

More than
just numbers

**Annual
Report 2008**
Letno poročilo 2008

Austria
Bosnia-Herzegovina
Croatia
Czech Republic
SLOVENIA
Hungary
Romania
Serbia
Slovakia
Ukraine

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REPORT OF THE MANAGING BOARD



Aleš Zajc
Gašpar Ogris – Martič
Johann Staudigl
(from left to right)

Ladies and gentlemen,

the 2008 financial year was marked by the outbreak of the global financial crisis in financial and capital markets, which reflected also on Slovenia's banking sector. Consequently, Volksbank on the one hand continued with the successful implementation of its strategy, and on the other hand, particularly in the last months of the year as effects of the crisis started to show, coped with the changed market conditions.

In its day-to-day operations in the second half of 2008, particularly in the last quarter, the bank was thus concerned with taking preventive measures to mitigate the negative effects of the financial crisis. The bank managed to adopt measures that were both appropriate and effective, so that its operations were never endangered, despite the very difficult and uncertain money market (mainly liquidity-related) conditions in 2008.

Performance indicators for 2008, also against those for 2007, show that the bank achieved good results in all areas of current operations. Its total assets increased by 40% compared to 2007. Loans to non-banking clients increased by 42% (to households by 57% and to companies by 14%), to EUR 750 million. Deposit growth too was strong (at 51%), and as at year-end, deposits stood at EUR 263 million (up EUR 89 million from 2007).

The bank continued marketing structured products, and in the first half of 2008 successfully sold two issues of structured products, Agrar Garant and Energy Garant. In the second half of the year demand for such investment products vanished due to the financial market crisis.

The bank always tries to offer its clients flexible and innovative products. In the last quarter, it successfully launched a new savings product, E-interest, accessible to clients via the bank's online or direct banking. After only a couple of months of its launch, more than 2,000 clients are already using this innovative product.

In the last quarter of 2008, Volksbank also strengthened its presence in Ljubljana by opening a new branch in Vič, which was fifth in the capital and eleventh in the country.

All these activities contributed to the very good results from current operations in 2008. Income increased by 31% from 2007, while costs increased by 15%. Profit from current operations increased to EUR 6.8 million or by as much as 75% compared to 2007.

The financial crisis, which became very serious in September with the collapse of the investment bank Lehman Brothers Holdings, affected very negatively the valuation of securities held by the bank in its otherwise not very large portfolio. In this portfolio, it held also securities issued by Lehman Brothers and Landsbanki, the Icelandic bank which also suffered difficulties. In accordance with the valuation rules of the Volksbank Group, the bank wrote these investments down by 90% (EUR 6.3 million) for impairment in value. By doing so, the bank prevented these investments from negatively affecting its future performance.

Impairment losses on the above-mentioned investments however eroded most of the 2008 profit from current operations, so that the 2008 profit before tax was EUR 26 thousand.

Results from operations in 2008 show that the bank adopted the right strategy and was successful in its implementation. Sound foundations (as at year-end 2008, the capital adequacy ratio was 13.38%) and a favourable structure of its other sources of finance will allow Volksbank to continue successfully on its path, despite the changed and more difficult circumstances.

mag. Gašpar Ogris – Martič

Chairman

Aleš Zajc, MBA

Deputy Chairman

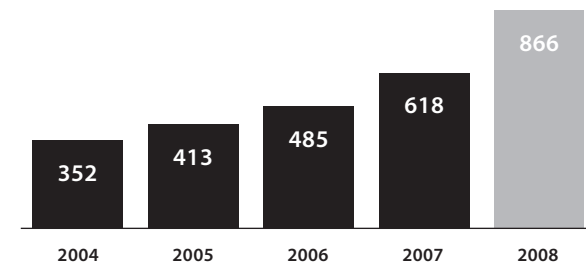
mag. Johann Staudigl

Board Member

THE BANK IN NUMBERS (2004 – 2008)

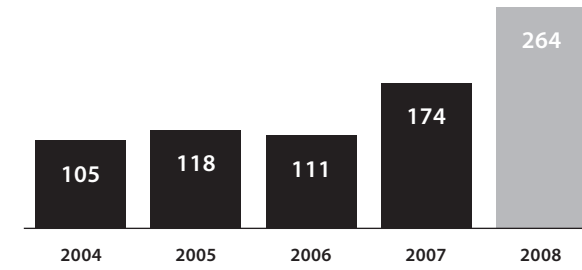
TOTAL ASSETS

in million EUR



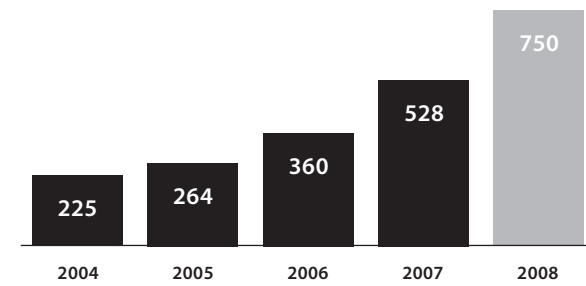
AMOUNTS OWED TO CUSTOMERS

in million EUR



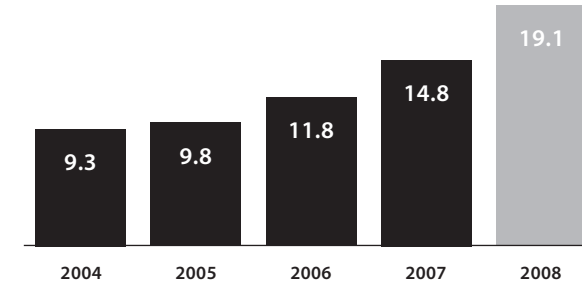
LOANS TO CUSTOMERS

in million EUR



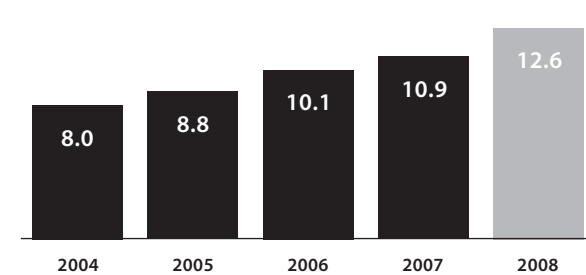
OPERATING INCOME

in million EUR



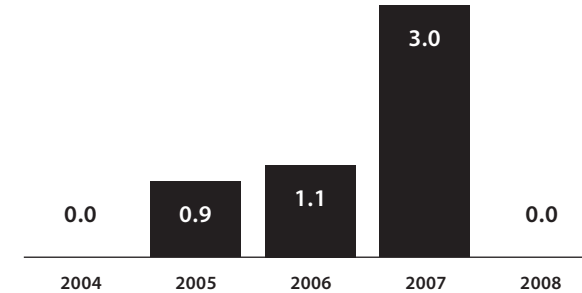
OPERATING EXPENSES

in million EUR



TOTAL PROFIT BEFORE TAX

in million EUR



INTERNATIONAL NETWORK



Banka Volksbank d.d. has prospered in the Slovenia market since 1993. The bank's main shareholder is Volksbank International AG.

Volksbank International AG (VBI), located in Vienna, Austria, is majority-owned by VBAG (51 %), the remaining shares are equally held by the German DZ BANK / WGZ BANK and the French Banque Fédérale des Banques Populaires (both 24.5 %). VBI is managing a successful and steadily expanding network of more than 600 outlets in nine Central and Eastern European countries: Slovakia, Czech Republic, Hungary, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Romania and Ukraine.

As of 2008 the total assets of VBI Group amount to EUR 14.7 billion. More than 5,800 employees offer a full range of modern banking products and services to both private and corporate clients.

www.volksbank.si

GOVERNING BODIES

SUPERVISORY BOARD

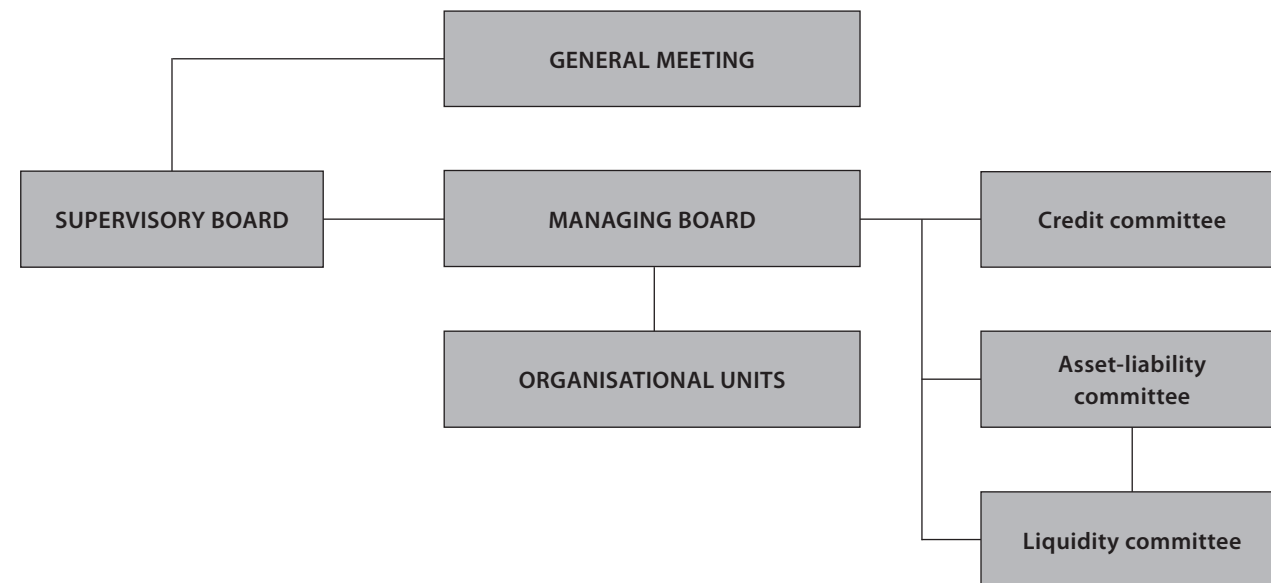
Chairman: Michel Ivanovsky, Volksbank International AG, Vienna

Deputy Chairman: Gerhard Wöber, Volksbank International AG, Vienna

Members: David Vadnal, Volksbank International AG, Vienna
 Thomas Capka, Volksbank International AG, Vienna
 Fausto Maritan, Banca Popolare di Vicenza, Vicenza

THE MANAGING BOARD

Gašpar Ogris - Martič, Chairman
 Aleš Zajc, Deputy Chairman
 Johann Staudigl, Member



GENERAL BUSINESS ENVIRONMENT

In the second half of 2008, the most significant economic event was the property and financial crisis that, after the collapse of the investment bank Lehman Brothers, spread like fire from the United States through the world. Despite the numerous measures taken by governments from around the world, we can expect the crisis to deepen in 2009, which will represent a major challenge for all entities in the today's global business environment.

As expected, economic growth in the euro area further slowed down towards the end of 2008. At the end of 2008, GDP growth was between 0.8% and 1.2% or 1.8 percentage points less than in 2007. The downward trend is expected to continue in the years to come, with GDP shrinking between -1.0% and 0.0% in 2009 alone. The main reasons for this are the weakened economic activity and domestic demand. Due to the weakened economic activity and falling oil prices, inflation too continued its downward trend, both in the euro area and in the United States. Both central banks responded by reducing their key interest rates several times.

In Slovenia, economic growth, as expected, slowed down in the third quarter of 2008 at 3.8% year-on-year. The reasons for this were the decrease in gross capital expenditures and the slowdown in exports. Exports of goods increased 5.1% year-on-year. Towards year-end, their growth slowed down, as merchandise trade with European Union countries decreased (in particular exports to Italy, France and Great Britain, while exports to Austria and Germany significantly slowed down). The largest contributions to exports came from medicinal and pharmaceutical products, as well as from iron and steel, and specialised machinery.

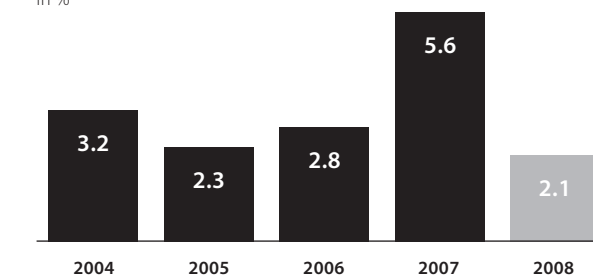
Labour market conditions started to deteriorate gradually in 2008. The number of registered unemployed increased in November and December. At year-end, it was already 66,239, so that the 2008 unemployment rate was 6.7%.

Current account deficit increased considerably in 2008. As at year-end, gross external debt was EUR 40 billion, while gross external assets in debt instruments were EUR 31.6 billion, which means that Slovenia's net external debt amounted to EUR 8.5 billion (up EUR 2.1 billion from 2007) or 22.8% of GDP. Slovenia thus remained one of the most indebted euro area countries. The main reasons for this are Slovenia's deficits in its current account and factor incomes. Its surplus in the services balance increased year-on-year, and its deficit in current transfers decreased.

In 2008, total assets of the banking sector increased 12%. Bank savings increased 9.5%. Loans to non-banking clients increased 18%, while bank loans stayed at the same level.

INFLATION

in %



STRATEGY

Banka Volksbank d.d. will continue implementing its medium-term strategy also in 2009, shifting the focus of its operations slightly due to the current financial and economic crisis.

It will therefore focus on banking activities that will not increase the riskiness of its assets, as growth of risk-weighted assets will be limited. The bank will continue enriching its product portfolio with innovative banking products in the field of deposits (by upgrading the E-Interest savings product), investment structured products, insurance services (offered together with Victoria Volksbanken), and in other areas.

With regard to its loans, the bank will remain focused on the retail segment (providing housing and consumer loans) and on the small and medium-sized corporate segment. As regards project financing, the bank will confine itself to smaller projects, adapting also its risk criteria to the changing conditions in the property market.

Due to unstable international capital markets and the consequent restricted possibilities to obtain long-term sources of finance, the bank will try to direct the majority of sources (including repayments of the existing loans) to the above-mentioned priority segments, i.e. the retail and SMEs segments. It will also partly reconstruct the non-strategic portion of its existing loan-portfolio. Through these measures, the bank will confront the capital market crisis while, on the one hand, directing its funds so as to promote the main objectives of the Group and, on the other hand, pursuing its medium-term objectives related to growth in risk-weighted assets.

In view of economic conditions, the bank established in its 2009 business plan that risk-weighted assets – but not loan volume – must be reduced, and provided for more activities in the field of deposits and other financial and investment products.

The plan also provides for close monitoring of all cost items to compensate for the fall in net interest income due to rapidly falling reference interest rates in the euro area.

Being aware that the financial crisis has also spread to the “real” sector, the bank accordingly strengthened its credit and operational risk management. Above all, the bank must be able to rapidly identify clients in difficulties, in order to assist them.

Early in 2008, the Group and the bank adopted the standardised approach to capital adequacy calculation, in accordance with the new European capital framework Basel II. In accordance with these standards, the bank will endeavour to have high-quality databases and processes, and to continually upgrade them. It will thus lay sound foundations for the introduction of more advanced approaches, which will upgrade the standardised approach in the mid-term.

To achieve all these objectives, the bank will, as in the last two years, endeavour to provide an appropriate work environment and training for its employees, which is crucial for employee motivation and knowledge.

CORE BUSINESS

Banka Volksbank d.d. has an authorisation to perform banking services pursuant to Article 7 of the Banking Act (Official Gazette of the RS, nos. 131/06, 1/08, 109/08 and 19/09; hereafter as ZBan-1). Banking services are the acceptance of deposits from the public and the granting of credits for its own account.

The bank also has an authorisation to perform mutually recognised and additional financial services listed below.

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

1. acceptance of deposits;
2. granting of credits, including:
 - consumer credits,
 - mortgage credits,
 - factoring (with or without recourse),
 - financing of commercial transactions, including forfeiting;
4. payment transaction services in accordance with the Payment Transaction Act (ZPlaP), excluding payment system management services;
5. issuance and management of payment instruments (i.e. credit cards and travellers' cheques);
6. issuance of guarantees and other commitments;
7. trading for own account or for account of customers in:
 - foreign exchange, including currency exchange transactions,
 - exchange and interest-rate instruments,
 - trading for own account in:
 - money market instruments,
 - transferable securities;
8. participation in the issuance of securities and services related to such issues;
15. investment and ancillary investment services and operations.

The bank may perform the following additional financial services pursuant to Article 11 of the ZBan-1:

1. insurance brokerage in accordance with the law governing the insurance business;
6. marketing of investment funds and the sale of investment coupons or shares in investment funds.

LENDING

In 2008, the bank continued focusing on lending operations. This area of business is particularly interesting as it offers excellent opportunities for cross-selling between loans and other banking products, and thus for higher interest and other income. The overall growth in loans to banks and non-banks reached 38% in 2008.

In the corporate segment (loans to companies), the bank was very successful despite strong competition, falling interest rates and economic situation deterioration at year-end. Compared to year-end 2007, loans to companies and private

entrepreneurs increased by 57%, to EUR 537.3 million, while the balance sheet total was EUR 866 million at year-end 2008. The bank continued with its active marketing to SMEs and private entrepreneurs, which has been its strategy for several years now. The bank paid special attention to the development and introduction of new products in the corporate segment, and this will be its strategy also in the future.

In the retail segment (loans to households), the bank increased its loan portfolio by 14%. This was below the growth achieved in previous years due to the discontinuation of lombard loans and CHF-linked loans, as well as due to the drop in demand in the last quarter of 2008.

Loans to banks decreased by 2% or EUR 1 million, which is explainable by the bank's short-term deposits with banks being smaller at year-end 2008 than at year-end 2007.

thousand EUR						
Loans by type of client	2007	Structure	Change	2008	Structure	Index
Banks	50,357	9	-985	49,372	6	98
Companies	341,546	59	195,782	537,328	67	157
Households	186,069	32	26,814	212,883	27	114
Total loans	577,973	100	221,610	799,583	100	138
Loans by maturity						
Short-term	171,703	30	14,231	185,934	25	108
Long-term	406,270	70	158,006	564,276	75	139
Loans by currency						
EUR	473,016	82	191,347	664,363	83	140
Foreign exchange indexation	46,720	8	-664	46,056	6	99
Foreign currencies	58,237	10	30,927	89,164	11	153

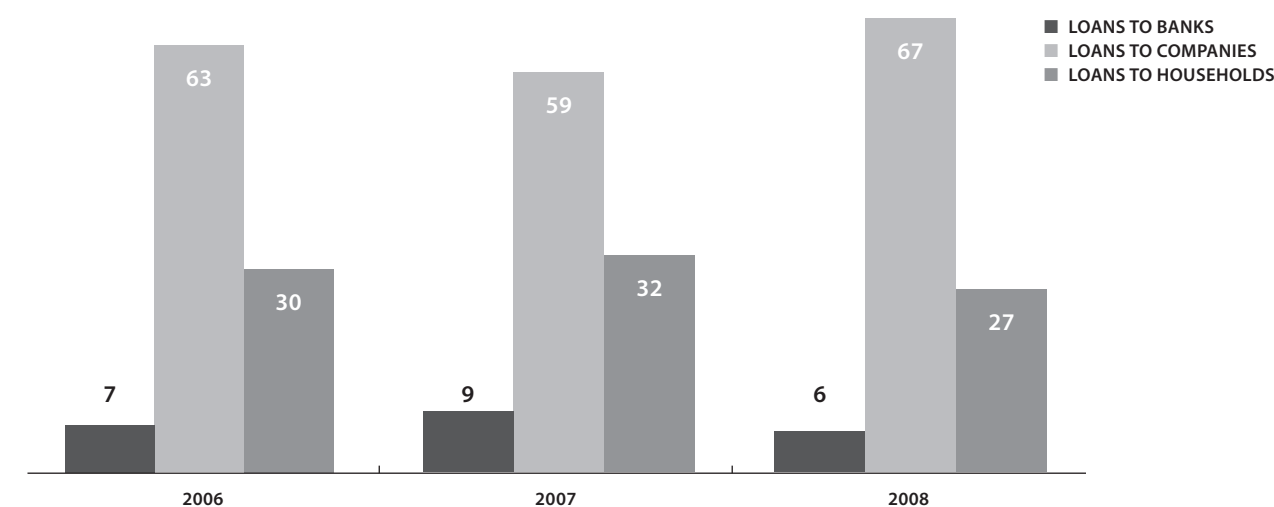
As regards loan maturity, long-term loans prevailed. They increased by 51% to EUR 613 million, while short-term loans increased by 9% to EUR 187 million. The share of short-term loans in the total loans decreased by 7 percentage points to 23%, while the share of long-term loans in the total loans increased by 7 percentage points to 77%.

As regards loan denomination, foreign currency-denominated loans saw the highest increase. They increased by 53% to EUR 89 million, which is mainly attributable to the CHF-denominated long-term loans to households. When the global financial

and liquidity crisis undermined the exchange rate stability in September 2008, the bank responded and topped granting CHF loans to both households and companies.

EUR-denominated loans increased by 40% to EUR 664 million. In the bank's loan portfolio, they represent 83%, while foreign currency-denominated loans represent 11% and loans with a foreign exchange indexation clause represent 6%.

LOANS (STRUCTURE IN %)



DEPOSITS

Deposit operations represent the most important source of finance available to the bank. Deposits collected from banks and non-banks exceeded EUR 763 million as at year-end 2008, up 39% from 2007. As regards deposit currency, 82% or EUR 626 million of deposits were euro-denominated, 18% or EUR 137 million were foreign currency-denominated, while deposits with a foreign exchange indexation clause were only EUR 0.3 million. As regards deposit maturity, 56% of deposits were long-term and 44% were short-term. Deposits are shown in the balance sheet within financial liabilities, measured at amortised cost (excluding subordinated debt).

Deposits from banks (shown in the balance sheet within financial liabilities to banks) increased by 34% to represent 66% of the total deposits collected by the bank. The majority were deposits from VBI, the 95.9-percent owner of the bank.

thousand EUR

Deposits by type of client	2007	Structure	Change	2008	Structure	Index
Deposits from banks	373,993	68	126,023	500,016	66	134
Deposits from companies	110,070	20	51,151	161,221	21	146
Deposits from households	64,114	12	38,243	102,357	13	160
Total deposits	548,177	100	215,417	763,594	100	139

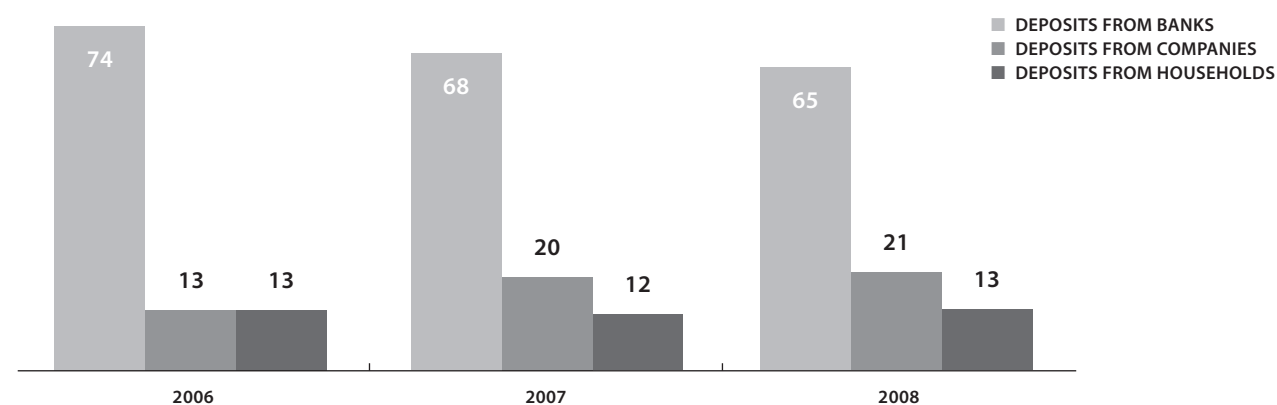
Deposits by maturity						
Short-term deposits	282,370	52	51,268	333,638	44	118
Long-term deposits	265,807	48	164,149	429,956	56	162

Deposits by currency						
EUR	442,028	81	184,157	626,185	82	142
Foreign exchange indexation	198	0	82	280	0	141
Other	105,951	19	31,177	137,129	18	129

Deposits from corporate clients increased by 46% to represent 21% of the total deposits.

Through a more active adjustment of interest rates and introduction of an online savings product (E-interest), the bank achieved an increase of 60% in household deposits. These stood at EUR 102 million as at year-end.

DEPOSITS (STRUCTURE IN %)



AVAILABLE-FOR-SALE DEBT SECURITIES

In 2008, the bank's portfolio of long-term debt securities decreased to EUR 8.7 million (by 36%). Due to the financial crisis, the bank stopped buying debt securities issued by banks, preferring the safer fixed-rate government securities. Before each purchase, it also simulated the effect on its interest rate position.

In September and at the beginning of October 2008, two issuers of bonds in the bank's portfolio went bankrupt: the American Lehman Brothers and the Icelandic Landsbanki. As at year-end 2008, the market value of these bonds represented only 10% of the nominal value, and the bank transferred these investments to claims against the bankrupt's estate. The bank also sold USD 1.5 million of HSBC bonds to halve this exposure.

thousand EUR

	2007	Structure	Change	2008	Structure	Index
Investments in securities	13,627	100	-4,916	8,711	100	64
- domestic and foreign government bonds	0	0	1,517	1,517	17	0
- bonds issued by Slovenian banks	1,250	9	2,396	3,646	42	292
- bonds issued by foreign banks	10,823	79	-8,396	2,427	28	22
- bonds issued by VBAG	1,402	10	-436	966	11	69
- other bonds	152	1	2	154	2	102
Total investments in securities	13,627	100	-4,916	8,711	100	64

Investments in securities by currency						
EUR	11,594	85	-3,759	7,835	90	68
Foreign currencies	2,033	15	-1,157	876	10	43

PAYMENT TRANSACTIONS

In the year 2008 changes in the payments area continued. In January Banka Volksbank d.d. has successfully joined the SEPA community and since then it is offering SEPA credit transfers for corporate and retail clients. Project did not come to an end, because bank actively participated in establishing a national SEPA payments processor. At the same time preparations for migration of mass credit transfers to SEPA environment and adoption of SEPA direct debits has started.

International payment transactions

Compared to 2007, the volume of international payment transactions decreased by 23%, to EUR 1,263 million, while their number increased by 3%.

Structure of international payment transactions:

	million EUR				
	2007	Structure	Change	2008	Structure
Incoming	856	52	-38	818	65
Outgoing	796	48	-351	445	35
Total	1,652	100	-389	1,263	100

The bank processes cross-border and international payment transactions mainly via European payment systems such as TARGET2, STEP2 and, since January 2009, SEPA. Its own correspondent network, which consists of 13 nostro accounts and 4 loro accounts, is used mainly for treasury and less for payment transactions.

Of all international payment transactions, 71% were made through the internet banking channel (Volksbank Online).

Domestic payment transactions

Compared to 2007, the volume of domestic payment transactions increased by 49%, to EUR 12,227 million, while their number increased by 23%.

Structure of domestic payment transactions:

	million EUR				
	2007	Structure	Change	2008	Structure
Incoming	4,145	51	1,895	6,040	49
Outgoing	4,015	49	2,172	6,187	51
Total	8,160	100	4,067	12,227	100

Of all domestic payment transactions, 89% were made through the internet banking channel (Volksbank Online) (up 12 percentage points from 2007).

INSURANCE PRODUCTS

Compared to 2007, the bank sold a smaller volume of insurance policies for Victoria-Volksbanken due to the global financial crisis, which hit in the last quarter of 2008 and reflected negatively on the volume of lending, as well as client propensity to invest. Insurance products still excellently complemented the bank's other products, in particular loan products in the retail segment. By selling life and accident insurance, as well as property insurance together with housing loans, the bank offers its household clients safe borrowing.

The bank, together with the Victoria Volksbanken insurance company, presented to its clients this line of products during the so-called "insurance weeks". These were organised in all its branches and focused on life insurance products. The bank sees in Victoria-Volksbanken a long-term partner in the retail and other segments, also as regards introduction of new investment products.

DERIVATIVE FINANCIAL INSTRUMENTS

In 2008, the bank provided services related to currency, interest rate and commodity derivatives to banks and companies. The latter are increasingly aware of the role that derivatives play in reducing currency, interest rate and commodity risks. As a rule, the bank provides services related to derivatives only to first-class clients, and only within certain limits. It also closes all derivatives transactions in the domestic and international inter-bank markets. In November 2006, the bank concluded two interest rates swaps (both worth EUR 2 million) with VBAG, the 51-% owner of its parent VBI. These swaps are measured at fair value and are not designated as hedging items under IAS 39. In 2008, the bank concluded another interest rate swap to hedge its fixed-rate loans.

INVESTMENT CERTIFICATES

Investment certificates are debt securities classified as derivatives. All derivatives have an underlying instrument that is their subject, such as a stock market index, a security price, a commodity price, a foreign exchange rate, an interest rate, a sector, etc. Their price depends on the price of such underlying.

An investment certificate holder is not the direct owner of the underlying, but of the investment certificate purchased. An investment certificate, being a debt security, allows the holder to be paid back an amount specified in the prospectus, under the conditions specified in the prospectus.

Investment certificates sold by the bank allow their holders to be paid back 100% of the principal amount invested. They thus give their holders security, plus liquidity, as they can be sold at any time.

The bank started selling investment certificates in 2007. Supported by VBAG, the issuer and the 51-percent of its parent VBI, the bank offered in Slovenia two investment certificates: Volksbank Garant Top 20 and Volksbank Garant Top 20 II. In 2008,

it continued with activities in this area and offered three additional investment certificates: Volksbank Agrar Garant, Volksbank Energy Garant and Volksbank Spar Garant Infrastruktur VIII.

Volksbank **Agrar Garant** was issued in February 2008. Its value depends on prices of strategic food commodities, such as maize, wheat, soy and sugar. The investment certificate is liquid and guarantees a 100-percent repayment of principal on maturity, which is three years.

Volksbank **Energy Garant** was issued in June 2008. It also guarantees a 100-percent repayment of principal on maturity (three years and eleven months), but also a return linked to prices of strategic energy sources, such as oil, gasoline, coal and natural gas.

Volksbank **Spar Garant Infrastruktur VIII** was issued in July 2008. It is linked to a basket of shares issued by 18 leading infrastructure companies, and has the so-called "kick-out" feature. This means that any share falling below 50% of the initial value on the observation date preceding the coupon payment date is excluded from the basket. The investment certificate guarantees a 100-percent repayment of principal on maturity, which is four years, and a fixed annual return of 4.25% (which can be up to 10%).

In 2008, the bank sold EUR 10 million of investment certificates.

VOLKSBANK »E-INTEREST«

In October 2008, the bank enriched its offer by launching a new savings product, the so-called E-interest. This is a savings account for sight deposits of any amount remunerated at a relatively high interest rate, which permits unlimited access to funds. It can be opened by any legal or natural person not necessarily client of the bank. Account holders can make transactions easily, over the internet.

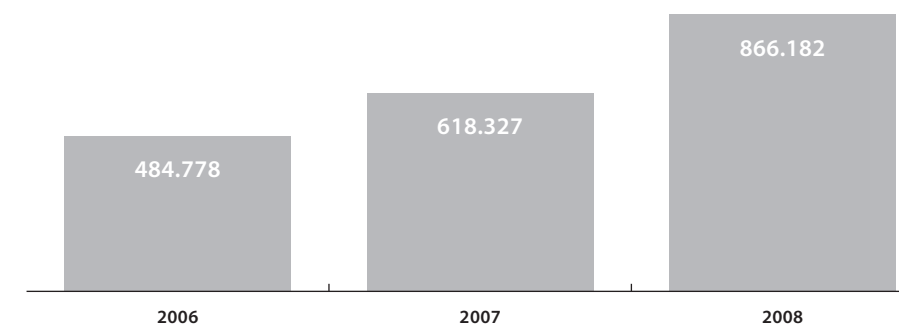
E-Interest has been a success from the launch on. By year-end 2008, the bank received 1,765 applications to open an account, 1,564 from natural and 219 from legal persons. This meant 21 applications per day on average. Eventually, 1,672 accounts were opened by year-end, when the total funds in these accounts were slightly more than EUR 22.2 million.

FINANCIAL POSITION

At year-end 2008, the bank's balance sheet total amounted to EUR 866 million, up EUR 247.9 million or 40% from 2007.

BANK'S BALANCE SHEET TOTAL AS AT 31 DECEMBER

thousand EUR,



STRUCTURE OF ASSETS

The table below shows the bank's assets as at 31 December:

Assets	thousand EUR					
	2007	Structure	Change	2008	Structure	Index
Cash and balances with central bank	7,231	1	23,909	31,140	4	431
Financial assets held for trading	16	0	556	572	0	3,574
Available-for-sale financial assets	14,888	2	-4,917	9,971	1	67
Loans and receivables	577,973	93	221,609	799,582	92	138
Held-to-maturity financial assets	6,068	1	3	6,071	1	100
Property, plant and equipment	8,217	1	206	8,423	1	103
Intangible assets	435	0	-18	417	0	96
Equity investments in subsidiaries, associates and joint ventures	1,614	0	0	1,614	0	100
Tax assets	262	0	-50	212	0	81
Other assets	1,623	0	6,557	8,180	1	504
TOTAL ASSETS	618,327	100	247,855	866,182	100	140

In 2008, the bank's total assets increased by EUR 247.9 million or 40%. The most important asset item remained loans (to banks and non-banks), which accounted for 92% of the total assets and increased by EUR 221.6 million or 38% in 2008. Corporate and household loans increased by EUR 195.8 million and EUR 26.8 million respectively, while bank loans decreased by EUR 1.0 million.

Available-for-sale financial assets decreased by EUR 4.9 million or 33% and accounted for 1% of the total assets. The decrease is mainly attributable to the bonds issued by Lehman Brothers Landsbanki: at year-end, their market value represented only 10% of their nominal value.

Cash and balances with central bank increased by EUR 23.9 million to EUR 31,1 million or 4% of the total assets. The increase is mainly attributable to the overnight deposit of EUR 20 million, placed with Banka Slovenije at year-end.

Property, plant and equipment increased by EUR 0.2 million, mainly due to the capital investments associated with the new branch in Ljubljana, Vič.

STRUCTURE OF LIABILITIES AND EQUITY

The table below shows the bank's liabilities as at 31 December:

thousand EUR						
Liabilities and equity	2007	Structure	Change	2008	Structure	Index
Financial liabilities held for trading	0	0	630	630	0	0
Derivatives designated as hedging instruments	0	0	81	81	0	0
Financial liabilities measured at amortised cost	567,106	92	224,949	792,055	91	140
Provisions	362	0	6	368	0	102
Tax liabilities	468	0	-53	415	0	89
Other liabilities	2,345	0	2,650	4,995	1	213
Subscribed capital	31,377	5	11,763	43,140	5	137
Capital reserves	19,011	3	8,237	27,248	3	143
Revaluation reserves	-218	0	-341	-559	0	256
Reserves from profit (including retained earnings)	-4,873	-1	2,748	-2,125	0	44
Net profit or loss for the current year	2,748	0	-2,815	-67	0	0
TOTAL LIABILITIES AND EQUITY	618,327	100	247,855	866,182	100	140

Financial liabilities measured at amortised cost increased the most, by EUR 224.9 million. This is mainly attributable to the bank borrowing from VBAG bank, which in turn obtained funds at favourable conditions from the Austrian export bank Bank ÖeKB (Österreichische Kontrollbank AG). In addition, the bank collected EUR 89 million or 51% more deposits from non-banking clients. Through a more active adjustment of interest rates and introduction of an online savings product (E-interest), the bank systematically increased the share of short-term deposits to obtain access to liquid funds and improve the loan/deposit ratio. The remaining difference can be explained by short-term liquidity management through VBAG.

Provisions increased by 2% and amounted to EUR 0.4 million at year-end 2008.

In October 2008, VBI Banca Popolare della Emilia Romagna made a contribution that increased the bank's subscribed capital by EUR 20 million.

OFF-BALANCE SHEET ITEMS

The volume of off-balance-sheet operations involving the bank's contingent and assumed liabilities decreased by 11% in 2008, to EUR 116.9 million.

thousand EUR						
Off-balance-sheet risky assets	2007	Structure	Change	2008	Structure	Index
Contingent liabilities under letters of credit	917	1	-444	473	0	52
Guarantees, and assets pledged	39,651	30	-11,014	28,636	22	72
Financial liabilities assumed	90,352	69	-15,558	74,795	58	83
Derivative financial instruments	198	0	12,864	13,062	10	6,593
Total	131,118	100	-14,152	116,966	91	89

Guarantees issued decreased by 28% to EUR 28.6 million.

Financial liabilities assumed decreased by 17%. They include liabilities from unused credit lines, liabilities from loans granted but not drawn, and liabilities under letters of intent.

Derivate financial instruments increased by EUR 12.8 million due to the increased derivatives business.

RESULTS FROM OPERATIONS

The bank closed the 2008 business year with a net loss of EUR 67 thousand, calculated in accordance with International Financial Reporting Standards. The structure of net income and expenses in 2008 is shown in the table below:

	thousand EUR			
Net income and expenses	2007	Change	2008	Index
Net interest and similar income	12,060	3,949	16,009	133
Net fee and commission income	1,705	259	1,964	115
Net gains/losses from financial assets not at fair value	11	-321	-310	-2,822
Net gains/losses from financial assets held for trading	940	361	1,301	138
Net foreign exchange gains/losses	-110	80	-30	27
Net gains/losses on derecognition of assets	9	-9	0	0
Other net operating income/expenses	153	44	197	129
General administrative expenses (including amortisation/depreciation)	-10,919	-1,675	-12,594	115
Provisions	-140	92	-48	34
Impairment	-683	-5,779	-6,462	946
Total profit or loss before tax	3,026	-3,000	26	1
Income tax (latent tax)	-278	185	-93	34
Net profit or loss for the current year	2,748	-2,815	-67	-2

Net interest (excluding income from bad loans and accrued loan origination fees) increased by 33%, in line with the increase in loan portfolio, which was 42%. Total net interest also increased by 33%.

Net fees and commissions for banking services increased by EUR 259 thousand or 15%, mainly due to fees for administrative services.

Net profit from financial assets held for trading increased by 38% or EUR 361 thousand. This is mainly attributable to foreign exchange sales to clients (EUR 131 thousand) and to trading in derivatives (EUR 246 thousand). The increase in net profit from foreign exchange sales to clients is attributable to the CHF loans granted, whereby the bank also earned a foreign exchange margin. The increase in net profit from trading in derivatives is partly attributable to the income statement format used in Slovenia, where any net gains/losses from derivatives are shown within trading results, although a portion should be shown within interest income. Net interest income and net gains/losses from financial assets held for trading were therefore lower/higher as they would have been otherwise.

General administrative expenses with amortisation/depreciation were 15% higher than in 2007. They comprise the costs of materials and services and the amortisation/depreciation charge for the year.

The bank recognised impairments of EUR 6,462 thousand, in accordance with its internal policy of assessment of losses arising from the credit risk.

RISK EXPOSURE

Provision of financial services is inevitably linked with risks. These represent the probability of future events affecting the bank's stability or its income and capital. Due to their important role in national economies and due to client trust, banks must conduct their operations with due care and prudence, and maintain an adequate level of capital to protect themselves against such risks.

There are several risks inherent in banking operations that differ in terms of their nature and level. Banks too differ in their propensity to assume risks, which depends on their size, organisation and culture. Let us illustrate this with an example of two banks: one that considers credit risk as high and the other that considers it as low. This affects their market activities (their aggressiveness and innovativeness), their loan portfolio concentration, their product diversification, their accepted collateral types, etc. Both approaches are perfectly legitimate and each could be the right one given the environment in which the banks operate.

The central bank of Slovenia, Banka Slovenije, issued a "Regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks" (Official Gazette of the RS, nos. 135/06 and 28/07), laying down the rules on risk management in banks. Pursuant to the said Regulation, banks must prepare strategies for assuming and managing risks, thus revealing their approach to risks assumed within the scope of their activities.

Strategies for assuming and managing risks must comprise:

- the objectives of and the general principles for assuming and managing risk,
- an approach to managing individual risks,
- an approach to implementing the internal capital adequacy assessment process, and
- an outline of plans with regard to significant business activities, and a description of planned changes, if any, in the bank's business strategy.

Risks shall include credit risk, market risks, interest rate risk, liquidity risk, operational risk, strategic risk, reputation risk, capital risk and profitability risk.

A more detailed description of credit risk, liquidity risk, market risks (including currency and interest rate risk) and operational risk that the bank is exposed to can be found in the supplement to the financial statements under section 3. That section also includes the bank's strategies for assuming and managing risks, and other information required under the "Regulation on the books of account and annual reports of banks and savings banks"; and under IFRS 7.

EQUITY AND SHAREHOLDERS

The bank's equity comprises subscribed capital, capital reserves, reserves from profit, revaluation reserves, retained earnings and net profit or loss for the current year.

Subscribed capital increased in 2008. It now comprises 10,345,416 ordinary shares with a nominal value of EUR 4.17. The 28th regular general meeting held on 13 October 2008 adopted a resolution on the eighth issue of shares. The newly issued ordinary registered no-par value shares were 2,820,874, and had a nominal value of EUR 4.17. They were paid in at the price of EUR 7.09. The difference between this price and the issue price was recognised in capital reserves.

At year-end 2008, share book value calculated based on the bank's total equity was EUR 6.54, up EUR 0.15 from a year ago.

Total equity increased by 41% or EUR 19.7 million in 2008, of which the increase in subscribed capital carried out in October 2008 contributed EUR 20 million, while revaluation reserve contributed a negative EUR 0.3 million.

Movements in equity items in 2008:

Equity	thousand EUR					
	2007	Structure	Change	2008	Structure	Index
Subscribed capital	31,377	65	11,763	43,140	64	137
Capital reserves	19,011	40	8,237	27,248	40	143
Revaluation reserves	-218	0	-341	-559	-1	256
Reserves from profit (including retained earnings)	-4,873	-10	2,748	-2,125	-3	44
Net profit or loss for the current year	2,748	6	-2,815	-67	0	-2
Total equity	48,045	100	19,593	67,638	100	141

At year-end 2008, the bank's share register showed 30 owners, of which 3 were foreign and 27 domestic. Of all shares, as much as 95.9% were held by Volksbank International AG. In addition to the Slovenian Banka Volksbank d.d., the Austrian VBI owns banks also in Slovakia, Czech Republic, Hungary, Croatia, Bosnia and Herzegovina, Serbia, Romania and Ukraine, which have 609 sales outlets and 5,849 employees altogether.

The strategic owners of VBI are the French bank Banque Fédérale des Banques Populaires, the German bank DZ Bank AG (Frankfurt am Main) / WGZ (Düsseldorf), and the Austrian Volksbank AG (Vienna). The banks joined forces to strengthen their position in the Central and Eastern European countries, including Slovenia.

SHAREHOLDERS AS AT 31 DECEMBER 2008

	Share of the bank's subscribed capital
VOLKSBANK INTERNATIONAL WIEN	95.90%
EM.RO POPOLARE S.P.A. MODENA	3.00%
BANCA POPOLARE DI VICENZA	1.05%
Domestic shareholders	0.05%
Total	100.0%

The bank's financial statements are included in the consolidated financial statements prepared by the VBAG Group, which are available for viewing at Kolingasse 19, Vienna, and at the bank's head office in Ljubljana. The bank does not have its own shares in its portfolio, and did not form reserves to buy back its own shares.

DEVELOPMENT MILESTONES

The bank was established on 18 June 1991 under the name of Štajerska banka obrti in podjetništva d.d., Celje. When Slovenia became independent, the banking legislation was revised and the requirements applying to guarantee capital became much stricter. For compliance reasons, the bank had to find a strategic business partner which would increase its share capital.

It found it in the Österreichische Volksbanken-AG of Vienna (VBAG), which became the bank's majority owner in April 1993, after having obtained permission from Banka Slovenije. VBAG increased the bank's share capital and the bank, renamed Volksbank Ljudska banka d.d., was granted the licence for unlimited domestic and international banking services.

The bank used to have its head office in Celje until May 1995, when it moved to Ljubljana. In 2008, it changed its name from Volksbank Ljudska banka d.d. to Banka Volksbank d.d.

At end of the year 2004, VBAG transferred its majority share to the newly established company Volksbank International AG, Vienna, which is a holding company of subsidiary banks belonging to the VBAG Group in the Central and Eastern European countries.

BRANCH NETWORK

In 2008, the same as before, the bank continued with its activities aimed at extending its sales network. In the course of the year, the bank opened a branch in Vič. Its other branches in the capital comprise those at Gosposka, Miklošičeva and Pavšičeva streets, and the one at the bank's head office (at Dunajska 128a, where the bank moved in the second half of 2001). The bank's branches outside the capital comprise branches in:

- Koper,
- Kranj,
- Celje (with agencies Tepanje and Šentjur pri Celju), and
- Maribor.

In 2008, the bank also prepared the documentation required for the intended renovation of the Miklošičeva branch and relocation of the Kranj branch. In the long run, the bank intends to expand its sales network so as to cover the entire territory of Slovenia.

CAPITAL INVESTMENTS

In 2008, the bank bought new hardware (HP DL-785 servers) to change the platform for the central banking software. The new platform is more stable and more responsive, and at the same time allows the envisaged upgrading of the existing Oracle database. The bank also bought some other hardware (HP DL-380 R5) to support its web site and central reporting.

After successful testing of the IMIS document management system, the bank decided to buy it to electronise several of its business processes.

Together with Oracle experts, the bank also continued with the optimisation of the existing Oracle production database.

The bank also renovated the ground floor and some of the second floor rooms at its head office at Dunajska 128a.

INFORMATION TECHNOLOGY SUPPORT

The organisation and information technology unit remained focused on developing support to the new banking products, as well as on ensuring smooth running of the existing banking processes, thus indirectly contributing to the quality of services provided to external clients.

In 2008, the primary objective of the organisation and information technology unit was software implementation within the following projects: MULTICASH, IMIS, E-INTEREST, S-MONITOR, BUSINESS CARD, SEPA SCT and SISBON.

By year-end, the organisation and information technology unit implemented the following modules within the new document management system: incoming post, invoice approval, total exposure calculation, overdraft approval and extension, and Maestro Card application processing.

The organisation and information technology unit completed other important tasks associated with the following:

- automation of the monthly accounting within the bank teller module,
- functionality of the FX options,
- development of support to processes aimed at preventing money laundering,
- upgrading of the NPI module,
- upgrading of the NODURS module,
- upgrading of the AdInvest application, and
- automation of the final loan repayment.

To increase security, the bank implemented the IDS/IPS system, which detects and blocks unauthorized access to and manipulation with the bank's information system.

Together with the ADACTA supplier, the bank implemented a new product, E-Interest, and made several upgrades to the Volksbank Online and AdInvest applications.

In order to ensure continuity of all critical banking processes, the bank regularly updates its business continuity plan and organises crisis training for its employees. Pursuant to the plan, the bank acquired additional backup hardware and communication equipment, which would allow its continuous operation in case of failure of primary hardware and communication equipment. A switchover to the secondary location was carried out in 2008.

All the above-mentioned activities, as well as others pursued by the organisation and information technology unit, were organised and managed as projects. In accordance with the principle of continuous knowledge expansion and transfer, the

bank organised additional training for its employees in the field of information security policy and protection, and thus raised awareness and improved management of relevant risks.

EMPLOYEES

In 2008, the bank increased the number of employees by 9.3% (2007: 7.7%). In the course of the year, 29 persons joined the bank and 12 persons left. The bank had to increase its staff mainly due to the increased volume of business and new products, as well as due to the new Ljubljana branch.

At year-end 2008, the number of employees stood at 200, while the average number of employees in 2008 was 190.7. More than half of all employees (101 or 50.5%) had higher education at least (3% had postgraduate education, 38.5% had university education, and 9% had higher education), while the remaining 49.5% had secondary education. Educational structure has been improving in the last five years, which is attributable to the following: new employees having higher education at least, and the existing employees, stimulated by the bank, continuing their studies.

Employees participated in the following training:

- job-related seminars,
- training in communication and sales skills,
- management training within the Volksbanken Akademie,
- seminars and workshops organised by VBAG and VBI,
- training aimed at obtaining required titles or licenses, and
- internal job-related training and knowledge transfer.

In order for its employees to obtain the licence for insurance brokers, the bank organised training sessions in insurance marketing. Some employees were sent for external training in investment fund marketing, and they successfully passed the test required to obtain the licence for investment fund marketing and investment fund coupon/share selling.

The bank also paid school fees to employees continuing their studies, if this was in its interest as well. In this, precedence was given to employees not meeting the education requirement for the job occupied.

VOLKSBANK GROUP

The Volksbank Group comprises Banka Volksbank d.d. and its 100-% owned subsidiary Privatinvest d.o.o. Ljubljana, which has its head office at the same address as the bank. As at year-end 2008, the subsidiary's balance sheet total was EUR 1,897,295, which represented less than 1% (0.22% to be exact) of the bank's balance sheet total. The value of this equity investment was EUR 1,614,209.62.

The main activity of Privatinvest is real estate agencies (activity code 70.310). The company's directors are Simona Volaj Rakušček and Mag. Johann Staudigl. Due to its insignificance for the financial position of the Volksbank Group, Banka Slovenije was informed of its exclusion from consolidation, in accordance with Article 7 of the "Regulation on the supervision on a consolidated basis".

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board acted in accordance with the Banking Act (ZBan-1, Official Gazette of the RS, nos. 131/06, 1/08 and 109/08), Companies Act (ZGD-1, Official Gazette of the RS, nos. 42/06, 60/06, 10/08 and 68/08), Regulation on the Diligence of Members of the Management and Supervisory Boards (Official Gazette of the RS, no. 28/07), the bank's Statute, and the bank's Rules on Procedure of the Supervisory Board.

In 2008, the Supervisory Board had the following members: Michel Ivanovsky (chairman and member since 11 June 2008), Gerhard Wöber (deputy chairman since 11 June 2008, before chairman), Thomas Capka, Fausto Maritan and David Vadnal (members since 11 June 2008), as well as Wolfgang Hofstetter (deputy chairman until 11 June 2008, when recalled). Four of them are representatives of the bank's majority owner (Volksbank International AG with a 95.90-% holding), and one is the representative of a bank's minority owner (Banca Popolare di Vicenza with a 1.05-% holding). All have the knowledge and experience needed for the adoption of resolutions in the bank's best interest, and for making independent, unbiased, professional, objective, fair and comprehensive judgments. The Supervisory Board members elect from amongst themselves a chairman and a deputy chairman.

In 2008, the Supervisory Board at its four regular sessions and through the Managing Board's reports supervised the legality, expediency and economy of the bank's management. It regularly considered the Managing Board's reports and adopted the necessary resolutions. Attendance of members at the Supervisory Board's sessions was 74% in 2008.

In the first half of 2008, the Supervisory Board focused mainly on the 2007 results of operations (and approved them), as well as on the internal audit's annual report (and approved its 2008 plan).

Throughout 2008, the Supervisory Board supervised implementation of the resolutions adopted by itself and the general meeting, and adequacy of the internal control system. It considered the quarterly reports of the internal audit and other supervisory bodies, as well as of the Managing Board. It approved the 2008 financial plan, and otherwise promptly and thoroughly considered all important matters concerning the bank's operations, strategy and policies. It regularly supervised the bank's management and performance, and examined the reports of the Managing Board, the internal audit and the external auditor.

The 2008 annual report was audited by KPMG Slovenija. In their opinion, the 2008 financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, presented fairly, in all material aspects, the bank's financial position as at 31 December 2008, as well as the results of its operations and its cash-flows for the year then ended. The business report too was considered as compliant with the audited financial statements. Based on this opinion, as well as on the 2008 financial report prepared by the Managing Board, the Supervisory Board confirmed the 2008 annual report.

The Supervisory Board expresses its appreciation to the bank's Managing Board and employees for their achievements in 2008.

Ljubljana, May 2009



Michel Ivanovsky
Chairman of the Supervisory Board

**Financial
Statements**

**Banka
Volksbank d.d.**

STATEMENT OF RESPONSIBILITY

The Managing Board confirms the financial statements as at 31 December 2008 and for the year then ended on pages 37–42, the notes thereto on pages 44–105, and the consolidated financial statements as at 31 December 2008 and for the year then ended on pages 110–115 contained herein.

The Managing Board is responsible for preparing the annual report so that it presents a true and fair view of the bank's financial position and the results of its operations.

The Managing Board confirms that appropriate accounting policies were applied, and that the accounting estimates were made with due prudence and due diligence.

Ljubljana, 24 April 2009

mag. Gašpar Ogris - Martič



Chairman

Aleš Zajc, MBA



Deputy Chairman

mag. Johann Staudigl



Board Member

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANKA VOLKSBANK D.D., LJUBLJANA

We have audited the accompanying financial statements of the company Banka Volksbank d.d., Ljubljana which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity, the 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 prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. 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 misstatements.

An audit involves 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 misstatements 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 financial statements present fairly, in all material respects, the financial position of the company Banka Volksbank d.d., Ljubljana as at 31 December 2008, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

Ljubljana, 24 April 2009

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boris Drobnič, B.Sc.Ec.



Certified Auditor
Partner

BALANCE SHEET AS AT 31 DECEMBER 2008

ITEM DESCRIPTION	NOTES	thousand EUR	
		AMOUNT	
		31 Dec 2008	31 Dec 2007
Cash and cash balances with central banks	4	31,140	7,231
Financial assets held for trading	5	572	16
Available-for-sale financial assets	6	9,971	14,888
Loans and receivables	7	799,582	577,973
- loans and receivables to banks	7.1	49,372	50,357
- loans and receivables to non-bank customer	7.2	750,210	527,615
Held-to-maturity investments	8	6,071	6,068
Property, plant and equipment	9	8,423	8,217
Intangible assets		417	435
Investments in subsidiaries, associates and joint ventures	11	1,614	1,614
Tax assets	12	212	262
- current taxes		0	1
- deferred taxes		212	261
Other assets		8,180	1,623
TOTAL ASSETS		866,182	618,327
Financial liabilities held for trading	14	630	0
Derivatives - hedge accounting	14.A	81	0
Financial liabilities measured at amortised cost	15	792,055	567,106
- deposits from banks	15.1	83,540	166,186
- deposits from non-banks	15.2	263,578	174,184
- loans and advances from banks	15.3	416,476	257,807
- subordinated liabilities	15.5	28,461	18,928
Provisions	16	368	362
Tax liabilities	17	415	468
- current tax liabilities		415	0
- deferred tax liabilities		0	468
Other Liabilities	18	4,995	2,345
TOTAL LIABILITIES		798,544	570,282
Basic equity capital	19	43,140	31,377
Share premium account	19	27,248	19,011
Revaluation reserves	19	-559	-218
Reserves from profit (including retained earnings)	19	-2,125	-4,873
Income from current year	19	-67	2,748
TOTAL EQUITY		67,638	48,045
TOTAL LIABILITIES AND EQUITY		866,182	618,327

**INCOME STATEMENT FOR THE PERIOD
FROM 1 JANUARY TO 31 DECEMBER 2008**

ITEM DESCRIPTION	Notes	thousand EUR	
		AMOUNT	
		31 Dec 2008	31 Dec 2007
Interest income and similar income	22	46,087	29,342
Interest expenses and similar expenses	22	-30,078	-17,282
Net interest income	22	16,009	12,060
Fee and commission income	24	2,951	2,663
Fee and commission expense	24	-987	-958
Net fee and commission income	24	1,964	1,705
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	25	-310	11
Gains and losses on financial assets and liabilities held for trading	26	1,301	940
Exchange differences	27	-30	-110
Gains and losses on derecognition of assets other than held for sale	28	0	9
Result from other operating activities	29	197	153
Administrative expenses	30	-11,766	-10,211
Amortisation	31	-827	-708
Provisions	32	-48	-140
Impairment	32	-6,462	-683
TOTAL PROFIT AND LOSS BEFORE TAX FROM CONTINUING OPERATIONS	33	26	3,026
Tax expense (income) related to profit and loss from continuing operations	33	-93	-278
TOTAL PROFIT AND LOSS AFTER TAX FROM CONTINUING OPERATIONS	33	-67	2,748
Total profit or loss after tax from discontinued operations		0	0
NET PROFIT OR LOSS for the financial year		-67	2,748

**STATEMENT OF CHANGES IN EQUITY CAPITAL FOR
THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2008**

ITEM DESCRIPTION	thousand EUR						
	Basic Equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD	31,377	19,011	-218	6	-4,879	2,748	48,045
Net gains/losses in revaluation reserves from financial assets available for sale			-341				-341
Total gains/losses after tax recognised directly in equity - revaluation reserves			-341				-341
Net profit or loss for the financial year (from income statement)						-67	-67
Net profit or loss for the financial year recognised in equity	0	0	-341	0	0	-67	-408
New share capital subscribed (paid)	11,763	8,237					20,000
Covering of the loss brought forward					2,748	-2,748	0
CLOSING BALANCE FOR THE REPORTING PERIOD	43,140	27,248	-559	6	-2,131	-67	67,637
BALANCE SHEET AVAILABLE PROFIT for the financial year				6	-2,131	-67	-2,192

STATEMENT OF CHANGES IN EQUITY CAPITAL FOR
THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007

thousand EUR							
ITEM DESCRIPTION	Basic Equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD	22,572	12,818	13	6	-5,586	708	30,529
Net gains/losses in revaluation reserves from financial assets available for sale			-231				-231
Total gains/losses after tax recognised directly in equity - revaluation reserves			-231				-231
Net profit or loss for the financial year (from income statement)						2,748	2,748
Net profit or loss for the financial year recognised in equity	0	0	-231	0	0	2,748	2,517
New share capital subscribed (paid)	8,806	6,193					14,999
Covering of the loss brought forward					708	-708	0
CLOSING BALANCE FOR THE REPORTING PERIOD	31,377	19,011	-218	6	-4,879	2,748	48,045
BALANCE SHEET AVAILABLE PROFIT for financial year				6	-4,879	2,748	-2,125

STATEMENT OF CASH FLOWS FOR THE PERIOD
FROM 1 JANUARY TO 31 DECEMBER 2008

		thousand EUR	
Designation	ITEM DESCRIPTION	31 Dec 2008	31 Dec 2007
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Total profit or loss before tax	26	3,026
	Depreciation	827	708
	Impairments / (reversal of impairments) of financial assets held to maturity	6,462	683
	Net (gains) / losses from exchange differences	29	110
	Net (gains) / losses from financial assets held to maturity	263	42
	Net (gains) / losses from sale of tangible assets and investment properties	-12	-12
	Other (gains) / losses from investing activities	150	0
	Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	-12	-92
	Net unrealised gains in revaluation reserves from hedging of cashflow against risks (excluding effect of deferred tax)	-341	0
	Other adjustments to total profit or loss before tax	-2,685	126
	Cash flow from operating activities before changes in operating assets and liabilities	4,707	4,591
b)	(Increases) / decreases in operating assets	-215,705	-115,241
	Net (increase) / decrease in financial assets designated at fair value through profit or loss	-553	0
	Net (increase) / decrease in financial assets available for sale	4,692	41,452
	Net (increase) / decrease in loans and receivables	-213,320	-163,712
	Net (increase) / decrease in interest on financial assets (accrued income)	0	-8
	Net (increase) / decrease in deferred charges	-9	-24
	Net (increase) / decrease in other assets	-6,515	7,051
c)	(Increases) / decreases in operating liabilities	208,297	115,150
	Net (increase) / decrease in financial liabilities held for trading	630	27
	Net (increase) / decrease in deposits, loans and receivables and debt securities measured at amortised cost	204,931	121,322
	Net (increase) / decrease in liability-derivatives	80	0
	Net (increase) / decrease in interest on financial liabilities (accrued expenses)	0	7
	Net (increase) / decrease in deferred income	114	97
	Net (increase) / decrease in other liabilities	2,542	-6,303
č)	Cash flow from operating activities (a+b+c)	-2,701	4,500
d)	Income taxes (paid) refunded	0	0
e)	Net cash flow from operating activities (č+d)	-2,701	4,500

STATEMENT OF CASH FLOWS FOR THE PERIOD
FROM 1 JANUARY TO 31 DECEMBER 2008

Designation	ITEM DESCRIPTION	thousand EUR	
		31 Dec 2008	31 Dec 2007
B.	CASHFLOWS FROM INVESTING ACTIVITIES		
a)	Receipts from investing activities	1	33
	Receipts from the sale of tangible assets and investment properties	1	33
b)	Cash payments on investing activities	878	4,961
	(Cash payments to acquire tangible assets and investment properties)	743	1,113
	(Cash payments to acquire intangible fixed assets)	135	61
	(Cash payment for the investment in subsidiaries, associates and joint ventures)	0	838
	(Cash outflow to non-current assets or liabilities held for sale)	0	2,949
c)	Net cash flow from investing activities (a-b)	-877	-4,928
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Cash proceeds from financing activities	29,532	17,799
	Cash proceeds from subordinated liabilities issued	9,500	2,800
	Cash proceeds from issuing shares and other equity capital instruments	20,000	14,999
	Other cash proceeds related to financial activities	32	0
b)	Cash payments on financing activities	0	835
	(Other cash payments related to financial activities)	0	835
c)	Net cash flow from financing activities (a-b)	29,532	16,964
D.	Effects of change in exchange rates on cash and cash equivalents	-12	-92
E.	Effects of change in fair value on cash and cash equivalents	0	0
F.	Net increase in cash and cash equivalents (Ae+Bc+Cc)	25,954	16,536
G.	Opening balance of cash and cash equivalents	48,858	32,414
H.	Closing balance of cash and cash equivalents (D+E+F+G)	74,800	48,858

Notes to the Financial Statements

**Banka
Volksbank d.d.**

1. INTRODUCTION

Banka Volksbank d.d., Dunajska cesta 128 a, 1000 Ljubljana, prepared its annual report in accordance with International Financial Accounting Standards as adopted by the European Union, and the "Regulation on the books of account and annual reports of banks and savings banks". In forming its accounting policies, the bank also considered other legislation, such as the "Regulation on the assessment of credit risk losses of banks and savings banks", and other regulations and instructions issued by Banka Slovenije.

The bank's consolidated financial statements were prepared in accordance with International Financial Accounting Standards as adopted by the European Union. They include the subsidiary company Privatinvest d.o.o., in which the bank holds a 100-% share. The bank's majority (95.9-%) owner is Volksbank International AG, Kolingasse 19, 1090 Wien, Austria, which in turn is consolidated within the Volksbank AG Group (before Österreichische Volksbanken AG), Kolingasse 19, 1090 Wien, Austria, where the consolidated financial statements are available for viewing.

The separate and consolidated financial statements were audited by KPMG Slovenija, which in both cases issued an unqualified opinion. Notes to the separate financial statements apply also to the consolidated financial statements. No notes were prepared to the latter, as the subsidiary's total assets do not exceed 1% of the bank's total assets or EUR 10 million.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of the financial statements are fully compliant with IFRS as adopted by the European Union, and the bank's internal policies.

All significant accounting policies are presented on the following pages. They were consistently applied in both financial years presented, except if otherwise indicated. If necessary, comparative data were restated in order to assure comparability with the current period.

Statement of compliance

The financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis of measurement

The financial statements were prepared on the historical cost basis, except for financial assets held for trading and available-for-sale financial assets, which are measured at fair value.

Use of estimates and judgements

Preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Financial statements do not comprise items that would require the bank to change accounting estimates or make judgements in view of the market conditions or other available information.

Estimates were made in relation to loan impairment, provisions for off-balance sheet risks, amortisation/depreciation period of intangible assets/property, plant and equipment, and provisions for employee benefits and pending lawsuits.

Definition of the Group

The Group consists of Banka Volksbank d.d. as parent, and Privatinvest d.o.o. as subsidiary (100-% owned by the parent).

The bank's equity investment in the subsidiary is recognised at costs in its financial statements.

Functional and presentation currency

The financial statements are presented in euro, which is the bank's functional and presentation currency. All financial information is presented in thousand EUR.

Foreign currency translation

Foreign currency transactions are translated to the functional currency at the relevant exchange rates on the transaction date. Foreign exchange differences are recognised in profit or loss.

Property, plant and equipment

The bank uses the cost model, under which an item of property, plant and equipment is carried at cost less accumulated depreciation, and impaired only if there is objective evidence of impairment.

Depreciation of an item of property, plant and equipment begins on the first day of the following month after it has been used. It is then depreciated using the straight-line method over its useful life. This is the period of time over which an asset is expected to be used by the bank, and is the following:

- buildings up to 40 years
- computer equipment from 3 to 5 years
- motor vehicles from 4 to 8 years
- other equipment from 3 to 10 years
- licences from 5 to 10 years

Land is recognised separately from buildings. Its useful life is unlimited and it is therefore not depreciated. In case of co-ownership of offices, the value of the appertaining land is included in the cost of such offices.

The Bank estimates the recoverable amounts of such assets on annual basis. If that is lower than initial costs minus accumulated depreciation, impairment of such an asset is needed.

Items of property, plant and equipment are derecognised on disposal or when no further benefits are expected from them.

Intangible assets

Intangible assets comprise computer software and licences. An item of intangible assets is amortised using the straight-line method. Items of intangible assets are derecognised on disposal or when no further benefits are expected from them. At this point, amortisation stops.

The bank estimates the recoverable amount of intangible assets annually. If it is lower than the cost, an impairment loss must be recognised.

Investment property

Investment property obtain as compensation for unpaid debts is initially recognised based on the value obtained through an appraisal. Otherwise the cost model is used.

Financial assets

On initial recognition, the bank classifies financial instruments into the following categories, taking into account the purpose of purchase, the holding period and the type:

- **financial assets at fair value through profit or loss:** can be held for trading, which means that they were acquired for the purpose of selling in the short term, or can be designated as such in accordance with IAS 39. The bank classifies all equity, debt and derivative instruments (except those designated hedging instruments) as held for trading;
- **held-to-maturity financial assets:** are financial assets with determinable payments and maturity that the bank intends and is able to hold to maturity;
- **available-for-sale financial assets:** are expected to be held for an indefinite period of time and can be sold for liquidity purposes or due to changes in interest rates, foreign exchange rates or prices of financial instruments;
- **loans and receivables:** are financial assets with fixed or determinable payments that are not quoted in an active market.

Based on a decision to purchase a security, the asset-liability committee defines the purpose of purchase and classifies the security accordingly.

Purchases of financial instruments at fair value through profit or loss are recognised on the trade date.

Financial assets other than those at fair value through profit or loss are initially recognised at fair value, increased by any transaction costs directly attributable to the purchase.

Gains and losses on financial assets at fair value through profit or loss are recognised in profit or loss for same period. Gains or losses on available-for-sale financial assets are recognised in equity, and transferred to profit or loss on derecognition due to disposal or impairment.

Held-to-maturity financial assets are measured at amortised cost.

The bank derecognises a financial asset when the contractual rights to receive the cash flows from it expire, or when it transfers the asset together with all the risks and rewards of ownership. Regular way purchases and sales are recognised using

trade date accounting. Trade date is the date on which the bank undertakes to purchase or sell the asset. The bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Subsequent measurement of financial assets

Financial assets are impaired based on the provisions and criteria:

- laid down in the bank's policy of assessment of credit risk losses, and
- applicable to measurement of financial instruments at fair value.

Measurement of financial instruments at fair value

Financial assets held for trading, financial assets at fair value through profit or loss, and available-for-sale financial assets are measured at fair value.

Fair value is based on the asset's quoted market price in an active market at the balance sheet date. If this is not available, the bank establishes the fair value by using the discounted cash flow or pricing models.

Available-for-sale financial assets are measured at fair value, with changes in fair value recognised in equity. If there is objective evidence of impairment, any accumulated losses so recognised must be reversed through profit or loss.

Financial instruments at amortised cost

Held-to-maturity financial instruments may be impaired if there is objective evidence of impairment. Impairment loss is measured as the difference between the asset's carrying amount and net present value of estimated cash flows discounted at the financial asset's original effective interest rate. It is recognised in profit or loss.

Derivative financial instruments

Derivatives, including currency futures/forward contracts, currency swaps with Banka Slovenije, currency options, interest rate swaps and futures/forward contracts relating to securities, are used by the bank for trading and hedging purposes. They are measured at fair value (market prices), with changes in fair value recognised in profit or loss.

Loans and receivables

Loans are measured at amortised cost. They are recognised at the principal outstanding, increased by interest and fees accrued, and reduced to account for allowances, in accordance with the bank's policy of assessment of credit risk losses.

The bank assesses on an ongoing or at least quarterly basis whether there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and whether such events affect the cash flows from the asset that can be reliably estimated. Such evidence could include the following: a debtor's failure to make payments when due, a debtor's imminent bankruptcy, compulsory settlement or financial reorganisation, etc.

Impairment loss is measured as the difference between the asset's carrying amount and net present value of estimated cash flows discounted at the financial asset's original effective interest rate. In case of first-class collateral, cash flows from usage of such collateral are also taken into account. The asset's carrying amount is reduced directly or through the allowance account. Impairment loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss relating to a financial asset decreases, the previously recognised impairment loss is reversed through profit and loss.

Cash equivalents

Cash equivalents are short term, highly liquid assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The bank includes the following within cash equivalents:

- cash, and balances in the settlement account with the central bank and in the current accounts with other banks;
- loans to banks with an original maturity of up to three months; and
- investments in debt securities issued by the Member States or their central banks or the European Central Bank with an original maturity of up to three months.

Financial liabilities

Financial liabilities comprise liabilities to clients for the deposits made, liabilities to creditors for the loans granted, liabilities from securities issued, and other liabilities.

Financial liabilities are recognised at the amounts arising from the relevant documents, which evidence the receipt of cash, and are measured at amortised cost. They are increased by accrued interest/returns and reduced by the amounts paid.

Provisions

Provisions are recognised by the bank in the balance sheet if it has a present obligation (legal or constructive) as a result of a past event; and if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, which can be reliably estimated. The bank has provisions for employee benefits (retirement and similar), off-balance sheet liabilities, pending lawsuits, etc.

The bank has provisions for retirement and anniversary benefits that reflect the net present value of its future obligations. These are calculated for each employee by estimating the costs of his or her retirement bonus as laid down in the employment contract, and the costs of all his or her anniversary bonuses until retirement. For the VBAG Group, a certified actuary based in Austria calculates such future obligations from long-term employee benefits for each Group entity separately.

The bank recognises provisions for off-balance sheet liabilities when the conditions are met as laid down in the bank's policy of assessment of credit risk losses.

Financial and operating income and expenses

Financial and operating income and expenses are recognised if it is probable that future economic benefits will flow to/from the bank, and if they can be measured reliably.

Interest income and expenses

Interest income and expenses are recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability, and of allocating its interest income or expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future flow of cash payments or receipts through the expected life of the financial instrument or, when appropriate, in a shorter period, to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all payments or receipts between parties to the contract (interest, fees, transaction costs, etc.)

Dividends

Dividend income comprises dividends and shares of profit arising from the bank's equity investments.

Fees and commissions

Fee and commission income comprises the amounts charged by the bank for the services provided, in accordance with the bank's tariff or contracts between the bank and its clients.

Fee and commission expenses comprise the amounts paid by the bank for the services provided by others, in accordance with the contracts between the bank and such third persons.

Fee and commission income and expenses are recognised in the income statement when the service is completed.

Income and expenses from financial transactions

Income and expenses from financial transactions comprise realised gains or losses from financial assets not measured at fair value through profit or loss, and gains or losses from trading in equity and debt securities and derivatives measured at fair value through profit or loss.

Other operating income and expenses

Other operating income and expenses comprise rentals for offices leased out, and other operating income, as well as duties, membership fees and other operating expenses.

Impairment

Impairment comprises impairment of financial assets measured at amortised costs recognised in accordance with the bank's policy of assessment of credit risk losses, and impairment of investment property recognised based on appraisals carried out by certified appraisers.

Taxes

Current tax is recognised at the amount calculated by the bank in accordance with the Corporate Profit Tax Act (ZDDPO-2) and applying the rate of 22% (for 2008).

Deferred tax is recognised for all temporary differences, which are the differences between the tax base of an asset or liability and its carrying amount in the balance sheet. They were calculated using the rate of 21% that will apply to the financial year 2009.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred tax associated with measurement of available-for-sale financial assets is recognised directly in equity.

Segment reporting

Segment reporting is used only by the VBAG Group, which presents segment information in respect of the Group's business and geographical segments. The Group's primary format for segment reporting is based on business segments, determined based on the Group's management and internal reporting structure.

Employee benefits

Employment benefits include retirement and anniversary bonuses. Provisions for employee benefits are calculated by an independent actuary. In 2008, they were estimated based on the latest employee data, using the following assumptions:

- interest rate: 5.75%,
- future salary increase: 3.5%, and
- future pension increase: 2.0%.

The bank as employer pays certain statutory contributions, which in 2008 amounted to 16.1% of the gross salaries paid, and has otherwise no other obligations. Contributions are recognised as expenses in the period in which they are incurred. They are included within labour costs in the income statement. Under Slovenian legislation, employees retire after 35 to 40 years of service, when, provided they meet certain conditions, they are entitled to a one-off retirement bonus. They are also entitled to an anniversary bonus for every 10 years of service.

These obligations are measured as the net present value of future obligations, while any gains and losses arising in this connection are recognised in profit or loss.

Related parties

Under the »Regulation on large exposures of banks and savings banks«, a group of related parties means the following:

- a group consisting of two or more natural or legal persons who, unless proved otherwise, constitute a single risk for the bank because one of them, directly or indirectly, has control over the other or others;
- a group consisting of two or more natural or legal persons between whom there is no relationship of control, but who are regarded as constituting a single risk for the bank because they are so interconnected that, if one of them were to experience financial problems, the other or all others would be likely to encounter repayment difficulties.

Generally, related parties are all persons who hold more than a 50-% share of another legal person, or legal persons which are majority-owned by such persons. In determining a group of related clients, a bank must in particular assess clients with the following forms of ties:

- legal persons that have common holders of shares;
- companies related by joint control;
- entities that are mutually economically connected and dependent, these ties being irreplaceable in the short term;
- individual natural persons and their immediate family members;

- natural persons, and legal persons in which these natural persons are members of management bodies or have any other significant influence in the management of the legal persons;
- natural persons that pursue business activities as private entrepreneurs, and their immediate family members.

In the determination of entities that form a group of connected clients, ties with the central government of the Republic of Slovenia shall not be taken into account.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when the bank has a legal right and intention to set off an asset against a liability, or when the asset is realised and the liability settled at the same time.

Repurchase agreements

Securities purchased but agreed to be sold back (under repurchase agreements) are included within loans to clients. Under such agreements, the risks and rewards of ownership are not transferred to the bank, for which reason they have the characteristics of loans collateralised with securities. The difference between the purchase and selling price is recognised as interest income, allocated over the relevant period by means of the effective interest method.

Leasing

Bank as lessee

All leases in which the bank acts as lessee are operating leases. Payments made under operating lease contracts are recognised in profit or loss on a straight-line basis over the lease term. If the contract is terminated early, all payments to lessor due to termination are recognised as expenses in the period of termination.

Bank as lessor

In case of assets acquired under finance lease contracts, the net present value of future payments is included within receivables. The difference between the gross value of such receivable and its net present value is recognised as unearned interest income. Income from leasing is recognised over the lease term using the net investment method (before tax), which shows a constant periodic rate of return.

Financial guarantees

Financial guarantees are contracts that provide for payments to be made if the debtor fails to make payment when due. The bank issues financial guarantees to other banks, financial institutions and non-banking clients in order to insure their debts, overdrafts and other banking businesses.

Financial guarantees are initially recognised at fair value. Subsequently, they are recognised at the higher of the fair value less any fees and the present value of disbursements that the bank, based on its data and experience, expects to be required to settle the obligation. An increase in liabilities from financial guarantees is included within other operating expenses in the income statement.

Fiduciary business

Assets acquired by the bank within its fiduciary business are not risky and therefore kept separately from the bank's own assets. Fiduciary services comprise services associated with loan arrangement and securities transactions on behalf of third parties, for which the bank charges a fee.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2008, and were not applied in preparing the financial statements included herein:

- IFRS 8 – Operating segments (effective from 1 January 2009). The standard introduces the “management approach” that the bank will have to take into account during the preparation of the 2009 financial statements. It requires segment disclosure based on internal reports which will be evaluated regularly by the bank's management in deciding how to allocate resources and in assessing performance.

Currently the bank presents information by business segments.

- Amendments to IAS 1 – Presentation of financial statements (effective from 1 January 2009). The amended standard requires information in financial statements to be aggregated on the basis of shared characteristics, and introduces a statement of comprehensive income. Items of income and expenses and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity), or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The bank will prepare two separate statements.

Other standards, amendments to standards and interpretations not yet effective for the year ended 31 December 2008 include the following:

- the revised IAS 23 – Borrowing costs (effective from 1 January 2009);
- the amended IFRS 2 – Share-based payment – (effective from 1 January 2009)
- the amended IAS 27 – Consolidated and Separate Financial Statements (effective from 1 January 2009);

- the amended IAS 32 – Financial instruments: presentation, and IAS 1 – Presentation of Financial Statements (effective from 1 January 2009); and
- IFRIC 13 – Customer Loyalty Programmes (effective from 1 July 2008).

The bank does not expect these standards, amendments to standards and interpretations to have an effect on its financial statements.

3. RISK MANAGEMENT

Banka Slovenije issued a "Regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks" (Official Gazette of the RS, nos. 135/06 and 28/07), laying down the rules on risk management in banks. Pursuant to the Regulation, banks must prepare strategies for assuming and managing risks, thus revealing their approach to the risks it assumes in the scope of its operations.

Strategies for assuming and managing risks must comprise the following:

- objectives and fundamental principles for assuming and managing risk,
- an approach to managing specific risks,
- an approach to implementing the internal capital adequacy assessment process, and
- an outline of plans with regard to significant business activities, as well as a description of planned changes, if any, in the bank's business strategy.

The risks covered by such strategies shall comprise credit risk, market risks, interest rate risk, liquidity risk, operational risk, strategic risk, reputation risk, capital risk and profitability risk.

The bank must comply with the general risk management standards for the following types of risks: credit risk, market risks, interest rate risk, liquidity risk and operational risk. At the same time, the bank must be capable of managing all other material risks assumed in the scope of its operations.

The bank must regularly assess its risk-bearing capacity. Such assessment must be documented. The bank must also prepare a methodology for assessing its risk-bearing capacity and clarify the assumptions on which the methodology is based. The methodology shall be a recurring process based on the policies adopted by the bank for each type of risk. Further, the bank must prepare a methodology for measuring and assessing its risk exposure, which shall be based on risk identification and assessment that takes into account the scope and complexity of its operations. The bank's risk exposure shall be assessed in qualitative and quantitative terms. Monitoring of the bank's risk assumptions and assessment of its risk-bearing capacity shall be organised independently from the organisational units of the bank that assumes such risks. The bank shall verify the appropriateness of the methodology for assessing its risk-bearing capacity at least once a year and at every significant change in its risk exposure.

The below sections deal with the bank's exposure to credit and liquidity risks, markets risks and operational risk, and the manner in which the bank manages such risks.

3.1 CREDIT RISK

Credit risk is defined as potential losses due to debtors' inability to meet their financial or contractual obligations in full.

Credit risk is associated with the bank activities that result in:

- risky balance sheet assets (due and undue loans regardless of maturity, investments in securities and long-term equity investments, discounted drafts, accounts receivable under finance leases, accounts receivable from derivatives, interest/fees/commissions accrued, accounts receivable from guarantees/sureties/ other liabilities assumed, bank deposits and other items measured at amortised cost/cost/fair value that can be allocated to individual debtors);
- risky off-balance sheet assets (financial guarantees/sureties/unsecured letters of credit issued and other similar-risk transactions that could result in a bank's payment obligation).

As regards credit risk, the bank uses the standardised approach to calculating the capital requirement for credit risk. In case of collateralised transactions, it uses the comprehensive approach.

In accordance with its guidelines for the organisation of its credit function, execution of loan transactions and credit risk management, as well as with its internal organisational rules, the bank ensures a clear separation of competences between the commercial unit and credit risk management unit on the one hand and between the commercial unit and back office on the other hand, also at managerial level. The said guidelines applying to credit risk management, as well as the rules of procedure applying to the credit committee, lay down a clear and consistent decision-making structure for the loan approval procedure. The term credit (or loan) covers all transactions bearing credit risk. Any loan approval decision must be agreed between the commercial unit and the credit risk management unit, taking into account the complexity and risk of the transaction. The loan approval decision may be made by the commercial unit alone, provided the risk involved is insignificant. Impairment- and provision-related decisions are not within the competence of the commercial unit.

The bank regularly reviews its credit portfolio and also estimates future trends. The results of such reviews serve the bank when preparing and assessing strategies and policies for assuming and managing risks.

Close loan monitoring and bad loan handling

The bank uses a set of criteria when deciding whether a debtor/exposure requires close monitoring. Debtors/exposures requiring close monitoring are regularly reviewed to decide their future handling. If they meet certain criteria, they are handed over to the bad loan collection unit. Otherwise, the bank may also decide to restructure the exposure: a restructuring plan is then prepared, implemented and monitored. If a bankruptcy procedure is initiated against a debtor, the bank involves its own experts and/or external experts in the collateral recovery process, if the exposure is collateralised.

Early identification of upward changes in credit risk

The bank has a process in place for early identification of upward changes in credit risk associated with individual debtors. In this process, it uses qualitative and quantitative indicators.

Debtor/exposure rating process

For the purpose of credit risk assessment, the bank uses a debtor/exposure rating process. Within the said process, debtors/exposures are classified into credit rating classes and/or groups. The bank regularly monitors and assesses its rating process, as well as impairment- and provision-related decisions, in accordance with International Financial Reporting Standards. The bank classifies its debtors based on the assessment and valuation of their ability to meet their obligations to the bank, as well as based on the collateral provided.

When classifying its debtors into rating groups, the bank uses its policy for assessing credit risk losses, which is in accordance with the central bank's "Regulation on the assessment of credit risk losses of banks and savings banks", as well as with International Financial Reporting Standards.

The bank assesses individually significant financial assets or commitments including off-balance sheet items, as specified by the central bank and its internal policies. If such assessment reveals that a loss could arise from such significant financial assets or commitments including off-balance sheet items, the bank must recognise an impairment loss both in its balance sheet and its income statement. If individual impairment or provisioning is not required, the bank then calculates a collective impairment loss or provision using a certain prescribed percentage.

Concentration risk identification and measurement

The bank has appropriate methodologies in place for identifying and measuring concentration risk.

EXPOSURE TO CREDIT RISK

thousand EUR						
		Loans and advances to non-banks		Loans and advances to banks		Securities
		2008	2007	2008	2007	2008
1 Loans and advances: impaired						
a) Individually impaired:						
	Gross amount	6,942	4,368	7,000		
	Impairment amount	2,152	2,062	6,300		
	Net amount	4,790	2,306	700		
b) Collectively impaired:						
	Grade B	2,228	2,499			
	Grade C	736	1,564			
	Grade D	1,087	435			
	Grade E	3,921	4,367			
	Gross amount	7,972	8,865			
	Impairment amount	4,851	5,212			
	Net amount	3,121	3,653			
2 Loans and advances: overdue, not impaired						
a) Total loans and advances overdue:						
	Gross amount	21,481	17,685			
	Net amount	21,481	17,685			
b) Loans and advances by days overdue:						
	30-60 days	14,061	3,518			
	60-90 days	3,127	1			
	90-180 days	1,600	9,536			
	180 days +	2,693	4,630			
3 Loans and advances: current, not impaired						
	Gross amount	721,371	504,450	48,672	50,357	16,042
	Collective impairment amount (for the unidentified risks)	553	479			
	Net amount	720,818	503,971	48,672	50,357	16,042
	Total gross amount of loans and advances	757,766	534,889	55,672	50,357	16,042
	Total net amount of loans and advances	750,210	527,615	49,372	50,357	16,042

Source: »RAZ 1« report as at 31 December 2007 and 2008, and internal reports on loans and advances overdue.

INDIVIDUALLY IMPAIRED LOANS AND ADVANCES BY RISK GRADE

thousand EUR

	Loans and advances to non-banks	
	Gross	Net
31 December 2008		
Grade 2P – contractual interest is recognised	787	559
Grade 3P – contractual interest is not recognised	6,155	4,231
Total	6,942	4,790
31 December 2007		
Grade 2P – contractual interest is recognised	1,073	850
Grade 3P – contractual interest is not recognised	3,295	1,456
Total	4,368	2,306

LOANS AND ADVANCES BY COLLATERAL SUBMITTED

thousand EUR

Collateral type	Loans and advances to non-banks		Loans and advances to banks	
	2008	2007	2008	2007
Individual impairment				
Property	5,676	2,162	-	-
Other	1,028	78	-	-
Collective impairment				
Property	4,316	4,766	-	-
Shares	30	15	-	-
Other	794	357	-	-
Overdue, not impaired				
Property	12,571	8,962	-	-
Shares	1,752	2,379	-	-
Other	5,368	-	-	-
Current, not impaired				
Property	384,570	252,012	-	-
Shares	16,790	38,347	-	-
Other	147,734	123,792	-	-
Without collateral	169,581	94,745	49,372	50,357
TOTAL	750,210	527,615	49,372	50,357

CREDIT RISK BY SECTOR AND GEOGRAPHIC AREA

thousand EUR

	Loans and advances to non-banks		Loans and advances to banks	
	2008	2007	2008	2007
TOTAL	750,210	527,615	49,372	50,357
SECTOR				
Companies	533,672	340,045	-	-
Municipalities	3,656	1,219	-	-
Banks	-	-	49,372	50,357
Households	212,883	186,351	-	-
GEOGRAPHIC AREA				
Slovenia	718,938	502,600	0	5,615
Austria	0	0	42,842	44,632
CEE	31,039	24,785	5,051	106
Other	230	223	1,380	4

thousand EUR

	Available-for-sale financial assets	
	2008	2007
Total	9,971	14,888
SECTOR		
Companies	2,932	1,261
Banks	7,039	13,627
GEOGRAPHIC AREA		
Slovenia	5,057	2,660
Austria	966	1,422
CEE	-	1,905
Other	3,947	8,901

3.2 LIQUIDITY RISK

Liquidity risk is defined as potential losses due to the bank's inability to meet its obligations or the ability to meet them only by incurring significantly higher costs than the usual costs. Liquidity is the bank's ability to sustain a decrease in deposits, meet its obligations and increase financial assets.

Liquidity risk is closely connected with other bank risks (such as credit, interest rate and currency risks), and usually arises from one of the bank's most important functions, i.e. the transformation of short-term deposits into long-term financial assets. Liquidity is an important component of banking operations, as it balances the expected and unexpected balance sheet fluctuations, as well as ensures growth.

The bank must at all times ensure adequate liquidity by balancing its actual and potential sources of liquidity with its actual and potential usage of liquidity. Taking into account its specifics and level of risk assumed, the bank identifies, measures, manages and monitors liquidity risk, thus ensuring ongoing and timely settlement of its liabilities. Due to its specifics, the bank strives to meet relatively high liquidity ratios, whereby it uses the credit lines made available by the parent bank.

The bank's guidelines applying to liquidity risk management comprise also measures aimed at preventing or eliminating causes for illiquidity. The bank regularly reviews the correctness and appropriateness of assumptions on which its liquidity management policy is based. The bank uses several liquidity management scenarios for the purpose of monitoring liquidity risk and ensuring adequate liquidity position. Based on such scenarios, the bank determines measures to be adopted for the purpose of ensuring an adequate liquidity position in the normal course of business (basic scenario), as well as in a possible liquidity crises (stress test scenario). The bank regularly reviews the correctness of assumptions on which its liquidity management scenarios are based.

To ensure an adequate liquidity position, the bank identifies measures, manages and monitors liquidity risk by means of:

- planning of actual and potential cash inflows in view of cash outflows, and assessing the liquidity risk by calculating the liquidity ratio;
- ensuring an amount of liquid assets or other sources of liquidity that are appropriate in view of the liquidity risk;
- monitoring the appropriateness of structure of assets and their sources;
- assessing the liquidity risk in a specific currencies, if this represents a significant exposure;
- calculating liquidity indicators and defining limits for liquidity risk exposure;
- adopting a plan to be used during a possible liquidity crisis.

The bank prepared a crisis plan, which is being regularly tested and comprises measures aimed at preventing or eliminating causes for liquidity crises, measures aimed at overcoming and limiting the consequences of occasional or prolonged liquidity crises, as well as measures aimed at re-establishing a normal liquidity situation.

The bank calculates its liquidity ratios in accordance with the central bank's "Regulation on the minimum requirements for ensuring an adequate liquidity position". In accordance with point 2 of the Regulation, the bank calculates the liquidity ratio, which is defined as the ratio of total assets (in local and foreign currencies) to total liabilities (in local and foreign currencies), for two categories of financial assets and liabilities: those with a residual maturity of up to 30 days (category one), and those with a residual maturity of up to 180 days (category two). The bank calculates both ratios on a daily basis for the previous business day. Category one ratio must be at least 1, while category two ratio has an informative nature only.

LIQUIDITY RATIOS

	2008	2007
31 December	1.35	1.36
Average for the period	1.36	1.52
Maximum value	1.67	1.99
Minimum value	1.11	1.26

MATURITY OF UNDISCOUNTED CASH FLOWS

31 December 2008

	thousand EUR						
	Carrying amount	Gross amount	On demand	Up to 3 months	Up to 12 months	Up to 5 years	Over 5 years
Amounts owed to banks	500,016	588,016	2,188	77,356	60,388	178,117	269,967
Amounts owed to non-banks	263,578	274,480	65,291	146,628	60,723	1,387	451
Subordinated liabilities	28,461	40,536	0	290	871	16,808	22,567
Derivatives (credit/debit)	712	919	0	15	144	542	218
Unused credit lines	74,281	74,281	0	0	5,930	62,088	6,263

31 December 2007

thousand EUR

	Carrying amount	Gross amount	On demand	Up to 3 months	Up to 12 months	Up to 5 years	Over 5 years
Amounts owed to banks	373,993	506,298	1,037	116,984	10,798	113,070	264,409
Amounts owed to non-banks	174,184	174,597	45,133	116,349	11,829	880	405
Subordinated liabilities	18,928	29,341	0	254	762	4,478	23,848
Derivatives (credit/debit)	62	95	0	2	13	75	5
Unused credit lines	90,186	90,186	0	0	67,040	23,146	0

BALANCE SHEET STRUCTURE BY MATURITY

thousand EUR

	31 Dec 2008	31 Dec 2007
ASSETS	866,182	618,327
- on demand	56,730	24,276
- up to 1 month	50,167	46,375
- from 1 to 3 months	102,607	54,441
- from 3 to 12 months	187,413	136,528
- from 1 to 5 years	297,370	235,464
- over 5 years	171,895	121,242
LIABILITIES	866,182	618,327
- demand	67,247	46,171
- up to 1 month	106,837	165,023
- from 1 to 3 months	111,768	70,724
- from 3 to 12 months	112,075	12,585
- from 1 to 5 years	135,684	30,324
- over 5 years	332,571	293,501

3.3 MARKET RISKS

Market risk is defined as potential losses due to unfavourable changes in market variables (price, interest rate, exchange rate). Market risk comprises:

- position risk, which is defined as potential losses due to changes in prices of debt instruments, equity instruments, derivative financial instruments or commodities. The level of position risk depends on price volatility of financial instruments, as well as on the bank's portfolio of financial instruments – its structure and liquidity;
- interest rate risk, which is defined as potential losses due to unfavourable interest rate movements. Interest rate movements have a significant effect on the bank's income and expenses;
- currency risk, which is defined as potential losses due to unfavourable exchange rate movements. The level of currency risk depends on the open foreign currency position, exchange rate volatility and foreign exchange market liquidity.

Under the parent bank's rules and the central bank's "Regulation on the calculation of capital requirement for market risks for banks and savings banks", the bank is a non-trading bank or a bank with a trading book position that normally does not exceed EUR 15 million and never exceeds EUR 20 million.

The main objective of the bank is to ensure close currency matching of on- and off-balance sheet items while consistently keeping within the prescribed maximum net open foreign currency position in all currencies and in each currency.

The main objective of the bank's strategy of interest risk management is to have a low interest rate risk exposure.

The bank clearly separates the trading unit and back office, both in operational and organisational terms, also at managerial level. Operational separation of the trading unit from its back office requires the bank to have appropriate safety and work processes and IT system access rules in place, as well as to have the two units physically separated.

3.3.1 CURRENCY RISK

Banka Volksbank d.d. monitors currency risk in accordance with the requirements of its parent bank, trying to optimise the balance sheet structure within the prescribed limits. The main objective of the bank is to ensure close currency matching of on- and off-balance sheet items while consistently complying with the maximum net open foreign currency position in all currencies and in each currency.

Following a proposal by its asset/liability management committee and with the agreement of the Group, the bank may decide to have a strategic open foreign currency position outside the normal limits.

The bank's currency risk mainly arises from:

- prompt closing of only major client transactions or client transactions that would cause the bank to exceed the maximum net open foreign currency position, as closing of smaller client transactions on a transaction-by-transaction basis would be cost-inefficient in all circumstances except for those of high exchange rate volatility;
- bank's own position, i.e. its own account trading;
- transactions with a foreign exchange (mainly CHF) indexation clause, the prompt closing of which is not possible due to limited liquidity.

In accordance with the central bank's instructions for the calculation of the net open foreign exchange position, the bank treats assets/liabilities denominated in a foreign currency and those with a foreign exchange indexation clause equally, i.e. as foreign currency-denominated. To calculate the net open position by currency, the bank sums separately all long positions in a currency and all short positions in a currency. The higher of the two totals is the bank's net open position in that currency and thus also the basis for the calculation of capital requirement for currency risk. Currency risk (net open foreign exchange position) is monitored by the treasury and by the risk-controlling unit: the first also manages currency risk and the latter also reports about it. The treasury unit monitors such position based on real-time data, while the risk-controlling unit monitors it based on bookkeeping data, which it compares against the treasury unit's real-time data.

In managing currency risk, the bank takes into account the limits prescribed by the parent bank. The central bank limits currency risk only indirectly, namely with capital requirements for currency risk. The bank itself may at any time adopt even stricter limits. Under its current methodology, the total net open foreign exchange position is defined as the higher of the totals of its (a) long and (b) short positions, whereby the bank treats in the same manner assets/liabilities denominated in a foreign currency and those with a foreign exchange indexation clause.

BALANCE SHEET STRUCTURE BY FOREIGN EXCHANGE RISK

	thousand EUR	
	31 Dec 2008	31 Dec 2007
ASSETS	866,182	618,327
- EUR	728,720	512,702
- EUR with foreign currency indexation clause	46,056	44,719
- foreign currencies	91,406	60,906
LIABILITIES	866,182	618,327
- EUR	728,554	511,897
- EUR with foreign currency indexation clause	284	134
- foreign currencies	137,344	106,296

At year-end 2008, the bank's total exposure to currency risk was EUR 137 thousand or 0.15% of the capital used to calculate the capital adequacy ratio. The bank's total exposure to currency risk was not included in the calculation of capital adequacy, as, to be included, it should have represented at least 2.00% of the bank's capital (a limit prescribed in the "Regulation on capital and capital adequacy").

3.3.2 INTEREST RATE RISK

The main objective of the bank's strategy of interest rate risk management is to have a low interest rate risk exposure. This strategy is reflected in the bank's decision-making and monitoring systems in the field of interest rate risk.

To assess interest rate risk, the bank assesses the following sources of this risk:

- the risk arising from maturity mismatch of the bank's assets and liabilities that are interest rate-sensitive (re-pricing risk);
- the risk of changes in the slope and shape of the yield curve, which can affect the bank's income or underlying economic value (yield curve risk);
- the risk arising from the imperfect correlation between interest rates applying to different instruments with otherwise similar re-pricing characteristics (basis risk);
- the risk arising from the options embedded in many of the bank's assets and liabilities that are interest rate-sensitive. Formally, an option provides the holder the right, but not the obligation, to buy, sell, or repay/withdraw early such interest rate-sensitive items.

The bank measures its interest rate exposure by estimating the changes in economic value of its capital. The calculation is based on the interest rate gap report and on the estimated impact on profit. This is done on a monthly basis, when a report for the asset/liability management committee is prepared. This committee is responsible for controlling the interest rate risk and for making decisions about the level of interest rate risk assumed. Interest rate risk exposure and measurement, as well as appropriate measures to be adopted if necessary, are laid down in the bank's guidelines applying to interest rate risk management.

The asset/liability management committee is responsible for controlling the interest rate risk and for making decisions about the level of interest rate risk assumed. It approves the bank's policy based mainly on variable-rate instruments, as well as decides on measures to be taken in the case of an excess exposure to the interest rate risk. The bank's own limits applying to exposure to interest rate risk are determined together with the parent bank. Before launching a new product, the bank also checks their effect on the interest rate risk.

INTEREST RATE SENSITIVITY ANALYSIS, ANNUALISED

	thousand EUR	
	increase by 100 bp	decrease by 100 bp
2008		
31 December	1,255	-1,255
Average for the period	572	-572
Maximum for the period	1,255	-1,255
Minimum for the period	81	-81
2007		
31 December	2,000	-2,000
Average for the period	1,689	-1,746
Maximum for the period	3,723	-3,723
Minimum for the period	734	-734

EXPOSURE TO INTEREST RATE RISK

31 December 2008

	thousand EUR					
	Total	At sight	Up to 3 months	Up to 1 year	Up to 5 years	Over 5 years
Cash and balances with central bank	31,140	11,140	20,000	0	0	0
Loans to banks	49,372	29,361	20,011	0	0	0
Loans and advances to non-banks	750,210	8,259	437,536	285,692	17,980	743
Available-for-sale financial assets	9,971	1,260	1,309	6,294	1,108	0
Held-to-maturity financial assets	6,071	0	0	6,071	0	0
Loans and deposits from banks	500,016	2,188	416,201	38,123	32,733	10,771
Deposits from non-banks	263,578	65,060	137,954	59,143	1,218	203
Subordinated liabilities	28,461	0	16,461	0	10,000	2,000

31 December 2007

	thousand EUR					
	Total	At sight	Up to 3 months	Up to 1 year	Up to 5 years	Over 5 years
Cash and balances with central bank	7,231	6,877	355	0	0	0
Loans to banks	50,327	586	49,771	0	0	0
Loans and advances to non-banks	527,615	9,338	464,450	36,509	15,309	2,008
Available-for-sale financial assets	14,888	1,260	4,911	514	4,127	4,075
Held-to-maturity financial assets	6,068	0	6,068	0	0	0
Loans and deposits from banks	373,993	1,037	243,592	126,969	2,396	0
Deposits from non-banks	174,184	45,133	82,829	29,280	16,638	304
Subordinated liabilities	18,928	128	18,800	0	0	0

3.4 OPERATIONAL RISK

Operational risk is defined as potential losses due to the following:

- inappropriateness or incorrect implementation of the bank's internal processes;
- other inappropriate acts of the bank's employees;
- inappropriateness or incorrect functioning of the bank's internal systems;
- external events or acts.

Operational risk also includes:

- information technology risk, which is defined as potential losses due to inappropriate IT technology and processing, mainly in terms of manageability, accesses, integration, control and continuity;
- legal risk, which is defined as potential losses due to non-compliance with or improper application of laws, executive acts, instructions, recommendations, contracts, good banking practice or ethical norms.

The most important factors affecting the operational risk are:

- people: their culture, ethics, motivation, knowledge, skills, etc.;
- processes: their design, implementation, clarity, appropriateness, controls, objectives, communication;
- systems: their appropriateness, safety, availability, etc.;
- environment: any undesired or unexpected changes, crime, accidents, extraordinary events.

The main objective of the bank's strategy of operational risk management is to minimise potential and actual operational losses. The bank's Managing Board is expected to adopt an active approach to operational risk management, which includes raising awareness of such risk within the bank, transparency, and evidencing of actual and potential losses.

As regards capital requirements for operational risk, the bank uses the standardised approach.

Using the loss events database, the bank analyses the causes of actual material losses arising from operational risk. It also uses, at least once a year, risk mapping to identify and assess possible material operational risk. Definition of the term "major losses arising from operational risk" is laid down in the guidelines applying to operational risk management.

Any major losses and exposures associated with operational risk are reported to the bank's higher management, including the bank's Managing Board. The latter decides what additional measures if any should be taken to manage the operational risk. Such measures are then implemented by the risk-controlling unit.

3.5 FAIR VALUE OF ASSETS AND LIABILITIES

	thousand EUR			
	31 December 2008		31 December 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and advances to banks	49,372	49,372	50,357	50,357
Loans and advances to non-banks	750,210	750,736	527,615	527,054
Short-term	185,934	185,934	123,346	123,346
Long-term	564,276	564,802	404,269	403,708
Available-for-sale financial assets	9,971	9,971	14,888	14,888
Held-to-maturity financial assets	6,071	6,071	6,068	6,068
Deposits from banks	83,540	83,540	116,186	116,186
Loans from banks	416,476	416,476	257,807	257,807
Deposits from non-banks	263,578	263,578	174,184	174,184

In 2007, the fair value of long-term loans was below their carrying amount, while in 2008, it was above. This is explainable by the decrease in market interest rates: for example, the three-month Euribor was 4.77% at year-end 2007, and only 2.93% at year-end 2008 (down almost 2 percentage points). Consequently, the fair value of long-term loans with a fixed interest rate increased and was above their carrying amount as at year-end 2008.

3.6 CAPITAL MANAGEMENT

The bank must at all times ensure adequate capital in respect of the size and type of services it provides and in respect of risks to which it is exposed thereby, in accordance with the central bank's regulations. For this purpose, the bank has prepared internal monitoring processes to ensure that its capital complies with all statutory requirements. By regularly monitoring its capital amount, capital requirements and capital adequacy, the bank ensures the following:

- that its original own funds always amount to at least 50% of its total capital, and that the subordinated loan capital included in additional own funds does not exceed 50% of its original own funds (and that if it does, the excessive amount is not used to cover capital requirements);
- that its capital always at least equals the sum of capital requirements under the first pillar of Basel 2 (associated with credit, market and operational risks) and the second pillar of Basel II within the ICAAP process;
- that the ratio of regulatory capital to capital requirements under the first pillar always amounts to at least 125% (with the capital adequacy ratio being 10%);
- that the ratio of internal capital (regulatory capital + profit for the current year) to capital requirements under the second pillar always amounts to at least 110%;
- that the structure of its operations is optimal in respect of the level of risk assumed and the profitability required;
- that its claims are secured by collateral that reduces risk level and at the same time guarantees debt repayment within the shortest time possible.

The bank regularly reports to the central bank and to the parent bank (in accordance with Group guidelines) about compliance with capital adequacy and capital requirements prescribed. Once a year (upon preparation of the annual business plan), the bank also prepares a plan aimed at maintaining an adequate amount of capital. In this way, the bank at all times ensures adequate capital in respect of the size and type of services it provides and in respect of risks to which it is exposed thereby, and can also obtain capital in the market under the most favourable conditions.

The plan aimed at maintaining an adequate amount of capital comprises:

- one-year-ahead projections of capital requirements and bank's position, based on the relevant business plan;
- a projection of the largest scope of operations based on the capital projection;
- the amount, quality and sources of additional capital, if needed;
- an assessment of availability of external sources of capital;
- an assessment of financial consequences of a possible increase in capital;
- the effects on capital of possible changes in the bank's business, operational and financial position;

- an overview by maturity of debt and hybrid instruments acquired.

The factors that might affect the bank's need for additional capital are the following:

- legislation/regulatory changes;
- an increase in the capital adequacy level by the central bank;
- an increase in the on- and off-balance sheet transactions;
- an increase in capital requirements for operational risk;
- an increase in capital requirements associated with the ICAAP process;
- an increase in the required financing of individual debtors;
- changes in the structure of risks assumed by the bank;
- possible losses from operations; and
- changes in the dividend policy.

CAPITAL ADEQUACY AS AT 31 DECEMBER

	thousand EUR	
	2008	2007
CORE CAPITAL (TIER I)	67,221	42,313
Subscribed capital	43,141	31,377
Capital reserves	27,248	19,011
Deductions from tier I:		
Reserves and retained earnings	-2,192	-2,125
Intangible assets	-417	-435
Difference between impairment and provisions under IFRS and under »Regulation on assessment of credit risks losses of banks and saving banks« (abolished with 2008)	0	-5,297
Revaluation reserves	-559	-218
BANK'S ADDITIONAL CAPITAL (TIER II)	26,300	18,800
Hybrid instruments and cumulative preference shares	6,000	6,000
Subordinated loan	20,300	12,800
DEDUCTIONS FROM TIER I AND TIER II	0	-1,247
Investments in other credit or financial institutions (>10%)	0	-1,247
BANK'S OWN FUNDS (for solvency purposes)	93,521	59,866
RISK-WEIGHTED ASSETS (on- and off-balance sheet items)		
RISK-WEIGHTED ASSETS (on-balance sheet items)	644,792	502,474
with 0-% weighting – unweighted value	70,250	70,250
weighted value	0	0
with 20-% weighting – unweighted value	6,372	57,002
weighted value	1,274	11,400
with 35-% weighting – unweighted value	3,383	0
weighted value	1,184	0
with 50-% weighting – unweighted value	85,636	0
weighted value	42,818	0
with 75-% weighting – unweighted value	271,083	0
weighted value	203,312	0
with 100-% weighting – unweighted value	382,799	491,074
weighted value	382,799	491,074
with 150-% weighting – unweighted value	8,936	0
weighted value	13,404	0
Risk-weighted off-balance sheet items	31,537	30,155
Off-balance sheet items – unweighted	93,998	83,190
TOTAL RISK-WEIGHTED ASSETS	676,329	532,629
CAPITAL ADEQUACY		
Capital requirement for credit risk (risk-weighted assets * 0.08)	54,106	42,613
Capital requirement for operational risk	1,791	0
Total capital requirement	55,897	42,613
SOLVENCY RATIO (%): bank's own funds / (total capital requirement / 0.08)	13.38%	11.24%

In the last quarter of 2008, Banka Slovenije abolished the deduction from capital due to the difference between impairment and provisions recognised in accordance with International Financial Reporting Standards and in accordance with the central bank's Regulation.

At year-end 2008, the bank's investment in VBS Leasing was no longer included as a deduction item, as it represented only 3.54% of the company's equity, while a year ago, it was above 10%. This is explainable by the increase in the company's subscribed capital, in which the bank did not take part.

4. CASH AND BALANCES WITH CENTRAL BANK

	thousand EUR			
	31 December 2008		31 December 2007	
	EUR	foreign currencies	EUR	foreign currencies
Cash on hand	2,392	435	2,431	550
Deposits with central bank	28,313	0	4,249	0
Total	30,705	435	6,680	550
Total (EUR and foreign currencies)	31,140		7,231	

Deposits with the central bank relate to balances in the settlement account (EUR 7,990 thousand) and in other accounts opened with the central bank (EUR 20,322 thousand).

The bank meets the obligatory reserve requirement by keeping an adequate balance in the settlement account. The bank's obligatory reserve requirement was EUR 3,696,594 on average in 2008 (2007: EUR 3,239,310), which the bank always met and exceeded.

5. FINANCIAL ASSETS HELD FOR TRADING

	thousand EUR	
	31 Dec 2008	31 Dec 2007
FINANCIAL ASSETS HELD FOR TRADING	572	16
Derivatives	572	16

The amount represents the positive the fair value of derivatives. Compared to 2007, the bank concluded quite some new deals with its clients, all of which were closed by means of a counter deal with VBAG. The item therefore must be read together with the item financial liabilities held for trading. The difference between the two items is attributable to the valuation of interest rate swaps concluded to close the bank's interest rate position but not meeting the hedge accounting criteria.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS – NON-MARKETABLE AND MARKETABLE

	thousand EUR	
	2008	2007
Equity securities: non-marketable	1,261	1,261
Debt securities: marketable	8,711	13,627
TOTAL	9,972	14,888

6.1 SHARES AND INTERESTS AT COST – NON-MARKETABLE

	thousand EUR	
	2008	2007
VBS Leasing d.o.o. Ljubljana	1,247	1,247
Bankart d.o.o. Ljubljana	11	11
S.W.I.F.T. Belgium	3	3
TOTAL	1,261	1,261

6.2 AVAILABLE-FOR-SALE DEBT SECURITIES – MARKETABLE

Structure by currency

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Foreign currencies	876	2,033
Bonds issued by foreign banks	876	2,033
EUR	7,834	11,594
Bonds issued by governments of Member States	1,517	0
Bonds issued by local banks	3,646	1,250
Bonds issued by foreign banks	1,551	8,790
Bonds issued by ÖVAG	966	1,402
Other long-term bonds	154	152
Total available-for-sale debt securities	8,711	13,627

Structure by listed-unlisted

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Listed	8,711	13,627
Bonds	8,557	13,475
Other	154	152
Total	8,711	13,627

Fair value measurement

	thousand EUR		
	2008	2007	2006
Cost	9,371	13,806	51,548
Interest (receivables, accruals)	47	101	263
Fair value revaluation	-707	-279	17
Carrying amount	8,711	13,627	51,827

Reclassification from available-for-sale to loans and receivables

In accordance with the amendments to IAS 39 and IFRS 7, the bank, on 15 September and 3 October 2008, reclassified certain its debt securities from available-for-sale financial assets to loans and receivables, given that an active market no longer existed for them. Altogether, debt securities of EUR 6,299 thousand were reclassified.

Value on reclassification and on balance sheet date

	Carrying amount	Fair value
On reclassification	6,299	6,299
Lehman Brothers (15 September 2008)	2,560	2,560
Landsbanki (3 October 2008)	3,739	3,739
On balance sheet date	700	700
Lehman Brothers	300	300
Landsbanki	400	400

Effect of reclassified financial assets on profit/loss and equity

	thousand EUR					
	TOTAL		LEHMAN BROTHERS		LANDSBANKI	
Before reclassification	Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity
Interest	252	-	100	-	152	-
Change in fair value	-	-538	-	-355	-	-183

	thousand EUR					
	TOTAL		LEHMAN BROTHERS		LANDSBANKI	
After reclassification	Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity
Impairment	-	-	-2,700	-	-3,600	-

Total effect of reclassified financial assets on profit/loss and equity

	thousand EUR					
	TOTAL		LEHMAN BROTHERS		LANDSBANKI	
2008	Profit or Loss	Equity	Profit or Loss	Equity	Profit or Loss	Equity
Interest	-41	-	-18	-	-23	-
Change in fair value	-	701	-	440	-	261

The market price of the Lehman Brothers' bond was EUR 96.90 as at year-end 2007, and EUR 85.33 on reclassification. The associated revaluation deficit included within equity was EUR -85 thousand as at year-end 2007, and increased by EUR 355 thousand to reach EUR -440 thousand on reclassification.

The market prices of the two Landsbanki's bonds were EUR 96.93 and EUR 99.65 as at year-end 2007, and EUR 92.17 and EUR 94.77 on reclassification. The associated revaluation deficit included within equity was EUR -78 thousand as at year-end 2007, and increased by EUR 183 thousand to reach EUR -261 thousand on reclassification.

7. LOANS

thousand EUR

	31 Dec 2008	31 Dec 2007
Loans to banks	49,372	50,357
Loans to non-banks	750,210	527,615
Total	799,582	577,973

7.1 LOANS TO BANKS

Maturity analysis

thousand EUR

	31 Dec 2008	31 Dec 2007
Repayable on demand	43,661	41,627
EUR	40,678	40,098
Foreign currencies	2,983	1,529
Short-term	5,011	6,730
EUR	5,011	3,115
Foreign currencies	0	3,616
Long-term	700	2,000
EUR	700	2,000
Total loans to banks	49,372	50,357

Geographical analysis

thousand EUR

	31 Dec 2008	31 Dec 2007
Slovenia	0	5,616
Other countries	49,372	44,742
TOTAL	49,372	50,357

7.2 LOANS TO NON-BANKS

Structure by clients

thousand EUR

	31 December 2008		31 December 2007	
	Short-term	Long-term	Short-term	Long-term
EUR	178,934	492,351	121,175	360,822
- non-financial companies	155,863	267,330	74,982	175,384
- the state	101	3,944	32	1,008
- other financial organisations	9,974	28,947	8,548	25,084
- households	10,253	164,242	31,954	142,440
- non-profit service providers	17	1,086	0	1,292
- non-residents	2,728	26,802	5,660	15,613
Foreign currencies	8,785	77,673	3,899	49,194
- non-financial companies	6,973	40,542	3,899	35,863
- the state	0	882	0	615
- households	107	36,249	0	12,716
- non-residents	1,705	0	0	0
Allowances	-1,785	-5,747	-1,728	-5,747
Total	185,934	564,276	123,346	404,269
Total loans to non-banks	750,210		527,615	

Structure by sectors

thousand EUR

	2008	2007
- non-financial companies	407,708	290,127
- the state	4,926	1,655
- other financial organisations	38,921	33,632
- households	210,850	187,110
- non-profit service providers	1,103	1,292
- non-residents	31,234	21,274
Allowances	-7,532	-7,475
Total	750,210	527,615

First-class collateral

First-class collateral as at year-end 2008 by risk grade:

	thousand EUR						
	A	B	C	D	E	P	Total
Bank deposits	56,077	131	0	0	80	0	56,288
Guarantees from the government	4,602	0	0	0	0	0	4,602
Guarantees from first-class foreign banks	9,704	0	0	0	0	0	9,704
Securities from first-class banks	5,657	0	0	0	0	0	5,657
Total	76,040	131	0	0	80	0	76,251

Appropriate collateral – mortgage

In its gross loan portfolio, the bank has EUR 407,134 thousand of loans insured by means of a mortgage.

7.3 ALLOWANCES FOR IMPAIRMENT BY TYPE OF RECEIVABLES AND LOANS

Movements in allowances for impairment in 2008:

	thousand EUR			
	Loans to non-banks	Loans to banks	Other	Total
1 January	7,475	0	278	7,753
Share of total claims (%)	1.2	0	16.5	
Formed	2,556	6,300	37	8,893
Released	-2,499	0	-291	-2,790
31 December	7,532	6,300	24	13,856
Share of total claims (%)	0.94	0.79	0.30	

Allowances for impairment of loans to banks relate to reclassified debt securities.

Movements in allowances for impairment in 2007:

	thousand EUR			
	Loans to non-banks	Loans to banks	Other	Total
1 January	7,690	0	257	7,947
Share of total claims (%)	1.3	0	15.3	
Formed	4,603	0	87	4,690
Released	-4,818	0	-66	-4,884
31 December	7,475	0	278	7,753
Share of total claims (%)	1.2	0	16.5	

8. HELD-TO-MATURITY DEBT SECURITIES

Structure by currency

	thousand EUR	
	31 Dec 2008	31 Dec 2007
In EUR	6,071	6,068
Bonds of other issuers	6,071	6,068
Total	6,071	6,068

The bank holds two debt securities with a nominal value of EUR 3 million each. One matures on 2 February 2018, and the other on 24 February 2012.

Structure by listed-unlisted

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Listed	6,071	6,068
Bonds of other issuers	6,071	6,068
Total	6,071	6,068

9. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment in 2008

thousand EUR								
	Land and buildings	Equipment	Assets under construction	Total property, plant and equipment	Intangible assets	Intangible assets in preparation	Total intangible assets	Grand Total
Initial cost								
Balance 1 January 2008	7,212	4,281	86	11,579	1,446	47	1,493	13,072
Additions	0	949	884	1,833	142	135	277	2,110
Disposals	0	-233	-954	-1,187	-1	-140	-141	-1,328
Balance 31 December 2008	7,212	4,997	16	12,225	1,587	42	1,629	13,854
Accumulated amortisation/depreciation								
Balance 1 January 2008	994	2,367	0	3,361	1,058	0	1,058	4,419
Accumulated Depreciation	161	511	0	672	155	0	155	827
Sales	0	1	0	1	0	0	0	1
Disposals	0	-233	0	-233	0	0	0	-233
Balance 31 December 2008	1,155	2,646	0	3,801	1,213	0	1,213	5,014
Carrying amount								
1 January 2008	6,218	1,914	86	8,218	388	47	435	8,653
31 December 2008	6,057	2,351	16	8,424	374	42	416	8,840

Movements in property, plant and equipment in 2007

thousand EUR								
	Land and buildings	Equipment	Assets under construction	Total property, plant and equipment	Intangible assets	Intangible assets in preparation	Total intangible assets	Grand Total
Initial cost								
Balance 1 January 2007	7,221	3,378	1	10,600	1,226	193	1,419	12,019
Additions	8	1,054	1,138	2,200	220	70	290	2,490
Disposals	-17	-151	-1,053	-1,221	0	-216	-216	-1,437
Balance 31 December 2007	7,212	4,281	86	11,579	1,446	47	1,493	13,072
Accumulated amortisation/depreciation								
Balance 1 January 2007	835	2,093	0	2,928	930	0	930	3,858
Accumulated depreciation	162	418	0	580	128	0	128	708
Sales	12	7	0	19	0	0	0	19
Disposals	-15	-151	0	-166	0	0	0	-166
Balance 31 December 2007	994	2,367	0	3,361	1,058	0	1,058	4,419
Carrying amount								
1 January 2007	6,386	1,285	1	7,672	296	193	489	8,161
31 December 2007	6,218	1,914	86	8,218	388	47	435	8,653

10. INVESTMENT PROPERTY

In 2008 and 2007, the bank did not have transactions involving investment property.

11. LONG-TERM INVESTMENTS IN SUBSIDIARIES

Long-term investment in Group members as at 31 December 2008

thousand EUR					
	Investment amount	Participation percentage	Voting rights percentage	Share capital amount	Profit for the year
Privatinvest d.o.o. Ljubljana	1,614	100	100	2,296	1
Total	1,614				

Long-term investment in Group members as at 31 December 2007

thousand EUR					
	Investment amount	Participation percentage	Voting rights percentage	Share capital amount	Profit for the year
Privatinvest d.o.o. Ljubljana	1,614	100	100	2,296	-20
Total	1,614				

12. TAX ASSETS

	thousand EUR	
	31 Dec 2008	31 Dec 2007
TAX ASSETS	212	262
Current tax assets	0	1
Deferred tax assets	212	261

Deferred tax assets arise from non-deductible provisions for employee benefits, other non-deductible provisions, and revaluation of available-for-sale securities. Compared to 2007, they decreased, mainly due to the deduction of tax loss from the 2008 tax basis, which was partly compensated by revaluation of available-for-sale securities. When calculating deferred tax for 2008, the bank applied the 21-% rate applicable in 2009, while in 2007, it applied the 22-% rate applicable in 2008.

MOVEMENTS IN DEFERRED TAX IN 2008 AND 2007

	thousand EUR			
	Opening balance	Through profit or loss	Through equity	Closing balance
2008	-207	-93	88	-212
2007	5	-278	65	-207

Deferred tax is shown net, as the difference between deferred tax assets and deferred tax liabilities.

DEFERRED TAX FROM REVALUATION OF SECURITIES

	thousand EUR		
	2008	2007	2006
Net deferred tax as at 31 December	148	61	-4
Fair value revaluation	-707	-279	17
Revaluation reserve as at 31 December	-559	-218	13
Deferred tax – changes in equity	88	65	-13

13. OTHER ASSETS

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Receivables for fees and commissions	31	64
Trade receivables	60	88
Receivables for advances	21	11
Inventories of material	97	14
Other receivables	7,867	1,352
In EUR	6,961	1,459
- allowances	-24	-277
In foreign currencies	930	170
Deferred expenses and accrued income	104	94
Total	8,180	1,622

Other receivables in foreign currency relate to sales/purchases of foreign exchange concluded with companies and banks, which are settled within two business days but recognised by the bank on the trade date. The bank always closes such deals by means of counter deals, for which reason a similar amount can be found within other liabilities in foreign currency.

14. FINANCIAL LIABILITIES FROM DERIVATIVES (HELD FOR TRADING)

	thousand EUR	
	31 Dec 2008	31 Dec 2007
FINANCIAL LIABILITIES HELD FOR TRADING	630	0
Derivatives	630	0

The amount represents the negative fair value of derivatives. Compared to 2007, the bank concluded quite some new deals with its clients, all of which were closed by means of a counter deal with VBAG. The item therefore must be read together with the item financial assets held for trading. The difference between the two items of minus EUR 58 thousand was included within profit or loss.

The difference between both positions can be explained with the valuation of interest rate swaps that were concluded in order to hedge bank's interest rate position, but they did not fulfill the criteria for hedge accounting. All interest rate swaps had negative fair value at the end of 2008, which is why financial liabilities held for trading are higher than financial assets held for trading.

14.A FINANCIAL LIABILITIES FROM DERIVATIVES (HEDGE ACCOUNTING)

	thousand EUR	
	2008	2007
Derivatives eligible for hedge accounting	81	0
Interest rate swap	81	0

The bank uses interest rate swaps to hedge the fair value of its fixed-rate loans. The hedge matches perfectly the underlying instrument in terms of cash flows (critical terms match).

As at year-end 2008, the carrying amount of the underlying loan was EUR 3 million, while the fair value of the hedge was minus EUR 81 thousand. Given that the hedge is 100-% effective, the net effect on the profit or loss was zero.

15. FINANCIAL LIABILITIES AT AMORTISED COST

15.1 DEPOSITS FROM BANKS

Structure by type, currency and maturity

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Demand deposits	39,003	72,090
- EUR	2,163	58,229
- Foreign currencies	36,840	13,860
Deposits with agreed maturity	44,537	44,096
Short-term	44,537	41,969
- EUR	44,459	41,969
- Foreign currencies	78	0
Long-term	0	2,128
- EUR	0	2,128
Total	83,540	116,186

15.2 DEPOSITS FROM NON-BANKS

Structure by type, currency and maturity

	31 December 2008			31 December 2007		
	EUR	Foreign currency	Total	EUR	Foreign currency	Total
Demand deposits	64,678	1,656	66,334	46,676	2,035	48,711
Companies	26,337	374	26,711	22,442	303	22,745
Households	36,203	922	37,125	22,256	1,639	23,895
Non-profitable service providers	674	1	675	497	0	497
Other financial institutions	356	0	356	470	0	470
Non-residents	1,108	359	1,467	1,011	93	1,104
Deposits with agreed maturity	195,595	1,649	197,244	122,744	2,729	125,473
Short-term deposits	182,279	1,485	183,764	116,962	2,640	119,602
Companies	42,811	420	43,231	40,162	794	40,956
Households	53,907	1,040	54,947	33,838	1,521	35,359
Public sector	59,369	0	59,369	9,839	0	9,839
Non-profitable service providers	1,532	0	1,532	449	0	449
Other financial institutions	23,563	0	23,563	32,213	301	32,514
Non-residents	1,097	25	1,122	461	24	485
Long-term deposits	13,316	164	13,480	5,782	89	5,871
Companies	1,250	0	1,250	471	27	498
Households	10,149	135	10,284	4,812	49	4,861
Public sector	80	0	80	80	0	80
Other financial institutions	1,343	29	1,372	143	0	143
Non-residents	494	0	494	276	13	289
TOTAL	260,273	3,305	263,578	169,420	4,764	174,184

15.3 BORROWINGS

Structure by type, currency and maturity

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Total loans	416,476	257,807
Long-term loans from banks	416,476	257,807
- EUR	319,571	170,479
- Foreign currencies	96,905	87,328

15.4 DEBT INSTRUMENTS

The bank did not issue debt instruments measured at amortised cost.

15.5 SUBORDINATED LIABILITIES

Structure

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Subordinated liabilities to non-residents in EUR	28,461	18,928
Total	28,461	18,928

In 2008, the bank obtained from VBI an additional subordinated loan of EUR 9.5 million. On its total subordinated liabilities, the bank paid EUR 262 thousand of interest.

The new subordinated loan was obtained for an undetermined period, with the cancellation period being 5 years and one day. The agreed interest rate is three-month Euribor + 0.75% p.a. Interest is calculated at the end of each calendar quarter.

16. LONG-TERM PROVISIONS

Structure

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Pending lawsuits	28	78
Employee benefits	290	240
Off-balance sheet liabilities	23	18
Other provisions	26	26
Total	368	362

Movements

Movements in 2008

	thousand EUR				
	Off-balance sheet liabilities	Employee benefits	Other	Pending lawsuits	Total
1 January	18	240	26	78	362
Increases	158	53	0	1	212
Decreases	-152	-3	0	-51	-206
31 December	24	290	26	28	368

Movements in 2007

	thousand EUR				
	Off-balance sheet liabilities	Employee benefits	Other	Pending lawsuits	Total
1 January	7	193	0	79	279
Increases	179	63	26	40	308
Decreases	-168	-16	0	-41	-225
31 December	18	240	26	78	362

17. TAX LIABILITIES

	thousand EUR	
	31 Dec 2008	31 Dec 2007
TAX LIABILITIES	415	468
Current tax liabilities	415	0
Deferred tax liabilities	0	468

18. OTHER LIABILITIES

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Fees and commissions payable	6	5
Other liabilities:	4,471	1,935
- EUR	4,258	1,695
trade payables	702	650
salaries	413	348
taxes and contributions	121	114
other liabilities	2,966	527
liabilities to households	55	56
- Foreign currencies	213	240
other liabilities	213	0
liabilities from business relations	0	240
Accrued expenses and deferred income	518	404
Total	4,995	2,345

Other liabilities in foreign currency relate to sales/purchases of foreign exchange concluded with companies and banks, which are settled within two business days but recognised by the bank on the trade date. The bank always closes such deals by means of counter deals, for which reason a similar amount can be found within other receivables in foreign currency.

19. EQUITY

Subscribed capital increased in 2008. It now comprises 10,345,416 ordinary shares with a nominal value of EUR 4.17. The 28th regular general meeting held on 13 October 2008 adopted a resolution on the eighth issue of shares. The newly issued ordinary registered no-par value shares were 2,820,874, and had a nominal value of EUR 4.17.

Capital reserves represent mainly the difference between the price paid in and the issue price of the new shares. A portion relates to the former general capital revaluation adjustment.

Revaluation reserves stood at minus EUR 559 thousand as at year-end 2008. In accordance with IAS 39, revaluation reserves arise on fair value revaluation of available-for-sale financial assets. Compared to year-end 2007, when they stood at minus EUR 218 thousand, revaluation reserves increased due to the falling prices of securities.

ACCUMULATED PROFIT FOR 2008

	thousand EUR
Net profit or loss for the current year	-67
Net profit or loss carried forward	-2,125
= accumulated net loss appropriated by the general meeting:	-2,192
- carried forward to the following year	-2,192

ACCUMULATED PROFIT FOR 2007

	thousand EUR
Net profit or loss for the current year	2,748
Net profit or loss carried forward	-4,873
= accumulated net loss appropriated by the general meeting:	-2,125
- carried forward to the following year	-2,125

Share book value, calculated based on total equity, was EUR 6.54 EUR at year-end 2008, up EUR 0.15 from a year ago.

Loss per share was exactly EUR 0.01 EUR (2007: EUR 0.37).

	EUR	
	2008	2007
Profit or loss after tax	-67,013	2,748,170
Shares outstanding	10,345,416	7,524,542
Basic earnings per share	-0.01	0.37
Diluted earnings per share	-0.01	0.37

Basic and diluted earnings per share are equal as the bank does not have preference shares.

Other reserves from profit comprise regulatory reserves, statutory reserves and other reserves from profit. Regulatory reserves together with other specific categories of capital reserves must represent at least 10% of the bank's core capital. In accordance with the bank's Statute, the general meeting decides on appropriation of the accumulated profit at the proposal of the Managing and Supervisory Boards. While this proposal is not binding for the general meeting, the approved annual report is. Its resolution on appropriation of the accumulated profit must contain the following information:

- the amount of the accumulated profit;
- the amount of profit distributed to shareholders;
- the amount of profit allocated to other reserves from profit;
- the amount of profit carried forward to the following year; and
- the amount of profit appropriated for other purposes provided for in the bank's Statute.

The resolution on appropriation of the accumulated profit does not change the approved annual report. The general meeting cannot decide on matters concerning the bank's management, unless if so required by the Managing Board.

Other reserves from profit were formed in previous years from profit and retained earnings for those years, and cannot be distributed to shareholders. They remained unchanged from 2007 at EUR 6 thousand.

20. OWN SHARES

The bank has not bought back any of its shares, and does not have reserves for such transactions.

21. OFF-BALANCE SHEET ITEMS

	thousand EUR	
	2008	2007
Performance guarantees	7,232	8,179
-short-term	1,197	3,385
-long-term	6,035	4,794
Financial guarantees	16,237	14,803
-short-term	4,188	2,651
-long-term	12,049	12,152
Financial assets as collateral with Banka Slovenije	5,167	16,668
Letters of credit	473	917
Commitments	74,795	90,352
Derivative instruments	13,062	198
Total	116,967	131,118
Total risky items	116,967	131,118
Depositories and other records of securities	21,360	161
Records of written-off receivables	106	114
Other off-balance sheet commitments	1,891,527	1,727,635
Total risk-free items	1,912,993	1,727,911
Total off-balance sheet items	2,029,960	1,859,029

As at year-end 2008, the bank had off-balance sheet items involving some risk of EUR 116,967 thousand, and off-balance sheet items involving no risk of EUR 1,912,993 thousand.

22. NET INTEREST AND SIMILAR INCOME AND EXPENSES

By source

	thousand EUR	
	2008	2007
Net interest income	16,009	12,060
Income	46,087	29,342
Deposits at central bank	174	135
Financial assets held for trading	239	75
Derivatives (hedge accounting)	4	0
Available-for-sale financial assets	654	699
Loans and receivables (including finance leases)	44,896	28,281
Held-to-maturity financial assets	89	88
Other financial assets	30	64
Expenses	-30,078	-17,282
Financial liabilities held for trading	-231	-72
Derivatives (hedge accounting)	-3	0
Financial liabilities at amortised cost	-29,844	-17,210
Other liabilities (including finance leases)	0	0

By type

	thousand EUR			
	2008		2007	
	Income	Expenses	Income	Expenses
Regular	43,856	30,078	27,640	17,282
Default	760	0	447	0
Accrued fees similar to interest	1,471	0	1,254	0
Total	46,087	30,078	29,342	17,282

23. DIVIDEND INCOME

The bank did not receive any dividends in 2008 and 2007.

24. NET FEE AND COMMISSION INCOME

	thousand EUR	
	2008	2007
INCOME	2,951	2,663
Guarantees	0	87
Domestic payments	579	563
International payments	385	306
Agency and fiduciary business	185	264
Securities transactions on behalf of clients	164	209
Credit operations	42	52
Administrative services	1,596	1,183
EXPENSES	987	958
Domestic banking services	134	120
Foreign banking services	707	793
Agency and fiduciary business	52	16
Brokerage and other securities transactions	0	1
Payment transactions	46	28
Other services	48	0
NET FEES AND COMMISSIONS	1,964	1,705

Fees and commissions increased mainly on the account of administrative services provided.

25. REALISED GAINS/LOSSES FROM FINANCIAL ASSETS/LIABILITIES NOT AT FAIR VALUE THROUGH PROFIT OR LOSS

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Net realised gains/losses	-310	11
Realised gains	103	56
Available-for-sale financial assets	93	33
Loans and receivables (including finance leases)	10	23
Realised losses	-413	-45
Available-for-sale financial assets	-150	-3
Loans and receivables (including finance leases)	-251	-42
Financial liabilities at amortised cost	-2	0
Other financial assets and liabilities	-11	0

In 2008, the largest part of realised gains from available-for-sale financial assets arose on disposal of government bonds (EUR 93 thousand). The largest part of realised losses from this category arose on disposal of bonds issued by the HSBC Group. The bank sold USD 1.5 million of these bonds at a price below 100 to half this exposure.

The largest part of realised losses from loans arose from two deals which the bank successfully closed in 2008: it recovered the largest part, and wrote off only a small part of these loans.

26. NET GAINS/LOSSES FROM FINANCIAL ASSETS/LIABILITIES HELD FOR TRADING

	thousand EUR	
	2008	2007
Net gains/losses	1,301	940
Trading in debt securities and loans	286	302
Trading in foreign exchange and precious metals	608	476
Companies	370	364
Households	238	112
Derivatives	407	161
Forwards	184	6
Swaps	224	155

27. FOREIGN EXCHANGE GAINS/LOSSES

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Net gains/losses	-30	-110
Foreign exchange gains	46,539	7,385
Foreign exchange losses	-46,568	-7,495

28. GAINS/LOSSES ON DERECOGNITION OF ASSETS OTHER THAN HELD FOR SALE

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Net gains/losses	0	9
Gains	1	12
Losses	-1	-3

29. OTHER NET OPERATING INCOME

	thousand EUR	
	2008	2007
Other net operating income	197	153
Income	305	237
Income for non-banking services	45	45
Other operating income	260	192
Expenses	-108	-84
Membership fees	-66	-54
Other operating expenses	-43	-30

30. GENERAL ADMINISTRATIVE EXPENSES

	thousand EUR	
	2008	2007
Labour costs		
- gross salaries	5,032	4,686
- social security contributions	319	281
- pension insurance contributions	640	373
- other payroll duties	176	227
- other labour costs	482	577
Total	6,649	6,144
Costs of material and services		
Material	211	195
Rentals	396	275
Services	1,257	1,042
Consulting and auditing	228	139
Security	93	85
Legal	128	181
Provided by VBAG and VBI	545	382
Postage, telecommunication and data transfer	262	255
Advertising	778	597
Entertainment	82	88
Seminars and school fees	119	134
Maintenance	747	555
Other	1,578	1,179
TOTAL	5,170	4,067

31. AMORTISATION/DEPRECIATION

	thousand EUR	
	2008	2007
Depreciation of property, plant and equipment	-672	-580
Amortisation of intangible assets	-155	-128
Total amortisation/depreciation charge	-827	-708

The same as in 2007, the bank used the linear amortisation/depreciation method in 2008.

32. IMPAIRMENT AND PROVISIONS

	thousand EUR		
	Recognition of impairment and provisions	Derecognition of impairment provisions	Total 2008
Loans	-8,742	2,272	-6,470
Interest	-74	78	4
Other receivables	-55	59	4
Impairment	-8,871	2,408	-6,462
Provisions for off-balance receivables	-158	152	-6
Provisions for pending lawsuits	-1	11	10
Provisions for employee benefits	-53	0	-53
Provisions for anniversary bonuses	-7	0	-7
Provisions for retirement bonuses	-46	0	-46
Other provisions	0	0	0
Provisions	-212	163	-49
Total impairment and provision	-9,083	2,571	-6,511

33. NET PROFIT OR LOSS FOR THE CURRENT YEAR

In 2008, the bank earned a net profit from ordinary activities of EUR 26 thousand. Deferred tax was minus EUR 93 thousand, and net loss for 2008 EUR – 67 thousand.

34. FINANCIAL INFORMATION BY GEOGRAPHIC AND BUSINESS SEGMENTS

	thousand EUR	
	2008	2007
Total income (gross)	102,064	44,011
Income earned in foreign markets	44,930	5,863
Share of income earned in foreign markets	44.02	13.32
Total expenses (gross)	92,846	38,434
Expenses incurred in foreign markets	76,191	14,765
Share of expenses incurred in foreign markets	82.06	38.42

The majority of income earned and expenses incurred in foreign markets arose from transactions with VBAG and VBI.

35. AUDITING EXPENSES

In accordance with the contract on annual report auditing, auditing expenses in 2008 were EUR 45,900 plus VAT.

In 2007, these expenses amounted to EUR 43,750 plus VAT. Other expenses associated with auditing amounted to EUR 567 (translation costs).

36. EFFECTIVE TAX RATE

	thousand EUR	
	2008	2007
Profit or loss from ordinary activities	26	3,026
Estimated tax liability at the statutory tax rate of 22% (2007: 23%)	-6	-696
Difference to the actual tax liability	-87	-278
Additions to tax base (non-deductible entertainment expenses, donations, employee benefits)	-27	-24
Tax allowances (capital investments, research & development)	20	43
Other (changes in tax loss for previous years)	-77	397
Lower tax rate (influence on deferred tax)	-3	2
Income tax in the income statement	-93	-278
Effective tax rate	357.6 %	9.2 %

37. NUMBER OF EMPLOYEES

In 2008, the bank had 190.7 employees on average. As at year-end 2008, it had 200 employees. Of these, 6 had post-graduate education, 77 had university education, 15 higher had education, and 89 had secondary education.

38. ORGANISATIONAL UNITS ABROAD

The Bank does not have organisational units abroad.

39. FIDUCIARY BUSINESS

	thousand EUR	
	31 Dec 2008	31 Dec 2007
Fiduciary business	60,283	39,405
Syndicated loans	60,283	29,046
Agency business	0	7

AGENCY BUSINESS

(business with clients)

	thousand EUR	
	2008	2007
ASSETS	0	7
Client assets	0	7
on the settlement account	0	7
on the bank's transaction accounts	0	0
LIABILITIES	0	7
Liabilities for client assets	0	7
from cash and financial instruments	0	7
OFF-BALANCE SHEET ITEMS	0	0

NET FEES AND COMMISSIONS FROM INVESTMENT SERVICES

	thousand EUR	
Source	2008	2007
Fee and commission income from (ancillary) investment services for clients	168	259
Acceptance, transmission and execution of orders	168	259
Fee and commission expenses from (ancillary) investment services for clients	0	0

40. DOCUMENTS ON PARTICIPATION RIGHTS, CONVERTIBLE BONDS

The bank does not have documents relating to participation rights or convertible bonds.

41. ASSETS AS COLLATERAL FOR SOURCES OF FINANCE

As at year-end 2008, the bank pledge EUR 5,131,256.34 EUR of first-class securities with Banka Slovenije to secure payment transactions and the bank's secondary liquidity.

42. SUBORDINATED INSTRUMENTS

The Bank does not have investments in others' subordinated instruments.

43. RELATED PARTIES AS AT 31 DECEMBER 2008

Receivables and off-balance sheet liabilities

thousand EUR				
	Managing Board members	Supervisory Board members	Employees with individual employment contracts	Total
Balance sheet receivables	94	0	897	990
Off-balance sheet liabilities	8	0	26	35
Total	102	0	923	1,025
Loan repayments	12	0	128	140

The bank does not have internal owners and therefore does not disclose their receipts.

The terms applicable to the transactions with members of the Managing and Supervisory Boards, employees with individual employment contracts and internal owners are the same as those applicable to other bank employees and their family members, i.e. the same as those laid down in the bank's official tariff.

Total receipts

thousand EUR				
	Managing Board members	Supervisory Board members	Employees with individual employment contracts	Total
Gross receipts	356,440.51	0	673,673.29	1,030,113.80
Participation in profit	0	0	0	0
Attendance fees	0	0	0	0
Total	356,440.51	0	673,673.29	1,030,113.80

As at year-end 2008, the bank had three members of the Managing Board, five members of the Supervisory Board, and 14 employees with individual employment contracts. The bank also had seven procurators.

Receivables from and liabilities to the parent VBI

thousand EUR	
LIABILITIES	226,942
Long-term loans from banks in EUR	130,000
Long-term loans from banks in foreign currency	96,906
Trade payables	36

Income and expenses from the parent VBI

thousand EUR	
EXPENSES	9,946
Interest expenses	8,769
Counselling and other services	562
Fees for loans	615

Receivables from and liabilities to the subsidiary Privatinvest

thousand EUR	
RECEIVABLES	24
Trade receivables	24
LIABILITIES	67
Balance on transaction account	21
Deposits	45
Trade payables	1

Income and expenses from the subsidiary Privatinvest

thousand EUR	
EXPENSES	9
Interest expenses	4
Rentals	4
Office operating expenses	1
INCOME	20
Fees for payment transactions	0.3
Other income	20

44. NOTES TO THE CASH FLOW STATEMENT

The bank prepared the cash flow statement in accordance with the direct method using detailed data from the income statement and the balance sheet. Within cash equivalents, it included all financial assets with an original maturity of up to three months. Under IAS 7, these are short-term, highly liquid assets that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. Differences between data from the two consecutive balance sheets and the income statement for the period between them are corrected in depth in order to assure that inflows are as close as possible to receipts and outflows to expenses.

Cash and cash equivalents as at 31 December 2006

	thousand EUR
1. Cash and cash balances with central bank	20,622
2. Loans to banks and savings banks maturing in 3 months	11,792
Transaction accounts abroad	238
Transaction accounts abroad in foreign currency	335
Overnight deposits abroad	1,900
Overnight deposits abroad in foreign currency	450
Transaction accounts with banks in Slovenia	364
Transaction accounts with banks in Slovenia in foreign currency	126
Short-term deposits with banks for up to 30 days	8,378
TOTAL	32,414

Cash and cash equivalents as at 31 December 2007

	thousand EUR
1. Cash and cash balances with central bank	7,231
2. Loans to banks and savings banks maturing in 3 months	41,627
Transaction accounts abroad	98
Transaction accounts abroad in foreign currency	488
Overnight deposits abroad	40,000
Overnight deposits abroad in foreign currency	1,041
TOTAL	48,858

Cash and cash equivalents as at 31 December 2008

	thousand EUR
1. Cash and cash balances with central bank	31,140
2. Loans to banks and savings banks maturing in 3 months	48,671
Transaction accounts abroad	25,678
Transaction accounts abroad in foreign currency	2,982
Overnight deposits abroad	15,000
Overnight deposits abroad in foreign currency	5,011
TOTAL	79,811

45. POST-BALANCE SHEET EVENTS

In the period between the submission of the financial statements contained herein and the completion of this report, the bank did not experience any significant business events that would affect the said financial statements, the results of its operations and other disclosures made herein. It must be mentioned at this point that the ongoing financial crisis has worsened the general business conditions, which affects the most the highly indebted companies with irregular cash flows. The most important of them for the Slovenian banking sector, including Banka Volksbank d.d., is the Slovenian company Istrabenz holding.

In February 2009, the bank changed its internal rating of Istrabenz holding based on the company's 9-month financial statements and information obtained at meetings between the company and the banks its creditors. Based on the new rating and its credit risk policy, the bank decided that individual impairment was necessary. Impairment was recognised in February and March 2009. Further impairment will be recognised based on the developments in the company's situation, closely monitored by the bank.

**Consolidated
Financial
Statements**

**Banka
Volksbank d.d.**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANKA VOLKSBANK D.D., LJUBLJANA

We have audited the accompanying consolidated financial statements of the company Banka Volksbank d.d., Ljubljana and its subsidiaries (the Banka Volksbank Group) which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves 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 misstatements 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 consolidated financial statements present fairly, in all material respects, the financial position of the group Banka Volksbank d.d., Ljubljana as at 31 December 2008, its financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

As required by the Slovenian Companies Act we herewith confirm that the information in the management report is in conformity with the accompanying financial statements.

Ljubljana, 24 April 2009

KPMG SLOVENIJA,
podjetje za revidiranje, d.o.o.

Boris Drobnič, B.Sc.Ec.



Certified Auditor
Partner

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2008

thousand EUR

ITEM DESCRIPTION	AMOUNT	
	31 Dec 2008	31 Dec 2007
Cash and cash balances with central banks	31,140	7,231
Financial assets held for trading	572	16
Available-for-sale financial assets	10,013	14,990
Loans and receivables	799,914	578,126
- loans and receivables to banks	49,372	50,357
- loans and receivables to non-bank customer	750,542	527,768
Held-to-maturity investments	6,071	6,068
Property, plant and equipment	8,423	8,217
Investment property	1,269	1,257
Intangible assets	417	435
Tax assets	379	440
- current taxes	0	1
- deferred taxes	379	438
Other assets	8,176	1,620
TOTAL ASSETS	866,374	618,400
Financial liabilities held for trading	630	0
Derivatives - hedge accounting	81	0
Financial liabilities measured at amortised cost	791,989	566,862
- deposits from banks	83,540	116,186
- deposits from non-banks	263,512	173,940
- loans and advances from banks	416,475	257,807
- subordinated liabilities	28,460	18,928
Provisions	368	362
Tax liabilities	421	488
- current tax liabilities	415	0
- deferred tax liabilities	6	488
Other Liabilities	5,053	2,402
TOTAL LIABILITIES	798,542	570,114
Basic equity capital	43,822	32,059
Share premium account	27,319	19,082
Revaluation reserves	-535	-146
Reserves from profit (including retained earnings)	-2,709	-5,443
Income from current year	-66	2,733
EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF PARENT	0	0
Minority interest	0	0
TOTAL EQUITY	67,831	48,285
TOTAL LIABILITY AND EQUITY	866,374	618,400

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2008

thousand EUR

ITEM DESCRIPTION	AMOUNT	
	31 Dec 2008	31 Dec 2007
Interest income and similar income	46,087	29,342
Interest expenses and similar expenses	-30,074	-17,279
Net interest income	16,013	12,063
Dividend income	1	1,0
Fee and commission income	2,950	2,663
Fee and commission expense	-987	-958
Net fee and commission income	1,963	1,705
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	-320	-71
Gains and losses on financial assets and liabilities held for trading	1,301	940
Exchange differences	-30	-110
Gains and losses on derecognition of assets other than held for sale	0	81
Result from other operating activities	258	185
Administrative expenses	-11,791	-10,239
Amortisation	-846	-732
Provisions	-48	-140
Impairment	-6,465	-677
Total profit or loss from non-current assets and disposal groups classified as held for sale	2	0
TOTAL PROFIT AND LOSS BEFORE TAX FROM CONTINUING OPERATIONS	35	3,005
Tax expense (income) related to profit and loss from continuing operations	-103	-273
TOTAL PROFIT AND LOSS AFTER TAX FROM CONTINUING OPERATIONS	-68	2,732
Total profit or loss after tax from discontinued operations	0	0
NET PROFIT OR LOSS FOR THE FINANCIAL YEAR		
a) Profit or loss attributable to equity holder of the parent	-68	2,732
b) Profit and loss attributable to minority interest		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CAPITAL
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2008

thousand EUR

ITEM DESCRIPTION	Basic Equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD	32,059	19,082	-146	6	-5,449	2,733	48,285
Net gains/losses in revaluation reserves from financial assets available for sale			-388				
Net profit or loss for the financial year (from income statement)			-388				
Net profit or loss for the financial year recognised in equity						-66	
New share capital subscribed (paid)	0	0	-388	0	0	-66	-454
Repayment of equity	11,763	8,237					20,000
Covering of the loss brought forward					704	-704	0
CLOSING BALANCE FOR THE REPORTING PERIOD					2,748	-2,748	0
BALANCE SHEET AVAILABLE PROFIT for financial year	43,822	27,319	-534	6	-1,997	-784	67,831

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CAPITAL
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007

thousand EUR

ITEM DESCRIPTION	Basic Equity	Share premium	Revaluation reserves	Reserves from profit	Retained earnings or loss	Income from current year	Total equity
OPENING BALANCE FOR THE REPORTING PERIOD	23,254	12,889	37	6	-6,131	682	30,737
Net gains/losses in revaluation reserves from financial assets available for sale			-183				
Net profit or loss for the financial year (from income statement)			-183				
Net profit or loss for the financial year recognised in equity						2,733	
New share capital subscribed (paid)	0	0	-183	0	0	2,733	2,550
Repayment of equity	8,805	6,193					14,998
Covering of the loss brought forward					682	-682	0
BALANCE SHEET AVAILABLE PROFIT for financial year	32,059	19,082	-146	6	-5,449	2,733	48,285

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2008

Designation	ITEM DESCRIPTION	thousand EUR	
		AMOUNT 31 Dec 2008	31 Dec 2007
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Total profit or loss before tax	37	3,006
	Depreciation	846	732
	Impairments / (reversal of impairments) of financial assets held to maturity	6,462	683
	Impairments of tangible assets, investment property, intangible fixed assets and other assets	3	4
	Net (gains) / losses from exchange differences	29	110
	Net (gains) / losses from financial assets held to maturity	263	124
	Net (gains) / losses from sale of tangible assets and investment properties	-12	-94
	Other (gains) / losses from investing activities	150	0
	Unrealised (gains) / losses from financial assets measured at fair value that are component of cash equivalents	-12	-92
	Net unrealised gains in revaluation reserves from hedging of cashflow against risks (excluding effect of deferred tax)	-341	0
	Other adjustments to total profit or loss before tax	-2,675	126
	Cash flow from operating activities before changes in operating assets and liabilities	4,750	4,599
b)	(Increases) / decreases in operating assets	-215,906	-115,356
	Net (increase) / decrease in financial assets designated at fair value through profit or loss	-553	0
	Net (increase) / decrease in financial assets available for sale	4,692	41,452
	Net (increase) / decrease in loans and receivables	-213,509	-163,809
	Net (increase) / decrease in interest on financial assets (accrued income)	0	-8
	Net (increase) / decrease in deferred charges	-9	-24
	Net (increase) / decrease in other assets	-6,527	7,033
c)	(Increases) / decreases in operating liabilities	208,476	115,012
	Net (increase) / decrease in financial liabilities held for trading	630	27
	Net (increase) / decrease in deposits, loans and receivables and debt securities measured a amortised costs	205,109	121,281
	Net (increase) / decrease in liability-derivatives	80	7

Designation	ITEM DESCRIPTION	thousand EUR	
		AMOUNT 31 Dec 2008	31 Dec 2007
c)	Net (increase) / decrease in deferred income	114	97
	Net (increase) / decrease in other liabilities	2,543	-6,400
č)	Cash flow from operating activities (a+b+c)	-2,680	4,255
d)	Income taxes (paid) refunded	0	0
e)	Net cash flow from operating activities (č+d)	-2,680	4,255
B.	CASHFLOWS FROM INVESTING ACTIVITIES		
a)	Receipts from investing activities	257	361
	Receipts from the sale of tangible assets and investment properties	256	360
	Other receipts from investing activities	1	1
b)	Cash payments on investing activities	1,155	5,044
	(Cash payments to acquire tangible assets and investment properties)	1,020	1,196
	(Cash payments to acquire intangible fixed assets)	135	61
	(Cash payment for the investment in subsidiaries, associates and joint ventures)	0	838
	(Cash outflow to non-current assets or liabilities held for sale)	0	2,949
c)	Net cash flow from investing activities (a-b)	-898	-4,683
C.	CASH FLOWS FROM FINANCING ACTIVITIES	0	0
a)	Cash proceeds from financing activities	29,532	17,799
	Cash proceeds from subordinated liabilities issued	9,500	2,800
	Cash proceeds from issuing shares and other equity capital instruments	20,000	14,999
	Other cash proceeds related to financial activities	32	0
b)	Cash payments on financing activities	0	835
	(Other cash payments related to financial activities)	0	835
c)	Net cash flow from financing activities (a-b)	29,532	16,964
D.	Effects of change in exchange rates on cash and cash equivalents	-12	-92
E.	Effects of change in fair value on cash and cash equivalents	0	0
F.	Net increase in cash and cash equivalents (Ae+Bc+Cc)	25,954	16,536
G.	Opening balance of cash and cash equivalents	48,858	32,414
H.	Closing balance of cash and cash equivalents (D+E+F+G)	74,800	48,858

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The bank prepared the consolidated financial statements in accordance with the Companies Act, Banking Act and International Financial Reporting Standards. The Group comprises Banka Volksbank d.d. as parent and Privatinvest as subsidiary, 100-% owned by the bank.

Due to insignificance of the subsidiary's assets, debts, income and expenses for the same items, notes and disclosures presented in the bank's financial statements (total assets of the subsidiary represented only 0.22% of the total assets of the Group), the bank did not prepare the consolidated annual report in accordance with Article 56 of the Companies Act, while the consolidated financial statements are included in a separate section herein.

Notes to the separate financial statements can be applied by analogy also to the consolidated financial statements.

Additional notes to the consolidated financial statements

During the process of consolidation, all intra-Group relations, intra-Group receivables and liabilities, and income and expenses from intra-Group relations were eliminated.

The entire equity of the subsidiary Privatinvest, which represents the bank's long-term investment of EUR 1,614 thousand, was eliminated. Equity in Privatinvest represents almost 100% of its sources of finance.

Balances of Privatinvest in its transaction accounts with the bank were offset against sight deposits of the bank (EUR 21 thousand). Short-term deposits of Privatinvest with the bank were offset against short-term deposits of the bank (EUR 45 thousand). Other liabilities of Privatinvest to the bank were offset against other receivables of the bank (EUR 25 thousand).

In the consolidated income statement, interest expenses of Privatinvest was offset against interest income of the bank (EUR 4 thousand), and administrative expense of Privatinvest were offset against other operating income of the bank (EUR 28 thousand).

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BANKA VOLKSBANK D.D., LJUBLJANA

We carried out the following procedures in the bank Banka Volksbank d.d, Ljubljana and the Banka Volksbank Group and for the financial year ended on 31 December 2008 in association with:

- the disclosures pursuant to paragraph 1, Article 207 of the Banking Act (Official Gazette of the Republic of Slovenia Nos. 131/2006 and 1-2/2008; hereinafter: ZBan-1);
- the compliance with the risk management regulations and
- the quality of IT system:

we verified the compliance with the provisions of ZBan-1 as well as its implementing regulations – Regulation on the disclosures by banks and savings banks (Official Gazette of the Republic of Slovenia No. 135/2006; hereinafter: Regulation on disclosures), Regulation on risk management and implementation of the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia Nos. 135/2006, 28/2007, and 104/2007; hereinafter: Regulation on risk management), the Regulation on the Assessment of the Credit Risk Losses of Banks and Savings Banks (Official Gazette of the Republic of Slovenia No. 28/2007; hereinafter: Regulation on loss assessment) and the Regulation on the Calculation of the Own Funds of Banks and Savings Banks (Official Gazette of the Republic of Slovenia, Nos. 135/2006 and 104/2007; hereinafter: Regulation on own funds calculation) – in the financial year that ended on 31 December 2008.

The bank's management is responsible for the compliance with the regulations on risk management and the IT system quality assurance pursuant to the aforementioned regulations. Our responsibility is to issue a report based on our audit and review.

Audit and review

We conducted the audit of the disclosures listed in paragraph 1, Article 207 of ZBan-1 and the audit of the compliance with the regulations on risk management in accordance with the International Standard on Auditing ISA 800 and other International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the bank Banka Volksbank d.d., Ljubljana and the Banka Volksbank Group complied with the relevant provisions of ZBan-1 as well as its implementing regulations. An audit includes examining the relevant evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

We conducted the review of the quality of IT system in accordance with the International Standard on Review Engagements ISRE 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the reviewed information of the bank Banka Volksbank d.d., Ljubljana and the Banka Volksbank Group is free of material misstatement. The review is limited primarily to inquiries of bank personnel and analytical procedures applied to financial data and thus provides less assurance than audit. We have not performed an audit of the quality of IT system and, accordingly, we do not express an audit opinion. We believe that our audit provides a reasonable basis for our assurance.

Opinion on disclosures

In our opinion, the disclosures of the bank Banka Volksbank d.d., Ljubljana and the Banka Volksbank Group pursuant to paragraph 1, Article 207 of ZBan-1 for the accounting period that ended on 31 December 2008 are in all material respects in compliance with the provisions of ZBan-1 and the Regulation on disclosures.

In terms of substance, the disclosures pursuant to paragraph 1, Article 207 of ZBan-1 are in conformity with the annual report.

Opinion on the compliance with the risk management regulations

In our opinion, the bank Banka Volksbank d.d., Ljubljana and the Banka Volksbank Group in the financial year that ended on 31 December 2008, in all material respects

- complied with the general standards on the management of credit risk, market risks, interest rate risk, operational risk and liquidity risk, determined by Appendices I – V of the Regulation on risk management;
- complied with the provisions of the Regulation on loss assessment with reference to the credit risk;
- complied with the provisions of the Regulation on own funds calculation with reference to equity, capital requirements and internal capital adequacy;
- complied with the provisions of ZBan-1 with reference to the operation of internal audit control service.

Assurance on the quality of the IT system

Based on our review, nothing has come to our attention that causes us to believe that

- the IT support of risk management is not in all material respects in compliance with the internal rules and regulations of the bank set out in writing, as well as the requirements of the Bank of Slovenia
- the IT system policy is not in all material respects in compliance with the strategy of the bank's IT system development and that the recommendations of the standards oSIST ISO/IEC 27001:2006, oSIST ISO/IEC 17799:2005 and SIST ISO/IEC 1799:2003 issued by the Slovenian Institute for Standardization or other authorised body were not adhered to.

Ljubljana, 24 April 2009

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podjetje za revidiranje, d.o.o.

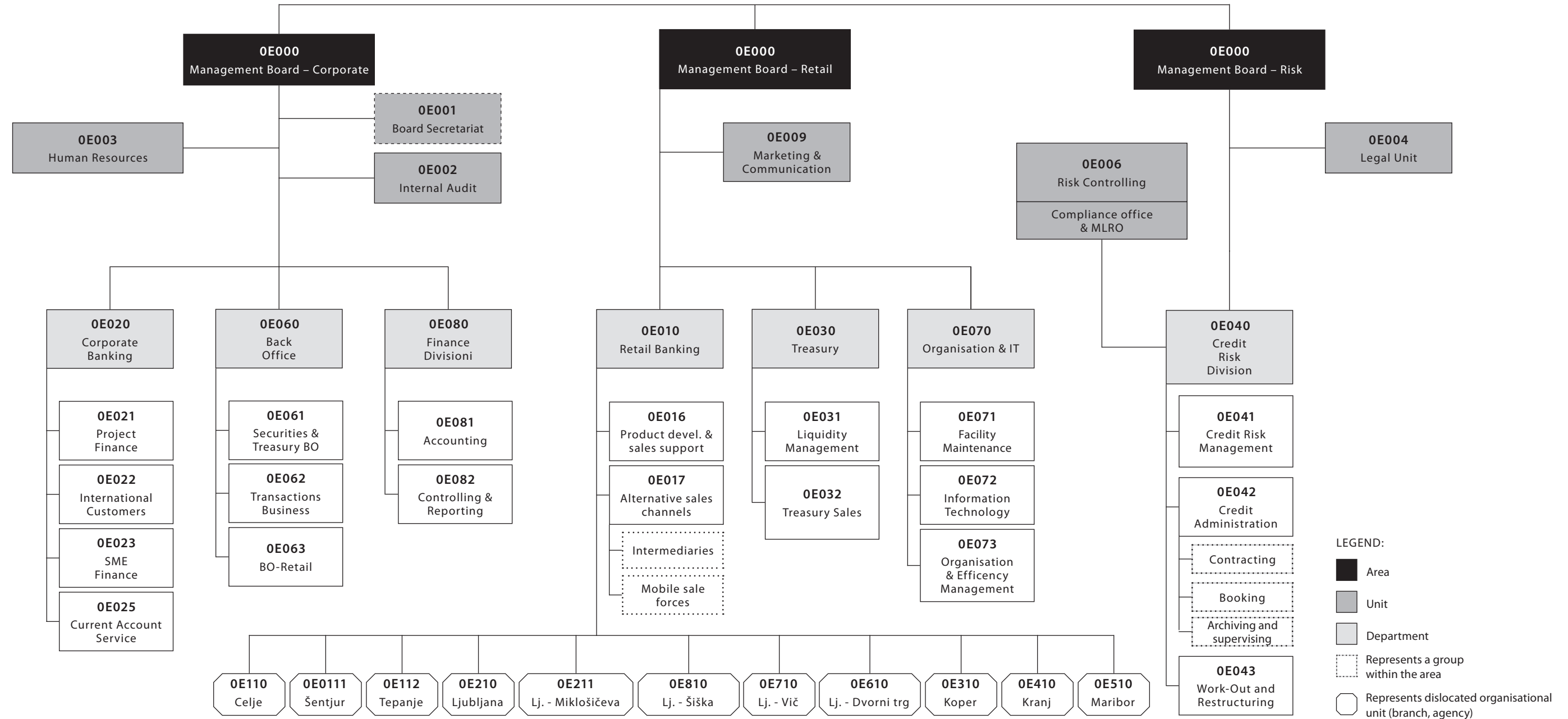
Boris Drobnič, B.Sc.Ec.



Certified Auditor
Partner

ORGANISATIONAL STRUCTURE

BANKA VOLKSBANK D.D.



KEY FACTS

		thousand EUR		
		2006	2007	2008
1.	Balance sheet items (as at 31 December)			
	Balance sheet total	484,778	618,327	866,182
	Total deposits from non-banks	110,961	174,184	263,578
	a) corporate deposits	53,761	110,070	161,221
	b) household deposits	57,200	64,114	102,357
	Total loans to non-banks	360,345	527,615	750,211
	a) corporate loans	243,891	341,546	537,328
	b) household loans	116,454	186,069	212,883
	Total equity	30,529	48,045	67,638
	Impairment and provisions	8,226	8,117	14,224
	Off-balance sheet items	83,717	114,448	116,966
	Average household deposits	56,750	65,698	77,391
	Average household loans	113,919	169,694	203,711
2.	Income statement items (for the year ended 31 December)			
	Net interest income	8,736	12,060	16,009
	Net non-interest income	3,032	2,708	3,122
	Labour costs, general and administrative expenses	9,309	10,211	11,766
	Amortisation/depreciation	801	708	827
	Impairment and provisions	-535	-823	-6,510
	Profit before tax	1,123	3,026	26
	Income tax	-415	-278	-93
3.	Number of employees (as at 31 December)	170	183	200

		thousand EUR		
		2006	2007	2008
4.	Shares (as at 31 December)			
	Number of shareholders	27	34	30
	Shares outstanding	5,409,095	7,524,542	10,345,416
	Nominal value per share (EUR)	0.00	4.17	4.17
	Book value per share (EUR)	5.65	6.32	6.54
5.	Indicators (% , unless otherwise indicated)			
	a) Equity			
	Equity for capital adequacy purposes (thousand EUR)	40,436	59,866	93,520
	Capital adequacy ratio	12.06	11.24	13.38
	b) Asset quality			
	Impairments as % of total credit risk exposure	1.61	1.09	1.49
	c) Profitability			
	Interest margin	1.91	2.24	2.13
	Interest + non-interest margin	2.57	2.74	2.55
	Return on assets	0.25	0.56	0.00
	Return on equity before tax	3.89	8.43	0.00
	Return on equity after tax	2.45	7.66	-0.13
	d) Operating costs			
	Operating expenses / average assets	2.21	2.03	1.45
	e) Liquidity			
	Average liquid assets / average short-term deposits from non-banks	11.90	17.91	6.52
	Average liquid assets / average assets	2.87	5.78	1.7

Our network

**Banka
Volksbank d.d.**

OUR NETWORK

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