ANNUAL REPORT 2012 BANKA SPARKASSE and the SPARKASSE GROUP

1.1 Statement by the Management Board

Dear customers, business partners, colleagues and owners of the Sparkasse Group,

The environment in which banks in Slovenia have operated for the 4th consecutive year was characterised by negative figures. In 2009, Slovenia recorded an 8% drop in GDP and since then no upward trends have been noted. By mid-year, the Republic of Slovenia recorded more corporate bankruptcies than in the entire 2009, when the figure stood at 332. The unemployment rate climbed to 9.6% according to the ILO methodology, with the major portion, i.e. nearly 25%, accounted for by the 15–24 age group.

Recession was accordingly reflected in the banks' balance sheets. The share of bad debt of D- and E-graded clients rose parallel to the volume of impairments and provisions. Banks' responses to these developments varied, as each in its own way tried to adjust to the situation.

The public limited company Banka Sparkasse belongs to the group of Erste bank and Sparkassen, forming part of the Erste Group, which operates in more than 20 countries of Central and South-Eastern Europe, services over 17 million customers and employs about 50,000 people. Banka Sparkasse has a solid backing in its owners, Kärntner Sparkasse AG, Klagenfurt (70% interest), Steiermärkische Bank AG, Graz (26% interest), and Erste Bank, Vienna (4% interest). On the Slovenian market, the Bank enjoys strong support, ensuring it a sound liquidity and capital structure.

At the end of 2011, Banka Sparkasse recorded a loss equalling nine million ninety-three thousand euros after tax. The main reasons for the loss were the credit portfolio impairments that exceeded the plan by 65.1%, the increase in prices of refinancing funds and the drop in Euribor. The Bank launched suitable austerity measures and accelerated intensive care activities. These measures somewhat mitigated the final negative result and provide a source of good experience to be relied on in the case of similar action in similar circumstances.

In 2012, the business model of Banka Sparkasse again focused on retail banking and banking with SMEs. The volume of business was adjusted to the recession developments. The total portfolio of exposure to customers dropped by 4.61% in 2012. In comparison to 2011, loans to customers dropped by 4.61% and liabilities to customers grew by 17.78%. The Bank is constantly striving for prudent risk management and improvement of operational efficiency. It operates under the conservative principle, and in 2012 it made EUR 16,456 thousand of impairments to the credit portfolio with the share of non-performing loans equalling 11.2%.

In spite of the economic crisis, Banka Sparkasse did not abandon its goals. In 2012, it launched a new saving-investment product *Naložbeni duo* (Investment Duo) and renovated the Net.Stik electronic bank to ensure even greater safety and quality of e-banking.

The first and central value of the Bank is trust, with a focus on customer satisfaction and a positive experience when entering the Bank. In 2012, the Bank increased the number of customers by 2.79% over 2011 and segmented retail customers into sales, standard and personal, as its aim is to offer them the services and products that fully meet their needs and wishes. In corporate banking, the Bank's advantage is its function as a one-stop shop, offering financing, leasing and factoring. Since the Bank wishes to provide support to companies' growth and offer them reliable financial backing, it was the golden sponsor in the 2012 selection of the highest-growing company in Slovenia – Gazelle, organised by the Dnevnik newspaper.

The Bank constantly invests in personnel development. In 2012, it conducted 4.4 training days per employee with an emphasis on the transfer of internal knowledge. At the end of December, Banka Sparkasse had 230 employees with an average age of 36.8 years, of whom 59% were women.

Last but not least, in cooperation with the Klagenfurt-based foundation Privatstiftung Kärntner Sparkasse AG, the Bank responded to the social issues that are during this time present in all spheres of our lives and donated EUR 2,500 to the *Materina dušica* society for *Mala hiša* in the Kozjansko region to help alleviate the social problem of children and domestic violence. The Bank again proved its environmental responsibility as 103 of its employees participated in the *Let's Clean Up Slovenia* campaign in April 2012, and in November it took part in the all-Slovenian charity environmental campaign *Old Paper for New Hope*. Banka Sparkasse started using Blue Energy, which means that all electricity it consumes is

produced from environmentally-friendly renewable sources, as it is generated by hydro power plants on Slovenian rivers.

Both the owners and the Management Board of the Bank are aware of the difficult economic and political situation in Slovenia, so in addition to implementing all saving measures and strict crediting and risk management principles, the Bank has again set long-term goals to upgrade the existing business model for banking with micro companies, SMEs and the retail segment by 2017. Together with the management team and with the support of shareholders, we started conducting activities to improve the result already at the end of the year. The Bank is cautiously entering 2013 with a vision of providing high-quality banking services and with strong backing by the owners. On the Slovenian market, the Sparkasse Group is undoubtedly known and wishes to remain known under the slogan "A Unique Bank".

We would like to thank everyone who in this difficult situation put trust in us – our colleagues for their dedicated work, the owners for their support and encouragement and the customers who are returning to us and make us want to be even better and stronger.

Aleksander Klemenčič
Member

Andrej Plos, M.Sc.
Chairman

1.2 Management Bodies of Banka Sparkasse

Management bodies of Banka Sparkasse are the following:

- the General Meeting of Shareholders
- the Supervisory Board
- the Management Board

GENERAL MEETING OF SHAREHOLDERS

On 11 May 2012, the General Meeting of Shareholders of Banka Sparkasse acknowledged the Annual Report of Banka Sparkasse and the Sparkasse Group for the 2011 financial year and the opinion of the Supervisory Board, discussed the Internal Audit Annual Report for 2011 and designated the external auditor for 2012.

SUPERVISORY BOARD

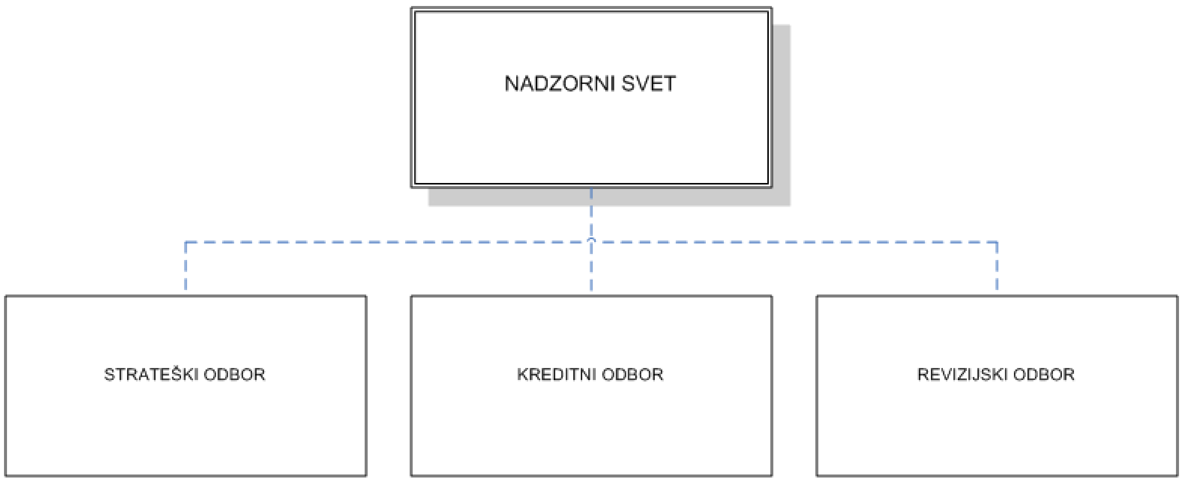
The Supervisory Board held five meetings in 2012. At the annual General Meeting of Shareholders in May 2012, Steiermärkische Bank und Sparkassen AG, Graz, replaced its representative on the Supervisory Board, namely Mr. Sava Dalbokov, MBA, was replaced by Kristijan Schellander, Ph.D. After the departure of Mr. Dalbokov, the function of the Vice Chairman of the Supervisory Board was assumed by Georg Bucher, Ph.D.

The Supervisory Board consists of seven members:

- Siegfried Huber, M.Sc., Chairman of the Supervisory Board
- Gabriele Semmelrock-Werzer, First Vice Chairperson of the Supervisory Board
- Georg Bucher, Ph.D., Second Vice Chairperson of the Supervisory Board
- Wolfgang Suppan, M.Sc., Member of the Supervisory Board
- Thomas Wieser, M.Sc., Member of the Supervisory Board
- Kristijan Schellander, Ph.D., Member of the Supervisory Board
- Thomas Uher, Ph.D., Member of the Supervisory Board

The Supervisory Board nominated the strategic, credit and audit committees.

SUPERVISORY BOARD



SUPERVISORY BOARD

STRATEGIC COMMITTEE CREDIT COMMITTEE AUDIT COMMITTEE

The purpose of the Strategic Committee is to prepare strategic guidelines and resolutions that are further discussed by the Supervisory Board as well as the resolutions on the Bank's investments. It is composed of:

- Gabriele Semmelrock-Werzer, Chairwoman
- Georg Bucher, Ph.D., Deputy
- Thomas Uher, Ph.D., Member

The Credit Committee, on a regular weekly basis, reviews loan cases that fall within the competence of the Supervisory Board according to authorisations and submits applicable opinions to the Supervisory Board. The Credit Committee is made up of:

- Siegfried Huber, M.Sc., Chairman
- Wolfgang Suppan, M.Sc., Deputy
- Georg Bucher, Ph.D., Member

The Audit Committee met two times in 2012, in May and November. It discussed the Annual Report of Banka Sparkasse and the Sparkasse Group for the 2011 financial year, including the opinion of the external auditor and the reports on the work of the Internal Audit of Banka Sparkasse with a presentation of the efficiency of the internal control system and risk management, it acknowledged the reports on the feasibility of the recommendations stemming from audit reports, it discussed the Annual Plan of the Internal Audit for 2013 as well as acknowledged the implementation of activities recommended by the Bank of Slovenia, it familiarised itself with the realisation of the recommendations given in the external assessor's report about the internal audit of Banka Sparkasse, it examined the activities carried out based on the recommendations arising from the audit of the Sparkasse Group and it proposed to the Supervisory Board to select the external auditor for auditing the operations in the past financial year. The Audit Committee is composed of:

- Siegfried Huber, M.Sc., Chairman
- Georg Bucher, Ph.D., Deputy
- Udo Koch, Ph.D., Member

MANAGEMENT BOARD OF BANKA SPARKASSE IN 2012

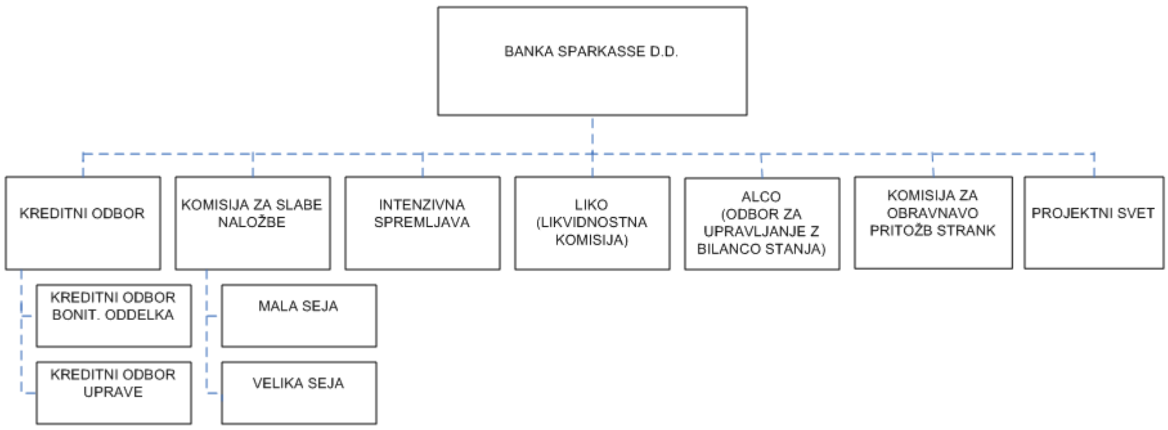
Aleksander Klemenčič
Member of the Management board

Andrej Plos, M.Sc.
Chairman of the Management Board

On 1 October, the President of the Management Board, Mr. Josef Laussegger, stepped down from his position after having worked in the Bank in Slovenia for more than 20 years. Mr. Laussegger was the Chairman of the Management Board for all six years since the foundation of Banka Sparkasse as a public limited company. His position was taken by Andrej Plos, M.Sc., who joined the Bank's Management Board on 1 August. Wolfgang Malle, M.Sc., Member of the Management Board, also concluded his term of office on the Management Board this autumn. Until the end of 2012, the Management Board had three members and as of January 2013, Banka Sparkasse has been managed by Andrej Plos, M.Sc., Chairman of the Management Board, and Aleksander Klemenčič, Member of the Management Board.

ACTIVE COMMISSIONS AND COMMITTEES AT BANKA SPARKASSE:

Banka Sparkasse has set up commissions and committees described in more detail below.



BANKA SPRAKASSE						
CREDIT COMMITTEE	BAD DEBT MANAGEMENT COMMISSION	INTENSIVE CARE	LIQUIDITY COMMISSION	ALCO – ASSET-LIABILITY COMMITTEE	CUSTOMER COMPLAINTS REVIEW COMMISSION	PROJECT COUNCIL
CREDIT COMMITTEE OF THE CREDIT RATING DIVISION	MINOR SESSION					
CREDIT COMMITTEE OF THE MANAGEMENT BOARD	MAJOR SESSION					

The Credit Committee acts in an advisory and decision-making capacity and is responsible for ensuring optimal decisions related to loan approvals and contingent liabilities. It provides advice and makes decisions on loan applications in accordance with its authority to approve loans. The Credit Committee is further divided into the Credit Committee of the Credit Rating Division, made up of the head of the Credit Rating Division and credit rating analysts, and the Credit Committee of the Management Board, consisting of all members of the Management Board and headed by the Management Board member in charge of the Loan Management Department. The Credit Committee has the power to approve or reject a loan application or suspend it until additional requirements are met.

The Bad Debt Management Commission holds two types of sessions: minor sessions for dealing with customers posing **lower risk exposure** for the Bank and major sessions for dealing with customers that present **higher risk exposure** for the Bank. Minor sessions are every other month, alternating with a correspondence session, and major sessions are also held every two months. The Bad Debt Management Commission deals with outstanding bad debts in accordance with the criteria laid down in the Bank's internal acts. The resolutions passed by the Bad Debt Management Commission take the following forms: cancellation of loan transactions, loan rescheduling proposals or continued monitoring of a customer by an advisor or the Credit Control Division.

Intensive Care complements the work of the Bad Debt Management Commission. It thoroughly examines individual credit cases of both corporate and retail customers. Its task is to solve substantively more demanding cases and to propose decisions for customer rehabilitation. It meets once a month and adopts resolutions such as on credit cancellation, loan rescheduling proposals or continued monitoring by an advisor or an expert from the Intensive Care.

The Asset-Liability Committee (ALCO) meets on a monthly basis. It analyses current financial statements with a detailed analysis of assets and liabilities and looks at the market review, risk updates (credit, liquidity, interest rate and currency), the Bank's capital adequacy and, if applicable, new products and regulations. The Asset-Liability Committee examines the overall liquidity situation and evaluates the suitability of adopted measures in the light of their impact on the Bank's liquidity, assets and liabilities.

The Liquidity Commission of the Bank is a consulting and decision-making body composed of the Management Board, head of the Corporate Banking Department and head of the Retail Banking Department. Its meetings are also attended by a treasury employee in the capacity of a rapporteur and minutes-taker. The competencies of the Liquidity Commission are defined in its Rules of Procedure. Its members meet weekly to discuss the written report on liquidity management at the Bank, containing information about the maintenance of statutory reserve, the Bank's liquidity ratio, the cash flow plan and changes in major categories of assets and investments that influence liquidity management. They also learn about the current exchange rate differences and changes in interest rates on the monetary market as well as the central bank's measures. If necessary, they approve the measures proposed to regulate the Bank's liquidity.

The Customer Complaints Review Commission looks into, at Level II, any complaints filed by individual customers. On the basis of a repeated complaint, the Commission, comprising corporate sector heads and legal advisors, reviews complaints that have been returned to the Bank after they had been processed at Level I and adopts measures to resolve such complaints at Level II. In all, the Commission reviewed 47 cases in 2012.

The Project Council is responsible for presenting the method of reporting and decision-making concerning IT projects within the Bank. It meets on a monthly basis, comprising the Management Board, head of the Information Technology Department, IT project coordinator, heads of some other departments and managers of running strategic projects. It mainly deals with the current strategic projects with the aim of providing up-to-date information about the progress of the projects, of making decisions related to risk management in projects, deciding on changes and actions in the context of a given project and of managing the budgets for individual projects.

1.3 Report on the Supervisory Board's Activities

The Supervisory Board carried out its tasks in 2012 in compliance with the Companies Act, the Banking Act, the Bank's Articles of Association and the Rules of Procedure of the Supervisory Board.

At its five regular meetings, the Supervisory Board discussed more than fifty items on the agenda and received from the Management Board regular reports along with all the relevant documentation. In addition, the Supervisory Board also closely monitored the Bank's operations and oversaw the running of the Bank.

The Supervisory Board carried out the following activities in 2012:

- monitored and reviewed the Bank's operations for each individual quarter of 2012;
- discussed reports on major projects and on strategic decisions and approved reports and proposals submitted by the Bank's Management Board;
- examined the credit cases that fall outside the scope of the Management Board's powers;
- monitored and discussed the policy on risk-taking and risk management;
- discussed and approved the salary policy of Banka Sparkasse;
- discussed the annual report of the officer in charge of money laundering and terrorism financing prevention for 2011;
- dealt with the annual report of the compliance officer of Banka Sparkasse for 2011;
- examined the semi-annual Internal Audit reports for 2011 and 2012 as well as the Internal Audit's annual report for 2011;
- reviewed the audited Annual Report of Banka Sparkasse for 2011 together with the opinion of an external auditor and concluded that the Annual Report comprehensively detailed the Bank's operations in 2011;
- endorsed the Management Board's report on financial statements for 2011 and submitted it to the General Meeting for approval;
- proposed to the General Meeting of Shareholders to appoint new members to the Supervisory Board to replace those that have resigned and nominated new members of the Strategic Committee;
- agreed to the Management Board's proposal to designate the auditing firm Deloitte the external auditor for 2012;
- approved the business plan of Banka Sparkasse for 2013;

- approved the annual work plan of the Internal Audit for 2013;
- approved the strategic project of the Bank "Vision 2017 Banka Sparkasse".

The Supervisory Board reviewed the audited Annual Report of Banka Sparkasse for 2012 and concluded that the Annual Report comprehensively detailed the Bank's operations and performance in 2012. The Supervisory Board was briefed on the opinion of the accredited auditing firm Deloitte, which stated that the Bank's financial statements present fairly, in all material respects, the financial position of Banka Sparkasse.

Based on the external auditor's opinion and the Management Board's report on financial statements for 2012, the Supervisory Board submits to the Bank's General Meeting a positive opinion and recommends that the General Meeting of Shareholders approve the Annual Report and the report on internal audit activities.

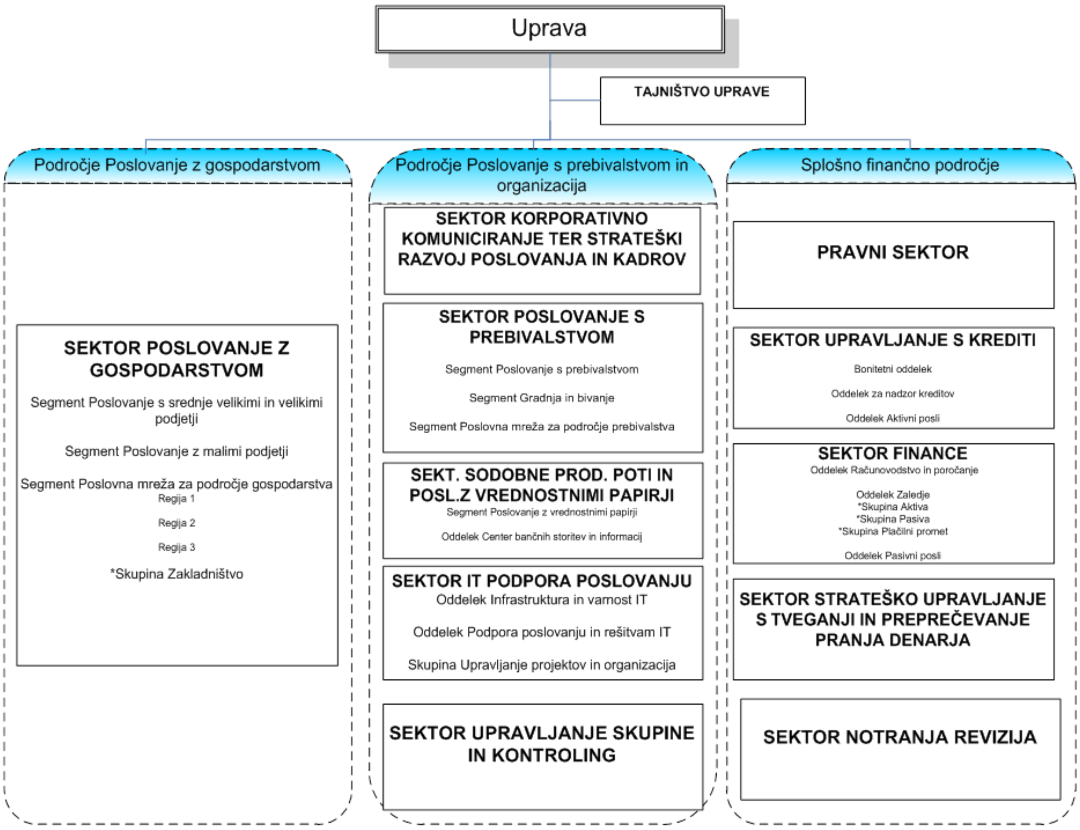
The Supervisory Board wishes to thank everyone at Banka Sparkasse for the work performed in 2012.

Siegfried Huber, M.Sc.

Chairman of the Supervisory Board

1.4 Organisational Chart

Organisational chart of Banka Sparkasse as at 31 December 2012:



	Management Board	
		SECRETARIAT OF THE MANAGEMENT BOARD
Corporate Banking	Retail Banking and Organisation	General Finance
	CORPORATE COMMUNICATION AND STRATEGIC DEVELOPMENT OF OPERATIONS AND HUMAN RESOURCES DEPARTMENT	LEGAL DEPARTMENT
CORPORATE BANKING DEPARTMENT Medium-Size and Large Enterprise Banking Segment Small Enterprise Banking Segment Corporate Branch Network Segment	RETAIL BANKING DEPARTMENT Retail Banking Segment Housing and Living Segment Retail Branch Network Segment	LOAN MANAGEMENT DEPARTMENT Credit Rating Division Loan Control Division Lending Transactions Division
Region 1 Region 2 Region 3 *Treasury	MODERN DIST. CHANNELS AND SECURITIES TRANSACTIONS DEPARTMENT Securities Trading Segment Centre for Banking Services and Information	FINANCE DEPARTMENT Accounting and Reporting Division Back Office *Assets *Liabilities *Payment Transactions Deposit Transactions Division
	IT SUPPORT DEPARTMENT Infrastructure and IT Security Division Operations and IT Solutions Back Office Project Management and Organisation	STRATEGIC RISK MANAGEMENT AND PREVENTION OF MONEY LAUNDERING DEPARTMENT
	CORPORATE GOVERNANCE AND CONTROLLING DEPARTMENT	INTERNAL AUDIT DEPARTMENT

1.5 About the Bank and Branch Network

BANKA SPARKASSE,
Cesta v Kleče 15
1000 Ljubljana

Company reg. no.: 1744352/00
District Court of Ljubljana
Company ID no.: 2211254
VAT ID no.: SI77752252
Share capital: EUR 10,015,200.00

Mailing address:
BANKA SPARKASSE,
p. p. 570
1001 Ljubljana

Telephone: 01/583 66 66
Fax: 01/583 23 33
info@sparkasse.si
www.sparkasse.si

Branch Network

Banka Sparkasse has eight branches and one consulting centre in eight major cities across Slovenia.

Branches:

Ljubljana Branch
Cesta v Kleče 15
1000 Ljubljana
Telephone: 01/583 66 66
Fax: 01/583 23 33

Celje Branch
Ljubljanska cesta 5
3000 Celje
Telephone: 03/424 45 00
Fax: 03/424 45 06

Novo mesto Branch
Otoška cesta 8
8000 Novo mesto
Telephone: 07/394 23 40
Fax: 07/394 23 57

Ljubljana Branch
Šmartinska ulica 58
1000 Ljubljana
Telephone: 01/5497805
Fax: 01/5497800

Kranj Branch
Delavska cesta 26
4208 Šenčur
Telephone: 04/256 86 04
Fax: 04/256 86 08

Koper Branch
Kolodvorska cesta 1
6000 Koper
Telephone: 05/662 51 88
Fax: 05/662 51 82

Maribor Branch
Titova cesta 8
2000 Maribor
Telephone: 02/235 29 30
Fax: 02/235 29 36

Murska Sobota Branch
Slovenska ulica 29
9000 Murska Sobota
Telephone: 02/512 42 00
Fax: 02/512 42 24

Nova Gorica Consulting Centre
Vipavska cesta 5
5000 Nova Gorica
Telephone: 05/338 34 34
Fax: 05/338 34 40

1.6 Correspondence Network

Banka Sparkasse has open correspondent accounts with the following banks:

Banka Celje, d.d., Celje
Erste Bank der österreichischen Sparkassen AG, Vienna
Kärntner Sparkasse AG, Klagenfurt
Commerzbank AG Frankfurt/Main
Deutsche bank AG, Frankfurt am Main

Banka Sparkasse has an open domestic bank account with the Bank of Slovenia and is a participant in the RTGSplus real-time gross settlement system.

1.7 Human Resources at Banka Sparkasse and the Sparkasse Group

In terms of human resources, the year 2012 has brought Banka Sparkasse changes primarily in management. On 7 January 2012, the then member of the Management Board in charge of General Finance, Marko Bošnjak, M.Sc., vacated his position. On 8 January 2012, he was replaced by Mr. Aleksander Klemenčič, who joined Sparkasse on 16 November 2011. On 1 August 2012, Andrej Plos, M.Sc., became employed by Banka Sparkasse and on 3 October 2012 took the position of Chairman of the Management Board. He assumed the management of Retail Banking and Organisation, which had been until 30 September 2012 managed by Wolfgang Malle, M.Sc., Member of the Management Board, who left the Bank on the same date. On 3 October 2012, the then Chairman of the Management Board, Mr. Josef Laussegger, became the member of the Management Board in charge of Corporate Banking. Between 3 October 2012 and 31 December 2012, Banka Sparkasse had a three-member Management Board with the following composition:

- Mr. Andrej Plos, M.Sc., Chairman of the Management Board
- Mr. Josef Laussegger, Member of the Management Board
- Mr. Aleksander Klemenčič, Member of the Management Board

In addition to personnel changes, Banka Sparkasse made some organisational changes, especially at the beginning of 2012.

The following organisational changes were made in the *Corporate Banking and Strategic Development*:

- We abolished the *Corporate Branch Network Sector,* renamed it *Corporate Branch Network Segment* and positioned it within the *Corporate Banking Department*.

- *Treasury* was also repositioned within the *Corporate Banking Department*.

The following organisational changes were made in the *Retail Banking and Organisation*:

- We abolished the *Organisation Sector.*
- We positioned the *IT Support Department* within *Retail Banking and Organisation* and within it redesigned *Project Management and Organisation.*
- We abolished the *Retail Branch Network Sector,* renamed it *Retail Branch Network Segment* and positioned it within the *Retail Banking Department*.
- We abolished the *Sales Support Sector* and repositioned the *Lending Transactions Division* to the newly established *Loan Management Department* within *General Finance* as well as repositioned the *Deposit Transactions Division* into the *Finance Department* within *General Finance*.

The following organisational changes took place in *General Finance:*

- We renamed *Risk Management Department* to *Loan Management Department*.
- We established the *Strategic Risk Management and Prevention of Money Laundering Department*.

On 3 October 2012, *Corporate Banking and Strategic Development* was renamed *Corporate Banking,* since on that date the *Corporate Communication and Strategic Development of Operations and Human Resources Department* was repositioned within *Retail Banking and Organisation* managed by the Chairman of the Management Board, Andrej Plos, M.Sc.

At the beginning of last year, we obtained the first results of employee performance management since the modification of the regular annual interview procedure that was related to the revised competence model. On the basis of transparent evaluation of performance, we accordingly remunerated some employees who achieved or exceeded the competencies assigned to their positions and/or the expected performance level and targets for 2011.

As regards training, in 2012 most attention was paid to professional and sales training. Employees of Banka Sparkasse on average attended 4.4 days of training in 2012.

In-house training included various product, process and professional training as well as statutory training in specific business segments. We continued with in-depth training in comprehensive financial consulting by means of the Finanz Check tool for natural persons, followed by a simulated discussion with a customer under the observation of an expert committee. The results of training and testing of this type proved to be good, so we applied the same method to training employees in the Housing and Living Segment using the Dom Check tool and in the Securities Trading Segment, where we launched training for the acquisition of an internal licence for marketing investment funds from the Bank's range. The purpose of these training events was to provide suitably demanding (uniform) standards of knowledge and quality for consultants at Banka Sparkasse

In cooperation with external providers, we organised tailor-made training to fulfil the employees' need for training in:

- sales skills,

- communication excellence,

- public appearance,

- time management and

- reforming of business processes.

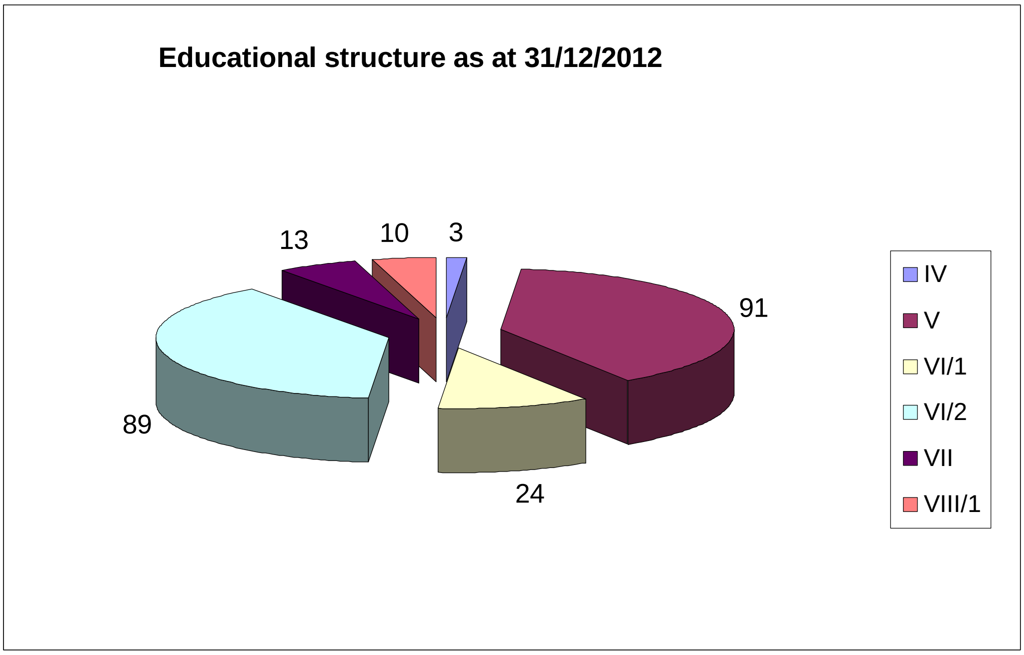
For the first time, Banka Sparkasse, with the assistance of an external provider, conducted e-training "Fast Transition to MS Office 2010", which achieved the planned purpose, i.e. offering all employees adequate support and knowledge for the transition to new software.

We co-financed employee training to obtain professional titles and referred them to various specialised seminars. In 2012, a professional exam on insurance brokerage was passed by 4 employees, while 1 employee passed the professional exam in investment fund marketing and sales of investment coupons and investment fund shares.

In the future, Banka Sparkasse will provide for the professional and personal development of its employees and strive for most efficient use of funds earmarked for the development, training and education of its staff.

The average age of the Bank's employees is 36.8 years.

The employee and educational structures of Banka Sparkasse are shown in the figures below:



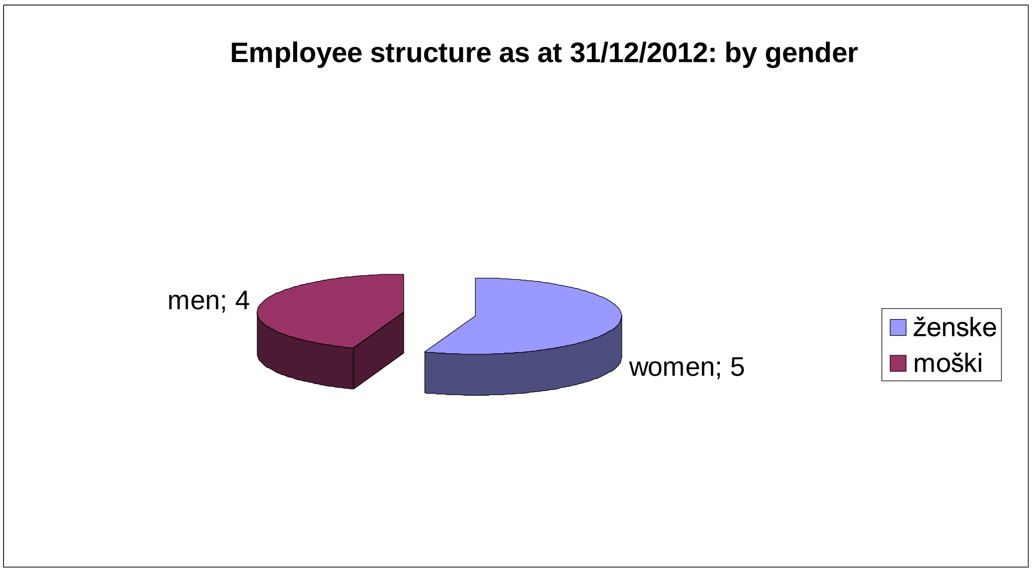
S-FACTORING

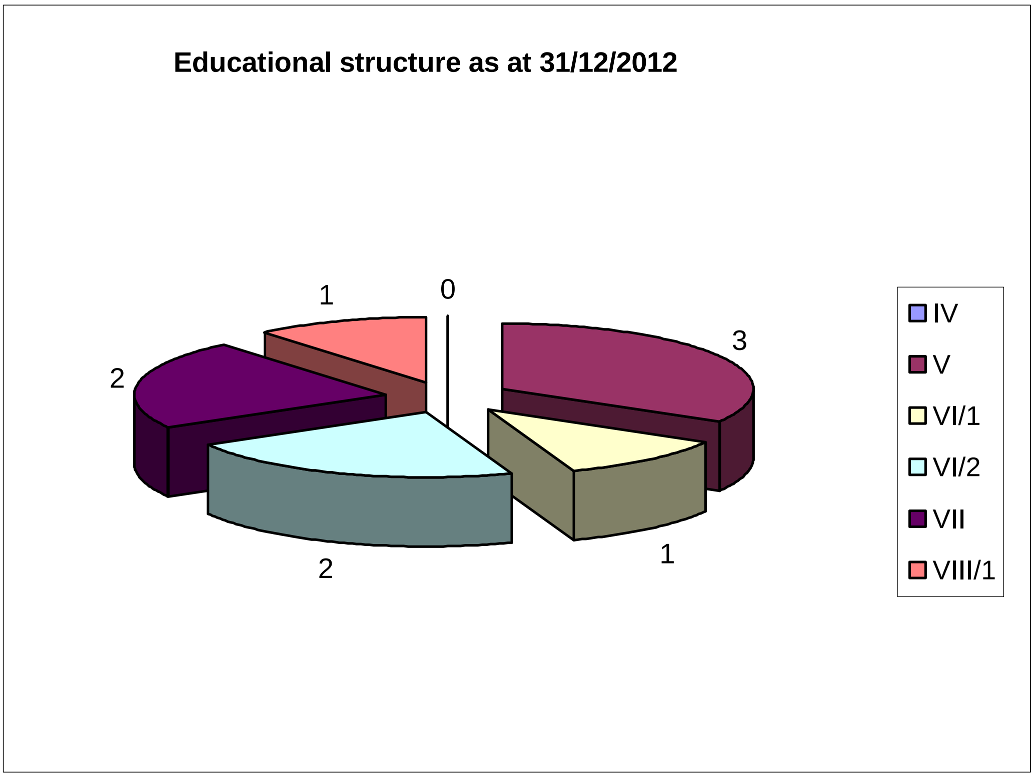
The company S-Factoring closed the year 2012 with a team of 9 employees, i.e. 56% women and 44% men. The share of employed men and women remained the same compared to 2011. The average age of the employees is 31 years, having grown by 3.33% over 2011, and as many as 66% of employees have an education of level VI or higher.

The company is aware of the importance of human resources for its growth and development and devotes special attention and focus to employee qualifications. Given the relatively young, highly educated and very receptive team, in 2012 the company placed the strongest focus on subject-specific training and skill improvement of its employees, which manifested itself in the form of increased effectiveness and productivity, especially in the second half of the year. Despite very limited resources, S-Factoring recorded 2.42 days of training per employee in 2012, and a similar volume of training is also planned for 2013.

The company also focuses on its employees' high motivation, well-being in the workplace, physical activity and team spirit. To this end, the company encouraged its employees and made it possible for them to spend their spare time together and to take part in various sporting and cultural events.

The employee and educational structures of S-Factoring are shown in the figures below:





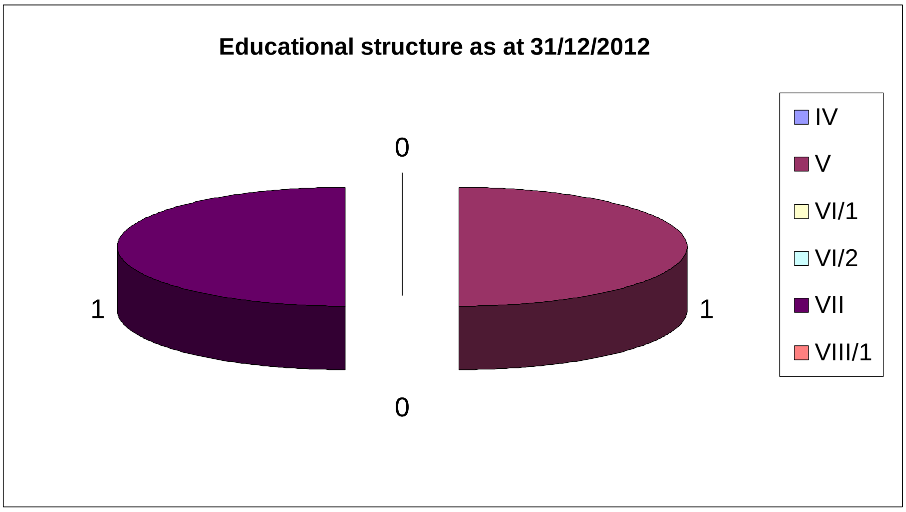
SPARKASSE LEASING S

Sparkasse Leasing S has two employees, technical assistants with completed educational levels V and VII respectively. Their main task is to check the accuracy of transactions, to compile necessary documentation and to provide information on the progress of deals to consultants. They provide valuable support to banking consultants who are, among other things, in charge of making lease deals in the market. Both employees are professionally qualified and boast work experience in the area they are in charge of. In 2012, the personnel structure remained unchanged. The average age of employees is 37.5 years. The company's managers are not full-time employees of the company.

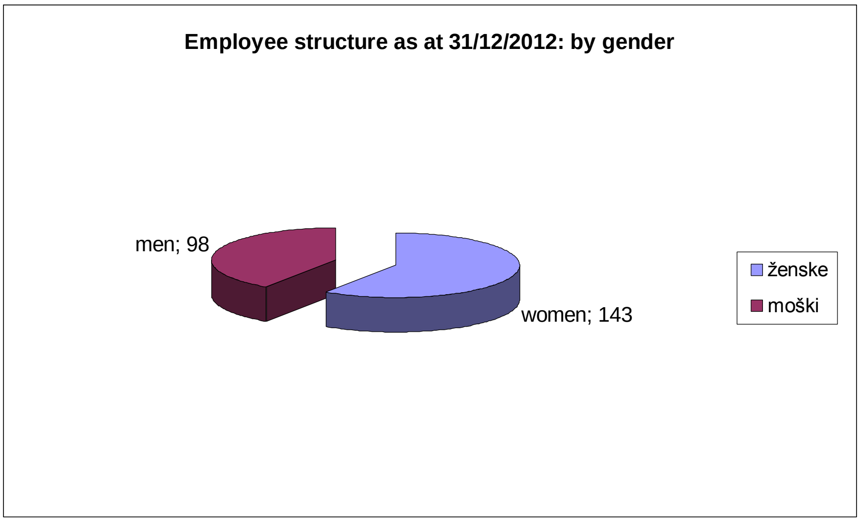
In service activities, employees represent one of those factors that deserve a lot or even most attention. We want a team that functions constructively, proficiently and has appropriate professional experience. This was ensured in 2012. In 2012, most training was organised in house.

Regular activities are organised with employees with a positive impact on their well-being and cooperation at workplace. As the leasing company is very closely connected with the Bank, we also organise joint sports activities through the Spartak Sport and Culture Society. That way, employees of the leasing company also gain all the benefits and activities offered by this society.

The employee and educational structures of Sparkasse Leasing S are shown in the figures below:

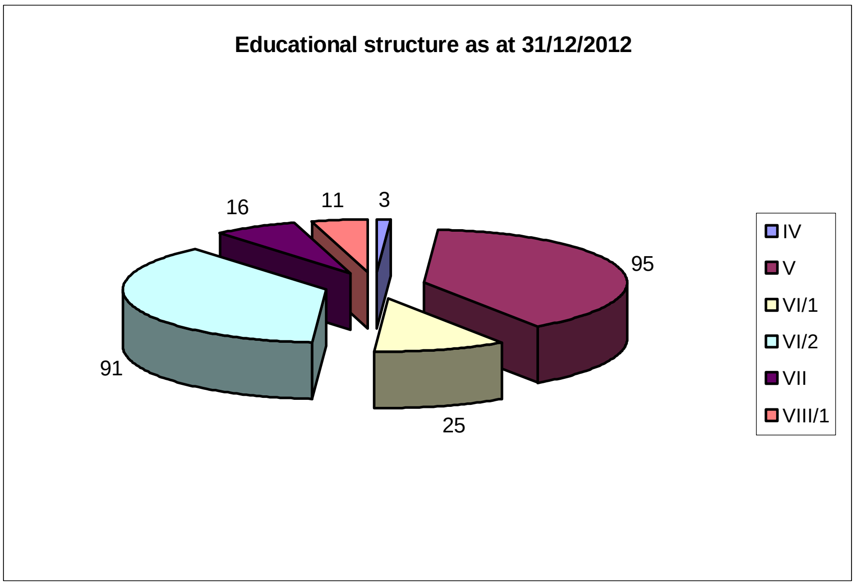


The employee and educational structures of the Sparkasse Group are shown in the figures below:



women

men



1.8 Corporate Social Responsibility

Banka Sparkasse is marketed in the Slovenian market under the slogan "A Unique Bank". We build our advantages on the banking market by providing innovative services and products and focusing on e-banking. We want to be known for our comprehensive approach to customers, and in everyday operations, we strive to foster **our values of trust, expertise, creativity, friendliness and environmental responsibility.**

The Bank's values have their true meaning and are expressed outwardly only if they are also pursued by the Bank's employees. We are committed to success and are at the same time aware of the importance of forging long-term relationships with the local community and the wider area in which we operate, which is also reflected in the Bank's vision: *"Living your dreams and ours in a creative and easy-going manner. In banking, we are setting a shining example of responsibility towards co-workers and the environment."*

Mission of Banka Sparkasse
Setting new standards of excellence in financial services through inspiration.

Values of Banka Sparkasse
Trust
We trust, so others trust in us.
We keep promises, are honest and respect one another.
Expertise
We responsibly and expertly generate value added through ongoing development of knowledge, people and business.
We are accurate and thorough at what we do.
Creativity
We look for inspiration in small things and big ideas.
Through creativity, we drive progress and set trends in banking.
Friendliness
We are committed to free communication and honest and open interaction with each other.
We gladly give and receive a smile.
Environmental responsibility
Every day, we do something good for nature.
We promote eco-friendly solutions and boost environmental awareness.

Social Responsibility at Banka Sparkasse

The areas of social responsibility that had a significant impact on the Bank's operations or held great potential for the Bank's development in 2012 were:

- care for employees and investments in development through education and training,
- development of new and existing products and services and strengthened customer relations,

- support for the local environment in the form of training events and donations,
- environmental protection.

In 2012, Banka Sparkasse strived to exceed the basic economic, legal and ethical standards of social responsibility, in particular in relation to staff, as we enable them quality professional development, in relations to customers, as we constantly put effort into improvements, and in relation to the environment – social (through donations) and natural (through conscientiously implementing the planned environmental responsibility activities).

Care for Employees

Banka Sparkasse has a young (36.8 years on average) team of people, working hard and engaging in various activities to build values and organisational culture, striving to preserve the motivation and commitment of colleagues.
Through **constant training** of employees, the Bank pursues one of its key values – "expertise". The average number of training days per employee was 4.4 in 2012. We realise that upgrading knowledge is extremely important for boosting employee productivity and one of the major competitive advantages in relation to competitors. A great emphasis is on internal transfer of knowledge among colleagues.
Banka Sparkasse also provides for the development of its staff through **regular annual interviews**. At such interviews, the manager and the employee formulate a plan for attaining goals and set out the development objectives of the employee. In 2012, a revised competence model was introduced at regular annual interviews that is used as an important tool to reward individual performance. Special attention is paid to creating equal conditions for all employees of the Bank. A special system for calibrating the results of regular annual interviews among the Bank's departments provides managers with a more objective view of their colleagues' achievements and feedback information from other managers.

In 2012, we made a huge, planned step towards the promotion of health at the workplace, led by the belief that every successful organisation is based on healthy employees working in a stimulating environment. For this purpose, we established a project team of six employees, in charge of health promotion at Banka Sparkasse. The first step taken was the launch of the intranet section "Health promotion at the workplace", including news about health, advice on a healthy diet, exercises at the workplace, relaxation techniques (breathing techniques), promoting the Spartak Sport and Culture Society, etc. The next step involved placing juicers and booklets about a healthy diet and eating recommendations at the Sparkasse Centre and some branches. In August, we introduced the **Eco Juicy Wednesday,** when employees twice a month receive **freshly squeezed juice from solely organic fruit and vegetables**.

Freshly squeezed juice is a welcome and above all healthy refreshment during work.

We also organised a lecture on the differences between organically and conventionally produced food. In November, the employees of Sparkasse Centre were at various times during their working time invited to a 20-minute exercise featuring only exercises suitable to be practiced at the workplace.
The employees were very enthusiastic about the exercise, so we published the instructions and additional sets of exercises on the intranet.

In addition to the systematic development of employees, **internal events** are of extreme importance, enabling staff to get to know each other informally and form friendships. Twice a year, in early summer and during New Year holidays, we organise a get-together of all employees. In the winter, we prepare a whole-day sports event called *A Day on Snow* together with colleagues from Kärntner Sparkasse AG. Closer connection within organisational units is promoted by means of the "**motivational budget**", which is used for funding various forms of socialising including sporting, cultural and also culinary experiences.

(foto_1) Komentar: Every organisational unit has established even closer internal connections during sports and cultural activities.

We are particularly proud of our **Spartak Sport and Culture Society**, which at the end of 2012 included 120 members, among whom are also colleagues from subsidiaries. It comprises 14 different sections: from cycling, running, tennis and golf to culture and entertainment and many more.

(foto_2) Bank employees on a bicycle trip

We realise that among the most important areas is the sphere of **internal communication**, influencing the commitment and motivation of employees. The means of communication at the Bank are various, with a special focus on personal communication at work, training and business events organised as informal get-togethers of employees. Strategic tools include the S-net intranet, which is used for conveying to employees up-to-date information about topical events at the Bank and in its environment, and the E-sopis internal electronic newsletter, which includes more extensive information about the events at the Bank. Employees get the chance to communicate with the Bank's management during monthly Management Board office hours. All information relevant to business is first communicated by the Management Board to the employees through notices. We believe that these methods of communication create a stimulating and relaxed working environment, where every employee can find challenges, learn a lot and earn promotion through committed and hard work. In the coming year, we will do our best to keep the Bank a place where everyone feels relaxed and creative.

Services, Products and Customer Relations

We offer customers financial consulting and a wide range of products and services at a single location. Every customer of Banka Sparkasse is dealt with by a **personal financial consultant**, who observes the customer's wishes and needs. The quality of the Bank's services is based on professionalism and adaptability.

Our operations are mainly centred around **retail customers, professionals** and **SMEs**. In corporate banking, we strive to maintain good business relations with large enterprises that we

are able to offer international support outside Slovenia by cooperating with the network of the Erste Bank and Sparkassen group, the largest banking group in Central, Eastern and South-Eastern Europe.
In 2012, we further upgraded and enhanced the comprehensive financial consulting tool Finanz Check. During a discussion with a personal consultant, which lasts for a little more than hour, a customer examines all areas of personal finance – from daily cash handling to investments, financing, suitable collateral and expected pension. In doing so, the customer's standard of living and needs are taken into account.

Besides expert advice, our clients can from 2012 onwards opt for a **new innovative product** on the Slovenian market. **Investment duo** is an excellent **savings-investment choice** for everyone who wants to spread savings among various investment opportunities to achieve higher returns. A part of savings is **deposited** at an exceptional interest rate and a part is invested in **investment funds**. This is a diversified investment, a combination of a profitable and safe investment.

In the area of investment funds, in Slovenia, Erste Sparinvest KAG, Vienna, decided to stop marketing, advertising and selling the units of investment funds it is managing. This was one of the reasons why we intensified cooperation with the domestic investment fund management company and increased the number of funds of Triglav Skladi in our product range. The customers of Banka Sparkasse can choose among 17 investment funds and their combinations.

Customers can bank with Banka Sparkasse through various distribution channels. We provide a discrete and confidential **visit to our branches,** enabling customers to arrange daily transactions at a counter, while any other dealings are discussed with a personal financial consultant in a consulting room offering complete privacy**.**
In 2012, we transformed the Nova Gorica Branch into the Nova Gorica Consulting Centre. Banka Sparkasse remains present in Nova Gorica; only cash transactions were abolished.

Access to a bank from home or workplace, 24/7, is becoming increasingly important owing to the fast pace of life. Banka Sparkasse is aware of that and makes heavy investments in e-banking development. In addition to Net.Stik e-bank, customers may use a qualified digital certificate to open two personal accounts and also join four types of savings schemes via Sparkasse online bank. The third channel that is available for banking services is the telephone banking Tel.Stik, which also had regular users in 2012.
Banka Sparkasse offers customers a diverse range of financial products in cooperation with subsidiaries (S-Factoring, Sparkasse Leasing S) and partner companies (the insurance company Wiener Städtische, Triglav Skladi), specialised in particular fields – insurance, investment-linked savings, stock brokerage.

Our Involvement with the Environment in Which We Operate
Banka Sparkasse appreciates the importance of a clean and healthy natural environment as well as responsible integration in the social environment in which it operates.

We constantly strive to operate even more efficiently and cost-effectively. The ecological dimension of the Bank's operation, both on the inside and on the outside, has become one of its strategic directions. The Bank wants to position itself as a leading "green" bank on the Slovenian banking market. To achieve this, the Bank develops and offers "green" products and sponsors, promotes and finances environmentally-friendly projects in the fields of construction, vehicle purchase and investing in renewable energy sources. By doing this, we try to spread the idea of environmental responsibility, promote eco-friendly solutions and increase awareness of the environment.

In April, we organised the Days of Energy-Efficient Building Renovation at Sparkasse Centre in Ljubljana. This year's event, which we organised in cooperation with experts and specialised companies for the fourth consecutive year, featured energy-efficient construction and renovation of buildings. Banka Sparkasse invites existing and potential customers to this event, which is designed for those who are interested in financing renewable energy sources, the construction of good low-energy and passive houses and energy renovation of buildings.

In May, Banka Sparkasse started using Blue Energy, which means that all electricity it consumes is produced from environmentally-friendly renewable sources, as it is generated by hydro power plants on Slovenian rivers. Slovenian hydro power plants do not burden the environment with greenhouse gases, harmful emissions or radioactive waste and care is taken to minimise the impact of energy facilities on aquatic life and ensure that the facilities are suitably incorporated in the environment in terms of ecology.

In 2012, several activities were carried out in support of environmental responsibility.
In spring, 103 employees of Banka Sparkasse and their family members participated in the Let's Clean Up Slovenia campaign 2012. In the surrounding area of Sparkasse Centre in Ljubljana alone, 62 employees of Banka Sparkasse and their family members cleaned up all 11 previously selected illegal dump sites. The Chairman of the Management Board of Banka Sparkasse, Mr. Josef Laussegger, and Management Board member Mr. Wolfgang Malle also participated in the campaign. The result of the entire clean-up campaign, which was also joined by employees of the subsidiaries S-Factoring and Sparkasse Leasing S, was that more than 130 bags of waste were removed from nature.

(foto_3) Komentar: Our employees are living the value of environmental responsibility – every year more and more of them take part in environment protection campaigns.

In June, on the World Environment Day, we sponsored the third annual Conference on Renewable Energy Sources and Energy Efficiency (RES). The emphasis of the Bank's presentation was on an Energy Loan for the corporate sector. By supporting investments in renewable energy sources, we aim to strengthen the general public's awareness of more efficient use of energy and cleaner energy sources.

Together with PricewaterhouseCoopers, we organised an exhibition of works of art made by Banka Sparkasse's employees in October. The exhibition was called *Talents for a Good Purpose* and featured an auction of various works of art. The collected funds, to which the Bank contributed an equal amount, were donated to a family in distress from Bela krajina, selected through the Slovenian Association of Friends of Youth.

(foto 6) Colleagues' products at the auction; the focus was on charity, not artistic value.

This November, the employees of Banka Sparkasse again participated in the Old Paper for New Hope campaign. The all-Slovenian charity environmental campaign for collecting used paper was organised by the Ecologists Without Borders Association. The motto of the 2012 campaign was that every Slovenian citizen can contribute a sheet for a better world. Parallel to the campaign, educational institutions contributed their ideas at the competition to select the best proposal for a project to which the funds raised in the campaign would be donated. The Bank's employees and other campaign participants collected 193 tonnes of old paper and thus donated EUR 10,000 to the humanitarian society Adra Slovenija for the project *Let Us Fill Slovenia with Happy Children*.

(foto_4) We collected 920 kg of paper in front of Sparkasse Centre in Šiška and some other branches in Slovenia.

Naturally, we carry out many internal activities to support the value of environmental responsibility.

- We consistently separate waste (paper, packaging, organic waste, batteries, computer equipment, etc.).
- More activities are oriented towards electronic processing of documents.
- By using sophisticated printing technologies, we reduce waste cartridges.
- We streamline electricity costs at every step.
- We use an environmentally-friendly hygiene system instead of a classic system.
- We have installed water dispensers.

For Banka Sparkasse, sponsorship is an opportunity for communicating with customers, potential customers and business partners. Sponsorship decisions are made on the basis of the strategic focuses of the Bank and the main target audience as well as with regard to the fulfilment of the business goals defined in the strategy development phase. Our sponsorship scheme in 2012 focused mainly on the ecological sphere (previously mentioned RES Conference) and the promotion of successful stories in the corporate sector (the golden sponsorship of Gazelle 2012), as gazelle companies prove that exceptional business stories can be written even in a demanding economic situation. Banka Sparkasse wants to provide them with reliable financial support and thus help them grow.

We set up a stand and presented activities at regional selections: Gazelle of the Dolenjska–Posavje region, Gazelle of Central Slovenia and Gazelle of the Gorenjska region as well as at the closing event Slovenian Gazelle 2012, where the Bronze, Silver and Golden Gazelle 2012 were announced.

For the second year in a row, the foundation Privatstiftung Kärntner Sparkasse from Klagenfurt contributed EUR 2,500 to Banka Sparkasse to be donated to the *Materina dušica* society for *Mala hiša* in the Kozjansko region. The society deals with care and education of children and parents and often helps children from socially disadvantages families. The purpose of the society is to provide children a decent and carefree life and to mend their broken hearts.

(foto_5) The management of Banka Sparkasse with the co-founder of Materina dušica, Simona Simon, upon presenting the cheque.

Social Responsibility at S-Factoring

With regard to corporate social responsibility, S-Factoring follows the lead of its parent company and places customer satisfaction and care and responsibility for its employees and the environment at the heart of its operations while embracing and living the values of Banka Sparkasse.

The company is well aware of the fact that employees are the only sustainable competitive advantage a company has, so it focuses the largest part of its attention on employee growth and development. With regard to responsibility to employees, the company in 2012 further concentrated on increasing its employees' expertise as well as communication and marketing skills through external and in-house training and learning from each other. It put an equally great focus on building excellent business relations between employees and team spirit as well as encouraged staff to be active, take up sports and spend free time together. For this purpose, the company sponsored the Spartak Sport and Culture Society and enabled its employees to participate in cultural and sports events.

In 2012, S-Factoring expressed its care for the environment by joining various activities, such as the Let's Clean Up Slovenia campaign, and by collecting old waste paper, which it contributed to the project *Let Us Fill Slovenia with Happy Children*. To the best of its ability, the company also donated to the maintenance of *Mala hiša* in the Kozjansko region, where more than 200 children seek help every year.

The subsidiary Sparkasse Leasing S follows the lead of its parent company and places customer satisfaction and care and responsibility for its employees and the environment at the heart of its operations. Sparkasse Leasing S complements the range of financial services of Banka Sparkasse, which is marketed under the slogan "A Unique Bank". We are committed to success and professionalism. We aware of the importance of forging long-term relationships and ties with the local community and the wider area in which we operate.

Management of Social Responsibility

Sparkasse leasing S seeks to become a high-quality competitive provider of financial services, particularly in the movable property segment. Providing valuable advice to our customers through banking consultants is what somewhat sets us apart from our rivals. One of our advantages is that we know the Group's customers and secure long-term cooperation in all areas of activity. We are creative, responsive and effective at what we do and responsible, accurate and optimistic in our dealings with customers.

2. Business Report of Banka Sparkasse and the Sparkasse Group

2.1 Vision and Strategy of Banka Sparkasse and the Sparkasse Group

Vision

The vision of Banka Sparkasse requires employees, owners and customers to act responsibly and sustainably, at the same time fulfilling the wishes and goals of the stakeholders in the business environment. In a narrower sense, we focus on banking with micro companies, SMEs and the retail segment.

Strategy

- Increasing the number of customers in the segments of micro companies, SMEs and the retail segment in five years; increasing the number of active customers to 60,000;
- Creating a partnership attitude based on discretion, confidence, long-term cooperation and fast adjustment to specific needs ("A Unique Bank");
- Generating suitable return for the shareholders of the Company, approved in the business plan on an annual basis;
- Boosting employee knowledge and loyalty by investing in intellectual capital (training, IT, marketing);
- Living a healthy and environmentally-friendly business life.

2.2 Bank's Operations in Various Market Segments

Macroeconomic Environment and the Impact on Businesses and Consumers

Economic activity in the euro area further subsided towards the end of 2012, but the situation on the financial markets somewhat improved. The expectations regarding recovery in this year remain low. Last year, as much as 17.8% less funds were allocated to investments in Slovenia than in 2011. Domestic consumption last year lagged behind the 2011 figure by slightly more than 5.7%. Lower investments and declined domestic consumption represent weak foundations for future growth. Slovenia is in deep recession, as its GDP last year plummeted by 2.3% and a similar shrinkage is expected this year. The economic activity in the euro area is projected to contract as well, and international institutions have lowered the forecast 2012 economic growth both for the euro area and the largest global economies, which are nevertheless expected to record a slightly higher growth rate than last year.

The situation on the labour market in Slovenia further deteriorated at the end of 2012. The number of people in employment dropped below 793 thousand at the end of last year, equalling the level recorded in early 2003. The registered unemployment rate, which did not change significantly in the first three quarters of last year, reached its peak at the end of 2012, i.e. 13%. Average gross salary per employee remained practically the same.

In Slovenia, consumer prices grew by 2.7% at the annual level, exceeding the growth recorded in the euro area. This was primarily due to more expensive energy products and the higher prices of food and services. The price and cost competitiveness of the economy last year continued to improve but was among the lowest in the euro area. Owing to euro depreciation, price competitiveness continued to increase for the third consecutive year, however, it was relatively smaller than in other members of the euro area, especially because of the structure of Slovenian foreign trade.

The situation on European financial and stock markets got better, while on the interbank market it remains stringent. The downward trend in loans to domestic non-banking sectors in Slovenia strengthened at the end of 2012, and net repayment of domestic banks' liabilities to the foreign sector continued. In 2012, domestic non-banking sectors paid off EUR 1.2 billion or nearly 60% more than the year before. Last year, the volume of corporate and household loans dropped by EUR 1.6 billion and around EUR 190 million respectively. After the decline in household deposits, which persisted for most of last year, a considerable rise was seen in December, as a result of which their volume decreased by only about EUR 45 million at the annual level.

The Number of Customers and Accounts

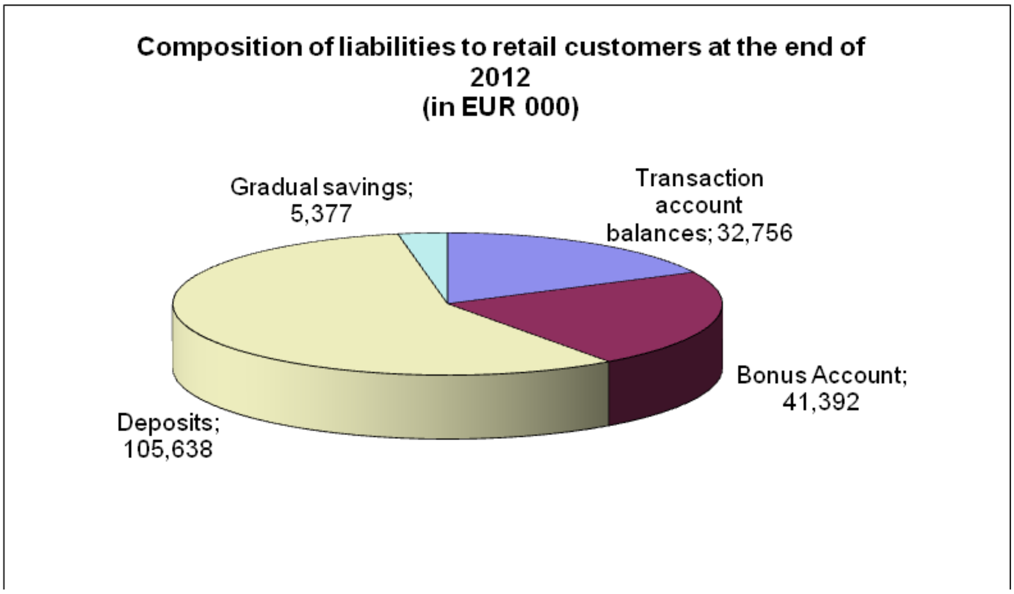
The number of Banka Sparkasse customers reached 56,292 at 2012 year-end, of whom 50,035 natural and 6,257 legal persons. Last year, the number of retail customers rose by 1,598, while the number of corporate customers fell by 70.

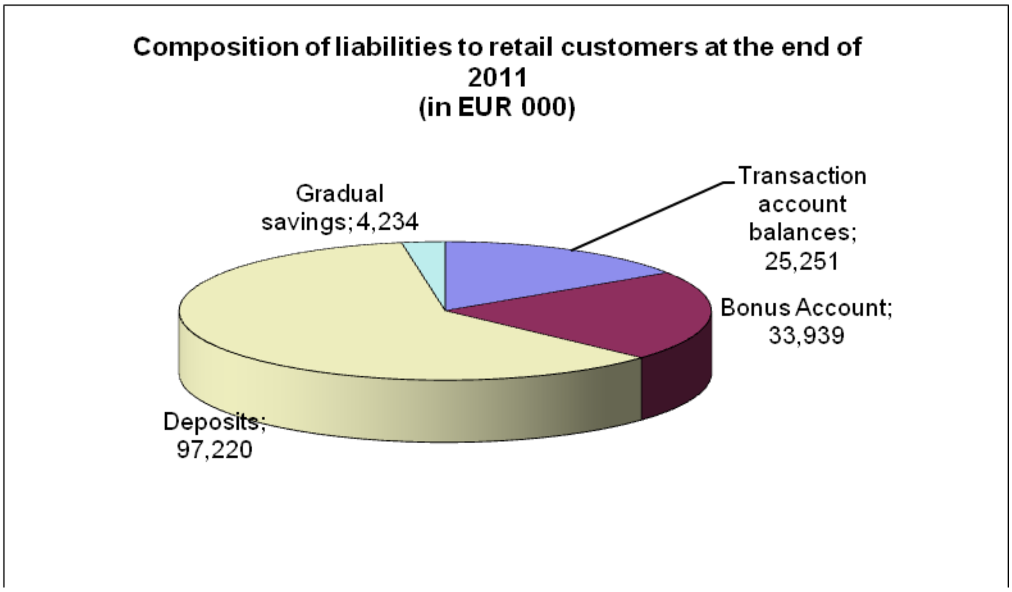
The number of transaction accounts stood at 46,275 at the end of 2012, with Comfortable Accounts of retail customers accounting for 69.12%, student accounts for 21.66% and corporate accounts for 9.22% of the total.

2.2.1 Retail Banking

Performance and Achievements in 2012

The goals set for retail deposits were attained and the total volume of retail customers' funds increased to EUR 185,163 thousand, up 15.26% compared to the end of 2011. In view of the fierce competition in the deposit sector and the decline in household deposits in the entire banking system, we are extremely satisfied with the achieved result. As long-term interest rates were relatively high, greater emphasis was on acquiring short-term deposits. Long-term deposits account for 46.67% of total deposits; this percentage is comparable to the figure recorded at the end of 2011. The highest growth rates were primarily recorded in transaction account balances, which rose by no less than 29.72% thanks to the heavy focus on marketing comfortable package accounts last year. The second highest growth rate was seen in the balance on retail Bonus Accounts, which exceeded the figure recorded at the end of last year by 21.96% and reflects the quality of customers won in the past years. The composition of liabilities to customers in the last two years is presented in the following graphs:





In 2012, the volume of all retail loans in Slovenia decreased for the first time in more than five years. This primarily resulted from the continued uncertainty as regards the economic situation, high unemployment and low activity on the real estate market. In the past, it was housing loans that most contributed to the increase in retail loans. A similar trend was also recorded in Banka Sparkasse, as the gross volume of retail loans at the end of 2012 stood at EUR 468,040 thousand, down by 3.29% compared to 2011 and accounting for 45.77% of the Bank's credit portfolio. In 2012, the Bank granted housing loans in the amount of EUR 39,461 thousand and consumer loans totalling EUR 8,132 thousand.

The situation on the labour market, characterised by high unemployment, was the main reason for another rise in the number of customers having difficulties with regular servicing of loans and liabilities. As the situation was uncertain, we continued with a conservative financing policy and reduced the maximum maturity of new housing loans from 30 to 25 years, intensified collateral requirements and restricted financing of products that proved to pose a higher risk. Customers with Swiss franc-denominated loans received regular notifications about the respective exchange rate and were advised to convert the currency so as to avoid the exchange rate risk.

In 2012, interest and non-interest income generated by retail banking totalled EUR 14,003 thousand or 12.80% more than in 2011.

We were very successful especially as regards interest income, recording a 15.39% increase, while non-interest income decreased by 1.10%.

The key events/achievements were the following:

- In the second quarter, we introduced direct support to sales in some branches (Ljubljana, Kranj, Murska Sobota, Maribor, Celje), comprising administrative support to consultants and providing more time for consulting and sales.
- We supplemented financial consulting with comprehensive treatment of pensions. As financial experts, we have a duty to familiarise customers with the issue of pensions in a straightforward and transparent manner as well as to indicate various solutions for reducing and mitigating the decrease in the standard of living upon retirement.
- With the help of our partner, the insurance company Wiener Städtische, and Triglav Skladi we designed investment baskets that represent an important step towards reducing the pension gap by taking into account the risk appetite and investment profile. The target group is young employed people, who can by small investments save for an additional pension and thus put their worries at rest.
- In the 3rd quarter we offered a new product – unemployment insurance.

Housing and Living Segment

In the Housing and Living Segment, the main emphasis was on developing a tool that would contribute to high-quality standardised consulting regardless of which branch a customer visits – the so-called Dom Check. A financial consultant provides a simple and transparent presentation of the common traps when buying and building a house, paying special attention to maintenance costs that are related to the selected type of house. Most customers build a house only once in a lifetime, while our consultants deal with this issue every day.

In the last quarter, an internal commission verified the quality of consulting on housing and living. Most consultants successfully passed the check and obtained an internal certificate, whereby we introduced high-quality consulting to retail customers on all topics.

We promoted the image of "A Unique Bank" by organising training events that were unconventional for a bank. The main topic of the last year's event was energy-efficient renovation – contributing to reduced consumption of energy and heating costs by small steps. We broke the myth that it is possible to save only on large investments. The consulting service range was comprehensive, including a connection with energy consultants available to customers for demanding questions and dilemmas regarding home renovation.

Securities Trading Segment

In securities trading, we reached several important milestones in 2012, allowing us to provide our customers comprehensive investment advice. Most of our personal financial consultants obtained licences for marketing investment fund coupons. In addition, in 2012 we also started the procedure for internal licensing for securities trading. In 2012, such licensing was acquired by 13 consultants, while other personal financial consultants are planned to obtain it in 2013. At the end of 2012, Banka Sparkasse had 32 consultants holding a licence for marketing investment funds and 9 consultants with a stockbroking licence B+A.

In 2012, the key events in the Securities Trading Segment were the following:

- in April, we launched a new saving-investment product Investment Duo, designed for investors who are looking for a higher interest rate on time deposits and want to allocate part of the funds to a selected investment fund;
- in May, Erste Sparinvest decided to stop marketing its funds in Slovenia, so the ESPA funds were excluded from our product range;
- we published 38 issues of the weekly internal bulletin "Overview of topical events on capital markets";
- we continued providing investment consulting services for which the Bank of Slovenia issued us a licence in 2010;
- in September, we initiated the project for recasting the technological support for investment fund operations (FMC.Retail) with the company Incendo d.o.o.;
- in September, we started negotiating with Allianz GI and Franklin Templeton on the distribution of their funds through the Sparkasse branch network;
- in October, we expanded the product range, adding it 2 new sub-funds of the Triglav Skladi Umbrella Fund and one new investment combination.

In 2012, the volume of managed funds at Banka Sparkasse downsized by 20.80% compared to 2011, chiefly due to the decision of Erste Sparinvest to stop marketing its fund; as a result, investors opted for divestment of their assets in ESPA funds, which led to a decrease in funds totalling EUR 434 thousand. We were unable to fully compensate for this decrease with payments to the funds of Triglav DZU, which, however, recorded an increase of EUR 296 thousand in 2012. Had it not been for the decision of Erste Sparinvest, the funds increase would have been 58%.

In 2012, the balance of Slovenian management companies grew by 1.07% in spite of net outflows totalling EUR 109 million. Companies from the EU member states that are marketing funds in the Republic of Slovenia recorded a 1.5% growth in the volume of funds managed, even though net outflows amounted to EUR 13.8 million.

Social and Environmental Responsibility

Last year, Banka Sparkasse continued spreading its social and environmental responsibility in the retail segment. Once again, we organised a training event for customers, dealing with the current topic of energy-efficient renovation. The environmental impact and energy consumption can be significantly reduced through simple measures in adaptation of existing buildings. Market potential in this segment is much greater than in newly constructed low-energy, passive and zero-energy houses, where builders are still relatively few. We further marketed the Green Loan (Zeleni kredit) on wheels, promoting financing of environment-friendly vehicles. We successfully finalised the project aimed at shrinking paperwork by abolishing paper statements of account.

Being an environmentally responsible bank, Banka Sparkasse supplemented financial consulting through simulations of savings in heating, achieved by proper selection of energy products, and presented the subsidies of Eko fund (environmental public fund), by means of which total investment costs can be reduced and homeowners can recoup their home renovation costs in a shorter period of time.

Plan for 2013:

In 2013, the main focus will be on acquiring customers' funds with projected 10% growth. Given the difficult situation and high unemployment, a smaller emphasis will be on financing, where we will mainly concentrate on the existing customers. In financing, activities for winning new customers will be less intensive than in the past.

Owing to the stringent market conditions, we decided not to expand the distribution network in 2013 but rather devote more focus to consulting existing customers and the number of active products per customer. Through an active approach towards existing customers, we plan to improve their satisfaction, increase loyalty and prevent customers from switching to other banks. According to the 2012 World Retail Banking report, only 50% of customers are not likely to change banks in the following 6 months.

By continuing measurements of deviations from the defined quality standards, we will most contribute to increasing the service quality, which is according to research the main factor in customers' decisions to switch banks.

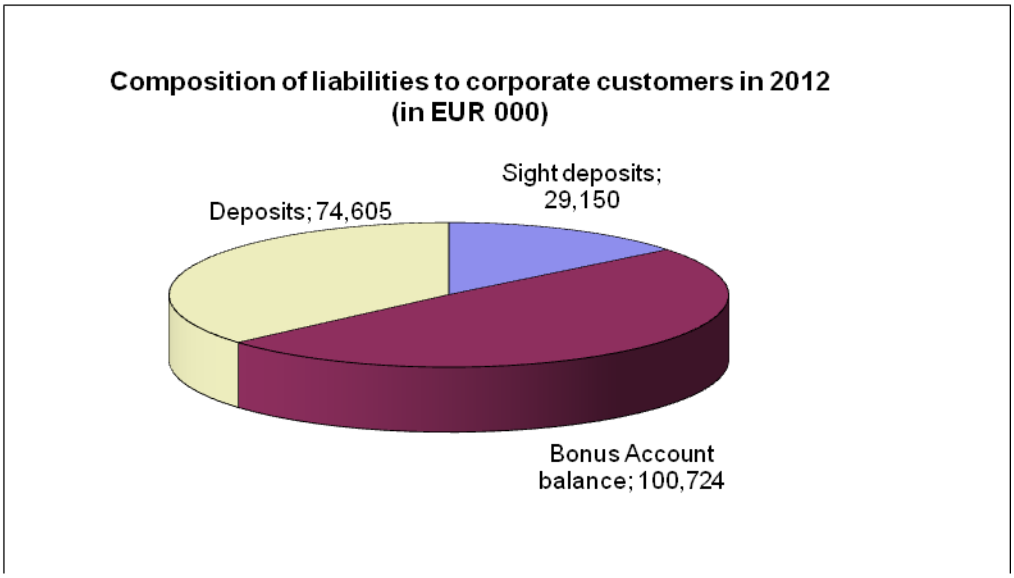
2.2.2 Corporate Banking

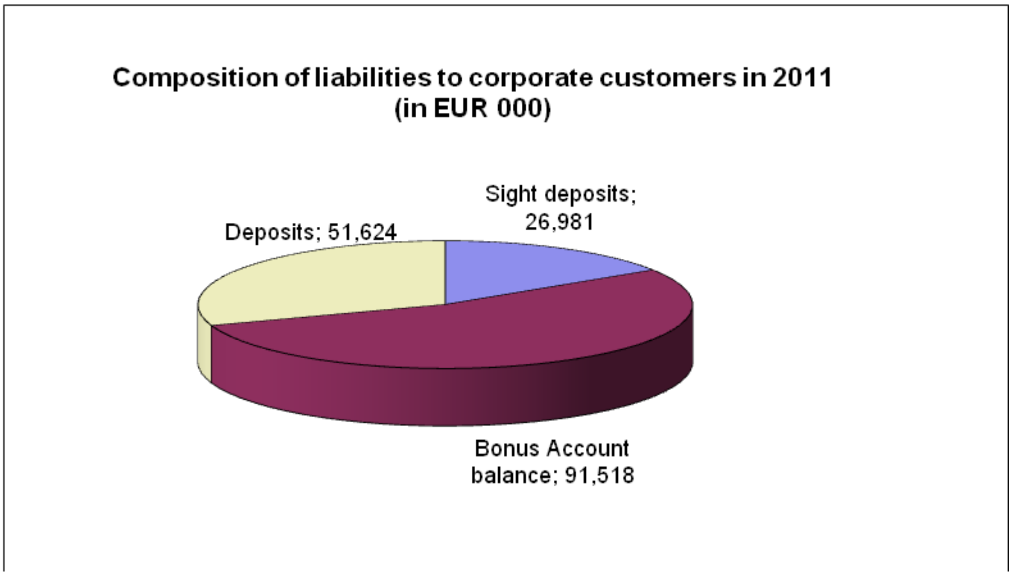
Performance and Achievements in 2012

In 2012, the signals about macroeconomic development from the environment were mixed; there were no clear signals indicating the recovery of the European economy. Similar to previous years, the Bank did not want to expose itself to too much credit risk. On the other hand, the investment activity of businesses remained weak and their need for working capital continued. Ever more prominent were the problems of overindebted companies with whom the Bank discussed reprogramming of financial liabilities. We strengthened cooperation with the subsidiaries Sparkasse Leasing S and S-Factoring in the area of new transactions and in the search for solutions to restructure debt, whereby we improved revenues and reduced the credit risk of the Bank. We considerably intensified customer monitoring and detected early any problems of businesses in settling overdue liabilities. This approach enabled us to curb the downward trend in the portfolio and end 2012 with slightly lower exposure to the corporate sector than in 2011.

New financing was lower than expected, but more loans were extended according to the agreed reprogramming of financial liabilities. Last year, we paid off 580 new loans. The volume of loans to the corporate sector (non-banks), which at the end of 2012 accounted for 53.38% of the Bank's credit portfolio, dropped from EUR 571,073 thousand to EUR 554,609 thousand. The volume of overdrafts represents a small share of assets (1.09%) and has slightly decreased to EUR 6,019 thousand.

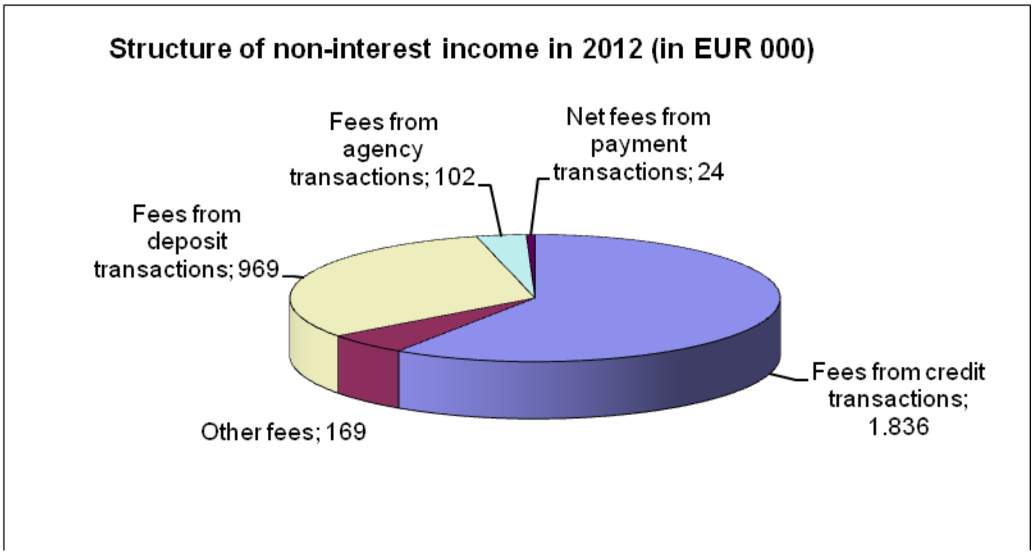
Expectations were greatly exceeded in the acquisition of customer funds. In spite of the difficult economic situation and liquidity problems in the economy, the Corporate Banking Department at the end of 2012 recorded EUR 204,479 thousand of funds acquired from customers. This is no less than 23.22% or EUR 38,530 thousand more than the year before. This amount accounts for 52.48% of the Bank's liabilities to customers other than banks. The composition of liabilities to corporate customers over the past two years is presented in the following graphs.

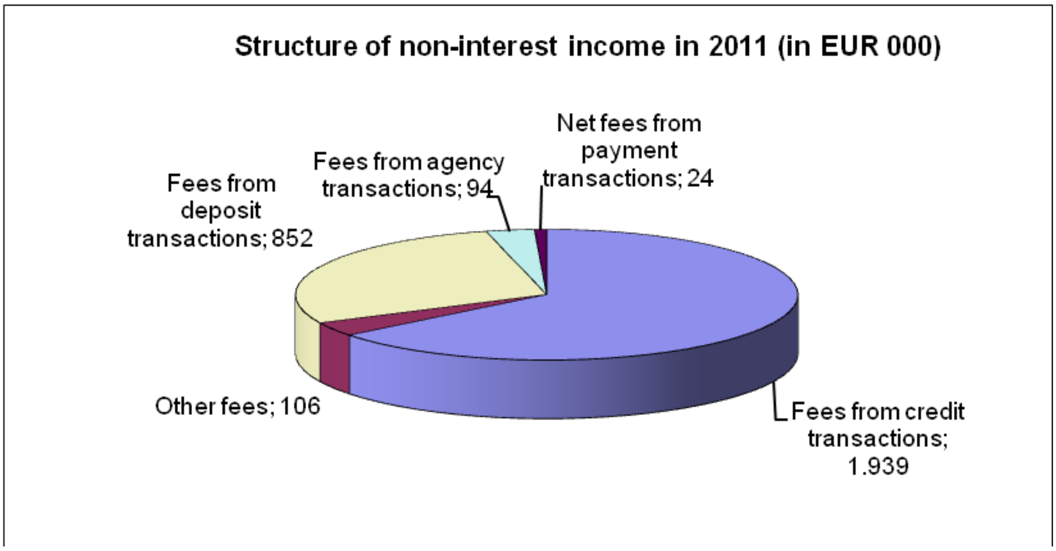




The total number of customers in the Corporate Banking Department shrank by 1.11% to 6,257. In order to ensure a better overview of customers and to allow more effective cost management, we closed inactive transaction and bonus accounts. This saves us time and allows us to provide a better service to active customers, strengthen individual treatment and more effectively manage the pricing policy for both products.

In 2012, the revenues of the Corporate Banking Department rose by 1.2% to EUR 17,284 thousand. Of this, EUR 14,190 thousand is accounted for by interest income and EUR 3,094 thousand by non-interest income. The latter represent 17.9% of total revenues. In comparison with last year, their share increased by 0.3 percentage points. The structure of non-interest income over the past two years is presented in the following graphs.





Small Enterprise Banking Segment

In 2012, we provided active support in the form of financing mostly to professionals and small enterprises with good results and innovative plans. We expanded our offer in this segment with loans extended through the Slovenian Enterprise Fund, giving customers access to funding on very competitive terms, with better credit collateral and a subsidised interest rate. A large portion of activities focused on obtaining sight deposits from our customers, accompanied by regular monitoring and adjustment of the deposit range. Financing of projects for renewable energy sources was also a significant area in 2012. For this purpose, we prepared a special offer for financing such projects that we adjusted throughout the year, thus maintaining competitiveness on the market. The key advantage of the Small Enterprise Banking Segment is the dispersion of operations both on the assets and liabilities side. Quality consulting and the right product range remain the factors that we devote the most attention to. Consulting customers on financial problems and helping them solve them is of extreme importance in the current economic situation. We maintained a special product range for companies engaged in the social economy that draw financing from various funds, also from abroad. We presented our product range at several events organised by the regional chambers of commerce or craft, at trade fairs and other events visited by prospects.

Medium-Size and Large Enterprise Banking Segment

In the Medium-Size and Large Enterprise Banking Segment, we actively attracted new customers with good ratings. We focused on smaller companies in the segment, even though we succeeded in winning some large companies that opted for the deposit and credit products of the Bank. Our further cooperation with Steiermärkische Bank und Sparkassen AG helped us finance large exposures to major Slovenian companies. A new service was introduced, namely E-invoices, as well as favourable terms of payment transactions, allowing us to achieve an excellent result in increasing customers' sight deposits on transaction accounts.

A special area was cooperation with customers and other banks in the restructuring of existing loans of overindebted customers. When necessary, we engaged colleagues from Intensive Care and sought financial solutions by financing through S-Factoring. In this area, great progress was achieved in cooperation with the controlling company, Banka Sparkasse.

In 2012, S-Factoring again conducted a series of training presentations for corporate consultants of Banka Sparkasse. Through transfer of knowledge about factoring, exchange of experience with banking consultants, continuous two-way communication and joint presence on the market, Banka Sparkasse in 2012 deepened its cooperation with S-Factoring, and the latter secured itself a significant volume of business passed on from the Bank's network, which will grow even faster in the future.

Plan for 2013

The greatest challenges in 2013 are the increase in funds obtained from customers projected at 10% and the small growth in assets, which will be achieved by financing customers with innovative plans, solid projects and good results. We will focus on new medium-sized companies and on optimal fulfilment of existing customers' needs. Our goal is to become their only house bank or one of them. Considerable activities will be devoted to further improvement of the ratio between net interest and net fees by boosting the volume of payment transactions through Banka Sparkasse and positioning the Bank as a versatile provider of tailored products and services enabling financial security.

In this respect, the financing range will be optimised through active inclusion of the associated companies Sparkasse Leasing S and S-Factoring. The latter plans to increase factoring in 2013 by at least 15% to EUR 93 million, of which at least half will be achieved through the branch network of Banka Sparkasse and the other half through the company's own distribution channels. The current crediting policy of the Bank and financial environment in general warrant the strengthening of cooperation between the banks from the Sparkasse Group and the ERSTE Group to satisfy the customers' needs arising from major projects in Slovenia and in the Balkan markets.

With new challenges come new opportunities, which we at Banka Sparkasse, through the prism of corporate banking, see primarily as opportunities to foster profitable long-term relations and partnerships with our loyal customers. We reinforce the activities providing direct support to sales, enabling our consultants to focus even more on customers, monitoring their operations and advising them of financial issues. We will improve the consultant training concept, which will set the standard of required knowledge, thereby providing even greater benefit to our customers.

2.3 Financial Highlights and Performance Indicators

Financial highlights and performance indicators

in EUR thousand	Banka Sparkasse		Sparkasse Group	
Balance sheet	**31/12/2012**	**31/12/2011**	**31/12/2012**	**31/12/2011**
Total assets	1,103,218	1,066,924	1,107,374	1,067,323
Total deposits from the non-banking sector	389,642	330,768	389,408	328,754
a.) legal and other entities	209,015	170,124	208,781	168,110
b.) private individuals	180,627	160,644	180,627	160,644
Total loans to the non-banking sector	963,627	1,010,178	967,678	1,009,533
a) legal and other entities	514,361	544,036	518,412	543,391
b.) private individuals	449,266	466,142	449,266	466,142
Total equity	82,168	90,216	81,806	90,096
Minority interest	-	-	28	144
Impairment of financial assets measured at amortised cost and	61,106	45,314	61,998	45,710

provisions				
Off-balance sheet items	43,697	52,892	43,697	52,892

in EUR thousand

Income statement	2012	2011	2012	2011
Net interest income	20,986	23,689	21,471	23,975
Net non-interest income	5,260	5,106	5,749	5,621
Labour costs, general and administrative costs	-15,459	-14,644	-16,114	-15,215
Amortisation and depreciation	-2,903	-3,046	-2,925	-3,067
Impairments and provisions	-18,184	-12,051	-18,681	-12,123
Profit or loss before tax from ordinary activities and discontinued operations	-10,300	-946	-10,500	-809
Corporate income tax on profit from ordinary activities and discontinued operations	1,207	201	1,166	130
Other comprehensive income before tax	1,045	-583	1,044	-580
Corporate income tax on other comprehensive income	0	0	0	0

Number of employees	31/12/2012	31/12/2011	31/12/2012	31/12/2011
	230	234	241	245

Shares	31/12/2012	31/12/2011	31/12/2012	31/12/2011
Number of shareholders	3	3	5	5
Number of shares	240,000	240,000	247,000	247,000
Face value of a share in EUR	41.72	41.72	41.72	40.55
Book value of a share in EUR	342.37	375.90	331.20	364.18

	in %	in %	in %	in %
Indicators	**2012**	**2011**	**2012**	**2011**
Equity				
- capital adequacy ratio	11.25	11.50	11.18	11.52
Quality of assets, guarantees and commitments				
- impairments of financial assets measured at amortised cost and provisions	5.37	4.01	5.37	4.01
Profitability				
- interest margin	1.97	2.21	2.00	2.23
- financial intermediation margin	2.47	2.68	2.54	2.75
- return on assets before tax	-0.97	-0.09	-0.98	-0.08
- return on equity before tax	-11.53	-1.03	-11.87	-0.89
- return on equity after tax	-10.18	-0.81	-10.56	-0.78
Operating costs				
- operating costs/average assets	1.73	1.65	1.78	1.70
Liquidity				
- liquid assets/short-term liabilities of the non-banking sector	15.46	7.37*	15.47	7.58
- liquid assets/average assets	4.81	1.87	4.77	1.86

* According to the Decision on books of account and annual reports of banks and savings banks (Offic. Gaz. of the RS, no. 17/2012 of 5 March 2012), the 2011 indicator changed due to the recalculation according to a new methodology.

2.3.1 Payment Transactions

Accounts (payment transactions)		2012			2011		
		outflows	inflows	total	outflows	inflows	total
Domestic	no. of transactions	1,467	992	2,459	713	550	1,263
	transaction amount	2,555,151	2,740,784	5,295,935	2,041,171	580,258	2,621,429
Cross-border	no. of transactions	23	20	43	16	7	23
	transaction amount	130,729	140,033	270,762	168,984	49,673	218,657

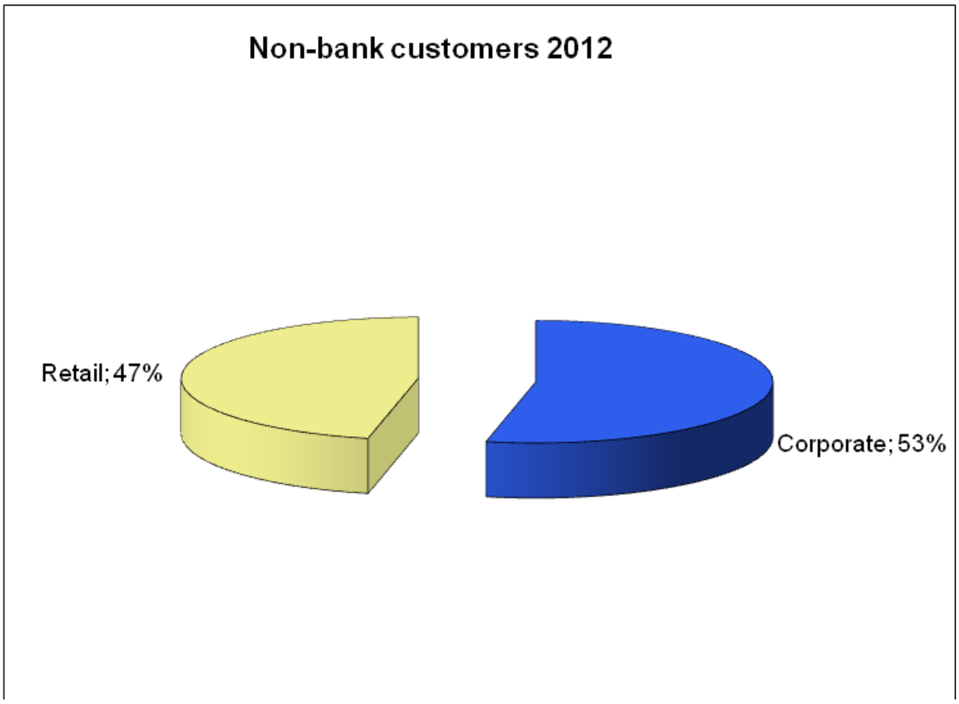
In 2012, the number and amount of domestic payment transactions doubled. The increase, both in terms of number and value, was expected, as it results from the abolishment of the Bankart Collection Centre in the part that processed direct debits and transfers by special payment orders.

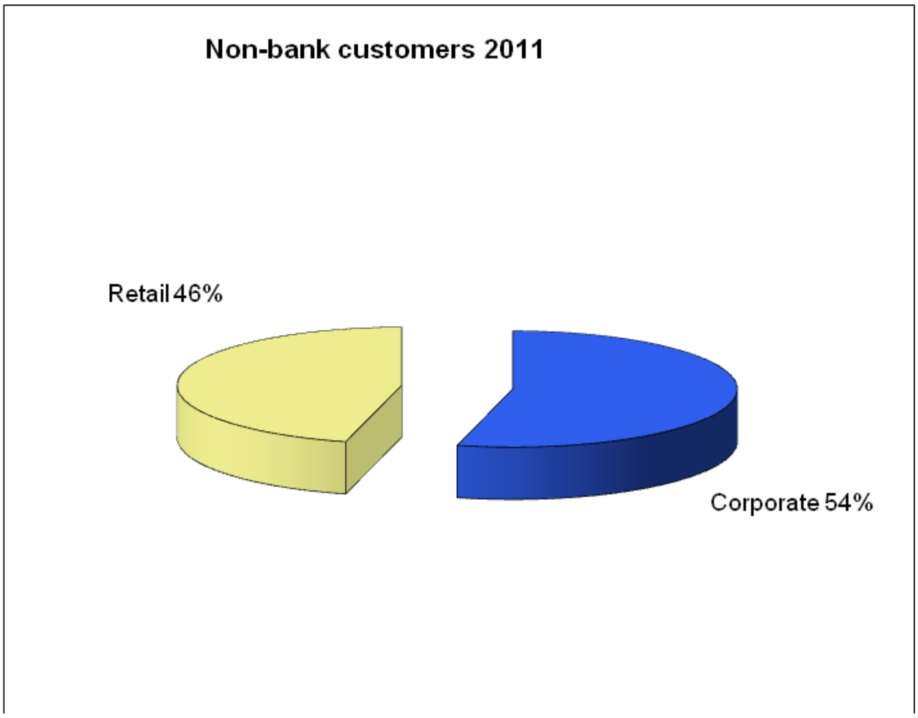
Slovenian banks and Bankart were well prepared for the increase in the number of submitted orders. Prior to migration of pensions to the SEPA payment systems, Bankart organised a national testing of the payment system's capacity and an additional settlement cut-off was introduced for the submission of orders. The end of 2012 saw the abolishment of the part of the Collection Centre for direct debits file processing, which will again lead to an increase in payment transactions in 2013.

2.3.2 Credit Transactions

Total assets of Banka Sparkasse exceeded EUR 1 billion in 2012, and its aggregate exposure to customers that are not financial institutions was EUR 963.63 billion. The latter stood at EUR 1.103 billion as at 31 December 2012, representing an increase of 3.37% or EUR 36 million compared to the balance as at 31 December 2011. EUR 159.7 million worth of new loans to customers were approved in 2012.

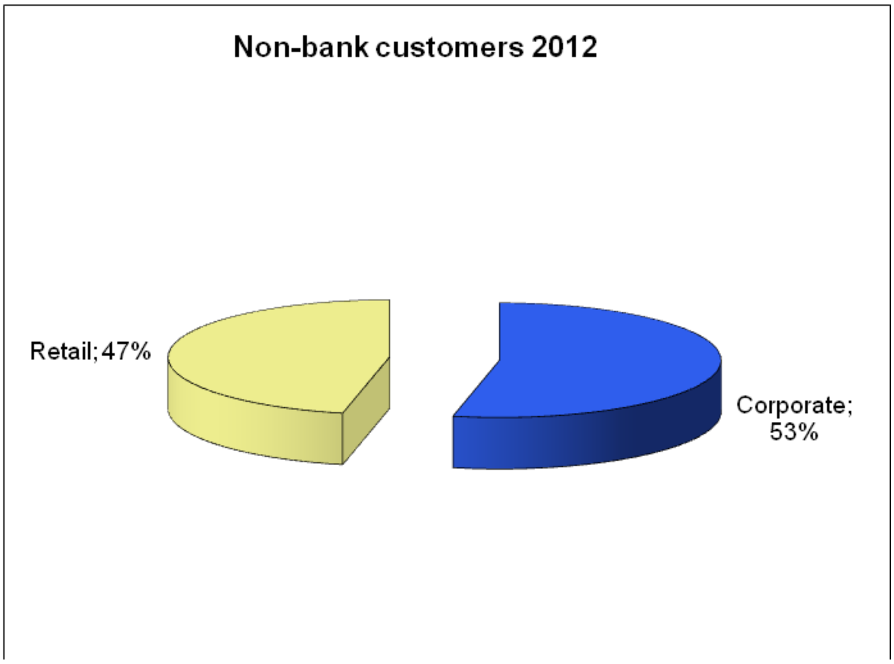
The composition of exposure is still dominated by corporate customers (53%) ahead of retail customers (47%).

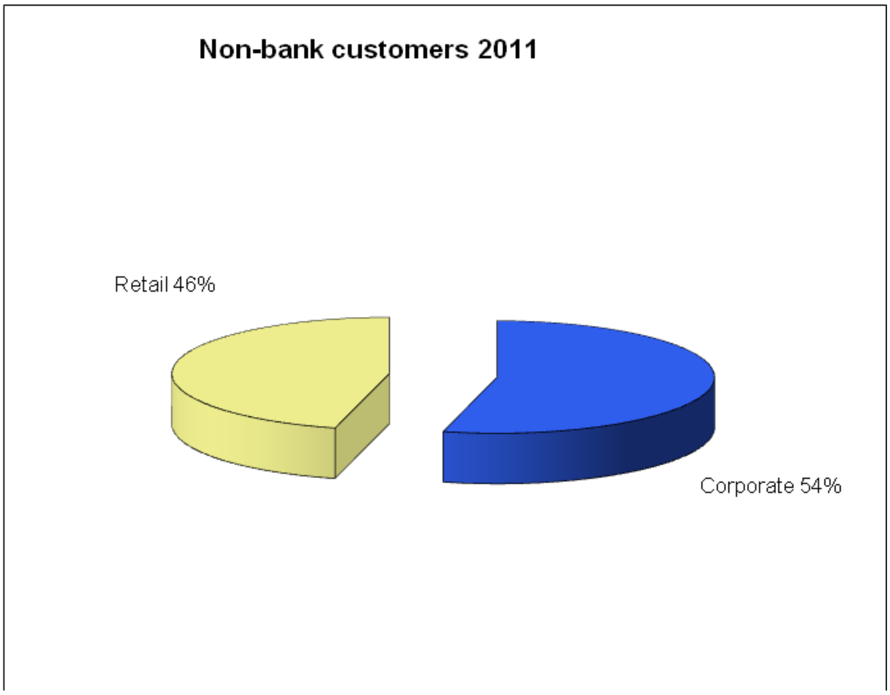




In 2012, exposure to customers dropped to EUR 963.63 million or by 4.61% compared to the year before.

Total assets of the Sparkasse Group also exceeded EUR 1 billion, and its exposure to customers that are not financial institutions was EUR 967.68 million.

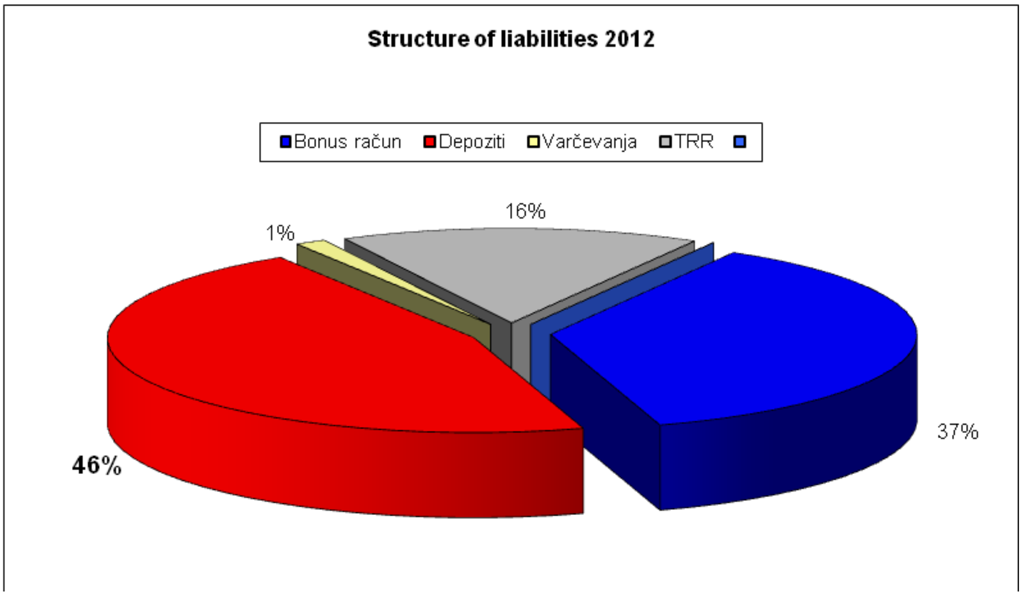




2.3.3 Deposit Transactions

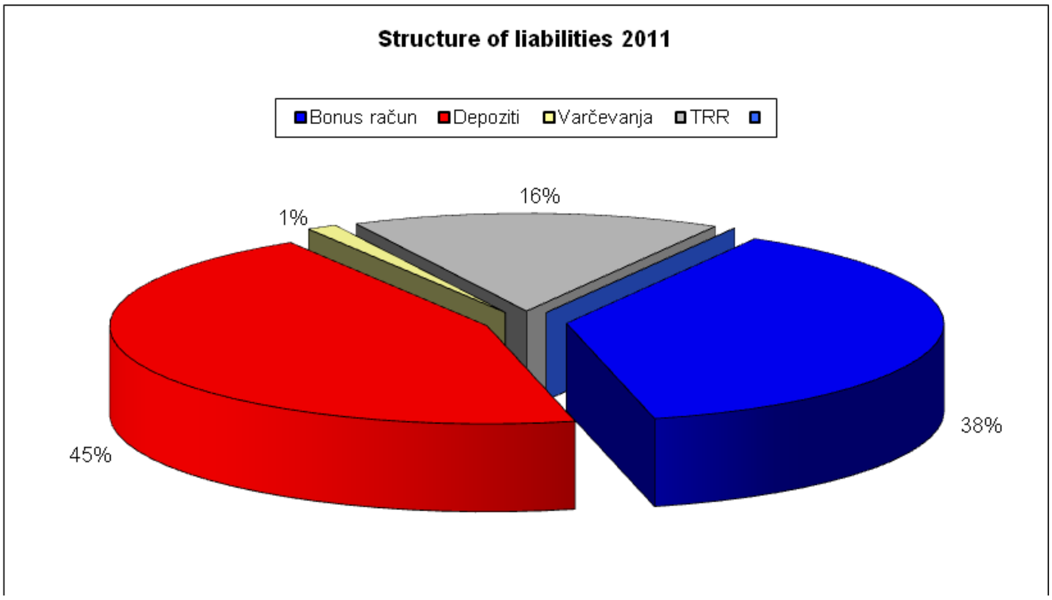
At the end of 2012, Banka Sparkasse had liabilities to customers that are not financial institutions in the total amount of EUR 389.64 million, which is up by 17.80% or EUR 58.87 million compared to 2011.

Structure of liabilities of Banka Sparkasse in 2012



Bonus Account
Deposits
Savings
Trans. acc.

Structure of liabilities of Banka Sparkasse in 2011



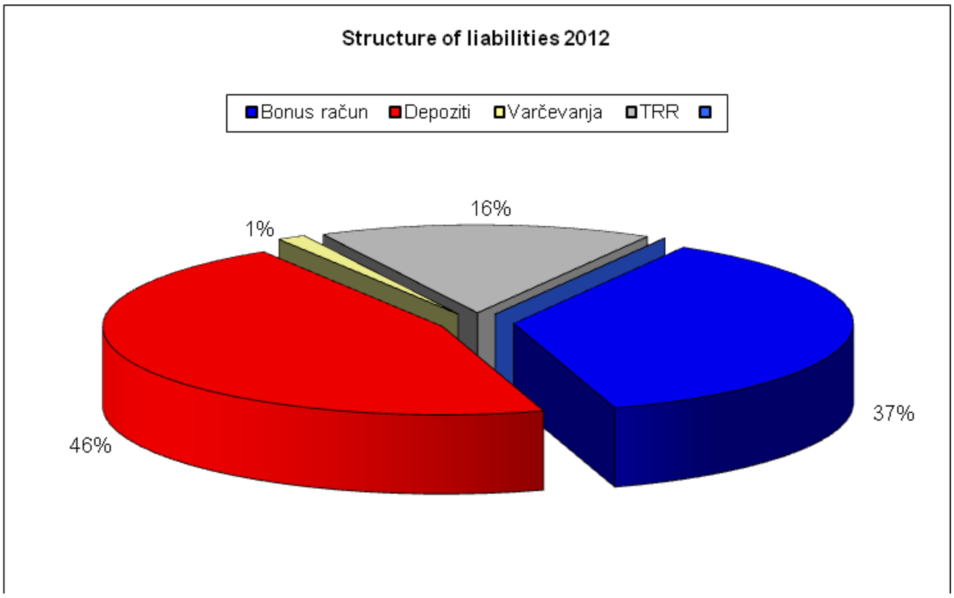
Bonus Account
Deposits
Savings
Trans. acc.

45.94% of liabilities to customers are in deposits and 36.85% in Bonus Accounts. 1.35% of liabilities to customers is tied up in special-purpose and premium housing savings schemes, while the remainder (15.86%) is account credit balance.

Sparkasse Group

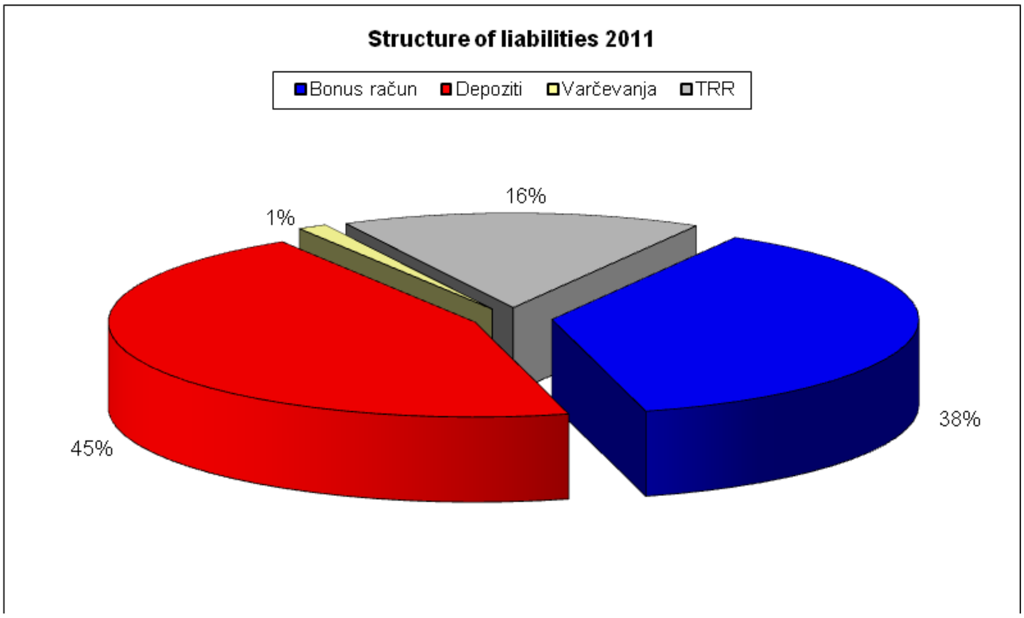
At the end of 2012, the Sparkasse Group's liabilities to customers that are not financial institutions totalled EUR 389.49 million, which is 18.46% or EUR 60.74 million more than in 2011.

Structure of liabilities of the Sparkasse Group in 2012



Bonus Account
Deposits
Savings
Trans. acc.

Structure of liabilities of the Sparkasse Group in 2011



Bonus Account
Deposits
Savings
Trans. acc.

2.3.4 Card Transactions

The number of issued Maestro cards, the number and value of transactions

year	No. of issued Maestro cards	No. of domestic transactions	No. of foreign transactions	No. of online transactions	Value of domestic transactions	Value of foreign transactions	Value of online transactions
2012	37,656	1,540,663	74,464	1,991	47,817,442	3,809,741	96,020
2011	37,021	1,318,959	56,948	287	41,310,273	3,072,482	25,937
in %	**1.72**	**16.81**	**30.76**	**593.73**	**15.75**	**24.00**	**270.20**

The number of transactions with debit cards has been increasing from one year to the next. The use of cards in everyday life is not only reflected in a higher volume due to the increased number of issued cards. The number of transactions per card has also been increasing, specifically in 2012 it rose from 37.16 to 42.94 transactions.

It has also been established that when making online purchases the payment card holders have been using 3D Secure, which was introduced by the Bank in 2011. The current number of active registered users is 4,827; the number of transactions is 8,622, of which 1,991 with BA Maestro cards.

The number of issued MasterCard cards, the number and value of transactions							
year	No. of issued MasterCard cards	No. of domestic transactions	No. of foreign transactions	No. of online transactions	Value of domestic transactions in EUR	Value of foreign transactions in EUR	Value of online transactions in EUR
2012	9,429	342,680	44,566	83,975	11,983,961	2,726,070	3,849,103
2011	8,635	315,585	38,977	64,137	11,329,245	2,397,171	3,404,063
in %	**9.20**	**8.59**	**14.34**	**30.93**	**5.78**	**13.72**	**13.07**

The deferred-payment cards are still a popular means of payment for goods and services. Particularly notable is the use of deferred-payment cards for online shopping, since most online shops still only accept deferred-payment and credit cards. MasterCard is more established and frequently used abroad.

The number of blocked cards and cards involved in fraud and the value of frauds							
year		**No. of all cards issued**	**No. of blocked cards**	**% of blocked cards**	**No. of frauds**	**% of frauds per no. of cards**	**% of frauds per total card transactions**
	2012	47,085	832	1.77	143	0.30	0.02
	2011	45,656	1,207	2.64	140	0.30	0.02
	in %	**3.13**	**-31.07**	**-33.07**	**2.14**	**0.00**	**0.00**

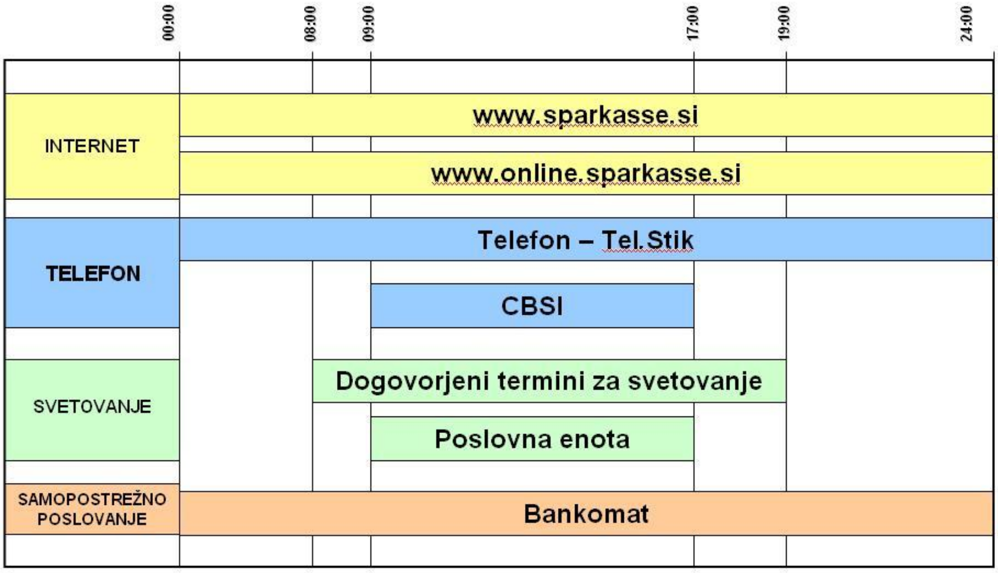
In 2012, the number of blocked cards has experienced a strong downward trend resulting from the introduction of partial blocking of card use. The Bank can enable the use of payment cards only at EMV-compliant points of sale. Such "partial blocking" leads to a decrease in cardholder's costs and ultimately the bank's costs.

2.3.5 Distribution Channels

In 2012, we consistently implemented the multi-channel strategy with the aim of maximum satisfaction of the customers' demands, needs and goals. Through various distribution channels, we offer 24/7 communication with the Bank. A customer can inquire about their financial position and conclude transactions through Banka Sparkasse using the following distribution channels:

- by visiting a branch or consulting centre
- by a consultant's visit to the customer
- by use of Net.Stik or Net.StikPRO e-bank
- by use of Tel.Stik telephone banking
- by visiting the website www.sparkasse.si
- by visiting the virtual branch www.online.sparkasse.si
- by withdrawals at ATMs

- via contractual partners



INTERNET	www.sparkasse.si
	www.online.sparkasse.si
TELEPHONE	Telephone – Tel.Stik
	CBSI
CONSULTING	Scheduled consulting time
	Branch
SELF-SERVICE	ATM

Being close to customers does not entail only e-banking but also personal contact and consulting through our branches, at a customer's home or their registered office. Consulting by means of Finanz Check, Dom Check and Business Check enables consultants to provide in-depth individual treatment tailored to customers needs, wishes and abilities.

In 2012, we preserved extended consulting time – based on previous arrangement with the consultant – because proximity to customers also requires that we adjust the consulting service to a customer who may participate in consulting only outside the working hours of our branch.

The Centre for Banking Services and Information (CBSI) is among the busiest distribution channels in terms of the number of calls and contacts. A significant difference and advantage compared to other banks is that in addition to the traditional services such as:

- accepting customers' calls,
- scheduling consulting,
- providing general information about our products/solutions,
- conducting marketing campaigns,
- Helpdesk for questions about our e-bank Net.Stik and Net. StikPRO,

- answering e-mails,
- helping in solving of problems and customers' complaints,

it is also responsible for consulting our online customers in the virtual branch. In retail, we provide the following products to existing and new customers through www.online.sparkasse.si:

- Comfortable Positive Account,
- Comfortable Plus Account,
- Bonus Account,
- Deposit,
- Special-purpose savings,
- Premium housing savings.

Some products are available for purchase with special benefits, and we are the first bank in Slovenia that offers the possibility of new customer identification by a qualified digital certificate. This simplifies banking and enables even non-customers of the Bank to take out savings products. For existing customers, this service has been integrated in the application for the Net.Stik e-bank, allowing customers simple opening of the above stated savings products.

In the future, the use of the e-bank on mobile devices will represent one of if not the most important channel for using our services, especially in the case of banks with a small branch network, such as Banka Sparkasse. Since the use of mobile devices in banking has been growing in Slovenia and abroad, we will mainly focus on the mobility, safe use of banking services and data confidentiality in online banking on mobile devices. We expect that in the near future online banking on mobile devices could exceed the use of e-banking at fixed stations, so development and support will be one of the Bank's major development focuses in 2013.

2.3.6 Treasury

The Treasury operates according to the guidelines of the Bank's Liquidity Risk Management Policy.
The Bank has maintained the legal liquidity reserves prescribed by the application regulations.

In the relevant period, the Bank significantly increased the prescribed liquidity ratio of 1.00.

At its meetings, the Liquidity Commission monitors, analyses and supervises the Bank's liquidity. Based on reports, it adopts measures to ensure that the Bank operates in line with the guidelines of the Kärntner Sparkasse AG Group and Banka Sparkasse, observing all regulations.

The main emphasis in liquidity management of the Bank in 2012 was on the stability and safety of operations, which was achieved through cash flow planning, monitoring trends in liquidity indicators and ensuring constant fulfilment of bank obligations. In addition, the Treasury maintains the necessary volume of primary financial assets for pledge and other needs of the Bank, implements the currency policy of the Bank and adjusts the open currency position.

By securing long-term sources of financing from all owners, the Bank restricted the impact of uncertain circumstances and stringent borrowing conditions on financial markets, whereby it ensured its credit activity.

2.3.7 Internal Audit

The Internal Audit carries out regular, comprehensive supervision of the Bank's and its subsidiaries' operations and ensures that the strategy of Banka Sparkasse is safely implemented. It is independent and adopts a systematic and professional approach to risk and control system assessment. It is accountable to the Bank's Management Board. Moreover, it regularly and comprehensively supervises the integrity of the Bank's operations and identifies areas and dimensions of business uncertainties and risks.

The Bank's risk profile is specific to the line of work the Bank is engaged in. Being the prevailing risk, credit risk has been under the most intense scrutiny through all these years. The Internal Audit makes sure that the control environment does not deteriorate and that the economic objectives are met. The main areas that the Internal Audit increasingly focuses on are liquidity, strategic/business risk and operational risk.

Internal auditing activities in Banka Sparkasse have been in place for seven years, within the framework of the Internal Audit Department. Prior to that, the internal audit function was carried out by the parent company's Internal Audit.

In order for it to be completely independent, also from the Bank's Management Board, the Internal Audit head sends audit reports with all findings to the Internal Audit of the parent company and submits summaries of all audit reports directly to the Chairman of the Supervisory Board. For the Supervisory Board, the Management Board and the Internal Audit of the parent company, it also draws up semi-annual reports on the internal auditing activities and on the implementation of measures to correct the detected deficiencies or irregularities as well as an annual report on internal auditing activities in accordance with the law. Since 2009, the Internal Audit has also reported to the Audit Committee at its meetings.

The powers, obligations, tasks and the functioning of the Internal Audit are specified in the Charter of the Internal Audit of Banka Sparkasse, which was adopted by the Bank's Management Board in agreement with the Audit Committee/Supervisory Board. In 2012, the compliance of this Charter with the International Standards for the Professional Practice of Internal Auditing was again reviewed.

For more effective and quality implementation of its tasks, the Internal Audit also relies on other internal documents, such as various methodologies that are harmonised with the guidelines of the parent company. In 2012, the Internal Audit produced additional internal documents/work instructions on internal audit activities.

It paid special attention to the risk of fraud. In 2012, the Internal Audit coordinated and participated in drafting of the programme for managing the risk of fraud. It formulated the policy for detecting and preventing fraud as well as various work instructions in this area. The policy provided a framework for establishing the process of reporting suspected fraud, serving as the basis for timely and adequate investigation as well as the introduction of suitable and prompt measures.

The professional qualifications of our internal auditors are suitable. The Internal Audit has since 2012 employed three internal auditors with many years of experience in external and internal auditing. The head of the Internal Audit holds the title of Verified Internal Auditor granted by the Slovenian Institute of Auditors. The internal auditors undergo ongoing training in all areas of expertise. Based on the ongoing training and the quality improvement program, the Internal Audit continually develops new work methods inspired by the latest developments and trends in the banking and internal audit profession.

The Internal Audit conducts audits according to the annual audit plan approved by the Management Board in agreement with the Supervisory Board/Audit Committee. On the request from the Management Board or the Supervisory Board or at its own discretion, the Internal Audit also carries out extraordinary audits. Advisory work, in addition to giving assurances, makes up a large portion of its activities. The aims of the advisory activities stem from the Group's business policy and strategy.

In 2012, the Internal Audit complied with the approved annual audit plan and its supplements. It conducted 27 regular planned and 7 extraordinary non-planned internal audits as well as 44 informal advisory and auxiliary tasks. Furthermore, it regularly monitored the implementation of its recommendations and coordinated inspections and audits carried out by the parent company.

The internal audits mainly focused on review of credit and operational risks in the following areas: corporate and retail crediting, other credit transactions, cash and card transactions, capital adequacy, reporting to supervisory institutions, compliance of business, prevention of money laundering and terrorism financing, etc.

In 2011, the Internal Audit was subject to an external quality assessment, covering conformity with the International Standards for the Professional Practice of Internal Auditing, the Code of Professional Ethics of Internal Auditor and the Code of Internal Auditing Principles. The common assessment of the internal audit activities reveals that they generally complied with the standards in all material respects.

2.3.8 Information Technology

Vision and strategy of the IT Support Department

The department's strategy has been incorporated into the Bank's strategy because it had been concluded that reliable and stable IT support is of strategic importance for securing business success for the Bank.

The IT Department is actively engaged in the formation of the Bank's strategy and the strategy for the development of IT support and solutions and guides the implementation of the Bank's strategy in the Slovenian banking market in order to achieve the common goals shared with other organisational units within the Bank and in other companies within the Erste Bank AG Group.

The department ensures adequate responsiveness, stability and use of IT systems and solutions that enable uninterrupted support to the Bank's business and development. At the

same time, it provides for compliance with legal requirements, improvement of the operational risk management level and the IT security of the Bank.

The goal of the department is to carry out IT processes and support business processes in a manner that most effectively and with optimal costs ensures the Bank's response to dynamic trends on the banking market, the expectations of users and business requirements.

Department organisation

In 2012, the department in organisational terms belonged to Retail Banking and Organisation and is further divided into two divisions based on the area concerned or the level of IT support:

- Infrastructure and IT Security,
- Operations and IT Solutions Back Office, and
- Project management and organisation team, which is, in addition to regular management of project resources, also in charge of logistics, post centre and joint costs of the Bank.

Department's operations and results in 2012

The department provides continuous support to the Bank's business environment in the areas of applications, systems software and hardware and network equipment and at the same time provides centralised methodological support to project-based work and tutors project managers of business lines.

In 2012, the **costs of IT services** were reduced by 8% compared to the year before, without this having any impact on the quality of **IT services** in spite of the growth in the business volume in comparison to 2011. This was primarily reflected in:

- up to 50% improved response in IT processes and minimised downtime resulting from the introduction or integration of new systems;

- monthly processing in the back-office system has shortened by nearly 68% compared to the end of 2011, without detected failures arising from system overload (from 16 to 5 hours);

- improved management of critical points in daily processing, in systems at peak hours after the established outsourced service, in terms of critical success factors for the adequate service level;

- 50% fewer interventions by outsourcers providing business continuity;

- 80% fewer reported problems with the interface system after the introduction of service oriented architecture (SOA) for data exchange management.

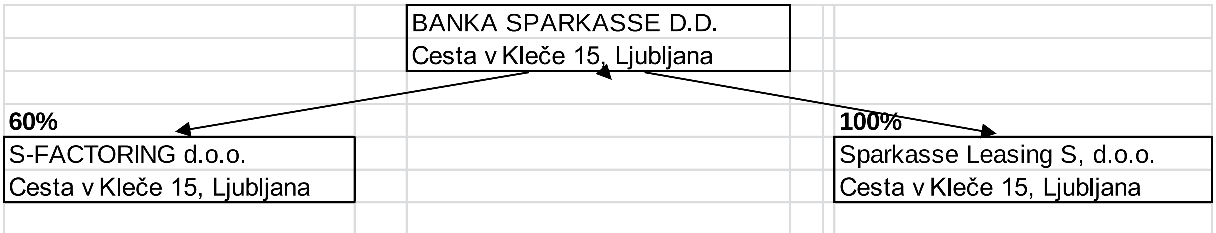
Reducing operational risks of IT infrastructure

The priority in operational risk management that we achieved in 2012 was the elimination of the risks arising from the lag in back-office support resulting from the Bank's fast growth in recent years. We set up an environment enabling a smooth transition to the new system in 3 years' time and undisturbed functioning and maintenance of the remaining portion of the Bank's IT system. With the aim of ensuring safe operation of systems we:

- redesigned the security architecture of Net.Stik,
- carried out the migration to SEPA DD,
- introduced the solution for investment fund and treasury operations,
- revamped IT solutions of the Bank's back-office system.

2.4 Presentation of the Sparkasse Group

Sparkasse Group as at 31 December 2012



PARENT COMPANY:

Banka Sparkasse
Cesta v Kleče 15
1000 Ljubljana

Company ID number: 2211254
Activity: Banking
Total assets as at 31 December 2012: EUR 1,103,218 thousand
Share capital: EUR 10,015,200.00
Shareholders: Kärntner Sparkasse AG, Klagenfurt 70%
Steiermärkische Bank und Sparkassen AG, Graz 26%
Erste Group Bank AG, Wien 4%
Date of entry in the Companies Register: 24 May 2006
Management Board:
Chairman: Andrej Plos, M.Sc.
Member: Josef Laussegger
Member: Aleksander Klemenčič
Supervisory Board
Chairman: Siegfried Rudolf Huber, M.Sc.
Vice-Chairperson: Gabriele Semmelrock-Werzer
Georg Bucher, Ph.D.
Members: Thomas Wieser, M.Sc.
Wolfgang Suppan, M.Sc.
Kristijan Schellander, Ph.D.
Thomas Uher, Ph.D.

The Bank carries out the following activities for subsidiaries: IT support, compilation of reports and data, marketing services, credit rating services, deal brokering and other administrative tasks.

SUBSIDIARIES:

S-FACTORING družba za factoring
Cesta v Kleče 15
1000 Ljubljana

Company ID number: 2319748
Activity: Factoring
Total assets as at 31 December 2012: EUR 13,152 thousand
Share capital: EUR 700,000.00
Equity interest of Banka Sparkasse: 60%
Equity interest of Intermarket Bank AG, Vienna: 40%
Date of entry in the Companies Register: 21 August 2007
Management Board: Roman Gomboc
Supervisory Board: Josef Laussegger
Siegfried Rudolf Huber, M.Sc.
Theoderich Hibler
Gerald Gratzer

Audit: Special audit of the Company is not carried out; the parent company's auditor audits the financial statements for the purpose of the consolidated annual report (DELOITTE REVIZIJA d.o.o., Dunajska cesta 165, 1000 Ljubljana).
The Company is consolidated in full.

Sparkasse Leasing S d.o.o.
Cesta v Kleče 15
1000 Ljubljana

Company ID number: 3724310000
Activity: Finance lease
Total assets as at 31 December 2012: EUR 14,857 thousand
Share capital: EUR 150,000.00
Equity interest of Banka Sparkasse: 100%
Date of entry in the Companies Register: 19 April 2010
Representatives: Brigita Cof
Boštjan Butolen

The company s REAL SPARKASSE d.o.o. was on 11 December 2012 stricken from the Companies Register according to a court decision.

Performance of the Subsidiaries in 2012

S-FACTORING družba za factoring

In 2012, the shrinkage of export orders and weak domestic demand again brought about a decrease in gross domestic product in the Slovenian economy along with a strengthened late-payment culture, a high number of bankruptcies and low market liquidity, which, with the general inadequate structure of financing and the lack of capital, made it urgent for many medium-sized and large companies to undergo financial restructuring. Such a market situation had an unfavourable impact on factoring and warranted special care in selecting business partners.

Economic growth in some of the most successful EU countries enabled Slovenian export companies from certain industries to win more orders, resulting in more funds needed for working capital financing. Owing to a relatively high indebtedness of the Slovenian economy and difficult access to bank funding, the companies more frequently than in previous years opted for alternative sources of financing such as factoring.

The year 2012 was the most demanding for S-Factoring as well as the most important for its further development. An unfavourable experience, namely a business fraud by a customer, at the very start of the year impacted the entire operations of the company, necessitating impairments of trade receivables in the amount of EUR 402 thousand by the end of the year, which inevitably resulted in a loss. With the aim of risk management and prevention of customer fraud, the company cancelled no less than 14 agreements, primarily with small companies, and focused on winning medium-sized and large customers with good ratings. In spite of an unpromising start, challenging situation and notably higher IT costs, S-Factoring improved its performance at all levels and areas, and by reaching above-average growth in business volume, it has since September recorded a considerable increase in operating revenues and profit at the monthly level.

In 2012, factoring transactions of S-Factoring amounted to EUR 86,479 thousand, which is 14% less than planned but no less than 34% more than in 2011. The low volume of monthly factoring transactions from the first part of the year reached an average in the last quarter of over EUR 9,000 thousand, while receivables due from customers rose by 74% to EUR 13,691 thousand. The customer portfolio concentrated on larger and better-performing companies and consequently rose by 9% to 49 customers, with the share of bad debt decreasing to 8.3%.

Consistent with the changes in factoring transactions, S-Factoring earned most of its revenues in the second half of the year, generating 26% less revenues than planned and 2% less than in 2011. As much as 71% of revenue is represented by non-interest income or factoring fees, which lagged behind the plan and the respective 2011 figure by 29% and 8% respectively. The main improvement was recorded by S-Factoring in net interest revenues, which reached only 83% of the plan but were 16% higher than in 2011. The slight drop from 2011 was the result of the above mentioned cancellations of contracts involving higher risk and return at the start of the year, the targeting of large companies with better ratings and more favourable terms, the intensive growth in operations and receivables from customers only in the last quarter and less available funds drawn by some major customers, leading to a financing scope below the planned level, lower average exposure and thus lower revenues.

Given the expected revenues in 2012, the company further pursued a strict policy of comprehensive cost management and successfully controlled costs with timely and adequate measures. In spite of considerable growth in the volume of business and the unplanned increase in IT costs, operating expenses were 16% lower than planned and 6% higher than in 2011. Owing to the previously mentioned fraud, the impairments of receivables or bad debt were much higher than the 2012 plan and than made in 2011.

S-Factoring concluded 2012 with a loss in the amount of EUR 292 thousand, primarily reflecting the unplanned and unprojected one-time costs of impairments and revaluation expenses.

In 2013, the company plans to increase the volume of factoring transactions by at least 15%, receivables from customers by 12% and revenues by 14% and aims to decrease administrative costs by 15% and record profit of EUR 106 thousand. In the medium term, the company will increase the volume of factoring transactions and profitability as well as secure itself the position of the most visible factoring provider in Slovenia.

Sparkasse Leasing S

The **company's mission is marketing** of leasing services on the market of the Republic of Slovenia. It is present on the market together with Banka Sparkasse, either complementing its range or offering its own. It thus contributes to winning customers by the Sparkasse Group and provides a comprehensive range of high-quality consulting services and appropriate products for specific investment purposes. Leasing is sold through bank consultants, which is new to the Slovenian market. We are certain that this is a competitive advantage, also leading to more

rational operations and closer connection with the Bank. Finance lease of movable property is offered to legal persons.
In 2012, Sparkasse Leasing S concluded 189 lease contracts with net financed value of EUR 8,575 thousand. Of these, 92 were concluded for financing freight vehicles, 59 for financing various machinery and equipment and 38 for financing cars. As at 31 December 2012, the receivables from finance lease totalled EUR 14,177 thousand or 64% more than the year before. Net interest income stood at EUR 318 thousand. The average lease term was 49 months. In 2012, the company generated profit before tax in the amount of EUR 119 thousand and after tax in the amount of EUR 52 thousand. The company obtains funds for financing from Banka Sparkasse and Kärntner Sparkasse AG. Owing to the intra-group financing, the company was imposed tax on thin capitalisation, which influenced the bottom line. Profit after tax was EUR 52 thousand. The number of employees remained unchanged – two full-time employees performing back office function. In 2012, for two out of 207 of its customers, the company formed individual value adjustments totalling EUR 95 thousand. This indicates that good business policy is applied to contract approval and that risks are adequately managed. The value adjustment policy was changed in 2012, as it was aligned with the Bank's policy, and the company introduced collective impairments.

2.5 Risk and capital management at Banka Sparkasse and the Sparkasse Group

The Bank manages risks and capital by pursuing the strategies, policies and instructions that it adopted as fundamental documents in this area both for the Bank and the Sparkasse Group. These documents define the organisational set-up as well as the procedures for measuring, identifying, monitoring and managing risks. It is estimated that with the implementation of the strategies and policies, the Bank and the Group have in 2012 established a solid and reliable management system, comprising a clear organisational set-up, efficient procedures for identifying, measuring, assessing, managing and monitoring risks and an adequate internal control system in view of the characteristics, volume and complexity of the activities performed by the Bank.

The organisational structure of Banka Sparkasse is based on a distribution of tasks and competences among all employees, including all management levels, which limits and prevents the possibility of any conflicts of interests and ensures a transparent and documented decision-making process. The Bank finds that the organisational structure of its subsidiaries within the Group is clearly defined, transparent and reliable, enabling a comprehensive overview of the risk management process within the Group.

The strategies and policies of risk assumption and management for the Bank and the Group are suitable, effective and comprehensive. Banka Sparkasse d.d. ensures that the significant risks assumed in the framework of its operations are identified early on, properly handled, monitored in the course of its daily activities and presented to the appropriate management levels in a timely fashion. Effective risk management reduces the likelihood of incurring unexpected losses and consequently prevents the risk of damage to the Bank's reputation as a result of such losses.

The Bank's bodies for management and supervision in the area of risk management are responsible for approving, reviewing and updating the Bank's risk assumption and management strategies and policies and for ensuring all the necessary conditions for comprehensive and proportional consideration of all risks assumed by the Bank. With respect to risk management, the Bank's top management is responsible for the preparation and implementation of risk assumption and management strategies and policies, for informing the Bank's management or supervisory bodies about important business risks assumed and for establishing and maintaining the management system.

Risks: identifying, assuming, managing and monitoring

Risk identification procedures include comprehensive and timely detection of risks that the Bank takes in its operations and a root cause analysis. Identified risks are duly recorded.

Within the framework of the Basel II Capital Accord, Banka Sparkasse has in place suitable, effective and comprehensive strategies and policies for risk assumption and management. The Bank laid down a comprehensive definition of risk assumption and risk management in its overall strategy and policy. Major individual risks the Bank is exposed to such as credit, operational, interest rate, liquidity and currency risks are laid down in detail in corresponding strategies and policies that for the most part mirror the structure of the overall strategy or policy.

In its overall strategy for risk assumption and risk management, Banka Sparkasse defined – both for the Bank and the Group – objectives and general principles or directions for risk assumption and management, an approach to managing individual risks, an approach to the internal capital adequacy assessment process (ICAAP), an outline of plans regarding important business activities and a description of any planned changes in the Bank's business strategy. In the overall policy for risk assumption and risk management, the Bank laid down the methodology for assessing its risk-bearing capacity, organisational rules for implementing the risk management process, including its description, rules for assessing the Bank's risk profile, including methodologies for identifying, measuring and assessing risks, rules for the system of internal controls and rules for the internal capital adequacy assessment process.

Risk management procedures include all measures and rules for the implementation of measures for the assumption, reduction, dispersion, transfer and avoidance of risks that the Bank has identified, measured and assessed.

The risk management procedures, designed to achieve the desired risk profile, include rules on the responsibility, method and frequency requirements with respect to monitoring risks that the Bank has assumed in the course of its operations.

Regulatory capital

Banka Sparkasse laid down the capital management procedures in the corresponding strategy and policy for both the Bank and the banking group. The strategy defines the objectives and general principles or directions on capital management, the approach to capital management and the approach to the internal capital adequacy assessment process (ICAAP) and includes an outline of plans regarding important business activities and a description of any planned changes in the Bank's business strategy. The policy defines the methodology for assessing the Bank's risk-assumption capacity, organisational rules for the capital management process, including its description, rules for assessing the Bank's risk profile, including methodologies, rules for the system of internal controls and rules for the internal capital adequacy assessment process.

According to banking legislation, risk management capital is divided into regulatory and internal capital. Banka Sparkasse defines regulatory capital as internal capital, i.e. capital available for the assumption of risks. For the Sparkasse Group, the capital available for the assumption of risks is defined as in the Bank, namely as regulatory capital of the Sparkasse Group.

In the framework of the Asset-Liability Committee, the Bank regularly – monthly and also on an as-needed basis – monitors the regulatory and economic capital, capital requirements for individual risks and capital adequacy at the Bank and Group levels.

2.6 Internal Control System

The structure of internal controls at Banka Sparkasse, which form the basis for performing internal controlling activities at the level of each individual financial service and in the course of the Bank's daily operations, including monitoring the operation of information systems and employee activities, is effective. The Bank makes every effort to ensure the implemented internal controls properly fulfil their function. Material findings of the internal control activities and corresponding measures are duly recorded and monitored. Control activities in Banka Sparkasse serve three purposes:

- to prevent the occurrence of risk,
- to identify occurred risk, and
- to remedy the consequences of risk.

As the element of the management system, the internal control system comprises internal controls with three functions:

- risk management,
- compliance, and
- internal audit.

The internal control system has been established according to the legislation and the regulations of the Republic of Slovenia and supervisory authorities as well as in line with international rules that impose on banks the obligation to establish and maintain an internal control system.

Internal controls take the form of:

- constant controls (constant supervision), and
- periodic controls (internal audit).

Constant supervision is exercised by employees who properly, completely and consistently apply internal rules and promptly review all irregularities and see to their elimination.

Periodic control is carried out by the Internal Audit, which independently, regularly and comprehensively reviews and assesses the adequacy of the management system, including the quality of internal controls.

3. Financial Report of Banka Sparkasse and the Sparkasse Group

3.1 Auditor's Report

Deloitte.

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1000 Ljubljana Slovenija
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**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
BANKA SPARKASSE d.d.**

Report on the Financial Statements

We have audited the accompanying stand-alone financial statements of the Banka Sparkasse d.d. and consolidated financial statements of the Group Sparkasse, which comprise the statement of financial position as at December 31, 2012, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the stand-alone and consolidated financial statements give a true and fair view of the financial position of Banka Sparkasse d.d and Group Sparkasse as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Emphasis of Matter

We draw your attention to Note *3.13.1 Credit Risk which* discusses uncertainties about future economic conditions in Slovenia and their likely impact on values of real estate collaterals. Our opinion is not modified in respect of this matter.

Report On Other Legal and Regulatory Requirements

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

DELOITTE REVIZIJA d.o.o.

Katarina Kadunc	Yuri Sidorovich
Certified auditor	President of the board

Deloitte.

DELOITTE REVIZIJA D.O.O. Ljubljana, Slovenija

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Ljubljana, 29 March 2013

For signature please refer to the original Slovenian version.

FOR TRANSLATION PURPOSES ONLY- ORIGINAL PREVAILS

3.2 Management Statement on the Financial Statements

MANAGEMENT STATEMENT ON THE FINANCIAL STATEMENTS AND ANNUAL REPORT OF BANKA SPARKASSE D.D., LJUBLJANA

The Management Board hereby approves the financial statements and Annual Report of Banka Sparkasse d.d. for the year ended 31 December 2012 as well as the applicable accounting policies and notes to the financial statements.

The financial statements have been produced in compliance with the International Financial
Reporting Standards (IFRS) as adopted by the EU.

The Management Board is responsible for ensuring that:

- the accounting policies followed are suitable and applied consistently throughout,
- the estimates and assessments are made with due prudence and diligence,
- any material deviations from the accounting standards used are properly disclosed and clarified.

The Management Board is responsible for keeping accounting books and records that show the financial position of Banka Sparkasse d.d. The Management Board is also responsible for ensuring that financial statements and the Annual Report are compiled in accordance with the laws and regulations of the Republic of Slovenia. The Management Board is obliged to do everything in its power to prevent or disclose any potential frauds or other irregularities.

The date of approval of the financial statements and the Annual Report is 30 January 2013.

Management Board of Banka Sparkasse d.d.

Aleksander Klemenčič	Andrej Plos, M.Sc.
Member of the Management Board	Chairman of the Management Board

3.3 Subsidiary Company Management Report Pursuant to Article 545 of the Companies Act

SUBSIDIARY COMPANY MANAGEMENT REPORT PURSUANT TO ARTICLE 545 OF THE COMPANIES ACT

The Sparkasse Group hereby declares that its owners did not exercise their influence in Banka Sparkasse d.d. to induce it or its subsidiaries into performing a detrimental legal transaction or into taking or omitting any action to its disadvantage.

Management Board of Banka Sparkasse d.d.

Aleksander Klemenčič	Andrej Plos, M.Sc.
Member of the Management Board	Chairman of the Management Board

3.4 Basic Information

Banka Sparkasse d.d., Ljubljana, is a Slovenian private limited company engaged in universal banking. The business address of the Bank is: Banka Sparkasse, d.d., Ljubljana, Cesta v Kleče 15, Ljubljana.

Its shareholders are Kärntner Sparkasse AG, Klagenfurt, holding 70%, Steiermärkische Bank und Sparkassen AG with 26% and Erste Group Bank AG with 4%.

The consolidated financial statements are available from Kärntner Sparkasse AG, Klagenfurt, Neuer Platz 14, Austria, where Banka Sparkasse is consolidated.

The final consolidated financial statements of the Erste Group are included in the consolidated financial statements produced by Erste Group Bank AG. These statements are available at Erste Group Bank AG, Wien, Graben 21, 1010 Wien, Austria.

The Bank is not a public company and its shares are not publicly traded on a regulated capital market.

In addition to Banka Sparkasse, the consolidated financial statements of the Sparkasse Group also encompass companies that make up the banking group. The companies Sparkasse Leasing S and S-Factoring družba za factoring are fully consolidated. Until 11 December 2012, the Group also included the company S REAL Sparkasse nepremičnine d.o.o., which was consolidated according to the equity method.

The financial statements have been compiled by taking into account the accounting assumptions on consolidation criteria:

- the assumption of a single entity,
- the assumption of a true and fair view of financial condition and operating result,
- the assumption of the group completeness,
- the assumption of completeness of financial statements and common data capture,
- the assumption of uniform evaluation,
- the assumption of same date,
- the assumption of consistency of consolidation methods,
- the assumption of clarity and transparency,
- the assumption of the economy, and
- the assumption of relevance.

All amounts in financial statements and notes thereto are expressed in thousand of euros, unless stated otherwise.

Assets and liabilities denominated in foreign currencies and with a currency clause are converted into euros at the middle exchange rate of the Bank of Slovenia as at 31 December 2012.

The Bank's main retail banking products are: housing loans, consumer loans, transaction accounts and deposits; and in corporate banking: investment loans, working capital loans, guarantees, transaction accounts and deposits and Bonus accounts.

Within the Sparkasse Group, we also deal in factoring and leasing.

3.5 Financial Data

The principal accounting policies applied in the preparation of the financial statements are outlined below. Unless stated otherwise, these policies have also been used in previous years. The outlined accounting policies and estimates are used throughout the Group.

The financial statements of the Bank and the consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards as adopted by the EU and in accordance with the regulations of the Bank of Slovenia.

a) Foreign currencies

1. Functional and presentation currency

The items disclosed in the financial statements are measured in the currency of the economic environment in which the Group operates, that is, the functional currency. The presentation currency is the currency in which the financial statements are presented. As of 1 January 2007, the euro is the functional and presentation currency of the Bank and the Group.

2. Translation of transactions and items

Transactions in foreign currency are converted into the functional currency at the exchange rate on the transaction date. The foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary items are recognised in the income statement.

In the financial statements, assets and liabilities expressed in foreign currencies are converted based on the European Central Bank reference exchange rate applicable on the reporting date. The effects of conversion are stated in the income statement as net foreign exchange gains or losses.

b) Cash, cash equivalents and cash flow statement

Cash in accounting terms comprises cash, deposit money, cash in transit and cash equivalents. This is a broader recognition of cash, also including assets that can be readily or in the near future converted into cash as a means of payment for the settlement of liabilities or for any other purpose directly and without any limitations.

Cash equivalents comprise cash in hand and balances with the central bank, available-for-sale debt securities with up to three months' original maturity from the date of acquisition and loans to banks with up to three months' original maturity from the date of the loan. According to IAS 7, cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

An indirect method or version II was used in the preparation of the cash flow statement, with data from the opening balance as at 1 January 2012 and the balance as at 31 December

2012, the data from the income statement for 2011 and other data needed for the calculation and proper breakdown of material items.

c) Financial assets

RECOGNITION OF A FINANCIAL ASSET

Financial assets are recognised in the Bank's balance sheet on the date of the transaction. They are measured at fair value. If a financial asset is not recognised at fair value through profit and loss, the Bank also adds transaction costs that are directly attributable to operations.

Based on the initial recognition in the balance sheet, financial assets are classified into the following categories:

- **available-for-sale financial assets:** assets that are designed to be held for an indefinite period of time and that can be sold for the purpose of ensuring liquidity and in response to changes in interest rates, exchange rates and prices of financial instruments.

  The purchases and sales of available-for-sale financial assets are recognised on the date of trading, that is, on the date the Bank makes a commitment to purchase or sell a financial asset. These assets are later stated at fair value. As a rule, the fair value is the price of these financial assets in an active market.

  In accordance with IAS 39, these assets are categorised as available-for-sale investments in securities. The Bank invests in available-for-sale securities in order to comply with the regulations of the national banking authority and meet the value requirements.

  All available-for-sale financial assets are at the balance sheet cut-off date measured at fair value.

- **loans and receivables:** financial assets with fixed or determinable payments that are not traded in an active market, other than:

  - those that are intended to be sold in the near future and are classified as held-for-trading financial assets and those designated at fair value through profit or loss upon initial recognition,

- those that are designated as available-for-sale financial assets upon initial recognition,
- those for which the holder may not recover most of the initial investment for reasons other than credit deterioration.

The item includes loans to banks, loans to non-bank customers and deposits with banks. Loans to banks are all types of investments that originate from transactions with domestic and foreign banks, regardless of purpose and repayment term. Loans to non-bank customers are all types of receivables from non-bank domestic and foreign customers, regardless of purpose and repayment term.

Loans and deposits are carried at amortised value and recognised on the date the funds are paid to the customer. As at the balance sheet date, granted loans are disclosed under assets in the balance sheet as unpaid principal less any impairment charges.

The classification depends on the nature and purpose of a financial asset and is performed upon initial recognition.

MEASUREMENT OF A FINANCIAL ASSET

Available-for-sale financial assets are carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains and losses resulting from valuation at fair value of available-for-sale financial assets are recognised directly in equity and are transferred into the income statement when sold or impaired. The cumulative gains or losses, which had been previously recognised in equity, are then recognised in profit or loss.

Interest attributable to the effective interest rate and foreign currency gains and losses from available-for-sale financial assets are recognised in profit or loss.

DERECOGNITION OF A FINANCIAL ASSET

A financial asset is derecognised when the contractual rights to receive cash flows from the financial asset have expired or if all risks and benefits of ownership have been transferred.

d) Impairment of financial assets

At each balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or a 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 and that have an impact on the future cash flows.

1. Available-for-sale financial assets

In the case of available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is taken into account when determining whether the assets are impaired. If such evidence of impairment exists, the cumulative loss is removed from equity and recognised in the income statement. If in a subsequent period the fair value increases and the increase can be directly attributed to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2. Loans

The Bank regularly monitors the quality of its credit portfolio and assesses losses resulting from credit risk. If there is objective evidence that a credit loss was incurred, the impairment value is measured as the difference between the asset's carrying value and the current value of future cash flows determined based on the original effective interest rate.

Objective evidence of an impairment of a financial asset or a group of assets provides important information pointing to a debtor's reduced ability to fulfil contractual obligations. The exclusion of an individual asset from a group may be influenced by:

- significant financial problems of the debtor,
- financial obligation past due over 90 days,
- economic conditions in the national or local environment, such as, for instance, unemployment, dropping property prices in the case of mortgages, adverse changes in the national currency,
- changes in the status of a borrower: bankruptcy, compulsory composition, liquidation,
- unpredictable events: confirmed death, accidents and disasters, industry problems, disease, alcoholism, drug abuse and other addictions, etc.

The need for individual assessment is determined on a case-by-case basis, which means that if the need for individual assessment is confirmed, we must gather information on all financial liabilities of a customer and assess them on an individual basis.

If there is no default and suitable mortgage collateral is provided, we identify the financial assets and classify them into certain groups. Group assessment is done monthly on the basis of the percentages relevant to a given group. The percentages are checked yearly. For more on our impairment policy, see the section on credit risk.

e) Tangible fixed assets and intangible fixed assets

Tangible fixed assets comprise equipment and small tools. Intangible fixed assets comprise investments in software and property rights.

Upon their initial recognition, tangible fixed assets are valued at cost. This consists of the purchase price, import duties and non-refundable purchase taxes as well as directly attributable costs of bringing the asset to the condition necessary for the intended use. Any subsequent expenses related to tangible fixed assets are disclosed as maintenance costs or increase in the asset's acquisition cost. Depreciation of an item of tangible fixed assets starts when such item is available for use.

Upon initial recognition, an intangible asset is measured at cost. Subsequent valuation is based on the historical cost system, which means the assets are measured at historical cost less depreciation and accumulated impairment losses.

The straight-line depreciation method is applied. The Bank sets annual depreciation rates by type of asset based on the useful life of tangible fixed assets and intangible assets, which depends on the expected wear and tear, expected technical and economic useful life and expected statutory and other restrictions on the use of such assets.

Important tangible fixed assets and intangible assets are revalued as soon as impairment is detected or no later than when their carrying value exceeds the replacement cost by more than one-third.

The following depreciation rates are applied:

	2012	2011
Vehicles	12.50% - 20.00%	12.50%
Communication equipment	20.00%	20.00%
Computer equipment	10.00 - 40.00%	10.00 - 40.00%
Furniture, technical equipment, security equipment, other technical equipment	5.00 - 40.00%	5.00 - 40.00%
Fire safety equipment	5.00 - 25.00%	5.00 - 25.00%

Artwork	0.00%	0.00%
Small tools	100.00%	100.00%
Investment in third-party fixed assets	5.71%	5.71%
User rights, licences	10.00 - 54.35%	10.00 - 25.00%
Software	5.72 - 40.00%	5.71 - 40.00%

Deferred taxes are accounted for based on temporary differences between the accounting and tax bases of tangible fixed assets, intangible assets and provisions at the tax rates applicable in the year when the temporary difference is reversed. The main temporary differences arise from expenses not recognised for tax purposes for accounted depreciation that exceeds the depreciation calculated using the straight-line method and by applying prescribed depreciation rates.

f) Long-term investments in the capital of subsidiaries, associated companies and joint ventures

At the balance sheet cut-off date, the bank disclosed in its balance sheet one subsidiary (Sparkasse leasing S d.o.o.) and one joint venture (S-Factoring družba za factoring).

Joint ventures are those entities that were established by a contractual agreement and require unanimous financial and business decisions. The Bank is the sole owner of the subsidiary.

The Bank carries its investment according to the equity method.

According to IAS 1 and IAS 8, the total assets of these companies have a significant impact on the financial statements of the parent bank as at the cut-off date, which is why the Bank has prepared consolidated financial statements. Consolidated financial statements and the relevant notes are given in the respective statements and notes of the Bank.

g) Liabilities to banks and non-bank customers

Financial liabilities, including borrowings, are measured initially at fair value net of transaction costs incurred.

They are later disclosed at amortised cost – using the effective interest rate method – which is represented by the original principal amount less any repayments and topped up by accrued interest for the period and charged loan approval fees.

The effective interest rate is the rate that accurately discounts future payments over the life of a financial liability.

A financial liability is derecognised only if a contractual commitment has been discharged or cancelled or has expired.

Under liabilities to banks, the Bank also discloses a subordinated debt in the amount of EUR 26,000 thousand. The Bank has no other subordinated liabilities.

h) Capital

The Bank's total capital comprises called-up share capital, capital reserves, other revenue reserves (negative in 2012 due to uncovered loss from previous periods), revaluation surplus and net profit for the financial year (in 2011 and 2012, the Bank disclosed net loss).

The retained net profit or loss carried forward from previous years is recognised with the adoption of a resolution on the distribution of profit or covering of loss for a specific financial year. The distribution of the net profit or covering of loss for the current year is decided on by the Bank's General Meeting based on a proposal from the Supervisory Board and in compliance with the Bank's Articles of Association.

Revaluation surplus includes the revaluation of available-for-sale financial assets.

i) Off-balance-sheet records

The off-balance-sheet records are used to keep track of transactions that pose a potential credit risk for the Bank (issued guarantees and other financial facilities, granted undrawn loans, overdrafts and credit lines) and transactions that pose no immediate risk for the Bank (received guarantees and other financial facilities, records of received collaterals for receivables from customers). High-risk off-balance-sheet items are recorded on the date the risk is taken and no-risk off-balance-sheet items on the date of the transaction.

Assumed financial liabilities for issued guarantees, both financial and service, represent the Bank’s irrevocable payment liability if a customer fails to meet its liabilities to a third party. The principal aim of assumed and irrevocable liabilities arising from approved undrawn credit facilities and credit lines is to provide assets for the Bank’s customer in accordance with the concluded contract.

j) Interest income and expenses

Interest income and expenses are disclosed in the statement of comprehensive income for all assets measured at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income and expenses over a relevant period. The effective interest rate is the discount rate that equates all cash flows connected with a specific financial instrument. The calculation of the effective interest rate includes all contractual cash flows, including all fees, transaction costs, premiums and discounts, but does not include future credit losses.

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

k) Fee income and expenses

Charges and fees (commissions) are recognised in the income statement when a service has been provided. The Bank imposes charges and fees by rendering services to customers in the areas of payment transactions, currency exchange, guarantee operations, brokering and agency transactions and other banking services.

l) Employee benefits

The Bank provides the following benefits to its employees in accordance with the collective agreement: jubilee benefits and severance pay upon retirement. Employee benefits are included in expenses and liabilities for provisions. Provisions are set aside based on actuarial calculations made by independent actuaries every year.

m) Taxes

Taxation in the financial statements is disclosed in compliance with the applicable legislation. Taxation comprises assessed taxes and changes in deferred taxes.

The assessed taxes are calculated based on the taxable income for the financial year and by applying the tax rate valid on the date of the statement of financial position.

Deferred taxes are accounted for using a balance sheet liability method based on temporary differences between the accounting and tax value of assets and liabilities. Deferred taxes are determined based on the applicable tax rate on the date an asset is exchanged or a liability settled.

Temporary differences are the differences between the carrying amount of an asset in the balance sheet and its tax base. The Bank recognises temporary differences as deductible temporary differences, which represent amounts that will be deducted from the taxable income in future periods when the carrying value of the asset is recovered.

The Group has disclosed deferred taxes on temporary differences for:

- various depreciation rates for business and tax purposes,
- revaluation expenses that are not recognised according to Article 21, paragraph 1 of the Corporate Income Tax Act,
- expenses for revaluation of financial assets that are not recognised pursuant to Article 22 of the ZDDPO-2 (Corporate Income Tax Act),
- provisions established for employee benefits,
- unclaimed benefits in corporate income tax that may be claimed in future years,
- tax loss for 2012 and other unused tax losses from previous years.

n) Lease

1. Finance lease – the Group as the lessor

The current value of assets under finance lease is recognised as receivable under loans. The difference between the gross and the current value of a receivable is disclosed as finance income. Rental income is recognised over the term of the relevant lease.

2. Finance lease – the Group as the lessee

Tangible fixed assets acquired under finance lease are carried at fair value or present value of minimum lease payments until the expiry of the lease, less the lower of accumulated depreciation or impairment loss. These tangible fixed assets are depreciated over the useful life of the item.

3. Operating lease – the Group as the lessor

In operating lease, all the risks and rewards incident to legal ownership are transferred to the lessee. The carrying amount of the asset is increased by initial direct costs (arising from provision of operating lease). Rent is recognised as income in the period in which it arises.

4. Operating lease – the Group as the lessee

Rent is recognised as expense in the period in which it incurs.

3.6 Basis for Presentation of Financial Statements

The financial statements of Banka Sparkasse and the Sparkasse Group have been prepared in compliance with the International Financial Reporting Standards and accompanying notes as adopted by the European Union (hereinafter: IFRS), the IFRIC interpretations and in accordance with the regulations of the Bank of Slovenia.

In the preparation of the financial statements, the Sparkasse Group took into account the following: the going concern principle, continuity of operations, consistent use of accounting principles, true and fair presentation of financial performance and the accruals principle.

We select accounting policies, decide on their application and prepare financial statements in compliance with the requirements on understandability, relevance, reliability and comparability.

3.6.1. Principal accounting policies and estimates

Accounting estimates

The production of financial statements in accordance with IFRS requires the application of certain estimates and assumptions that affect the valuation of reported assets and liabilities, the disclosure of potential assets and liabilities on the reporting date and the amounts of income and expenses in the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. The most significant accounting policies and estimates are outlined below.

The Sparkasse Group developed estimates and assumptions that affect the disclosed amounts of assets, liabilities, income and expenses. The estimates are reviewed on a continuing basis and rely on past experience. The most important assessments focus on the classification of financial instruments into groups. Estimates are used in value adjustments of loans, in determining the useful lives of tangible fixed assets and intangible assets, the contingent tax asset or liability and post-employment benefit obligations.

Losses from impairments of loans to non-bank customers

The Group regularly assesses and determines losses arising from the deterioration of the credit portfolio. In doing so, it regularly reviews the methodologies and assumptions used for assessing the volume and timing of future cash flows in order to minimise the gap between estimated losses and losses incurred in reality. Sensitivity analyses provide us additional information on potential losses attributable to credit risk and on the required impairments of financial assets. The analyses are conducted based on different scenarios, which are described in detail in the chapter on credit risk.

Useful life of tangible fixed assets and intangible assets

The useful life of tangible fixed assets and intangible assets is determined based on the expected future usage, expected wear and tear and technical or commercial obsolescence.

Contingent tax assets and liabilities (deferred taxes)

The Bank estimates that in the future it will have at its disposal taxable income to utilise the benefits of the temporary differences between the tax and accounting values of assets. Temporary differences arising from various depreciation rates applied for business and tax purposes will be subject to tax rates applicable at the time the differences are reversed, when an asset is fully depreciated.

Post-employment benefits

The cost of post-employment benefits is determined based on actuarial assumptions. Actuarial valuations comprise assumptions on discount rates, expected net return on assets, future increase in salaries and similar.

3.6.2 Changes in accounting policies

The accounting policies applied are the same as in previous years with the exception of the newly adopted standards and interpretations given below.

Standards and interpretations revised in 2012:

Currently, the following revised standards issued by the International Accounting Standards Board and endorsed by the EU are in force:

Standard	Description of amendment
IAS 7	Provisions on disclosures in transfers of financial assets have been amended. The IASB issued them on 7 October 2010. The aim of the amendments is to improve the quality of information about "transferred" financial assets that are still, partly at least, recognised by an entity, as they do not qualify for derecognition, and the financial assets that are no longer recognised because they qualify for derecognition but with which the entity continues to have some involvement.

IAS 8	Amendment refers to item 8.28, containing information about the initial application of some new regulations. It specifies the required disclosures if the initial application of IFRS has an effect on the current or any past period or could have such an effect if estimating the amount of the adjustment was not impracticable or might have an effect in future periods. Item 8.30 specifies the required disclosures if an entity has not applied a new IFRS that has been issued but is not yet effective. Requirements related to disclosure are detailed in item 8.31.
IAS 30	When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose: (a) that fact, and (b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.
IAS 31	In complying with paragraph 30, an entity considers disclosing: (a) the title of the new IFRS, (b) the nature of the impending change or changes in accounting policy, (c) the date by which application of the new IFRS is required, (d) the date at which it plans to apply the IFRS initially; and (e) either: (i) a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or (ii) if that impact is not known or reasonably estimable, a statement to that effect.

Adoption of amendments to existing standards has not led to any changes in the accounting policies of the Company.

Standards and interpretations issued by the IASB and endorsed by the EU but not yet in force

On the day these financial statements were approved, the following standards, amendments and interpretations were issued, as endorsed by the EU, but have not yet taken effect:

Standard	Description of amendment
IAS 1	The amendments made focus on how entities present items of other comprehensive income. They were endorsed by the EU on 5 June 2012 and issued by the IASB on 16 June 2011. The standard is effective for annual periods beginning on or after 1 July 2012. The amendment requires entities that present financial statements according to IFRS to group items presented in other comprehensive income based on whether they are potentially reclassifiable to profit or loss subsequently. The amendment upholds the existing requirement that the items of other comprehensive income and profit or loss be presented in a single statement of comprehensive income or two statements.

IAS 12	The amendment refers to deferred tax – recovery of underlying assets. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 20 December 2010. It is effective for annual periods beginning on or after 1 January 2013. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale.
IAS 19	Improved accounting of post-employment benefits. It was endorsed by the EU on 5 June 2012 and issued by the IASB on 16 June 2011. The standard is effective for annual periods beginning on or after 1 January 2013. The amendments bring considerable improvements by: (1) eliminating the option of recognising profit or loss known as the 'corridor' approach, thus improving comparability and reliability of presentation; (2) rationalisation of the recognition of changes in the net defined benefit liability (asset), including a requirement for recognition of remeasurements in other comprehensive income and thus distinguishing these changes from those that many consider the consequence of daily operations of an entity; (3) introducing enhanced disclosures about defined benefit plans, thus improving disclosures about the characteristics of the entity's defined benefit plans and the risks arising from defined benefit plans.
IAS 27	This standard refers to separate financial statements. It was amended in 2011, endorsed by the EU on 11 December 2012 and issued by the IASB on 12 May 2011. The standard is effective for annual periods beginning on or after 1 January 2014. The amendment refers to requirements regarding separate financial statements that have been included in the amendment to IAS 27. Other segments of IAS 27 have been replaced by IFRS 10.
IAS 28	This standards was also amended in 2011 (according to issued IFRS 10, IFRS 11 and IFRS 12). It deals with investments in associates and joint ventures. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 12 May 2011. The standard is effective for annual periods beginning on or after 1 January 2014.
IAS 32	The amendment refers to presentation of financial instruments – offset of financial assets and liabilities. It was endorsed by the EU on 13 December 2012 and issued by the IASB on 16 December 2011. The standard is effective for annual periods beginning on or after 1 January 2014. The amendment provides explanations on the application of offset rules, focusing on four main issues: (a) the meaning of "currently has a legally enforceable right of set-off"; (b) simultaneous realisation and settlement; (c) offsetting guarantee amounts; (d) accounting unit for applying offset requirements.
IFRS 1	The amendment refers to severe hyperinflation and relief for first-time adopters of IFRS. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 20 December 2010. The standard is effective for annual periods beginning on or after 1 January 2013. The first amendment replaces references to a fixed transition date of '1 January 2004' with 'the date of transition to IFRS', thus eliminating the need for companies adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.
IFRS 7	The amendments refer to disclosures – offsetting financial assets and liabilities. It was endorsed by the EU on 13 December 2012 and issued by the IASB on 16 December 2011. The standard is effective for annual periods beginning on or after 1 January 2013. The amendments require information about all recognised financial instruments offset according to IAS 32.42. The amendments also stipulate the disclosure of information about recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

IFRS 10	This standard refers to consolidated financial statements. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 12 May 2011. The standard is effective for annual periods beginning on or after 1 January 2014. IFRS 10 replaces the consolidation requirements in IAS 29 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single model for all entities, based on management, regardless of the nature of the investee (i.e. whether an entity is controlled through the investor's voting rights or control is embedded in contractual arrangements, as is frequently the case in special purpose entities). According to IFRS 10, an investor controls an investee if and only if the investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the investor's returns.
IFRS 11	The standard refers to joint arrangements. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 12 May 2011. The standard is effective for annual periods beginning on or after 1 January 2014. IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to account for jointly controlled entities using proportionate consolidation has been eliminated. In addition, IFRS 11 has eliminated jointly controlled assets and distinguishes between joint operation and joint venture. Joint operation is a joint arrangement where parties with joint control have the rights to assets and obligations for liabilities. Joint venture is a joint arrangement where parties with joint control have rights to the net assets of the arrangement.
IFRS 12	The standard refers to the disclosure of interest in other entities. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 12 May 2011. The standard is effective for annual periods beginning on or after 1 January 2014. IFRS requires improved disclosures of consolidated and unconsolidated entities controlled by the reporting entity. The goal of IFRS 12 is to require information that will allow the users of financial statements to understand the basis of control, any restrictions of consolidated assets and liabilities, exposure to risks arising from control of unconsolidated structured entities and the involvement of capital owners in the activities of consolidated entities.
IFRS 13	The standard refers to fair value measurement. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 12 May 2011. The standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 determines fair value, provides instructions for measuring fair value and requires disclosures about fair value measurement. Nevertheless, IFRS 13 does not alter the requirements on which items are to be measured or disclosed at fair value.
IFRIC 20	The interpretation refers to stripping costs in the production phase of a surface mine. It was endorsed by the EU on 11 December 2012 and issued by the IASB on 19 October 2011. The standard is effective for annual periods beginning on or after 1 January 2013. According to the interpretation, a stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and this component has to be depreciated or amortised over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity (the units of production method is used unless another method is more appropriate).

The Bank decided not to apply these standards, amendments and interpretations before they take effect. We expect that the adoption of these standards, amendments and interpretations will not have a significant impact on the financial statements in the period of initial application.

Standards and interpretations issued by the IASB, but not yet adopted by the EU

At present, the IFRS adopted by the European Union do not significantly differ from the regulations that were adopted by the International Accounting Standard Board (IASB), with the exception of the following standards, amendments to interpretations, which at the date of 31 December 2012 were not endorsed for application:

Standard	Description of amendment
Improvements to IFRS (2012)	Amendments to various standards arising from the annual project for improvements to IFRS, issued on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34). The purpose is to eliminate inconsistencies and interpret the text. The amendments become effective for annual periods beginning on or after 1 January 2013. The amendments define accounting recognition requirements in cases where free interpretation was previously allowed. The most important amendments include new or revised requirements related to: (i) re-application of IFRS 1, (ii) borrowing costs according to IFRS 1, (iii) clarification of the requirements for comparative information, (iv) classification of servicing equipment, (v) interim financial reporting and information segments for all assets and liabilities.
IFRS 1	Amendment to government loans. Issued by the IASB on 13 March 2012. It is effective for annual periods beginning on or after 1 January 2013. The amendment relates to a first-time adopter's treatment of government loans at a below-market rate of interest upon transition to the IFRS. It also introduces exemption from retrospective application of IFRS for first-time adopters and gives them the same relief that existing preparers of IFRS financial statements had on the first-time application of IAS 20 "Accounting for, and disclosure of, government grants and other forms of government assistance" in 2008.
IFRS 7 and IFRS 9	The amendments to disclosure of financial instruments – the date of mandatory adoption and disclosure of transition. They were issued by the IASB on 16 December 2011. The amendments postpone the mandatory effective date from 1 January 2013 until 1 January 2015. They also provide an exemption from the modified comparative financial statements to reflect the effect of applying IFRS 9. This exemption was initially available only to entities that decided to apply IFRS 9 prior to 2012. Instead, additional disclosures of transition will be required to help investors understand the effect of first-time adoption of IFRS 9 on the classification and measurement of financial instruments.
IFRS 9	IFRS 9 was issued by the IASB on 12 November 2009. On 28 October 2010, the IASB re-issued IFRS 9, including in it new requirements for accounting financial liabilities and transferring to it the requirements from IAS 39 about derecognition of financial assets and financial liabilities. The standard applies a uniform approach to determining if a financial asset is measured at amortised cost or fair value, replacing a series of different rules from IAS 39. The IFRS 9 approach is based on the method used by an entity to manage financial instruments (its business model) and the characteristics of contractual cash flows of financial assets. The new standard also stipulates a uniform impairment method, replacing numerous diverse impairment methods from IAS 39. New requirements on accounting financial liabilities eliminate the inconsistency in the income statement resulting from the issuer's decision to measure debt at fair value. The IASB decided to preserve the existing measurement of amortised cost for most liabilities, limiting the amendments to those needed to eliminate the problem of own loan. According to new requirements, an entity that decides to measure liabilities at fair value will recognise the amount of change in the fair value that is attributable to the changes in own credit risk in other comprehensive income and not profit or loss. It is effective for annual periods beginning on or after 1 January 2015.

IFRS 10, IFRS 11 and IFRS 12	Transition guidance. Issued by the IASB on 28 June 2012. It is effective for annual periods beginning on or after 1 January 2013. The purpose of the amendments is to provide additional relief in transition to IFRS 10, IFRS 11 and IFRS 12 by "limiting the requirement to present adjusted comparative information only for an earlier comparative period". Both IFRS 11 and IFRS 12 were amended to delete the requirement to present comparative information for the annual period immediately preceding the current period.
IFRS 10, IFRS 12 and IAS 27	Amendments in respect of investment entities. Issued by the IASB on 31 October 2012. They are effective for annual periods beginning on or after 1 January 2014. The amendments introduce an exemption from the requirement to consolidate under IFRS 10 and require investment entities to use the fair value to measure investments in subsidiaries through profit or loss, instead of consolidation. These amendments also set the disclosure requirements for investment entities.

We expect that the adoption of these standards, amendments and interpretations will not have a significant impact on the financial statements in the period of initial application.

3.7 Statement of Financial Position

ITEM	Note	31/12/2012		31/12/2011	
		BANK	**GROUP**	**BANK**	**GROUP**
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	1	15,645	15,645	8,340	8,340
AVAILABLE-FOR-SALE FINANCIAL ASSETS	2	50,024	50,023	14,873	14,873
LOANS		1,027,040	1,031,084	1,032,305	1,031,657
Loans to banks	3	61,361	61,361	20,566	20,566
Loans to non-bank customers	4	963,627	967,678	1,010,178	1,009,533
Other financial assets	9	2,052	2,045	1,561	1,558
TANGIBLE FIXED ASSETS	5	2,386	2,426	2,632	2,685
INTANGIBLE ASSETS	6	4,429	4,467	6,143	6,187
LONG-TERM INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD	7	570	0	570	0
CORPORATE INCOME TAX ASSETS	8	2,783	2,921	1,700	1,790
Tax assets		0	0	0	0
Deferred tax assets		2,783	2,921	1,700	1,790
OTHER ASSETS	9	342	808	361	1,791
TOTAL ASSETS		**1,103,218**	**1,107,374**	**1,066,924**	**1,067,323**
FINANCIAL LIABILITIES TO THE CENTRAL BANK		34,159	34,159	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		985,823	990,116	972,752	972,905
Bank deposits	10	21,020	21,020	20,293	20,293
Deposits of non-bank customers	11	389,594	389,408	330,768	328,754

Bank loans	10	547,304	551,310	593,394	594,898
Loans from non-bank customers	11	48	48	14	14
Subordinated liabilities	12	26,000	26,000	26,000	26,000
Other financial liabilities	14	1,857	2,330	2,283	2,946
FINANCIAL LIABILITIES RELATED TO FINANCIAL ASSETS THAT DO NOT QUALIFY FOR DERECOGNITION		0	80	0	181
PROVISIONS	13	338	338	260	260
CORPORATE INCOME TAX LIABILITIES	8	119	160	3	3
Tax liability		0	41	0	0
Deferred tax liabilities		119	119	3	3
OTHER LIABILITIES	14	611	715	3,693	3,878
TOTAL LIABILITIES		1,021,050	1,025,568	976,708	977,227
SHARE CAPITAL	15	10,015	10,015	10,015	10,015
SHARE PREMIUM	15	82,434	82,434	82,434	82,434
REVALUATION SURPLUS		463	463	-582	-581
REVENUE RESERVES		-1,651	-1,916	-906	-1,201
NET LOSS FOR THE YEAR		-9,093	-9,218	-745	-715
EQUITY OF THE OWNERS OF THE CONTROLLING BANK		82,168	81,778	90,216	89,952
MINORITY INTEREST		0	28	0	144
TOTAL EQUITY	15	82,168	81,806	90,216	90,096
TOTAL LIABILITIES AND EQUITY		**1,103,218**	**1,107,374**	**1,066,924**	**1,067,323**

The notes to the statement of financial position are an integral part of the statement of financial position and should be read in conjunction with the statement of financial position.

In 2012, the Bank of Slovenia changed the methodology for compiling the statement of financial position. Other financial assets have been transferred from item A.XV. to item A.V.4., and other financial liabilities have been transferred from item P.XI. to item P.IV.7.

3.8 Statement of Comprehensive Income

ITEM	Note	2012		2011	
		BANK	GROUP	BANK	GROUP
Interest income and similar income	17	37,490	37,996	42,377	42,681
Interest expenses and similar expenses	17	-16,504	-16,525	-18,688	-18,706
Net interest		**20,986**	**21,471**	**23,689**	**23,975**
Dividend income		**9**	**9**	**0**	**0**
Fees and commissions received	18	5,966	6,420	5,910	6,395
Fees and commissions paid	18	-825	-857	-859	-890
Net fees and commissions		**5,141**	**5,563**	**5,051**	**5,505**
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss		41	41	0	0
Net gains/losses on financial assets and liabilities held for trading		294	294	191	191
Net foreign exchange gains/losses	20	-14	-15	-18	-18
Net profits/losses from derecognised assets, excluding non-current assets held for sale	21	-23	-23	-12	-12
Other net operating gains/losses	19	-188	-120	-106	-45
Administrative expenses	22	-15,459	-16,114	-14,644	-15,215
Amortisation and depreciation	23	-2,903	-2,925	-3,046	-3,067
Provisions	24	-78	-78	-26	-26
Impairments	25	-18,106	-18,603	-12,025	-12,097
Share of the profit/loss from equity investments in associates and joint ventures accounted using the equity method		0	0	0	0
PROFIT/LOSS FROM ORDINARY ACTIVITY		**-10,300**	**-10,500**	**-946**	**-809**
Corporate income tax from ordinary activity		1,207	1,166	201	130
NET PROFIT/LOSS FROM ORDINARY ACTIVITY		-9,093	-9,334	-745	-679
NET PROFIT/LOSS FOR THE YEAR	26	**-9,093**	**-9,334**	**-745**	**-679**
a) Shareholders of the controlling bank		-9,093	-9,218	-745	-715
a) Minority shareholders		0	-116	0	36
OTHER COMPREHENSIVE INCOME AFTER TAX		**1,045**	**1,044**	**-583**	**-580**
Net profits/losses recognised in revaluation surplus related to financial assets available for sale		**1,045**	**1,044**	**-583**	**-580**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX		**-8,048**	**-8,290**	**-1,328**	**-1,259**
a) Shareholders of the controlling bank		-8,048	-8,174	-1,328	-1,295
a) Minority shareholders		0	-116	0	36

The notes to the statement of comprehensive income are an integral part of the statement of comprehensive income and should be read in conjunction with the statement of comprehensive income.

3.9 Statement of Changes in Equity

BANK

	Equity	Share premium	Revaluation surplus from available-for-sale financial assets	Retained earnings/loss	Net profit/loss for the year	Total capital
AS AT 1 January 2012	**10.015**	**82.434**	**-582**	**-906**	**-745**	**90.216**
Comprehensive income for the year after tax	**0**	**0**	**1.045**	**0**	**-9.093**	**-8.048**
Allocation of net loss for the previous year	**0**	**0**	**0**	**-745**	**745**	**0**
AS AT 31 December 2012	**10.015**	**82.434**	**463**	**-1.651**	**-9.093**	**82.168**

	Equity	Share premium	Revaluation surplus from available-for-sale financial assets	Retained earnings/loss	Net profit/loss for the year	Total capital
AS AT 1 JANUARY 2011	**10.015**	**82.434**	**2**	**3.432**	**-4.338**	**91.545**
Comprehensive income for the year after tax	**0**	**0**	**-584**	**0**	**-745**	**-1.329**
Allocation of net loss for the previous year	0	0	0	-4.338	4.338	**0**
AS AT 31 DECEMBER 2011	**10.015**	**82.434**	**-582**	**-906**	**-745**	**90.216**

GROUP

	Equity	Share premium	Revaluation surplus from available-for-sale financial assets	Revenue reserves	Retained profit/loss (including net profit/loss for the year)	Equity attributable to the shareholders of the controlling bank	Minority interest	Total equity
AS AT 1 January 2012	**10.015**	**82.434**	**-581**	**-1.201**	**-715**	**89.952**	**144**	**90.096**
Comprehensive income for the year after tax	**0**	**0**	**1.044**	**0**	**-9.218**	**-8.174**	**-116**	**-8.290**
Allocation of net loss for the previous year	**0**	**0**	**0**	**-715**	**715**	**0**	**0**	**0**
AS AT 31 December 2012	**10.015**	**82.434**	**463**	**-1.916**	**-9.218**	**81.778**	**28**	**81.806**

	Equity	Share premium	Revaluation surplus from available-for-sale financial assets	Revenue reserves	Retained profit/loss (including net profit/loss for the year)	Equity attributable to the shareholders of the controlling bank	Minority interest	Total equity
AS AT 1 January 2011	**10.015**	**82.434**	**-2**	**2.123**	**-3.158**	**91.412**	**336**	**91.748**
Comprehensive income for the year after tax	**0**	**0**	**-579**	**0**	**-715**	**-1.294**	**36**	**-1.258**
Covering of loss from previous years	0	0	0	-3.324	3.158	**-166**	0	**-166**
Other	0	0	0		0	**0**	-228	**-228**
AS AT 31 December 2011	**10.015**	**82.434**	**-581**	**-1.20**	**-715**	**89.952**	**144**	**90.096**

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3.10 Cash Flow Statement

ITEM	Note	2012		2011	
		BANK	GROUP	BANK	GROUP
CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit before tax		**-10,300**	**-10,589**	**-946**	**-810**
Amortisation and depreciation		2,853	2,876	3,045	3,067
Impairments of financial assets held to maturity and credit portfolio		16,456	16,456	11,921	11,430
Impairments of equity investments in subsidiaries, associates and joint ventures		0	0	103	0
Net losses from foreign exchange differences		14	15	18	18
Net losses from sales of tangible fixed assets and investment property		24	24	12	12
Other adjustments to net profit before tax		-25	-25	26	26
Cash flows from operating activities before changes in operating assets and liabilities		**9,022**	**8,757**	**14,180**	**13,743**
(Increase) decrease in operating assets (excluding cash equivalents)		**6,186**	**2,456**	**-7,964**	**-9,188**
Net (increase)/decrease in available-for-sale financial assets		-33,865	-33,865	-1,816	-1,599
Net (increase)/decrease in loans		40,047	35,355	-6,801	-7,250
Net (increase)/decrease in other assets		3	966	654	-339
Increase/(decrease) in operating liabilities		**44,250**	**48,253**	**-30,671**	**-29,022**
Net increase/(decrease) in deposits and loans measured at amortised cost		47,229	51,415	-31,110	-29,975
Net increase/(decrease) in other liabilities		-2,979	-3,162	439	953
Cash flows from operating activities (a + b + c)		**59,458**	**59,466**	**-24,455**	**-24,466**
(Paid)/refunded corporate income tax		**0**	**-7**	**0**	**-48**
Net cash flows from operating activities (d+e)		**59,458**	**59,459**	**-24,455**	**-24,514**
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipts from investing activities		**0**	**0**	**21**	**74**
Receipts from the sale of tangible fixed assets and investment property		0	0	21	74
Disbursements from investing activities		**-902**	**-904**	**-2,826**	**-2,819**
(Disbursements for the purchase of tangible fixed assets and investment property)		-260	-263	-1,105	-1,131
(Disbursements for the purchase of intangible fixed assets)		-642	-641	-1,688	-1,688
(Disbursements for equity investments in subsidiaries, associates and joint ventures)		0	0	-33	0
Net cash flows from investing activities (a-b)		**-902**	**-904**	**-2,805**	**-2,745**
CASH FLOWS FROM FINANCING ACTIVITIES					
Receipts from financing activities		**0**	**0**	**0**	**0**
Other receipts related to financing		0	0	0	0
Disbursements from financing activities		**0**	**0**	**0**	**0**
(Dividends paid)		0	0	0	0
(Payment of subordinated debt)		0	0	0	0
Net cash flows from financing activities (a-b)		**0**	**0**	**0**	**0**
D. Effects of exchange rate differences on cash and cash equivalents					
E. Net increase in cash and cash equivalents (Ae+Bc+Cc)		**58,555**	**58,555**	**-27,260**	**-27,260**
F. Cash and cash equivalents at the beginning of the period		**11,835**	**11,835**	**39,095**	**39,095**
G. Cash and cash equivalents at the end of the period (D+E+F)	27	**70,390**	**70,390**	**11,835**	**11,835**

The notes to the cash flow statement are an integral part of the cash flow statement and should be read in conjunction with the cash flow statement.

3.11 Notes to the Financial Statements

3.11.1. Notes to the Statement of Financial Position

Note 1 Cash in hand and balances with the central bank

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
1. Cash in hand	1,498	1,498	993	993
2. Statutory deposits with the central bank	13,553	13,553	4,035	4,035
3. Other deposits with the central bank	594	594	3,312	3,312
TOTAL	**15,645**	**15,645**	**8,340**	**8,340**

Other deposits include excluded assets under the statutory settlement guarantee scheme in the amount of:

- ICP system – EUR 272 thousand
- IDD system – EUR 20 thousand
- EDD system – EUR 20 thousand

The maximum gross obligation for the ECP system, which was EUR 500 thousand in 2010, increased to EUR 950 thousand in 2011 and remained at the same level in 2012.

The statutory minimum reserve is calculated in accordance with the Regulation on Legal Reserves of the Bank of Slovenia. The statutory reserves are recorded under the settlement account with the Bank of Slovenia. The calculated statutory reserve as at 31 December 2012 was EUR 3,380 thousand.

The statutory reserve is based on the following liabilities:

- overnight deposits,
- deposits with agreed maturity of up to 2 years.

The statutory minimum reserve is calculated based on the said deposit balance at a 2.00% rate and is accounted monthly.

Note 2 Available-for-sale financial assets

a) Breakdown by type of available-for-sale financial assets

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Erste Bank bonds	0	0	1,554	1,554
Republic of Slovenia bonds	26,228	26,228	12,109	12,109
Republic of Austria bonds	7,581	7,581	1,210	1,210
Republic of Germany bonds	1,457	1,457	0	0
Republic of Finland bonds	1,449	1,449	0	0
Republic of France bonds	1,421	1,421	0	0
Republic of Netherlands bonds	1,440	1,440	0	0
Treasury bills of the Republic of Slovenia	6,237	6,237	0	0
Interest in Kreditna družba Sisbon d.o.o.	10	10	0	0
Shares of Gorenjska banka	4,200	4,200	0	0
Total	**50,023**	**50,023**	**14,873**	**14,873**

As at 31 December 2012, the Bank's portfolio mainly comprised bonds of European republics and bonds of the Republic of Slovenia that are listed on the stock exchange, treasury bills and shares of Gorenjska banka.

A portion of the financial assets serves as security in compliance with the requirements of the Bank of Slovenia:

- assets pledged in the amount of EUR 1,627 thousand pursuant to the SEPA processing agreement,
- assets pledged in the amount of EUR 4,730 thousand in accordance with the Decision on the Deposit Guarantee Scheme, and
- assets pledged in the amount of EUR 38,208 thousand for the purpose of loan disbursement from the Bank of Slovenia.

All financial assets were purchased in the domestic currency.

The average interest rate on all bonds is 4.18% and the average yield is 2.52%. The highest average yield is that of the Republic of Slovenia bonds (3.83%) and the lowest is that of the Republic of Austria bonds (1.54%). The treasury bill yield is 1.98%.

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Erste Bank bonds	0	0	1,509	1,509
Republic of Austria bonds	7,436	7,436	1,200	1,200
Republic of Slovenia bonds	25,283	25,283	11,662	11,662
Republic of Germany bonds	1,432	1,432	0	0
Republic of Finland bonds	1,429	1,429	0	0
Republic of France bonds	1,412	1,412	0	0
Republic of Netherlands bonds	1,417	1,417	0	0
Treasury bills of the Republic of Slovenia	6,237	6,237	0	0
Shares of Gorenjska banka	4,200	4,200	0	0
Interest in Kreditna družba Sisbon d.o.o.	10	10	0	0
Total	**48,856**	**48,856**	**14,371**	**14,371**

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms that are traded in active liquid markets is determined based on the offering price in the market,
- the fair value of other financial assets and financial liabilities (except derivative financial instruments) is determined according to the generally accepted pricing models and based on an analysis of discounted cash flows using quoted prices for similar instruments.

c) Movements in available-for-sale (AFS) financial assets

BANK

	As at 1 January 2012	Additions	Amortisation of premium	Disposals/liquidation	Change in fair value	Interest	**As at 31 December 2012**
Erste Bank bonds	**1,554**	0	-18	-1,478	-13	-45	**0**
Republic of Slovenia bonds	**12,109**	19,732	165	-6,735	458	498	**26,228**
Republic of Austria bonds	**1,210**	5,876	-114	0	474	135	**7,581**
Republic of Germany bonds	**0**	1,411	-32	0	53	25	**1,457**
Republic of Finland bonds	**0**	1,372	-21	0	79	19	**1,449**
Republic of France bonds	**0**	1,344	-18	0	86	9	**1,421**
Republic of Netherlands bonds	**0**	1,376	-25	0	66	23	**1,440**
Treasury bills	**0**	6,157	80	0	0	0	**6,237**
Shares of Gorenjska banka	**0**	15,600	0	-9,750	-1,650	0	**4,200**
Interest in Kreditni biro Sisbon d.o.o.	**0**	10	0	0	0	0	**10**

Total financial assets AFS	**14,873**	**52,878**	**17**	**-17,963**	**-447**	**664**	**50,023**

	As at 1 January 2011	Additions	Amortisation of premium	Disposals/liquidation	Change in fair value	Interest	**As at 31 December 2011**
Erste Bank bonds	**1,585**	0	4	0	-35	0	**1,554**
Republic of Slovenia bonds	**10,712**	1,992	-229	0	-449	83	**12,109**
Republic of Austria bonds	**1,502**	0	-34	0	-258	0	**1,210**
Republic of Germany bonds	**0**	0	0	0	0	0	**0**
Republic of Finland bonds	**0**	0	0	0	0	0	**0**
Republic of France bonds	**0**	0	0	0	0	0	**0**
Republic of Netherlands bonds	**0**	0	0	0	0	0	**0**
Treasury bills	**0**	0	0	0	0	0	**0**
Shares of Gorenjska banka	**0**	0	0	0	0	0	**0**
Interest in Kreditni biro Sisbon d.o.o.	**0**	0	0	0	0	0	**0**
Total financial assets AFS	**13,799**	**1,992**	**-259**	**0**	**-742**	**83**	**14,873**

GROUP

	As at 1 January 2012	Additions	Amortisation of premium	Disposals/liquidation	Change in fair value	Interest	**As at 31 December 2012**
Erste Bank bonds	**1,554**	0	-18	-1,478	-13	-45	**0**
Republic of Slovenia bonds	**12,109**	19,732	165	-6,735	458	498	**26,228**
Republic of Austria bonds	**1,210**	5,876	-114	0	474	135	**7,581**
Republic of Germany bonds	**0**	1,411	-32	0	53	25	**1,457**
Republic of Finland bonds	**0**	1,372	-21	0	79	19	**1,449**
Republic of France bonds	**0**	1,344	-18	0	86	9	**1,421**
Republic of Netherlands bonds	**0**	1,376	-25	0	66	23	**1,440**
Treasury bills	**0**	6,157	80	0	0	0	**6,237**
Shares of Gorenjska banka	**0**	15,600	0	-9,750	-1,650	0	**4,200**
Interest in Kreditni biro Sisbon d.o.o.	**0**	10	0	0	0	0	**10**
Total financial assets AFS	**14,873**	**52,878**	**17**	**-17,963**	**-447**	**664**	**50,023**

	As at 1 January 2011	Additions	Amortisation of premium	Disposals/liquidation	Change in fair value	Interest	**As at 31 December 2011**
Erste Bank bonds	**1,585**	0	4	0	-35	0	**1,554**
Republic of Slovenia bonds	**10,767**	1,992	-229	-55	-449	83	**12,109**
Republic of Austria bonds	**1,502**	0	-34	0	-258	0	**1,210**
Republic of Germany bonds	**0**	0	0	0	0	0	**0**
Republic of Finland bonds	**0**	0	0	0	0	0	**0**
Republic of France bonds	**0**	0	0	0	0	0	**0**
Republic of Netherlands bonds	**0**	0	0	0	0	0	**0**
Treasury bills	**0**	0	0	0	0	0	**0**
Shares of Gorenjska banka	**0**	0	0	0	0	0	**0**
Interest in Kreditni biro Sisbon d.o.o.	**0**	0	0	0	0	0	**0**
Total financial assets AFS	**13,799**	**1,992**	**-259**	**0**	**-742**	**83**	**14,873**

Note 3 Loans to banks

Loans to banks are recorded only in the Bank's balance sheet.

a) Breakdown by currency and maturity

	31/12/2012			31/12/2011		
	Gross	Value adjustments	Net	Gross	Value adjustments	Net
Sight, in EUR	**3,533**	**0**	**3,533**	**2,273**	**0**	**2,273**
- EU banks	3,533	0	3,533	2,273	0	2,273
Sight, in foreign currency	**1,196**	**0**	**1,196**	**1,222**	**0**	**1,222**
- domestic banks	510	0	510	517	0	517
- EU banks	686	0	686	705	0	705
Short-term in EUR	**50,016**	**0**	**50,016**			
- EU banks	50,016	0	50,016			
Long-term in EUR	**6,711**	**95**	**6,616**	**17,284**	**213**	**17,071**
- domestic banks	6,711	95	6,616	17,284	213	17,071

TOTAL	**61,456**	**95**	**61,361**	**20,779**	**213**	**20,566**

The amount of EUR 61,456 thousand encompasses interest receivables, default interest and deferred interest totalling EUR 63 thousand (in 2011: EUR 106 thousand).

The common average interest rate on loans to banks was 1.34% in 2012 (2011: 3.88%).

b) Breakdown by maturity

	Banka Sparkasse				
	Gross	**Impairment**	**2012 Net**	**2011 Net**	
Up to 1 month	59,779	71	59,708	8,459	
From 1 to 3 months	0	0	0	0	
From 3 to 12 months	0	0	0	4,931	
From 1 to 5 years	1,677	24	1,653	7,176	
More than 5 years	0	0	0	0	
	61,456	**95**	**61,361**	**20,566**	

c) Value adjustment movements

	2012	2011
Opening balance	213	140
Value adjustments of loans	30	256
Reversed value adjustments of loans	148	183
As at 31 December	**95**	**213**

Note 4 Loans to non-bank customers

a) Breakdown by currency and maturity

BANK

BANK	31/12/2012 Gross	31/12/2012 Value adjustments	31/12/2012 Net	31/12/2011 Gross	31/12/2011 Value adjustments	31/12/2011 Net
In domestic currency	**984,442**	**58,000**	**923,442**	**1,002,711**	**43,792**	**958,919**
Short-term	**46,212**	**8,112**	**38,100**	**43,983**	**7,020**	**36,963**
Non-financial corporations	29,786	3,990	25,796	27,970	3,102	24,868
Government	331	5	326	0	0	0
Other financial organisations	3	2	1	2	2	0

Retail	12,055	2,935	9,120	12,410	3,054	9,356
Sole proprietors	1,998	736	1,262	1,579	661	918
Non-profit providers of services to households	2,038	444	1,594	2,018	201	1,817
Other foreign entities	1	0	1	4	0	4
Long-term	**935,230**	**49,887**	**885,343**	**958,728**	**36,772**	**921,956**
Non-financial corporations	390,039	26,547	363,492	400,452	18,321	382,131
Government	21,175	299	20,876	21,551	222	21,329
Other financial organisations	24,568	401	24,167	22,872	304	22,568
Retail	426,603	15,322	411,281	436,582	14,012	422,570
Sole proprietors	59,319	3,954	55,365	63,845	3,304	60,541
Non-profit providers of services to households	5,554	3,136	2,418	5,401	401	5,000
Foreign entities	461	122	339	506	131	375
Subsidiaries	7,511	106	7,405	7,519	77	7,442
In foreign currency	**41,207**	**1,022**	**40,185**	**52,309**	**1,050**	**51,259**
Long-term	**41,207**	**1,022**	**40,185**	**52,309**	**1,050**	**51,259**
Non-financial corporations	10,784	177	10,607	13,326	163	13,163
Other financial organisations	197	106	91	2,776	61	2,715
Retail	29,382	534	28,848	34,954	738	34,216
Sole proprietors	844	205	639	1,253	88	1,165
TOTAL	**1,022,649**	**59,022**	**963,627**	**1,055,020**	**44,842**	**1,010,178**

The amount of EUR 1,022,649 thousand encompasses interest receivables, default interest and deferred interest totalling EUR 7,003 thousand (in 2011: EUR 5,419 thousand).

The common average interest rate on loans to non-bank customers was 3.37% in 2012 (2011: 3.72%).

GROUP

	31/12/2012			31/12/2011		
GROUP	Gross	Value adjustments	Net	Gross	Value adjustments	Net
In domestic currency	**986,368**	**58,875**	**927,493**	**1,002,461**	**44,187**	**958,274**
Short-term	**59,904**	**8,871**	**51,033**	**51,870**	**7,376**	**44,494**
Non-financial corporations	43,478	4,749	38,729	35,857	3,458	32,399
Government	331	5	326	0	0	0
Other financial organisations	3	2	1	2	2	0
Retail	12,055	2,935	9,120	12,410	3,054	9,356
Sole proprietors	1,998	736	1,262	1,579	661	918
Non-profit providers of services to households	2,038	444	1,594	2,018	201	1,817
Other foreign entities	1	0	1	4	0	4
Long-term	**926,464**	**50,004**	**876,460**	**950,591**	**36,811**	**913,780**
Non-financial corporations	404,357	26,664	377,693	409,636	18,360	391,276

Government	21,175	299	20,876	21,551	222	21,329
Other financial organisations	8,995	401	8,594	13,069	304	12,765
Retail	426,603	15,322	411,281	436,583	14,012	422,571
Sole proprietors	59,319	3,954	55,365	63,845	3,304	60,541
Non-profit providers of services to households	5,554	3,136	2,418	5,401	401	5,000
Foreign entities	461	122	339	506	131	375
Subsidiaries	0	106	-106	0	77	77
In foreign currency	**41,207**	**1,022**	**40,185**	**52,309**	**1,050**	**51,259**
Long-term	**41,207**	**1,022**	**40,185**	**52,309**	**1,050**	**51,259**
Non-financial corporations	10,784	177	10,607	13,326	163	13,163
Other financial organisations	197	106	91	2,776	61	2,715
Retail	29,382	534	28,848	34,954	738	34,216
Sole proprietors	844	205	639	1,253	88	1,165
TOTAL	**1,027,575**	**59,897**	**967,678**	**1,054,770**	**45,237**	**1,009,533**

The amount of EUR 1,027,575 thousand encompasses interest receivables, default interest and deferred interest totalling EUR 5,924 thousand (in 2011: EUR 6,442 thousand).

The common average interest rate on loans to non-bank customers was 3.37% in 2012 (2011: 3.72%).

As at 31 December 2012, the Group's credit portfolio was mainly secured by mortgages. Other types of collateral held by the Bank as at 31 December 2012 were: deposit, guarantee and assignment of receivables. All these types of receivable collateral, except mortgage and guarantee, are irrelevant in view of the covered share of exposure. A guarantee by a credit-worthy guarantor is used as collateral primarily for consumer loans.

b) Breakdown by maturity

	Banka Sparkasse				Sparkasse Group			
	Gross	**Impairment**	**2012 Net**	**2011 Net**	**Gross**	**Impairment**	**2012 Net**	**2011 Net**
Up to 1 month	99,599	-34,287	65,313	57,364	99,599	-34,287	65,313	57,289
From 1 to 3 months	4,937	-1,222	3,715	8,735	5,717	-2,002	3,715	16,266
From 3 to 12 months	75,293	-1,942	73,350	51,973	75,293	-1,942	73,350	54,362
From 1 to 5 years	203,678	-6,670	197,008	229,491	203,678	-6,670	197,008	228,503
More than 5 years	639,143	-14,902	624,241	662,615	643,288	-14,996	628,292	653,113
	1,022,650	**-59,023**	**963,627**	**1,010,178**	**1,027,575**	**-59,897**	**967,678**	**1,009,533**

d) Value adjustment movements

	2012		2011	
	BANK	GROUP	BANK	GROUP
Opening balance	44,842	45,237	35,051	35,373
Value adjustments of loans	33,909	34,405	24,748	24,848
Reversed value adjustments of loan	17,329	17,345	12,795	12,822
Write-offs	2,400	2,400	2,162	2,162
As at 31 December	**59,022**	**59,897**	**44,842**	**45,237**

e) Movement in long-term receivables from finance lease of equipment

	Cost
As at 1 January 2012	**9,185**
Increases	11,171
Transfer to short-term part	0
Repayments	6,039
As at 31 December 2012	**14,317**

	Impairment
As at 1 January 2012	**39**
Increases	101
Write-off	0
Derecognition	6
As at 31 December 2012	**134**

Long-term receivables from finance lease are disclosed at net principle. Receivables are collateralised by title to the leased item and other forms of security (e.g. bills of exchange, guarantee, etc.).

f) Breakdown of receivables from finance lease by maturity

	31/12/2012			31/12/2011		
	Gross	Deferred income	Net	Gross	Deferred income	Net
Up to 1 year	4,947	521	4,426	3,113	415	2,698
From 1 to 5 years	9,821	651	9,170	6,810	540	6,270
More than 5 years	738	17	721	222	5	217
Total	**15,506**	**1,189**	**14,317**	**10,145**	**960**	**9,185**

g) Overdue receivables from finance lease

	31/12/2012	31/12/2011
Overdue receivables from finance lease	294	295
Overdue operating receivables	20	2
Total	**314**	**297**

Note 5 Tangible fixed assets

BANK

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	Office equipment	Computers	Motor vehicles	Other equipment	Tangible fixed assets under construction	Total
Cost						
As at 1 January 2012	1,089	2,956	74	2,953	81	**7,153**
Increase	44	114	22	203	0	**383**
Decrease	85	6	0	28	61	**180**
Transfer	80	-80	0	0	0	**0**
As at 31 December 2012	**1,128**	**2,984**	**96**	**3,128**	**20**	**7,356**
Value adjustment						

As at 1 January 2012	721	2,238	15	1,547	0	**4,521**
Depreciation	68	235	12	179	0	**494**
Increase	41	9	0	0	0	**50**
Decrease	54	14	0	27	0	**95**
Transfer	56	-56	0	0	0	**0**
As at 31 December 2012	**832**	**2,412**	**27**	**1,699**	**0**	**4,970**
Residual value						
As at 1 January 2012	368	718	59	1,406	81	2,632
As at 31 December 2012	352	516	69	1,429	20	2,386
Cost						
As at 1 January 2011	1,089	2,632	64	2,464	15	**6,264**
Increase	3	482	51	502	102	**1,141**
Decrease	3	159	41	13	36	**252**
As at 31 December 2011	**1,089**	**2,956**	**74**	**2,953**	**81**	**7,153**
Value adjustment						
As at 1 January 2011	608	2,134	30	1,376	0	**4,148**
Depreciation	116	248	10	182	0	**556**
Increase						
Decrease	3	144	25	11	0	**183**
As at 31 December 2011	**721**	**2,238**	**15**	**1,547**	**0**	**4,521**
Residual value						
As at 1 January 2011	481	498	34	1,088	15	2,116
As at 31 December 2011	368	718	59	1,406	81	2,632

The Bank has no tangible fixed assets acquired as compensation for repayment of receivables.

As at 31 December 2012, no tangible fixed assets of the Bank have been pledged as security. Liabilities for the purchase of tangible fixed assets as at 31 December 2012 were EUR 7 thousand.

In 2012, finance lease costs totalled:

- vehicles – EUR 11 thousand,

- equipment – EUR 3 thousand.

In 2012, the Bank spent EUR 23 thousand on operating lease of cars.

GROUP

	Office equipment	Computers	Motor vehicles	Other equipment	Tangible fixed assets under construction	Total
Cost						
As at 1 January 2012	1,112	2,965	141	2,954	81	**7,253**
Increase	45	116	22	203	0	**386**
Decrease	85	6	0	28	61	**180**
Transfer	80	-80	0	0	0	**0**
As at 31 December 2012	**1,152**	**2,995**	**163**	**3,129**	**20**	7,459
Value adjustment						
As at 1 January 2012	740	2,246	35	1,547	0	**4,568**
Depreciation	72	237	22	179	0	**510**
Increase	41	9	0	0	0	**50**
Decrease	54	14	0	27	0	**95**
Transfer	56	-56	0	0	0	**0**
As at 31 December 2012	**855**	**2,422**	**57**	**1,699**	**0**	5,033
Residual value						
As at 1 January 2012	372	719	106	1,407	81	2,685
As at 31 December 2012	297	573	106	1,430	20	2,426
Cost						
As at 1 January 2011	1,113	2,659	138	2,502	15	**6,427**
Increase	3	484	76	502	102	**1,167**
Decrease	4	178	73	50	36	**341**
As at 31 December 2011	**1,112**	**2,965**	**141**	**2,954**	**81**	7,253
Value adjustment						
As at 1 January 2011	623	2,157	44	1,393	0	**4,217**
Depreciation	120	249	19	182	0	**572**
Decrease	3	160	28	28	0	**219**
As at 31 December 2011	**740**	**2,246**	**35**	**1,547**	**0**	4,568
Residual value						
As at 1 January 2011	490	502	94	1,109	15	2,210
As at 31 December 2011	372	719	106	1,407	81	2,685

The Group has no tangible fixed assets acquired as compensation for repayment of receivables.

As at 31 December 2012, no tangible fixed assets have been pledged as security. Liabilities for the purchase of tangible fixed assets as at 31 December 2012 were EUR 7 thousand.

In 2012, finance lease costs totalled:

- vehicles – EUR 11 thousand,

- equipment – EUR 3 thousand.

In 2012, the Bank spent EUR 26 thousand on operating lease of cars.

Other members of the Group have no cars under operating or finance lease.

Note 6 Intangible assets

BANK

	Long-term property rights	Software	Other intangible assets	Intangible assets under construction	Total
Cost					
As at 1 January 2012	1,865	22,204	0	705	**24,774**
Increase	139	978	0	659	**1,776**
Decrease	0	5	0	1,130	**1,135**
Transfer	0	5	0	0	**5**
As at 31 December 2012	**2,004**	**23,182**	**0**	**234**	**25,420**
Value adjustment					
As at 1 January 2012	1,517	17,114	0	0	**18,631**
Amortisation	99	2,261	0	0	**2,360**
As at 31 December 2012	**1,616**	**19,375**	**0**	**0**	**20,991**
Residual value					
As at 1 January 2012	348	5,090	0	705	6,143
As at 31 December 2012	388	3,807	0	234	4,429
Cost					
As at 1 January 2011	1,772	20,646	0	668	**23,086**
Increase	93	1,558	0	760	**2,411**
Decrease	0	0	0	723	**723**
As at 31 December 2011	**1,865**	**22,204**	**0**	**705**	**24,774**
Value adjustment					
As at 1 January 2011	1,439	14,703	0	0	**16,142**
Amortisation	78	2,411	0	0	**2,489**
As at 31 December 2011	**1,517**	**17,114**	**0**	**0**	**18,631**
Residual value					
As at 1 January 2011	333	5,943	0	668	6,944
As at 31 December 2011	348	5,090	0	705	6,143

As at 31 December 2012, no intangible assets of the Bank have been pledged as security.

Liabilities for the purchase of intangible assets as at 31 December 2012 were EUR 157 thousand.

GROUP

	Long-term property rights	Software	Other intangible assets	Intangible assets under construction	Total
Cost					
As at 1 January 2012	1,921	22,205	2	705	**24,833**
Increase	139	978	0	659	**1,776**
Decrease	0	5	0	1,130	**1,135**
Transfer	0	5	0	0	**5**
As at 31 December 2012	**2,060**	**23,183**	**2**	**234**	**25,479**
Value adjustment					
As at 1 January 2012	1,532	17,114	0	0	**18,646**
Amortisation	105	2,261	0	0	**2,366**
As at 31 December 2012	**1,637**	**19,375**	**0**	**0**	**21,012**
Residual value					
As at 1 January 2012	389	5,091	2	705	6,187
As at 31 December 2012	423	3,808	2	234	4,467
Cost					
As at 1 January 2011	1,828	20,672	2	668	**23,170**
Increase	93	1,558	0	760	**2,411**
Decrease	0	0	0	723	**723**
Transfer	0	23	0	0	**23**
As at 31 December 2011	**1,921**	**22,205**	**2**	**705**	**24,833**
Value adjustment					
As at 1 January 2011	1,448	14,712	0	0	**16,160**
Amortisation	84	2,411	0	0	**2,495**
Decrease	0	9	0	0	**9**
As at 31 December 2011	**1,532**	**17,114**	**0**	**0**	**18,646**
Residual value					
As at 1 January 2011	380	5,960	2	668	7,010
As at 31 December 2011	389	5,091	2	705	6,187

As at 31 December 2012, no intangible assets have been pledged as security.

Liabilities for the purchase of intangible assets as at 31 December 2012 were EUR 157 thousand.

Note 7 Long-term investments in the equity of companies

s REAL SPARKASSE, nepremičnine, d. o. o. was liquidated in 2012 and removed from the Companies Register according to a decision dated 11 December 2012.

Information about the subsidiary companies:

S-FACTORING, družba za factoring, d.d.
Cesta v Kleče 15
1000 Ljubljana
Share capital: EUR 700,000.00
Profit or loss: EUR - 292,868.90
Equity interest of Banka Sparkasse: 60%

Sparkasse Leasing S d.o.o.
Cesta v Kleče 15
1000 Ljubljana
Share capital: EUR 150,000.00
Profit or loss: EUR - 51,757.86
Equity interest of Banka Sparkasse: 100%

Note 8 Corporate income tax

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Advance tax payments made during the year	0	48	0	0
Excess amount of prepaid tax	**0**	**48**	**0**	**0**

The Bank's books of account disclose neither corporate income tax assets or liabilities, since the Bank posted a tax loss in 2011 and was not required to prepay corporate income tax. Based on the tax base for 2012, a tax loss of EUR 8,476 thousand was declared (in 2011: EUR 893 thousand).

In 2012, Sparkasse Leasing S made corporate income tax prepayments, as it disclosed a positive tax base in the 2011 tax account.

The Bank and other companies from the Sparkasse Group had no overdue liabilities from taxes as at 31 December 2012.

Corporate income tax was calculated on the basis of income and expenses disclosed in the statement of comprehensive income in line with the applicable legislation. The tax rate applied to the calculation of corporate income tax was 18% of the tax base.

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Current tax	0	89	0	48
Deferred tax	1,207	1,255	201	178
TOTAL	**1,207**	**1,166**	**201**	**226**

	BANK			GROUP		
	GROSS	tax rate	TAX	GROSS	tax rate	TAX
Accounting profit/(loss) before tax:	**-10,300**	18%	**1,854**	**-10,500**	18%	**-1,890**
TAX EFFECT OF RECURRING EXPENSES/INCOME						
Expenses not recognised for tax purposes	82	18%	15	84	18%	15
Unrecognised foreign tax deduction	0	18%	0	0	18%	0
Non-deductible expenses for loan surplus	0	18%	0	250	18%	45
Reduction of expenses on account of transfer prices	142	18%	26	142	18%	26
Increase in income on account of transfer prices	18	18%	3	18	18%	3
Exemption of revenue arising from the reversal or use of previously taxed or partially taxed provisions	-54	18%	-10	-54	18%	-10
Exemption of revenue arising from reversal of impairments if the preceding impairment was not taken into account	0	18%	0	-6	18%	-1
Exemption of dividends and income similar to dividends	-9	18%	-2	-9	18%	-2
Use of previously unrecognised tax losses	0	18%	0	-55	18%	-10
TAX EFFECT OF DEFERRED TAXES (NON-RECURRING EXPENSES/INCOME)						
Non-deductible expenses for accumulated amortisation/depreciation exceeding the tax deductible limit	55	18%	10	55	18%	10
Non-deductible expenses for donations	1	18%	0	1	18%	0
Non-deductible expenses for provisions on account of long-term accruals	0	18%	0	0	18%	0
Non-deductible expenses for receivable revaluation expenses	0	18%	0	101	18%	18
Non-deductible expenses for revaluation of financial assets that are not recognised pursuant to Article 22 of the ZDDPO-2	1,650	18%	297	1,650	18%	297
Increase in expenses for the difference in depreciation up to the amount accrued under the straight-line depreciation method and by applying the prescribed rates	-13	18%	-2	-13		0
Increase in expenses for writing off the total acquisition costs of tangible fixed assets	0	18%	0	0	18%	0
Increase in expenses for the use of provisions that were not recognised or were partially recognised as expenses at the time of their creation	-48	18%	-9	-48	18%	-9
Increase in expenses on account of recognised revaluation expenses	0	18%	0	403	18%	72

Sum of reconciling items (with a tax effect)	1,824	329	2,518	456
Tax profit/loss	-8,476	-1,525	-7,982	-1,434

Assessed tax represents the operating liability calculated at the prescribed 18% rate.

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Deferred tax assets				
Non-deductible expenses for accumulated amortisation/depreciation exceeding the tax deductible limit	22	22	19	19
Non-deductible expenses for employee provisions	18	18	31	31
Change in fair value of available-for-sale securities	24	24	148	148
Impairment of assets	247	247	0	0
Non-deductible expenses for receivable revaluation	0	138	0	79
Non-deductible expenses for unused tax credits	180	180	141	141
Non-deductible expenses for tax loss	2,292	2,292	1,361	1,372
Total	**2,783**	**2,921**	**1,700**	**1,790**
Deferred tax liabilities				
Change in fair value of available-for-sale securities	119	119	3	3
Total	**119**	**119**	**3**	**3**
Net deferred taxes	**2,664**	**2,802**	**1,697**	**1,787**

Deferred tax is calculated for all temporary differences arising from:

- different depreciation rates for operating and tax purposes – we applied various tax rates depending on the year in which the respective temporary difference will be reversed,
- revaluation expenses that are not recognised according to Article 21, paragraph 1 of the Corporate Income Tax Act – we applied an 18% tax rate,
- expenses for revaluation of financial assets that are not recognised pursuant to Article 22 of the ZDDPO-2 – we applied a 15% tax rate,
- provisions for employee benefits – we applied a 15% tax rate,
- unclaimed benefits in corporate income tax account that may be claimed in future years – we applied a 15% tax rate,
- tax loss from 2012 – we applied a 15% tax rate,
- unused tax loss from previous years – we applied a 15% tax rate,
- change in the fair value of available-for-sale securities – we applied a 17% tax rate.

Note 9 Other assets and other financial assets

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Working stock	77	77	89	89
Fees and commissions receivable	0	0	0	0
Receivables for advances made	1	392	52	65
Trade receivables	64	57	72	70
Other receivables	2,000	2,029	1,508	1,845
Capitalised deferred expenses and accrued revenues	252	298	201	1,280
Total	**2,394**	**2,853**	**1,922**	**3,349**

Working stock refers to bank cards.

Other receivables comprise receivables from domestic and foreign customers, receivables from retail transactions and other receivables from business transactions.

Note 10 Liabilities to banks

a) Break down by sector

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Long-term in domestic currency	**507,659**	**511,251**	**551,758**	**553,262**
- domestic banks	509	95	10,192	10,192
- EU banks	507,150	511,156	541,566	543,070
Short-term in foreign currency	**40,154**	**40,154**	**51,828**	**51,828**
- EU banks	40,154	40,154	51,828	51,828
Short-term in domestic currency	**20,511**	**20,511**	**10,101**	**10,101**
- domestic banks	20,511	20,511	10,101	10,101
TOTAL	**568,324**	**572,330**	**613,687**	**615,191**

The amount of EUR 568,324 thousand encompasses interest receivables, deferred interest and fees totalling EUR 277 thousand (in 2011: EUR 958 thousand).

The common average interest rate for liabilities to banks was 1.18% in 2012 (2011: 2.01%).

b) Breakdown by maturity

	31/12/2012 BANK	31/12/2012 GROUP	31/12/2011 BANK	31/12/2011 GROUP
Up to 1 month	28,025	28,025	155	155
From 1 to 3 months	43,155	43,155	61,773	63,277
From 3 to 12 months	217,572	217,572	97,879	97,879
From 1 to 5 years	279,572	279,572	433,878	433,878
More than 5 years	0	4,006	20,002	20,002
	568,324	**572,330**	**613,687**	**615,191**

Note 11 Liabilities to non-bank customers

a) Break down by sector

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
In domestic currency				
Short-term	**305,865**	**305,714**	**270,418**	**268,403**
Non-financial corporations	116,675	116,538	116,560	114,595
Government	2,553	2,553	4,391	4,391
Other financial organisations	29,353	29,339	28,227	28,178
Households	130,166	130,166	114,889	114,889
Non-profit service providers	3,335	3,335	6,350	6,350
Foreign entities	23,783	23,783	0	0
Long-term	**82,409**	**82,374**	**59,371**	**59,371**
Non-financial corporations	6,393	6,393	5,754	5,740
Government	304	304		
Other financial organisations	6,764	6,729	3,623	3,637
Households	53,807	53,807	48,985	48,985
Non-profit service providers	104	104	58	58
Foreign entities	15,037	15,037	951	951
In foreign currency				
Short-term	**1,368**	**1,368**	**994**	**994**
Non-financial corporations	178	178	35	35
Households	1,190	1,190	959	959
TOTAL	**389,642**	**389,456**	**330,782**	**328,768**

The amount of EUR 389,642 thousand encompasses interest receivables, deferred interest and fees totalling EUR 1,787 thousand (in 2011: EUR 1,499 thousand).

Long-term liabilities to non-financial corporations in the domestic currency also include liabilities arising from finance lease of fixed assets in the amount of EUR 5 thousand.

The common average interest rate for liabilities to non-bank customers was 1.87% in 2012 (2011: 1.85%).

b) Breakdown by maturity

	31/12/2012 BANK	31/12/2012 GROUP	31/12/2011 BANK	31/12/2011 GROUP
Up to 1 month	239,949	239,949	220,162	218,150
From 1 to 3 months	56,591	56,591	46,724	39,212
From 3 to 12 months	89,396	89,210	60,221	57,832
From 1 to 5 years	3,366	3,366	3,496	4,484
More than 5 years	340	340	179	9,090
	389,642	**389,456**	**330,782**	**328,768**

Deposits are disclosed based on maturity periods specified in underlying agreements. Deposit agreements for private individuals include a clause whereby a customer may, in whole or in part, withdraw the deposit at any time before the expiry date specified in the agreement.

Note 12 Subordinated liabilities

	31/12/2011		31/12/2011	
	BANK	GROUP	BANK	GROUP
Long-term in EUR				
- foreign banks	26,000	26,000	26,000	26,000
TOTAL	**26,000**	**26,000**	**26,000**	**26,000**

The Bank's subordinated liability arises from a credit agreement with Kärntner Sparkasse AG, Klagenfurt, and Steiermärkische Bank und Sparkassen AG, Graz. EUR 11 million fall due on 31 December 2017 and the rest on 31 August 2018.

In 2012, the common average interest rate was 1.94%.

The subordinated debt is not secured nor covered by a guarantee from the Bank, its related party or any other form of contract whereby it would – in a legal or economic sense – provide for priority of payment over other creditors' receivables. Only upon bankruptcy or liquidation will it become available for compensating for a loss, and it is not available for covering a loss in the course of the Bank's regular operations. It is not redeemable by

Banka Sparkasse before the expiration of the period laid down in the agreement, unless the Bank ceases to engage in banking operations.

Note 13 Provisions

BANK AND THE GROUP	As at 31 December 2011	Established during the year	Used during the year	Reversed during the year	As at 31 December 2012
Long-term provisions for jubilee benefits	47	30	4	0	73
Long-term provisions for severance upon retirement	213	0	17	33	163
Long-term provisions for off-balance sheet liabilities	0	102	0	0	102
TOTAL	**260**	**132**	**21**	**33**	**338**

Provisions in the Group have only been made by the Bank. Provisions were made for severance pay and jubilee benefits.

Provisions were calculated on 31 December 2012 by an independent actuary. The basic assumptions used in the calculation were a 3.0% growth in wages, a nominal long-term interest rate of 3.65% and employee turnover by age groups based on the turnover so far and reasonable expectations for the future. Payments for jubilee benefits and severance upon retirement are charged against the established provisions once they fall due.

Note 14 Other liabilities

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Accrued expenses	808	820	944	952
Domestic suppliers	405	518	642	1,184
Foreign suppliers	67	95	76	107
Liabilities from assessed taxes, contributions and other tax levies	277	307	270	467
Other payables	291	596	612	630
Liabilities from accounting for business transactions	260	260	9	9
Liabilities from uncleared payment transactions	7	7	0	0
Other payables in foreign currency	18	18	0	0
Other accrued expenses and deferred revenues	335	424	3,423	3,475
TOTAL	**2,468**	**3,045**	**5,976**	**6,824**

Accruals refer to accrued expenses for auditing, telephone services, rent, advertising, maintenance costs and other costs incurred in 2012 for which the Bank has not received corresponding invoices by the balance sheet date.

The liabilities for assessed taxes, contributions and other tax levies comprise a VAT liability of EUR 17 thousand and tax on total assets of banks in the amount of EUR 260 thousand.

Note 15 Equity and share premium

The Bank's and the Group's equity as at 31 December 2012:

	31/12/2012		31/12/2011	
	BANK	GROUP	BANK	GROUP
Share capital	10,015	10,015	10,015	10,015
Share premium	82,434	82,434	82,434	82,434
Revenue reserves (including retained earnings)	-1,651	-1,916	-906	-1,201
Revaluation surplus	463	463	-582	-581
Net loss for the financial year	-9,093	-9,218	-745	-715
Majority interest	**82,168**	**81,778**	**90,216**	**89,952**
Minority interest		28		144
TOTAL EQUITY	**82,168**	**81,806**	**90,216**	**90,096**

The number of issued shares, which are held by three owners, is 240,000.

The ownership structure is as follows:

Kärntner Sparkasse AG, Klagenfurt, 70%

Steiermärkische Bank und Sparkassen AG, Graz: 26%

Erste Bank der österreichischen Sparkassen AG, Vienna: 4%

The face value per share is EUR 41.72. As at 31 December 2012, the book value of the share amounted to EUR 342.37.

Share premium was created when the branch office of Kärntner Sparkasse Ag, Klagenfurt, was transformed into Banka Sparkasse on 1 October 2006.

Revaluation surplus originates from the revaluation of available-for-sale financial instruments to their fair value.

Note 16 Contingencies and commitments

a) Legal actions

There were 5 legal actions pending against the Bank on 31 December 2012. Given the nature of the proceedings, the Bank will only be imposed the legal costs even if the outcome is unfavourable.

b) Off-balance sheet liabilities

BANK AND THE GROUP	31/12/2012	31/12/2011
1. Contingencies from guarantees, letters of credit and other contingencies (including funds pledged for customers' liabilities)	7,579	3,795
2. Approved loans, overdrafts and credit lines and other assumed liabilities	36,117	49,097
3. Contractual (notional) value of spot deals	0	0
4. Contractual (notional) value of derivative financial instruments	0	0
5. Other off-balance sheet records	295,500	261,500
6. Collateral received	1,902,298	1,997,438
7. Financial assets of the Bank pledged for its liabilities and financial assets in the asset pool of the Bank of Slovenia	60,588	2,603
TOTAL	**2,302,082**	**2,314,433**

The market value of collateral was considered. The fair value of the collateral is explained in the credit risk section.

The Bank discloses guarantees under off-balance sheet liabilities. A guarantee is an irrevocable assurance made by the Bank that it will settle a payment if a customer fails to meet their obligations to third parties. The associated credit risk is the same as with loans.

Credit commitments are unused tranches or authorisations for loans, guarantees or letters of credit. Even though credit risk is present, it is considered small. The risk arises from the possibility that a customer draws on unused tranches of a granted loan and that the drawn assets will not be paid off in due time.

3.11.2. Notes to the Statement of Comprehensive Income

Note 17 Interest income and expenses

Net interest by asset and liability type

	2012		2011	
	BANK	GROUP	BANK	GROUP
Interest income and similar income	**37,490**	**37,996**	**42,377**	**42,681**
Central bank	46	46	112	112
Government bonds and other securities	934	934	370	370
Banks	339	339	646	646
Non-bank customers	36,171	36,666	41,247	41,548
Other	0	11	2	5
Interest expenses and similar expenses	**16,504**	**16,525**	**18,688**	**18,706**
Central bank	156	156	0	0
Banks	8,626	8,626	12,408	12,409
Non-bank customers	7,721	7,742	6,279	6,296
Other	1	1	1	1
Net interest	**20,986**	**21,471**	**23,689**	**23,975**

Note 18 Fee and commission income and expenses

	2012		2011	
	BANK	GROUP	BANK	GROUP
Fees and commissions received	**5,966**	**6,420**	**5,910**	**6,395**
Fees and commissions from issued guarantees	146	146	93	93
Fees and commissions from credit transactions	2,339	2,338	2,720	2,719
Fees and commissions from payment transactions	3,194	3,194	2,818	2,818
Fees and commissions from brokerage transactions	137	137	148	148
Fees and commissions for other services	150	605	131	617
Fees and commissions paid	**825**	**857**	**859**	**890**
Fees and commissions for banking services at home and abroad	741	741	741	741
Fees and commissions for brokerage and commission deals	23	23	30	30
Fees and commissions for other services	61	93	88	119
Net fees and commissions	**5,141**	**5,563**	**5,051**	**5,505**

Note 19 Other net gains and losses

	2012		2011	
	BANK	GROUP	BANK	GROUP
Gains	**285**	**350**	**321**	**392**
Revenues from non-banking services	81	65	80	95
Other	204	285	241	297
Losses	**473**	**470**	**427**	**437**
Taxes	292	292	259	259
Membership fees	74	74	76	76
Other	107	104	92	102
Net gains (losses)	**-188**	**-120**	**-106**	**-45**

Note 20 Net foreign exchange gains/losses

	2012		2011	
	BANK	GROUP	BANK	GROUP
Exchange rate gains	1,857	1,857	27,549	27,549
Exchange rate losses	1,871	1,872	27,567	27,567
Net gains (losses)	**-14**	**-15**	**-18**	**-18**

Note 21 Net gains/losses from derecognition of assets

	2012		2011	
	BANK	GROUP	BANK	GROUP
Disposal of fixed assets	0	0	0	0
Write-offs of fixed assets	23	23	-12	-12
Net gains (losses)	**23**	**23**	**-12**	**-12**

Note 22 Administrative expenses

	2012		2011	
	BANK	GROUP	BANK	GROUP
Labour costs	**8,277**	**8,699**	**7,703**	**8,102**
Gross wages and salaries	6,320	6,666	6,327	6,648
Social security and pension insurance contributions	936	990	716	767
Other gross salary-related contributions	39	40	32	33
Other labour costs	982	1,003	628	654
Costs of material and services	**7,182**	**7,415**	**6,941**	**7,113**
Costs of material	335	349	520	535
Rent payable	1,740	1,760	1,782	1,810
Consulting, accounting and audit services	1,385	1,486	931	988
Costs of fixed asset maintenance	1,381	1,440	1,415	1,449
Advertising and entertainment	600	616	639	653
Administration costs	59	61	48	52
Costs of services	1,438	1,451	1,311	1,322
Other costs	244	252	295	304
TOTAL	**15,459**	**16,114**	**14,644**	**15,215**

Rent payable also includes the costs arising from contracts on operating lease of business premises in the amount of EUR 1,470 thousand (in 2011: EUR 1,454 thousand).

The cost of the 2012 Annual Report audit totalled EUR 41 thousand.

Remuneration of the Management Board of the Bank and the Group companies totalled EUR 753 thousand in the 2012 financial year (in 2011: EUR 562 thousand).

Management Board	Name and surname	Salary (gross)	Bonuses	Severance pay
Chairman (from 3 October 2012)	Andrej Plos, M.Sc.	66,542	7,146	
Chairman (until 3 October 2012)	Josef Laussegger	172,490	4,895	144,541
Member	Wolfgang Malle, M.Sc.	108,757	5,969	
Member	Aleksander Klemenčič	146,015	6,869	
S-factoring	Roman Gomboc	86,530	3,435	

Andrej Plos, M.Sc., has been employed at the Bank since 1 August 2012. Wolfgang Malle, M.Sc., was employed at the Bank until 30 September 2012 and Josef Laussegger until 31 December 2012.

In 2012, the members of the Supervisory Board received no meeting fees and no other benefits. The management and employees employed under agreements granting them special authorisations for their term of office received no advances in 2012.

On 31 December 2012, the Bank disclosed receivables from employees employed under agreements granting them special authorisations for their term of office that arose from loans granted in the amount of EUR 577 thousand and from members of the Group companies' management boards totalling EUR 848 thousand. The loans were granted at interest rates ranging from 0.72% to 4.82%. No receivables from loans payable by the members of the Bank's Management Board were disclosed.

An agreement granting an employee special authorisations for the term of office is not the same as a management employment contract.

In 2012, Banka Sparkasse adopted a policy of remunerations.

According to Article 23b of the Regulation on Disclosures by Banks and Savings Banks, the Sparkasse Group disclosed the remuneration of the Management Board and all related parties. Related-party transactions are detailed in chapter 3.15 Related-Party Transactions.

Note 23 Depreciation and amortisation

	2012		2011	
	BANK	GROUP	BANK	GROUP
Tangible fixed assets	544	560	556	571
Intangible assets	2,359	2,365	2,490	2,496
TOTAL	**2,903**	**2,925**	**3,046**	**3,067**

In 2012, the Bank changed the useful life of defined intangible assets. We decided to buy new software for monitoring transactions. The software will start being used at the end of 2015. That is why we changed the useful life of existing software so that amortisation ends on 31 December 2015.

The change in amortisation/depreciation by year is disclosed in the table below:

	2012	2013	2014	2015	2016
DIFFERENCE	31	30	30	-90	-1

In 2012, 2013 and 2014, the above change will result in higher amortisation/depreciation charges and in 2015 and 2016 lower amortisation/depreciation charges.

Note 24 Provisions

BANK AND THE GROUP	2012	2011
Long-term provisions for jubilee benefits	26	-8
Long-term provisions for severance pay	-50	34
Long-term provisions for off-balance sheet liabilities	102	0
TOTAL	**78**	**26**

In 2012, EUR 4 thousand of provisions for jubilee benefits were used and an additional EUR 30 thousand was established, which is proportional to the number of employees' years of service. EUR 17 thousand of provisions for severance pay upon retirement was used and an additional EUR 33 thousand was established, which is proportional to the number of employees' period of service. Provisions were calculated on 31 December 2012 by an independent actuary.

Note 25 Impairments

	2012		2011	
	BANK	GROUP	BANK	GROUP
Value adjustments made	35,589	36,103	25,003	25,103
Value adjustments reversed	17,483	17,500	12,978	13,005
TOTAL	**18,106**	**18,603**	**12,025**	**12,098**

The process of making and calculating impairments is detailed in item 3.13.1 Credit risks.

Note 26 Profit (loss) for the year

	2012		2011	
	BANK	GROUP	BANK	GROUP
Profit (loss) for the financial year before tax	-10,300	-10,500	-946	-809
Net profit (loss) for the financial year	-9,093	-9,334	-745	-379

On 31 December 2012, loss totalled EUR 9,093 thousand (Group: EUR 9,334 thousand).

The loss remains uncovered or will be covered against profit in future years.

3.11.3. Notes to the Cash Flow Statement

Note 27 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise the below stated financial assets with up to 90-day maturity.

	31/12/2012	31/12/2011
Cash in hand and account balances	15,645	8,340
Loans with original maturity of up to 90 days	54,745	3,495
TOTAL	**70,390**	**11,835**

3.12 Fair Value

Financial assets measured at fair value

The fair value of financial instruments is the amount for which an asset could be exchanged or a liability settled. Where available, fair value is based on quoted market prices. When no market prices are available, fair value is determined as an estimate using the discounted cash flow method or any other valuation model.

The fair value of financial assets and financial liabilities is determined as follows:

- the fair value of financial assets and financial liabilities with standard terms that are traded in active liquid markets is determined based on the offering price in the market,

- the fair value of other financial assets and financial liabilities (except derivative financial instruments) is determined according to the generally accepted pricing models and based on an analysis of discounted cash flows using quoted prices for similar instruments,

- the fair value of derivative financial instruments is calculated based on the offering price.

a) Financial instruments disclosed by the Bank at fair value only include available-for-sale financial assets

ITEM	31/12/2012		31/12/2012		31/12/2011		31/12/2011	
	BANK	GROUP	BANK	GROUP	BANK	GROUP	BANK	GROUP
FINANCIAL ASSETS	BOOK VALUE		FAIR VALUE		BOOK VALUE		FAIR VALUE	
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**50,023**	**50,023**	**48,856**	**48,856**	**14,873**	**14,873**	**14,371**	**14,371**

AVAILABLE-FOR-SALE FINANCIAL ASSETS: the fair value of bonds is calculated based on the quoted market value.

The total of EUR 50,023 thousand also includes the shares of Gorenjska banka in the amount of EUR 4,200 thousand. Since the shares of Gorenjska banka are not listed on the stock exchange and the secondary market is inactive, the Bank ordered a special appraisal from an outsourced valuer.

The shares of Gorenjska banka are, according to the hierarchy rules for determining fair value, classified in Level 3.

b) Carrying fair value of financial assets not disclosed at fair value

ITEM	31/12/2012		31/12/2012		31/12/2011		31/12/2011	
	BANK	GROUP	BANK	GROUP	BANK	GROUP	BANK	GROUP
FINANCIAL ASSETS	**BOOK VALUE**		**FAIR VALUE**		**BOOK VALUE**		**FAIR VALUE**	
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	15,645	15,645	15,645	15,645	8,340	8,340	8,340	8,340
LOANS	1,027,040	1,031,084	1,027,040	1,031,084	1,032,305	1,031,657	1,032,305	1,031,657
Loans to banks	61,361	61,361	61,361	61,361	20,566	20,566	20,566	20,566
Loans to non-bank customers	963,627	967,678	963,627	967,678	1,010,178	1,009,533	1,010,178	1,009,533
Other financial assets	2,052	2,045	2,052	2,045	1,561	1,558	1,561	1,558
OTHER ASSETS	342	808	342	808	361	1,791	361	1,791
FINANCIAL LIABILITIES								
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	985,823	990,116	985,823	990,116	972,752	972,905	972,752	972,905
Bank deposits	21,020	21,020	21,020	21,020	20,293	20,293	20,293	20,293
Deposits of non-bank customers	389,594	389,408	389,594	389,408	330,768	328,754	330,768	328,754
Bank loans	547,304	551,310	547,304	551,310	593,394	594,898	593,394	594,898
Loans from non-bank customers	48	48	48	48	14	14	14	14
Subordinated liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Other financial liabilities	1,857	2,330	1,857	2,330	2,283	2,946	2,283	2,946
OTHER LIABILITIES	611	715	611	715	3,693	3,878	3,693	3,878

- CASH IN HAND AND ACCOUNT BALANCES: the book value is the same as the fair value.

- LOANS TO BANKS and LOANS TO NON-BANK CUSTOMERS: the fair values of loans are estimated based on the discounted cash flow analysis.

- FINANCIAL LIABILITIES MEASURED AT AMORTISED COST: the fair values of deposits by banks and non-bank customers are not significantly different from the book value.

3.13 Individual Risks and Equity of Banka Sparkasse and the Sparkasse Group

3.13.1 Credit risk

CREDIT RISK OF BANKA SPARKASSE

Credit risk is the risk of a loss resulting from the debtor's inability to meet, in part or in full, their contractual obligation to the Bank for any reason whatsoever.

Since credit risk accounts for the highest portion in total risks to which Banka Sparkasse is exposed, its management represents an essential element of safe operations.

The Bank carries out credit risk identification, measurement, control and monitoring activities in compliance with its adopted Credit Risk Management Policy and the defined procedures for managing all the important factors and effects associated with credit risk.

In spite of some indications of global economic recovery in 2012, the Bank continued with active credit risk management. The crediting policy was selective, focusing on crediting customers and industries with lower risk level. The Bank successfully increased the amount of mortgage collateral that fulfils the Bank of Slovenia's conditions for recognising the credit risk reducing effect of mortgage collateral (this mortgage collateral grew by more than EUR 40,000 thousand in 2012).

The existing non-performing loans were treated according to the Bank's policy for improving its position within the meaning of obtaining additional quality collateral.

The main objective of credit risk management is to minimise any financial loss that might occur as a result of a debtor's failure to meet, in part or in whole, its contractual obligations to the Bank. The Bank achieves this objective by carefully balancing the ratio between the risk and the returns and by ensuring and maintaining a high quality and diversification of its loan portfolio, collateral, suitable currency and maturity compositions and the structure of credit exposure types.

Strategic reporting within the Bank is carried out on a monthly basis, in the framework of the ALCO, and on a quarterly basis in the form of an expanded credit portfolio analysis by segment, which forms the basis for further decisions concerning the overall credit policy and the measures required to reduce credit risk.

For credit risk management purposes, the Bank has in place a multilevel system for processing customers and their transactions.

- Level 1 includes an assessment of creditworthiness conducted by the commercial sector, which prepares the necessary documentation on a customer and the relevant transaction.

- Level 2 includes an assessment of creditworthiness conducted by the Bank's Credit Rating Division, which prepares an analysis and credit rating of the customer and an analysis and assessment of the transaction.

- Level 3 represents the Sales Support Division, which double checks all the information prepared at the first two levels to make sure the documentation and entered data are accurate and correct. The transaction security documentation and transaction agreement are also drawn up and, if required, amended at Level 3.

The Bank has strict internal regulations in place, with clearly defined decision-making procedures for approving, changing, renewing and refinancing loans. Each bank employee is assigned a clearly defined set of authorisations, tasks and controls. Before approving any credit or before concluding any other contract that is the basis for the occurrence of exposure, the Bank evaluates the debtor's ability to fulfil the obligations to the Bank and the quality of the collateral according to its type and scope.

The Bank uses an internal credit rating system for classifying debtors into grades based on risk profile, which is aligned for the whole Group. Private individuals are classified into five internal credit rating grades (A, B, C, D and R) based on the result of a creditworthiness assessment, credit history with the Bank, internal credit analyses and an evaluation by a bank consultant. Companies and sole proprietors are classified into 14 internal credit rating grades (1, 2, 3, 4A, 4B, 4C, 5A, 5B, 5C, 6A, 6B, 7, 8 and R) based on the result of an analysis of their financial position, credit history with the Bank, internal credit analyses and an evaluation by a bank consultant.

Bad debts

In 2012, special attention was focused on risk grades D, 8 and R, which represent high-risk and problem customers from the viewpoint of payment discipline. The Bank knows how important it is to promptly detect any changes in an individual debtor's business performance and to react in a timely fashion. The Bank has established a methodology for early detection of increased credit risk and developed a mechanism for dealing with problem customers.

Problem customers are dealt with on four levels:

- Level 1: a customer's consultant receives a list of issued first payment reminders every month, on the basis of which he/she checks the customer and reports to the Credit Control Division.

- Level 2: once a month, the Credit Control Division reviews customers which, according to the relevant criteria, are to be dealt with at the meeting of the Bad Debt Management Commission.

- Level 3: intensive monitoring expert who, based on monthly statistics of customers with an increased risk of defaulting on a payment, monitors and reports any potentially problematic new loans and also acts as a consultant to businesses that require loan restructuring.

- Level 4: the Legal Division, which deals with customers unable to repay a loan.

The Bank monitors its debtors' operations and the quality of credit collateral for the entire duration of the contractual relationship that creates exposure. Companies and sole proprietors are obliged to submit their annual financial statements to the Bank, and the Bank also retrieves the relevant financial performance data from publicly accessible databases.

In order to reduce credit risk, the Bank continuously carried out monitoring activities while taking into account the restrictions applicable at the time and the Regulation on Large Exposure of Banks and Savings Banks.

Due to the continuing uncertainty in the economic environment, the Bank continued its efforts to mitigate the effects of the difficult economic situation by implementing tighter lending terms and stricter collateral policies and by strengthening its position in the event of problem loans. The Bank followed the following guidelines:

- irrespective of the considerations described above, according to the Group's internal guidelines, the maximum exposure to any one customer is EUR 7 thousand,
- if exposure to a single customer exceeds EUR 7 thousand, the Bank and its partners arrange a syndicated loan,
- priority financing is provided to existing customers with a still acceptable credit rating (A, B, C, 1, 2, 3, 4A, 4B, 4C, 5A, 5B, 5C, 6A, 6B, 7),

- new financing mostly available to customers with a high credit rating (A, B, 1, 2, 3, 4A, 4B, 4C, 5A, 5B, 5C) and feasible investment plans or the need for financing working capital,
- new financing in Swiss francs (CHF) has been suspended since the end of 2008.

The Bank does not provide financing to businesses and private individuals outside the Republic of Slovenia.

Impairment and provisioning policy

In compliance with the strict rules of the Bank of Slovenia, the Bank established a clearly defined procedure and an internal policy on individual and collective assessments for impairments. The Bank monitors its financial assets and liabilities by off-balance-sheet items, classifies them into risk groups and assesses the amount of losses associated with credit risk (asset impairment, provisions) in accordance with the International Financial Reporting Standards. Classification into groups is based on the estimate of the borrower's ability to meet the liabilities to the Bank upon maturity and of the quality of security.

The Bank promptly checks whether there is objective evidence of impairment of financial assets and creates the necessary impairments and adjusts the existing impairments.

The Bank regularly monitors its credit portfolio at Bad Debt Management Commission meetings and the intense monitoring meetings to determine whether there is objective evidence suggesting an impairment of a financial asset. Objective evidence of an impairment of a financial asset or a group of assets provides important information pointing to a debtor's reduced ability to fulfil contractual obligations. The exclusion of an individual asset from a group may be influenced by:

- significant financial problems of the debtor,
- actual breach of contract (e.g. past due over 90 days),
- restructuring of financial assets,
- probability of bankruptcy or financial reorganisation,
- significant economic difficulties in the industry in which the customer is operating,
- measurable reduction in expected cash flows from a group of financial assets since their initial recognition although the reduction cannot yet be allocated to individual assets in the group, including:
    - negative changes in settling debts in the group,
    - national and local economic conditions connected with failure to settle financial assets in the group;
- unpredictable events: death, accidents and disasters, industry problems, disease, alcoholism, drug abuse and other addictions.

The Bank assesses impairments individually on the basis of estimated future cash flows and appropriate mortgage collateral or collectively using a methodology based on expected losses for groups of assets with similar characteristics. Groups are defined for specific products of the Bank.

At the start of 2013, the Bank will upgrade the methodology for collective impairments.

It also regularly validates the internal credit rating model used for rating customers and thus changes the calculation of collective impairments.

Overview of exposure of balance sheet and off-balance sheet items and impairments:

Credit rating	Exposure of balance sheet items (net)	Exposure of off-balance sheet items	Total (net exposure)	Impairments
A	570,081	27,001	597,082	7,837
B	198,560	8,110	206,671	3,201
C	155,409	7,377	162,786	6,166
D	37,030	892	37,922	2,254
E	63,907	402	64,309	39,659
Total	1,024,987	43,782	1,068,769	59,117

Overview of impairments of bad debts:

	2012	*2011*
Gross exposure in D and E	144,144	114,103
Impairments in D and E	41,914	30,402
Net exposure in D and E	102,230	83,701
Gross total exposure	**1,127,887**	**1,128,692**
Total impairments	59,117	45,055
Net exposure	1,068,769	1,083,637
Gross exposure in D and E / gross total exposure (%)	12.78%	10.11%
Net exposure in D and E / net total exposure (%)	9.57%	7.72%

The above table includes all loans to collectively and individually impaired customers who fall into the basic credit rating grades D and E according to the Bank of Slovenia. Disclosed is the amount of impairments related to the credit rating grades D and E and the share of exposure to bad debts with respect to the total exposure.

Exposure to credit risks (balance and off-balance sheet)

	2012	2011
	Gross maximum exposure 31 December 2012	Gross maximum exposure 31 December 2011
Corporate loans	558,547	504,197
Household loans	462,102	550,615
Loans to banks	63,456	20,779
Liquidated financial guarantees	0	209
Issued guarantees	7,503	3,795
Approved but undrawn loans, overdrafts and credit lines	36,279	49,097
TOTAL	**1,127,887**	**1,128,692**

The table above shows that gross maximum exposure to companies increased in 2012, while to households it decreased.

Concentration of the credit portfolio

The Bank regularly, on a monthly basis, monitors the credit portfolio with respect to the predefined categories of exposure and at the regular monthly meetings of the ALCO calls attention to the critical exposure limits reached, on the basis of which the Bank's future credit policy is shaped.

The Bank monitors industry concentration on the basis of analyses of the diversification of individual investments among business activities as defined in the Standard Classification of Activities (SKD 2008), determines the share of investments in the highest-risk category and calculates the risk index for an individual activity. On a quarterly basis, the Bank, using a methodology adopted from the Bank of Slovenia, also calculates the concentration ratio of the credit portfolio on the basis of the Herfindahl-Hirschman index in order to determine individual and industry concentration.

The Bank also analyses the diversification of its investments by region and determines the share of investments in the highest-risk category, separately for corporate and retail customers.

Table: Credit portfolio composition by region

	2012	2011
Ljubljana	57.16%	36.30%
Maribor	9.66%	16.10%
Celje	9.28%	11.20%
Kranj	9.27%	14.00%
Koper	4.99%	7.60%
Murska Sobota	5.94%	6.70%
Novo mesto	2.58%	4.20%
Nova Gorica	0.73%	3.70%
Other (abroad)	0.39%	0.20%

The biggest exposure is recorded for the Ljubljana and Maribor regions.

Table: Corporate credit portfolio by activity

	2012	2011
Manufacturing	22.14%	24.70%
Financial and insurance activities	16.35%	9.30%
Trade, maintenance and repair of motor vehicles	15.72%	19.40%
Real estate activities	7.65%	8.70%
Accommodation and food service activities	6.13%	6.40%
Electricity, gas and steam supply	6.08%	6.50%
Professional, technical and scientific activities	5.51%	4.70%
Construction	4.44%	4.00%
Transport and warehousing	3.60%	3.60%
Public administration, social security and defence	3.22%	3.60%
Health care and social security system	2.14%	2.10%
Other service activities	1.87%	2.00%
Agriculture, hunting, forestry	1.55%	1.70%
Information and communication activities	1.08%	1.10%
Cultural, entertaining and recreational activities	0.83%	0.70%
Other business activities not elsewhere classified	0.61%	0.60%
Mining	0.57%	0.60%
Education	0.35%	0.30%
Water supply	0.14%	0.10%

The Bank recorded the largest exposure (balance and off-balance sheet) to the manufacturing industry, followed by the finance and insurance sector.

Concentration of exposure (balance and off-balance sheet) to the largest customers:

	2012		2011	
	Total gross exposure	%	Total gross exposure	%
TOP 10 customers	172,626	15.31%	110,668	9.80%
Top 11-50	167,188	14.82%	174,519	15.46%
Top 50-100	82,201	7.29%	85,865	7.61%
Others	705,872	62.58%	757,640	67.13%
Total	1,127,887	100.00%	1,128,692	100.00%

The Bank follows its lending policy directed towards improving the diversification of investments and lowering the concentration of the credit portfolio.

Concentration by customer risk rating:

	2012			2011		
	Gross credit balance sheet exposure	Impairments	Impairments/exposure	Gross credit balance sheet exposure	Impairments	Impairments/exposure
Low risk	616,369	8,985	1.46%	724,212	9,797	1.35%
Medium risk	217,399	3,998	1.84%	107,257	1,486	1.39%
High risk	250,337	46,134	18.43%	244,331	33,772	13.82%
Total	1,084,105	59,117	5.45%	1,075,800	45,055	4.19%

Low and medium risk represent credit ratings that are still acceptable for the Bank. According to the internal credit ratings, it includes grades 1–7 for legal persons and A–C for natural persons. The high-risk grade represents bad debts (8, D and R).

Credit risk reduction and collateralisation policy

The Bank uses the following forms of collateral to mitigate credit risk:

- commercial and residential property,
- movables (machinery and appliances),
- financial assets (bank deposits, securities pledged as collateral),
- guarantees, warranties and other forms of collateral.

The Bank also reduces credit risk by incorporating financial clauses and other contractual provisions into credit agreements. These are a set of financial indicators that a borrower must achieve in the specified amount for the entire term of the credit agreement. The Bank regularly monitors the relevant restrictions.

The Bank must at all times provide the adequate amount and quality of its capital for exposure to credit risk according to the Regulation of the Bank of Slovenia on the Calculation of Capital Requirements for Credit Risk under the Standardised Approach and in line with the internal capital management policy. To this end, it monthly prepares portfolio analyses and estimations of required capital.

The collateralisation policy, adopted in the form of a Loan Security Catalogue, contains detailed definitions of procedures for evaluating individual forms of collateral. The prevailing form of collateral is property liens, where the Bank pursues a conservative policy of acknowledging 50% of the collateral's market value.

Appraisal of property pledged as collateral for mortgage loans is carried out on three levels within the Bank:

- in the commercial sector – using asset appraisal software tools,
- in the General Finance – carried out by an expert appraiser, and
- externally – carried out by an expert real estate appraiser in accordance with International Valuation Standards.

In 2012, the Bank continued to pursue its policy on property valuation with the aim of obtaining suitable external appraisals according to International Valuation Standards in order to reduce capital requirements with regard to credit risks.

Due to the persistently difficult situation in the real property markets in 2012, the Bank focused a lot of attention on monitoring fair values of collaterals.

The overall exposure of the credit portfolio as at 31 December 2012 was EUR 1,084,105 thousand. The credit portfolio (considering fair value) is secured as follows:

The appraised value of collateral, which may significantly influence the financial statements owing to the inactive Slovenian market, is based on very limited market data. The uncertainty regarding the future economic situation may greatly impact the time and value of collateral liquidation. The Bank's collateral is presented according to the method of accrued value, which is on average defined as 50% of market value of the collateral.

Type of collateral	2012		2011	
		%		%
Unsecured share	443,278	41%	407,204	38%
Commercial property lien	204,267	19%	201,402	19%
Private property lien	408,931	38%	410,499	38%
Maximum mortgage	0	0%	23,985	2%
Deposit	4,765	0%	1,070	0%
Securities	0	0%	18,572	2%
Other	22,865	2%	13,068	1%
Total	1,084,105	100%	1,075,800	100%

The table below shows gross credit exposures and impairments by days in default.

Table:

	2012				2011			
	Gross credit balance sheet exposure	Impairments	Impairments/exposure	Collateral	Gross credit balance sheet exposure	Impairments	Impairments/exposure	Collateral
Overdue items	365,305	47,507	13%	241,314	356,269	34,079	10%	228,534
0-30	152,996	3,454	2%	111,195	159,110	2,749	2%	116,131
31-60	47,503	2,455	5%	35,296	42,544	1,723	4%	28,306
61-90	38,195	1,132	3%	14,573	47,813	1,236	3%	22,781
91-180	32,061	2,649	8%	26,380	15,631	1,647	11%	11,492
181-360	20,891	7,265	35%	11,669	23,812	3,647	15%	14,479
above 360	73,659	30,552	41%	42,201	67,359	23,077	34%	35,345
Outstanding items	718,800	11,610	2%	399,513	718,754	10,976	2%	440,062
Total	**1,084,105**	**59,117**	**5%**	**640,827**	**1,075,023**	**45,055**	**4%**	**668,596**

CREDIT RISK OF THE SPARKASSE GROUP

Credit risk is the most important risk for the Group's operations as well. The risk of incurring losses in the context of the Group refers in large part to the parent company.

The Group is aware of the fact that the challenging financial and economic environment has a negative impact on its debtors and their ability to pay off their debts to the Group. Given the current situation, the Group focused increased attention on credit risk management activities in 2012. The Group continued with its measures to mitigate the effects of the difficult economic situation. The measures included tighter standards for approving investments, a stricter loan security policy and a bigger focus on problem investments.

The Group carries out credit risk identification, measurement, control and monitoring activities in compliance with its adopted Credit Risk Management Policy and the defined procedures for managing all the important factors and effects associated with credit risk.

Credit risk management is performed both at the level of an individual debtor or investment and at the level of the entire credit portfolio, for individual subsidiaries in the Group and the Group as a whole.

The Bank monitors the credit risks at the level of its subsidiaries by participating in their supervisory boards, credit committees, expanded meeting of the Asset-Liability Committee and meetings of the Bad Debt Management Commission.

All key elements of credit risk management at the Group level are within subsidiaries harmonised with the Bank's risk management system.

The authorisations that are applied in the investment approval process are aligned with the bank authorisations for approving credit transactions. The subsidiaries have strict internal regulations in place, with clearly defined decision-making procedures for approving, changing, renewing and refinancing deals. Each employee is assigned a clearly defined set of authorisations, tasks and controls. Before approving any deal or before concluding any other contract that is the basis for the occurrence of exposure, the Group evaluates the debtor's ability to fulfil the obligations to the Group and the quality of the collateral according to its type and scope.

To manage the credit risk within the Group, the Group has in place a multilevel system for processing customers and their transactions that operates based on the authorisations for approval at the Group level:

- Level 1 includes an assessment of creditworthiness conducted by a subsidiary or the commercial sector, which prepares the necessary documentation on a customer and the relevant transaction.
- Level 2 includes an assessment of creditworthiness conducted by the Credit Rating Division, which prepares an analysis and credit rating of the customer and an analysis and assessment of the transaction.
- Level 3 represents the sales support departments within subsidiaries, which double check all the information prepared at the first two levels to make sure the documentation and entered data are accurate and correct.

Customer monitoring procedures are also aligned with those of the Bank. The Group monitors its debtors' operations and the quality of collateralisation for the entire duration of the legal relationship that creates exposure for the Group. The subsidiaries submit to the Bank monthly reports on their customer portfolios.

The Group meets the statutory requirements for the maximum permissible exposure to an individual party or a group of related parties and follows its internal guidelines on the degree of individual exposures.

The Group manages the credit risk by:

- securing adequate capital for covering credit risks,
- limiting exposure by individual customer, group of related companies, activity and region.

Bad debts

The home economy recession and continued uncertainty in the euro area influenced the deterioration of the credit portfolio and resulted in a higher share of non-performing receivables. By carefully managing the credit risk, the Bank strives to mitigate the impacts of the crisis on its performance and financial position.

The problem loans of subsidiaries are, according to internal rules, included in the Bank's collection process. In 2012, special attention was focused on risk grades D, 8 and R, which represent high-risk and problem customers from the viewpoint of payment discipline. The Group knows how important it is to promptly detect any changes in an individual debtor's business performance and to react in a timely fashion.

Impairment and provisioning policy

Clearly defined procedures and internal policies on performing individual and collective assessments for impairments are in place within the Group. The impairment policies of individual subsidiaries within the Group follow the Bank's guidelines for individual impairments, while the collective impairment policies are different from the ones in place at the Bank pursuant to the Companies Act and the applicable tax legislation.

Problem investments of the Group are dealt with in the context of Bad Debt Management Commission meetings and intense monitoring meetings within the Bank. The purpose is to find out whether there is objective evidence suggesting an impairment of a financial asset. Objective evidence of an impairment of a financial asset or a group of assets provides important information on a debtor's reduced ability to fulfil contractual obligations. The exclusion of an individual asset from a group may be influenced by:

- significant financial problems of the debtor,
- actual breach of contract (e.g. past due over 90 days),
- restructuring of financial assets,
- probability of bankruptcy or financial reorganisation,

- measurable reduction in expected cash flows from a group of financial assets since their initial recognition although the reduction cannot yet be allocated to individual assets in the group, including:
- negative changes in settling debts in the group,
- national and local economic conditions connected with failure to settle financial assets in the group;
- unpredictable events: death, accidents and disasters, industry problems, disease, alcoholism, drug abuse and other addictions.

Overview of exposure of balance sheet and off-balance sheet items and impairments of the Group:

Credit rating	Exposure of balance sheet items (net)	Exposure of off-balance sheet items	Total	Impairments
A	570,963	27,001	597,964	7,837
B	198,560	8,110	206,671	3,201
C	157,804	7,377	165,181	7,815
D	37,030	892	37,922	2,254
E	64,681	402	65,083	38,885
Total	1,029,038	43,782	1,072,820	59,992

Overview of impairments of bad debts for the Group:

	2012	*2011*
Gross exposure in D and E	144,144	115,136
Impairments in D and E	41,914	30,797
Net exposure in D and E	102,230	84339
Gross exposure	**1,132,813**	**1,120,999**
Total impairments	**59,992**	45,450
Net exposure	1,072,820	1,075,549
Gross exposure in D and E / gross total exposure (%)	12.72%	10.27%
Net exposure in D and E / net total exposure (%)	9.53%	7.84%

The above table includes all loans to collectively and individually impaired customers who fall into the basic credit rating grades D and E according to the Bank of Slovenia. Disclosed is the amount of impairments related to the credit rating grades D and E and the share of exposure to bad debts with respect to the total exposure.

In the framework of the Group, restructuring activities took place mainly within the Bank. In the subsidiaries such activities were minimal – the subsidiaries include a newly founded leasing company, and the factoring business is inherently such that restructuring is only needed in the unlikely event of recourse claims, when the probability of repayment by the final buyer is minimal or when the possibility of restructuring the principal receivable has been exhausted.

The Group's exposure to credit risks (balance and off-balance sheet)

	2012	2011
	Gross maximum exposure 31 December 2012	Gross maximum exposure 31 December 2011
Corporate loans	**563,473**	504,146
Household loans	462,102	550,624
Loans to banks	63,456	20,779
Liquidated financial guarantees	0	209
Issued guarantees	7,503	3,795
Approved but undrawn loans, overdrafts and credit lines	36,279	49,097
TOTAL	**1,132,813**	**1,128,650**

The table above shows that gross maximum exposure to companies increased in 2012, while to households it decreased.

Table: Credit portfolio composition by region

	2012	2011
Ljubljana	57.52%	34.70%
Maribor	9.66%	15.90%
Celje	9.28%	12.20%
Kranj	9.27%	13.70%
Koper	4.99%	8.60%
Murska Sobota	5.94%	6.70%
Novo mesto	2.58%	4.10%
Nova Gorica	0.73%	3.90%
Other (abroad)	0.39%	0.20%

The largest exposures are recorded for the Ljubljana and Maribor regions.

Table: Corporate credit portfolio by activity

Corporate credit portfolio by activity

	2012	2011
Manufacturing	22.00%	26.20%
Financial and insurance activities	16.25%	6.30%
Trade, maintenance and repairs	15.62%	20.10%
Real estate activities	7.61%	8.70%
Accommodation and food service activities	6.09%	6.40%
Electricity supply	6.04%	6.50%
Professional, scientific and technical activities	5.47%	4.80%
Construction	4.41%	4.20%
Transport and warehousing	3.58%	3.70%
Public administration	3.20%	3.60%
Health care and social security	2.13%	2.20%
Other service activities	1.85%	2.10%
Agriculture, hunting, forestry	1.54%	1.70%
Information and communication activities	1.08%	1.10%
Cultural, entertaining activities	0.83%	0.70%
Other business activities not elsewhere classified	1.23%	0.60%
Mining	0.57%	0.60%
Education	0.35%	0.30%
Water supply	0.14%	0.20%

The largest exposure (balance and off-balance sheet) was recorded to the manufacturing industry, followed by the finance and insurance sector.

Table: Concentration of exposure (balance and off-balance sheet) to the largest customers:

	2012		2011	
	Total gross exposure	%	Total gross exposure	%
TOP 10 customers	172,626	15.24%	110,589	9.87%
Top 11-50	167,188	14.76%	172,335	15.37%
Top 50-100	82,201	7.26%	83,950	7.49%
Others	710,799	62.75%	754,125	67.27%
Total	**1,132,813**	**100.00%**	**1,120,999**	**100.00%**

Table: Concentration by customer risk rating:

	2012			2011		
	Gross credit balance sheet exposure	Impairments	Impairments/exposure	Gross credit balance sheet exposure	Impairments	Impairments/ exposure
Low risk	621,294	8,985	1.45%	717,258	9,797	1.37%
Medium risk	217,399	3,998	1.84%	112,402	1,486	1.32%
High risk	250,337	47,009	18.78%	245,889	34,167	13.90%
Total	**1,089,031**	**59,992**	5.51%	1,075,549	45,450	4.23%

Low and medium risk represent credit ratings that are still acceptable for the Bank. According to the internal credit ratings, it includes grades 1–7 for legal persons and A–C for natural persons. The high-risk grade represents bad debts (8, D and R).

Credit risk reduction and collateralisation policy

The Group uses the following forms of collateral for protection against credit risk:

- commercial and residential property,
- movables (machinery and appliances),
- financial assets (bank deposits, securities pledged as collateral),
- guarantees and warranties.

The Group also reduces credit risk by incorporating financial clauses and other contractual provisions into credit agreements. These are a set of financial indicators that a contractual partner must achieve in the specified amount for the entire term of the credit agreement. The Group regularly monitors the relevant restrictions.

The Group must at all times provide the adequate amount and quality of its capital for exposure to credit risk according to the Regulation of the Bank of Slovenia on Ensuring Capital Adequacy and in line with the internal capital management policy. To this end, it monthly prepares portfolio analyses and estimations of required capital.

The collateralisation policy, adopted in the form of a Loan Security Catalogue, contains detailed definitions of procedures for evaluating individual forms of collateral. The prevailing form of collateral is property liens, where the Group pursues a conservative policy of acknowledging 50% of the collateral's market value.

Due to the stringent situation on the domestic financial market, the Group's property valuation process in 2012 again focused on obtaining suitable appraisals and thus increased the amount of loans that fulfil the Bank of Slovenia's conditions for recognising the credit risk reducing effect of mortgage collateral.

The total balance sheet exposure of the Group's credit portfolio as at 31 December 2012 was EUR 1,089,031 thousand. The Group's credit portfolio, acknowledging 50% of the market value of the collateral, is secured as follows:

Type of collateral	2012		2011	
		%		%
Unsecured share	448,204	41%	397,663	37%
Commercial property lien	204,267	19%	201,402	19%
Private property lien	408,931	38%	410,499	38%
Maximum mortgage	0	0%	24,702	2%
Deposit	4,765	0%	1,070	0%
Securities	0	0%	18,572	2%
Other	22,865	2%	21,641	2%
Total	**1,089,031**	100%	1,075,549	100%

Table:

	2012				2011			
	Gross credit balance sheet exposure	Impairments	Impairments/exposure	Collateral	Gross credit balance sheet exposure	Impairments	Impairments/exposure	Collateral
Overdue items	365,243	49,157	13%	241,314	361,307	34,474	10%	231,398
0-30	152,934	3,430	2%	111,195	160,512	2,749	2%	117,388
31-60	47,503	2,455	5%	35,296	44,951	1,723	4%	29,210
61-90	38,195	1,132	3%	14,573	47,900	1,236	3%	22,860
91-180	32,061	4,323	13%	26,380	15,740	1,647	10%	11,574
181-360	20,891	7,265	35%	11,669	23,883	3,653	15%	14,546
above 360	73,659	30,552	41%	42,201	68,321	23,466	34%	35,820
Outstanding items	723,788	10,835	1%	399,513	710,613	10,976	2%	446,488
Total	**1,089,031**	**59,992**	**6%**	**640,827**	**1,071,920**	**45,450**	**4%**	**677,886**

3.13.2 Operational risk

Banka Sparkasse is constantly striving to further improve the management of all types of risks and places a high priority on the management of operational risks. Operational risk is included in all business processes of the Bank, and its management is an on-going responsibility of all employees of the Bank. Operational risk is inseparably linked with all bank products, procedures, activities and IT and technical systems. It is influenced by both internal and external factors. The occurrence of operational risk may have an impact on and consequences for all other risk types at the Bank.

Banka Sparkasse has set up an operational risk management framework involving an adequate policy to identify, measure, control and manage operational risks. The basic goals are to prevent, detect early, measure, assess, monitor and reduce operational risks.

Operational risk management is a permanent task of all Bank employees, with responsibilities assigned to respective management levels at the Bank's organisational units and branches. The Bank provides for constant training to keep employees informed about the necessity of operational risk management and to ensure they properly react in the case of incidents.

Banka Sparkasse and the Sparkasse Group, encompassing S-Factoring and Sparkasse Leasing S, have procedures in place for monitoring the incurred operational risks and reporting on incidents and losses. Since 2007, the Bank has been monitoring all incidents, regardless of whether they resulted in loss or not, and records them in the incident database according to Basel II recommendations. By monitoring the type and number of incidents as well as key indicators of risk, the Bank is able to timely identify individual risks and mitigate them by proper response involving security or organisational corrective measures.

In implementing its operational risk management policy, the Bank relies on the already deployed information security management system (ISMS), business continuity management system (BCM), business continuity plans (BCP) and disaster recovery plans (DRP). The documentation for all above systems has been revised in the past year, taking into account practical experience and changes in the organisation of the Bank and its business. Last year, the Bank tested the system quality at business continuity and crisis management exercises.

For these systems, the Bank developed suitable risk analyses, which also include all its branches. The analyses revealed that some technical supervision and security systems and IT systems needed to be redesigned and upgraded in security terms. The Bank did so. The Bank constantly ensures adequate quality of fire protection and occupational safety.

Banka Sparkasse uses the simple approach for calculating capital adequacy for operational risks.

In continuing to seek to effectively manage operational risks, the Bank will focus a lot of attention on training its employees in this area and on raising awareness of how to reduce operational risks. The Bank will also periodically check its preparedness to react to emergency situations.

3.13.3 Liquidity risk

Banka Sparkasse daily monitors liquidity for the past and present day and for a month in advance, i.e. it monitors executed, announced and anticipated inflows and outflows in the context of deposit and credit transactions (with other banks, retail and corporate customers), inflows and outflows in payment transactions and other inflows and outflows. Liquidity ratios are monitored daily by the Treasury, the Strategic Risk Management Department and the Back-Office. In the event of significant deviations from the planned flows or if daily limits applying to liquidity management are exceeded, the Management Board is immediately notified and reported thereon. At the Liquidity Commission meetings, the Treasury weekly reports on the fulfilment of the legal monetary regulations and the liquidity ratios and presents measures for optimal management of the Bank's operational liquidity. The Strategic Risk Management Department submits to the Bank's Management Board and the Asset-Liability Committee – on a periodic, monthly basis – detailed reports on the movements in liquidity ratios and reports and briefs them on the structural liquidity position of the Bank. Banka Sparkasse met the required minimum value of liquidity ratios in 2012.

Daily liquidity management activities are performed within the framework of the Kärntner Sparkasse AG Group, where on a daily basis the Bank manages its cash flows and takes out short- and long-term borrowing, as needed, and invests surplus liquid funds. The Bank obtains long-term sources of funding partly from Kärntner Sparkasse AG and, to a lesser extent, also directly from Erste Bank and Steiermärkische Bank und

Sparkassen AG. Kärntner Sparkasse AG itself, the same as other banks in the Sparkassen Group, transferred its liquidity assurance task onto Erste Bank AG as the Group's parent bank, which therefore acts as the "central" bank of the Sparkassen Group.

BALANCE SHEET BY MATURITY as at 31 December 2012

	TOTAL	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	From 5 to 20 years	Over 20 years
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	**15,645**	15,645	0	0	0	0	0	0
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**50,023**	4,210	0	6,237	1,453	13,171	24,952	0
LOANS	**1,027,040**	57,183	69,890	3,715	73,350	198,661	479,683	144,558
TANGIBLE FIXED ASSETS	**2,386**	0	0	0	0	2,386	0	0
INTANGIBLE ASSETS	**4,429**	0	0	0	0	4,429	0	0
LONG-TERM INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	**570**	0	0	0	0	0	570	0
CORPORATE INCOME TAX ASSETS	**2,783**	0	2,783	0	0	0	0	0
OTHER ASSETS	**342**	0	342	0	0	0	0	0
TOTAL ASSETS	**1,103,218**	**77,038**	**73,015**	**9,952**	**74,803**	**218,647**	**505,205**	**144,558**
FINANCIAL LIABILITIES TO THE CENTRAL BANK	**34,159**	0	0	23,079	0	11,080	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**985,823**	209,785	59,992	99,747	306,969	282,935	26,340	55
PROVISIONS	**338**	0	0	0	338	0	0	0
CORPORATE INCOME TAX LIABILITIES	**119**	0	119	0	0	0	0	0
OTHER LIABILITIES	**611**	0	611	0	0	0	0	0
TOTAL LIABILITIES	**1,021,050**	**209,785**	**60,722**	**122,826**	**307,307**	**294,015**	**26,340**	**55**
SHARE CAPITAL	**10,015**	0	0	0	0	0	0	10,015
SHARE PREMIUM	**82,434**	0	0	0	0	0	0	82,434
REVALUATION SURPLUS	**463**	0	0	0	0	0	0	463
REVENUE RESERVES	**-1,651**	0	0	0	0	0	0	-1,651
RETAINED EARNINGS (including net profit/loss for the year)	**-9,093**	0	0	0	0	0	0	-9,093
TOTAL EQUITY	**82,168**	**0**	**0**	**0**	**0**	**0**	**0**	**82,168**
TOTAL LIABILITIES AND EQUITY	**1,103,218**	**209,785**	**60,722**	**122,826**	**307,307**	**294,015**	**26,340**	**82,223**
NET GAP (ASSETS – LIABILITIES)	**0**	**-132,747**	**12,293**	**-112,874**	**-232,504**	**-75,368**	**478,865**	**62,335**

At the structural level, the Bank monitors liquidity management by means of the report on structural liquidity gap. The goal of liquidity management at the structural level, taking into account the maturity match and the concentration of financing sources, is to ensure long-term liquidity of the Bank and the Group.

The table below presents the net liquidity gap of the Bank in 2012 compared to 2011. In 2012, net gap with maturity up to 1 year was EUR 124,000 thousand higher than in 2011, primarily due to the matured long-term interbank loans, which the Bank already renewed at the time the Annual Report was being prepared and thus improved its structural liquidity position.

	TOTAL	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	From 5 to 20 years	Over 20 years
NET GAP OF THE BANK 2011	**0**	**-113,304**	**-35,208**	**-92,997**	**-99,901**	**-187,623**	**453,611**	**75,422**
NET GAP OF THE BANK 2012	**0**	**-132,747**	**12,293**	**-112,874**	**-232,504**	**-75,368**	**478,865**	**62,335**

The volume of transactions of the subsidiaries from the Sparkasse Group is insignificant from the viewpoint of liquidity risk. Banka Sparkasse provides S-Factoring and Sparkasse Leasing-S long-term sources (structural liquidity), and both these companies have their accounts with the Bank through which they manage their daily, operational liquidity.

BALANCE SHEET BY MATURITY as at 31 December 2012

	TOTAL	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	From 5 to 20 years	Over 20 years
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	**15,645**	15,645	0	0	0	0	0	0
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**50,023**	4,210	0	6,237	1,453	13,171	24,952	0
LOANS	**1,031,084**	57,183	69,890	7,608	73,350	198,661	479,834	144,558
TANGIBLE FIXED ASSETS	**2,426**	0	0	0	0	2,426	0	0
INTANGIBLE ASSETS	**4,467**	0	0	0	0	4,467	0	0
CORPORATE INCOME TAX ASSETS	**2,921**	0	2,921	0	0	0	0	0
OTHER ASSETS	**808**	0	808	0	0	0	0	0
TOTAL ASSETS	**1,107,374**	**77,038**	**73,619**	**13,845**	**74,803**	**218,725**	**504,786**	**144,558**
FINANCIAL LIABILITIES TO THE CENTRAL BANK	**34,159**	0	0	23,079	0	11,080	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**990,116**	209,785	60,278	99,747	306,969	286,942	26,340	55

FINANCIAL LIABILITIES RELATED TO FINANCIAL ASSETS THAT DO NOT QUALIFY FOR DERECOGNITION	**80**	0	80	0	0	0	0	0
PROVISIONS	**338**	0	0	0	338	0	0	0
CORPORATE INCOME TAX LIABILITIES	**160**	0	160	0	0	0	0	0
OTHER LIABILITIES	**715**	0	715	0	0	0	0	0
TOTAL LIABILITIES	**1,025,568**	**209,785**	**61,233**	**122,826**	**307,307**	**298,022**	**26,340**	**55**
SHARE CAPITAL	**10,015**	0	0	0	0	0	0	10,015
SHARE PREMIUM	**82,434**	0	0	0	0	0	0	82,434
REVALUATION SURPLUS	**463**	0	0	0	0	0	0	463
REVENUE RESERVES	**-1,916**	0	0	0	0	0	0	-1,916
RETAINED EARNINGS (including net profit/loss for the year)	**-9,218**	0	0	0	0	0	0	-9,218
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT BANK (29 to 35)	**81,778**	0	0	0	0	0	0	81,778
Minority interest	**28**	0	0	0	0	0	0	28
TOTAL EQUITY	**81,806**	**0**	**0**	**0**	**0**	**0**	**0**	**81,806**
TOTAL LIABILITIES AND EQUITY	**1,107,374**	**209,785**	**61,233**	**122,826**	**307,307**	**298,022**	**26,340**	**81,861**
NET GAP (ASSETS – LIABILITIES)	**0**	**-132,747**	**12,386**	**-108,981**	**-232,504**	**-79,297**	**478,446**	**62,697**

3.13.4 Interest rate risk

In the event of a sudden and unexpected parallel shift of the yield curve by 200 basis points (which is known as an interest rate shock), the estimated change in the Bank's net current value with respect to the balance as at 31 December 2012 would be 0.41% of the Bank's capital as determined using the methodology Duration of Equity according to Basel II. The comparative figure for 2011 was 2.35%, which means that in 2012 the Bank was slightly less exposed to interest rate risk. The result is based on the calculation and software of Erste Group Bank AG and adopts the methodology of the Bank for International Settlements – BIS. For the purpose of implementing stress scenarios, the Bank determines increased interest rate risk based on the estimates obtained by interest rate shock analysis provided by Erste Group Bank AG and relies on the most recent projection/scenario of interest rate shock with negative impact on its net interest.

The Bank uses the above analysis to also monitor the direct impact of the interest rate shock on its net interest. The analysis comprises a quarterly simulation of various scenarios' impact on net interest, while the sensitivity analysis is based on the basic scenario, which is used for evaluating interest rate shocks given the movement in interest rate curves and their characteristics (table below). Using the analysis results and any measures adopted on their basis, the Bank successfully manages interest rate risk, especially at the time of unpredictable economic cycles.

Scenario	Projected net interest	Change to the basic scenario - absolute (+/-2%)	Change to the basic scenario - in % (+/-2%)
Single curve shift (+2%) – immediate shock	21,657	2,805	14.88%
Single curve shift (-2%) – immediate shock	18,362	-490	-2.60%
Curve shift (+2%) – gradual in 12 months	21,466	2,614	13.86%
Curve shift (-2%) – gradual in 12 months	18,404	-448	-2.38%
Curve shift (+2%) – gradual, only short-term rates	21,665	2,813	14.92%
Curve shift (-2%) – gradual, only short-term rates	18,295	-557	-2.95%
Curve shift (+2%) - gradual, only long-term rates	18,.552	-299	-1.59%
Curve shift (-2%) - gradual, only long-term rates	18,949	98	0.52%
Basic scenario	18,852		

The volume of transactions of the subsidiaries from the Sparkasse Group is insignificant from the viewpoint of interest rate risk. The companies reduce the interest rate risk by ensuring that asset and liability items are matched as much as possible in terms of interest rate reset dates and methods. It is characteristic of the Sparkasse Group that the interest rate risk of the Bank serves as a good enough estimate for the interest rate risk of the Group – this is periodically reviewed and monitored.

Interest trate risk of the bank

	TOTAL	Non-interest bearing	Interest-bearing
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	**15,645**	1,498	14,147
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**50,023**	0	50,023
LOANS	**1,027,040**	0	1,027,040
TANGIBLE FIXED ASSETS	**2,386**	2,386	0
INTANGIBLE ASSETS	**4,429**	4,429	0
LONG-TERM INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	**570**	570	0
CORPORATE INCOME TAX ASSETS	**2,783**	2,783	0
OTHER ASSETS	**342**	342	0
TOTAL ASSETS	**1,103,218**	**12,008**	**1,091,210**
FINANCIAL LIABILITIES TO THE CENTRAL BANK	**34,159**	0	34,159
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**985,823**	0	985,823
PROVISIONS	**338**	338	0
CORPORATE INCOME TAX LIABILITIES	**119**	119	0
OTHER LIABILITIES	**611**	611	0
TOTAL LIABILITIES	**1,021,050**	1,068	1,019,982
SHARE CAPITAL	**10,015**	10,015	0
SHARE PREMIUM	**82,434**	82,434	0

EQUITY COMPONENT OF COMPOUND FINANCIAL INSTRUMENTS	**0**	0	0
REVALUATION SURPLUS	**463**	463	0
REVENUE RESERVES	**-1,651**	-1,651	0
RETAINED EARNINGS (including net profit/loss for the year)	**-9,093**	-9,093	0
TOTAL EQUITY	**82,168**	82,168	0
TOTAL LIABILITIES AND EQUITY	**1,103,218**	83,236	1,019,982

Interest trate risk of the Sparkasse Group

	TOTAL	Non-interest bearing	Interest-bearing
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	**15,645**	1,498	14,147
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**50,023**	0	50,023
LOANS	**1,031,084**	0	1,031,084
TANGIBLE FIXED ASSETS	**2,426**	2,426	0
INTANGIBLE ASSETS	**4,467**	4,467	0
CORPORATE INCOME TAX ASSETS	**2,921**	2,921	0
OTHER ASSETS	**808**	808	0
TOTAL ASSETS	**1,107,374**	12,120	1,095,254
FINANCIAL LIABILITIES TO THE CENTRAL BANK	**34,159**	0	34,159
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**990,116**	0	990,116
FINANCIAL LIABILITIES RELATED TO FINANCIAL ASSETS THAT DO NOT QUALIFY FOR DERECOGNITION	**80**	80	0
PROVISIONS	**338**	338	0
CORPORATE INCOME TAX LIABILITIES	**160**	160	0
OTHER LIABILITIES	**715**	715	0
TOTAL LIABILITIES	**1,025,568**	1,293	1,024,275
SHARE CAPITAL	**10,015**	10,015	0
SHARE PREMIUM	**82,434**	82,434	0
REVALUATION SURPLUS	**463**	463	0
REVENUE RESERVES	**-1,916**	-1,916	0
RETAINED EARNINGS (including net profit/loss for the year)	**-9,218**	-9,218	0
EQUITY OF THE OWNERS OF THE CONTROLLING BANK	**81,778**	81,778	0
Minority interest	**28**	28	0
TOTAL EQUITY	**81,806**	81,806	0

TOTAL LIABILITIES AND EQUITY	**1,107,374**	83,099	1,024,275

3.13.5 Currency risk

As at 31 December 2012, Banka Sparkasse held an open currency position of 0.1% of the capital as determined using the Bank of Slovenia methodology for calculating the capital adequacy of the Bank. The Bank is managing currency risk, as it has never exceeded the limit of the open currency position over a day, which is EUR 500 thousand.

In comparison to 31 December 2011, when the open currency position was 0.41% of capital, the currency risk of the Bank was extremely small in both years as well as well monitored and managed, since the open positions in various currencies never exceeded the limit.

The open currency position is daily monitored by the Treasury and the Strategic Risk Management Department, which, if required, immediately notify the Management Board or report in a more detailed form once a month in the framework of the Asset-Liability Committee.

In the subsidiaries of the Sparkasse Group, the volume of transactions in foreign currencies from the viewpoint of currency risk is insignificant or non-existent, as the subsidiaries do not operate in foreign currencies.

Foreign exchange risk of Sparkasse bank

BALANCE SHEET BY CURRENCY as at 31 December 2012

	TOTAL	EUR	CHF	GBP	HRK	USD
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	**15,645**	15,522	50	4	13	56
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**50,023**	50,023	0	0	0	0
LOANS	**1,027,040**	985,726	40,392	75	8	839
TANGIBLE FIXED ASSETS	**2,386**	2,386	0	0	0	0
INTANGIBLE ASSETS	**4,429**	4,429	0	0	0	0
LONG-TERM INVESTMENTS IN THE EQUITY OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	**570**	570	0	0	0	0
CORPORATE INCOME TAX ASSETS	**2,783**	2,783	0	0	0	0
OTHER ASSETS	**342**	342	0	0	0	0
TOTAL ASSETS	**1,103,218**	**1,061,781**	**40,442**	**79**	**21**	**895**
FINANCIAL LIABILITIES TO THE CENTRAL BANK	**34,159**	34,159	0	0	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**985,823**	944,301	40,563	50	10	899

PROVISIONS	**338**	338	0	0	0	0
CORPORATE INCOME TAX LIABILITIES	**119**	119	0	0	0	0
OTHER LIABILITIES	**611**	611	0	0	0	0
TOTAL LIABILITIES	**1,021,050**	**979,528**	**40,563**	**50**	**10**	**899**
SHARE CAPITAL	**10,015**	10,015	0	0	0	0
SHARE PREMIUM	**82,434**	82,434	0	0	0	0
REVALUATION SURPLUS	**463**	463	0	0	0	0
REVENUE RESERVES	**-1,651**	-1,651	0	0	0	0
RETAINED EARNINGS (including net profit/loss for the year)	**-9,093**	-9,093	0	0	0	0
TOTAL EQUITY	**82,168**	82,168	0	0	0	0
TOTAL LIABILITIES AND EQUITY	**1,103,218**	**1,061,696**	**40,563**	**50**	**10**	**899**
DIFFERENCE: RECEIVABLE - LIABILITY	**0**	**85**	**-121**	**29**	**11**	**-4**

Foreign exchange risk of Sparkasse Group

CONSOLIDATED BALANCE SHEET BY CURRENCY as at 31 December 2012

	TOTAL	EUR	CHF	GBP	HRK	USD
CASH IN HAND AND BALANCES WITH THE CENTRAL BANK	**15,645**	15,522	50	4	13	56
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**50,023**	50,023	0	0	0	0
LOANS	**1,031,084**	989,770	40,392	75	8	839
TANGIBLE FIXED ASSETS	**2,426**	2,426	0	0	0	0
INTANGIBLE ASSETS	**4,467**	4,467	0	0	0	0
CORPORATE INCOME TAX ASSETS	**2,921**	2,921	0	0	0	0
OTHER ASSETS	**808**	808	0	0	0	0
TOTAL ASSETS	**1,107,374**	**1,065,937**	**40,442**	**79**	**21**	**895**
FINANCIAL LIABILITIES TO THE CENTRAL BANK	**34,159**	34,159	0	0	0	0
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	**990,116**	948,594	40,563	50	10	899
FINANCIAL LIABILITIES RELATED TO FINANCIAL ASSETS THAT DO NOT QUALIFY FOR DERECOGNITION	**80**	80	0	0	0	0
PROVISIONS	**338**	338	0	0	0	0
CORPORATE INCOME TAX LIABILITIES	**160**	160	0	0	0	0
OTHER LIABILITIES	**715**	715	0	0	0	0
TOTAL LIABILITIES	**1,025,568**	984,046	40,563	50	10	899
SHARE CAPITAL	**10,015**	10,015	0	0	0	0

SHARE PREMIUM	**82,434**	82,434	0	0	0	0
REVALUATION SURPLUS	**463**	463	0	0	0	0
REVENUE RESERVES	**-1,916**	-1,916	0	0	0	0
RETAINED EARNINGS (including net profit/loss for the year)	**-9,218**	-9,218	0	0	0	0
EQUITY OF THE OWNERS OF THE CONTROLLING BANK	**81,778**	81,778	0	0	0	0
Minority interest	**28**	28	0	0	0	0
TOTAL EQUITY	**81,806**	81,806	0	0	0	0
TOTAL LIABILITIES AND EQUITY	**1,107,374**	**1,065,852**	**40,563**	**50**	**10**	**899**
DIFFERENCE: RECEIVABLE - LIABILITY	**0**	**85**	**-121**	**29**	**11**	**-4**

3.13.6 Capital management and the ICAAP process

Banka Sparkasse assumes and manages all major risks according to the strategy for risk assumption and risk management. This strategy summarises – both for the Bank and the Group – general principles, directions and approaches to managing risks and implementing the internal capital adequacy assessment process (ICAAP). In particular in ICAAP, the Bank in 2012 launched activities to improve the quality of risk identification and assessment by fully adopting the Group ICAAP Guidelines, which provide support to assessment and management of risks by the Erste Bank and Sparkassen Group.

The Bank and the Group divide risk capital into regulatory and internal capital. Regulatory capital is basically sufficient for credit and operational risk, while the required internal, i.e. economic capital, considers additional dimensions of these risks and protects the Bank from other risks as well, e.g. interest rate, liquidity, strategic, capital, reputation and profitability risk. According to the Group ICAAP guidelines and Leitfaden für die Risikotragfähigkeitsrechnung in Sparkassen, which are mandatory for the Erste Bank and Sparkassen Group, the ICAAP of the main risks is based on minimum regulatory capital requirements, i.e. standardised approach to credit risks and simple approach to operational risks. Other risks, such as interest rate, liquidity, strategic, currency, reputation risks and the risks arising from stress tests, are assessed according to Banka Sparkasse's internal methodology for risk assumption. On a consolidated basis, the ICAAP guidelines of the superordinate banking group - Erste Bank are applied.

Regulatory capital of the Bank and the Group is divided into Tier 1 and Tier 2. In 2012, the Bank's Core Tier 1 amounted to EUR 77.3 million (Group: EUR 76.9 million) and Tier 2 to EUR 23.8 million (Group: EUR 23.8 million). Tier 1 of Banka Sparkasse and the Group also constitutes Core Tier 1, which is particularly important in light of the new capital regulation of the European banking sector (Basel III and CRD IV), since Core Tier 1 and its amount represent the stability and long-term sustainability of Banka Sparkasse. Tier 2 of the Bank and the Group comprises subordinated liabilities to the owners.

The capital adequacy ratio was calculated as the ratio of total equity and the sum of risk-weighted assets for other risks. By law, it has to be at least 8%. At the end of 2012, the Bank's capital adequacy was 11.25% (2011: 11.50%) and that of the Group equalled 11.18% (11.52%).

3.14. Events after the Balance Sheet Date

The Management Board declares that no major circumstances and events arose after the balance sheet date that would require corrections of the financial statements, additional explanations of the financial statements and clarifications to shareholders for 2012.

3.15. Related-Party Transactions

Balance Sheet

in EUR without cents

ITEM	MANAGEMENT BOARD	KEY MANAGEMENT PERSONNEL	CLOSE FAMILY MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGEMENT PERSONNEL	PARENT BANK	SUBSIDIARIES	OTHER ASSOCIATED COMPANIES IN THE GROUP	MANAGEMENT BOARD OF ASSOCIATED COMPANIES	CLOSE FAMILY MEMBERS OF THE MANAGEMENT BOARD OF ASSOCIATED COMPANIES
LOANS	0	91.226	4.509	50.640.646	22.699.026	19.088.925	840.528	22.255
Loans to banks	0	0	0	50.640.646	0	0	0	0
Loans to non-bank customers	0	91.226	4.509	0	22.699.026	19.088.925	840.528	22.255
Other financial assets	0	0	0	0	55.194	1.613.941	0	0
TOTAL ASSETS (1 TO 15)	**0**	**91.226**	**4.509**	**50.640.646**	**22.699.026**	**19.088.925**	**840.528**	**22.255**
FINANCIAL LIABILITIES MEASURED AT AMORTISED	51.113	50.810	22.219	0	150.933	5.636.793	17.766	244.227
Deposits of non-bank customers	51.113	50.810	22.219	0	150.933	5.636.793	17.766	244.227
Other financial liabilities	0	0	2.100	99.940	62.968	107.570	0	0
TOTAL LIABILITIES (17 to 27)	51.113	50.810	24.319	99.940	213.901	5.744.384	17.766	244.227
TOTAL LIABILITIES AND CAPITAL (28 + 38)	**51.113**	**50.810**	**24.319**	**99.940**	**213.901**	**5.744.384**	**17.766**	**244.227**

Income Statement

in EUR without cents

ITEM	MANAGEMENT BOARD	KEY MANAGEMENT PERSONNEL	CLOSE FAMILY MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGEMENT PERSONNEL	PARENT BANK	SUBSIDIARIES	OTHER ASSOCIATED COMPANIES IN THE GROUP	MANAGEMENT BOARD OF ASSOCIATED COMPANIES	CLOSE FAMILY MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGEMENT PERSONNEL OF ASSOCIATED COMPANIES
Interest income and similar income	0	2,310	525	46,015	444,947	823,241	16,807	396
Interest expenses and similar expenses	181	524	667	0	9,847	15,236	1,373	8,448
Net interest (1 - 2)	**-181**	**1,786**	**-142**	**46,015**	**435,100**	**808,005**	**15,434**	**-8,052**
Fees and commissions received	17	288	889	0	15,484	9,438	515	128
Fees and commissions paid	0	0	0	105,374	0	0	0	0
Net fees and commissions (5 - 6)	**17**	**288**	**889**	**-105,374**	**15,484**	**9,438**	**515**	**128**
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss	0	0	0	0	0	0	15	0
Net gains/losses on financial assets and liabilities held for trading	0	65	19	0	1,177	45,357	0	0
Net foreign exchange gains/losses	0	0	0	0	0	20,845	0	0
Impairments	0	-636	-29	0	130,518	44,364	-2,683	1,599
PROFIT/LOSS FROM ORDINARY ACTIVITY (3+4+7+8+9+10+11+12+13+14-15-16-17-18+19+20+21)	**-164**	**2,775**	**795**	**-59,358**	**321,243**	**839,281**	**18,647**	**-9,523**
NET PROFIT/LOSS FROM ORDINARY ACTIVITY (22 - 23)	**-164**	**2,775**	**795**	**-59,358**	**321,243**	**839,281**	**18,647**	**-9,523**

Significant business contact

Pursuant to Article 23c of the Regulation on Disclosures by Banks and Savings Banks, Banka Sparkasse determines that no direct or indirect significant business contacts exist between the members of the Management Board, the Supervisory Board or members of their immediate family or its subsidiary.

Compliance with regulations

Banka Sparkasse has no subsidiaries based outside of the Republic of Slovenia.