of the Information Technology Development Department
	Martin Žumer	Director of the Information Technology System Administration Department

Senior management organisational chart as at 1 January 2010.

BRANCH NETWORK

Ljubljana Regional Office		
Slovenska 50 Branch Office	Slovenska 50	Ljubljana
Šiška Branch Office	Celovška 106	Ljubljana
Pražakova Branch Office	Kolodvorska 9	Ljubljana
Bežigrad Branch Office	Dunajska 48	Ljubljana
Trubarjeva Branch Office	Trubarjeva 65	Ljubljana
Loterija Slovenije Offsite Counter	Gerbičeva 99	Ljubljana
Smelt Branch Office	Dunajska 160	Ljubljana
Vič Branch Office	Tržaška 87	Ljubljana
Logatec Outlet	Tržaška 50 a	Logatec
Šmartinska Outlet	Šmartinska 102 - 104	Ljubljana
Novo mesto Regional Office		
Novo mesto Branch Office	Rozmanova 40	Novo mesto
Krško Branch Office	Cesta krških žrtev 135 B	Krško
Kranj Regional Office		
Kranj Branch Office	Nazorjeva 1	Kranj
Jesenice Branch Office	Maršala Tita 39 A	Jesenice
Tržič Branch Office	Cankarjeva 1 A	Tržič
Maribor Regional Office		
Maribor I Branch Office	Glavni trg 18	Maribor
Maribor II Branch Office	Cankarjeva 6 B	Maribor
Maribor III Branch Office	Kardeljeva 61	Maribor
Murska Sobota Branch Office	Kocljeva 16	Murska Sobota
Ptuj Branch Office	Osojnikova 9	Ptuj
Slovenj Gradec Branch Office	Ronkova 4 A	Slovenj Gradec
Prevalje Offsite Counter	Trg 12	Prevalje
Tezno Outlet	Prvomajska 26	Maribor
Celje Regional Office		
Celje I Branch Office	Aškerčeva 10	Celje
Celje II Branch Office	Miklošičeva 1	Celje
Žalec Branch Office	Šlandrov trg 28	Žalec
Velenje Branch Office	Kersnikova 1	Velenje
Koper Regional Office		
Koper Branch Office	Ferrarska 12	Koper
Lucija Outlet	Obala 112	Lucija
Casino Portorož Offsite Counter	Obala 75 A	Portorož
Izola Outlet	Sončno nabrežje 6	Izola
Sežana Branch Office	Partizanska 41	Sežana
Casino Lipica Offsite Counter	Lipica 5	Lipica
Nova Gorica Regional Office		
Nova Gorica Erjavčeva Branch Office	Erjavčeva 2	Nova Gorica
Šempeter pri Gorici Branch Office	C. Prekomorskih brigad 2c	Šempeter
Nova Gorica Kidričeva Branch Office	Kidričeva 18	Nova Gorica
Ajdovščina Branch Office	Goriška 25 A	Ajdovščina
Idrija Branch Office	Lapajnetova 47	Idrija
Tolmin Branch Office	Mestni trg 5	Tolmin
Kobarid Offsite Counter	Markova 16	Kobarid
Postojna Outlet	Gregorčičev drevored 2 B	Postojna

Branch network overview as at 31 December 2009.

STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Abanka Vipa d.d. (hereinafter: Abanka) accepts and abides by the **Corporate Governance Code** (hereinafter: the Code) adopted by the Ljubljana Stock Exchange d.d., Ljubljana, the Association of Supervisory Board Members of Slovenia and the Managers' Association of Slovenia on 18 March, 2004 and amended on 14 December, 2005 and 5 February, 2007.

The Code is also available on the website of the Ljubljana Stock Exchange **http://www.ljse.si/** in Slovene and English.

This statement refers to the 2009 fiscal year.

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

Code provision 1.1.1.:
The key goal of a joint-stock company engaged in a gainful activity is to maximise the company's value. This and other goals, pursued by the company in performing its activity, should be stated in the company's Articles of Association.

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

Code provision 1.2.6.:
Companies should encourage all shareholders to actively and responsibly exercise their rights and warn them of the manners of exercising their right which could damage the company or other company's shareholders. Companies should encourage a greater representation of shareholders at the general meeting of shareholders also indirectly through financial and other organisations and by proxy (organised collection of proxies, publication of information on proxies).

Abanka does not encourage its shareholders through financial and other organisations since it wishes them to directly participate in general meetings of shareholders or to choose their own proxies. To this end, the Bank distributes notices of general meetings with registration and proxy forms enclosed.

Code provision 1.2.7.:
Companies should encourage substantial shareholders, institutional investors and the state, to publicly reveal the company's investment policy, e.g. its voting policy, the level of activity of corporate governance and the manner of the latter, the mechanisms and frequency of communicating with the management or supervisory bodies.

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

Code provision 1.3.19.:
The general meeting of shareholders should adopt resolutions on adopting management or supervisory bodies' discharges separately for each body. A member of a management or supervisory body may not vote on adopting the discharge of the body he is a member of.

Members of Abanka's management or supervisory bodies who are at the same time shareholders of Abanka have the right to vote on their discharge. As shareholders' corporate rights may not be restricted, Abanka does not intend to restrict their voting rights in this way and will leave it up to individual members of management or supervisory bodies to act in this matter at their own discretion.

Code provision 1.3.21.:
Along with the contents of the announcement from the previous subsection, the company's management should also furnish the company's website with the questions of shareholders asked at the general meeting and their received answers.

Questions put by shareholders and answers given at a general meeting of shareholders usually cannot influence the operations of Abanka as a joint-stock company, but the shareholders present at the meeting are acquainted with them. As a rule, Abanka does not publish these questions and answers unless there is a legal requirement for the publication of the information disclosed at general meetings of shareholders.

Code provision 2.3.7.:
The proposed share option scheme and other forms of management board members' earnings that are related to the company's shares, and other forms of individual or collective schedules of remuneration on the basis of profit sharing or company's shares, should be prepared by the supervisory board, who should notify of it the general meeting of shareholders. Management board members may participate in profits only if this is in line with the company's articles of association and the resolution of the company's general meeting of shareholders.

Abanka has no remuneration scheme involving a share options scheme or a share scheme. In spite of that, part of the Management Board's remuneration, defined on the basis of criteria set by the Supervisory Board, may be paid in shares.

Code provision 2.3.8.:
The total remuneration, compensation and other benefits of management board members should be annually disclosed in the Notes to Financial Statements and should be given in net and gross amounts for each management board member. Remuneration should be broken down as follows:
- *fixed component of earnings;*
- *variable component of earnings (long-term and short-term incentives for achieving higher productivity and performance-related earnings, excluding profit sharing);*
- *profit sharing;*
- *share options; and*
- *other earnings of management board members (severance pay, additional insurance premiums, benefits).*

If a management board member's remuneration consists also of the company's shares, the earnings should be broken down into money and company's shares.

The earnings of Abanka's Management Board members are disclosed in a gross amount.

Code provision 3.1.10.:
The president of the supervisory board should encourage the members to hold an effective and active position. If a member fails to attend the board's meetings or is not active in performing his duties, this should be evident from a written report to the general meeting of shareholders. Once a year the supervisory board will evaluate their performance. The evaluation of the supervisory board's performance should include evaluations of the board's composition, organisation and operations as a group, along with the evaluations of the competence and efficiency of each individual member as well as separate supervisory board committees. This procedure should assist the board in determining the measures to be taken for improving its effectiveness (composition, education, dynamics and attendance at meetings, acquisition of information and preparation for meetings, etc).

The Supervisory Board evaluates its own work as a whole and not of its individual members. As a rule, the Supervisory Board holds its sessions in full attendance with the regular participation of all of its members, whereby their work and experience contribute to the quality performance of the body.

Code provision 3.2.3.:
The supervisory board is obliged to provide for appropriate service contracts with management board members. The contract should determine the duties and competencies of a management board member, the remuneration system and the criteria for the variable part of remuneration, his duties relating to loyalty to the company, and the methods for his recall and severance pay. A member's being recalled for other economic and business reasons should not automatically signal a recall due to culpable liability. Grounds of culpable liability resulting in recalling a member of the board should be enumerated in the management board member's contract. In the event of being recalled on the grounds of culpable liability, a management board member shall not be entitled to severance pay.

The service contracts of the Management Board members do not explicitly specify the grounds of culpable liability; as such, an explicit specification is inappropriate and could never cover all possible situations.

Code provision 3.3.10.:
The number of employee-elected representatives in the supervisory board should be determined in the articles of association. The procedure for their election or recall should be regulated by a general bylaw, while in selecting the nominees the required professional qualifications should also be considered. It is recommended that employee-elected representatives in the supervisory board not be appointed from among the expanded management team, or else this should be publicly disclosed. If there are no appropriate nominees from among the company's employees, the workers' council should propose independent nominees from outside the company.

There are no employee-elected representatives on the Supervisory Board as the legal provision regarding workers' participation in the Management and Supervisory Boards is not applicable to banks.

Code provision 3.4.2.:

The amount and method of determining individual remunerations, compensation and other benefits of supervisory board members are determined by a resolution of the general meeting or by the company's articles of association. In determining the amount of a remuneration, the following criteria should be considered:

- *extent of duties and responsibility of supervisory board members,*
- *expertise and activity of supervisory board members,*
- *size of the company and the complexity of its business operations,*
- *the company's general economic environment.*

The members of the Supervisory Board of Abanka are remunerated for their service on the board itself as well as on its committees and commissions, they receive an attendance fee and expense reimbursement. The attendance fee paid to the Chairman is higher than that paid to the members.

Code provision 3.4.6.:

Supervisory board members' liability insurance should protect the interests of the company, not the supervisory board members.

Abanka has not taken out any liability insurance for members of the Supervisory Board.

Code provision 3.5.4.:

A supervisory board member should take all the necessary precautionary measures to avoid conflicts of interest which could influence his judgement. A conflict of interest exists when a board member's impartial and objective performance of duties or decision-making is jeopardised because personal economic interests are involved, or the family's interests, emotions, political or national (favourable or unfavourable) disposition or any other related interests with other natural or legal persons.

A supervisory board member has a conflict of interest if he:

- *has, or has had, within the past three years, an important business relationship with the company or its associated company;*
- *is a member of the expanded management team of an associated company;*
- *cooperated in drafting a proposal of the company's annual report;*
- *is a company's substantial shareholder;*
- *is economically, personally or in some other way closely associated with a substantial shareholder or its management board;*
- *is a major supplier of goods or services (including advisory or auditing services);*
- *has received, within the last three years, or currently receives major additional remuneration from the company or an associated company, excluding the remuneration received as a supervisory board member;*
- *has been, within the last three years, a partner or employee of a current or former external auditor of the company or associated company;*
- *has been on the supervisory board for over 12 years;*
- *is an immediate family member of another member of the supervisory board or of the management board.*

Several members of the Supervisory Board of Abanka may be deemed to have an economic, personal or other close relationship with the Bank's major shareholders or their Management Board. In these cases, there is no conflict of interest in the opinion of Abanka. Even less so because these members are not prohibited from serving as supervisory board members pursuant to the Banking Act, which very specifically and in detail stipulates the conditions and requirements for bank supervisory board members.

Ljubljana, 10 March 2010

Management Board

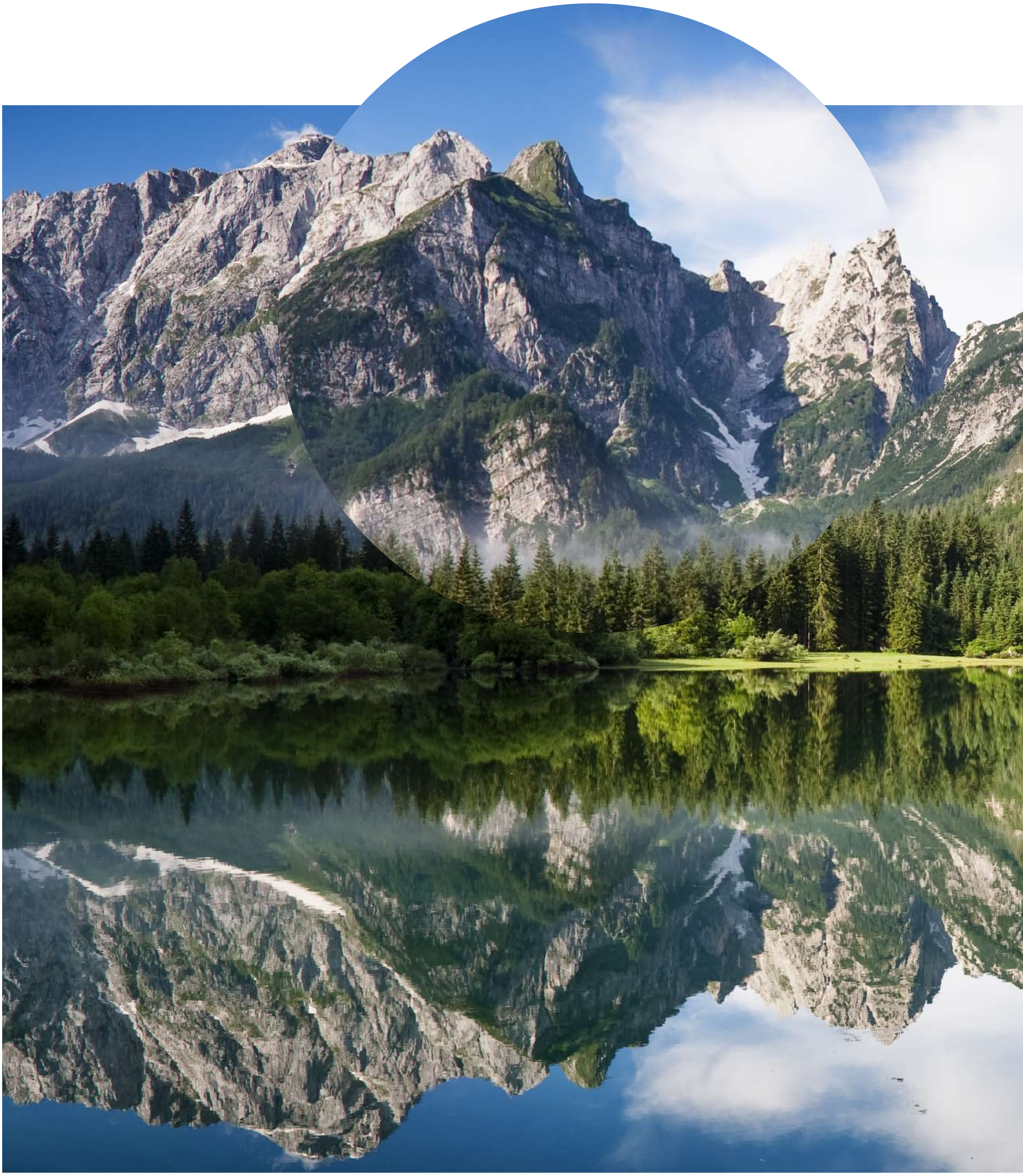
Aleš ŽAJDELA, M.Sc.
President of the Management Board

Gregor HUDOBIVNIK
Member of the Management Board

Radovan JEREB, M.Sc. Econ.
Member of the Management Board

Supervisory Board

Janez BOHORIČ
Chairman of the Supervisory Board



CONSOLIDATED FINANCIAL REPORT

GENERAL INFORMATION

Abanka Vipa d.d. is a bank with a tradition in the Slovene banking sector. It started back in 1955 as a branch of the Yugoslav Bank for International Trade. In 1977, the branch was renamed Jugobanka – Ljubljana Basic Bank and started to operate independently as Abanka d.d., Ljubljana in January 1990 after having been converted into a joint-stock company. On 31 December, 2002 it acquired Banka Vipa d.d. and has since then worked under the name Abanka Vipa d.d., or Abanka d.d. for short. As a result of this acquisition, Abanka's market share rose by 1.7 percentage points to 8.5%, making it the third largest bank in Slovenia. In October 2008 Abanka shares were listed on the Ljubljana stock exchange. In terms of total assets, Abanka was the third strongest Slovene bank as at 31 December, 2009, when it held 8.8% of the market.

Abanka is a universal bank authorised for all banking and other financial services. Through a branch network of 41 outlets across Slovenia, easily accessible electronic banking as well as its consulting and personalised client approach it provides integrated financial services ranging from classic banking to bancassurance and investment banking products. Abanka manages the AIII Mutual Pension Fund as part of its investment banking business.

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

The range of Abanka's products and services is complemented by its subsidiaries, associates and joint ventures: Abančna DZU, Argolina, Afaktor, Aleasing, Naložbe, KDSPV1, Abančna DZU Delniški Evropa and ASA Abanka leasing.

At the end of 2009 Abanka employed 877 staff or one less than at the end of 2008.

The Bank is run by the Management Board: Mr. Aleš Žajdela, President, Mr. Gregor Hudobivnik, Member, and Mr. Radovan Jereb, Member.

ABANKA'S REGISTERED OFFICE:

ABANKA VIPA d.d.
Slovenska 58
1517 Ljubljana
Slovenia

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The management of the Bank has approved the financial statements of ABANKA VIPA GROUP for the year ended 31 December, 2009 (pages 79 to 85 of the Consolidated Financial Statements), the applied accounting policies, and the notes to the financial statements (pages 86 to 196 of the Consolidated Financial Statements).

The management of the Bank is responsible for preparing the Consolidated Financial Statements which give a true and fair view of the financial position of the Group as at 31 December, 2009 and the results of its operations for the year then ended.

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

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

Ljubljana, 23 March, 2010

Gregor HUDOBIVNIK
Member of the Management Board

Radovan JEREB, M.Sc. Econ.
Member of the Management Board

Aleš ŽAJDELA, M.Sc.
President of the Management Board

CONSOLIDATED FINANCIAL STATEMENTS

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED INCOME STATEMENT

Ser. No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2009	2008
1	2		3	4
1	Interest income and similar income	5	187,007	213,801
2	Interest expenses and similar expenses	5	(109,381)	(135,015)
3	**Net interest income (1+2)**		**77,626**	**78,786**
4	Dividend income	6	1,398	3,594
5	Fee and commission income	7	39,835	40,493
6	Fee and commission expenses	7	(8,920)	(8,620)
7	**Net fee and commission income (5+6)**		**30,915**	**31,873**
8	Realised gains on financial assets and liabilities not measured at fair value through profit or loss	8	3,351	2,986
9	Net gains and losses on financial assets and liabilities held for trading	9	4,797	(12,934)
10	Net losses on financial assets and liabilities designated at fair value through profit or loss	10	(1,047)	(3,287)
11	Exchange differences	9	(1,985)	(4,334)
12	Gains on derecognition of assets other than held for sale		31	160
13	Net other operating income	11	2,447	1,572
14	Administration costs	12	(51,597)	(50,684)
15	Depreciation and amortisation	13	(5,891)	(6,857)
16	Provisions	14	(970)	8,588
17	Impairment	15	(30,884)	(23,283)
18	Share of profit/(loss) of associates and joint ventures accounted for using the equity method		58	(60)
19	Total profit/(loss) from non-current assets held for sale		9	(78)
20	TOTAL PROFIT BEFORE TAX FROM CONTINUING OPERATIONS (3+4+7+8+9+10+11+12+13+14+15+16+17+18+19)		28,258	26,042
21	Tax expense related to profit from continuing operations	16	(6,139)	(5,644)
22	TOTAL PROFIT AFTER TAX FROM CONTINUING OPERATIONS (20+21)		22,119	20,398
23	**NET PROFIT for the financial year (22)**		**22,119**	**20,398**
	a) Profit attributable to owners of the parent		22,121	20,406
	b) Loss attributable to non-controlling interests		(2)	(8)
				in EUR
24	Basic earnings per share	17	3.08	2.44
25	Diluted earnings per share	17	3.08	2.44

These financial statements were approved for issue by the Management Board on 23 March, 2010 and signed on its behalf by:

Management Board

Gregor HUDOBIVNIK
Member

Radovan JEREB, M.Sc. Econ.
Member

Aleš ŽAJDELA, M.Sc.
President

The notes on pages 86 to 196 are an integral part of these consolidated financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Ser. No.	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2009	AMOUNT Year ended 31 December 2008
1	2		3	4
1	**NET PROFIT FOR THE FINANCIAL YEAR AFTER TAX**		**22,119**	**20,398**
2	**OTHER COMPREHENSIVE INCOME AFTER TAX (3+5+8)**		**8,623**	**(10,208)**
3	**Foreign currency translation (4)**		**(8)**	**(17)**
4	Translation losses taken to equity		(8)	(17)
5	**Available-for-sale financial assets (6+7)**		**10,835**	**13,041**
6	Net valuation gains/(losses) taken to equity	37	8,479	(18,633)
7	Net losses transferred to profit or loss	37	2,356	5,592
8	**Income tax relating to components of other comprehensive income**		(2,204)	2,850
9	**TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR AFTER TAX (1+2)**		**30,742**	**10,190**
	a) Attributable to owners of the parent		30,742	10,205
	b) Attributable to non-controlling interests		–	(15)

These financial statements were approved for issue by the Management Board on 23 March, 2010 and signed on its behalf by:

Management Board

Gregor HUDOBIVNIK
Member

Radovan JEREB, M.Sc. Econ.
Member

Aleš ŽAJDELA, M.Sc.
President

The notes on pages 86 to 196 are an integral part of these consolidated financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Item No.	ITEM DESCRIPTION	NOTE	AMOUNT As at 31 December 2009	2008
1	2		3	4
1	Cash and cash balances with central bank	18	252,599	229,417
2	Financial assets held for trading	19	22,554	48,310
3	Financial assets designated at fair value through profit or loss	20	27,950	24,313
4	Available-for-sale financial assets	21	722,904	438,718
5	Loans and receivables		3,444,537	3,056,062
	- loans and receivables to banks	22	539,236	281,518
	- loans and receivables to non-bank customers	23	2,905,301	2,774,544
6	Held-to-maturity investments	24	13,449	13,378
7	Non-current assets held for sale	25	4,240	2,464
8	Property and equipment	25	54,209	48,079
9	Investment property	25	92	123
10	Intangible assets	25	3,828	3,698
11	Investments in associates and joint ventures, accounted for using the equity method	26	1,013	955
12	Tax assets		4,492	9,077
	- current tax assets		108	3,835
	- deferred tax assets	34	4,384	5,242
13	Other assets	27	5,609	8,409
14	**TOTAL ASSETS (from 1 to 13)**		**4,557,476**	**3,883,003**
15	Deposits from central bank	28	100,537	130,384
16	Financial liabilities held for trading	19	3,949	9,834
17	Financial liabilities designated at fair value through profit or loss	29	7,716	7,699
18	Financial liabilities measured at amortised cost		4,052,394	3,358,001
	- deposits from banks	30	47,751	66,027
	- deposits from non-bank customers	30	2,167,051	1,918,311
	- loans and advances from banks		1,018,188	1,091,126
	- loans and advances from non-bank customers		233	216
	- debt instruments	31	673,363	121,870
	- subordinated liabilities	32	145,808	160,451
19	Financial liabilities associated to transferred assets		-	10,681
20	Provisions	33	14,512	14,299
21	Tax liabilities		3,594	3,140
	- current tax liabilities		683	963
	- deferred tax liabilities	34	2,911	2,177
22	Other liabilities	35	14,497	12,209
23	TOTAL LIABILITIES (from 15 to 22)		4,197,199	3,546,247
24	Basic equity	36	30,045	30,045
25	Share premium	36	153,117	153,117
26	Revaluation reserves	37	5,680	(2,941)
27	Reserves from profit	37	156,465	144,854
28	Treasury shares	36	(240)	(240)
29	Retained earnings (including income from the current year)	37	15,188	11,899
30	EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (from 24 to 29)		360,255	336,734
31	Equity attributable to non-controlling interests	47	22	22
32	TOTAL EQUITY (30+31)		360,277	336,756
33	**TOTAL LIABILITIES AND EQUITY (23+32)**		**4,557,476**	**3,883,003**

These financial statements were approved for issue by the Management Board on 23 March, 2010 and signed on its behalf by:

Management Board

Gregor HUDOBIVNIK
Member

Radovan JEREB, M.Sc. Econ.
Member

Aleš ŽAJDELA, M.Sc.
President

The notes on pages 86 to 196 are an integral part of these consolidated financial statements.

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 31 DECEMBER, 2009

Item Code	ITEM DESCRIPTION	NOTE	Basic equity	Share premium
1	2		3	4
1	**OPENING BALANCE FOR THE REPORTING PERIOD**		**30,045**	**153,117**
2	**Consolidated comprehensive income for the financial year after tax**			
3	Appropriation of (accounting for) dividends	37		
4	Transfer of net profit to reserves from profit	37		
5	Other	37		
6	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5)**		**30,045**	**153,117**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 31 DECEMBER, 2008

Item Code	ITEM DESCRIPTION	NOTE	Basic equity	Share premium
1	2		3	4
1	**OPENING BALANCE FOR THE REPORTING PERIOD**		**22,951**	**58,062**
2	**Consolidated comprehensive income for the financial year after tax**			
3	New share capital subscribed (paid)	36	7,094	94,906
4	Appropriation of (accounting for) dividends/rewards in form of shares	36, 45		149
5	Appropriation of (accounting for) dividends, of interests from innovative instrument	37		
6	Transfer of net profit to reserves from profit	37		
7	Conversion of the innovative instrument from equity to a liability			
8	Other	37		
9	**CLOSING BALANCE FOR THE REPORTING PERIOD (1+2+3+4+5+6+7+8)**		**30,045**	**153,117**

These financial statements were approved for issue by the Management Board on 23 March, 2010 and signed on its behalf by:

Management Board

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Member

Aleš ŽAJDELA, M.Sc.
President

The notes on pages 86 to 196 are an integral part of these consolidated financial statements.

Revaluation reserves	Reserves from profit	Retained earnings (including income from the current year)	Treasury shares (equity deduction item)	**Equity attributable to owners of the parent** (from 3 to 8)	Equity attributable to non-controlling interests	**Total equity** (9+10)
5	6	7	8	9	10	11
(2,941)	**144,854**	**11,899**	**(240)**	**336,734**	**22**	**336,756**
8,621		**22,121**		**30,742**		**30,742**
		(7,263)		(7,263)		(7,263)
	11,578	(11,578)		–		–
	33	9		42		42
5,680	**156,465**	**15,188**	**(240)**	**360,255**	**22**	**360,277**

Equity component of compound financial instruments	Revaluation reserves	Reserves from profit	Retained earnings (including income from the current year)	Treasury shares (equity deduction item)	**Equity attributable to owners of the parent** (from 3 to 9)	Equity attributable to non-controlling interests	**Total equity** (10+11)
5	6	7	8	9	10	11	12
117,539	**7,260**	**112,644**	**34,943**	**(254)**	**353,145**	**37**	**353,182**
	(10,201)		**20,406**		**10,205**	**(15)**	**10,190**
					102,000		102,000
				14	163		163
			(11,155)		(11,155)		(11,155)
		32,199	(32,274)		(75)		(75)
(117,539)					(117,539)		(117,539)
		11	(21)		(10)		(10)
–	**(2,941)**	**144,854**	**11,899**	**(240)**	**336,734**	**22**	**336,756**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT

Designa-tion	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2009	2008
1	2		3	4
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**			
a)	Total profit before tax		28,258	26,042
	Depreciation and amortisation	13	5,891	6,857
	Impairments of capital investments in subsidiaries, associates and joint ventures	26	34	–
	Share of the profit or loss of associates and joint ventures accounted for using the equity method	26	(58)	60
	Net losses from exchange differences	9	1,985	4,334
	Net (gains) from sale of tangible assets and investment properties		(31)	(82)
	Other (gains) from investing activities	44	(510)	(1,057)
	Other losses from financing activities	44	6,920	6,682
	Net unrealised gains in revaluation reserves from financial assets available for sale (excluding effect of deferred tax)		10,835	(12,120)
	Other adjustments to total profit or loss before tax	44	970	(8,620)
	Cash flow from operating activities before changes in operating assets and liabilities		**54,294**	**22,096**
b)	**(Increases) in operating assets (excl. cash & cash equivalents)**		**(719,006)**	**(211,228)**
	Net decrease/(increase) in balances with central bank		2,127	(7,399)
	Net decrease in financial assets held for trading		20,229	149,415
	Net (increase)/decrease in financial assets designated at fair value through profit or loss		(3,596)	902
	Net (increase)/decrease in financial assets available for sale		(293,785)	57,275
	Net (increase) in loans and receivables		(473,792)	(438,699)
	Net (increase) in non-current assets held for sale		(1,777)	(1,036)
	Net decrease in other assets		31,588	28,314
c)	**Decreases in operating liabilities**		**644,921**	**318,467**
	Net (decrease)/increase in financial liabilities to central bank		(29,836)	130,358
	Net increase/(decrease) in financial liabilities designated at fair value through profit or loss		17	(687)
	Net increase in deposits, loans and receivables measured at amortised cost		148,990	210,635
	Net increase/(decrease) in debt instruments in issue measured at amortised cost		551,493	(12,902)
	Net (decrease) in other liabilities		(25,743)	(8,937)
d)	**Cash flow from operating activities (a+b+c)**		**(19,791)**	**129,335**
e)	**Income taxes (paid)**		**(3,303)**	**(10,803)**
f)	**Net cash flow from operating activities (d+e)**		**(23,094)**	**118,532**

(All amounts in EUR thousand unless otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT (continued)

Designa-tion	ITEM DESCRIPTION	NOTE	AMOUNT Year ended 31 December 2009	2008
1	2		3	4
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**			
a)	**Receipts from investing activities**		**1,147**	**2,180**
	Receipts from the sale of tangible assets and investment properties		691	2,180
	Receipts from non-current assets held for sale		18	–
	Other receipts from investing activities		438	–
b)	**Cash payments on investing activities**		**(7,333)**	**(6,799)**
	(Cash payments to acquire tangible assets and investment properties)		(4,788)	(5,347)
	(Cash payments to acquire intangible assets)		(1,763)	(1,271)
	(Cash payments for the investment in subsidiaries, associates and joint ventures)		(33)	(85)
	(Cash outflow to non-current assets or liabilities held for sale)		(749)	(96)
c)	**Net cash flow from investing activities (a+b)**		**(6,186)**	**(4,619)**
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**			
a)	**Cash proceeds from financing activities**		**–**	**102,195**
	Cash proceeds from issuing shares and other equity instruments		–	102,000
	Cash proceeds from the sale of treasury shares		–	195
b)	**Cash payments on financing activities**		**(28,174)**	**(29,969)**
	(Dividends paid)	38	(7,253)	(7,254)
	(Cash repayments of subordinated liabilities)		(15,821)	(14,678)
	(Cash payments to acquire treasury shares)		–	(32)
	(Other cash payments related to financial activities - innovative instrument)	32	(5,100)	(8,005)
c)	**Net cash flow from financing activities (a+b)**		**(28,174)**	**72,226**
D.	Effects of change in exchange rates on cash and cash equivalents		(233)	2,082
E.	**Net (decrease)/increase in cash and cash equivalents (Af+Bc+Cc)**		**(57,454)**	**186,139**
F.	**Opening balance of cash and cash equivalents**		**451,960**	**263,739**
G.	**Closing balance of cash and cash equivalents (D+E+F)**	**39**	**394,273**	**451,960**

These financial statements were approved for issue by the Management Board on 23 March, 2010 and signed on its behalf by:

Management Board

Gregor HUDOBIVNIK
Member

Radovan JEREB, M.Sc. Econ.
Member

Aleš ŽAJDELA, M.Sc.
President

The notes on pages 86 to 196 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

1.1 Basis of presentation

The consolidated financial statements of the Abanka Group have been prepared in accordance with EU adopted International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss and all derivative contracts, which have been measured at fair value.

The scope of information and notes included in the Group's Annual Report at least equals the scope required by the Companies Act (ZGD-1), EU adopted IFRS and the Decision on the Books of Account and Annual Reports of (Savings) Banks.

The preparation of financial statements in conformity with EU adopted IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(a) Amendments to published standards and interpretations effective 1 January, 2009
The following standards, amendments and interpretations which became effective in 2009 are relevant to the Group but did not result in substantial changes to the Group's accounting policies:

– IFRS 7 (Amendment), 'Financial instruments: Disclosures' (effective 1 January, 2009);
  The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires the disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or comprehensive income of the Group.
– IFRS 8 'Operating Segments' (effective 1 January, 2009);
  IFRS 8 was issued in November 2006 and, excluding early adoption, it would first be required to be applied to the Group's accounting period beginning on 1 January, 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the Group's executive board, which makes decisions on the allocation of resources and assesses the performance of the reportable segments. The application of IFRS 8 does not have any material effect on the Group but has an impact on segment disclosure and on the measurement bases within segments.
– IAS 1 (Revised), 'Presentation of financial statements' (effective 1 January, 2009);
  As a result of the revised standard, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.
– IAS 23 (Amendment), 'Borrowing costs' (effective 1 January, 2009);
  A revised version of IAS 23 was issued in March 2007. It eliminates the option of the immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to become ready for their intended use. The application of the IAS 23 amendment does not have a material impact on the consolidated financial statements.

The following amendments and interpretations became effective in 2009, but were not relevant to the Group's operations:

– IFRS 2 (Amendment), 'Share-based payment' (effective 1 January, 2009);
  The IASB published an amendment to IFRS 2, 'Share-based payment', in January 2008. The changes pertain mainly to the definition of vesting conditions and the regulations for the cancellation of a plan by a party other than the company.
– IAS 32 (Amendment), 'Financial instruments: Presentation' and consequential amendments to IAS 1, 'Presentation of financial statements' (effective 1 January, 2009);
  The IASB amended IAS 32 in February 2008. It now requires some financial instruments that meet the definition of a financial liability to be classified as equity.

- IFRIC 13 'Customer Loyalty Programmes' (effective 1 July, 2008);
- IFRIC 16 'Hedges of a net investment in a foreign operations' (effective 1 October, 2008);

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

The Group has chosen not to early adopt the following standards and interpretations that have been issued but which do not yet take effect for accounting periods beginning on 1 January, 2009:

- IFRS 1 and IAS 27 (Amendment), 'First-time adoption of IFRS' and consequential amendments to IAS 27, 'Consolidated and separate financial statements' (effective 1 July, 2009); The amendement applies to the initial measurement of investments in subsidiaries, jointly-controlled entities and associates in the separate financial statements.
- IFRS 3 (Revised), 'Business Combinations' (effective 1 July, 2009);
  The revised standard continues to apply the acquisition method to business combinations, with some significant changes.
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective 1 July, 2009); The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective 1 July, 2009); The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations.
- IFRIC 17 'Distributions of non-cash assets to owners' (effective 1 July, 2009);
- IFRIC 18 'Transfers of assets from customers' (effective 1 July, 2009);
- 'Improvements to IFRS' were issued in May 2008 (endorsed by the EU) and April 2009 (not yet endorsed). They contain numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments apply to annual periods beginning on or after 1 January, 2009 and 1 January, 2010, respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.
- IFRS 9, 'Financial instruments part 1: Classification and measurement';
  IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  - Financial assets are required to be classified in two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss.
  - While adoption of IFRS 9 is mandatory from 1 January, 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

The Group did not early-adopt new or amended standards in 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.2 Consolidation

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

(b) Transactions and non-controlling interests
The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the income statement. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the fair value of the net assets of the subsidiary.

(c) Associates
Associates are all entities in which the Group has between 20% and 50% of the voting rights, and over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities are, in accordance with IAS 39, measured at fair value through profit or loss. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses unless the Group has incurred obligations or made payments on behalf of the associates. A listing of the Group's principal associated undertakings is shown in Note 26.

(d) Joint ventures
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, whereby the standard identifies three broad types – jointly controlled operations, jointly controlled assets and jointly controlled entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Each venture partner usually contributes cash or other resources to the jointly controlled entity. These contributions are included in the accounting records of the venture partner and recognised in its financial statements as an investment in the jointly controlled entity.

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

A listing of the Group's principal joint venture undertakings is shown in Note 26.

1.3 Segment reporting

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

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

1.4 Foreign currency translation

(a) Functional and presentation currency
The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional and presentation currency of the Bank and its subsidiaries in Slovenia is the euro whereas the functional currency of one of the Group's subsidiaries is the national currency of Serbia, the Serbian dinar ("RSD").

(b) 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

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 included in the fair value reserve in other comprehensive income.

1.5 Financial assets

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

(a) Financial assets at fair value through profit or loss
This category has two sub-categories: held-for-trading financial assets and those designated at fair value through profit or loss at inception. A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held-for-trading unless they are designated as hedging instruments.

In rare circumstances of the financial turmoil and the fact that certain financial instruments are no longer traded or related markets have become inactive or distressed, financial assets may be reclassified out of the fair value through profit or loss category. However, derivatives and financial assets designated as fair value through profit or loss cannot be reclassified.

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

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

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term which are classified as held-for-trading and those that the entity designates at fair value through profit or loss upon initial recognition; (b) those that the entity designates as available for sale upon initial recognition; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

(d) Available-for-sale financial assets
Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices.

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 the trade date – the date on which the Group commits to purchase or sell the asset.

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 and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group 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.

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

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 the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included separately in dividend income. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement. Dividends 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 current bid prices. If there is no active market for a financial asset, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

1.6 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.

1.7 Derivative financial instruments

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

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

All derivatives of the Group are classified as held-for-trading and do not qualify for hedge accounting. Changes in the fair value of derivative instruments which do not qualify for hedge accounting are recognised immediately in the income statement.

1.8 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.

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

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

1.9 Fee and commission income

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

1.10 Dividend income

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

1.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Homogenous groups and sub-groups are created for collective assessments of debtors. These are classified by credit risk categories, which reflect their ability to settle obligations in accordance with contractual provisions. Classification in groups and subgroups takes place according to the following criteria:
a) type of debtor;
b) debtor's credit rating; and
c) credit rating of the financial asset or contingency and commitment including off-balance sheet items for private individuals.

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

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

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

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. No claims are written off until all legal remedies and other means of recovery are exhausted.

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

(b) Assets classified as available-for-sale

At each statement of financial position date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the 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.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(c) Restructuring of loans

Restructuring of financial assets include activities pursued by the Group in relation to borrowers on whom it has outstanding claims due to a default. The restructuring of these claims may include one or several activities which would not have been pursued had the defaulter been in a normal economic and financial position. Restructuring activities include:

– grace period and/or principal repayment rescheduling;
– partial write-off;
– interest rate reduction; and
– other activities.

Any loss or impairment measured as a difference between the book value and replacement value that occurs in the restructuring of financial assets is recognised in the Group's income statement.

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

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

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

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

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

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

	2008	2009
Buildings	2–3%	2–3%
Equipment	20%	14%–20%
Computers	10–50%	10–50%
Intangible assets	25–33.3%	25–33.3%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. This measurement provisions do not apply to deferred tax assets and liabilities (IAS 12), financial assets in the scope of IAS 39, investment properties that are accounted for in accordance with the fair value model in IAS 40. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets. Management must be committed to the sale and must actively market the property for sale at a price that is reasonable in relation to the current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

1.13 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less disposal costs and its value in use. Non-financial assets that suffered an impairment are reviewed for a possible reversal of the impairment at each reporting date.

1.14 Leases

A group company is the lessor

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

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

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

A group company is the lessee

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

1.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with the central bank, treasury bills and other eligible bills, amounts due from other banks, and securities.

1.16 Provisions

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

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

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

1.17 Financial guarantee contracts

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

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

Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

1.18 Employee benefits

The Group provides benefits for employees as a legal obligation including jubilee rewards and retirement bonuses. These obligations are valued by independent qualified actuaries. Employee benefits are included in provisions for employee benefits. The Group sets aside such provisions based on actuarial calculations made by independent actuaries every three years. In the meantime, the Group either establishes or cancels these provisions on the basis of its own calculations – using data averages for employees under collective agreements, under management agreements with special authorities and on the Management Board.
The major assumptions used in these calculations are the following:
- a discount rate;
- the number of employees eligible for benefits;
- the rate of labour turnover in the period of the last three years; and
- the average annual wage growth.

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

In accordance with the resolution of the Management Bord, the Group may remunerate certain employees in the form of shares issued by Abanka Vipa d.d. Payments are based on equity-settled share-based payment transactions. The Group recognises a service received in exchange for share-based payment transactions as labour costs, measured at the fair value of the equity instrument in question, at the time the service is rendered.

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

1.19 Taxation

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

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

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

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

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

1.20 Borrowings and deposits

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.21 Share capital

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

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

Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

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

1.22 Managed funds

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

1.23 Fiduciary activities

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

1.24 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as held-for-trading financial assets, available-for-sale financial assets or held-to-maturity financial assets, even though the transferee has the right by contract or custom to sell or repledge them as collateral. The counterparty liability is included in financial liabilities linked to transferred assets. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to 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. Securities lent to counterparties are also retained in the financial statements.

1.25 Comparatives

In 2009 the Group started recognising part of the income from card products as fee and commission income. This involves payment card membership fees, fees on card product cash withdrawals and electronic banking access fees which had previously been posted as other net operating income. The Group adjusted comparative figures for 2008 accordingly so that income from fees and commissions is higher and other operating income lower by EUR 2,442 thousand.

In 2009 the Group started recognising card processing costs as fee and commission expenses which is why comparative administration costs for 2008 were EUR 1,827 thousand lower. Fee and commission expenses include part of interchange fees on cash withdrawals which had previously been carried as other operating expenses. Consequently, the comparative figures for other operating expenses were EUR 563 thousand lower.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In 2009 the Group changed the accounting policies in respect of the recording of factoring operations. Factoring operations are recorded according to the net principle. Changed accounting for factoring transactions resulted in the following main modifications:

- in factoring with recourse receivables from factored invoices and liabilities to clients are treated as off-balance sheet items and not as balance-sheet items as before;
- in factoring with recourse interest receivables from prefinancing and factoring fees may be offset against the factor's liability to the client only after the receivable is paid;
- receivables from prefinancing from factoring without recourse are directly deducted from liabilities to the clients.

Due to changes in the accounting policies resulting from the introduction of the net principle, in the statement of financial position for 2008 the comparative figures for the following items were adjusted: loans to non-bank customers, other assets and other liabilities. As a result of transfers from other assets, loans to non-bank customers are EUR 750 thousand higher. Gross loans to corporate entities are EUR 1,183 thousand higher and the related allowances are EUR 433 thousand higher. Other assets are EUR 28,743 thousand lower (EUR 750 thousand due to the transfer to loans to non-bank customers and EUR 27,993 thousand due to the transfer to off-balance-sheet items). As a result, other liabilities are also lower – by EUR 27,993 thousand due to the transfer to off-balance-sheet items. The Group's total assets for 2008 are therefore EUR 27,993 thousand lower.

1.26 Amendments of the financial statements after issue

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 Risk management

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

After having sustained a strong impact of the negative consequences of the global financial crisis in 2008 – mostly reflected in the impairment of financial assets and lower trading income – in 2009 the Group still had to take up serious challenges mainly due to the negative economic growth and deterioration of business conditions in the real sector of the economy, which resulted from weaker demand and reduced liquidity. Thanks to the increase of the Bank's capital in 2008, which was supported by all the major shareholders, the Group kept its capital adequacy ratio significantly above the regulatory minimum. The stronger capital base in 2009 also helped the Group sustain a high risk-bearing capacity and to absorb unforeseen losses brought about by the uncertain economic environment.

Given that the activity on the wholesale market of unsecured debt financial instruments in 2009 continued to be weaker than before the financial crisis and financing terms were less favourable, the Group decided to raise funds by issuing a government-guaranteed bond which was successfully placed on the international capital market in September 2009. During 2009 the Group paid due attention to preserving its strong liquidity position by also taking other measures. As a consequence of its conservative liquidity policy, the Group's liquidity ratio was not only in accordance with the legal requirement but reached record levels. The Group maintained a liquidity reserve sufficient to make due payments of all contractual obligations as well as any unexpected increase in withdrawals of customer deposits.

The Group is aware that its borrowers may be adversely affected by the harsh financial and economic environment which in turn could hinder their ability to repay the amounts owed. The continuing unfavourable economic conditions may result in management's cash flow forecasts and assessment of the impairment of financial and non-financial assets being less accurate. For these reasons, in 2009 the Group continued its proactive approach to credit risk management. The Group reacted to the expected deteriorating creditworthiness of customers by upgrading its credit rating process and developing a default probability model. The Group also upgraded its credit risk management process for the loan portfolio collateralised by securities and further centralised its credit function. The Bad Debt Management Committee of the Group continued with its activities at monthly meetings. In pursuing its credit policy the Group was limiting further exposures to South-east European markets, it reduced the maturity of extended credit facilities, paid more attention to obtaining adequate collateral and required that (more stringent) financial covenants and other provisions be included in loan agreements. In 2009 Abanka was one of the most active banks to grant corporate loans within the framework of the government's Enterprise Finance Guarantee Scheme, which provided adequate protection against credit risk for medium-term facilities.

The stabilisation of financial and commodity markets (including outlook indicators) helped negative stock market trends turn around, mostly in the second half of 2009. Despite this development, the Group continued to strictly observe its internal limits, set new limits and actively monitor the issuers of securities held in the portfolio, and thereby limited its exposure to market risk. The Group upgraded its internal valuation models for measuring unmarketable equity and debt securities.

The year 2009 witnessed great changes in interest rates, which were consequently reflected in interest rate risk management. Due to a very expansionary monetary policy market interest rates dropped significantly, which, in turn, had an impact on the Group's interest income and expenses. The Group reacted with a policy of closing interest rate gaps by time buckets and by actively adapting its interest rates to market conditions.

Regarding operational risk management a special committee at the level of the Group held meetings on regular basis. It is composed of members of the Management Board and senior management and is responsible for monitoring the effectiveness of operational risk management, analyses of loss events that occured and setting guidelines to reduce operational risk to an acceptable level. Special attention was paid to measures to be taken in the event of fraud – a common phenomenon amidst a tough economic downturn. A database of loss events which occurred in 2009 was created and operational risk profiles were made for individual organisational units of the Group. Additional disaster recovery plans were prepared for unusual critical events and business continuity plans were upgraded and tested.

In the framework of the Internal Capital Adequacy Assessment Process (ICAAP), in 2009 the Group continued to regularly monitor its risk profile, perform stress testing and make use of its early warning system for detecting increased risks and reporting them to the Management and Supervisory Boards. An internal methodology for measuring risk bearing capacity was developed.

The organisation provides for the independence of the risk management function, to which the necessary human and technological resources are made available. By nurturing a culture which takes due account of risk management the staff are becoming increasingly aware of their role in providing stability and a good performance in the long run. The basic tenets of the Group's risk management are formally set out in the risk management strategy and policies, all of which were upgraded and redrafted in accordance with internal rules. These documents, which were approved by the Management and Supervisory Boards, define in detail the procedures of prudent risk taking and management for individual risk types together with compliance and transparent public disclosure of information about the Group. In the process of launching new products the Group carried out risk analyses to identify all material risks and cost-efficient risk management measures were set out on that basis.

Although the economy is showing signs of stabilisation, the macroeconomic outlook continues to be uncertain. Therefore, in 2010 the Group remains committed to proactive risk management, aimed at maintaining a stable financial position and a good performance in the future.

2.1 Financial risk management

2.1.1 Credit risk

Credit risk is the risk that a debtor or counterparty will cause a financial loss for the Group by failing to discharge an obligation. It includes: country risk, concentration risk, dilution risk, residual risk and securitisation risk. The Group is exposed to all types of credit risk except, securitisation risk.

Country risk is the risk of a loss arising from international lending and is linked to the economic, social and political environment of the debtor country. Transfer risk is a special form of country risk which arises when a debtor's obligation is not denominated in a local currency.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.1.1 Credit risk management process

The main objective of **credit risk management** is to achieve and maintain a high quality and diversification of the credit portfolio. This provides for stable and sound operations and target capital adequacy as well as the maximisation of risk-adjusted returns. The Group assumes and manages credit risk in accordance with its strategy and policy of assuming and managing credit risk. In relation to that, the Group mainly pursues the following objectives:
– investing in lower risk customers, industries and countries;
– obtaining appropriate credit protection (collateral and guarantees);
– diversifying its credit portfolio and
– intensive solving of problem loans.

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

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

The Group has an established **structure and organisation of appropriate functions for credit risk management**. The Management Board and senior management are responsible for efficient credit risk management. The Management Board transferred some of its competencies in this area to senior management and collective decision-making bodies (Credit Committee, Credit Commission, Assets and Liabilities Committee, Forum ICAAP). In the case of problem loans the Bad Debt Management Committee is involved. Supervisory groups were established for co-ordination and consultation purposes at the Group level. Their task is to monitor, co-ordinate and supervise the operations and risk exposure of the subsidiary and associate companies in the Group.

The Group has clearly delimitated competencies and tasks among commercial units and the Risk Management Department, which is organisationally independent of units that assume credit risk and is directly accountable to the Management Board, on one hand and, on the other, among commercial units and the backoffice, including management.

The extent and features of internal reporting on credit risk allow an appropriate flow of information up- and down-stream as well as among organisational units. This enables timely decision-taking at all managerial levels of the Group with regard to measures for mitigating credit risk and for monitoring the results of these measures. There is an established practice to produce periodical, and when appropriate, extraordinary reports on assumed credit risk.

The impact of the global financial crisis on the real economy in 2009 was greater than the year before. Due to the deepening of the recession, which weakened customers' creditworthiness and increased payment delays, even more attention was paid to credit risk management. The Group continued with measures to alleviate the consequences of the strained economic situation, based on the strict credit standards. Among other measures, the system of credit limits for customers, industries and countries was adjusted and additional financial covenants and other contractual provisions were included in the credit agreements. Even greater attention was paid to a prudent credit rating process and customer monitoring as well as effective bad debt collection. The credit rating system was also upgraded. The Group continued to apply its stringent credit protection policy, based on an appropriate quality and scope of credit protection.

2.1.1.1.1 Credit risk measurement

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

Credit rating "A" denotes the lowest credit risk and is assigned to borrowers with the highest creditworthiness who are assessed as being able to regularly settle their due liabilities. Credit rating "B" is assigned to borrowers whose financial position is somewhat worse and the Group does not expect any significant difficulties in servicing their obligations. Credit rating "C" is assigned to borrowers whose cash flows are estimated to be insufficient for the regular settlement of all due liabilities, who are either undercapitalised or who lack sufficient long-term sources of funds to finance long-term investments.

Credit rating "D" is assigned to borrowers who are insolvent or undergoing rehabilitation or compulsory settlement and for whom there is a substantial probability of default but the Group has reason to expect loans to be repayed, at least in part. Credit rating "E" denotes the highest credit risk and is assigned to borrowers who are in bankruptcy proceedings and borrowers for which it is assessed that they are not able to repay their due obligations from their operating cash flow. Country risk is also taken into account when assigning credit ratings to foreign debtors.

Corporate customers are classified into nine credit rating grades (credit rating cathegories from A to D are subdivided into two credit rating grades). The assignment of credit ratings to customers and exposures is based on quantitative and qualitative criteria such as an assessment of the borrowers' financial position, ability to provide a sufficient cash flow for future debt servicing, the borrower's loan servicing track record and the value and type of credit protection. In assessing the credit risk of banks and countries the credit ratings of external credit assessment institutions have mainly been taken into account. In 2009 a default probability model for assessing credit risk of corporate customers was developed.

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

b) Debt securities

Credit risk arising from investments in debt securities is managed by a limit system which is based on internal and external ratings (Fitch Ratings and Moody's Investors Service) of securities and their issuers.

c) Credit-related commitments and contingent liabilities

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

d) Derivatives

In the case of over-the-counter (OTC) derivative instruments, the Group is exposed to counterparty credit risk: this is the risk that a counterparty will default before the final settlement of the transaction's cash flows. Counterparty credit risk from positions in derivatives equals the credit exposure value of these transactions which the Group calculates using the Mark-to-Market Method. Credit risk exposure from derivatives is managed within credit limits for counterparties. The internal methodology for monitoring these credit limits considers potential exposure due to market fluctuations. The amount of credit risk exposure from derivatives is calculated on a daily basis in accordance with the internal methodology and represents only a minor part of the nominal value of the underlying contract.

2.1.1.1.2 Credit risk mitigation

a) Credit limits

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

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Credit limits for corporate customers are approved by the Credit Committee, whilst other credit limits are approved by the Assets and Liabilities Committee.

With regard to the maximum allowable exposure and sum of large exposures the Group complies with regulatory requirements. Every large exposure to an individual customer or a group of related parties and limits on exposure to individuals with a special relationship with the Bank is previously approved by the Supervisory Board.

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

b) Credit protection (collateral and guarantees)
In addition to the risk limit system, the Group also requires credit protection in order to reduce credit risk. A credit protection policy was developed for this purpose, defining the types of funded and unfunded credit protection that the Group accepts, as well as the procedures for assessing and monitoring the adequacy and value of credit protection. The most common credit protection is real-estate collateral, guarantees and securities collateral. When the Group uses credit protection, it takes residual risk into account.

c) Master netting agreements
The Group further restricts its exposure to credit losses by entering into master netting agreements which cover securities sale and repurchase agreements, transactions in derivatives and other capital market instruments. Master netting agreements are made with counterparties generating a high volume of business. These arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, in the case of a default all amounts with the counterparty are terminated and settled on a net basis.

d) Financial covenants and other contractual provisions in credit agreements
The Group additionally mitigates credit risk exposure by including financial covenants and other contractual provisions in credit agreements. Pari passu and negative pledge are some of the most often used provisions of this type. Financial covenants consist of a set of financial cathegories or financial ratios which a borrower undertakes to maintain at an agreed level throughout the term of a loan. The Group regularly monitors compliance with these provisions.

2.1.1.2 Impairment and provisioning policies

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

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

As at 31 December	2009		2008	
Internal credit rating	Loans (%)	Average % of impairment	Loans (%)	Average % of impairment
A	64.50	0.73	66.20	0.76
B	25.37	4.78	23.71	4.91
C	5.73	10.72	6.96	12.40
D	1.66	25.74	1.33	36.23
E	2.74	64.68	1.80	68.81
	100.00	**4.49**	**100.00**	**4.25**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group pays great attention to the quality of its loan portfolio. The majority of loan exposures are classified in the highest internal rating cathegories (A and B).

Financial assets are impaired and provisions for commitments and contingencies to extend credit are created in accordance with the International Financial Reporting Standards.

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

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

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

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

The Group regularly monitors credit risk losses.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.1.3 Maximum exposure to credit risk

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

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

		Maximum exposure	
	As at 31 December	**2009**	**2008**
	Credit risk exposures relating to on-balance sheet assets are as follows:	**4,366,780**	**3,730,862**
1.	Cash balances with central bank	228,467	205,719
2.	Financial assets held for trading	2,457	23,921
	- debt securities	2,457	23,921
3.	Financial assets designated at fair value through profit or loss	19,397	17,528
	- debt securities	19,397	17,528
4.	Available-for-sale financial assets	654,480	408,137
	- debt securities	654,480	408,137
5.	Loans and receivables	3,444,537	3,056,062
	- loans and receivables to banks	539,236	281,518
	- loans and receivables to non-bank customers	2,905,301	2,774,544
	loans and receivables to retail customers	492,342	451,373
	loans and receivables to corporate entities	2,412,959	2,323,171
6.	Held-to-maturity investments	13,449	13,378
	- debt securities	13,449	13,378
7.	Other assets	3,993	6,117
	Credit risk exposures relating to commitments and contingencies are as follows (note 2.1.3.5):	**697,405**	**693,181**
	- financial guarantees	88,937	75,457
	- other commitments and contingencies	608,468	617,724
	Total credit risk exposure	**5,064,185**	**4,424,043**

The exposure for balance sheet assets and commitments and contingencies shown above is based on carrying values as shown in the statement of financial position and in commitments and contingencies (note 2.1.3.5).

The largest part of total exposure is represented by loans to corporate entities (2009: 47.6%, 2008: 52.5%) and the exposure of commitments and contingencies (2009: 13.8%, 2008: 15.7%).

(All amounts in EUR thousand unless otherwise stated)

2.1.1.4 Loans

The following tables show credit risk exposure by their overdue status and impairment.

LOANS

As at 31 December 2009	Loans and receivables to non-bank customers	Loans and receivables to banks	Total loans
Neither past due nor impaired loans	2,273,029	536,669	**2,809,698**
Past due but not impaired loans	137,631	–	**137,631**
Individually impaired loans	646,284	13,035	**659,319**
- of which non-performing loans (D, E)	120,984	12,705	**133,689**
Gross loans	**3,056,944**	**549,704**	**3,606,648**
Less: total impairments	(151,643)	(10,468)	**(162,111)**
- individual impairments	(91,115)	(10,468)	**(101,583)**
- of which impairments for non-performing loans (D, E)	(54,006)	(10,465)	**(64,471)**
- collective impairments	(60,528)	–	**(60,528)**
Net loans	**2,905,301**	**539,236**	**3,444,537**
Fair value of collateral	**2,503,560**	**–**	**2,503,560**
- of which fair value of collateral for individually impaired non-performing loans (D, E)	84,162	–	**84,162**

As at 31 December 2008	Loans and receivables to non–bank customers	Loans and receivables to banks	Total loans
Neither past due nor impaired loans	2,258,616	277,319	**2,535,935**
Past due but not impaired loans	136,023	–	**136,023**
Individually impaired loans	507,567	12,705	**520,272**
- of which non-performing loans (D, E)	64,188	12,705	**76,893**
Gross loans	**2,902,206**	**290,024**	**3,192,230**
Less: total impairments	(127,662)	(8,506)	**(136,168)**
- individual impairments	(73,923)	(8,506)	**(82,429)**
- of which impairments for non-performing loans (D, E)	(33,797)	(8,506)	**(42,303)**
- collective impairments	(53,739)	–	**(53,739)**
Net loans	**2,774,544**	**281,518**	**3,056,062**
Fair value of collateral	**1,798,194**	**–**	**1,798,194**
- of which fair value of collateral for individually impaired non-performing loans (D, E)	56,607	–	**56,607**

The largest item represents neither past due nor impaired loans which the Group classifies as collectively estimated and impaired loans, individually estimated non-impaired loans to banks and risk-free assets. Individually impaired loans are loans to customers other than banks, which are estimated and impaired individually and individually impaired loans to banks. Collectively impaired past due loans and individually estimated but non-impaired past due loans are classified among past due but not impaired loans.

The disclosed fair value of collateral includes deposits, residential and commercial real estate and securities. Residential and commercial real estate is valued by independent external appraisers. The value of marketable securities is determined with regard to their market value. Deposits pledged as collateral are carried out at book value.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

a) Loans neither past due nor impaired

LOANS NEITHER PAST DUE NOR IMPAIRED

As at 31 December 2009

												Total loans and receivables
										Total loans and receivables to non-bank customers	Loans and receivables to banks	
	Loans and receivables to retail customers					Loans and receivables to corporate entities						
Internal rating	Over-drafts	Credit cards	Housing loans	Consumer loans		Large cor-porates	SMEs	Others				
A	24,368	7,247	225,612	211,072	468,299	964,709	305,687	25,623	1,296,019	**1,764,318**	**529,105**	**2,293,423**
B	–	–	–	67	67	195,120	263,774	15,783	474,677	**474,744**	**5,000**	**479,744**
C	–	–	–	32	32	1,158	22,483	6,563	30,204	**30,236**	**2,564**	**32,800**
D	–	–	–	–	–	–	3,447	156	3,603	**3,603**	**–**	**3,603**
E	–	–	–	6	6	–	20	102	122	**128**	**–**	**128**
Total	**24,368**	**7,247**	**225,612**	**211,177**	**468,404**	**1,160,987**	**595,411**	**48,227**	**1,804,625**	**2,273,029**	**536,669**	**2,809,698**
Fair value of collateral	–	–	329,685	40,784	370,469	767,543	672,135	51,974	1,491,652	**1,862,121**	**–**	**1,862,121**

As at 31 December 2008

												Total loans and receivables
										Total loans and receivables to non-bank customers	Loans and receivables to banks	
	Loans and receivables to retail customers					Loans and receivables to corporate entities						
Internal rating	Over-drafts	Credit cards	Housing loans	Consumer loans		Large cor-porates	SMEs	Others				
A	23,012	7,062	193,461	208,207	431,742	1,018,294	318,547	20,591	1,357,432	**1,789,174**	**264,137**	**2,053,311**
B	–	–	–	–	–	175,039	252,528	11,668	439,235	**439,235**	**7,636**	**446,871**
C	–	–	–	–	–	2,463	19,452	4,014	25,929	**25,929**	**5,546**	**31,475**
D	–	–	–	–	–	1,247	2,663	160	4,070	**4,070**	**–**	**4,070**
E	–	–	–	39	39	–	20	149	169	**208**	**–**	**208**
Total	**23,012**	**7,062**	**193,461**	**208,246**	**431,781**	**1,197,043**	**593,210**	**36,582**	**1,826,835**	**2,258,616**	**277,319**	**2,535,935**
Fair value of collateral	–	5	260,996	29,926	290,927	462,586	566,183	39,431	1,068,200	**1,359,127**	**–**	**1,359,127**

Note: The methodology of assigning credit ratings to corporate customers takes quantitative and qualitative criteria into account whereas for retail customers the payment regularity criterion is applied to a greater extent.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Loans past due but not impaired

LOANS PAST DUE BUT NOT IMPAIRED

As at 31 December 2009

	Total loans and receivables to non-bank customers									
	Loans and receivables to retail customers					Loans and receivables to corporate entities				
	Over-drafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Others		
Past due up to 30 days	5,293	46	158	6,575	**12,072**	1,632	27,400	3,346	**32,378**	**44,450**
Past due 31 to 60 days	870	12	600	4,300	**5,782**	9,400	10,402	1,165	**20,967**	**26,749**
Past due 61 to 90 days	–	2	230	2,320	**2,552**	3,026	2,502	1,814	**7,342**	**9,894**
Past due over 90 days	1,520	8	1,003	13,798	**16,329**	5,484	26,327	8,398	**40,209**	**56,538**
Total	**7,683**	**68**	**1,991**	**26,993**	**36,735**	**19,542**	**66,631**	**14,723**	**100,896**	**137,631**
Fair value of collateral	–	–	3,829	2,225	**6,054**	3,882	49,497	6,964	**60,343**	**66,397**

As at 31 December 2008

	Total loans and receivables to non-bank customers									
	Loans and receivables to retail customers					Loans and receivables to corporate entities				
	Over-drafts	Credit cards	Housing loans	Consumer loans		Large corporates	SMEs	Others		
Past due 31 to 60 days	858	3	266	3,876	**5,003**	883	7,059	1,552	**9,494**	**14,497**
Past due 61 to 90 days	–	3	148	2,598	**2,749**	1,940	5,516	1,025	**8,481**	**11,230**
Past due over 90 days	1,332	6	1,466	10,358	**13,162**	430	15,710	6,591	**22,731**	**35,893**
Total	**7,049**	**60**	**2,201**	**21,959**	**31,269**	**41,170**	**49,369**	**14,215**	**104,754**	**136,023**
Fair value of collateral	–	–	1,987	878	**2,865**	27,512	31,450	8,108	**67,070**	**69,935**

Past due loans are loans where the debtor has failed to make a payment when contractually due in a part or in total amount. Past due means one or more days overdue. Past due loans include total amount of exposure under a single loan agreement and not just the instalment not paid when contractually due. Exposures from other loan agreements to the same debtor not in arrears are not included among past due loans.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

c) Individually impaired loans

INDIVIDUALLY IMPAIRED LOANS

As at 31 December 2009	Loans and receivables to corporate entities: Large corporates	SMEs	Others		Loans and receivables to banks	Total loans
Individually impaired loans	356,745	285,112	4,427	**646,284**	**13,035**	**659,319**
Fair value of collateral	301,961	267,486	5,595	**575,042**	**–**	**575,042**

As at 31 December 2008	Loans and receivables to corporate entities: Large corporates	SMEs	Others		Loans and receivables to banks	Total loans
Individually impaired loans	199,781	300,253	7,533	**507,567**	**12,705**	**520,272**
Fair value of collateral	172,662	190,301	6,169	**369,132**	**–**	**369,132**

Note: Impaired loans to retail customers are not included because they are impaired collectively.

d) Renegotiated loans

The renegotiation of financial assets can also be explained as activities performed by the Group in relation to customers who have not met their financial obligations as stated in the contract. The Group estimates whether the renegotiation of a debtor's exposure is reasonable. If it is reasonable, the Group forms an adequate restructuring plan and follows its implementation as well as its effects.

The Group classifies outstanding claims (financial assets) to be renegotiated toward a debtor by doing one or more activities which the Group would not undertake if the debtor's economic and financial situation were normal. Possible activities involved in restructuring claims are as follows:

- extending the term for the repayment of principal;
- a moratorium on payment of the principal;
- decreasing the amount of claims and
- changing interest rates.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

RENEGOTIATED LOANS

As at 31 December 2009	Loans to retail customers			Loans to corporates			Total renegotiated loans
	Loans without mortgage collateral	Collat-eralized mortgage loans		Loans without mortgage collateral	Collat-eralized mortgage loans		
Neither past due nor impaired loans	295	34	**329**	6,962	4,819	**11,781**	**12,110**
Past due but not impaired loans	1,099	–	**1,099**	11,259	50	**11,309**	**12,408**
Individually impaired loans	–	–	**–**	29,551	67,459	**97,010**	**97,010**
- of which non-performing loans (D, E)	–	–	**–**	1,495	21,234	**22,729**	**22,729**
Gross loans	**1,394**	**34**	**1,428**	**47,772**	**72,328**	**120,100**	**121,528**
Less: total impairments	(200)	–	**(200)**	(3,551)	(16,205)	**(19,756)**	**(19,956)**
- individual impairments	–	–	**–**	(3,414)	(16,064)	**(19,478)**	**(19,478)**
- of which NPL impairments (D, E)	–	–	**–**	(577)	(10,506)	**(11,083)**	**(11,083)**
- collective impairments	(200)	–	**(200)**	(137)	(141)	**(278)**	**(478)**
Net loans	**1,194**	**34**	**1,228**	**44,221**	**56,123**	**100,344**	**101,572**

Share of renegotiated **gross loans** and receivables in total **gross loans** and receivables to non-bank cutomers	**3.98%**
Share of renegotiated **net loans** and receivables in total **net loans** and receivables to non-bank cutomers	**3.50%**

As at 31 December 2008	Loans to retail customers			Loans to corporates			Total renegotiated loans
	Loans without mortgage collateral	Collat-eralized mortgage loans		Loans without mortgage collateral	Collat-eralized mortgage loans		
Neither past due nor impaired loans	36	154	**190**	7,296	1,394	**8,690**	**8,880**
Past due but not impaired loans	141	–	**141**	10,430	–	**10,430**	**10,571**
Individually impaired loans	–	–	**–**	15,729	41,721	**57,450**	**57,450**
- of which non-performing loans (D, E)	–	–	**–**	7,451	12,884	**20,335**	**20,335**
Gross loans	**177**	**154**	**331**	**33,455**	**43,115**	**76,570**	**76,901**
Less: total impairments	(2)	(2)	**(4)**	(4,802)	(11,753)	**(16,555)**	**(16,559)**
- individual impairments	–	–	**–**	(4,742)	(11,691)	**(16,433)**	**(16,433)**
- of which NPL impairments (D, E)	–	–	**–**	(4,531)	(6,523)	**(11,054)**	**(11,054)**
- collective impairments	(2)	(2)	**(4)**	(60)	(62)	**(122)**	**(126)**
Net loans	**175**	**152**	**327**	**28,653**	**31,362**	**60,015**	**60,342**

Share of renegotiated **gross loans** and receivables in total **gross loans** and receivables to non-bank cutomers	**2.65%**
Share of renegotiated **net loans** and receivables in total **net loans** and receivables to non-bank cutomers	**2.17%**

A dominant share of the renegotiated loans in 2009 is (like in 2008) represented by loans to corporates in the process of a financial-business restructuring of the debtor. Corporates whose loans have been the subject of restructuring come from different industries. The increase of renegotiated loans by 68.3% in 2009 is mainly the result of the global financial crisis.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.1.5 Debt securities

The following table presents the credit quality of debt securities classified according to the purpose of acquisition and credit rating by credit rating agencies: Fitch Ratings and Moody's Investors Service.

DEBT SECURITIES BY CREDIT RATINGS

As at 31 December 2009	Debt securities held for trading (note 19)	Debt securities designated at fair value through profit or loss (note 20)	Available-for-sale debt securities (note 21)	Held-to-maturity debt securities (note 24)	Debt securities reclassified to loan cathegory (note 22)	Total
Neither past due debt securities at fair value / at amortised cost						
AAA	–	–	137,840	–	–	**137,840**
AA- to AA+	954	18,541	411,592	13,449	–	**444,536**
A- to A+	–	856	35,965	–	7,750	**44,571**
Lower than A-	–	–	31,602	–	12,067	**43,669**
Unrated	1,503	–	37,481	–	–	**38,984**
Total neither past due debt securities	**2,457**	**19,397**	**654,480**	**13,449**	**19,817**	**709,600**
Past due debt securities at fair value / at amortised cost, individually impaired						
Past due over 90 days	–	–	–	–	720	**720**
Total past due debt securities		**–**	**–**	**–**	**720**	**720**
Total debt securities	**2,457**	**19,397**	**654,480**	**13,449**	**20,537**	**710,320**
As at 31 December 2008						
Neither past due debt securities at fair value / at amortised cost						
AAA	11	1,857	54,894	–	–	**56,762**
AA- to AA+	3,993	–	174,258	–	–	**178,251**
A- to A+	10,495	3,774	49,605	–	10,433	**74,307**
Lower than A-	6,594	1,169	8,349	–	15,419	**31,531**
Unrated	2,828	10,728	121,031	13,378	2,700	**150,665**
Total neither past due debt securities	**23,921**	**17,528**	**408,137**	**13,378**	**28,552**	**491,516**

In 2009 impairments for debt securities totalling EUR 1,962 thousand (2008: EUR 8,441 thousand) have been created (note 15). Impairments have been created for non-performing exposures of senior debt securities of bank issuers, of which EUR 720 thousand were past due (2008: there were no debt securities which would be past due). Other debt securities are performing and there is no objective evidence of impairment for these securities.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.1.6 Other financial assets

OTHER FINANCIAL ASSETS

As at 31 December	2009	2008
Neither past due nor impaired other assets	3,446	4,994
Past due but not impaired other assets	1,652	2,097
Individually impaired other assets	234	2,645
- of which non-performing other assets (D, E)	77	2,223
Gross other assets	**5,332**	**9,736**
Less: total impairments	(1,339)	(3,619)
- individual impairments	(146)	(2,144)
- of which non-performing other assets impairments (D, E)	(41)	(2,143)
- collective impairments	(1,193)	(1,475)
Net other assets	**3,993**	**6,117**

OTHER FINANCIAL ASSETS NEITHER PAST DUE NOR IMPAIRED

As at 31 December		2009	2008
Internal rating:	A	3,284	4,926
	B	144	51
	C	13	15
	D	5	2
Total		**3,446**	**4,994**

OTHER FINANCIAL ASSETS PAST DUE BUT NOT IMPAIRED

As at 31 December	2009	2008
Past due up to 30 days	31	125
Past due 31 to 60 days	17	94
Past due 61 to 90 days	185	54
Past due over 90 days	1,419	1,824
Total	**1,652**	**2,097**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.1.7 Repossessed collateral

The Group acquired the following assets through realisation of repossessed collateral:

REAL ESTATE OWNED BY THE GROUP

(note 25)

	Carrying amount	
As at 31 December	**2009**	**2008**
Business premises	1,314	565
Residential real estate	136	145
Total	**1,450**	**710**

The value of the real estate (sales value or certified assessor's valuation in the case of execution) topped up by any costs arising from property in hand (valuation costs, real estate turnover tax charge if applicable etc.) acquired by the Group for the purpose of debt settlement is deducted from outstanding claims on the borrower. The repossessed real-estate is sold as soon as practicable, until which time it is disclosed in the statement of financial position as non-current assets held for sale.

The value of repossessed real estate acquired as the settlement of debt in 2009 rose because of business premises being acquired in bankruptcy proceedings for the purpose of settling the outstanding liabilities of a borrower in bankruptcy to the Group up to the amount of the proceeds, reduced by the acquisition expenses incurred in the bankruptcy.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.1.8 Risk exposure by industry sector

The table below shows the credit risk exposure of financial assets by industry sector.

CREDIT RISK EXPOSURE OF FINANCIAL ASSETS ACCORDING TO INDUSTRY SECTORS

	Assets	Manufacturing	Construction	Trade	Financial and insurance activities	Professional, scientific and technical activities	Public administration and defence activities	Other	Retail customers	Foreign entities*	Total
1.	Cash balances with central bank	–	–	–	228,467	–	–	–	–	–	**228,467**
2.	Financial assets held for trading	–	–	–	1,503	–	954	–	–	–	**2,457**
	- debt securities	–	–	–	1,503	–	954	–	–	–	**2,457**
3.	Financial assets designated at fair value through profit or loss	–	–	–	–	–	10,825	–	–	8,572	**19,397**
	- debt securities	–	–	–	–	–	10,825	–	–	8,572	**19,397**
4.	Available-for-sale financial assets	–	–	–	122,990	786	251,232	2,621	–	276,851	**654,480**
	- debt securities	–	–	–	122,990	786	251,232	2,621	–	276,851	**654,480**
5.	Loans and receivables	608,230	224,424	485,540	435,545	134,982	8,190	406,110	489,663	651,853	**3,444,537**
	- loans and receivables to banks	–	–	–	96,141	–	–	–	–	443,095	**539,236**
	- loans and receivables to non-bank customers	608,230	224,424	485,540	339,404	134,982	8,190	406,110	489,663	208,758	**2,905,301**
	-loans and receivables to retail customers	–	–	–	–	–	–	–	489,663	2,679	**492,342**
	-loans and receivables to corporate entities	608,230	224,424	485,540	339,404	134,982	8,190	406,110	–	206,079	**2,412,959**
6.	Held-to-maturity investments	–	–	–	–	–	13,449	–	–	–	**13,449**
	- debt securities	–	–	–	–	–	13,449	–	–	–	**13,449**
7.	Other assets	102	175	143	2,410	47	244	197	97	578	**3,993**
	Total financial assets - as at 31 December 2009	**608,332**	**224,599**	**485,683**	**790,915**	**135,815**	**284,894**	**408,928**	**489,760**	**937,854**	**4,366,780**
	Total financial assets - as at 31 December 2008	**597,932**	**204,326**	**451,545**	**701,595**	**105,194**	**112,424**	**350,445**	**449,159**	**758,242**	**3,730,862**

Note: * industry sector data are not available

The highest exposure is to borrowers registered to perform services within the financial and insurance activities. The second highest exposure is to borrowers in the manufacturing sector.

The Group's credit risk exposure of financial assets by geographical area is shown in the following Chapter (note 2.1.1.9).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.1.9 Geographical risk concentration

The following table shows the risk of the geographical concentration of financial and non-financial assets and liabilities by geographical areas.

GEOGRAPHICAL RISK CONCENTRATION

As at 31 December 2009

	Assets	Slovenia	Other EU member states	SE and Eastern Europe (without EU member states)	Other countries	Total
1.	Cash and cash balances with central bank	252,599	–	–	–	**252,599**
2.	Financial assets held for trading	18,316	3,143	738	357	**22,554**
3.	Financial assets designated at fair value through profit or loss	16,250	856	3,128	7,716	**27,950**
4.	Available-for-sale financial assets	443,460	254,578	1,724	23,142	**722,904**
5.	Loans and receivables	2,792,684	432,028	165,415	54,410	**3,444,537**
	- loans and receivables to banks	96,141	401,170	11,017	30,908	**539,236**
	- loans and receivables to non-bank customers	2,696,543	30,858	154,398	23,502	**2,905,301**
6.	Held-to-maturity investments	13,449	–	–	–	**13,449**
7.	Other assets	3,416	542	35	–	**3,993**
	Total financial assets	**3,540,174**	**691,147**	**171,040**	**85,625**	**4,487,986**
	Non-financial assets	**68,169**	**266**	**1,015**	**40**	**69,490**
	Total assets	**3,608,343**	**691,413**	**172,055**	**85,665**	**4,557,476**
	Liabilities					
1.	Deposits from central bank	100,537	–	–	–	**100,537**
2.	Financial liabilities held for trading	1,674	1,811	454	10	**3,949**
3.	Financial liabilities designated at fair value through profit or loss	7,655	4	55	2	**7,716**
4.	Financial liabilities measured at amortised cost	2,763,171	1,226,096	49,348	13,779	**4,052,394**
	- deposits from banks	17,460	1,207	29,084	–	**47,751**
	- deposits from non-bank customers	2,123,940	15,824	20,247	7,040	**2,167,051**
	- loans and advances from banks	420,305	591,144	–	6,739	**1,018,188**
	- loans and advances from non-bank customers	216	–	17	–	**233**
	- debt instruments	174,250	499,113	–	–	**673,363**
	- subordinated liabilities	27,000	118,808	–	–	**145,808**
5.	Other liabilities	13,654	9	201	2	**13,866**
	Total financial liabilities	**2,886,691**	**1,227,920**	**50,058**	**13,793**	**4,178,462**
	Non-financial liabilities	**18,700**	**5**	**32**	**–**	**18,737**
	Total liabilities	**2,905,391**	**1,227,925**	**50,090**	**13,793**	**4,197,199**
	Net on-balance sheet position	**702,952**	**(536,512)**	**121,965**	**71,872**	**360,277**
	Loan commitments	**261,370**	**845**	**2,359**	**37**	**264,611**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

GEOGRAPHICAL RISK CONCENTRATION

As at 31 December 2008

	Assets	Slovenia	Other EU member states	SE and Eastern Europe (without EU member states)	Other countries	Total
1.	Cash and cash balances with central bank	229,417	–	–	–	**229,417**
2.	Financial assets held for trading	19,128	24,043	17	5,122	**48,310**
3.	Financial assets designated at fair value through profit or loss	7,663	8,951	–	7,699	**24,313**
4.	Available-for-sale financial assets	181,941	200,850	1,807	54,120	**438,718**
5.	Loans and receivables	2,586,649	244,470	162,089	62,854	**3,056,062**
	- loans and receivables to banks	10,605	222,125	9,903	38,885	**281,518**
	- loans and receivables to non-bank customers	2,576,044	22,345	152,186	23,969	**2,774,544**
6.	Held-to-maturity investments	13,378	–	–	–	**13,378**
7.	Other assets	4,717	1,363	36	1	**6,117**
	Total financial assets	**3,042,893**	**479,677**	**163,949**	**129,796**	**3,816,315**
	Non-financial assets	**65,386**	**345**	**957**	**–**	**66,688**
	Total assets	**3,108,279**	**480,022**	**164,906**	**129,796**	**3,883,003**

	Liabilities	Slovenia	Other EU member states	SE and Eastern Europe (without EU member states)	Other countries	Total
1.	Deposits from central bank	130,384	–	–	–	**130,384**
2.	Financial liabilities held for trading	4,673	5,145	–	16	**9,834**
3.	Financial liabilities designated at fair value through profit or loss	7,639	4	54	2	**7,699**
4.	Financial liabilities measured at amortised cost	2,356,891	932,048	56,483	12,579	**3,358,001**
	- deposits from banks	43,955	476	21,596	–	**66,027**
	- deposits from non-bank customers	1,864,033	13,570	34,887	5,821	**1,918,311**
	- loans and advances from banks	285,802	798,566	–	6,758	**1,091,126**
	- loans and advances from non-bank customers	216	–	–	–	**216**
	- debt instruments	121,853	17	–	–	**121,870**
	- subordinated liabilities	41,032	119,419	–	–	**160,451**
5.	Financial liabilities associated to transferred assets	–	10,681	–	–	**10,681**
6.	Other liabilities	11,481	6	19	–	**11,506**
	Total financial liabilities	**2,511,068**	**947,884**	**56,556**	**12,597**	**3,528,105**
	Non-financial liabilities	**18,132**	**5**	**5**	**–**	**18,142**
	Total liabilities	**2,529,200**	**947,889**	**56,561**	**12,597**	**3,546,247**

	Net on-balance sheet position	**579,079**	**(467,867)**	**108,345**	**117,199**	**336,756**
	Loan commitments	**247,785**	**54**	**725**	**93**	**248,657**

The Group's geographical exposure is based on the domicile or head office of the counterparties. The major exposures outside of the Republic of Slovenia represent exposures to counterparties from EU member states.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.2 Market risk

Market risk is the uncertainty that an adverse movement of risk factors including interest rates, exchange rates and prices of financial instruments may unfavourably affect the value of a financial instrument and consequently lead to a loss. The Group monitors its market risk exposure in its trading and banking books.

Market risk comprises the following risk segments:
- position risk,
- foreign exchange risk,
- commodities risk and
- risk of exceeding large trading exposure limits.

Position risk denotes the risk of a loss due to price changes of a financial instrument and it is either specific or general. Specific position risk arises from an adverse movement in the price of a financial instrument due to factors related to its issuer, or with the issuer of the underlying financial instrument in the case of a derivative. General position risk arises from an adverse movement of the price of a debt financial instrument caused by interest rate fluctuations or, in the case of an equity financial instrument, by changes in capital market prices that are not related to individual features of the financial instrument in question.

Foreign exchange risk is the risk of incurring losses as a result of foreign exchange rate fluctuations.

Commodities risk is the risk of a loss caused by the fluctuation of the prices of the commodities which underlie a financial instrument.

Risk of exceeding large exposure limits denotes the risk arising from trading with individual customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.2.1 Market risk management process

The purpose of **the market risk management process** is to minimise losses from trading with financial instruments. Simultaneously, it takes into account opportunities and potential risks in capital markets and target capital adequacy. The Group aspires to achieve the most favourable ratio between generated return and assumed risk and it manages market risk pursuant to the Market Risk Policy of the Group.

The market risk management process comprises:
- procedures of market risk identification, measurement/assessment, monitoring, control and
- internal reporting on market risk.

Identification procedures are used to define existing and potential risks that arise from trading with financial instruments. When the Group plans to launch a new service or enter a new market, it first has to define risks and a risk management process. The Trading Strategy, which presents potential risks and the way they will be managed, is formulated on a yearly basis and approved by the Risk Management Department.

The consideration of capital market opportunities enables the efficient diversification of risk by applying a risk management system of limits for trading with financial instruments. The Risk Management Department sets these limits and, based on the current level of regulatory capital, monitors stop loss limits, credit, industry and VaR limits as well as limits per financial instrument and their maturity, trader, trading department, listing type, origin and credit rating of the issuer on a daily basis.

The Group has also established a system of limits for banking book debt and equity financial instruments through which it implements its policy of investing in debt instruments of high credit quality, while following the goal of industry diversification and maximum loss limitation.

The structure and organisation of appropriate functions for market risk management are the responsibility of the Management Board and senior management. The Management Board authorised the Assets and Liabilities Committee to approve market risk exposure limits.

The competencies and responsibilities are clearly delimited between trading units (treasury, investment banking), the back office, the middle office and the Risk Management Department, which is organisationally independent of units that assume market risk.

Extent and features of internal reporting – the middle office is responsible for the daily monitoring of exposures from financial instruments in trading and in the banking book and reporting to the Management Board, senior management, trading units and the Risk Management Department. Monthly reports on market risk exposure, the utilisation of limits, the size of Value-at-Risk and stress testing results for trading and the banking book are presented to the Assets and Liabilities Committee.

As in the preceding year, 2009 also witnessed great uncertainty in financial markets. Our market risk management adequately responded to the heightened volatility which was a consequence of the **global financial crisis**. The Group developed more comprehensive methods of exposure monitoring and risk measurement, upgraded its stress testing techniques and tightened up its trading limit systems.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.2.1.1 Market risk measurement techniques

Market risk measurement techniques comprise risk analyses and validation. This includes determining the possible frequency of a potential event and the size of its consequence. Market risk is regularly measured by:
- the Value-at-Risk method (i.e. VaR);
- stress testing and
- calculating market risk capital requirements using the standardised approach.

Market risk measurement is based on the Value-at-Risk method (VaR). The calculations are based on a historical simulation approach in accordance with quantitative standards laid down by the Bank of Slovenia (99% level of confidence, one year observation period and a 10-day holding period). The average trading book VaR in 2009 was EUR 4,870 thousand, whilst in 2008 it was EUR 6,011 thousand. This decrease in average VaR was due to a reduced trading portfolio volume. As at the end of 2009 relative VaR was also lower. For internal purposes VaR is also calculated at a 95% level of confidence.

Since the Group is aware of limitations of the VaR method in cases of extreme market conditions, it uses stress testing as a supplement to VaR. Stress testing assesses potential impacts on the value of financial instruments of extraordinary, yet plausible, events in financial markets.

Market risk is also measured by sensitivity analyses to determine the impact of changes in different risk factors (such as interest rates, value of stock indices, foreign currency rates and credit spreads) and their influence on the Group's profit before tax and equity level.

2.1.2.1.2 Market risk mitigation

For the purpose of **limiting and reducing market risk** a system of trading limits is established alongside a system of limits on banking book operations with debt and equity financial instruments. The market risk regime is implemented through systems of limits and clear guidelines on responsibilities and competencies in assuming risk.

With the purpose of reducing position, interest rate and foreign exchange risk, a back-to-back policy is mainly used in derivatives trading. Market risk is covered with adequate countertransactions, while counterparty risk and the risk of exceeding maximum large exposures are limited by a strictly controlled limit system.

2.1.2.1.3 Sensitivity analysis for financial instruments

Sensitivity analysis for financial instruments in the banking and trading book measures the effects of changes in market risk factors (interest rates, currency rates and stock market indices). It is prepared on the basis of the Group's statement of financial position on the last day of the year, while the impact of the sensitivity on financial instruments is demonstrated in comparison to the net profit or equity. When measuring foreign exchange risk and the risk of changes in equity prices with sensitivity analysis, the impact of changes in risk factors on the value of the position is shown. In the case of interest rate risk, the impact of changes in interest rates on interest income and expenditure and on the market value of debt financial instruments carried at fair value is shown.

The methodology of determining potential changes in the value of risk factors is based on expectations concerning their movement in the next calendar year. The determination of expected changes in exchange rates and interest rates is based on the implied volatility of currency and interest rate options traded in the OTC market. Options with maturities of one year that refer to the relevant currency pair or interbank interest rate for each currency are applied in the analysis. When defining the expected changes in the value of equity indices, estimates by the Group's investment banking analytical team are used.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following is a sensitivity analysis by risk segments for financial instruments in the banking and trading books.

SENSITIVITY ANALYSIS BY RISK SEGMENT FOR FINANCIAL INSTRUMENTS IN THE BANKING AND TRADING BOOKS

	As at 31 December 2009			Foreign exchange risk Change in currency rate (in %)*			
				Appreciation of foreign currency against EUR		Depreciation of foreign currency against EUR	
	Financial assets	**Carrying amount**	**Book**	**Effect on profit**	**Effect on equity**	**Effect on profit**	**Effect on equity**
1.	Cash and cash balances with central bank	252,599	B	104	–	(104)	–
2.	Financial assets held for trading	22,554	T	67	–	(67)	–
3.	Financial assets designated at fair value through profit or loss	27,950	B	–	–	–	–
4.	Available-for-sale financial assets	722,904	B,T	–	157	–	(157)
	- in banking book	697,264	B	–	149	–	(149)
	- in trading book	25,640	T	–	8	–	(8)
5.	Loans and receivables	3,444,537	B	12,645	–	(12,645)	–
	- loans and receivables to banks	539,236		8,659	–	(8,659)	–
	- loans and receivables to non-bank customers	2,905,301		3,986	–	(3,986)	–
6.	Other assets	3,993	B	1	–	(1)	–
	Effect on financial assets before tax			**12,817**	**157**	**(12,817)**	**(157)**
	- effect arising from banking book			12,750	149	(12,750)	(149)
	- effect arising from trading book			67	8	(67)	(8)
	Tax (22%)			**(2,781)**	**–**	**2,781**	**–**
	- from banking book			(2,767)	–	2,767	–
	- from trading book			(15)	–	15	–
	Effect on financial assets after tax			**10,036**	**157**	**(10,036)**	**(157)**
	- effect arising from banking book			9,983	149	(9,983)	(149)
	- effect arising from trading book			53	8	(53)	(8)
	Financial liabilities						
1.	Deposits from central bank	100,537	B	(1)	–	1	–
2.	Financial liabilities held for trading	3,949	T	(8)	–	8	–
3.	Financial liabilities designated at fair value through profit or loss	7,716	B	–	–	–	–
4.	Financial liabilities measured at amortised cost	4,052,394	B	(13,824)	–	13,824	–
	- deposits from banks	47,751		(189)	–	189	–
	- deposits from non-bank customers	2,167,051		(9,771)	–	9,771	–
	- loans and advances from banks	1,018,188		(3,861)	–	3,861	–
	- loans and advances from non-bank customers	233		(3)	–	3	–
	- debt instruments	673,363		–	–	–	–
	- subordinated liabilities	145,808		–	–	–	–
5.	Other liabilities	13,866	B	(46)	–	46	–
	Effect on financial liabilities before tax			**(13,879)**	**–**	**13,879**	**–**
	- effect arising from banking book			(13,871)	–	13,871	–
	- effect arising from trading book			(8)	–	8	–
	Tax (22%)			**3,012**	**–**	**(3,012)**	**–**
	- from banking book			3,010	–	(3,010)	–
	- from trading book			2	–	(2)	–
	Effect on financial liabilities after tax			**(10,867)**	**–**	**10,867**	**–**
	- effect arising from banking book			(10,861)	–	10,861	–
	- effect arising from trading book			(6)	–	6	–
	Total increase / decrease after tax			**(831)**	**157**	**831**	**(157)**
	- from banking book			(878)	149	878	(149)
	- from trading book			47	8	(47)	(8)

* Scenario of exchange rate change	
USD	15%
CHF	10%
GBP	15%
Other	15%

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Interest rate risk Change in interest rate (in basis points)**				Equity security price risk Change in market indices (in %)***			
Increase of interest rates		Decrease of interest rates		Increase of market indices		Decrease of market indices	
Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
1,117	–	(1,117)	–	–	–	–	–
65	–	(65)	–	1,508	–	(1,508)	–
645	–	(645)	–	–	–	–	–
1,069	5,005	(1,069)	(5,005)	–	9,908	–	(9,908)
1,068	4,876	(1,068)	(4,876)	–	7,188	–	(7,188)
1	129	(1)	(129)	–	2,720	–	(2,720)
12,840	–	(12,840)	–	–	–	–	–
2,190	–	(2,190)	–	–	–	–	–
10,650	–	(10,650)	–	–	–	–	–
–	–	–	–	–	–	–	–
15,736	**5,005**	**(15,736)**	**(5,005)**	**1,508**	**9,908**	**(1,508)**	**(9,908)**
15,670	4,876	(15,670)	(4,876)	–	7,188	–	(7,188)
66	129	(66)	(129)	1,508	2,720	(1,508)	(2,720)
(3,415)	**–**	**3,415**	**–**	**(327)**	**–**	**327**	**–**
(3,400)	–	3,400	–	–	–	–	–
(15)	–	15	–	(327)	–	327	–
12,321	**5,005**	**(12,321)**	**(5,005)**	**1,181**	**9,908**	**(1,181)**	**(9,908)**
12,270	4,876	(12,270)	(4,876)	–	7,188	–	(7,188)
51	129	(51)	(129)	1,181	2,720	(1,181)	(2,720)

(251)	–	251	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
(13,195)	–	13,195	–	–	–	–	–
(219)	–	219	–	–	–	–	–
(6,638)	–	6,638	–	–	–	–	–
(3,606)	–	3,606	–	–	–	–	–
(1)	–	1	–	–	–	–	–
(2,133)	–	2,133	–	–	–	–	–
(598)	–	598	–	–	–	–	–
–	–	–	–	–	–	–	–
(13,446)	**–**	**13,446**	**–**	**–**	**–**	**–**	**–**
(13,446)	–	13,446	–	–	–	–	–
–	–	–	–	–	–	–	–
2,918	**–**	**(2,918)**	**–**	**–**	**–**	**–**	**–**
2,918	–	(2,918)	–	–	–	–	–
–	–	–	–	–	–	–	–
(10,528)	**–**	**10,528**	**–**	**–**	**–**	**–**	**–**
(10,528)	–	10,528	–	–	–	–	–
–	–	–	–	–	–	–	–

1,793	**5,005**	**(1,793)**	**(5,005)**	**1,181**	**9,908**	**(1,181)**	**(9,908)**
1,742	4,876	(1,742)	(4,876)	–	7,188	–	(7,188)
51	129	(51)	(129)	1,181	2,720	(1,181)	(2,720)

**** Scenario of interest rate change**

EUR	50 bp
USD	25 bp
CHF	25 bp
Other	50 bp

****** Scenario of market indices change**

SBI20	15%
Other	10%

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

SENSITIVITY ANALYSIS BY RISK SEGMENT FOR FINANCIAL INSTRUMENTS IN THE BANKING AND TRADING BOOKS

	As at 31 December 2008			Foreign exchange risk Change in currency rate (in %)*			
				Appreciation of foreign currency against EUR		Depreciation of foreign currency against EUR	
	Financial assets	**Carrying amount**	**Book**	**Effect on profit**	**Effect on equity**	**Effect on profit**	**Effect on equity**
1.	Cash and cash balances with central bank	229,417	B	111	–	(111)	–
2.	Financial assets held for trading	48,310	T	328	–	(328)	–
3.	Financial assets designated at fair value through profit or loss	24,313	B	212	–	(212)	–
4.	Available-for-sale financial assets	438,718	B, T	79	166	(79)	(166)
	- in banking book	411,731	B	79	152	(79)	(152)
	- in trading book	26,987	T	–	14	–	(14)
5.	Loans and receivables	3,056,062	B	9,697	–	(9,697)	–
	- loans and receivables to banks	281,518		4,744	–	(4,744)	–
	- loans and receivables to non-bank customers	2,774,544		4,953	–	(4,953)	–
6.	Other assets	6,117	B	35	–	(35)	–
	Effect on financial assets before tax			**10,462**	**166**	**(10,462)**	**(166)**
	- effect arising from banking book			10,134	152	(10,134)	(152)
	- effect arising from trading book			328	14	(328)	(14)
	Tax (22%)			**(2,270)**	**–**	**2,270**	**–**
	- from banking book			(2,199)	–	2,199	–
	- from trading book			(71)	–	71	–
	Effect on financial assets after tax			**8,192**	**166**	**(8,192)**	**(166)**
	- effect arising from banking book			7,935	152	(7,935)	(152)
	- effect arising from trading book			257	14	(257)	(14)
	Financial liabilities						
1.	Deposits from central bank	130,384	B	(17)	–	17	–
2.	Financial liabilities held for trading	9,834	T	(247)	–	247	–
3.	Financial liabilities designated at fair value through profit or loss	7,699	B	–	–	–	–
4.	Financial liabilities measured at amortised cost	3,358,001	B	(9,704)	–	9,704	–
	- deposits from banks	66,027		(145)	–	145	–
	- deposits from non-bank customers	1,918,311		(7,213)	–	7,213	–
	- loans and advances from banks	1,091,126		(2,338)	–	2,338	–
	- loans and advances from non-bank customers	216		–	–	–	–
	- debt instruments	121,870		(8)	–	8	–
	- subordinated liabilities	160,451		–	–	–	–
5.	Financial liabilities associated to transferred assets	10,681	B	–	–	–	–
6.	Other liabilities	11,506	B	(67)	–	67	–
	Effect on financial liabilities before tax			**(10,035)**	**–**	**10,035**	**–**
	- effect arising from banking book			(9,788)	–	9,788	–
	- effect arising from trading book			(247)	–	247	–
	Tax (22%)			**2,178**	**–**	**(2,178)**	**–**
	- from banking book			2,124	–	(2,124)	–
	- from trading book			54	–	(54)	–
	Effect on financial liabilities after tax			**(7,857)**	**–**	**7,857**	**–**
	- effect arising from banking book			(7,664)	–	7,664	–
	- effect arising from trading book			(193)	–	193	–
	Total increase / decrease after tax			**334**	**166**	**(334)**	**(166)**
	- from banking book			271	152	(271)	(152)
	- from trading book			63	14	(63)	(14)

*** Scenario of exchange rate change**

USD	15%
CHF	10%
GBP	10%
Other	20%

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Interest rate risk Change in interest rate (in basis points)**				Equity security price risk Change in market indices (in %)***			
	Increase of interest rates		Decrease of interest rates		Increase of market indices		Decrease of market indices	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
	1,135	–	(1,135)	–	–	–	–	–
	688	–	(688)	–	2,018	–	(2,018)	–
	254		(254)	–	1,332	–	(1,332)	–
	499	5,468	(499)	(5,468)	–	5,689	–	(5,689)
	496	5,232	(496)	(5,232)	–	2,350	–	(2,350)
	3	236	(3)	(236)	–	3,339	–	(3,339)
	12,141		(12,141)	–	–	–	–	–
	1,259	–	(1,259)	–	–	–	–	–
	10,882	–	(10,882)	–	–	–	–	–
	–	–	–	–	–	–	–	–
	14,717	**5,468**	**(14,717)**	**(5,468)**	**3,350**	**5,689**	**(3,350)**	**(5,689)**
	14,026	5,232	(14,026)	(5,232)	1,332	2,350	(1,332)	(2,350)
	691	236	(691)	(236)	2,018	3,339	(2,018)	(3,339)
	(3,194)	**–**	**3,194**	**–**	**(727)**	**–**	**727**	**–**
	(3,044)	–	3,044	–	(289)	–	289	–
	(150)	–	150	–	(438)	–	438	–
	11,523	**5,468**	**(11,523)**	**(5,468)**	**2,623**	**5,689**	**(2,623)**	**(5,689)**
	10,982	5,232	(10,982)	(5,232)	1,043	2,350	(1,043)	(2,350)
	541	236	(541)	(236)	1,580	3,339	(1,580)	(3,339)
	(458)	–	458	–	–	–	–	–
	(245)	–	245	–	–	–	–	–
	–	–	–	–	(1,332)	–	1,332	–
	(11,718)	–	11,718	–	–	–	–	–
	(131)	–	131	–	–	–	–	–
	(6,552)	–	6,552	–	–	–	–	–
	(4,463)	–	4,463	–	–	–	–	–
	–	–	–	–	–	–	–	–
	(29)	–	29	–	–	–	–	–
	(543)	–	543	–	–	–	–	–
	(54)	–	54	–	–	–	–	–
	–	–	–	–	–	–	–	–
	(12,475)	**–**	**12,475**	**–**	**(1,332)**	**–**	**1,332**	**–**
	(12,230)	–	12,230	–	(1,332)	–	1,332	–
	(245)	–	245	–	–	–	–	–
	2,707	**–**	**(2,707)**	**–**	**289**	**–**	**(289)**	**–**
	2,654	–	(2,654)	–	289	–	(289)	–
	53	–	(53)	–	–	–	–	–
	(9,768)	**–**	**9,768**	**–**	**(1,043)**	**–**	**1,043**	**–**
	(9,576)	–	9,576	–	(1,043)	–	1,043	–
	(192)	–	192	–	–	–	–	–
	1,755	**5,468**	**(1,755)**	**(5,468)**	**1,580**	**5,689**	**(1,580)**	**(5,689)**
	1,406	5,232	(1,406)	(5,232)	–	2,350	–	(2,350)
	349	236	(349)	(236)	1,580	3,339	(1,580)	(3,339)

**** Scenario of interest rate change**

EUR	50 bp
USD	100 bp
CHF	50 bp
Other	100 bp

***** Scenario of market indices change**

SBI20	20%
ATX	20%
CAC40	20%
Other	20%

(All amounts in EUR thousand unless otherwise stated)

2.1.2.1.4 VaR of the trading book

VaR is calculated at a 99% confidence level, with a 10-day holding period and 1-year observation period.

VaR OF THE TRADING BOOK

VaR	2009	2008
Average	4,870	6,011
High	6,412	7,326
Low	1,922	3,903

2.1.2.2 Foreign exchange risk

Foreign exchange risk arises from exposure to changes in foreign exchange rates which may adversely affect the Group's income.

2.1.2.2.1 Foreign exchange risk management process

The foreign exchange risk strategy focuses on risk exposure against set limits and the Group's risk capacity in view of its income and capital adequacy. Foreign exchange risk is identified, measured, controlled and monitored in line with the Group's established foreign exchange risk management policy. **The foreign exchange risk management process** is based on the procedures of identification, measurement, monitoring and management of foreign exchange risk and includes internal reporting.

The **structure and organisation of appropriate functions for foreign exchange risk management** are set out in the relevant policy. Its implementation is controlled by the Assets and Liabilities Committee, whereas the Treasury Department operationally manages foreign exchange risk and manages the level of exposure for overnight and intra-day positions.

Extent and features of internal reporting – it is an established practice to produce daily reports on foreign exchange exposures, including daily calculations of maximum potential losses arising from net foreign exchange positions. Regular monthly reports on foreign exchange exposures are also produced for the Assets and Liability Committee.

The foreign exchange measurement system covers the daily monitoring of net foreign exchange positions and the daily calculation of maximum loss limits associated with foreign exchange risk by using the Value-at-Risk method. Foreign exchange risk is measured and assessed in accordance with the internal methodology. This defines the stress testing to be used by the Group to evaluate potential losses resulting from foreign exchange rate fluctuations.

The Group **manages and minimises foreign exchange rate risk** since fluctuations in the prevailing foreign currency exchange rates have an impact on its financial position and cash flows. In 2008, the gaps between foreign currency inflows and outflows that mostly arose from payment transactions were managed by arbitrage. These exposures associated with financial instruments in foreign currencies were low and well within the set limits.

The global financial crisis did not impact currency risk management. In accordance with its strategy, the Group promptly closed its foreign-currency positions so that the average open position stayed below 0.5% of regulatory capital. As the share of foreign-currency assets and liabilities in the balance sheet total was low, the Group was not exposed to any considerable risk arising from changes in the volume of foreign-currency items. In 2009, the Group did not introduce any additional currency risk management measures, except for the stricter surveillance of limit compliance.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents the Group's foreign exchange risk exposure and includes the Group's financial instruments at their carrying amounts by currency.

CONCENTRATION OF CURRENCY RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2009

	Assets	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
1.	Cash and cash balances with central bank	251,851	202	163	90	293	**252,599**
2.	Financial assets held for trading	22,104	448	2	–	–	**22,554**
3.	Financial assets designated at fair value through profit or loss	27,950	–	–	–	–	**27,950**
4.	Available-for-sale financial assets	721,856	978	–	–	70	**722,904**
5.	Loans and receivables						
	- loans and receivables to banks	479,055	34,944	7,374	4,580	13,283	**539,236**
	- loans and receivables to non-bank customers	2,871,083	7,239	22,933	–	4,046	**2,905,301**
6.	Held-to-maturity investments	13,449	–	–	–	–	**13,449**
7.	Other assets	3,987	4	–	–	2	**3,993**
	Total assets	**4,391,335**	**43,815**	**30,472**	**4,670**	**17,694**	**4,487,986**

	Liabilities						
1.	Deposits from central bank	100,528	4	–	5	–	**100,537**
2.	Financial liabilities held for trading	3,893	54	2	–	–	**3,949**
3.	Financial liabilities designated at fair value through profit or loss	7,716	–	–	–	–	**7,716**
4.	Financial liabilities measured at amortised cost						
	- deposits from banks	46,376	556	351	101	367	**47,751**
	- deposits from non-bank customers	2,099,673	43,650	6,707	4,473	12,548	**2,167,051**
	- loans and advances from banks	984,656	10,158	23,374	–	–	**1,018,188**
	- loans and advances from non-bank customers	216	–	–	–	17	**233**
	- debt instruments	673,363	–	–	–	–	**673,363**
	- subordinated liabilities	145,808	–	–	–	–	**145,808**
5.	Financial liabilities associated to transferred assets	–	–	–	–	–	**–**
6.	Other liabilities	13,681	170	2	–	13	**13,866**
	Total liabilities	**4,075,910**	**54,592**	**30,436**	**4,579**	**12,945**	**4,178,462**

	Net on-balance sheet position	**315,425**	**(10,777)**	**36**	**91**	**4,749**	**309,524**
	Loan commitments	**263,513**	**334**	**–**	**–**	**764**	**264,611**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONCENTRATION OF CURRENCY RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2008

	Assets	**EUR**	**USD**	**CHF**	**GBP**	**Other**	**Total**
1.	Cash and cash balances with central bank	228,693	314	126	54	230	**229,417**
2.	Financial assets held for trading	45,356	608	2,329	–	17	**48,310**
3.	Financial assets designated at fair value through profit or loss	22,901	1,412	–	–	–	**24,313**
4.	Available-for-sale financial assets	437,181	1,249	–	–	288	**438,718**
5.	Loans and receivables						
	- loans and receivables to banks	250,869	20,973	808	2,565	6,303	**281,518**
	- loans and receivables to non-bank customers	2,731,443	12,590	30,363	–	148	**2,774,544**
6.	Held-to-maturity investments	13,378	–	–	–	–	**13,378**
7.	Other assets	6,112	2	–	1	1	**6,117**
	Total assets	**3,735,933**	**37,148**	**33,626**	**2,620**	**6,987**	**3,816,315**

	Liabilities						
1.	Deposits from central bank	130,269	112	–	3	–	**130,384**
2.	Financial liabilities held for trading	7,410	95	2,329	–	–	**9,834**
3.	Financial liabilities designated at fair value through profit or loss	7,699	–	–	–	–	**7,699**
4.	Financial liabilities measured at amortised cost						
	- deposits from banks	64,993	403	322	92	217	**66,027**
	- deposits from non-bank customers	1,868,728	34,052	7,597	2,411	5,523	**1,918,311**
	- loans and advances from banks	1,028,249	39,499	23,378	–	–	**1,091,126**
	- loans and advances from non-bank customers	216	–	–	–	–	**216**
	- debt instruments	121,820	50	–	–	–	**121,870**
	- subordinated liabilities	160,451	–	–	–	–	**160,451**
5.	Financial liabilities associated to transferred assets	10,681	–	–	–	–	**10,681**
6.	Other liabilities	11,484	18	–	–	4	**11,506**
	Total liabilities	**3,412,000**	**74,229**	**33,626**	**2,506**	**5,744**	**3,528,105**

	Net on-balance sheet position	**323,933**	**(37,081)**	**–**	**114**	**1,243**	**288,210**
	Loan commitments	**246,936**	**1,550**	**79**	**–**	**92**	**248,657**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.2.2.2 Foreign exchange sensitivity analysis

The following table shows a foreign exchange sensitivity analysis and impact of changes on profit and equity due to depreciation.

THE IMPACT OF FOREIGN CURRENCY (DEPRECIATION) EXCHANGE RATES ON PROFIT AND EQUITY

(note 2.1.2.1.3)

As at 31 December 2009

Currency	Depreciation of foreign currency against EUR	Effect on profit after tax	Effect on equity
USD	15%	1,444	(147)
GBP	10%	(3)	–
CHF	15%	(11)	–
Other	15%	(599)	(11)
Total		**831**	**(157)**

As at 31 December 2008

Currency	Depreciation of foreign currency against EUR	Effect on profit after tax	Effect on equity
USD	15%	(179)	(109)
GBP	10%	(9)	–
CHF	10%	–	–
Other	20%	(146)	(56)
Total		**(334)**	**(166)**

In the case of the appreciation of foreign currency against the euro (the same scenario as above), the impact on profit and equity would be just the opposite.

2.1.2.3 Interest rate risk

Interest rate risk is the risk arising from the exposure of the Group's financial position to unfavourable changes in interest rate levels in the market. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its fair value and cash flows. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. As a consequence of these changes, interest margins and the Group's income change as well.

2.1.2.3.1 Interest rate risk management process

For the Group's security and soundness it is vital to set up an efficient **interest rate risk management process** which keeps risks at an acceptable level. Interest rate risk is identified, measured, managed, controlled and monitored in line with the established interest rate risk management policy. The interest rate risk management process is based on the procedures involving the identification, measurement, assessment and management of interest rate risk. The process is supported by efficient internal reporting.

The **structure and organisation of appropriate functions for interest rate risk management** are set out in the relevant policy. Its implementation is controlled by the Assets and Liabilities Committee, whereas the Treasury Department is in charge of interest rate risk management within the set limits.

As required by its **internal reporting** the Group monitors interest rate risk arising from trading in the framework of global market risk control and uses the Value-at-Risk method, stress testing and sensitivity analysis to measure it. The **interest rate risk** arising from mismatches in the banking book **is measured** by means of gap analyses. Gap analysis comprises aggregating cash flows into different maturity buckets, cathegorised by the earlier of contractual repricing or maturity dates. To classify items of open-end maturity the Group uses an internal methodology approved by the Assets and Liabilities Committee. Open positions were monitored and reported on a monthly basis.

The Group takes on exposure to the effects of interest rate fluctuations. It is therefore important for the Group to measure its interest rate sensitivity and manage its assets and liabilities in accordance with that. The Group regularly calculates the effect of interest rate fluctuations on its profit before tax and equity.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the purpose of monitoring the effectiveness of **interest rate risk hedging and minimisation** the Group regularly assesses its risk capacity in line with the set methodology. The Group uses derivatives to hedge against interest rate risk.

The global financial crisis did have an impact on interest rate risk management in the Group. The plunge in interest rates was reflected in the Group's interest income and interest expenses. The Group reacted by reducing the interest rate gaps and by actively adapting its interest rates to market conditions. Due to the situation in the Slovene market interest rates decreased less than in other countries of the European Monetary Union. This was reflected in the favourable growth of non-bank deposits. At the same time the average period of changes in interest rates on assets decreased due to the increased volume of core liquidity and a restrictive lending policy.

The following table summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts cathegorised by the earlier of contractual repricing or maturity dates.

CONCENTRATION OF INTEREST RATE RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2009

	Assets	**Up to 1 month**	**Over 1 to 3 months**
1.	Cash and cash balances with central bank	228,467	–
2.	Financial assets held for trading	–	–
3.	Financial assets designated at fair value through profit or loss	11,681	–
4.	Available-for-sale financial assets	23,371	103,598
5.	Loans and receivables		
	- loans and receivables to banks	239,046	235,365
	- loans and receivables to non-bank customers	737,558	1,015,004
6.	Held-to-maturity investments	–	–
	Total assets	**1,240,123**	**1,353,967**
	Liabilities		
1.	Deposits from central bank	9	–
2.	Financial liabilities designated at fair value through profit or loss	–	–
3.	Financial liabilities measured at amortised cost		
	- deposits from banks	36,943	6,108
	- deposits from non-bank customers	530,554	541,398
	- loans and advances from banks	258,786	290,326
	- loans and advances from non-bank customers	216	–
	- debt instruments	2,962	499,099
	- subordinated liabilities	5	118,401
	Total liabilities	**829,475**	**1,455,332**
	Interest rate sensitivity gap	**410,648**	**(101,365)**
	Loan commitments	**67,176**	**92,445**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Over 3 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest bearing	Total
–	–	–	24,132	**252,599**
–	391	2,066	23	**2,480**
7,716	–	–	8,553	**27,950**
96,928	381,248	49,335	68,424	**722,904**
61,805	1,520	–	1,500	**539,236**
1,057,675	75,839	15,525	3,700	**2,905,301**
4,284	9,165	–	–	**13,449**
1,228,408	**468,163**	**66,926**	**106,332**	**4,463,919**
100,528	–	–	–	**100,537**
7,716	–	–	–	**7,716**
477	1,876	2,347	–	**47,751**
456,324	461,116	176,717	942	**2,167,051**
459,076	–	10,000	–	**1,018,188**
–	–	–	17	**233**
69,967	85,074	16,261	–	**673,363**
16,991	10,411	–	–	**145,808**
1,111,079	**558,477**	**205,325**	**959**	**4,160,647**
117,329	**(90,314)**	**(138,399)**		
96,332	**6,907**	**1,414**	**337**	**264,611**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONCENTRATION OF INTEREST RATE RISK: ON- AND OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

As at 31 December 2008

	Assets	**Up to 1 month**	**Over 1 to 3 months**
1.	Cash and cash balances with central bank	205,719	–
2.	Financial assets held for trading	18,098	1,142
3.	Financial assets designated at fair value through profit or loss	15,671	–
4.	Available-for-sale financial assets	58,428	29,424
5.	Loans and receivables		
	- loans and receivables to banks	149,531	125,120
	- loans and receivables to non-bank customers	406,293	771,005
6.	Held-to-maturity investments	–	–
	Total assets	**853,740**	**926,691**
	Liabilities		
1.	Deposits from central bank	384	–
2.	Financial liabilities designated at fair value through profit or loss	–	7,699
3.	Financial liabilities measured at amortised cost		
	- deposits from banks	53,713	7,537
	- deposits from non-bank customers	975,139	452,317
	- loans and advances from banks	205,296	184,782
	- loans and advances from non-bank customers	111	–
	- debt instruments	3,015	–
	- subordinated liabilities	1,304	117,675
4.	Financial liabilities associated to transferred assets	10,681	–
	Total liabilities	**1,249,643**	**770,010**
	Interest rate sensitivity gap	**(395,903)**	**156,681**
	Loan commitments	**2,508**	**111,904**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest bearing	Total
	–	–	–	23,698	**229,417**
	13	3,212	7,343	18,502	**48,310**
	–	–	1,857	6,785	**24,313**
	26,706	211,482	82,096	30,582	**438,718**
	2,630	600	1,500	2,137	**281,518**
	1,442,087	75,728	74,723	4,708	**2,774,544**
	–	13,378	–	–	**13,378**
	1,471,436	**304,400**	**167,519**	**86,412**	**3,810,198**
	130,000	–	–	–	**130,384**
	–	–	–	–	**7,699**
	3,410	1,367	–	–	**66,027**
	456,776	30,367	3,709	3	**1,918,311**
	686,153	–	–	14,895	**1,091,126**
	–	105	–	–	**216**
	6,200	96,984	15,671	–	**121,870**
	14,195	27,277	–	–	**160,451**
	–	–	–	–	**10,681**
	1,296,734	**156,100**	**19,380**	**14,898**	**3,506,765**
	174,702	**148,300**	**148,139**		
	93,138	**30,332**	**7,175**	**3,600**	**248,657**

(All amounts in EUR thousand unless otherwise stated)

2.1.2.3.2 Interest rates by currency

The Group monitors the interest rates by currency for financial instruments as shown in the following table.

INTEREST RATES BY CURRENCY FOR FINANCIAL INSTRUMENTS

		As at 31 December 2009			As at 31 December 2008		
		EUR	**USD**	**CHF**	**EUR**	**USD**	**CHF**
	Asets						
1.	Cash balances with banks and central bank	0.25%	–	–	2.10%	0.00%	0.00%
2.	Financial assets held for trading	4.96%	–	–	4.67%	3.39%	–
3.	Financial assets designated at fair value through profit or loss	2.49%	–	–	2.75%	3.05%	–
4.	Available-for-sale financial assets	3.22%	–	–	4.04%	–	–
5.	Loans and receivables	4.19%	0.93%	2.56%	5.88%	2.48%	4.39%
	- loans and receivables to banks	0.61%	0.33%	0.00%	2.53%	0.90%	–
	- loans and receivables to non-bank customers	4.75%	3.50%	2.56%	6.36%	4.69%	4.39%
6.	Held-to-maturity investments	3.33%	–	–	3.33%	–	–
	Liabilities						
1.	Deposits from central bank	1.00%	–	–	2.79%	–	–
2.	Financial liabilities held for trading	–	–	–	5.27%	–	–
3.	Financial liabilities measured at amortised cost	2.29%	0.43%	0.57%	4.23%	2.24%	2.64%
	- deposits from banks	0.70%	0.10%	0.09%	1.99%	0.00%	0.00%
	- deposits from non-bank customers	2.21%	0.25%	0.19%	3.81%	1.01%	0.69%
	- loans and advances from banks	1.76%	1.18%	0.68%	4.77%	3.32%	3.28%
	- loans and advances from non-bank customers	0.00%	–	–	–	–	–
	- debt instruments	3.15%	–	–	4.43%	–	–
	- subordinated liabilities	3.10%	–	–	6.36%	–	–
4.	Financial liabilities associated to transferred assets	–	–	–	2.60%	–	–

2.1.3 Liquidity risk

Liquidity risk is the risk that the Group might not be able to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be a failure to meet obligations to repay depositors and fulfil lending commitments.

2.1.3.1 Liquidity risk management process

The liquidity risk management process follows the established liquidity risk management policy. This process includes implementation procedures and rules on measures for identifying, assessing, monitoring, reporting on and minimising risk exposure.

The liquidity risk management process consists of:
- day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes the replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen cash flow trends;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements and
- managing the concentration and profile of debt maturities.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The **structure and organisation of appropriate functions for liquidity risk management** are defined in the relevant policy. Its implementation is jointly controlled by the Assets and Liabilities Committee and the Liquidity Committee, whereas liquidity management is within the competence of the Treasury Department.

Internal reporting takes the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. If material cash flow changes are expected, measurements are carried out over longer periods (several months ahead). The starting point for those projections is the contractual maturity of financial liabilities and the expected collection date of financial assets.

The system for measuring liquidity risk is based on compliance with the Bank of Slovenia's regulations regarding minimum requirements for ensuring an adequate liquidity position. This regulation prescribes the ratio of financial assets to financial liabilities according to residual maturity. For that purpose, the following prescribed ratios are calculated and monitored:
- the liquidity ratio with a residual maturity of assets and liabilities of up to 30 days. The value of this ratio may not be less than 1 and
- the liquidity ratio with a residual maturity of assets and liabilities of up to 180 days. The calculation of this ratio is for information purposes.

Despite the turmoil in financial markets, operations continued in 2009 in the context of favourable liquidity indicators, as seen in the table below:

PRESCRIBED LIQUIDITY RATIO (ASSETS/LIABILITIES)

	Average 2009	As at 31 December 2009	Average 2008	As at 31 December 2008
Maturity of up to 30 days	1.58	1.89	1.31	1.28
Maturity of up to 180 days	1.42	1.60	1.21	1.20

The monitoring of long-term liquidity, or solvency, has also been established. To that end, a quantitative system of measures has been developed based on the continuous calculation of ratios that indicate the structure of assets and liabilities.

STRUCTURAL LIQUIDITY RATIOS (IN %)

	Average 2009	As at 31 December 2009	Average 2008	As at 31 December 2008
Core liquidity/total assets	25.5	28.5	22.1	22.2
Core liquidity/short-term deposits of non-banking sector	80.6	115.1	66.1	63.1
Borrowing/loans granted	37.2	35.8	38.7	42.3

With the aim of **hedging and minimising liquidity risk** the Group defined procedures for minimising the occurrence of crises which would prevent the Group from duly and promptly discharging its obligations.

Prudent assets and liabilities management is the foundation of secure operations, which is why the Group pursues the following objectives:
- to be able to meet all short-term financial obligations arising from on- and off-balance-sheet cash flows;
- to minimise the costs of liquidity maintenance and
- to anticipate potential extraordinary circumstances or crisis situations and to implement contingency plans in the event of the latter.

For the purpose of **liquidity risk hedging** a method of identifying and measuring liquidity risk is applied and a contingency plan is in place in the event of a liquidity crisis. The Group is hedged against liquidity risk through careful management of the liquidity reserve portfolio and by ensuring an appropriate level of funding sources which are adequately diversified.

For the purpose of monitoring the effectiveness of hedging and minimising liquidity risk the Group regularly assesses its risk capacity in accordance with the established methodology.

The impact of the global financial crisis was felt in liquidity risk management. The Group regularly serviced its long-term liabilities to banks and thereby reduced the volume of borrowings from foreign banks. In order to provide the liquidity and stability of operations, the Group intensified its efforts to enhance the growth in retail and corporate deposits, long-term deposits of the Ministry of Finance and long-term borrowings from the Slovene Export and Development Bank. In 2009, the Group placed a three-year bond backed by the government on the international capital market and sold the entire issue, with the demand for it being two times higher than the supply. Due to financial market volatility, and especially because of the poor functioning of international money markets, the Group raised the level of its core liquidity.

2.1.3.1.1 Liquidity management scenarios in extreme situations

The Group prepares various liquidity stress tests to manage liquidity in extreme situations. Among the most important scenarios are a significant unexpected outflow of sight deposits and a significant unexpected outflow of short-term deposits. In both scenarios, the Group determines the impact on liquidity as well as the impact on operating results arising from the search for new, more expensive sources of financing.

The volume of long-term borrowings from foreign banks also has an important influence on the Group's liquidity position. Therefore, the Group prepares scenarios for acquiring replacement funding sources. The Group liquidity management plan was formulated, providing for a favourable liquidity situation also in the case of the repayment of all long-term liabilities to banks.

2.1.3.2 Funding approach

The Group keeps its funding sources at an adequate level and appropriately diversifies them by currency, lender/creditor, banking product and maturity. In 2009, the Group raised additional long-term funding, also by issuing bonds backed by an irrevocable and unconditional government guarantee.

2.1.3.3 Non-derivative cash flows

2.1.3.3.1 Non-derivative cash flows based on contractual maturity

The table below shows non-derivative cash flows by their remaining contractual maturity as at the date of the statement of financial position. On-balance sheet items disclosed in the maturity table represent undiscounted cash flows including future interest payments. Off-balance sheet items are included in the time bucket containing the earliest date on which loan commitments could be drawn down (according to IFRS7 amendments: B11C(b)) or on which financial guarantees could be called (according to IFRS7 amendments: B11C(c)).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Foreign currency cash flows are converted into euros using the spot exchange rate as at the date of the statement of financial position.

NON-DERIVATIVE CASH FLOWS BASED ON CONTRACTUAL MATURITY

As at 31 December 2009

	Liabilities	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**Over 1 to 5 years**	**Over 5 years**	**Total**
1.	Deposits from central bank	9	–	101,031	–	–	**101,040**
2.	Financial liabilities designated at fair value through profit or loss	–	–	–	7,716	–	**7,716**
3.	Financial liabilities measured at amortised cost						
	- deposits from banks	41,610	3,245	732	2,281	–	**47,868**
	- deposits from non-bank customers	970,592	427,975	450,782	375,127	4,610	**2,229,086**
	- loans and advances from banks	21,679	57,883	398,131	510,497	80,963	**1,069,153**
	- loans and advances from non-bank customers	436	–	–	17	–	**453**
	- debt instruments	4,430	3,053	81,474	609,399	20,930	**719,286**
	- subordinated liabilities	5	1,293	19,844	23,755	230,887	**275,784**
4.	Other liabilities	6,475	4,512	2,879	–	–	**13,866**
	Total potential future payments for financial obligations	**1,045,236**	**497,961**	**1,054,873**	**1,528,792**	**337,390**	**4,464,252**
	Loan commitments and financial guarantees	**353,548**	**–**	**–**	**–**	**–**	**353,548**

As at 31 December 2008

	Liabilities	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**Over 1 to 5 years**	**Over 5 years**	**Total**
1.	Deposits from central bank	115	50,158	80,111	–	–	**130,384**
2.	Financial liabilities designated at fair value through profit or loss	–	–	–	–	9,254	**9,254**
3.	Financial liabilities measured at amortised cost						
	- deposits from banks	56,171	6,062	717	3,895	–	**66,845**
	- deposits from non-bank customers	955,245	416,662	525,519	42,848	6,460	**1,946,734**
	- loans and advances from banks	40,079	68,209	269,157	783,166	30,217	**1,190,828**
	- loans and advances from non-bank customers	216	–	–	–	–	**216**
	- debt instruments	4,209	795	9,599	109,602	21,033	**145,238**
	- subordinated liabilities	10	2,527	19,071	47,832	134,514	**203,954**
4.	Financial liabilities associated to transferred assets	10,681	–	–	–	–	**10,681**
5.	Other liabilities	5,829	3,450	2,227	–	–	**11,506**
	Total potential future payments for financial obligations	**1,072,555**	**547,863**	**906,401**	**987,343**	**201,478**	**3,715,640**
	Loan commitments and financial guarantees	**324,114**	**–**	**–**	**–**	**–**	**324,114**

The Group has available an adequate volume of core liquidity to settle all of its on-balance sheet obligations and to cover its loan commitments. The largest part of the core liquidity is composed of prime securities, interbank deposits, cash and cash balances with the central bank.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.3.3.2 Non-derivative cash flows based on expected maturity

The Group does not use the undiscounted maturity analysis (in the previous table) to manage liquidity; instead the Group takes cash flows by expected maturity int account, which are summarised in the following table.

Expected cash flows from on-balance sheet items also include estimated loan prepayments based on historical statistical data. Demand deposits are classified in different time buckets according to an internal methodology. Demand deposits are divided into stable and unstable sources using a statistical method based on a multi-annual time series. Stable sources are subsequently dispersed into different long-term time buckets.

Expected cash flows from off-balance sheet items are classified in different time buckets according to an internal methodology based on a multi-annual time series and also taking into account the credit rating of customers to which the Group has a potential off-balance sheet exposure.

NON-DERIVATIVE CASH FLOWS BASED ON EXPECTED MATURITY

As at 31 December 2009

	Assets	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 12 months**	**Over 1 to 5 years**	**Over 5 years**	**Total**
1.	Cash and cash balances with central bank	252,599	–	–	–	–	**252,599**
2.	Financial assets held for trading	10,785	34	88	1,344	2,301	**14,552**
3.	Financial assets designated at fair value through profit or loss	–	10	6,978	9,785	18,745	**35,518**
4.	Available-for-sale financial assets	5,841	114,041	111,567	420,978	124,724	**777,151**
5.	Loans and receivables						
	- loans and receivables to banks	240,560	217,219	66,765	15,401	–	**539,945**
	- loans and receivables to non-bank customers	535,773	403,301	924,621	1,011,122	221,077	**3,095,894**
6.	Held-to-maturity investments	292	146	4,284	9,457	–	**14,179**
7.	Other assets	3,679	219	78	3	14	**3,993**
	Total financial assets	**1,049,529**	**734,970**	**1,114,381**	**1,468,090**	**366,861**	**4,733,831**
	Liabilities						
1.	Deposits from central bank	9	–	101,031	–	–	**101,040**
2.	Financial liabilities designated at fair value through profit or loss	–	–	–	7,716	–	**7,716**
3.	Financial liabilities measured at amortised cost						
	- deposits from banks	36,957	3,324	1,086	4,168	2,351	**47,886**
	- deposits from non-bank customers	518,480	438,593	498,710	595,906	180,559	**2,232,248**
	- loans and advances from banks	21,679	57,883	398,131	510,497	80,963	**1,069,153**
	- loans and advances from non-bank customers	436	–	–	17	–	**453**
	- debt instruments	4,430	3,053	81,474	609,399	20,930	**719,286**
	- subordinated liabilities	5	1,293	19,844	23,755	230,887	**275,784**
4.	Other liabilities	6,475	4,512	2,879	–	–	**13,866**
	Total financial liabilities	**588,471**	**508,658**	**1,103,155**	**1,751,458**	**515,690**	**4,467,432**
	Net liquidity gap	**461,058**	**226,312**	**11,226**	**(283,368)**	**(148,829)**	**266,399**
	Loan commitments and financial guarantees	**121,148**	**2,086**	**1,813**	**2,427**	**226,074**	**353,548**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

NON-DERIVATIVE CASH FLOWS BASED ON EXPECTED MATURITY

As at 31 December 2008

	Assets	Up to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	Total
1.	Cash and cash balances with central bank	229,417	–	–	–	–	**229,417**
2.	Financial assets held for trading	10,624	370	1,316	14,890	8,923	**36,123**
3.	Financial assets designated at fair value through profit or loss	134	180	7,066	583	18,121	**26,084**
4.	Available-for-sale financial assets	24,498	44,529	40,258	263,517	125,246	**498,048**
5.	Loans and receivables						
	- loans and receivables to banks	121,923	123,669	6,501	22,576	7,113	**281,782**
	- loans and receivables to non-bank customers	615,102	470,257	852,778	873,179	240,745	**3,052,061**
6.	Held-to-maturity investments	292	146	–	13,874	–	**14,312**
7.	Other assets	5,517	225	364	11	–	**6,117**
	Total financial assets	**1,007,507**	**639,376**	**908,283**	**1,188,630**	**400,148**	**4,143,944**
	Liabilities						
1.	Deposits from central bank	115	50,158	80,111	–	–	**130,384**
2.	Financial liabilities designated at fair value through profit or loss	–	–	–	–	9,254	**9,254**
3.	Financial liabilities measured at amortised cost						
	- deposits from banks	51,816	6,143	1,083	5,848	1,954	**66,845**
	- deposits from non-bank customers	631,327	422,720	552,763	188,140	151,784	**1,946,734**
	- loans and advances from banks	40,079	68,209	269,157	783,166	30,217	**1,190,828**
	- loans and advances from non-bank customers	216	–	–	–	–	**216**
	- debt instruments	4,209	795	9,599	109,602	21,033	**145,238**
	- subordinated liabilities	10	2,527	19,071	47,832	134,514	**203,954**
4.	Financial liabilities associated to transferred assets	10,681	–	–	–	–	**10,681**
5.	Other liabilities	5,829	3,450	2,227	–	–	**11,506**
	Total financial liabilities	**744,282**	**554,002**	**934,012**	**1,134,588**	**348,756**	**3,715,640**
	Net liquidity gap	**263,225**	**85,374**	**(25,729)**	**54,042**	**51,392**	**428,304**
	Loan commitments and financial guarantees	**109,348**	**2,146**	**1,791**	**344**	**210,485**	**324,114**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.3.4 Derivative cash flows

2.1.3.4.1 Derivatives settled on a net basis

The Group's derivatives that are settled on a net basis include:
– foreign exchange derivatives: over-the-counter (OTC) currency options and
– interest rate derivatives: interest rate swaps.

The table below shows an analysis of the Group's derivative financial instruments with negative fair value that are settled on a net basis, arranged in groups according to maturity on the basis of the outstanding contractual maturity on the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows.

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE - SETTLED ON A NET BASIS

As at 31 December 2009	Up to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	Total
Derivatives held for trading:						
- foreign exchange derivatives	–	9	7	(259)	–	**(243)**
- interest rate derivatives	(205)	(77)	(158)	(466)	46	**(860)**
Total	**(205)**	**(68)**	**(151)**	**(725)**	**46**	**(1,103)**
As at 31 December 2008						
Derivatives held for trading:						
- foreign exchange derivatives	–	103	(167)	(10)	–	**(74)**
- interest rate derivatives	16	(175)	245	931	(8)	**1,009**
Total	**16**	**(72)**	**78**	**921**	**(8)**	**935**

(All amounts in EUR thousand unless otherwise stated)

2.1.3.4.2 Derivatives settled on a gross basis

Derivatives netted on a gross basis include:
- foreign exchange derivatives: currency forwards,
- currency swaps, cross currency swaps and
- equity forwards.

The table below shows an analysis of the Group's derivative financial instruments with a negative fair value settled on a gross basis and arranged in logical groups according to maturity on the basis of the outstanding contractually set maturity on the date of the statement of financial position. Items shown in the table represent the contractually set undiscounted cash flows.

DERIVATIVE FINANCIAL INSTRUMENTS WITH A NEGATIVE FAIR VALUE - SETTLED ON A GROSS BASIS

As at 31 December 2009	Up to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	Total
Derivatives held for trading:						
- Foreign exchange derivatives:						
- inflow	834	517	745	–	–	**2,096**
- outlow	860	531	767	–	–	**2,158**
- Equity forward:						
- inflow	61	–	–	–	–	**61**
Total inflows	**895**	**517**	**745**	**–**	**–**	**2,157**
Total outflows	**860**	**531**	**767**	**–**	**–**	**2,158**

As at 31 December 2008	Up to 1 month	Over 1 to 3 months	Over 3 to 12 months	Over 1 to 5 years	Over 5 years	Total
Derivatives held for trading:						
- Foreign exchange derivatives:						
- inflow	4,378	17,218	56,962	–	–	**78,558**
- outlow	4,438	17,780	58,504	–	–	**80,722**
Total inflows	**4,378**	**17,218**	**56,962**	**–**	**–**	**78,558**
Total outflows	**4,438**	**17,780**	**58,504**	**–**	**–**	**80,722**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.3.5 Commitments and contingencies

Items which refer to potential obligations are presented off-balance sheet. The trigger events for those obligations have not occurred and these facilities are not yet due. Those obligations for which trigger events have already occurred are presented in the statement of financial position.

a) Loan commitments

The following table shows a summary of contractually set values of loan commitments (overdrafts and credit lines, granted undrawn loans, revolving loans) that oblige the Group to provide loans to customers.

b) Guarantees and other financial facilities

The following table also includes guarantees and other financial facilities arranged according to contractually set maturity dates.

COMMITMENTS AND CONTINGENCIES

(notes 2.1.1.3, 2.1.1.8, 2.1.1.9, 2.1.2.2.1, 2.1.2.3.1, 2.1.3.3.1, 2.1.3.3.2, 40)

As at 31 December 2009	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
Loan commitments	233,061	12,710	18,840	**264,611**
Guarantees and other financial facilities	230,386	164,104	38,304	**432,794**
- financial guarantees	62,188	16,671	10,078	**88,937**
- performance bonds	144,738	143,799	26,883	**315,420**
- letters of credit	1,432	–	–	**1,432**
- avals	26	–	–	**26**
- derivatives*	5,986	3,634	1,343	**10,963**
- other**	16,016	–	–	**16,016**
Total * **	**463,446**	**176,814**	**57,144**	**697,405**

As at 31 December 2008	Up to 1 year	Over 1 to 5 years	Over 5 years	Total
Loan commitments	183,020	57,227	8,410	**248,657**
Guarantees and other financial facilities	67,935	288,791	87,798	**444,524**
- financial guarantees	4,696	45,996	24,765	**75,457**
- performance bonds	42,719	238,206	62,232	**343,157**
- letters of credit	1,059	100	–	**1,159**
- avals	40	–	–	**40**
- derivatives*	8,859	2,048	365	**11,272**
- other**	10,562	2,441	436	**13,439**
Total * **	**250,955**	**346,018**	**96,208**	**693,181**

Notes:

* derivative financial instruments are carried at market value. If the market value (current exposure) had been increased by the potential exposure, the counterparty credit risk exposure would have amounted to EUR 21,042 thousand at the end of 2009 (at the end of 2008: EUR 24,665 thousand);

** item "other" includes potencial liabilities for the National Housing Savings Scheme (NHSS) and potencial liabilities for AIII VPS related to guarantee on return of mutual pension fund;

*** commitments and contingencies are reduced by the provisions for guarantees, and other off-balance-sheet liabilities and by the provisions for the NHSS (note 40).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.4 Fair value of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted active market price.

The estimated fair values of financial instruments have been determined by the Group using available market information where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. Market quotations may be outdated or reflect distressed sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

2.1.4.1 Financial instruments carried at fair value

Trading securities, other securities at fair value through profit or loss, investment securities available for sale and financial derivatives, including those classified as repurchase receivables are carried in the consolidated statement of financial position at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale (Note 21) for which there were no available external independent market price quotations and certain trading securities (Note 19).

The Group valued financial instruments and financial assets at cost where their fair value could not be determined. The reasons for the inability to determine fair values were that some financial instruments were not traded in an active market which would clearly define their fair value and that there was no active market participant or seller to give an offer price for those financial instruments or assets. In accordance with the Group's rules on valuing financial instruments, the Group does not use its certified internal asset valuation model for assets with a value of less than EUR 10 thousand nor does it apply the model to all cases where quality valuation input data cannot be provided.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

VALUATION METHODOLOGY FOR FINANCIAL INSTRUMENTS MEAUSRED AT FAIR VALUE

As at 31 December 2009	Quoted prices in active markets (1)	Valuation techniques based on observable market data (2)	Valuation techniques incorporating information other than observable market data (3)	Total
Financial assets measured at fair value				
Financial assets held for trading	**12,847**	**9,299**	**408**	**22,554**
Debt securities	2,066	391	–	**2,457**
Equities	10,781	–	5	**10,786**
Derivatives	–	8,908	403	**9,311**
Financial assets designated at fair value through profit or loss	**27,950**	**–**	**–**	**27,950**
Debt securities	19,397	–	–	**19,397**
Equities	3,343	–	–	**3,343**
Unit linked investments	5,210	–	–	**5,210**
Financial assets available for sale	**537,666**	**176,187**	**9,051**	**722,904**
Debt securities	476,251	176,132	2,097	**654,480**
Equities	51,601	55	4,690	**56,346**
Equity holdings	–	–	2,264	**2,264**
Unit linked investments	9,814	–	–	**9,814**
Assets	**578,463**	**185,486**	**9,459**	**773,408**
Financial liabilities measured at fair value				
Financial liabilities held for trading	**–**	**3,546**	**403**	**3,949**
Derivatives	–	3,546	403	**3,949**
Financial liabilities designated at fair value through profit or loss	**7,716**	**–**	**–**	**7,716**
Structured deposit	7,716	–	–	**7,716**
Liabilities	**7,716**	**3,546**	**403**	**11,665**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE IN LEVEL 3 OF THE FAIR VALUE HIERARCHY

	Financial assets held for trading			Financial assets available for sale			Financial liabilities held for trading
	Debt securities	Equities	Deriva-tives	Debt securities	Equities	Equity holdings	Deriva-tives
As at 1 January 2009	**1,860**	**7**	**1,198**	**105,506**	**89**	**2,126**	**1,198**
Total gains/(losses)	3	(2)	100	260	1,208	719	100
- in profit or loss	3	–	100	197	–	719	100
- in other comprehensive income	–	(2)	–	63	1,208	–	–
Purchases	199	–	–	–	–	700	–
Sale, redemption, settlements	(900)	–	(895)	(13,231)	–	(1,281)	(895)
Transfers into or out of Level 3	(1,162)	–	–	(90,438)	3,393	–	–
As at 31 December 2009	**–**	**5**	**403**	**2,097**	**4,690**	**2,264**	**403**
Gains/(losses) in profit or loss for assets/ liabilities held as at 31 December 2009	2	–	100	96	–	–	(100)

In 2009 the Group reclassified some debt securities from Level 3 into Level 2 of the fair value hierarchy as the Group switched valuation method from simplified valuation model using also some unobservable inputs to the last stock exchange prices. There was also one debt security listed to the stock exchange for the first time in 2009.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.1.4.2 Financial instruments not measured at fair value

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

	Carrying value		Fair value	
Financial assets	**2009**	**2008**	**2009**	**2008**
Loans and receivables	3,444,537	3,056,062	3,442,216	3,079,912
- loans and receivables to banks	539,236	281,518	539,371	281,681
- loans and receivables to non-bank customers	2,905,301	2,774,544	2,902,845	2,798,981
- retail customers	492,342	451,373	486,617	461,699
- corporate entities	2,412,959	2,323,171	2,416,228	2,337,282
Held-to-maturity investments	13,449	13,378	13,662	13,439
Financial liabilities				
Deposits from central bank	100,537	130,384	100,537	130,384
Financial liabilities measured at amortised cost	4,052,394	3,358,001	4,028,445	3,402,260
- deposits from banks	47,751	66,027	47,148	66,493
- deposits from non-bank customers	2,167,051	1,918,311	2,158,655	1,958,821
- retail customers	1,058,375	1,007,643	1,037,158	1,038,199
- corporate entities	1,108,676	910,668	1,121,497	920,622
- loans and advances from banks	1,018,188	1,091,126	1,000,173	1,094,599
- loans and advances from non-bank customers - corporate entities	233	216	233	216
- debt instruments	673,363	121,870	674,057	119,377
- subordinated liabilities	145,808	160,451	148,179	162,754
Financial liabilities associated to transferred assets	–	10,681	–	10,750
Loan commitments	264,611	233,456	471	443

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments carried at other than fair value in the financial statements.

i) Loans and receivables to banks

Loans and receivables to banks include inter-bank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with a similar credit risk and remaining maturity.

ii) Loans and receivables to non-bank customers

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of the estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value.

(All amounts in EUR thousand unless otherwise stated)

Discount rates used depending on the currency, maturity of the instrument and credit risk of the counterparty were as follows:

	Interest rates	
	2009	2008
Loans and receivables		
- loans and receivables to banks (note 22)	0.6%	3.9%
- loans and receivables to non-bank customers (note 23)		
- retail customers	3.5%	5.5%
- corporate entities	2.2%	5.0%

iii) Held-to-maturity investments
Held-to-maturity investments relate to interest-bearing securities held to maturity. The fair value of held-to-maturity assets is based on the market prices of the Ljubljana Stock Exchange.

iv) Deposits and loans from banks and non-bank customers and subordinated deposits
The estimated fair value of deposits with no stated maturity, including non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted on an active market is based on discounted cash flows using interest rates on new debts with a similar remaining maturity. The discount rates used were consistent with the Group's credit risk and also depend on the currency and maturity of the instrument and ranged from 0.7% p.a. to 2.6% p.a. (2008: from 3% p.a. to 5.2% p.a.).

v) Debt securities in issue and subordinated debt securities
Total fair value is calculated on the basis of the prices quoted in an active securities market.

2.1.5 Capital management

Capital management is an on-going process of decision-making and maintaining the required level and quality of the Group's capital. On one hand, the aim of capital management is to provide an adequate level of Group capital which generates confidence in and stability of the Group and, on the other, to guarantee a return on capital which will meet shareholder expectations. At all times the Group requires sufficient capital and capital adequacy as prescribed by the legislation, depending on the volume and type of services it provides and the risks it assumes.

The management and supervisory bodies regularly monitor and assess the effectiveness of the capital management system. The Group calculates its regulatory capital and capital adequacy at least quarterly.

At all times the Group's capital has to be above the paid-up capital (in accordance with Article 42 of the Banking Act – Zban-1) or at least equal the total sum of minimum capital requirements.

2.1.5.1 Regulatory capital and capital adequacy

Capital or own funds consist of:
a) Original own funds (Tier 1 capital) made up of:
– paid-up capital and share premium,
– reserves and retained profits,
– non-controlling interest,
– innovative instrument and
– deduction items from Tier 1 capital (own shares, intangible assets, valuation differences eligible as original own funds – prudential filters and statutory impairments and provisions);

The innovative instrument is in compliance with Article 11 of the Decision of the Calculation of Own Funds of (Savings) Banks. Abanka's innovative instrument is a subordinated loan (note 32) taken out on 18 January, 2007 from VTB Bank Europe, based in London. The loan fulfils the Bank of Slovenia's requirements for inclusion in Tier 1 and Tier 2.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

b) Additional own funds I (Tier 2 capital) which includes:
- any surpluses of the Group's own funds that may be taken into consideration in the calculation of Tier 2 capital (arising from an innovative instrument);
- adjustments made to valuation differences in original own funds transferred to core additional own funds and
- subordinated debt I (subordinated bonds maturing at a point in time greater than 5 years and one day).

The credit risk capital requirement of the Group is calculated by applying the Standardised Approach. Consequently, the Group discloses no **deduction items from Tier 1 capital and Tier 2 capital arising from the IRB** (Internal Ratings-Based) approach.

Tier 1 capital and Tier 2 capital are **decreased by investments in other associated and jointly controlled credit and financial institutions** to establish the actual amount of capital to be further used for the capital adequacy calculation, taking capital requirements for credit, market and operational risks into account.

The table below shows capital components and capital adequacy ratios as at 31 December. In the two years presented in the table the Group's capital adequacy was above the regulatory required minimum.

CAPITAL AND CAPITAL ADEQUACY

As at 31 December	**2009**	**2008**
Paid up capital	30,045	30,045
(-) Own shares	(1,497)	(244)
Share premium	153,117	153,117
Reserves	149,527	139,007
Non-controlling interest	24	33
Interim profits (audited)	10,316	8,252
Valuation differences eligible as original own funds	(2,928)	(5,025)
Innovative instruments subject to limit	120,000	120,000
(-) Other deductions from original own funds	(72,834)	(82,488)
(-) Intangible assets	(3,829)	(3,697)
(-) Excess on limits for innovative instruments	(62,135)	(65,595)
(-) Difference between the reported impairments and provisions according to IFRS and the BoS regulation on loss assessment*	(6,870)	(13,196)
Original own funds (Tier 1)	**385,770**	**362,697**
Additional own funds I (Tier 2)	**67,684**	**73,019**
(-) Deductions from original and additional own funds I (equity investments in banks and financial institutions)	(1,023)	(956)
Total own funds (for solvency purposes)	**452,431**	**434,760**
Capital requirement for credit, counterparty credit and dilution risks and free deliveries	271,530	259,878
Capital requirement for position, foreign exchange and commodity risks	5,921	6,794
Capital requirement for operational risks	16,528	15,965
Total capital requirements	**293,979**	**282,637**
Tier 1 capital adequacy ratio	**10.48 %**	**10.25 %**
Capital adequacy ratio	**12.31 %**	**12.31 %**
Capital adequacy ratio (excluding impact of national discretion)	**12.50 %**	**12.68 %**

The deduction item Difference between the reported impairments and provisions according to IFRS and the regulation on

(All amounts in EUR thousand unless otherwise stated)

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loss assessment* is not directly based on the European capital legislation and was introduced by the Bank of Slovenia as a national discretion. For comparison purposes the capital adequacy ratio is also calculated without national discretion. At the end of 2009 it was 12.50% (cf. 12.68% at the end of 2008).

2.1.5.2 Minimum capital requirements

The table below shows capital requirements by risk type and their structure.

CAPITAL REQUIREMENTS BY RISK TYPE AND THEIR STRUCTURE

As at 31 December	2009		2008	
Capital requirements	**Amount**	**Structure**	**Amount**	**Structure**
Capital requirement for credit risk	271,530	92.4%	259,878	91.9%
Capital requirement for market risk	5,921	2.0%	6,794	2.4%
Capital requirement for operational risk	16,528	5.6%	15,965	5.6%
Total capital requirements	**293,979**	**100.0%**	**282,637**	**100.0%**

2.1.5.2.1 Credit risk capital requirement

The credit risk capital requirement of the Group is calculated by applying the Standardised Approach. The following table shows capital requirement amounts per exposure category.

CAPITAL REQUIREMENT FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES

	As at 31 December	2009	2008
	Standardised approach (SA) (1. + 2.)	**271,530**	**259,878**
1.	**SA exposure classes excluding securitization positions**	**271,530**	**259,878**
	Central governments or central banks	2	6
	Regional governments or local authorities	319	339
	Administrative bodies and non-commercial undertakings	69	175
	Institutions	10,030	6,936
	Corporates	180,146	182,948
	Retail	45,091	40,983
	Secured by real estate property	275	318
	Past due items	6,738	4,800
	Items belonging to regulatory high-risk categories	11,788	10,134
	Short-term claims on institutions and corporates	6,498	4,022
	Collective investments undertakings (CIU)	1,284	1,053
	Other items	9,290	8,164
2.	**Securitization positions SA**	**–**	**–**

(All amounts in EUR thousand unless otherwise stated)

2.1.5.2.2 Market risk capital requirement

The Group's market risk capital requirement is calculated by applying the Standardised Approach. This involves the calculation of capital requirements for foreign exchange and position risks (position risk arises from price fluctuations of a financial instrument and is calculated separately for debt and equity financial instruments). Because the Group does not exceed the legally prescribed maximum large exposure limit in the trading book and does not trade in commodities, no calculations are made for these two market risk segments.

CAPITAL REQUIREMENT FOR POSITION, FOREIGN EXCHANGE AND COMMODITY RISKS

As at 31 December	2009	2008
Standardised approach	**5,921**	**6,794**
Traded debt instruments	1,074	2,481
Equity	3,667	3,423
Foreign exchange	1,180	890

2.1.5.2.3 Operational risk capital requirement

The Group's operational risk capital requirement is calculated by applying the Standardised Approach.

CAPITAL REQUIREMENT FOR OPERATIONAL RISK

As at 31 December	2009	2008
Basic indicator approach	16,528	15,965

2.1.5.3 Internal capital adequacy assessment process

In early 2008 an **Internal Capital Adequacy Assessment Process (ICAAP)** was set up as one of the key elements in the introduction and implementation of the new capital adequacy rules under the Basel II banking accord.

The Internal Capital Adequacy Assessment Process includes:

a) procedures for identifying, measuring or assessing, mitigating and monitoring all significant risks the Group is exposed to in the scope of its operations;
b) the calculation of internal capital assessment and internal capital requirements for all significant risks in relation to the Group's risk profile;
c) the assessment of the risk-bearing capacity and
d) internal and external risk reporting.

The Group produces quarterly reports on the risks to which the Group is exposed in the scope of its operations. Reports mostly include information on the risk profile, risk-bearing capacity, assessment of internal capital requirements, assessment of internal capital, stress-test results and annual risk survey results.

2.2 Operational risk management

The Group's operational risk management and processes are set out in the Strategy of Developing and Implementing the Operational Risk Management Framework and the Operational Risk Management Policy. In 2009, the Group continued implementing the activities planned in these documents and added to the policy a new chapter on operational risk management in extreme circumstances and crises. The accompanying internal instructions were brought in line with this amendment so as to involve all operational risk management steps and set the Group's appetite and tolerance for operational risk.

The **structure and organisation of appropriate functions for operational risk management** involve employees at all levels with different responsibilities and tasks. Operational risk management and risk mitigation measures are decentralised and take place in all organisational units, while the Risk Management Department co-ordinates the operational risk management function.

The Operational Risk Committee has been in place since 2008. The Committee is a collegiate decision-making body responsible for directing and controlling operational risk management. It includes all senior managers and is chaired by the President of the Management Board.

The operational risk measurement system includes the identification, assessment and/or measurement of operational risk on the basis of forms filled in for the purpose of recording potential loss events. These forms are designed by the Risk Management Department. For each identified potential loss event the probability of occurrence and seriousness of the consequences in the case of occurrence are assessed. For assessment purposes a qualitative approach is taken. Preventive measures have to be defined for each recorded potential loss event as well as corrective measures in case a loss event occurs. The measurement of operational risk also involves interviews with senior management that are carried out by the Risk Management Department, which also analyses internal operating instructions for organisational units to verify whether the embedded internal control mechanisms prevent the occurrence of (expected) operational risk loss events and whether newly identified threats are such that they require amendments to the existing internal rules and instructions.

For the purpose of loss event reporting the Group uses an application developed in-house for recording as well as an application for reporting loss events. The recording application is available to all of the Group's employees and enables them to report loss events anonymously. The reporting application is used by formally designated reporters to report loss events. As required by **operational risk internal reporting**, the loss event reports are discussed by the Operational Risk Committee, whereas the Risk Management Department produces summary quarterly reports. The Operational Risk Committee discusses major loss events in greater detail and takes appropriate measures as they occur. It also investigates all operational risk profiles (assessed, realised, targeted) by organisational unit and at the Group level. Moreover, the Management Board and senior management are promptly informed about all major loss events.

The Group carries out activities in the framework of **operational risk protection and mitigation**. Detailed operational risk management procedures are defined and in the internal document "Key Operational Risks – Control and Mitigation Procedures." In addition, the Group performs activities to mitigate the consequences of loss events which have occurred. The implementation of all these activities is the responsibility of individual organisational units.

The efficiency of operational risk protection and mitigation methods is controlled by an internal control system based on internal controlling, internal auditing and compliance activities. Operational risk status is monitored by the Operational Risk Committee at its meetings.

In 2009, the Group complied with its Business Continuity Management Policy and its Business Continuity Management of Procedure. The ensuing business continuity plans were regularly updated and tested. In the reporting year additional disaster recovery plans were prepared for the back office as well as for custody and administrative services. At the Group level another assessment was made of the possible impact of discontinuing customer-required and reporting activities.

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2.2.1 IT system risk management

The main tasks of the Information and Banking Technology Division concern providing computer support to the information system (IS) of the Group, co-ordinating with external providers, offering help to IS users, supporting e-commerce and maintaining the IS. The corporate policy, streamlining of operations and process optimisation aimed at ensuring the higher quality and competitiveness of the Group services are taken into account in these efforts.

The Management Board requires appropriate procedures. In view of this, the actual state is regularly monitored by means of operational checks and information technology (IT) risk analysis, which serves as a basis for relevant risk-reduction measures. An IT risk analysis is carried out once a year. The set of controls is based on the ISO/IEC 17799:2005 standard and the set of threats is based on the extended recommendations on a uniform risk analysis method by the Bank Association of Slovenia. Information is collected through questionnaires and interviews and then correlated with the availabile data resulting from analyses carried out within the framework of business continuity planning. The analysis is qualitative and takes four threat levels into account (depending on frequency and effect) and four vulnerability levels of resources (in view of the existence of individual controls and their weight).

The risk analysis results and requirements made by divisions together represent a basis for improvements (additional controls) to the information system.

The development strategy is divided into priorities and IS construction on the foundations of:
- developing client-server applications with the use of relational SQL databases and standard accesses,
- using an Oracle database,
- the Windows XP operating system installed at work stations,
- UNIX, Windows 2000, Windows 2003 and Windows 2008 operating systems installed on data and application servers,
- communication links based on TCP/IP protocols and
- using modern, object-oriented development tools (Delphi).

The information system's efficient functioning is provided by several factors, including:
- information support development regarding the business goals and taking the rational use of resources into account;
- planning and introducing new information support mechanisms in accordance with the Group's strategic objectives and planning in the area of information technology;
- supporting the mobilisation of resources for information support (personnel, funds, time);
- control in all operating segments (inspections, audits, internal rules and control, obligatory control mechanisms and routine implementation of control procedures, raising awareness);
- streamlining procedures (e.g. consolidation of server capacities, standardisation of disc resources, collection of data into a single database, uniformity of access to the system and data);
- providing an adequate level of business continuity in the information support and
- staff education to bring new methods and technologies in the information system's functioning into force.

In pursuing the policy and organisation of providing information system security the Group's main objective is to provide the optimal availability, confidentiality and integrity of information.

The security policy of the IS is founded on:
- Policy on the Protection of the Group,
- Instructions on Security and Protection of the Information System and related policies, rules and protection instructions,
- Policy of Documentary Material Management,
- the Instructions on the Protection of Personal Data Databases and
- adherence to the required information protection standards (oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 17799:2003 and ISO/IEC 27005:2008).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Access-level controls pertain to all entities, hardware and software from which it is possible to access terminal and local networks. Access is provided on the basis of granted rights with password-protected user names. The security system applies to documents, data and communication as well as all hardware and software and depends on the level of exposure to unwanted external or internal factors. The system operates by employing a suitable method for data-back up protection and data-access protection, programmes and communication channels.

Access to the public network is provided through double high-speed connections to different Internet service providers (Softnet, Siol). Double firewalls create several protected segments, with external and internal segments being further protected by way of routers.

The Group developed a data protection programme and a combination of differential and complete backups was introduced.

General, system and other controls take the form of physical and logical controls. Physical controls include the physical safeguarding of premises, video surveillance of access to buildings, alarm protection and magnetic card entry control of authorised persons into certain premises. Logical controls are performed with our own application and purchased software.

2.2.2 Risk management in card operations

Card operations include payment transactions with cards issued by Abanka (issuing activities) and the operations of points of sale and ATMs owned by Abanka (acquiring activities).

Both card issuing and card acquiring primarily involve technology risk. Card operations are generally characterised by the continued and strong advancement of technologies. These are not always fully reliable and are more or less successfully used in fraudulent business practices and attempted fraud.

Card issuing mainly entails card fraud risk which is driven by potential card abuses as a result of cardholders' negligent handling of their cards or the unlawful acquisition of card data by a third party.

Card acquiring also entails the possibility of card abuses which occur when a merchant makes unlawful use of card data or a fraud uses an unlawfully acquired card.

Furthermore, risk exposures arise from outsourcing and dependence on a communication system operating in a segment on which the Bank has no influence.

In the framework of card risk management all POS terminals were upgraded to the EMV standard (EMV = Europay, Mastercard and VISA), which guarantees more secure payments. It is based on chip technology which requires the exchange of data between a POS terminal or an ATM on one hand and a chip embedded in the card on the other. During such an exchange data are encrypted and chip cards are much more difficult to falsify than magnetic stripe cards. In addition, payments made via POS terminals with chip cards are protected by a PIN instead of a signature on a slip produced by a POS terminal.

For some time Abanka has only been issuing EMV chip cards. All of its credit cards have been upgraded to EMV technology, whilst the same standard will be introduced for the few remaining debit cards in the near future.

Security has also been enhanced with new IP and GPRS communication solutions which are in line with state-of-the-art achievements. Thanks to their additional encryption both communication technologies provide higher data exchange security between a POS terminal or an ATM and a processing centre. Moreover, Abanka is only acquiring the most sophisticated multifunctional ATMs, which already include several security features.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In 2009, the processing of VISA products was transferred from Abanka to Bankart, a payment processing company. This enabled the same procedures for all cards and reduced the operating risk of the Bank. Towards the end of 2009 the fraud-monitoring function – involving suspicious sanctions control and subsequent measures – was also transferred to Bankart.

Projects concluded in 2009 include "safe web shopping" which enables merchants' secure acceptance of Internet card payments based on the 3D Secure Protocol. In 2010 the same technology will be introduced for cardholders. This will effectively reduce operating risks inherent in web shopping for both merchants and cardholders.

The complexity of the card business requires a multidisciplinary approach. In order to maximise the security of card operations, Abanka organised many training seminars and established continued co-operation between customers, business partners and bank departments. Card-risk management is based on rules, instructions and protocols defining procedures aimed at preventing fraud, card abuses and any consequent substantial. Information on potential and actual abuse and other risks related to card transactions is regularly monitored under the system of loss events in the context of operational risk and the information gathered in the process serves as the basis for subsequent measures.

2.2.3 Operations of the Internal Audit Department

a) Organisational position of the Internal Audit Department

The Internal Audit Department (IAD) performs constant and overall control of the Bank's operations and the operations of subsidiaries in relation to: controlling and evaluating the efficiency of risk management systems and the internal control system; evaluation of the process of assessing the necessary internal capital regarding its own assessment of the Group's risk exposure; assessment of the accuracy of the information technology system; assessment of the accuracy and reliability of accounting records and financial reports; verification of compliance of the Group's reporting and operations with regulations.

The IAD is organised as an independent department directly accountable to the Management Board. Its authorisations, responsibilities, tasks and methods of operating are defined in detail in the Rules of the Internal Audit Department which were adopted by the Management Board with the agreement of the Supervisory Board/the Audit Committee. In the Medium-Term Strategy of the Bank 2011-2015 the Management Board also included guidelines for the IAD's work. The IAD's annual audit plan is approved each year by the Management Board with the agreement of the Supervisory Board, based on a global assessment of the risk profile of the auditing environment in the Group. To provide the better efficiency and effectiveness of its work the IAD designated additional internal documents (Internal Auditing Manual, Methodology of Risk-Assessment-Based Work Planning, Quality Assurance and Enhancement Programme).

The IAD employs seven internal auditors with long-term experience in different banking operations. Three of them are licensed as a "certified internal auditor" or "auditor" by the Slovenian Institute of Auditors. In 2009, the number of employees in the IAD was increased following the recruitment of an information system auditor. In addition the information system audits performed by the IAD also include outsourced certified information system auditors.

b) Operations and control of the governance system

In the reporting year the IAD followed the adopted Annual Audit Plan for 2009, which was amended in line with the strategic plans and the additional requirements given by regulatory bodies and the Management Board.

Through audits the IAD verified the adequacy and effectiveness of risk management systems and internal control systems. As a result, it gave recommendations for improvement aimed at achieving strategic goals, effective and efficient operations, reliable and credible reporting as well as compliance with internal and external rules and regulations.

In 2009, the IAD:
- audited some major business functions, including financial instrument trading, retail and corporate lending, management of safe deposit boxes, business with credit brokers, cash and ATM transactions in the branch network and card operations;
- audited the Development Division of the Bank and the subsidiaries Afaktor and Aleasing;
- audited the system of technical, physical and IT protection as well as some major business support software applications;
- controlled contractual exchange offices;
- audited the launching of new products and services and provided an opinion on risk management adequacy;
- monitored compliance with recommendations resulting from previous audits and adherence to the requirements of external auditors and supervisors;
- audited the management of key projects;
- assessed the quality of the Group's control environment for calculating the risk profile as part of the internal capital adequacy assessment process (ICAAP);
- carried out preparations for an additional audit of compliance with risk management rules in accordance with the Bank of Slovenia's regulations and
- participated in work groups for launching new products and services and for compliance with new regulatory requirements as well as provided advice and assistance in work processes, procedures and internal instructions.

c) Reporting on performed work

All management levels, including the Management Board, were informed in writing about the findings of the audits performed by the IAD. A summary of all major audit findings and recommendations as well as the realisation of the Annual Audit Plan for 2009 were reported to the Management and Supervisory Boards/the Audit Committee on a quarterly basis. The IAD also double checked and monitored the implementation of corrective measures based on relevant follow-up reports and reported on this to the Management and Supervisory Boards/the Audit Committee.

d) The quality of internal auditing

In February 2009, an independent external auditor produced a report on the IAD's work. The audit covered the internal auditing activities in 2008 and examined compliance with directly transposed International Standards for the Professional Practice of Internal Auditing, Code of Ethics of Internal Auditors and Code of International Auditing Principles.

The auditor's final report states that in all material aspects the IAD activities generally complied with the standards.

In accordance with the external auditor's report and its internal audits, in 2009 the IAD planned and implemented measures aimed at improving the quality of internal auditing.

2.2.4 Prevention of money laundering and terrorist financing

In 2009, the Group regularly performed legally required activities in the framework of the prevention of money laundering and terrorist financing so as to achieve legal compliance and effective risk management in this area. The Group paid special attention to customers' due diligence procedures, regular monitoring of their business activities and the detection of unusual transactions.

The Bank complied with two documents adopted by the Management Board: Overall Instructions on Implementation of the Prevention of Money Laundering and Terrorist Financing Act and Risk Analysis of Possible Abuses for the Purpose of Money Laundering and Terrorist Financing. The Overall Instructions include legal requirements and supervisors' guidelines. They also set out the procedures, tasks, competencies and responsibilities of employees for integrated implementation of legal requirements as well as the effective detection and prevention of money laundering and terrorist financing. The Overall

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Instructions document served as a basis for operating instructions applicable to individual areas and products. The Bank has established a risk assessment for customers, business relationships, products or transactions with respect to their potential misuse for money laundering or terrorist financing. An internal control system was established that covers the collection of required data and compliance with all legally defined tasks and procedures.

In order to ensure an integrated and effective system for the detection and prevention of money laundering and terrorist financing, the Bank appointed an Anti-Money Laundering Officer and her two deputies. They are assisted by division anti-money laundering officers in charge of co-ordinating compliance activities by division and communication between the Anti-Money Laundering Officer and line managers. The system's effectiveness in detecting and preventing money laundering and terrorist financing is regularly reported to the Management Board by the Anti-Money Laundering Officer. Extraordinary reports are produced in case any unusual transactions, other irregularities or extraordinary situations are detected.

Parallel to these activities the Bank is constantly upgrading and customising its IT support system so as to enable more effective implementation of the prescribed procedures. In the reporting year greater stress was put on upgrading IT applications for the regular monitoring of customers' business activities.

Other Group members also performed activities pursuant to the Prevention of Money Laundering and Terrorist Financing Act and the pertaining implementing regulations, supervisors' guidelines and their internal documents. In 2009, relevant internal documents were drafted by all subsidiaries, defining legal compliance procedures and internal controls. Work procedures include the activities required for the implementing prescribed tasks and are duly reported to the management. All Group members have appointed Anti-Money Laundering Officers and their deputies.

The effectiveness of the measures for preventing money laundering and terrorist financing greatly depends on the qualifications of staff. Therefore, the Group organised regular professional training for the staff in charge of carrying out tasks involving money laundering and terrorist financing prevention and detection as well as for employees whose work entails direct or indirect risk of money laundering and terrorist financing. This included various training formats – both in-house and external – enabling the employees to learn about modern trends in money laundering and terrorist financing as well as methods for detecting suspicious transactions. Moreover, this training provided regular information on amendments and improvements to the legal framework and internal documents.

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2.3 Risk arising from bonds issued by Abanka

The first part of this section deals with outstanding bonds and their attributes, while the second part describes the risk factors associated with bonds issued by the Bank.

In 2009, ten issues of Abanka bonds were outstanding (AB06, AB07, AB08, AB09, AB10, AB11, AB12, VIP6, VIP7, ABVIPLFOAT 09/12).

LIST OF ABANKA BONDS OUTSTANDING IN 2009

	Issue	Bond status	Issue date	Maturity date	Nominal value
1.	AB06	subordinated	15 May, 2002	15 May, 2009	13,500
2.	AB07	subordinated	21 May, 2003	21 May, 2010	17,300
3.	AB08	subordinated	1 March, 2004	1 March, 2011	10,000
4.	AB09	ordinary	1 March, 2004	1 March, 2011	10,000
5.	AB10	ordinary	1 Oct., 2004	1 Oct., 2011	21,000
6.	AB11	ordinary	1 Dec., 2005	1 Dec., 2010	20,865
7.	AB12	ordinary	12 Dec., 2005	12 Dec., 2010	20,865
8.	VIP6	subordinated	9 Sept., 1999	9 Sept., 2009	2,000
9.	VIP7	subordinated	18 Dec., 2000	18 Dec., 2010	2,000
10	ABVIPLFOAT 09/12	ordinary bond guaranteed by the Republic of Slovenia	18 Sept., 2009	18 Sept., 2012	500,000

Abanka bonds, 6th issue (AB06) are 7-year bonds which started bearing interest on 15 May, 2002. The principal repayment is made upon maturity, i.e. 15 May, 2009. The nominal value of the issue is EUR 13,500 thousand. One hundred and thirty-five thousand bonds were issued in denominations of EUR 100 each. The bonds carry an annual interest rate of 5.90%. Interest is calculated by the compound method and is paid semi-annually.

Abanka bonds, 7th issue (AB07) are 7-year bonds which started bearing interest on 21 May, 2003. The principal repayment is to be made upon maturity, i.e. 21 May, 2010. The nominal value of the issue is EUR 17,300 thousand. One hundred and seventy-three thousand bonds were issued in denominations of EUR 100 each. The bonds carry an annual interest rate of 5.30%. Interest is calculated by the compound method and is paid semi-annually.

Abanka Vipa bonds of the 8th issue (AB08) are 7-year bonds which started bearing interest on 1 March, 2004. The principal repayment is to be made upon maturity, i.e. 1 March, 2011. The nominal value of the issue is EUR 10,000 thousand, denominated in euros and is comprised of 100,000 bonds of EUR 100 each. The annual interest rate on AB08 bonds is 4.90%, calculated linearly and payable on an annual basis.

Abanka Vipa bonds of the 9th issue (AB09) are 7-year bonds which started bearing interest on 1 March, 2004. The principal repayment is to be made upon maturity, i.e. 1 March, 2011. The nominal value of the issue is EUR 10,000 thousand, denominated in euros and comprising 100,000 bonds of EUR 100 each. The annual interest rate on AB09 bonds is 4.70%, calculated linearly and payable on a yearly basis.

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Abanka Vipa bonds of the 10th issue (AB10) are 7-year bonds which started bearing interest on 1 October, 2004. The principal repayment is to be made upon maturity, i.e. 1 October, 2011. The nominal value of the issue is EUR 21,000 thousand, denominated in euros and comprising 21,000 bonds of EUR 1,000 each. The annual interest rate on AB10 bonds is 4.60%, calculated linearly and payable on a yearly basis.

Abanka Vipa bonds of the 11th issue (AB11) are 5-year bonds which started bearing interest on 1 December, 2005. The principal repayment is to be made upon maturity, i.e. 1 December, 2010. The nominal value of the issue is EUR 20,865 thousand, denominated in euros and comprising 500,000 bonds of EUR 41.73 each. The annual interest rate on AB11 bonds is 4.00%, calculated linearly and payable on a yearly basis.

Abanka Vipa bonds of the 12th issue (AB12) are 5-year bonds which started bearing interest on 12 December, 2005. The principal repayment is to be made upon maturity, i.e. 12 December, 2010. The nominal value of the issue is EUR 20,865 thousand, denominated in euros and comprising 500,000 bonds of EUR 41.73 each. The annual interest rate on AB12 bonds is 3.80%, calculated linearly and payable on a yearly basis.

Banka Vipa bonds of the 6th issue (VIP6) are 10-year bonds which started bearing interest on 9 September, 1999. The principal repayment is made annually, but there was a repayment grace period until 9 March, 2002. The maturity date is 9 September, 2009. The nominal value of the issue is EUR 2,000 thousand, denominated in euros and comprising 10,000 bonds of EUR 200 each. The annual interest rate on VIP6 bonds is 5.50%, calculated linearly and payable on a semi-annual basis.

Banka Vipa bonds of the 7th issue (VIP7) are 10-year bonds which started bearing interest on 18 December, 1999. The principal repayment is made annually, but there was a repayment grace period until 18 June, 2003. The maturity date is 18 December, 2010. The nominal value of the issue is EUR 2,000 thousand, denominated in euros and comprising 10,000 bonds of EUR 200 each. The annual interest rate on VIP7 bonds is 6.20%, compounded and payable on a semi-annual basis.

Abanka bonds (ABVIPFLOAT 09/12) were issued in the international market and secured by an irrevocable and unconditional guarantee by the Republic of Slovenia, given in accordance with the Public Finance Act (Official Gazette of the Republic of Slovenia nos. 79/99, 124/00, 79/01, 30/02, 56/02, 110/02, 127/06, 14/07, 109/08 and 49/09). These three-year bonds started bearing interest on 18 September, 2009. The bond principal payment is in the form of a one-off, lump-sum payment upon maturity, i.e. 18 September, 2012. The nominal value of the issue is EUR 500,000, denominated in euros and comprising 10,000 bonds of EUR 50,000 each. The annual interest rate is 3m EURIBOR + 100 basis points p.a. and coupons are due for payment on 18 December, 18 March, 18 June and 18 September in arrears.

Pursuant to Commission Regulation (EC) 809/2004 of 29 April, 2004 implementing The Prospectus Directive 2003/71/EC became fully binding on 1 July, 2005, Abanka discloses **the relevant information on risk factors that arise from the securities issued by Abanka**.

a) Bond-related default risk

In 2009 there were ten issues of Abanka bonds, of which five were subordinated (AB06, AB07, AB08, VIP6, VIP7), meaning that in the case of the Bank's bankruptcy or liquidation their payment is subordinated to senior debt instruments and effected only after meeting all non-subordinated debt obligations to regular creditors. On the other hand, regular bond holders are in such a case repaid on the same terms and conditions as other non-subordinated creditors of the issuer. Abanka's obligations arising from its bond issues are not specially secured, but they are guaranteed by the total assets of the Bank. Abanka estimates that bond default risk related to both regular and subordinated bond issues is low.

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b) Bond-related liquidity risk

In 2009, nine issues of Abanka's bonds were listed on the regulated market of the Ljubljana Stock Exchange and one issue was listed on the regulated market of the London Stock Exchange. However, there is no guarantee that active trading in the listed bonds will actually develop and/or that it will continue until their maturity. The absence of active trading may have a negative impact on the market price and liquidity of the bonds.

c) Bond-related market risk

Bond investments are exposed to market risk. Due to adverse market conditions caused by movements in money and foreign exchange markets, interest rates, global capital markets as well as other factors, including the performance and credit rating of the bond issuer, bond prices may fall below the purchase price paid by the investor, which in the case of their sale would result in a capital loss for the bond holder. Market conditions also depend on regulatory environment changes, especially concerning the regulation of money and capital markets, taxes, international operations and international capital flows.

Since the subordination of payments under subordinated bonds (AB06, AB07, AB08, VIP6, VIP7) reflects their status in respect to senior debt instruments, in the event of the issuer's bankruptcy or liquidation the required returns on subordinated bonds are higher than on regular bonds, all other features being the same. Consequently, subordinated bond prices are more exposed to market changes and as a result the market risk related to subordinated bonds is estimated to be higher.

d) Bond-related interest rate risk

The interest payable on (ABVIPFLOAT 09/12) bonds – calculated on the basis of EURIBOR as the reference variable interest rate plus a (fixed) margin – cannot be exactly determined in advance, which means that it is exposed to interest rate risk. In the event EURIBOR, as the variable interest rate component, decreases, the interest payable on bonds will decrease accordingly and vice versa, in the event of a rise in the latter, the former will also increase in proportion.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

(a) Impairment losses on loans and advances
The Group constantly monitors the quality of its credit portfolio and assesses credit risk losses. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating an adverse change in the payment status of borrowers in a group, 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. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When determining impairment losses on a particular asset in the loan portfolio, credit spreads are taken into account in the process of discounting the estimated future cash flows of the financial instrument. For wider credit spreads the Group charges higher interest rates which, in turn, result in increased impairment losses.

The Group regularly measures the impact of deterioration of the credit portfolio on the amount of credit risk losses, on profit or loss as well as on regulatory capital and the capital adequacy ratio of the Group. It employs sensitivity analyses to provide additional information on potential credit risk losses and necessary impairments of financial assets. The sensitivity analysis is based on various scenarios. One of them simulates that 2% of A, B, C and D loans are downgraded by one credit rating category. The result has shown that credit risk losses would increase by 3.1% (2008: 3.9%) or EUR 5.5 million (2008: EUR 5.7 million). The other scenario was conducted in accordance with the assumption that 1% of A, B and C loans are downgraded by one credit rating category, 1% of these loans are downgraded by two credit rating categories and 2% of D-rated loans are downgraded by one credit rating category. The result has shown that credit risk losses would rise by 6.5% (2008: 8.2%) or EUR 11.4 million (2008: EUR 11.9 million).

(b) Impairment of available-for-sale equity investments
The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in their fair value below their cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates, among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would have suffered an additional loss of EUR 1,155 thousand (2008: EUR 6,399 thousand), being the transfer of the total debit balance in the fair value reserve to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4 Segment analyses

(a) By business segment

The Group provides services in three business segments:

– Retail banking – incorporating transaction accounts, saving products (deposits, investment saving products), loans (overdraft, consumer, housing, mortgage), exchange operations, bank card operations, online banking, mobile banking, banking-insurance products, selling mutual funds products, payment transactions;
– Corporate banking – incorporating transaction accounts, cash management, saving products (deposits, certificate of deposits), loans (overdraft, short term, investment), guarantees and letters of credit, documentary operations, payment transactions; and
– Financial markets – incorporating fixed income trading, trading money market instruments, financial derivatives trading, liquidity management, ALM, brokerage, assets management, corporate finance, proprietary trading, correspondent banking, raising loans, loan granting to foreign banks (participation in syndicated loans, bilateral facilities).

The Group's operational activities in the fields of custody and administrative services, IT and banking technology are not disclosed separately but are included in the "Other" segment. The "Other" segment also includes the activities of subsidiaries (leasing, factoring, investment management and other activities), the impact of inter-company transactions and the valuation of associates and joint ventures in the consolidated statements.

For the purpose of intra-company accounting, transactions between divisions were treated on the basis of an agreed and harmonised set of transfer instruments to account for the transfers of various effects (internal transfers/allocation of indirect costs by business segment, debiting overheads to commercial divisions, internal transfers of earnings between divisions).

Liabilities, interest expenses and other non-interest expenses from financing were allocated to those business segments which generated them. No other material expense items are attributed to business segments.

Assets and liabilities by business segment represent a majority of statement of financial position assets and liabilities, but they exclude tax liabilities which are disclosed at the group level and not allocated to business segments. The Central Back Office's activities and activities of the ATM and Card Operations Back Office Unit are also not accounted for by business segment.

Business segment results depend on the system of opportunity interest rates, which is based on alternative/opportunity interest rates applied to interest-bearing assets and liabilities items aimed at establishing opportunity income and expenses. This serves as a basis for calculating opportunity interest margins for individual business segments (as the difference between earned income and opportunity income) as well as opportunity interest margins for individual segments of expenses (as the difference between opportunity expenses and incurred expenses). This is also the basis for establishing positive and negative opportunity interest margins and consequently positive or negative contributions to the performance of individual business segments.

Operating segments are reported to the Assets and Liabilities Management Committee which is in the role of a chief operating decision maker.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

PRIMARY SEGMENT INFORMATION

As at 31 December 2009	Retail banking	Corporate banking	Financial markets	Other	Group
External net income[1]	14,169	118,717	(30,248)	7,301	109,939
Revenues from other segments	–	–	–	–	–
Segment result	(15,339)	16,870	29,617	(2,948)	28,200
Operating profit	–	–	–	–	28,200
Share of results of associates, joint ventures	–	–	–	58	58
Profit before tax	–	–	–	–	28,258
Income tax expense	–	–	–	–	(6,139)
Net profit for the year					**22,119**
Segment assets	497,348	2,408,622	1,537,147	86,146	4,529,263
Associates and joint ventures	–	–	10,133	(9,120)	1,013
Unallocated assets	–	–	–	–	27,200
Total assets					**4,557,476**
Segment liabilities	1,088,907	927,174	2,111,372	60,735	4,188,188
Unallocated liabilities	–	–	–	–	9,011
Total liabilities					**4,197,199**
Other segment items					
Capital expenditure	2,155	141	138	4,117	6,551
Depreciation and amortisation	1,029	264	154	4,444	5,891
Impairment and provision charge	(1,946)	(21,655)	(5,844)	(2,409)	(31,854)
Other non-cash expenses	–	–	–	–	–
[1]Include					
- interest income and similar income	28,142	125,146	28,929	4,790	187,007
- interest expenses and similar expenses	(24,615)	(20,622)	(61,979)	(2,165)	(109,381)
- dividend income	–	–	1,378	20	1,398
- fee and commission income	15,437	16,732	2,087	5,579	39,835
- fee and commission expenses	(4,795)	(2,539)	(663)	(923)	(8,920)

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2008	Retail banking	Corporate banking	Financial markets	Other	Group
External net income[1]	19,185	120,463	(31,960)	6,513	114,201
Revenues from other segments	–	–	–	–	–
Segment result	2,600	32,366	(5,126)	(3,738)	26,102
Operating profit	–	–	–	–	26,102
Share of results of associates, joint ventures	–	–	–	(60)	(60)
Profit before tax	–	–	–	–	26,042
Income tax expense	–	–	–	–	(5,644)
Net profit for the year					**20,398**
Segment assets	470,815	2,274,037	1,018,873	98,249	3,861,974
Associates and joint ventures	–	–	9,205	(8,250)	955
Unallocated assets	–	–	–	–	20,074
Total assets					**3,883,003**
Segment liabilities	1,041,956	742,871	1,682,389	71,700	3,538,916
Unallocated liabilities	–	–	–	–	7,331
Total liabilities					**3,546,247**
Other segment items					
Capital expenditure	1,551	82	88	4,897	6,618
Depreciation and amortisation	1,287	42	149	5,379	6,857
Impairment and provision charge	(1,856)	(299)	(11,119)	(1,421)	(14,695)
Other non-cash expenses	–	–	–	–	–
[1]Include					
- interest income and similar income	33,441	133,561	40,833	5,966	213,801
- interest expenses and similar expenses	(29,536)	(25,262)	(76,299)	(3,918)	(135,015)
- dividend income	1,357	–	2,203	34	3,594
- fee and commission income	15,950	13,207	1,745	7,149	38,051
- fee and commission expenses	(2,027)	(1,043)	(442)	(2,718)	(6,230)

Capital expenditure relates to purchases of tangible and intangible assets in the current business year.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(b) Geographical concentration

Country risk is also part of the credit risk assumed by the Group. In order to facilitate country risk management, the Bank produced a set of rules which stipulate procedures for establishing and monitoring risk exposures to foreign countries as well as procedures for setting and monitoring the respective risk exposure limits. According to these rules, the Bank establishes risk exposures to individual foreign countries quarterly in line with credit ratings assigned by external credit assessment institutions. This serves as a basis for the classification of foreign countries into seven internal rating categories which in turn determine exposure limits per country. In this way the adequate spreading of risk to achieve the highest possible return is ensured.

GEOGRAPHICAL CONCENTRATIONS OF NON-CURRENT ASSETS AND REVENUES

As at 31 December 2009	Total non-current assets	Revenues
Slovenia	61,141	181,964
Other European Union countries	–	33,866
Other former Yugoslavia	33	8,142
Other countries	–	4,268
Investments in associates and joint ventures	1,013	–
	62,187	**228,240**

As at 31 December 2008	Total non-current assets	Revenues
Slovenia	53,930	209,123
Other European Union countries	–	30,827
Other former Yugoslavia	3	8,615
Other countries	–	6,881
Investments in associates and joint ventures	955	–
	54,888	**255,446**

Revenues consist of interest and similar income, fee and commission income and dividend income.

The Group operates principally in Slovenia, where it is based. Inter-bank exposures account for more than one-half of all international transactions, whilst the rest are transactions with foreign companies and at the central government level.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 Net interest income

	2009	2008
Interest income and similar income		
Loans and advances	161,900	181,795
- to banks	5,227	11,308
- to customers	156,673	170,487
Available-for-sale securities	17,249	17,685
Financial assets held to maturity	510	508
Financial assets held for trading	4,475	8,326
Financial assets at fair value through profit or loss	362	616
Cash and short-term funds	1,156	2,555
Reverse repos	9	55
Other	1,346	2,261
	187,007	**213,801**
Interest expenses and similar expenses		
Deposits	61,534	69,397
- from banks	2,690	7,682
- from customers	58,844	61,715
Repos	4	189
Debt securities in issue	10,853	5,873
Financial liabilities held for trading	3,694	3,635
Loans from banks	31,891	53,568
Subordinated liabilities	1,403	2,348
Other	2	5
	109,381	**135,015**
Net interest income	**77,626**	**78,786**

Interest income accrued on impaired financial assets is EUR 10,022 thousand (2008: EUR 7,724 thousand).

6 Dividend income

	2009	2008
Held-for-trading securities	374	939
Available-for-sale securities	1,024	2,655
	1,398	**3,594**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7 Net fee and commission income

BREAKDOWN BY TYPE OF TRANSACTION:

	2009	2008
Fee and commission income		
Payment transactions in Slovenia	22,799	21,750
International payment transactions	2,094	2,465
Lending transactions	589	1,480
Administrative services	4,952	4,700
Guarantees granted	3,959	4,066
Currency exchange transactions	143	164
Brokerage and fiduciary activities	3,967	3,951
Fund management	1,332	1,917
	39,835	**40,493**
Fee and commission expenses		
Payment transactions	8,051	7,941
International banking services	204	128
Currency exchange transactions	31	33
Brokerage and fiduciary activities	145	105
Stock exchange transactions and other securities transactions	276	245
Fee expenses for other transactions	213	168
	8,920	**8,620**
Net fee and commission income	**30,915**	**31,873**

Adjustments of comparative information for 2008 are explained in Note 1.25 Comparatives.

8 Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss

	2009	2008
Net realised gains from available-for-sale financial assets	3,361	2,574
Realised losses from loans and other financial assets and liabilities	(221)	(125)
Realised gains from loans and other financial assets and liabilities	211	537
	3,351	**2,986**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2009	2008
Foreign exchange transaction gains	535	864
Net gains from derivatives	4,168	5,083
Net gains from other financial assets	61	–
Net gains/(losses) from securities:		
- interest rate instruments	671	(7,216)
- equity holdings	(228)	(5,503)
Unrealised (losses) from trading securities	(410)	(6,162)
	4,797	**(12,934)**

In 2008 the Group entered into a Cross Currency Swap (hereinafter: CCS), which earned EUR 2,837 thousand in net valuation gains (2008: EUR 1,399 thousand). Due to a loan taken in USD a foreign exchange loss was incurred in the amount of EUR 2,093 thousand (2008: EUR 248 thousand).

10 Net gains and losses on financial assets and liabilities designated at fair value through profit or loss

	2009	2008
Net gains/(losses) arising on:		
- equity securities	(1,554)	–
- debt securities	652	(3,962)
- deposits from customers	(145)	675
	(1,047)	**(3,287)**

11 Net other operating income

	2009	2008
Other operating income		
- income from non-banking services	111	120
- income from debit cards and deferred payment cards	424	422
- income from sale of vehicles, real estate and other	1,307	1,400
- other operating income	1,116	639
	2,958	**2,581**
Other operating expenses		
- taxes, contributions and other duties	(52)	(366)
- membership fees and similar	(160)	(161)
- other operating expenses	(299)	(482)
	(511)	**(1,009)**
Net other operating income	**2,447**	**1,572**

Adjustments of comparative information for 2008 are explained in Note 1.25 Comparatives.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 Administration costs

	2009	2008
Staff costs	32,949	31,092
- wages and salaries	29,382	27,694
- social security costs	1,629	1,527
- pension costs	1,938	1,871
Professional services	11,745	12,326
Advertising and marketing	1,903	2,031
Other administration costs	1,746	1,840
IT and software costs	1,975	2,162
Rent payable	723	836
Other costs	556	397
	51,597	**50,684**

Adjustments of comparative information for 2008 are explained in Note 1.25 Comparatives.

	2009	2008
Auditors' fees		
- for auditing of annual report	127	102
- other auditing services	138	117
- other non-auditing services	48	–
	313	**219**

13 Depreciation and amortisation

	Note	2009	2008
Property and equipment	25	4,051	4,751
Investment property	25	4	18
Intangible assets	25	1,836	2,088
		5,891	**6,857**

After having reassessed the useful life of fixed assets, the Group changed its depreciation rates in 2009. Due to a changed accounting assessment, the annual depreciation charge in 2009 was EUR 498 thousand less than it would have been without this change.

14 Provisions

	Note	2009	2008
Provisions for employee benefits	33	783	98
Other provisions	33	84	100
Provisions for guarantees and commitments	33	103	(8,786)
Net charge/(release) of provisions		**970**	**(8,588)**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15 Impairment

	Note	2009	2008
Impairment:			
- available-for-sale financial assets	21	3,871	2,657
- loans and receivables to banks	22, 2.1.1.5	1,962	8,441
- loans and receivables to non-bank customers	23	24,704	12,110
- other assets	27	313	75
- other		34	–
		30,884	**23,283**

In 2009 the Group impaired available-for-sale equities in the case of a significant or prolonged decline in their fair value below their cost.

16 Income tax expense

	Note	2009	2008
Current tax		6,750	6,137
Deferred tax (credit)/charge	34	(611)	(493)
		6,139	**5,644**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

	2009	2008
Profit before tax	28,258	26,042
Tax calculated at a tax rate of 21% (2008: 22%)	5,934	5,729
Income not subject to tax	(1,660)	(1,760)
Expenses not deductible for tax purposes	1,865	1,675
Income tax expense	**6,139**	**5,644**

In 2001 the tax authorities carried out a full-scope tax audit at the Bank for the years 1999 and 2000.

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

The effective income tax rate for 2009 was 21.7% (2008: 21.7%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17 Earnings per share

Basic earnings per share for 2009 is calculated by dividing the net profit attributable to owners of the parent by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

Basic earnings per share for 2008 is calculated by dividing the net profit attributable to owners of the parent less payment of interest on the innovative instrument by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume the conversion of all dilutive potential ordinary shares which the Bank did not have as at 31 December, 2009 nor as at 31 December, 2008.

	2009	2008
Profit attributable to owners of the parent in EUR thousand	22,121	20,406
Weighted average number of ordinary shares in issue	7,190,787	6,767,298
Number of treasury shares (Note 36)	9,213	9,213
Basic earnings per share (expressed in EUR per share)	**3.08**	**2.44**
Diluted earnings per share (expressed in EUR per share)	**3.08**	**2.44**

18 Cash and cash balances with central bank

	2009	2008
Cash in hand	24,132	23,698
Obligatory reserve	31,046	33,173
Other (overnight deposits with central bank)	197,421	172,546
	252,599	**229,417**
Included in cash and cash equivalents (Note 39)	221,553	196,244

The obligatory reserve is not available for financing the Group's day-to-day operations.

The final adjustment to the obligatory reserve requirements of the Eurosystem was made with the introduction of the euro, when the regulation on reserve requirements ceased to be in force, and the ECB Regulation on the application of minimum reserves entered into force.

An interest rate analysis of cash and cash balances with central bank is disclosed in Note 2.1.2.3.2. Fair value is disclosed in Note 2.1.4.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 Financial assets and liabilities held for trading

FINANCIAL ASSETS HELD FOR TRADING

	2009	2008
Debt securities	**2,457**	**23,921**
Treasury bills – listed	–	698
Government bonds – listed	954	4,961
Other debt securities – listed	1,112	18,262
Other debt securities – unlisted	391	–
Equity securities	**10,786**	**10,126**
– listed	10,695	10,073
– unlisted	91	53
Derivatives	**9,311**	**14,263**
	22,554	**48,310**
Current	16,260	18,984
Non-current	6,294	29,326
Included in cash and cash equivalents (Note 39)	–	694

As at the end of 2009, no securities held for trading by the Group were provided as collateral (2008: nil).

An interest rate analysis of financial assets held for trading is disclosed in Note 2.1.2.3.2. Additional information about fair value is disclosed in Note 2.1.4.

Derivative financial instruments

The Group uses the following derivative instruments for non-hedging purposes:

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contact value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. No exchange of principal takes place, except for certain currency swaps. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

(All amounts in EUR thousand unless otherwise stated)

Foreign currency options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy (a call option) or sell (a put option) a specific amount of a foreign currency at a predetermined price at or by a set date or during a set period. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk. Options are negotiated between the Group and a customer (OTC). The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

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

As at 31 December 2009		Fair values	
	Notional contract amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
- currency forwards	4,394	63	818
- currency swaps	–	–	–
- OTC currency options	116,927	815	824
Interest rate derivatives (OTC):			
- interest rate and cross-currency swaps	228,386	3,609	2,300
Equity derivatives – forwards	11,731	4,824	7
Total derivative assets/(liabilities) held for trading		**9,311**	**3,949**

As at 31 December 2008		Fair values	
	Notional contract amount	Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives (OTC):			
- currency forwards	121,840	1,936	2,074
- currency swaps	79,715	2,279	792
- OTC currency options	187,636	3,441	3,440
Interest rate derivatives (OTC):			
- interest rate swaps	158,004	4,096	3,528
Equity derivatives – forwards	7,291	2,511	–
Total derivative assets/(liabilities) held for trading		**14,263**	**9,834**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20 Financial assets designated at fair value through profit or loss

	2009	2008
Debt securities	19,397	17,528
Equity securities	3,343	4,780
Unit-linked investments	5,210	2,005
	27,950	**24,313**
Current	6,471	6,192
Non-current	21,479	18,121

Financial assets designated at fair value through profit or loss comprise various structured products referring both to bonds and unit-linked investments. Structured products are debt securities derived from an underlying instrument which defines their return. The interest payments of the above debt securities are equity-indexed, which results in dissimilar risks inherent in the host and embedded derivative. The Group therefore designates hybrid contracts as financial assets at fair value through profit or loss. Underlying instruments may be shares, indices, funds, commodities etc.

An accounting mismatch would arise if the equity securities were accounted through equity as the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating those equities at fair value, the movement in the fair value will be recorded in the income statement.

There were no significant gains or losses attributable to changes in the credit risk for those debt securities designated at fair value in 2009.

An interest rate analysis of financial assets designated at fair value through profit or loss is disclosed in Note 2.1.2.3.2. Additional information about fair value is disclosed in Note 2.1.4.

21 Available-for-sale financial assets

	2009	2008
Debt securities	**654,480**	**408,137**
Treasury bills (listed)	97,427	9,628
Other debt securities – at fair value:	557,053	398,509
– listed	546,006	397,660
– unlisted	11,047	849
Shares and equity holdings	**58,610**	**21,629**
Equity holdings* – at fair value (unlisted)	2,264	2,125
Shares – at fair value:	56,346	19,504
– listed	51,656	16,019
– unlisted	4,690	3,485
Unit-linked investments	**9,814**	**8,952**
Total available-for-sale financial assets	**722,904**	**438,718**
Current	212,768	94,658
Non-current	510,136	344,060
Included in cash and cash equivalents (Note 39)	–	9,590

* investments in limited liability companies

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December, 2009 the Group did not hold any pledged available-for-sale securities which give the transferee the right by contract or custom to sell or repledge them as collateral (2008: EUR 10,750 thousand).

As at 31 December, 2009 the Group held securities issued by the Slovene government and commercial banks as collateral for the purpose of payment settlement – STEP2 (pan-european automated clearing system for bulk payments in euro currency for cross border and SEPA payments) and for ECB instruments. The total value of the collateral was EUR 284,330 thousand (2008: EUR 85,929 thousand).

An interest rate analysis of available-for-sale financial assets is disclosed in Note 2.1.2.3.2. Additional information about fair value is disclosed in Note 2.1.4.

On 1 October, 2008 the Group reclassified EUR 1,693 thousand of financial assets, previously carried as held-for-trading securities, to available-for-sale securities. The accumulated loss arising from these securities before reclassification was EUR 844 thousand and is recognised as a loss from held for trading securities. As at 1 October, 2008 the asset structure was as follows: bonds EUR 273 thousand, shares EUR 1,289 thousand, investment coupons EUR 131 thousand. There was no reclassification in 2009. As at 31 December, 2009 the carrying amount of securities reclassified in 2008 equalled the fair value and totalled EUR 1,135 thousand. The impairment loss of those securities totalled EUR 97 thousand in 2009.

MOVEMENTS IN AVAILABLE-FOR-SALE TREASURY BILLS ARE AS FOLLOWS:

	2009	2008
As at 1 January	**9,628**	**–**
Additions	200,974	20,516
Disposals	(114,466)	(11,000)
Amortisation of discount	1,291	112
As at 31 December	**97,427**	**9,628**

MOVEMENTS IN OTHER AVAILABLE-FOR-SALE SECURITIES ARE AS FOLLOWS:

	2009	2008
As at 1 January	**429,090**	**486,117**
Exchange differences on monetary assets	(9)	179
Reclassification from financial assets held for trading	–	1,693
Additions	395,204	247,947
Disposals (sale and redemption)	(209,660)	(283,409)
Amortisation of discount and premium, interest received and accrued	2,375	(311)
Reclassification to loans (Note 22)	–	(4,500)
Impairment (Note 15, 37)	(3,871)	(2,657)
Gains/(losses) from changes in fair value (Note 37)	12,348	(15,969)
As at 31 December	**625,477**	**429,090**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22 Loans and receivables to banks

	2009	2008
Placements with other banks	27,368	13,168
Loans and deposits to other banks	522,336	276,856
Gross loans	549,704	290,024
Provision for impairment	(10,468)	(8,506)
Net loans	**539,236**	**281,518**
Current	524,173	251,829
Non-current	15,063	29,689
Included in cash and cash equivalents (Note 39)	172,720	245,432

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT ARE AS FOLLOWS:

	Note	
As at 1 January 2008		**65**
Provision for impairment	15, 2.1.1.5	8,441
Write-offs		–
As at 31 December 2008		**8,506**
Provision for impairment	15, 2.1.1.5	1,962
Write-offs		–
As at 31 December 2009		**10,468**

Due to the financial crisis' impact on the functioning of securities markets, in 2008 the Group used the option available under IAS 39 and reclassified financial instruments from held-for-trading financial assets and available-for-sale financial assets to loans and receivables to banks. There was no such reclassification in 2009.

RECLASSIFICATION OF DEBT FINANCIAL INSTRUMENTS

	2009	2008
From "held-for-trading" to "loans and receivables"		
Carrying amount as at 31 December	19,097	25,852
Fair value as at 31 December	18,277	22,867
Fair value of the profit/(loss) that would have been recognised in profit or loss if the financial asset had not been reclassified	1,267	(2,718)
Income recognised in profit or loss after reclassification	930	426
Impairment loss	–	2,800
Average effective interest rate	8.5%	
Estimated cash flow	31,632	

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	2009	2008
From "available-for-sale" to "loans and receivables"		
Carrying amount as at 31 December	1,440	2,700
Fair value as at 31 December	1,022	728
Impairment loss	–	5,639
Average effective interest rate	5.2%	
Estimated cash flow	2,700	

After the reclassification of financial instruments from available-for-sale assets to loans and receivables, the Group did not either in 2009 or in 2008 recognise any interest income from the bonds issued by banks which became insolvent or went bankrupt.

23 Loans and receivables to non-bank customers

	2009	2008
Corporate entities	2,551,806	2,439,158
Retail customers	505,138	463,049
Gross loans	3,056,944	2,902,207
Provision for impairment	(151,643)	(127,663)
Net loans	**2,905,301**	**2,774,544**
Current	1,783,199	1,503,666
Non-current	1,122,102	1,270,878

Receivables for interest are recognised together with the underlying financial instrument.

The Group accepted listed securities at a fair value of EUR 188,291 thousand (2008: EUR 139,149 thousand) as collateral for loans, which it is permitted to sell or repledge.

Adjustments of comparative information for 2008 are explained in Note 1.25 Comparatives.

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT ARE AS FOLLOWS:

	Note	Corporate entities	Retail customers	Total
As at 1 January 2008		**107,183**	**10,705**	**117,888**
Provision for impairment	15	11,014	1,096	12,110
Write-offs		(2,210)	(125)	(2,335)
As at 31 December 2008		**115,987**	**11,676**	**127,663**
Provision for impairment	15	23,401	1,303	24,704
Write-offs		(541)	(183)	(724)
As at 31 December 2009		**138,847**	**12,796**	**151,643**

All loans were written down to their recoverable amounts.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Loans to and receivables from banks and non-bank customers are further analysed in the following notes: Credit risk (Note 2.1.1), Foreign exchange risk (Note 2.1.2.2), Interest rate risk (Note 2.1.2.3), Liquidity risk (Note 2.1.3), Fair value (Note 2.1.4) and Related-party transactions (Note 45).

Loans and receivables to non-bank customers also include finance lease receivables disclosed in Note 41.

24 Held-to-maturity investments

	2009	2008
Debt securities – at amortised cost – listed	**13,449**	**13,378**
Current	4,284	–
Non-current	9,165	13,378

As at 31 December, 2009 the Group held securities issued by the Slovene government as collateral for the purpose of payment settlement – STEP2 and for ECB instruments. The total value of the collateral was EUR 13,449 thousand (2008: EUR 13,378 thousand).

The Group has not reclassified any financial assets to be measured at amortised cost rather than fair value during the year (2008: nil).

Debt securities have fixed interest rates.

An interest rate analysis of held-to-maturity investments is additionally disclosed in Note 2.1.2.3.2. Fair value is disclosed in Note 2.1.4.

MOVEMENTS IN HELD-TO-MATURITY INVESTMENTS ARE AS FOLLOWS:

	2009	2008
As at 1 January	**13,378**	**13,308**
Additions (purchase)	–	–
Disposals (maturity and redemption)	(440)	–
Amortisation of discount	511	70
As at 31 December	**13,449**	**13,378**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Land and buildings	Comput-ers	Other equi-pment	Assets under construc-tion	**Total proper-ty and equi-pment**	**Intangi-ble assets**	**Invest-ment property**	**Non - current assets held for sale**
As at 31 December 2008								
Cost	57,890	10,856	25,859	1,230	95,835	13,493	245	2,464
Accumulated depreciation/ amortisation	20,487	9,727	17,542	–	47,756	9,795	122	–
Net book amount	**37,403**	**1,129**	**8,317**	**1,230**	**48,079**	**3,698**	**123**	**2,464**
Cost								
As at 1 January 2009	**57,890**	**10,856**	**25,859**	**1,230**	**95,835**	**13,493**	**245**	**2,464**
Additions	2,098	1,837	1,657	6,008	11,600	1,965	–	1,793
Transfers between groups	8	10,539	(10,448)	–	99	–	(92)	(8)
Disposals	(5)	(1,087)	(1,559)	(784)	(3,435)	(54)	–	(9)
As at 31 December 2009	**59,991**	**22,145**	**15,509**	**6,454**	**104,099**	**15,404**	**153**	**4,240**
Depreciation								
As at 1 January 2009	**20,487**	**9,727**	**17,542**	**–**	**47,756**	**9,795**	**122**	**–**
Depreciation and amortisation (Note 13)	1,082	1,512	1,457	–	4,051	1,836	4	–
Additions	–	–	–	–	–	–	–	–
Transfers between groups	–	7,204	(7,142)	–	62	–	(65)	–
Disposals	–	(1,079)	(900)	–	(1,979)	(55)	–	–
As at 31 December 2009	**21,569**	**17,364**	**10,957**	**–**	**49,890**	**11,576**	**61**	**–**
Net book amount as at 31 December 2009	**38,422**	**4,781**	**4,552**	**6,454**	**54,209**	**3,828**	**92**	**4,240**

All investment property generates income and expenses. There was EUR 9 thousand of rental income from investment property (2008: EUR 12 thousand) and EUR 5 thousand of direct expenses recognised in the income statement in 2009 (2008: EUR 7 thousand).

Non-current assets held for sale also arise from tangible fixed assets received as payment of claims amounting to EUR 1,462 thousand (2008: EUR 722 thousand).

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25 Property and equipment, intangible assets, investment property and non-current assets held for sale (continued)

	Land and buildings	Compu-ters	Other equi-pment	Assets under construc-tion	**Total proper-ty and equi-pment**	**Intangi-ble assets**	**Invest-ment property**	**Non - current assets held for sale**
As at 31 December 2007								
Cost	56,130	10,113	25,587	5,127	96,957	12,265	256	1,427
Accumulated depreciation/ amortisation	19,463	8,735	16,914	–	45,112	7,730	112	–
Net book amount	**36,667**	**1,378**	**8,673**	**5,127**	**51,845**	**4,535**	**144**	**1,427**
Cost								
As at 1 January 2008	**56,130**	**10,113**	**25,587**	**5,127**	**96,957**	**12,265**	**256**	**1,427**
Additions	1,815	1,888	1,881	–	5,584	1,253	16	2,464
Disposals	(55)	(1,145)	(1,609)	(3,897)	(6,706)	(25)	(27)	(1,427)
As at 31 December 2008	**57,890**	**10,856**	**25,859**	**1,230**	**95,835**	**13,493**	**245**	**2,464**
Depreciation								
As at 1 January 2008	**19,463**	**8,735**	**16,914**	**–**	**45,112**	**7,730**	**112**	**–**
Depreciation and amortisation (Note 13)	1,038	1,966	1,747	–	4,751	2,088	18	–
Additions	26	–	8	–	34	–	16	–
Disposals	(40)	(974)	(1,127)	–	(2,141)	(23)	(24)	–
As at 31 December 2008	**20,487**	**9,727**	**17,542**	**–**	**47,756**	**9,795**	**122**	**–**
Net book amount as at 31 December 2008	**37,403**	**1,129**	**8,317**	**1,230**	**48,079**	**3,698**	**123**	**2,464**

26 Investments in associates and joint ventures

	2009	**2008**
Associates		
As at 1 January	–	49
Additions	34	14
Impairment	(34)	–
Share of results	–	(63)
As at 31 December	**–**	**–**
Joint ventures		
As at 1 January	955	952
Share of results	58	3
As at 31 December	**1,013**	**955**
Total as at 31 December	**1,013**	**955**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In December 2009, KDSPV1 B.V. and other shareholders of KD Private Equity Fund B.V. at the General Meeting of Shareholders adopted a decision on the liquidation of KD Private Equity Fund B.V. and appointed a liquidator. Given that the associated company KDSPV1 B.V. had only been established for the purpose of investing in the above mentioned fund, Abanka impaired it fully.

THE PRINCIPAL ASSOCIATES WHICH ARE UNLISTED ARE:

2009 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Profit/ (Loss)	% Interest held
KDSPV1 B. V.	Netherlands	1	104	(103)	–	(145)	33.33

2008 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Profit/ (Loss)	% Interest held
KDSPV1 B. V.	Netherlands	15	71	(56)	–	(83)	33.33

THE PRINCIPAL ASSOCIATES WHICH ARE LISTED ARE:

2009 Name	Country of incorporation	Assets	Liabilities	Liabilities to investors in fund units	Revenues	Profit/ (Loss)	% Interest held
Abančna DZU Delniški Evropa	Slovenia	31,139	234	30,905	7,517	2,804	31.42

2008 Name	Country of incorporation	Assets	Liabilities	Liabilities to investors in fund units	Revenues	Profit/ (Loss)	% Interest held
Abančna DZU Delniški Evropa	Slovenia	30,243	230	30,013	5,777	(26,323)	29.48

THE PRINCIPAL JOINT VENTURES WHICH ARE UNLISTED ARE:

2009 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Profit/ (Loss)	% Interest held
ASA Abanka Leasing d.o.o.	Bosnia and Herzegovina	39,525	37,458	2,067	3,400	201	49

2008 Name	Country of incorporation	Assets	Liabilities	Equity	Revenues	Profit/ (Loss)	% Interest held
ASA Abanka Leasing d.o.o.	Bosnia and Herzegovina	46,316	44,364	1,952	2,201	8	49

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27 Other assets

	2009	2008
Due from customers	803	670
Receivables from card operations	1,709	1,233
Inventories	692	508
Prepayments	572	1,327
Prepaid taxes	352	457
Other receivables:		
– debtors	173	638
– cheques	162	127
– receivables from operations abroad – foreign equities in euros	153	1,258
Other	993	2,191
	5,609	**8,409**
Current	5,595	8,380
Non-current	14	29

The amount of non-financial other assets is EUR 1,616 thousand (2008: EUR 2,292 thousand) and the amount of financial assets is EUR 3,993 thousand (2008: EUR 6,117 thousand).

Adjustments of comparative information for 2008 are explained in Note 1.25 Comparatives.

MOVEMENTS IN PROVISIONS FOR IMPAIRMENT OF OTHER FINANCIAL ASSETS ARE AS FOLLOWS:

	Note	
As at 1 January 2008		**3,739**
Provision for impairment	15	75
Write-offs		(177)
As at 31 December 2008		**3,637**
Provision for impairment	15	23
Write-offs		(2,318)
As at 31 December 2009		**1,342**

28 Deposits from central bank

	2009	2008
Deposits	9	115
Securities-backed loans	100,528	130,269
Total (current)	**100,537**	**130,384**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29 Financial liabilities designated at fair value through profit or loss

	2009	2008
Structured deposit (non-current)	**7,716**	**7,699**

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

The contractual undiscounted amount that will be required to be paid at maturity of the above debt security is EUR 9,101 thousand (2008: EUR 9,254 thousand). The amount exceeds the book amount by EUR 1,385 thousand (2008: EUR 1,555 thousand).

There were no significant gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value in 2009.

Deposits classified as financial liabilities designated at fair value through profit or loss are related to securities held as assets.

An interest rate analysis of financial liabilities designated at fair value through profit or loss is disclosed in Note 2.1.2.3.2. Additional information about fair value is disclosed in Note 2.1.4.

30 Deposits from banks and non-bank customers

	2009	2008
Deposits from banks	**47,751**	**66,027**
Current	41,293	61,309
Non-current	6,458	4,718

The amount of deposits from banks with fixed interest rates is EUR 39,285 thousand at 31 December, 2009 (2008: EUR 57,113 thousand); the amount of deposits from banks with variable interest rates is EUR 8,466 thousand at 31 December, 2009 (2008: EUR 8,914 thousand).

	2009	2008
Deposits from non-bank customers		
Corporate entities	1,108,676	910,668
Retail customers	1,058,375	1,007,643
Total deposits from non-bank customers	**2,167,051**	**1,918,311**
Current	1,423,162	1,874,814
Non-current	743,889	43,497

Fixed and variable interest rate deposits from non-bank customers account for 69% (2008: 71%) and 31% (2008: 29%) of the total respectively.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deposits and certificates of deposit provided as collateral for loans granted in 2009 totalled EUR 32,492 thousand (2008: EUR 21,895 thousand). The fair value of those deposits approximates the carrying amount.

An interest rate analysis of deposits from banks and non-bank customers is additionally disclosed in Note 2.1.2.3.2. Fair value is disclosed in Note 2.1.4.

Financial liabilities measured at amortised costs are further analysed as part of the statement of financial position in the following notes: Foreign exchange risk (Note 2.1.2.2), Interest rate risk (Note 2.1.2.3), Liquidity risk (Note 2.1.3), Fair value (2.1.4) and Related-party transactions (Note 45).

31 Debt instruments

	Interest rate on 31 December	2009	2008
Issued bills and certificates	1.1%	–	50
Certificates of deposit (falling due: 2010 to 2020)	2.0-5.9%	108,194	54,947
Bonds 9th issue due 1 March, 2011 in EUR	4.7%	9,874	9,874
Bonds 10th issue due 1 October, 2011 in EUR	4.6%	21,243	21,243
Bonds 11th issue due 1 December, 2010 in EUR	4.0%	16,525	17,348
Bonds 12th issue due 12 December, 2010 in EUR	3.8%	18,428	18,408
ABVIPFloat 09/12 due 18 September, 2012 in EUR	3M Euribor + 1%	499,099	–
Total debt instruments		**673,363**	**121,870**
Current		72,875	9,215
Non-current		600,488	112,655

No bond matured in 2009. In September 2009 an ordinary dematerialised bond with a government guarantee was issued with a nominal value of EUR 500 million, designation ABVIPFloat 09/12, three-year maturity and a variable interest rate of 3M EURIBOR + 100 BPS. The bond is listed on a foreign stock exchange, i.e. the London Stock Exchange.

Fair value is disclosed in Note 2.1.4.

32 Subordinated liabilities

	Interest rate on 31 December	2009	2008
Issued subordinated debt securities			
Short-term euro debt securities		5	10
Bonds 6th issue due 15 May, 2009 in EUR	5.9%	–	13,566
Bonds 7th issue due 21 May, 2010 in EUR	5.3%	16,740	16,740
Bonds 8th issue due 1 March, 2011 in EUR	4.9%	10,411	10,411
Bonds 6th issue (VIP6) due 9 September, 2009 in EUR	5.5%	–	254
Bonds 7th issue (VIP7) due 18 December, 2010 in EUR	6.2%	251	501
Total issued subordinated debt securities		**27,407**	**41,482**
Subordinated loan	3M Euribor + 1.9%	**118,401**	**118,969**
Total issued subordinated debt instruments		**145,808**	**160,451**
Current		16,996	14,205
Non-current		128,812	146,246

(All amounts in EUR thousand unless otherwise stated)

On 18 January, 2007 Abanka signed an agreement on a subordinated loan which classifies as an innovative instrument according to the definition in Article 11 of the Decision on Capital Calculation of (Savings) Banks (Official Gazette of the RS, no. 135/2006). The innovative instrument is a subordinated loan from VTB Europe, a bank with its head office in London. The innovative instrument fulfils all the Bank of Slovenia's requirements for inclusion in the Tier 1 and Tier 2 capital of the Bank.

The subordinated loan was financed by a bond issue, so called loan participation notes, issued by a Dutch company established specifically for this transaction. The proceeds from the notes issue were paid to VTB Europe to fund the subordinated loan that it provided to Abanka. Any payments of interest and principal on the subordinated loan are the sole source of funds to cover payments of interest and principal on the notes. As such, holders of the notes are exposed to Abanka's risk, though they have no recourse to any assets of Abanka.

Payments of principle and interest under the subordinated loan granted in January 2007 were entirely at the discretion of the management of Abanka and, therefore, the subordinated loan did not meet the definition of a financial liability in accordance with EU IFRS. Accordingly the subordinated loan was classified as an equity instrument in its entirety in the Annual Report for the year ended 31 December 2007.

In April 2008 the Management Board of Abanka declared a resolution in a Board Meeting regarding the discretionary right of the payment of interest of the subordinated loan and announced the modification to the public. The above modification resulted in a change in the accounting treatment of the notes and consequently a reclassification from equity to liabilities was made at fair value of EUR 117,539 thousand. Distributions to holders of the equity instrument which were made up to May 2008, were debited by the entity directly to retained earnings. Since then distributions to holders have increased interest expenses.

The final coupon of the 6th issue AB06 bonds of EUR 102.88 matured on 15 May, 2009. The coupon consists of the principal of EUR 100, and interest of EUR 2.88. The total settled amount of the matured AB06 coupon was EUR 13,889 thousand.

The final coupon of the 6th issue VIP6 of EUR 12.84 matured on 9 September, 2009. The coupon consists of the principal of EUR 12.50 and interest of EUR 0.34. The total settled amount of the matured VIP6 coupon was EUR 128 thousand.

The Group did not issue dividend bonds, convertible bonds or bonds with a pre-emptive right to the purchase of shares.

Fair value is disclosed in Note 2.1.4.

33 Provisions

	Note	Provisions for guarantees and commitments	Other provisions	Provisions for employee benefits
As at 1 January 2008		**17,709**	**3,258**	**2,785**
Additional/(released) provisions	14	(8,786)	100	98
Utilised during the year		–	(491)	(374)
As at 31 December 2008		**8,923**	**2,867**	**2,509**
Additional provisions	14	103	84	783
Utilised during the year		–	(530)	(227)
As at 31 December 2009		**9,026**	**2,421**	**3,065**

Provisions for severance payments and jubilee payments were set aside by the Group as at 31 December, 2009 based on its own calculations (2008: actuarial calculations).

(All amounts in EUR thousand unless otherwise stated)

The calculation is based on the following major assumptions:
- a discount rate of 4.35%;
- labour turnover from 2007 to 2009; and
- average wage growth: 3% per annum.

Employees are also entitled to jubilee payments for every decade of service. In 2009 the Group also established provisions of EUR 100 thousand (2008: EUR 100 thousand) for severance payments in the case of employment termination for business reasons.

Other provisions are disclosed in Note 40.

Other provisions include provisions for the national housing savings scheme (NHSS). Whenever a saver in the NHSS fails to take up the option of a housing loan on the NHSS terms, the Group is obliged to repay all the premiums received by the saver during the saving period to the National Housing Fund. The Group has created EUR 2,250 thousand (2008: EUR 2,682 thousand) of provisions for that purpose.

Other provisions also include provisions for legal proceedings of EUR 68 thousand (2008: EUR 119 thousand) and provisions for onerous contracts of EUR 103 thousand (2008: EUR 66 thousand).

34 Deferred income tax

Deferred income tax is calculated on all temporary differences under the liability method using effective tax rates of 20% according to the tax rate valid in the year when the elimination of temporary differences is projected (2008: 20% or 21%).

MOVEMENTS IN THE DEFERRED INCOME TAX ACCOUNT ARE AS FOLLOWS:

	2008	Movement	2009
Deferred income tax liabilities			
Available-for-sale investments (revaluation reserve)	1,827	690	2,517
Different depreciation rates for accounting and tax purposes	350	44	394
	2,177	**734**	**2,911**
Deferred income tax assets			
Available-for-sale investments (revaluation reserve)	2,603	(1,513)	1,090
Available-for-sale investments (impairment)	558	348	906
Trading securities	1	–	1
Impairment of property and equipment and investment property	101	–	101
Different depreciation rates for accounting and tax purposes	182	(42)	140
Provisions for employee benefits	464	47	511
Other provisions	390	(92)	298
Impairment on loans and receivables	943	261	1,204
Other	–	133	133
	5,242	**(858)**	**4,384**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

INCLUDED IN INCOME STATEMENT:

	Note	2009	2008
Trading securities		–	(125)
Available-for-sale investments		348	558
Impairment of property and equipment and investment property		–	(7)
Different depreciation rates for accounting and tax purposes		(86)	68
Provisions for employee benefits		47	(73)
Other provisions		(92)	(99)
Impairment on loans and receivables		261	191
Other		133	(30)
	16	**611**	**483**

INCLUDED IN EQUITY:

	2009	2008
Available-for-sale investments – unrealised gains	(690)	1,335
Available-for-sale investments – unrealised losses	(1,513)	1,514
	(2,203)	**2,849**

Further information on deferred tax charged directly to equity is presented in Note 37 Reserves and retained earnings.

35 Other liabilities

	2009	2008
Liabilities from other taxes – non-financial	631	703
Creditors	2,499	2,395
Liabilities from factoring	303	–
Liabilities from card operations	1,737	736
Prepayments	358	293
Liabilities to employees	1,253	1,242
Cash in transit	127	13
Items in the course of payment	727	850
Accrued costs	2,163	1,692
Other	4,699	4,285
Total liabilities (current)	**14,497**	**12,209**

Adjustments of comparative information for 2008 are explained in Note 1.25 Comparatives.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36 Basic equity, share premium and treasury shares

The Bank's share capital is comprised of 7,200,000 registered par-value shares. All of them are ordinary shares. The number of shares with a voting right is 7,198,874. All shares issued are fully paid. Shareholders with a holding of at least 5% of the issued share capital as at 31 December are as follows:

2009	Share
Zavarovalnica Triglav d.d.	25.6%
Sava d.d.	23.8%
Gorenjska banka d.d., Kranj	9.9%
Delniški vzajemni sklad Triglav Steber I	7.3%
HIT d.d., Nova Gorica	6.1%

2008	Share
Zavarovalnica Triglav d.d.	25.6%
Sava d.d.	23.8%
Zvon Ena Holding d.d.	17.2%
Delniški vzajemni sklad Triglav Steber I	7.3%
HIT d.d., Nova Gorica	6.1%

In 2009 there were no changes to treasury shares, meaning that as at 31 December, 2009 Abanka held 9,213 shares with the designation ABKN totalling EUR 240 thousand (2008: EUR 240 thousand).

MOVEMENTS IN BASIC EQUITY:

	Number of shares	Total
As at 1 January 2008	**5,500,000**	**22,951**
Issue of shares	1,700,000	7,094
As at 1 January 2009 and 31 December 2009	**7,200,000**	**30,045**

MOVEMENTS OF TREASURY SHARES:

	Number of shares	Total
As at 1 January 2008	**11,870**	**254**
Sale	(3,257)	(46)
Purchase	600	32
As at 1 January 2009 and 31 December 2009	**9,213**	**240**

MOVEMENTS IN SHARE PREMIUM:

	2009	2008
As at 1 January	**153,117**	**58,062**
Issue of shares	–	94,906
Appropriation of rewards in the form of shares	–	149
As at 31 December	**153,117**	**153,117**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37 Reserves from profit (including retained earnings) and revaluation reserves

	2009	2008
Reserves from profit	156,465	144,854
Retained earnings (including income from the current year)	15,188	11,899
Revaluation reserve	5,680	(2,941)
Total	**177,333**	**153,812**

MOVEMENTS IN RESERVES FROM PROFIT:

	2009	2008
As at 1 January	**144,854**	**112,644**
Transfer from retained earnings to other reserves from profit	9,286	30,365
Transfer from net profit to statutory reserves	2,292	1,834
Other	33	11
As at 31 December	**156,465**	**144,854**

In accordance with a resolution by the General Meeting of Shareholders, in 2009 EUR 33 thousand of unpaid dividends, the payment of which fell due more than five years before (2008: EUR 11 thousand), was derecognised as a liability, with the write-back being reflected in equity.

MOVEMENTS IN RETAINED EARNINGS:

	2009	2008
As at 1 January	**(3,503)**	**8,357**
Transfer from net profit to retained earnings	15,234	25,861
Appropriation of dividends	(7,263)	(7,260)
Transfer from retained earnings to other reserves	(9,106)	(29,709)
Covering of the loss from the financial year in subsidiary	(180)	(731)
Other	9	(21)
As at 31 December	**(4,809)**	**(3,503)**

MOVEMENTS OF NET PROFIT FOR THE FINANCIAL YEAR:

	2009	2008
As at 1 January	**15,402**	**26,586**
Net profit for the financial year	22,121	20,406
Appropriation of interests from innovative instrument	–	(3,895)
Transfer from net profit to retained earnings	(15,234)	(25,861)
Transfer from net profit to statutory reserves	(2,292)	(1,834)
As at 31 December	**19,997**	**15,402**

Total retained earnings (including income from the current year)	**15,188**	**11,899**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

MOVEMENTS IN REVALUATION RESERVES:

	Note	2009	2008
Revaluation reserve – AFS investment			
As at 1 January		**(2,924)**	**7,260**
Net gains/(losses) from changes in fair value	21	12,348	(15,969)
Impairment losses	21	(3,871)	(2,657)
Less: addition to deferred income taxes – (liabilities)/receivables		(1,747)	4,053
Impairment losses transferred to net profit	15	3,871	2,657
Less: transfer of deferred income taxes on impairment		(775)	(558)
Net (gains)/losses transferred to net profit on disposal		(1,515)	2,936
Less: released deferred income taxes on disposal – receivables/(liabilities)		318	(646)
As at 31 December		**5,705**	**(2,924)**

	2009	2008
Consolidated capital revaluation adjustment		
As at 1 January	**(17)**	**–**
Exchange differences	(8)	(17)
As at 31 December	**(25)**	**(17)**

Total revaluation reserves	**5,680**	**(2,941)**

38 Dividends per share

Final dividends are not accounted for until they have been approved at the Annual General Meeting. At the meeting in May 2010, a dividend in respect of 2009 of EUR 0.63 per ordinary share (2008: actual dividend EUR 1.01 per ordinary share) is to be proposed. The consolidated financial statements for the year ended 31 December, 2009 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December, 2010.

39 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

	2009	2008
Cash and cash balances with central bank – Note 18	221,553	196,244
Treasury bills and other eligible bills – Notes 19, 21	–	10,284
Loans and receivables to banks – Note 22	172,720	245,432
	394,273	**451,960**

40 Commitments and contingencies

a) Legal proceedings

As at 31 December, 2009 and 31 December, 2008, there were some legal proceedings against the Group; however, management considers that the provision booked is appropriate and no further loss is expected.

The total amount of legal proceedings for which the Group is a defendant was EUR 154 thousand (2008: EUR 218 thousand). The Group made provisions for these legal proceedings on the basis of an estimated future cash flow of EUR 68 thousand (2008: EUR 119 thousand) – Note 33. For all other legal proceedings, the Group estimates that it is less than probable that a cash outflow will be required to settle the proceedings.

b) Capital expenditure commitments

As at 31 December, 2009 and 31 December, 2008, the Group had no capital expenditure commitments in respect of building and equipment purchases.

c) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to customers upon request. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet their obligations to third parties, carry the same credit risk as loans, documentary and commercial letters of credit (which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than direct borrowing.

Cash requirements under guarantees and standby letters of credit are considerably lower than the amount of the commitment because the Group does not generally expect the third party to draw the funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, secondly, from these drawings subsequently not being repaid when due. The Group monitors the term to maturity of credit commitments because long-term commitments generally involve greater credit risk than short-term ones. The total outstanding contractual amount of credit commitments to extend credit does not necessarily represent future cash requirements since many of these commitments may expire or terminate without being funded.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table indicates the contractual amounts of the Group's guarantees and commitments to extend credit to customers:

GUARANTEES AND COMMITMENTS

	Note	2009	2008
Performance bonds		317,166	344,731
Financial guarantees		91,569	78,108
Letters of credit		1,438	1,159
Avals		26	42
Loan commitments		269,092	253,353
Derivatives		10,963	11,272
Other		18,427	16,121
		708,681	**704,786**
Provision for guarantees and commitments and other provisions:	33		
– guarantees and commitments		(9,026)	(8,923)
– other provisions			
- legal proceedings		(68)	(119)
- onerous contracts		(103)	(66)
- national housing savings scheme (NHSS)		(2,250)	(2,683)
		697,234	**692,995**

41 Leases

	2009	2008
Gross investment in finance leases, receivable:	**106,077**	**116,151**
– no later than 1 year	39,564	17,934
– later than 1 year and no later than 5 years	47,161	53,103
– later than 5 years	19,352	45,114
Unearned future finance income on finance leases	13,899	22,914
Net investment in finance leases:	**92,178**	**93,237**
– no later than 1 year	35,467	17,153
– later than 1 year and no later than 5 years	40,193	46,201
– later than 5 years	16,518	29,883

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

	2009	2008
Investment in operating leases, receivable:	**2,540**	**2,685**
– no later than 1 year	1,038	1,331
– later than 1 year and no later than 5 years	1,502	1,354
– later than 5 years	–	–
Operating lease liabilities:	**733**	**1,252**
– no later than 1 year	97	307
– later than 1 year and no later than 5 years	336	565
– later than 5 years	300	380

Finance lease liabilities were immaterial in both 2009 and 2008.

42 Investment services and transactions for customers

BROKERAGE TRANSACTIONS

	2009	2008
Assets	**3,561**	**6,734**
Claims of settlement and transaction accounts for customer assets	**241**	**3,225**
– from financial instruments	50	2,899
– against the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for sold financial instruments	191	326
Customers' cash	**3,320**	**3,509**
– in the settlement account for customer assets	1,751	1,853
– in banks' transaction accounts	1,569	1,656
Liabilities	**3,561**	**6,734**
Liabilities of settlement and transaction accounts for customer assets	**3,561**	**6,734**
– to customers from cash and financial instruments	3,386	6,546
– to the CSCC (Central Securities Clearing Corporation) or the bank's clearing account for purchased financial instruments	110	130
– to the bank or the bank's settlement account for commission, fees etc.	65	58

INCOME AND EXPENSES FROM FEES AND COMMISSIONS IN CONNECTION WITH INVESTMENT SERVICES AND ACTIVITIES

	2009	2008
Income from fees and commissions in connection with investment services and activities for customers	**3,209**	**3,906**
Reception, transmission and execution of orders	1,081	1,326
Management of financial instruments	161	345
Custody and similar services	1,967	2,235
Expenses from fees and commissions in connection with investment services and activities and ancillary investment services and activities for customers	**253**	**218**
Fees and commission in connection with the CSCC (Central Securities Clearing Corporation) and similar organisations	178	188
Fees and commission in connection with the stock exchange and similar organisations	75	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43 Managed funds

The Group manages assets totalling EUR 72,432 thousand (2008: EUR 69,197 thousand) on behalf of third parties. Managed fund assets are accounted for separately from those of the Group. Income and expenses of these funds are for the account of the respective fund and no liability falls on the Group in connection with these transactions. The Group is compensated for its services by fees chargeable to the funds.

44 Other items in the cash flow statement

Other gain from investing activities totalling EUR 510 thousand relates to held-to-maturity investments.

Other loss from financing activities totalling EUR 6,920 thousand relates to interest from subordinated liabilities (Abanka's subordinated bonds).

Other adjustments to total profit or loss before tax relate to net provisions (EUR 3,852 thousand of new provisions less EUR 2,882 thousand of utilised provisions).

45 Related-party transactions

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits. The volume of transactions involving related parties for the year-end, and related expense and income for the year are as follows:

Type of related party	Members of the Management and Supervisory Boards		Entities with a significant influence		Associates and joint ventures	
	2009	2008	2009	2008	2009	2008
Loans						
Loans outstanding as at 1 January	267	250	140,471	84,233	33,260	4,450
Changes in related parties	(63)	–	–	–	–	–
Loans issued during the year	227	417	204,522	546,357	32,115	30,300
Loan repayments during the year	(227)	(400)	(245,972)	(490,119)	(29,739)	(1,490)
Loans outstanding as at 31 December	**204**	**267**	**99,021**	**140,471**	**35,635**	**33,260**
Interest income and fee earned	2	20	7,278	6,739	1,573	1,335
Deposits						
Deposits as at 1 January	1,456	667	49,344	25,584	–	–
Changes in related parties	(579)	(86)	–	–	–	–
Deposits received during the year	494	1,954	23,568	148,682	–	–
Deposits repaid during the year	(634)	(1,079)	(49,990)	(124,922)	–	–
Deposits as at the end of the year	**737**	**1,456**	**22,921**	**49,344**	**–**	**–**
Interest expense on deposits	18	26	1,503	1,619	–	–
Foreign exchange trading						
Aggregated gain/(loss)	–	–	–	–	–	–
Other revenue – fee income	**–**	**–**	**–**	**–**	**–**	**–**
Guarantees, comfort letters issued by the Group	**–**	**–**	**–**	**–**	**–**	**–**
Guarantees fee income	**–**	**–**	**–**	**–**	**–**	**–**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Related parties consist of members of the Management and the Supervisory Boards, entities with a significant influence and associates and joint ventures.

In 2009 no share options issued by Abanka Vipa d.d. were granted to the management, while in June 2008 the management of the Bank was awarded remuneration in the form of shares issued by Abanka Vipa d.d. – 1,037 ABKR shares and 2,220 ABKN shares – with a fair value of EUR 60 per share as at the day of payment.

The Group's outstanding loans to members of the Bank's Supervisory Board stood at EUR 204 thousand at the end of 2009 (2008: EUR 243 thousand). The amount of loan repayments totalled EUR 202 thousand (2008: EUR 260 thousand). The average interest rate on the loans was 5.64% (2008: 6.40%).

There were no Group's outstanding loans to members of the Management Board at the end of 2009 (2008: nil). The amount of loan repayments totalled EUR 25 thousand (2008: EUR 135 thousand). The average interest rate on the loans was 5.49% (2008: 6.08%).

The Group's outstanding loans to management personnel stood at EUR 873 thousand at the end of 2009 (2008: EUR 800 thousand). The amount of loan repayments totalled EUR 158 thousand (2008: EUR 482 thousand). The average interest rate on the loans was 4.08% (2008: 6.46%).

TOTAL EARNINGS AND BENEFITS RECEIVED BY THE BANK'S MANAGEMENT BOARD FOR WORK IN THE 2009 FINANCIAL YEAR

	Aleš ŽAJDELA, M.Sc.	**Radovan JEREB, M.Sc. Econ.**	**Gregor HUDOBIVNIK**	**Total in EUR**
Fixed salaries	173,365.18	147,488.09	148,459.53	469,312.80
Performance-related pay	22,780.00	19,362.00	19,362.00	61,504.00
Profit sharing	–	–	–	–
Options and other remuneration	–	–	–	–
Reimbursements	1,997.16	1,272.96	1,272.96	4,543.08
Insurance premiums	6,145.68	6,145.68	5,885.16	18,176.52
Fees and commissions	–	–	–	–
Other additional payments	–	4,521.45	8,126.72	12,648.17
	204,288.02	**178,790.18**	**183,106.37**	**566,184.57**

Total earnings and benefits received by the Bank's Management Board for work in the 2008 financial year were EUR 797 thousand. Fixed salaries amounted to EUR 473 thousand, performance-related pay was EUR 287 thousand and other payments EUR 37 thousand.

TOTAL EARNINGS AND BENEFITS RECEIVED BY MANAGEMENT PERSONNEL

	2009	**2008**
Salaries	3,375	3,369
Jubilee payments	1	1
Retirement benefits or redundancy payments	42	233
	3,418	**3,603**

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

TOTAL EARNINGS AND BENEFITS RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FOR WORK IN THE 2009 FINANCIAL YEAR

	Service remuneration	Attendance fees	Reimbursements	Total in EUR
Janez Bohorič	13,500.00	3,110.00	178.08	16,788.08
Branko Pavlin, M.Sc.	4,500.00	1,943.75	–	6,443.75
Vladimir Mišo Čeplak, M.Sc.	4,500.00	5,169.55	23.39	9,692.94
Miha Dolinar	9,000.00	5,818.03	–	14,818.03
Slaven Mićković, Ph.D.	4,500.00	1,943.75	–	6,443.75
Uroš Rožič, M.Sc.	9,000.00	2,721.25	–	11,721.25
Simon Zdolšek	9,000.00	6,334.16	890.83	16,224.99
Tomaž Toplak	9,000.00	2,378.82	–	11,378.82
Niko Trošt, M.Sc.	4,500.00	777.50	160.41	5,437.91
Irena Vodopivec Jean	4,500.00	777.50	–	5,277.50
	72,000.00	**30,974.31**	**1,252.71**	**104,227.02**

Total earnings and benefits received by members of the Supervisory Board in the 2008 financial year were EUR 96 thousand. Service remuneration amounted to EUR 72 thousand, attendance fees totalled EUR 23 thousand, while reimbursements totalled EUR 1 thousand.

46 Subsidiaries

		2009	2008
Name	**Country**	**% Interest**	**% Interest**
Abančna DZU d.o.o., Ljubljana – unlisted	Slovenia	99.00	99.00
Afaktor d.o.o., Ljubljana – unlisted	Slovenia	100.00	100.00
Vogo Leasing d.o.o., Šempeter pri Novi Gorici – unlisted	Slovenia	–	100.00
Aleasing d.o.o., Celje – unlisted (former Eurofin Leasing)	Slovenia	100.00	100.00
Argolina d.o.o., Ljubljana – unlisted	Slovenia	100.00	100.00
Analožbe d.o.o., Ljubljana – unlisted	Slovenia	100.00	100.00

On July 1, 2009 Vogo Leasing merged with Aleasing. In December 2009, Abanka increased the share capital of Aleasing by EUR 1,002 thousand.

(All amounts in EUR thousand unless otherwise stated)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47 Acquisitions and disposals

a) Acquisitions
There were no acquisitions in 2009 and 2008.

EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

	2009	2008
As at 1 January	**22**	**37**
Share of net loss of subsidiaries	(2)	(8)
Increase/(decrease) in revaluation reserve – AFS investments	2	(7)
As at 31 December	**22**	**22**

b) Disposals
There were no disposals in 2009 and 2008.

48 Events after the date of the statement of financial position

No events have occurred after the date of the statement of financial position that have affected the financial statements for 2009.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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Independent auditor's report

To the Shareholders of Abanka Vipa d.d.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Abanka Vipa d.d. and its subsidiaries ("the Abanka Vipa Group") which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Acts. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

The company is registered by District court in Ljubljana under the number 12156800 as well in to the register of the Auditing companies by Slovene Audit Institute under the number RD-A-014. The amount of the registered share capital is EUR 34.802. The list of employed auditors is available at the registered office of the company.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group Abanka Vipa as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the requirements of the Slovene Corporation and Banking Acts.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Directors' Report in accordance with the Slovene Corporation Act. We are required by the Slovene Corporation Act to read the Directors' Report and to express an opinion whether the Directors' Report is consistent with the consolidated financial statements of the Group.

In our opinion, the Directors' Report is consistent with the accompanying consolidated financial statements of the Group as of 31 December 2009.

Ljubljana, March 23, 2010

PricewaterhouseCoopers d.o.o.

Leon Živec

Certified Auditor

Francois Mattelaer

Partner

PRICEWATERHOUSECOOPERS d.o.o.

3.

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